OFFERING CIRCULAR

BANQUE SAUDI FRANSI

(*incorporated as a joint stock company in the Kingdom of Saudi Arabia*)

USD 2,000,000,000
Euro Medium Term Note Programme

Under this USD 2,000,000,000 Euro Medium Term Note Programme (the **Programme**), Banque Saudi Fransi (the **Issuer**) may from time to time issue notes (the **Notes**) denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below). The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed USD 2,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement described herein), subject to increase as described herein. The Notes may be issued on a continuing basis to one or more of the Dealers specified under "*Overview of the Programme*" and any additional Dealer appointed under the Programme from time to time by the Issuer (each a **Dealer** and together the **Dealers**), which appointment may be for a specific issue or on an ongoing basis. References in this Offering Circular to the **relevant Dealer** shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Notes. Notes issued under the Programme may be rated or unrated.

An investment in Notes issued under the Programme involves certain risks. For a discussion of these risks see "*Risk Factors*".

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the **UK Listing Authority**) for Notes issued under the Programme during the period of 12 months from the date of this Offering Circular to be admitted to the official list of the UK Listing Authority (the **Official List**) and to the London Stock Exchange plc (the **London Stock Exchange**) for such Notes to be admitted to trading on the London Stock Exchange's Regulated Market.

References in this Offering Circular to Notes being **listed** (and all related references) shall mean that such Notes have been admitted to trading on the London Stock Exchange's Regulated Market and have been admitted to the Official List. The London Stock Exchange's Regulated Market is a regulated market for the purposes of the Markets in Financial Instruments Directive 2004/39/EC (the **MiFID**). Notice of the aggregate nominal amount of Notes, profit (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under "*Terms and Conditions of the Notes*") of Notes will be set out in a final terms document (the **Final Terms**) which, with respect to Notes to be listed on the London Stock Exchange will be delivered to the UK Listing Authority and the London Stock Exchange. The Programme provides that Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Notes and/or Notes not admitted to trading on any market. The Issuer may agree with any Dealer that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event a supplemental Offering Circular, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes. Notes which are Index-linked Notes will only be listed or admitted to trading if a supplemental Offering Circular is made available which will contain further details about such Notes and the performance of any relevant underlying index.

Payments of profit on the Notes are subject to withholding taxes in the Kingdom of Saudi Arabia. Banque Saudi Fransi is, however, obliged to pay additional amounts in certain circumstances if there is such a withholding. See Condition 8 (*Taxation*) and "*Taxation – Kingdom of Saudi Arabia – Holders resident outside in the Kingdom of Saudi Arabia*".

Arranger

CALYON

The date of this Offering Circular is 9 September 2009.

This Offering Circular comprises a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the Prospectus Directive).

The Issuer accepts responsibility for the information contained in this Offering Circular. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

Copies of Final Terms will be available from the registered office of the Issuer and the specified office set out below of each of the Paying Agents (as defined below).

The Dealers have not independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers as to the accuracy or completeness of the information contained or incorporated in this Offering Circular or any other information provided by the Issuer in connection with the Programme. No Dealer accepts any liability in relation to the information contained or incorporated by reference in this Offering Circular or any other information provided by the Issuer in connection with the Programme.

Subject as provided in the applicable Final Terms, the only persons authorised to use this Offering Circular in connection with an offer of Notes are the persons named in the applicable Final Terms as the relevant Dealer or the Managers as the case may be.

No person is or has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Offering Circular or any other information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any of the Dealers.

Neither this Offering Circular nor any other information supplied in connection with the Programme or any Notes (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer or any of the Dealers that any recipient of this Offering Circular or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Offering Circular nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer or any of the Dealers to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme or to advise any investor in the Notes of any information coming to their attention.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended, (the *Securities Act*) and are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (see "*Subscription and Sale*").

Information contained in this Offering Circular relating to "*The Banking Sector in the Kingdom of Saudi Arabia*" and "*Saudi Arabian Banking Regulation and Supervision*" on pages 90 to 95 was derived

from publicly available information, including press releases. The Issuer accepts responsibility for accurately reproducing such information. However, the Issuer has relied on the accuracy of such information without carrying out any independent verification.

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer and the Dealers do not represent that this Offering Circular may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Dealers which is intended to permit a public offering of any Notes or distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Notes in the United States, the European Economic Area (including the United Kingdom, France and the Netherlands), Japan and the Kingdom of Saudi Arabia, see "*Subscription and Sale*".

This Offering Circular has been prepared on the basis that any offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (2003/71/EC) (each, a Relevant Member State) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Notes. Accordingly any person making or intending to make an offer in that Relevant Member State of Notes which are the subject of an offering contemplated in this Offering Circular as completed by final terms in relation to the offer of those Notes may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor any Dealer have authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Issuer or any Dealer to publish or supplement a prospectus for such offer.

All references in this document to *U.S. dollars*, *U.S.$* and *$* refer to United States dollars and to *SAR* and *Riyals* refer to Saudi Riyals. In addition, all references to *Sterling* and *£* refer to pounds sterling and to *euro* and *€* refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended.

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In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

OVERVIEW OF THE PROGRAMME

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Offering Circular and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Final Terms. Any decision to invest in the Notes should be based on a consideration of this Offering Circular as a whole by any investor. The Issuer and any relevant Dealer may agree that Notes shall be issued in a form other than that contemplated in the Terms and Conditions, in which event, in the case of listed Notes only and if appropriate, a supplemental Offering Circular will be published.

This Overview constitutes a general description of the Programme for the purposes of Article 22.5(3) of Commission Regulation (EC) No 809/2004 implementing the Prospectus Directive.

Words and expressions defined in "*Form of the Notes*" and "*Terms and Conditions of the Notes*" shall have the same meanings in this Overview.

Issuer:	Banque Saudi Fransi
Risk Factors:	There are certain factors that may affect the Issuer's ability to fulfil its obligations under Notes issued under the Programme. These are set out under "*Risk Factors*" below and include factors such as credit risk, governing law and enforcement of judgments and enforcement of profit. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme. These are set out under "*Risk Factors*" and include the fact that the Notes may not be a suitable investment for all investors, certain risks relating to the structure of particular Series of Notes and certain market risks.
Description:	Euro Medium Term Note Programme On issue, the Notes will be purchased by the Initial Purchaser. The Notes will be immediately on-sold in their entirety to CALYON and/or any of the other Dealers. The terms of the sale of Notes by the Issuer to the Initial Purchaser will be governed by a purchase agreement, the form of which will be contained in the Programme Agreement.
Initial Purchaser:	CALYON Saudi Fransi Limited
Arranger:	CALYON and any other entity appointed as an arranger for the Programme or in respect of any particular issue of Notes in accordance with the Programme Agreement.
Certain Restrictions:	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or

reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "*Subscription and Sale*") including the following restrictions applicable at the date of this Offering Circular.

Notes having a maturity of less than one year

Notes having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the Financial Services and Markets Act 2000 unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent, see "*Subscription and Sale*".

Issuing and Principal Paying Agent:	Citibank, N.A.
Programme Size:	Up to USD 2,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement) outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
Distribution:	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Currencies:	Notes may be denominated in euro, Sterling, U.S. dollars, yen, Swiss francs and Riyals, subject to any applicable legal or regulatory restrictions, any other currency agreed between the Issuer and the relevant Dealer.
Redenomination:	The applicable Final Terms may provide that certain Notes may be redenominated in euro. The relevant provisions applicable to any such redenomination are contained in Condition 4.
Maturities:	The Notes will have such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.
Issue Price:	Notes may be issued on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
Form of Notes:	The Notes will be issued in bearer form as described in "*Form of the Notes*".
Fixed Rate Notes:	Fixed profit will be payable on such date or dates as may be

agreed between the Issuer and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer.

Floating Rate Notes:	Floating Rate Notes will bear profit at a rate determined: (a) on the same basis as the floating rate under a notional profit rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or (b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or (c) on such other basis as may be agreed between the Issuer and the relevant Dealer. The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each Series of Floating Rate Notes.
Index Linked Notes:	Payments of principal in respect of Index Linked Redemption Notes or of profit in respect of Index Linked Profit Notes will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the Issuer and the relevant Dealer may agree.
Other provisions in relation to Floating Rate Notes and Index Linked Profit Notes:	Floating Rate Notes and Index Linked Profit Notes may also have a maximum profit rate, a minimum profit rate or both. Profit on Floating Rate Notes and Index Linked Profit Notes in respect of each Profit Period, as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on such Profit Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer.
Dual Currency Notes:	Payments (whether in respect of principal or profit and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer may agree.
Zero Coupon Notes:	Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear profit.

Redemption:	The applicable Final Terms will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than in specified instalments, if applicable, or for taxation reasons or following an Event of Default) or that such Notes will be redeemable at the option of the Issuer and/or the Noteholders upon giving notice to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer and, in the case of Subordinated Notes, subject to the prior written consent of the Saudi Arabian Monetary Authority (**SAMA**). The applicable Final Terms may provide that Notes may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Final Terms. Notes having a maturity of less than one year are subject to restrictions on their denomination and distribution, see "*Certain Restrictions - Notes having a maturity of less than one year*" above.
Tax Redemption:	Except as described in “Redemption” above, early redemption will only be permitted for tax reasons if the Issuer has or will become obliged to pay additional amounts based on a rate in excess of 5% of the gross amount payable in respect of the Notes as described further in Condition 7.2 (Redemption and Purchase - Redemption for tax reasons) (and subject, in the case of Subordinated Notes, to the prior written consent of SAMA).
Denomination of Notes:	No Notes may be issued under the Programme which have a minimum denomination of less than EUR 50,000 (or equivalent in another currency at their issue date) and no Notes may be issued under the Programme which carry the right to acquire shares (or transferable securities equivalent to shares) issued by the Issuer or by any entity to whose group the Issuer belongs. Subject thereto, Notes will be issued in such denominations as may be specified in the relevant Final Terms, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements. All Notes of a particular Series will have the same denomination.
Taxation:	All payments in respect of Notes will be made free and clear of withholding taxes of the Kingdom of Saudi Arabia (the **Kingdom**) unless the withholding is required by law. In that event, the Issuer will (subject as provided in Condition 8) pay such additional amounts as will result in the Noteholders receiving such amounts as they would have received in respect of such Notes had no such withholding been required. Under Saudi Arabian law, the Issuer is required to withhold 5 per cent. in respect of any profit payments under

the Notes to persons resident for tax purposes outside the Kingdom of Saudi Arabia, unless investors are able to take advantage of any applicable double taxation treaty. For more information, see the "*Taxation*" section in this Offering Circular.

Negative Pledge:	The terms of the Notes (other than for Subordinated Notes) will contain a negative pledge provision as further described in Condition 3.
Cross Default:	The terms of the Notes will contain a cross default provision as further described in Condition 10.
Status of the Notes:	Notes may be issued on an unsubordinated and unsecured basis or on a subordinated basis (as specified in the relevant Final Terms) and as further described in Condition 2. The Senior Notes will constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of the Issuer and will rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding. The Subordinated Notes constitute direct, general, unconditional, unsecured and subordinated obligations of the Issuer subordinated in accordance with Condition 2.2(b) below and will at all times rank *pari passu* among themselves.
Subordination:	Payments in respect of the Subordinated Notes will be subordinated as described in Condition 2.
Rating:	The rating of certain Series of Notes to be issued under the Programme may be specified in the applicable Final Terms.
Listing and admission to trading:	Application has been made to the UK Listing Authority for Notes issued under the Programme to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the London Stock Exchange's Regulated Market. Notes may be listed or admitted to trading, as the case may be, on other or further stock exchanges or markets agreed between the Issuer and the relevant Dealer in relation to the Series. Notes which are neither listed nor admitted to trading on any market may also be issued. The applicable Final Terms will state whether or not the relevant Notes are to be listed and/or admitted to trading and, if so, on which stock exchanges and/or markets. Notes which are Index-linked Notes will only be listed or admitted to trading if a supplemental Offering Circular is

	made available which will contain further details about such Notes and the performance of any relevant underlying index.
Governing Law:	The Notes will be governed by, and construed in accordance with, English law.
Saudi Companies Law Requirements:	Under the provisions of the Saudi Arabian Companies Regulation (the **Companies Regulation**), a Saudi Arabian joint stock company may not issue debt securities until such issuance has been approved by a resolution (an **OGM Resolution**) of the company's shareholders in ordinary general meeting and such OGM Resolution has been published in *Um-Alqura* (the Saudi Arabian Official Gazette (the **Official Gazette**)) and registered in the Commercial Register of the relevant company (the **Commercial Register**). The shareholders of the Issuer passed an OGM Resolution on 24/3/2007 approving the issuance of Notes and authorising the Board of Directors to approve the value and terms and conditions of the first Tranche of Notes and any subsequent Tranches and Series up to the Initial Programme Amount. The Board of Directors of the Issuer passed resolutions delegating the approval of the terms and conditions of the Programme on 20 April 2008 . Each issuance of the Notes must be approved by the Board of Directors and is subject to approval by SAMA.
Selling Restrictions:	There are restrictions on the offer, sale and transfer of the Notes in the United States, the European Economic Area (including the United Kingdom, France and The Netherlands) Japan and the Kingdom of Saudi Arabia and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes, see "*Subscription and Sale*".
United States Selling Restrictions:	Regulation S, Category 2. TEFRA C or D/TEFRA not applicable, as specified in the applicable Final Terms.

RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under Notes issued under the Programme. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

In addition, factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in Notes issued under the Programme, but the inability of the Issuer to pay profit, principal or other amounts on or in connection with any Notes may occur for other reasons which may not be considered significant risks by the Issuer based on information currently available to it or which it may not currently be able to anticipate. Prospective investors should also read the detailed information set out elsewhere in this Offering Circular and reach their own views prior to making any investment decision.

Capitalised terms used herein and not otherwise defined shall bear the meanings ascribed to them in "Terms and Conditions of the Notes" below.

Risks Relating to Investments in The Kingdom of Saudi Arabia

General

Investors should note that the Issuer is a Saudi joint stock company and is incorporated in and has its operations, and the majority of its assets, located in the Kingdom of Saudi Arabia. Accordingly, there may be insufficient assets of the Issuer located outside the Kingdom of Saudi Arabia to satisfy in whole or part any judgment obtained from an English court relating to amounts owing under the Notes. If investors were to seek enforcement of an English judgment in the Kingdom of Saudi Arabia, or to bring proceedings in relation to the Notes in the Kingdom of Saudi Arabia, then the limitations described below would apply.

Governing Law and Enforcement of Judgments

The Notes are expressed to be governed by English law and provide for the jurisdiction of the courts of England, subject only to an option for Noteholders to bring proceedings before The Committee for the Resolution of Securities Disputes established under the Saudi Arabian Capital Market Law (the **Committee**). Despite this, the courts and judicial committees of the Kingdom of Saudi Arabia may not recognise the choice of English law or submission to jurisdiction of English courts. Accordingly, in any proceedings relating to the Notes in the Kingdom of Saudi Arabia, Islamic law (Shari'a), as interpreted in the Kingdom of Saudi Arabia, may be applied by the relevant court or judicial committee. The courts and judicial committees of the Kingdom of Saudi Arabia have the discretion to deny the enforcement of any contractual or other obligations, if, in their opinion, the enforcement thereof would be contrary to the principles of Islamic law.

The Committee was established pursuant to Article 25 of the Saudi Arabian Capital Market Law and is responsible for the settlement of disputes arising under the Capital Market Law and its implementing regulations. The decisions of the Committee are subject to appeal before an appeal panel (the **Appeal Panel**) consisting of three members representing the Ministry of Finance, the Ministry of Commerce and Industry and the Bureau of Experts at the Council of Ministers. The decisions of the Appeal Panel are final. The terms and conditions of the Notes give Noteholders an option to bring proceedings relating to the Notes before the Committee. However, since Notes issued under the Programme are not to be offered in the Kingdom of Saudi Arabia, it is uncertain, in the absence of precedent, whether the Committee or the Appeal Panel would accept jurisdiction over any claim relating to the Notes or what decisions the Committee or the Appeal Panel would come to.

Disputes of a commercial nature in the Kingdom of Saudi Arabia are currently heard before a court called the Grievances Board, which strictly applies Islamic law, although a new law of the judiciary has just been issued and calls for the establishment of Commercial Courts in the Kingdom. In addition, the Grievances Board has the exclusive jurisdiction to consider the enforcement of foreign judgments and arbitral awards, supervise insolvency and bankruptcy proceedings of commercial entities and hear claims against Saudi Arabian government bodies. Accordingly, if a judgment from an English court were to be enforced in the Kingdom of Saudi Arabia, it would need to be submitted to the Grievances Board for enforcement.

The Grievances Board may, at its discretion, enforce all or any part of a foreign judgment provided that (a) the judgment is not inconsistent with Islamic law and/or Saudi Arabian law, including the general principles of Islamic law and (b) the judgment creditor can demonstrate to the Grievances Board that the courts of the jurisdiction granting the judgment will reciprocally enforce the judgments of the courts and committees of the Kingdom of Saudi Arabia in such foreign jurisdiction. Such reciprocity may be demonstrated by way of the existence of a treaty or protocol between the Kingdom of Saudi Arabia and the relevant jurisdiction or by virtue of a plaintiff providing evidence that the relevant foreign court has recognised and enforced a Saudi judgment on a previous occasion. In the case of an English judgment, there is no relevant treaty and, accordingly, Noteholders seeking to enforce an English judgment might be required to adduce other evidence of such reciprocity. No assurance can be given that investors would be able to meet the requirements of reciprocity of enforcement. In addition, even if Noteholders were able to meet this requirement, they should be aware that if any terms of the Notes (including any provisions relating to the payment of profit) were found to be inconsistent with Islamic law, they would not be enforced by the Grievances Board. See further below under "*Enforcement of Profit and Other Provisions*".

Enforcement of Profit and Other Provisions

To the extent that any proceedings relating to the enforcement of a non-Saudi Arabian judgment in relation to the Notes or relating to the insolvency or bankruptcy of the Issuer are held in the Kingdom of Saudi Arabia, such proceedings would be resolved before the Grievances Board. In addition, any other proceedings relating to the Notes brought in the Kingdom of Saudi Arabia would most likely be resolved before the Grievances Board (or the Commercial Courts upon their formation) unless they fell to be resolved by the Committee or Appeal Panel. See further under "*Governing Law and Enforcement of Judgments*" above.

An obligation to pay any sum in the nature of interest (howsoever described), including any "profit" (as that term is used in the Terms and Conditions of the Notes), discount or premium is not enforceable under Islamic law, which has the force of law in the Kingdom of Saudi Arabia. It follows that provisions for the payment of profit and other sums in the nature of interest under the Notes would not be enforceable in the Kingdom of Saudi Arabia. In particular, a court or judicial committee in the Kingdom of Saudi Arabia may, on the application of the payer of sums in the nature of interest, only give judgment in respect of principal sums found by such court or judicial committee to be due and payable less the amount of sums in the nature of interest previously paid by the payer to the payee. Any amounts previously paid by the Issuer in respect of sums in the nature of interest would therefore reduce the amount receivable by Noteholders in relation to payments of principal.

In addition, there is a risk that a Saudi court or judicial committee will not give effect to an event of default other than one consisting of the non-payment of principal.

Secondary Market Purchasers

The trading of debts is prohibited under Islamic law. Accordingly, if a secondary market purchaser of a Note were to take direct action against the Issuer in the Kingdom of Saudi Arabia, there is a possibility (although, as far as the Issuer is aware, no such matter has been the subject of adjudication before a Saudi court or judicial committee) that the Saudi courts would consider such claim to be void. In such event, the relevant Noteholder's only recourse would be against the seller of the Note. Notwithstanding the foregoing, the Saudi Capital Market Law contemplates the trading of debt securities and provides for the establishment of the

Committee (as defined above) to hear disputes, among others, relating to debt securities. Under the terms and conditions of the Notes, Noteholders may elect to have a dispute relating to the Notes heard by the Committee. However, no assurance can be given that the Committee would accept such jurisdiction or how it would treat secondary market purchasers of the Notes.

Saudi Companies Law

The Saudi Companies Law prescribes a number of requirements for Saudi companies issuing debt securities (including the requirement to publish a prospectus in a local newspaper circulated in the place where the company is located in the Kingdom of Saudi Arabia and that bonds offered for subscription must be offered through a bank designated by the Minister of Commerce and Industry). The Issuer, based on legal advice, considers that such requirements are unlikely to apply in the context of an offering of securities outside the Kingdom of Saudi Arabia. In the absence of Saudi judicial precedent in relation to this matter, however, there remains the possibility that, if an interested party (including a liquidator of the Issuer) were to bring such matter before a Saudi court or judicial committee, then such court might declare any Notes issued under the Programme to be void for failure to comply in full with the relevant provisions of the Saudi Companies law. In such event, the Saudi Companies law provides that Noteholders would be entitled to a refund of principal together with damages for any harm suffered by them (but not any accrued profit).

Saudi Securities Business Regulations

Under the Saudi Arabian Securities Business Regulations issued pursuant to the Capital Market Law, a person may not engage in securities business in the Kingdom of Saudi Arabia unless authorised as an "Authorised Person" (an **Authorised Person**) by the Capital Market Authority (**CMA**). The Issuer intends to sell Notes under the Programme only through CALYON Saudi Fransi Limited (**CSFL**), which is an Authorised Person. CSFL will then on-sell Notes to the Dealers under the Programme. The Saudi Business Regulations and the Capital Market Law provide that a transaction entered into by a person without the appropriate licence required under the Capital Market Law is liable to be invalidated. In relation to an offering of the Notes to a person which is not an Authorised Person, this would mean that the relevant Tranche under the Programme could be declared void and all subscription monies received from Noteholders would need to be refunded net of any amounts already paid, including profit or interest. The Capital Market Law also provides for a possible financial penalty of up to SAR 100,000 and imprisonment of up to 9 months.

Factors relating to the Kingdom of Saudi Arabia

The Issuer has all its operations and the majority of its assets in the Kingdom of Saudi Arabia and accordingly its business may be affected by the financial, political and general economic conditions prevailing from time to time in the Kingdom of Saudi Arabia and/or the Middle East generally.

Although the Kingdom continues to pursue a policy of diversification to enhance the contribution of the non-oil sector to its Gross Domestic Product (**GDP**), oil income, which in 2006 constituted approximately 50 per cent of the country's total GDP, will continue to play a pivotal role in its economic planning and development. Consequently, any sustained downturn in oil prices will have a negative impact on the Kingdom's overall economy, with adverse ripple effects felt at all micro levels, including on the Issuer and the market price of the Notes.

Like other countries in the Middle East, the Kingdom could be affected by political and social unrest in the region. Although the threat to stability in the Middle East region from the Iraq war appears to have receded, the Kingdom, in common with other Middle Eastern countries, could be affected by any other external action taken in the region. Within the Kingdom, the Government faces a number of challenges arising mainly from the relatively high levels of population growth and unemployment among Saudi youth and the security threat posed by certain groups of extremists, which could have an adverse effect on the Saudi economy and, as a consequence, the Issuer's business.

Investors in emerging markets should also be aware that these markets are subject to greater risks than more developed markets, including in some cases significant legal, economic and political risks. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in the light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved.

Competition

All sectors of the Saudi Arabian market for financial and banking services are highly competitive. There are at present eleven commercial banks incorporated in the Kingdom of Saudi Arabia and ten foreign banks operating or recently licensed by the Saudi Arabian Monetary Agency (**SAMA**). This is expected to result in increased competition and may increase the pressure for the Issuer to improve the range and sophistication of its products and services currently offered. The competitive nature of the Saudi Arabian market may adversely impact the Issuer's business and may lead some of the Issuer's clients to start using competitors instead.

No Third-Party Guarantees

Investors should be aware that no guarantee is or will be given in relation to the Notes by the shareholders of the Issuer or any other person.

Risks Relating to the Issuer

Credit Risk

Credit risk arises primarily from the Issuer's lending activities. The Issuer holds general and specific provisions to cover bad and doubtful debts. If these provisions prove to be inadequate either because of an economic downturn or a significant breakdown in its credit disciplines, then this could have a material adverse effect on the Issuer's business, financial condition, results of operations or prospects.

Market Risks

The Issuer is exposed to market risks including interest rate and currency exchange rate risks.

The Issuer is exposed to interest rate risk resulting from mismatches between the interest rates on its interest-bearing liabilities and interest-bearing assets. While the Issuer monitors interest rates with respect to its assets and liabilities and seeks to match its interest rate positions, interest rate movements may adversely affect the Issuer's business, financial condition, results of operations or prospects.

The Issuer is exposed to the effects of fluctuations in foreign currency exchange rates on its financial position and cash flows. While the Issuer is subject to limits on its open currency positions pursuant to SAMA rules and the Issuer's internal policies, significant movements in currency exchange rates may adversely affect the Issuer's foreign currency positions.

Liquidity Risks

The Issuer, like other commercial banks in the Kingdom and elsewhere, is exposed to liquidity risk due to the maturity mismatches between its assets and liabilities. Although the Issuer believes that its level of access to domestic and international inter-bank markets and its liquidity risk management policy allow and will continue to allow the Issuer to meet its short-term and long-term liquidity needs, any maturity mismatches between the Issuer's assets and liabilities (including by reason of an unexpected withdrawal of funds by the Issuer's customers) may have a material adverse effect on the Issuer's business, financial condition, results of operations or prospects.

Operational Risks

As a financial services organisation, the Issuer is exposed to a variety of other risks including those arising from process error, fraud, systems failure, security and physical protection, customer services, staff skills and performance, and product development and maintenance. Any materialisation of such risk may have a material adverse effect on the Issuer's business, financial condition, results of operations or prospects.

Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that either the Issuer or the Group will be unable to comply with its obligations as a company with securities admitted to the Official List.

Adequacy of Risk Management Systems

Although the Issuer invests substantial time and effort in its risk management, it may nevertheless fail to identify all risks, particularly those of a novel or unanticipated nature. If risks that the Issuer has been unable to identify were to materialise, they may have a material adverse effect on the Issuer's business, financial condition, results of operations or prospects.

Basel II Challenge

The Kingdom is one of the signatories to the new Basel II global risk standard. Basel II will require higher standards in governance and policies, processes and procedures, organisation framework, systems, transparency and disclosure. Challenges for the Issuer include: having and maintaining adequate resources, data, quality and budgets, managing conflicts with other business demands, maintaining senior management commitment and sponsorship, and complying with the requirements of SAMA.

Management of Growth

The Issuer has experienced significant growth in many of its business segments in recent years. The Issuer intends to continue its growth in order to meet its strategic objectives, although whether this can be achieved is largely dependent on the performance of the Saudi Arabian economy and the price of oil.

The management of the Issuer's growth will require, among other things, continued development of its financial and information management control systems, the ability to integrate new products and services, the ability to attract and retain sufficient numbers of qualified management and other personnel, the continued training of such personnel, the presence of adequate supervision and the maintenance of consistency of customer services. If the Issuer fails to manage its growth properly, such failure may have a material adverse effect on the Issuer's business, financial condition, results of operations or prospects.

Dependence on Qualified Personnel

The Issuer's success will depend, in part, on its ability to continue to attract, retain and motivate qualified personnel. Competition in the Saudi banking industry for personnel with relevant expertise is intense, due to the limited number of qualified individuals. The Issuer's failure to manage its personnel needs successfully could have a material adverse effect on the Issuer's business, financial condition, results of operation or prospects.

Factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme

The Notes may not be a suitable investment for all investors

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or profit payable in one or more currencies, or where the currency for principal or profit payments is different from the potential investor's currency;

(iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, profit rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Risks related to the structure of a particular issue of Notes

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of the most common such features:

Notes subject to optional redemption by the Issuer

An optional redemption feature of Notes is likely to limit their market value. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the profit rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective profit rate as high as the profit rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Index Linked Notes and Dual Currency Notes

The Issuer may issue Notes with principal or profit determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a **Relevant Factor**). In addition, the Issuer may issue Notes with principal or profit payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

(i) the market price of such Notes may be volatile;

(ii) they may receive no profit;

(iii) payment of principal or profit may occur at a different time or in a different currency than expected;

(iv) they may lose all or a substantial portion of their principal;

(v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in profit rates, currencies or other indices;

(vi) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or profit payable likely will be magnified; and

(vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

The historical experience of an index should not be viewed as an indication of the future performance of such index during the term of any Index Linked Notes. Accordingly, each potential investor should consult its own financial and legal advisers about the risk entailed by an investment in any Index Linked Notes and the suitability of such Notes in light of its particular circumstances.

Partly-paid Notes

The Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of his investment.

Variable rate Notes with a multiplier or other leverage factor

Notes with variable profit rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Inverse Floating Rate Notes

Inverse Floating Rate Notes have a profit rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of those Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the profit rate of the Notes, but may also reflect an increase in prevailing profit rates, which further adversely affects the market value of these Notes.

Fixed/Floating Rate Notes

Fixed/Floating Rate Notes may bear profit at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of the Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing rates on its Notes.

Notes issued at a substantial discount or premium

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in profit rates than do prices for conventional profit-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional profit-bearing securities with comparable maturities.

Subordinated Notes

Holders of Subordinated Notes should be aware that Subordinated Notes are unsecured and subordinated obligations of the Issuer. If a particular Tranche of Notes is specified as "Subordinated" in the relevant Final Terms, only in the event of a failure to pay by the Issuer or a winding up of the Issuer as described in Condition 10.1 will the relevant Notes be capable of being declared immediately due and payable. If the Issuer is declared insolvent and a winding up is initiated, the Issuer will be required to pay the holders of senior debt and meet its obligations to all its other creditors (including unsecured creditors but excluding any obligations in respect of subordinated debt) in full before it can make any payments on the relevant Notes. If this occurs, the Issuer may not have enough assets remaining after these payments to pay amounts due under the relevant Subordinated Notes.

Subordinated Notes will not have the benefit of a negative pledge as described in Condition 3.

In case of a redemption of Subordinated Notes, there can be no assurance that approval of such redemption would be forthcoming from SAMA.

Risks related to Notes generally

Set out below is a brief description of certain risks relating to the Notes generally:

Meetings of Noteholders

The conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States, including Belgium from 1 January 2010, are required, to provide to the tax authorities of another Member State details of payments of profit (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland) with effect from the same date.

On 15 September 2008 the European Commission issued a report to the Council of the European Union on the operation of the Directive, which included the Commission's advice on the need for changes to the Directive. On 13 November 2008 the European Commission published a more detailed proposal for amendments to the Directive, which included a number of suggested changes. The European Parliament approved an amended version of this proposal on 24 April 2009. If any of the proposed changes are made in relation to the Directive, they may amend or broaden the scope of the requirements described above.

If, a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. If a withholding tax is imposed on payment made by a Paying Agent following implementation of this Directive, the Issuer will be required to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Directive.

Change of law

The conditions of the Notes are based on English law in effect as at the date of this Offering Circular. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Offering Circular.

Notes where denominations involve integral multiples: definitive Notes

In relation to any issue of Notes which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to a Specified Denomination.

If definitive Notes are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

Risks related to the market generally

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, profit rate risk and credit risk:

The secondary market generally

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to profit rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

Exchange rate risks and exchange controls

The Issuer will pay principal and profit on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency-equivalent value of the principal payable on the Notes and (3) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less profit or principal than expected, or no profit or principal.

Profit rate risks

Investment in Fixed Rate Notes involves the risk that subsequent changes in market rates of return for floating rate instruments may adversely affect the value of the Fixed Rate Notes.

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Global economic disruption

Noteholders should be aware of the prevailing and widely reported global credit market conditions (which continue at the date hereof), whereby there is a general lack of liquidity in the secondary market for instruments similar to any Notes that may be issued under the Programme. The Issuer cannot predict when these circumstances will change and if and when they do whether conditions of general market illiquidity for such Notes and instruments similar to such Notes will return in the future.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their own legal advisors or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

FORM OF THE NOTES

Each Tranche of Notes will be in bearer form and will be initially issued in the form of a temporary global note (a **Temporary Global Note**) or, if so specified in the applicable Final Terms, a permanent global note (a **Permanent Global Note**) which, in either case, will be delivered on or prior to the original issue date of the Tranche to a common depositary (the **Common Depositary**) for, Euroclear Bank S.A./N.V. (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**).

Whilst any Note is represented by a Temporary Global Note, payments of principal, profit (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made against presentation of the Temporary Global Note only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Agent.

On and after the date (the **Exchange Date**) which is 40 days after a Temporary Global Note is issued, interests in such Temporary Global Note will be exchangeable (free of charge) upon a request as described therein either for (a) interests in a Permanent Global Note of the same Series or (b) for definitive Notes of the same Series with, where applicable, receipts, profit coupons and talons attached (as indicated in the applicable Final Terms and subject, in the case of definitive Notes, to such notice period as is specified in the applicable Final Terms), in each case against certification of beneficial ownership as described above unless such certification has already been given. The holder of a Temporary Global Note will not be entitled to collect any payment of profit, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Global Note for an interest in a Permanent Global Note or for definitive Notes is improperly withheld or refused.

Payments of principal, profit (if any) or any other amounts on a Permanent Global Note will be made through Euroclear and/or Clearstream, Luxembourg against presentation or surrender (as the case may be) of the Permanent Global Note without any requirement for certification.

The applicable Final Terms will specify that a Permanent Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Notes with, where applicable, receipts, profit coupons and talons attached upon either (a) not less than 60 days' written notice from Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Note) to the Agent as described therein or (b) only upon the occurrence of an Exchange Event. For these purposes, **Exchange Event** means that (i) an Event of Default (as defined in Condition 10) has occurred and is continuing, or (ii) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available. The Issuer will promptly give notice to Noteholders in accordance with Condition 14 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Note) may give notice to the Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Agent.

The following legend will appear on all Notes which have an original maturity of more than 365 days and on all receipts and profit coupons relating to such Notes:

"ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE."

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Notes, receipts or profit coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of such Notes, receipts or profit coupons.

Notes which are represented by a Global Note will only be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be.

Pursuant to the Agency Agreement (as defined under "*Terms and Conditions of the Notes*"), the Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes, the Notes of such further Tranche shall be assigned a common code and ISIN which are different from the common code and ISIN assigned to Notes of any other Tranche of the same Series until at least the expiry of the distribution compliance period (as defined in Regulation S under the Securities Act) applicable to the Notes of such Tranche.

Any reference herein to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms or as may otherwise be approved by the Issuer and the Agent.

A Note may be accelerated by the holder thereof in certain circumstances described in Condition 10. In such circumstances, where any Note is still represented by a Global Note and the Global Note (or any part thereof) has become due and repayable in accordance with the Terms and Conditions of such Notes and payment in full of the amount due has not been made in accordance with the provisions of the Global Note then the Global Note will become void at 8.00 p.m. (London time) on such day. At the same time, holders of interests in such Global Note credited to their accounts with Euroclear and/or Clearstream, Luxembourg, as the case may be, will become entitled to proceed directly against the Issuer on the basis of statements of account provided by Euroclear and/or Clearstream, Luxembourg on and subject to the terms of a deed of covenant (the **Deed of Covenant**) dated 9 September 2009 and executed by the Issuer.

FORM OF FINAL TERMS

Set out below is the form of Final Terms which will be completed for each Tranche of Notes issued under the Programme with a denomination of at least EUR 50,000.

The Final Terms in respect of each Tranche of Notes will be substantially in the following form, duly supplemented (if necessary), amended (if necessary) and completed to reflect the particular terms of the relevant Notes and their issue. Text in this section appearing in italics does not form part of the form of the Final Terms but denotes directions for completing the Final Terms.

[*Date*]

Banque Saudi Fransi

**Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
under the USD 2,000,000,000
Euro Medium Term Note Programme**

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Circular dated 9 September 2009 which constitutes a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Offering Circular. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Offering Circular. The Offering Circular is available for viewing at [*website*] and during normal business hours at [*address*] and copies may be obtained from [*address*].

[*Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Final Terms.*]

[*When adding any other final terms or information consideration should be given as to whether such terms or information constitute "significant new factors" and consequently trigger the need for a supplement to the Offering Circular under Article 16 of the Prospectus Directive.*]

[*If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination [must/may need to] be £100,000 or its equivalent in any other currency.*]

1.	Issuer:		Banque Saudi Fransi
2.	(a)	Series Number:	[ ]
	(b)	Tranche Number:	[ ] (*If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible*)
3.	Specified Currency or Currencies:		[ ]

4.	Aggregate Nominal Amount:		
	(a)	Series:	[ ]
	(b)	Tranche:	[ ]
5.	Issue Price:		[ ] per cent. of the Aggregate Nominal Amount [plus accrued profit from [*insert date*] (*if applicable*)]
6.	(a)	Specified Denominations:	[ ] [*The Notes will be tradable only in principal amounts of at least the Specified Denomination and to the extent permitted by the relevant clearing system(s), integral multiples of the Tradeable Amount (specified in Part B, item 10) in excess thereof – REFER TO PART B, ITEM 10 OF THE FINAL TERMS.*]
	(b)	Calculation Amount	[ ] (*If only one Specified Denomination, insert the Specified Denomination. If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.*)
7.	(a)	Issue Date:	[ ]
	(b)	Profit Commencement Date:	[*specify*/Issue Date/Not Applicable] (*N.B. An Profit Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes.*)
8.	Maturity Date:		[*Fixed rate - specify date*/ *Floating rate* - Profit Payment Date falling in or nearest to [*specify month*]]
9.	Profit Basis:		[[ ] per cent. Fixed Rate] [[LIBOR/EURIBOR] +/- [ ] per cent. Floating Rate] [Zero Coupon] [Index Linked Profit] [Dual Currency Profit] [*specify other*] (further particulars specified below)

10.	Redemption/Payment Basis:	[Redemption at par] [Index Linked Redemption] [Dual Currency Redemption] [Partly Paid] [Instalment] [*specify other*] (*N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.*)
11.	Change of Profit Basis or Redemption/Payment Basis:	[*Specify details of any provision for change of Notes into another Profit Basis or Redemption/Payment Basis*]
12.	Put/Call Options:	[Investor Put] [Issuer Call] [(further particulars specified below)]
13.	(a) Status of the Notes:	Senior/Subordinated
	(b) [Date [Board] approval for issuance of Notes obtained:	[ ] [and [ ], respectively]] (*N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes*)
14.	Method of distribution:	[Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15.	Fixed Rate Note Provisions	[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a) Rate(s) of Profit:	[ ] per cent. per annum [payable [annually/semi-annually/quarterly/other (*specify*)] in arrear] (*If payable other than annually, consider amending Condition 5*)
	(b) Profit Payment Date(s):	[[ ] in each year up to and including the Maturity Date]/[*specify other*] (*N.B. This will need to be amended in the case of long or short coupons*)
	(c) Fixed Coupon Amount(s): (*Applicable to Notes in definitive form.*)	[ ] per Calculation Amount

	(d)	Broken Amount(s): (*Applicable to Notes in definitive form.*)	[ ] per Calculation Amount, payable on the Profit Payment Date falling [in/on] [ ]
	(e)	Day Count Fraction:	[30/360 or Actual/Actual (ICMA) or [*specify other*]]
	(f)	[Determination Date(s):	[ ] in each year (*Insert regular profit payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon* *N.B. This will need to be amended in the case of regular profit payment dates which are not of equal duration* *N.B. Only relevant where Day Count Fraction is Actual/Actual (ICMA)*)]
	(g)	Other terms relating to the method of calculating profit for Fixed Rate Notes:	[None/*Give details*]
16.	Floating Rate Note Provisions		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a)	Specified Period(s)/Specified Profit Payment Dates:	[ ]
	(b)	First Profit Payment Date:	[ ]
	(c)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/[*specify other*]]
	(d)	Additional Business Centre(s):	[ ]
	(e)	Manner in which the Rate of Profit and Profit Amount is to be determined:	[Screen Rate Determination/ISDA Determination/*specify other*]
	(f)	Party responsible for calculating the Rate of Profit and Profit Amount (if not the Agent):	[ ]
	(g)	Screen Rate Determination:	
		• Reference Rate:	[ ]. (*Either LIBOR, EURIBOR or other, although additional information is required if other - including fallback provisions in the Agency Agreement*)

•	Profit Determination Date(s):	[ ] *(Second London business day prior to the start of each Profit Period if LIBOR (other than Sterling or euro LIBOR), first day of each Profit Period if Sterling LIBOR and the second day on which the TARGET System is open prior to the start of each Profit Period if EURIBOR or euro LIBOR)*
•	Relevant Screen Page:	[ ] (*In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately*)

(h)	ISDA Determination:	
	• Floating Rate Option:	[ ]
	• Designated Maturity:	[ ]
	• Reset Date:	[ ]
(i)	Margin(s):	[+/-] [ ] per cent. per annum
(j)	Minimum Rate of Profit:	[ ] per cent. per annum
(k)	Maximum Rate of Profit:	[ ] per cent. per annum
(l)	Day Count Fraction:	[Actual/365 Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 30/360 30E/360 *Other*] (*See Condition 5 for alternatives*)
(m)	Fallback provisions, rounding provisions and any other terms relating to the method of calculating profit on Floating Rate Notes, if different from those set out in the Conditions:	[ ]

17.	Zero Coupon Note Provisions	[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a) Accrual Yield:	[ ] per cent. per annum
	(b) Reference Price:	[ ]

	(c)	Any other formula/basis of determining amount payable:	[ ]
	(d)	Day Count Fraction in relation to Early Redemption Amounts and late payment:	[Conditions 7.5(c) and 7.10 apply/*specify other*] (*Consider applicable day count fraction if not U.S. dollar denominated*)
18.	Index Linked Profit Note Provisions		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*) (*N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.*)
	(a)	Index/Formula:	[*give or annex details*]
	(b)	Party responsible for calculating the Rate of Profit and/or Profit Amount (if not the Agent):	[ ]
	(c)	Provisions for determining Profit where calculation by reference to Index and/or Formula is impossible or impracticable:	[*need to include a description of market disruption or settlement disruption events and adjustment provisions*]
	(d)	Specified Period(s)/Specified Profit Payment Dates:	[ ]
	(e)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/*specify other*]
	(f)	Additional Business Centre(s):	[ ]
	(g)	Minimum Rate of Profit:	[ ] per cent. per annum
	(h)	Maximum Rate of Profit:	[ ] per cent. per annum
	(i)	Day Count Fraction:	[ ]
19.	Dual Currency Profit Note Provisions		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)

		(*N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.*)
(a)	Rate of Exchange/method of calculating Rate of Exchange:	[*give or annex details*]
(b)	Party, if any, responsible for calculating the principal and/or profit due (if not the Agent):	[ ]
(c)	Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[*need to include a description of market disruption or settlement disruption events and adjustment provisions*]
(d)	Person at whose option Specified Currency(ies) is/are payable:	[ ]

PROVISIONS RELATING TO REDEMPTION

20.	Issuer Call:		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a)	Optional Redemption Date(s):	[ ]
	(b)	Optional Redemption Amount and method, if any, of calculation of such amount(s):	[ ] per Calculation Amount
	(c)	If redeemable in part:	
		(i) Minimum Redemption Amount:	[ ]
		(ii) Maximum Redemption Amount:	[ ]
	(d)	Notice period (if other than as set out in the Conditions):	[ ] (*N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent*)

21.	Investor Put:		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a)	Optional Redemption Date(s):	[ ]
	(b)	Optional Redemption Amount and method, if any, of calculation of such amount(s):	[ ] per Calculation Amount
	(c)	Notice period (if other than as set out in the Conditions):	[ ] (*N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent*)
22.	Final Redemption Amount:		[ ] per Calculation Amount/*specify other*/see Appendix] (*N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.*)
23.	Early Redemption Amount payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 7.5):		[ ] per Calculation Amount/*specify other*/see Appendix]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

24.	Form of Notes:		
	(a)	Form:	[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event]] [Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date] [Permanent Global Note exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event]]

		(*Ensure that this is consistent with the wording in the "Form of the Notes" section in the Offering Circular and the Notes themselves. N.B. The exchange upon notice/at any time options should not be expressed to be applicable if the Specified Denomination of the Notes in item 6 includes language substantially to the following effect: "*[*€50,000*] *and integral multiples of* [*€1,000*] *in excess thereof up to and including* [*€99,000*]." *Furthermore, such Specified Denomination construction is not permitted in relation to any issue of Notes which is to be represented on issue by a Temporary Global Note exchangeable for Definitive Notes.*)
	(b) New Global Note:	No
25.	Additional Financial Centre(s) or other special provisions relating to Payment Days:	[Not Applicable/*give details*] (*Note that this paragraph relates to the place of payment and not Profit Period end dates to which sub-paragraphs 16(d) and 18(f) relate*)
26.	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	[Yes/No. *If yes, give details*]
27.	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Notes and profit due on late payment:	[Not Applicable/*give details. N.B. a new form of Temporary Global Note and/or Permanent Global Note may be required for Partly Paid issues*]
28.	Details relating to Instalment Notes:	
	(a) Instalment Amount(s):	[Not Applicable/*give details*]
	(b) Instalment Date(s):	[Not Applicable/*give details*]
29.	Redenomination applicable:	Redenomination [not] applicable [*(If Redenomination is applicable, specify the applicable Day Count Fraction and any provisions necessary to deal with floating rate profit calculation (including alternative reference rates))*][*(if Redenomination is applicable, specify the terms of the redenomination in an Annex to the Final Terms*)]

30.	Other final terms:		[Not Applicable/*give details*] [(*When adding any other final terms consideration should be given as to whether such terms constitute "significant new factors" and consequently trigger the need for a supplement to the Offering Circular under Article 16 of the Prospectus Directive.)*] *(Consider including a term providing for tax certification if required to enable profit to be paid gross by issuers.)*

DISTRIBUTION

31.	(a)	If syndicated, names of Managers:	[Not Applicable/*give names*] *(Include names and addresses of entities agreeing to underwrite the issue on a firm commitment basis and names and addresses of the entities agreeing to place the issue without a firm commitment or on a "best efforts" basis if such entities are not the same as the Managers.)*
	(b)	Stabilising Manager(s) (if any):	[Not Applicable/*give name*]
32.	If non-syndicated, name of relevant Dealer:		[ ]
33.	U.S. Selling Restrictions:		Reg. S Compliance Category
34.	Additional selling restrictions:		[Not Applicable/give details]

PURPOSE OF FINAL TERMS

These Final Terms comprise the final terms required for issue and admission to trading on [*specify relevant regulated market and, if relevant, to admission to an official list*] of the Notes described herein pursuant to the USD 2,000,000,000 Euro Medium Term Note Programme of Banque Saudi Fransi.

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in these Final Terms. [[*Relevant third party information*] has been extracted from [*specify source*]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [*specify source*], no facts have been omitted which would render the reproduced information inaccurate or misleading.

Signed on behalf of Banque Saudi Fransi:

By: ....
Duly authorised

PART B – OTHER INFORMATION

1. LISTING

(i)	Admission to trading:	[Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [*specify relevant regulated market and, if relevant, to admission to an official list*] with effect from [ ].] [Not Applicable.]
(ii)	Estimate of total expenses related to admission to trading:	[ ]

2. RATINGS

Ratings: The Notes to be issued have been rated:

[S & P: [ ]]
[Moody's: [ ]]
[Fitch: [ ]]
[[Other]: [ ]]

(The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)

3. NOTIFICATION

The [*name of competent authority in home Member State*] [has been requested to provide/has provided - *include first alternative for an issue which is contemporaneous with the establishment or update of the Programme and the second alternative for subsequent issues*] the [*names of competent authorities of host Member States*] with a certificate of approval attesting that the Offering Circular has been drawn up in accordance with the Prospectus Directive.]

4. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save for any fees payable to the [Initial Purchaser/Managers/Dealers], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. - *Amend as appropriate if there are other interests*]

[(*When adding any other description, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Offering Circular under Article 16 of the Prospectus Directive.*)]

5. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

[(i)	Reasons for the offer	[ ]
[(ii)]	Estimated net proceeds	[ ]
[(iii)]	Estimated total expenses:	[ ]] (*N.B.: Delete unless the Instruments are derivative*

securities to which Annex XII of the Prospectus Directive Regulation applies, in which case (i) above is required where the reasons for the offer are different from making profit and/or hedging certain risks and, where such reasons are inserted in (i), disclosure of net proceeds and total expenses at (ii) and (iii) above are also required.)]

6. YIELD (*Fixed Rate Notes only*)

Indication of yield:	[ ]
	The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

7. PERFORMANCE OF INDEX/FORMULA, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING (*Index-linked Notes only*)

[*If there is a derivative component in the interest or the Instruments are derivative securities to which Annex XII of the Prospectus Directive Regulation applies, need to include a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident.*]

[*Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained.*]

[(*When completing this paragraph, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Offering Circular under Article 16 of the Prospectus Directive.*)]

The Issuer [intends to provide post-issuance information [specify what information will be reported and where it can be obtained]] [does not intend to provide post-issuance information].

8. PERFORMANCE OF RATE[S] OF EXCHANGE (*Dual Currency Notes only*)

[*Need to include details of where past and future performance and volatility of the relevant rates can be obtained.*]

(*N.B. The above applies if the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applied.*)

[*(When completing this paragraph, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Offering Circular under Article 16 of the Prospectus Directive.*)]

9. OPERATIONAL INFORMATION

(i)	ISIN Code:	[ ]
(ii)	Common Code:	[ ]
(iii)	Any clearing system(s) other	[Not Applicable/*give name(s) and number(s)*]

		than Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme and the relevant identification number(s):	
	(iv)	Delivery:	Delivery [against/free of] payment
	(v)	Names and addresses of initial Paying Agent(s):	[ ]
	(vi)	Names and addresses of additional Paying Agent(s) (if any):	[ ]
10.	**TRADEABLE AMOUNT**		[[ ]/Not Applicable.]

TERMS AND CONDITIONS OF THE NOTES

The following are the Terms and Conditions of the Notes which will be incorporated by reference into each Global Note (as defined below) and each definitive Note, in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Final Terms in relation to any Tranche of Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Notes. The applicable Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and definitive Note. Reference should be made to "Form of the Notes" for a description of the content of Final Terms which will specify which of such terms are to apply in relation to the relevant Notes.

This Note is one of a Series (as defined below) of Notes issued by Banque Saudi Fransi (the **Issuer**) pursuant to the Agency Agreement (as defined below).

References herein to the **Notes** shall be references to the Notes of this Series and shall mean:

(i) in relation to any Notes represented by a global Note (a **Global Note**), units of each Specified Denomination in the Specified Currency;

(ii) any Global Note; and

(iii) any definitive Notes issued in exchange for a Global Note.

The Notes, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an Agency Agreement (such Agency Agreement as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) dated 9 September 2009 and made between the Issuer, Citibank, N.A. as issuing and principal paying agent and agent bank (the **Agent**, which expression shall include any successor agent) and the other paying agents named therein (together with the Agent, the **Paying Agents**, which expression shall include any additional or successor paying agents).

Profit bearing definitive Notes have profit coupons (**Coupons**) and, if indicated in the applicable Final Terms, talons for further Coupons (**Talons**) attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Definitive Notes repayable in instalments have receipts (**Receipts**) for the payment of the instalments of principal (other than the final instalment) attached on issue. Global Notes do not have Receipts, Coupons or Talons attached on issue.

The final terms for this Note (or the relevant provisions thereof) are set out in Part A of the Final Terms attached to or endorsed on this Note which supplement these Terms and Conditions (the **Conditions**) and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the Conditions, replace or modify the Conditions for the purposes of this Note. References to the **applicable Final Terms** are to Part A of the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Note.

Any reference to **Noteholders** or **holders** in relation to any Notes shall mean the holders of the Notes and shall, in relation to any Notes represented by a Global Note, be construed as provided below. Any reference herein to **Receiptholders** shall mean the holders of the Receipts and any reference herein to **Couponholders** shall mean the holders of the Coupons and shall, unless the context otherwise requires, include the holders of the Talons.

As used herein, **Tranche** means Notes which are identical in all respects (including as to listing and admission to trading) and **Series** means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (a) expressed to be consolidated and form a single series and (b) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Profit Commencement Dates and/or Issue Prices.

The Noteholders, the Receiptholders and the Couponholders are entitled to the benefit of the Deed of Covenant (the **Deed of Covenant**) dated 9 September 2009 and made by the Issuer. The original of the Deed of Covenant is held by the common depositary for Euroclear (as defined below) and Clearstream, Luxembourg (as defined below).

Copies of the Agency Agreement and the Deed of Covenant are available for inspection during normal business hours at the specified office of each of the Paying Agents. Copies of the applicable Final Terms are available for viewing at the registered office of the Issuer and of the Agent and copies may be obtained from those offices save that, if this Note is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive, the applicable Final Terms will only be obtainable by a Noteholder holding one or more Notes and such Noteholder must produce evidence satisfactory to the Issuer and the relevant Paying Agent as to its holding of such Notes and identity. The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Agency Agreement, the Deed of Covenant and the applicable Final Terms which are applicable to them. The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Agency Agreement.

Words and expressions defined in the Agency Agreement or used in the applicable Final Terms shall have the same meanings where used in the Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Agency Agreement and the applicable Final Terms, the applicable Final Terms will prevail.

1. FORM, DENOMINATION AND TITLE

The Notes are in bearer form and, in the case of definitive Notes, serially numbered, in the Specified Currency and the Specified Denomination(s). Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination.

This Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Profit Note, a Dual Currency Profit Note or a combination of any of the foregoing, depending upon the Profit Basis shown in the applicable Final Terms.

This Note may be an Index Linked Redemption Note, an Instalment Note, a Dual Currency Redemption Note, a Partly Paid Note or a combination of any of the foregoing, depending upon the Redemption/Payment Basis shown in the applicable Final Terms.

This Note may also be a Senior Note or a Dated Subordinated Note, as indicated in the applicable Final Terms.

Definitive Notes are issued with Coupons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in the Conditions are not applicable.

Subject as set out below, title to the Notes, Receipts and Coupons will pass by delivery. The Issuer and the Paying Agents will (except as otherwise required by law) deem and treat the bearer of any Note, Receipt or Coupon as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear Bank S.A./N.V. (**Euroclear**) and/or Clearstream Banking, société anonyme (**Clearstream, Luxembourg**), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer and the Paying Agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or profit on such nominal amount of such Notes, for which purpose the bearer of the relevant Global Note shall be treated by the Issuer and any Paying Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions **Noteholder** and **holder of Notes** and related expressions shall be construed accordingly.

Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as the case may be. References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

2. STATUS OF THE NOTES

2.1 Status of the Senior Notes

The Senior Notes and any relative Receipts and Coupons are direct, unconditional, unsubordinated and (subject to the provisions of Condition) unsecured obligations of the Issuer and rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.

2.2 Status of the Subordinated Notes

(a) The Subordinated Notes constitute direct, general, unconditional, unsecured and subordinated obligations of the Issuer subordinated in accordance with sub-paragraph 2.2(b) below and which will at all times rank *pari passu* among themselves.

(b) The claims of the Noteholders against the Issuer will be subordinated to (A) the claims of depositors, (B) unsubordinated claims with respect to the repayment of borrowed money and (C) other unsubordinated claims. By virtue of such subordination, payments to a Noteholder will, in the event of liquidation or bankruptcy of the Issuer or in the event of a moratorium with respect to the Issuer, only be made after, and any set-off by a Noteholder shall be excluded until, all obligations of the Issuer resulting from all applicable laws and relevant resolutions, deposits, unsubordinated claims with respect to the repayment of borrowed money and other unsubordinated claims have been satisfied. The Subordinated Notes will rank equally with other current or future Lower Tier II claims (as defined in the guidelines issued by the Saudi Arabian Monetary Agency) against the Issuer.

3. NEGATIVE PLEDGE

3.1 Negative Pledge

So long as any of the Notes remains outstanding the Issuer will not create or have outstanding any mortgage, charge, lien, pledge or other security interest (each a **Security Interest**) (other than a Permitted Security Interest) upon, or with respect to, any of its present or future business, undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness (as defined below), unless the Issuer, in the case of the creation of a Security Interest, before or at the same time and, in any other case, promptly, takes any and all action necessary to ensure that:

(a) all amounts payable by it under the Notes and the Coupons are secured by the Security Interest equally and rateably with the Relevant Indebtedness; or

(b) such other Security Interest or other arrangement (whether or not it includes the giving of a Security Interest) is provided as is approved by an Extraordinary Resolution of the Noteholders.

3.2 Interpretation

For the purposes of these Conditions:

(a) **Permitted Security Interest** means a Security Interest upon, or with respect to, any present or future assets or revenues or any part thereof which is created pursuant to:

(i) a "*sukuk*" or similar Islamic law-based financing arrangement; or

(ii) any other asset-based financing or like arrangement (including a securitisation transaction), whereby the payment obligations secured by such Security Interest are to be discharged primarily from such assets or revenues,

Provided that the aggregate outstanding amount of assets or revenues the subject of such security pursuant to transactions described in (i) and (ii) above shall not at any time exceed in aggregate an amount equal to 15% of the total assets of the Issuer, as evidenced by its most recent audited financial statements (or, if at any time the Issuer prepares consolidated financial statements, its most recent audited consolidated financial statements);

(b) **Relevant Indebtedness** means any Indebtedness in the form of or represented by any bond, note, debenture, debenture stock, loan stock, certificate or other instrument which is for the time being or is intended to be listed, quoted or traded on any stock exchange or any securities market (including, without limitation, any over-the-counter market):

(i) denominated, payable or optionally payable in a currency other than Saudi Riyals; and

(ii) not initially distributed primarily to investors inside the Kingdom of Saudi Arabia;

(c) **Subsidiary** means, in relation to the Issuer, any company (i) in which the Issuer holds a majority of the voting rights or (ii) of which the Issuer is a member and has the right to appoint or remove a majority of the board of directors or (iii) of which the Issuer is a member and controls a majority of the voting rights, and includes any company which is a Subsidiary of a Subsidiary of the Issuer.

This Condition 3 applies only to Senior Notes.

4. REDENOMINATION

4.1 Redenomination

Where redenomination is specified in the applicable Final Terms as being applicable, the Issuer may, without the consent of the Noteholders, the Receiptholders and the Couponholders on giving prior notice to the Agent, Euroclear and Clearstream, Luxembourg and at least 30 days' prior notice to the Noteholders in accordance with Condition 14, elect that, with effect from the Redenomination Date specified in the notice, the Notes shall be redenominated in euro.

The election will have effect as follows:

(a) the Notes and the Receipts shall be deemed to be redenominated in euro in the denomination of euro 0.01 with a nominal amount for each Note and Receipt equal to the nominal amount of that Note or Receipt in the Specified Currency, converted into euro at the Established Rate, provided that, if the Issuer determines, with the agreement of the Agent, that the then market practice in respect of the redenomination in euro of internationally offered securities is different from the provisions specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Noteholders, the stock exchange (if any) on which the Notes may be listed and the Paying Agents of such deemed amendments;

(b) save to the extent that an Exchange Notice has been given in accordance with paragraph (d) below, the amount of profit due in respect of the Notes will be calculated by reference to the aggregate nominal amount of Notes presented (or, as the case may be, in respect of which Coupons are presented) for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest euro 0.01;

(c) if definitive Notes are required to be issued after the Redenomination Date, they shall be issued at the expense of the Issuer (i) in the case of Relevant Notes in the denomination of EUR 50,000 and/or such higher amounts as the Agent may determine and notify to the Noteholders and any remaining amounts less than EUR 50,000 shall be redeemed by the Issuer and paid to the Noteholders in euro in accordance with Condition 6; and (ii) in the case of Notes which are not Relevant Notes, in the denominations of EUR 1,000, EUR 10,000, EUR 100,000 and (but only to the extent of any remaining amounts less than EUR 1,000 or such smaller denominations as the Agent may approve) EUR 0.01 and such other denominations as the Agent shall determine and notify to the Noteholders;

(d) if issued prior to the Redenomination Date, all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Notes) will become void with effect from the date on which the Issuer gives notice (the **Exchange Notice**) that replacement euro-denominated Notes, Receipts and Coupons are available for exchange (provided that such securities are so available) and no payments will be made in respect of them. The payment obligations contained in any Notes and Receipts so issued will also become void on that date although those Notes and Receipts will continue to constitute valid exchange obligations of the Issuer. New euro-denominated Notes, Receipts and Coupons will be issued in exchange for Notes, Receipts and Coupons denominated in the Specified Currency in such manner as the Agent may specify and as shall be notified to the Noteholders in the Exchange Notice. No Exchange Notice may be given less than 15 days prior to any date for payment of principal or profit on the Notes;

(e) after the Redenomination Date, all payments in respect of the Notes, the Receipts and the Coupons, other than payments of profit in respect of periods commencing before the Redenomination Date, will be made solely in euro as though references in the Notes to the

Specified Currency were to euro. Payments will be made in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque;

(f) if the Notes are Fixed Rate Notes and profit for any period ending on or after the Redenomination Date is required to be calculated for a period ending other than on an Profit Payment Date, it will be calculated:

(i) in the case of the Notes represented by a Global Note, by applying the Rate of Profit to the aggregate outstanding nominal amount of the Notes represented by such Global Note; and

(ii) in the case of definitive Notes, by applying the Rate of Profit to the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form comprises more than one Calculation Amount, the amount of profit payable in respect of such Fixed Rate Note shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the Specified Denomination without any further rounding; and

(g) if the Notes are Floating Rate Notes, the applicable Final Terms will specify any relevant changes to the provisions relating to profit.

4.2 Definitions

In the Conditions, the following expressions have the following meanings:

Established Rate means the rate for the conversion of the Specified Currency (including compliance with rules relating to roundings in accordance with applicable European Community regulations) into euro established by the Council of the European Union pursuant to Article 123 of the Treaty;

euro means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty;

Redenomination Date means (in the case of profit bearing Notes) any date for payment of profit under the Notes or (in the case of Zero Coupon Notes) any date, in each case specified by the Issuer in the notice given to the Noteholders pursuant to Condition 4.1 above and which falls on or after the date on which the country of the Specified Currency first participates in the third stage of European economic and monetary union;

Relevant Notes means all Notes where the applicable Final Terms provide for a minimum Specified Denomination in the Specified Currency which is equivalent to at least euro 50,000 and which are admitted to trading on a regulated market in the European Economic Area; and

Treaty means the Treaty establishing the European Community, as amended.

5. PROFIT

5.1 Profit on Fixed Rate Notes

Each Fixed Rate Note bears profit from (and including) the Profit Commencement Date at the rate(s) per annum equal to the Rate(s) of Profit. Profit will be payable in arrear on the Profit Payment Date(s) in each year up to (and including) the Maturity Date.

If the Notes are in definitive form, except as provided in the applicable Final Terms, the amount of profit payable on each Profit Payment Date in respect of the Fixed Profit Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of profit on any Profit Payment Date will, if so specified in the applicable Final Terms, amount to the Broken Amount so specified.

As used in the Conditions, **Fixed Profit Period** means the period from (and including) an Profit Payment Date (or the Profit Commencement Date) to (but excluding) the next (or first) Profit Payment Date.

Except in the case of Notes in definitive form where a Fixed Coupon Amount or Broken Amount, is specified in the applicable Final Terms, profit shall be calculated in respect of any period by applying the Rate of Profit to:

(A) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or

(B) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form comprises more than one Calculation Amount, the amount of profit payable in respect of such Fixed Rate Note shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the Specified Denomination without any further rounding.

Day Count Fraction means, in respect of the calculation of an amount of profit in accordance with this Condition 5.1:

(a) if "Actual/Actual (ICMA)" is specified in the applicable Final Terms:

(i) in the case of Notes where the number of days in the relevant period from (and including) the most recent Profit Payment Date (or, if none, the Profit Commencement Date) to (but excluding) the relevant payment date (the **Accrual Period**) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (I) the number of days in such Determination Period and (II) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or

(ii) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:

(A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

(B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

(b) if "30/360" is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Profit Payment Date (or, if none, the Profit Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

In the Conditions:

Determination Period means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Profit Commencement Date or the final Profit Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

sub-unit means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, one cent.

5.2 Profit on Floating Rate Notes and Index Linked Profit Notes

(a) Profit Payment Dates

Each Floating Rate Note and Index Linked Profit Note bears profit from (and including) the Profit Commencement Date and such profit will be payable in arrear on either:

(i) the Specified Profit Payment Date(s) in each year specified in the applicable Final Terms; or

(ii) if no Specified Profit Payment Date(s) is/are specified in the applicable Final Terms, each date (each such date, together with each Specified Profit Payment Date, an **Profit Payment Date**) which falls the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Profit Payment Date or, in the case of the first Profit Payment Date, after the Profit Commencement Date.

Such profit will be payable in respect of each Profit Period (which expression shall, in the Conditions, mean the period from (and including) an Profit Payment Date (or the Profit Commencement Date) to (but excluding) the next (or first) Profit Payment Date).

If a Business Day Convention is specified in the applicable Final Terms and (x) if there is no numerically corresponding day in the calendar month in which an Profit Payment Date should occur or (y) if any Profit Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

(A) in any case where Specified Periods are specified in accordance with Condition 5.2(a)(ii) above, the Floating Rate Convention, such Profit Payment Date (a) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (ii) below shall apply *mutatis mutandis* or (b) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (i) such Profit Payment Date shall be brought forward to the immediately preceding Business Day and (ii) each subsequent Profit Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Profit Payment Date occurred; or

(B) the Following Business Day Convention, such Profit Payment Date shall be postponed to the next day which is a Business Day; or

(C) the Modified Following Business Day Convention, such Profit Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Profit Payment Date shall be brought forward to the immediately preceding Business Day; or

(D) the Preceding Business Day Convention, such Profit Payment Date shall be brought forward to the immediately preceding Business Day.

In the Conditions, **Business Day** means a day which is both:

(a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and each Additional Business Centre specified in the applicable Final Terms; and

(b) either (i) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than London and any Additional Business Centre and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (ii) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System (the **TARGET System**) is open.

(b) Rate of Profit

The Rate of Profit payable from time to time in respect of Floating Rate Notes and Index Linked Profit Notes will be determined in the manner specified in the applicable Final Terms.

(i) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Profit is to be determined, the Rate of Profit for each Profit Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this subparagraph (i), **ISDA Rate** for a Profit Period means a rate equal to the Floating Rate that would be determined by the Agent under a profit rate swap transaction if the Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes (the **ISDA Definitions**) and under which:

(A) the Floating Rate Option is as specified in the applicable Final Terms;

(B) the Designated Maturity is a period specified in the applicable Final Terms; and

(C) the relevant Reset Date is either (a) if the applicable Floating Rate Option is based on the London interbank offered rate (**LIBOR**) or on the Euro-zone interbank offered rate (**EURIBOR**), the first day of that Profit Period or (b) in any other case, as specified in the applicable Final Terms.

For the purposes of this subparagraph (i), **Floating Rate**, **Calculation Agent**, **Floating Rate Option**, **Designated Maturity** and **Reset Date** have the meanings given to those terms in the ISDA Definitions.

Unless otherwise stated in the applicable Final Terms the Minimum Rate of Profit shall be deemed to be zero.

(ii) Screen Rate Determination for Floating Rate Notes

Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Profit is to be determined, the Rate of Profit for each Profit Period will, subject as provided below, be either:

(A) the offered quotation; or

(B) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Profit Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Profit in the event that the Relevant Screen Page is not available or if, in the case of (A) above, no such offered quotation appears or, in the case of (B) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Final Terms as being other than LIBOR or EURIBOR, the Rate of Profit in respect of such Notes will be determined as provided in the applicable Final Terms.

(c) Minimum Rate of Profit and/or Maximum Rate of Profit

If the applicable Final Terms specifies a Minimum Rate of Profit for any Profit Period, then, in the event that the Rate of Profit in respect of such Profit Period determined in accordance with the provisions of paragraph (b) above is less than such Minimum Rate of Profit, the Rate of Profit for such Profit Period shall be such Minimum Rate of Profit.

If the applicable Final Terms specifies a Maximum Rate of Profit for any Profit Period, then, in the event that the Rate of Profit in respect of such Profit Period determined in accordance with the provisions of paragraph (b) above is greater than such Maximum Rate of Profit, the Rate of Profit for such Profit Period shall be such Maximum Rate of Profit.

(d) Determination of Rate of Profit and calculation of Profit Amounts

The Agent, in the case of Floating Rate Notes, and the Calculation Agent, in the case of Index Linked Profit Notes, will at or as soon as practicable after each time at which the Rate of Profit is to be determined, determine the Rate of Profit for the relevant Profit Period. In the case of Index Linked Profit Notes, the Calculation Agent will notify the Agent of the Rate of Profit for the relevant Profit Period as soon as practicable after calculating the same.

The Agent will calculate the amount of profit (the **Profit Amount**) payable on the Floating Rate Notes or Index Linked Profit Notes for the relevant Profit Period by applying the Rate of Profit to:

(A) in the case of Floating Rate Notes or Index Linked Profit Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or

(B) in the case of Floating Rate Notes or Index Linked Profit Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Note or an Index Linked Profit Note in definitive form comprises more than one Calculation Amount, the Profit Amount payable in respect of such Note shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the Specified Denomination without any further rounding.

Day Count Fraction means, in respect of the calculation of an amount of profit in accordance with this Condition 5.2:

(i) if "Actual/Actual (ISDA)" or "Actual/Actual" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (I) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (II) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);

(ii) if "Actual/365 (Fixed)" is specified in the applicable Final Terms, the actual number of days in the Profit Period divided by 365;

(iii) if "Actual/365 (Sterling)" is specified in the applicable Final Terms, the actual number of days in the Profit Period divided by 365 or, in the case of an Profit Payment Date falling in a leap year, 366;

(iv) if "Actual/360" is specified in the applicable Final Terms, the actual number of days in the Profit Period divided by 360;

(v) if "30/360", "360/360" or "Bond Basis" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Interest Period falls:

"Y_2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D_1" is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D_1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D_1 is greater than 29, in which case D_2 will be 30;

(vi) if "30E/360" or "Eurobond Basis" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Interest Period falls:

"Y_2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D_1" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D_1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D_2 will be 30;

(vii) if "30E/360 (ISDA)" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Interest Period falls:

"Y_2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D_1" is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D_1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31 and in which case D_2 will be 30.

(e) Notification of Rate of Profit and Profit Amounts

The Agent will cause the Rate of Profit and each Profit Amount for each Profit Period and the relevant Profit Payment Date to be notified to the Issuer and any stock exchange on which the relevant Floating Rate Notes or Index Linked Profit Notes are for the time being listed (by no later than the first day of each Profit Period) and notice thereof to be published in accordance with Condition 14 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Profit Amount and Profit Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Profit Period. Any such amendment will be promptly notified to each stock exchange on which the relevant Floating Rate Notes or Index Linked Profit Notes are for the time being listed and to the Noteholders in accordance with Condition 14. For the purposes of this paragraph, the expression **London Business Day** means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

(f) Certificates to be final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 5.2, whether by the Agent or, if applicable, the Calculation Agent, shall (in the absence of wilful default, bad faith, manifest error or proven error) be binding on the Issuer, the Agent, the Calculation Agent (if applicable), the other Paying Agents and all Noteholders, Receiptholders and Couponholders and (in the absence of wilful default or bad faith) no liability to the Issuer, the Noteholders, the Receiptholders or the Couponholders shall attach to the Agent or, if applicable, the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

5.3 Profit on Dual Currency Profit Notes

The rate or amount of profit payable in respect of Dual Currency Profit Notes shall be determined in the manner specified in the applicable Final Terms.

5.4 Profit on Partly Paid Notes

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), profit will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the applicable Final Terms.

5.5 Accrual of profit

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear profit (if any) from the date for its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, profit will continue to accrue until whichever is the earlier of:

(a) the date on which all amounts due in respect of such Note have been paid; and

(b) five days after the date on which the full amount of the moneys payable in respect of such Note has been received by the Agent and notice to that effect has been given to the Noteholders in accordance with Condition 14.

6. PAYMENTS

6.1 Method of payment

Subject as provided below:

(a) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency (which, in the case of a payment in Japanese yen to a non-resident of Japan, shall be a non-resident account) maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively); and

(b) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8.

6.2 Presentation of definitive Notes, Receipts and Coupons

Payments of principal in respect of definitive Notes will (subject as provided below) be made in the manner provided in Condition 6.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Notes, and payments of profit in respect of definitive Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)).

Payments of instalments of principal (if any) in respect of definitive Notes, other than the final instalment, will (subject as provided below) be made in the manner provided in Condition 6.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in the manner provided in Condition 6.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Note in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the definitive Note to which it appertains. Receipts presented without the definitive Note to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any definitive Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Notes in definitive form (other than Dual Currency Notes, Index Linked Notes or Long Maturity Notes (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 8) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 9) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note in definitive form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note, Dual Currency Note, Index Linked Note or Long Maturity Note in definitive form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A **Long Maturity Note** is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate profit payable thereon provided that such Note shall cease to be a Long Maturity Note on the Profit Payment Date on which the aggregate amount of profit remaining to be paid after that date is less than the nominal amount of such Note.

If the due date for redemption of any definitive Note is not an Profit Payment Date, profit (if any) accrued in respect of such Note from (and including) the preceding Profit Payment Date or, as the case may be, the Profit Commencement Date shall be payable only against surrender of the relevant definitive Note.

6.3 Payments in respect of Global Notes

Payments of principal and profit (if any) in respect of Notes represented by any Global Note will (subject as provided below) be made in the manner specified above in relation to definitive Notes and otherwise in the manner specified in the relevant Global Note against presentation or surrender, as the case may be, of such Global Note at the specified office of any Paying Agent outside the United States. A record of each payment made against presentation or surrender of any Global Note, distinguishing between any payment of principal and any payment of profit, will be made on such Global Note by the Paying Agent to which it was presented and such record shall be *prima facie* evidence that the payment in question has been made.

6.4 General provisions applicable to payments

The holder of a Global Note shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the Issuer to, or to the order of, the holder of such Global Note.

Notwithstanding the foregoing provisions of this Condition, if any amount of principal and/or profit in respect of Notes is payable in U.S. dollars, such U.S. dollar payments of principal and/or profit in respect of such Notes will be made at the specified office of a Paying Agent in the United States if:

(a) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and profit on the Notes in the manner provided above when due;

(b) payment of the full amount of such principal and profit at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and profit in U.S. dollars; and

(c) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

6.5 Payment Day

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further profit or other payment in respect of such delay. For these purposes, **Payment Day** means any day which (subject to Condition 9) is:

(a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:

  (i) the relevant place of presentation;

  (ii) London;

  (iii) each Additional Financial Centre specified in the applicable Final Terms; and

(b) either (A) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than the place of presentation, London and any Additional Financial Centre and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (B) in relation to any sum payable in euro, a day on which the TARGET System is open.

6.6 Interpretation of principal and profit

Any reference in the Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

(a) any additional amounts which may be payable with respect to principal under Condition 8;

(b) the Final Redemption Amount of the Notes;

(c) the Early Redemption Amount of the Notes;

(d) the Optional Redemption Amount(s) (if any) of the Notes;

(e) in relation to Notes redeemable in instalments, the Instalment Amounts;

(f) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 7.5); and

(g) any premium and any other amounts (other than profit) which may be payable by the Issuer under or in respect of the Notes.

Any reference in the Conditions to profit in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to profit under Condition 8.

7. REDEMPTION AND PURCHASE

7.1 Redemption at maturity

Unless previously redeemed or purchased and cancelled as specified below, each Note (including each Index Linked Redemption Note and Dual Currency Redemption Note) will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms in the relevant Specified Currency on the Maturity Date.

7.2 Redemption for tax reasons

The Notes may be redeemed at the option of the Issuer (but in the case of Subordinated Notes subject to the prior written consent of the Saudi Arabian Monetary Agency) in whole, but not in part:

(a) at any time (if the Note is not a Floating Rate Note, an Index-Linked Profit Note nor a Dual Currency Profit Note); or

(b) on any Profit Payment Date (if the Note is either a Floating Rate Note, an Index-Linked Profit Note or a Dual Currency Profit Note) on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable),

in each case, at their Early Redemption Amount referred to in Condition 7.5 below together with profit accrued (if any) to the date fixed for redemption, if:

(i) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 (Taxation) based on a rate in excess of 5 per cent. of the gross amount payable in respect of such Notes as a result of any change in, or amendment to, the laws or regulations of the Kingdom of Saudi Arabia or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the date of issue of the Final Terms relating to the first Tranche of the Notes; and

(ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided, however, that no such notice of redemption shall be given earlier than:

(A) where the Notes may be redeemed at any time, 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due; or

(B) where the Notes may be redeemed only on a Profit Payment Date, 60 days prior to the Profit Payment Date occurring immediately before the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Fiscal Agent (A) a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (B) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment. Upon the expiry of any such notice as is referred to in this Condition 7.2, the Issuer shall be bound to redeem the Notes in accordance with this Condition 7.2.

7.3 Redemption at the option of the Issuer (Issuer Call)

If Issuer Call is specified in the applicable Final Terms, the Issuer may (subject in the case of Subordinated Notes to the prior written consent of the Saudi Arabian Monetary Authority) having given:

(a) not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 14; and

(b) not less than 15 days before the giving of the notice referred to in (a) above, notice to the Agent;

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Final Terms together, if appropriate, with profit accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount, in each case as may be specified in the applicable Final Terms. In the case of a partial redemption of Notes, the Notes to be redeemed (**Redeemed Notes**) will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg, in the case of Redeemed Notes represented by a Global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the **Selection Date**). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 14 not less than 15 days prior to the date fixed for redemption. No exchange of the relevant Global Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 7.3 and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 14 at least five days prior to the Selection Date.

7.4 Redemption at the option of the Noteholders (Investor Put)

This Condition 7.4 shall not apply to Subordinated Notes.

If Investor Put is specified in the applicable Final Terms, upon the holder of any Note giving to the Issuer in accordance with Condition 14 not less than 15 nor more than 30 days' notice the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Final Terms, such Note on the Optional Redemption Date and at the Optional Redemption Amount together, if appropriate, with profit accrued to (but excluding) the Optional Redemption Date. It may be that before an Investor Put can be exercised, certain conditions and/or circumstances will need to be satisfied. Where relevant, the provisions will be set out in the applicable Final Terms.

To exercise the right to require redemption of a Note pursuant to this Condition 7.4, the holder of a Note must, if the Note is in definitive form and held outside Euroclear and Clearstream, Luxembourg, deliver, at the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the notice period, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a **Put Notice**) and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition accompanied by such Note or evidence satisfactory to the Paying Agent concerned that such Note will, following delivery of the Put Notice, be held to its order or under its control. If a Note is represented by a Global Note or is in definitive form and held through Euroclear or Clearstream, Luxembourg, to exercise the right to require redemption of a Note the holder of a Note must, within the notice period, give notice to the Agent of such exercise in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on his instruction by Euroclear or Clearstream, Luxembourg or any common depositary, as the case may be, for them to the Agent by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time and, if a Note is represented by a Global Note, at the same time present or procure the presentation of the relevant Global Note to the Agent for notation accordingly.

Any Put Notice or other notice given in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg given by a holder of any Note pursuant to this Condition 7.4 shall be irrevocable except where, prior to the due date of redemption, an Event of Default has occurred and is continuing, in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this Condition 7.4 and instead to declare such Note forthwith due and payable pursuant to Condition 10.

7.5 Early Redemption Amounts

For the purpose of Condition 7.2 above and Condition 10, each Note will be redeemed at its Early Redemption Amount calculated as follows:

(a) in the case of a Note with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;

(b) in the case of a Note (other than a Zero Coupon Note but including an Instalment Note and a Partly Paid Note) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Note is denominated, at the amount specified in, or determined in the manner specified in, the applicable Final Terms or, if no such amount or manner is so specified in the applicable Final Terms, at its nominal amount; or

(c) in the case of a Zero Coupon Note, at an amount (the **Amortised Face Amount**) calculated in accordance with the following formula:

$$\text{Early Redemption Amount} = \text{RP} \times (1 + \text{AY})^{y}$$

where:

RP means the Reference Price;

AY means the Accrual Yield expressed as a decimal; and

y is a fraction the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator of which is 360,

or on such other calculation basis as may be specified in the applicable Final Terms.

7.6 Instalments

Instalment Notes will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to Condition 7.5.

7.7 Partly Paid Notes

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Final Terms.

7.8 Purchases

The Issuer or any Subsidiary of the Issuer may at any time purchase Notes (provided that, in the case of definitive Notes, all unmatured Receipts, Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. Such Notes may be held, reissued, resold or, at the option of the Issuer, surrendered to any Paying Agent for cancellation.

7.9 Cancellation

All Notes which are redeemed will forthwith be cancelled (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and any Notes purchased and cancelled pursuant to Condition 7.8 above (together with all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Agent and cannot be reissued or resold.

7.10 Late payment on Zero Coupon Notes

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to Condition 7.1, 7.2, 7.3 or 7.4 above or upon its becoming due and repayable as provided in Condition 10 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in Condition 7.5(c) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

(a) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and

(b) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Notes has been received by the Agent and notice to that effect has been given to the Noteholders in accordance with Condition 14.

8. TAXATION

All payments of principal and profit in respect of the Notes, Receipts and Coupons by the Issuer will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of any Tax Jurisdiction unless such withholding or deduction is required by law. In such event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes, Receipts or Coupons after such withholding or deduction shall equal the respective amounts of principal and profit which would otherwise have been receivable in respect of the Notes, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:

(a) presented for payment in the Tax Jurisdiction; or

(b) presented for payment by or on behalf of a holder who is liable for such taxes or duties in respect of such Note, Receipt or Coupon by reason of his having some connection with a Tax Jurisdiction other than the mere holding of such Note, Receipt or Coupon; or

(c) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 6.5); or

(d) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(e) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union.

As used herein:

(i) **Tax Jurisdiction** means the Kingdom of Saudi Arabia or any political subdivision or any authority thereof or therein having power to tax; and

(ii) the **Relevant Date** means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 14.

9. PRESCRIPTION

The Notes, Receipts and Coupons will become void unless presented for payment within a period of 10 years (in the case of principal) and five years (in the case of profit) after the Relevant Date (as defined in Condition 8) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 6.2 or any Talon which would be void pursuant to Condition 6.2.

10. EVENTS OF DEFAULT

10.1 Events of Default

If any one or more of the following events (each an **Event of Default**) shall occur and be continuing:

(a) if default is made in the payment of any principal or profit due in respect of the Notes or any of them and the default continues for a period of seven days in the case of principal and 14 days in the case of profit; or

(b) if the Issuer fails to perform or observe any of its other obligations under the Conditions and (except in any case where the failure is incapable of remedy when no such continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 30 days next following the service by a Noteholder on the Issuer of notice requiring the same to be remedied; or

(c) if (i) any Indebtedness for Borrowed Money (as defined below) of the Issuer or any of its Principal Subsidiaries becomes capable of being declared due and repayable prematurely by reason of an event of default (however described); (ii) the Issuer or any of its Principal Subsidiaries fails to make any payment in respect of any Indebtedness for Borrowed Money on the due date for payment or as the case may be, within any applicable grace period; (iii) any security given by the Issuer or any of its Principal Subsidiaries for any Indebtedness for Borrowed Money becomes enforceable; or (iv) default is made by the Issuer or any of its Principal Subsidiaries in making any payment due under any guarantee and/or indemnity given by it in relation to any Indebtedness for Borrowed Money of any other person provided that the amount of Indebtedness for Borrowed Money referred to in to is Condition 10.1(c) individually or in the aggregate exceeds US$20,000,000 or its equivalent in any other currency or currencies; or

(d) if any order is made by any competent court or resolution passed for the winding up or dissolution of the Issuer or any of its Principal Subsidiaries, save for the purposes of reorganisation on terms previously approved by an Extraordinary Resolution; or

(e) if the Issuer or any of its Principal Subsidiaries ceases or threatens to cease to carry on the whole or a substantial part of its business, save for the purposes of reorganisation on terms previously approved by an Extraordinary Resolution, or the Issuer or any of its Principal Subsidiaries stops or threatens to stop payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due, or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent; or

(f) if (A) proceedings are initiated against the Issuer or any of its Principal Subsidiaries under any applicable liquidation, insolvency, composition, reorganisation or other similar laws, or an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer or any of its Principal Subsidiaries or, as the case may be, in relation to the whole or a substantial part of the undertaking or assets of any of them, or an encumbrancer takes possession of the whole or a substantial part of the undertaking or assets of any of them, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or a substantial part of the undertaking or assets of any of them and (B) in any case (other than the appointment of an administrator) is not discharged within 14 days; or

(g) if the Issuer or any of its Principal Subsidiaries initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including the obtaining of a moratorium) or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors); or

(h) the Issuer or any of its Principal Subsidiaries takes any action for a re-adjustment 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 Saudi Arabian Settlement to Avoid Bankruptcy Law as enacted by Royal Decree M/16 dated 4/9/1416H) or declares a moratorium in respect of any of its indebtedness or any guarantee of indebtedness given by it provided that the amount of Indebtedness for Borrowed Money referred to in Condition 10.1(c) individually or in the aggregate exceeds US$20,000,000 or its equivalent in any other currency or currencies; or

(i) if (A) all or a substantial part of the undertaking, assets and revenues of the Issuer or any of its Principal Subsidiaries is condemned, seized or otherwise appropriated by any person acting under the authority of any national, regional or local government or (B) the Issuer or any of its Principal Subsidiaries is prevented by any such person from exercising normal control over all or a substantial part of its undertaking, assets and revenues,

then any holder of a Note may, by written notice to the Issuer at the specified office of the Agent, effective upon the date of receipt thereof by the Agent, declare any Note held by it to be forthwith due and payable whereupon the same shall become forthwith due and payable at its Early Redemption Amount, together with accrued profit (if any) to the date of repayment, without presentment, demand, protest or other notice of any kind; PROVIDED THAT any payments of principal and profit under this Condition 10.1 relating to Subordinated Notes may be effected only with the prior written consent of the Saudi Arabian Monetary Agency and in accordance with all applicable laws and regulations. For the avoidance of doubt, Events of Default (a) to (h) apply to Senior Notes and only Events of Default (a) and (d) above apply to Subordinated Notes.

10.2 Definitions

For the purposes of the Conditions, **Indebtedness for Borrowed Money** means any indebtedness (whether being principal, premium, profit or other amounts) for or in respect of any notes, bonds, debentures, debenture stock, loan stock or other securities or any borrowed money or any liability under or in respect of any acceptance or acceptance credit.

Principal Subsidiary means, at any relevant time, a Subsidiary of the Issuer:

(a) whose total assets or gross revenues (or, where the Subsidiary in question prepares consolidated financial statements, whose total consolidated assets or gross consolidated revenues, as the case may be) represents not less than 10% of the total consolidated assets or the gross consolidated revenues of the Issuer and its Subsidiaries, all as calculated by reference to the then latest audited financial statements (or consolidated accounts, as the case may be) of such Subsidiary and the then latest audited consolidated financial statements of the Issuer; or

(b) to which is transferred all or substantially all of the assets and undertakings of a Subsidiary which immediately prior to such transfer is a Principal Subsidiary.

11. REPLACEMENT OF NOTES, RECEIPTS, COUPONS AND TALONS

Should any Note, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Agent upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

12. PAYING AGENTS

The names of the initial Paying Agents and their initial specified offices are set out below.

The Issuer is entitled to vary or terminate the appointment of any Paying Agent and/or appoint additional or other Paying Agents and/or approve any change in the specified office through which any Paying Agent acts, provided that:

(a) there will at all times be an Agent;

(b) so long as the Notes are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority; and

(c) there will at all times be a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 6.4. Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 14.

In acting under the Agency Agreement, the Paying Agents act solely as agents of the Issuer and do not assume any obligation to, or relationship of agency or trust with, any Noteholders, Receiptholders or Couponholders. The Agency Agreement contains provisions permitting any entity into which any Paying Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor paying agent.

13. EXCHANGE OF TALONS

On and after the Profit Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of profit due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 9.

14. NOTICES

All notices regarding the Notes will be deemed to be validly given if published in a leading English language daily newspaper of general circulation in London. It is expected that any such publication in a newspaper will be made in the *Financial Times* in London. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules of any stock exchange or other relevant authority on which the Notes are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

Until such time as any definitive Notes are issued, there may, so long as any Global Notes representing the Notes are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Notes and, in addition, for so long as any Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules. Any such notice shall be deemed to have been given to the holders of the Notes on the fifth day after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Agent. Whilst any of the Notes are represented by a Global Note, such notice may be given by any holder of a Note to the Agent through Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Agent and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

15. MEETINGS OF NOTEHOLDERS

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Receipts, the Coupons or any of the provisions of the Agency Agreement. Such a meeting may be convened by the Issuer and shall be convened by the Issuer if required in writing by Noteholders holding not less than 10 per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50 per cent. in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes, the Receipts or the Coupons (including modifying the date of maturity of the Notes or any date for payment of profit thereon, reducing or cancelling the amount of principal or the rate of profit payable in respect of the Notes or altering the currency of payment of the Notes, the Receipts or the Coupons), the quorum shall be one or more persons holding or representing not less than two thirds in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one quarter in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders.

16. FURTHER ISSUES

The Issuer shall be at liberty from time to time without the consent of the Noteholders, the Receiptholders or the Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of profit thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes.

17. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of this Note under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

18. GOVERNING LAW AND SUBMISSION TO JURISDICTION

18.1 Governing law

The Agency Agreement, the Deed of Covenant, the Notes, the Receipts and the Coupons are, and any non-contractual obligations arising there from shall be, governed by and construed in accordance with, English law.

18.2 Submission to jurisdiction

Subject as provided in this Condition 18.2 the Issuer irrevocably agrees, for the benefit of the Noteholders, the Receiptholders and the Couponholders, that the courts of England are to have exclusive jurisdiction to settle any disputes (a **Dispute**) which may arise out of or in connection with the Notes, the Receipts and/or the Coupons and accordingly submits to the exclusive jurisdiction of the English courts.

Without prejudice to the provisions of this Condition 18.2, any Noteholder may, at its discretion, require all Disputes or any specific Dispute to be settled by the Saudi Arabian Committee for the Resolution of Securities Disputes and the Appeal Panel. The Issuer expressly agrees and consents to this Condition 18.2.

The Issuer waives any objection to the courts of England on the grounds that they are an inconvenient or inappropriate forum. The Noteholders, the Receiptholders and the Couponholders may take any suit, action or proceedings (together referred to as **Proceedings**) arising out of or in connection with the Notes, the Receipts and the Coupons against the Issuer in any other court of competent jurisdiction and concurrent Proceedings in any number of jurisdictions.

18.3 Appointment of Process Agent

The Issuer appoints CALYON at its registered office at Broadwalk House, Appold Street, London EC2A 2DA, United Kingdom, as its agent for service of process, and undertakes that, in the event of CALYON ceasing so to act or ceasing to be registered in England, it will appoint another person as its agent for service of process in England in respect of any Proceedings. Nothing herein shall affect the right to serve proceedings in any other manner permitted by law.

18.4 Other documents

The Issuer has in the Agency Agreement and the Deed of Covenant submitted to the jurisdiction of the English courts and appointed an agent for service of process in terms substantially similar to those set out above.

USE OF PROCEEDS

The net proceeds from each issue of Notes will be applied by the Issuer for its general corporate purposes. If, in respect of any particular issue of Notes which are derivative securities for the purposes of Article 15 of the Commission Regulation No 809/2004 implementing the Prospectus Directive, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.

DESCRIPTION OF THE ISSUER

Business Description

General

Banque Saudi Fransi (**BSF** or the **Bank** is a commercial bank operating in the Kingdom of Saudi Arabia (the **Kingdom**) under Commercial Registration No. 1010073368 dated 5 September 1989.

BSF's head office is located at PO Box 56006, Riyadh 11554, Kingdom of Saudi Arabia. The telephone number of BSF's head office is +966 1 289 9999.

BSF is a full service bank, whose main business lines are retail banking, corporate banking, treasury and investment management services. The Bank offers a full range of domestic and international commercial and Islamic products and services to the retail and corporate sector, in addition to investment advisory services, asset management, local and international equity trading, and treasury services.

BSF was ranked as the sixth largest commercial bank in the Kingdom as of 31 December 2008 in terms of total assets, with total assets of SAR 125.9 billion and total customer deposits of SAR 92.8 billion. BSF has an approximate 10 per cent. share of the Saudi banking market. BSF recorded a net income of SAR 2.8 billion for the year 2008.

Through its network of seventy five branches (as at 31 December 2008) in the Kingdom (which includes seven branches offering exclusively Islamic banking services and sixteen ladies' sections), BSF has built a retail customer base of around 500,000 individuals. Electronic delivery channels supplement the branch network, with BSF offering its customers more than 274 automated teller machines (**ATMs**), 75 cash acceptance machines (**CAMs**), and an increasing range of Internet banking services. BSF has also witnessed a steady increase in customers covered by its Corporate and Commercial Banking Divisions. Including small and medium enterprises BSF had approximately 4,000 corporate clients as of 31 December 2008.

Historically, BSF has had a strong corporate business, reflecting the expertise of its 31.1 per cent. foreign shareholder, CALYON, whose business model focuses on corporate and investment banking business. The Bank enjoys long-standing relationships with many large corporations, and offers a broad range of services to its corporate customers, with its strength lying in its corporate advisory and syndication business.

Over the years, BSF has demonstrated a sustainable pattern of growth through which it has established its current financial strength and leadership in the Saudi market. Its financial strength has positioned the Bank well to meet the challenges of the future.

The Bank actively supports the local community in the Kingdom of Saudi Arabia by sponsoring various non-profit organisations and in 2006 it received the King Faysal Specialist Hospital Trophy in recognition of its efforts to increase public awareness of health issues.

History

BSF is the successor to Banque de l'Indochine, which established a branch in Jeddah in 1949.

BSF was formed in accordance with regulations adopted by the Kingdom in the mid-1970s, under which foreign companies were required to sell majority equity interests to Saudi Arabian nationals. As a result, Banque Indosuez, the entity which succeeded Banque de l'Indochine in 1975, had to form a new company with local partners in 1977. BSF was then established as a Saudi Arabian Joint Stock Company by Royal Decree No. M/23 dated 4 June 1977.

BSF is affiliated with CALYON which holds a 31.1 per cent. equity interest in the Bank. CALYON is wholly-owned by Crédit Agricole Group, the largest financial institution in France and, as at the date of this Offering Circular, the seventh largest banking group worldwide in terms of Tier 1 capital.

After Crédit Agricole Group completed the acquisition of Credit Lyonnais from the French Government, it merged the existing Crédit Agricole Indosuez with Credit Lyonnais' Corporate and Investment Banking division in order to reinforce the presence of Crédit Agricole in the Corporate and Investment Banking business as well as to reinforce its presence on the international market.

With 13,000 staff in 57 countries CALYON specialises in capital markets, investment banking, structured and complex financing. Two thirds of CALYON's net banking income arises from activities outside France. As at 31 December 2008 CALYON had EUR 642 billion of assets.

Since 1982, BSF has maintained a Technical Service Agreement with CALYON which is renewed every 5 years (the last renewal was in March 2007).

As of 31 December 2008, CALYON was rated Aaa 3 by Moody's, AA- by Standard & Poor's and AA- by Fitch.

Share capital and ownership structure

Since its establishment, BSF has been listed on the Saudi Stock Exchange (Reuters Code :<1050.SE>).

As at 31 December 2008, BSF's market capitalisation was SAR 25.4 billion (USD 6.8 billion), giving it the eighth largest market capitalisation of all companies listed on the Saudi Stock Exchange and making it the fifth largest bank in the Kingdom in terms of market capitalisation.

As at 31 December 2008, BSF's net equity amounted to SAR 14 billion.

As at the date of this Offering Circular, the authorised, issued and fully paid-up share capital of the Bank consists of 723.2 million shares of SAR 10 each. The Board of Directors recently recommended to the shareholders of the Bank an increase in the Bank's share capital from SAR 5,625 million to SAR 7,232 million, through the issuance of 2 bonus shares for every 7 shares held by capitalisation of general reserve. This recommendation was approved by the Saudi Arabian Monetary Agency (**SAMA**) on 11 February 2009 and by a resolution of the Bank's shareholders at an extraordinary general meeting held on 6 April 2009. The number of shares accordingly increased from 562.5 million shares to 723.2 million shares.

CALYON, holding a 31.1 per cent. stake in BSF, is the Bank's only non-Saudi shareholder. The remaining 68.9 per cent. of BSF's shares are held by Saudi Arabian corporations and nationals.

The table below sets out the shareholders holding an interest of 5 per cent. or more in the Bank as at 31 December 2008:

Name	Basic Information	Percentage Shareholding
Calyon Crédit Agricole CIB	• Corporate investment banking arm of the Crédit Agricole Group	31.11 per cent.
General Organisation for Social Insurance	• Saudi Public government institution established in 1969 • Activity: Insurance cover for private sector employees and labourers.	12.84 per cent.
Rashed Al-Abdularahman Al-Rashed & Sons Co	• Saudi limited partnership owned by the heirs of Rashed Abdul Rahman Al Rashed • Activity: trade and contracting business	9.83 per cent.
Mohammed Ibrahim Al-Issa	• Saudi limited partnership • Activity: trade and contracting business	5.34 per cent.

BSF Credit Ratings

BSF is rated by three leading rating agencies:

Moody's and Fitch Ratings have been monitoring BSF since the early 1990s. Standard & Poor's have been monitoring the Bank since 2006.

In June 2006, Moody's raised its outlook for the Bank's financial strength from stable to positive, noting at the time: "The Bank's FSR (Financial Strength Rating) has been changed to positive from stable to reflect improvements in the Bank's earning's power and asset quality, its strong capital levels and CALYON's commitment". In addition, BSF's Long Term and Short Term Foreign Currency Deposit Ratings were upgraded from A2 to A1 and from Prime-2 to Prime-1, respectively.

Reviewing the Bank in 2006 for the first time, Standard and Poor's confirmed the other agencies' assessment and classified BSF as investment grade, observing: "The ratings on Banque Saudi Fransi (BSF) reflect its adequate market position and risk profile, strong profitability, and sound capitalisation".

In June 2008, Moody's upgraded the bank financial strength rating of BSF to C+ from C (which translates into a baseline credit assessment of A2), and its long-term global local currency ("GLC") deposit ratings to Aa3 from A1. According to Moody's, this upgrade "recognises BSF's ability to capitalise on the robust economic environment derived from Saudi Arabia's status as the global leader in oil production".

In December 2008, due to the impact of the global financial crisis on the banking sector, Fitch Ratings revised several GCC banks' individual ratings (eight Saudi banks' ratings were revised). BSF had its individual rating revised to B/C from B, remaining at the highest range of individual ratings for Saudi banks.

The table below sets out BSF's credit ratings as of 31 December 2008:

	Long Term Foreign Currency	Short Term Foreign Currency	Financial Strength	outlook
Moody's	A1	Prime-1	C+	Positive
Fitch	A	F1	B/C	Stable
Standard & Poor's	A	A1	n/a	Stable

Capital Adequacy

BSF implemented Basel II regulations for computation of its capital adequacy in 2007. BSF has adopted the standardisation approach in all components of Pillar I and Pillar II for the computation of Risk Weighted Assets. It is envisaged that the Bank will move to the Internal Rating-Based Approach in the years 2010-2011.

Although international standards impose a minimum capital adequacy ratio of 8 per cent., BSF aims to maintain a capital adequacy ratio in excess of 12 per cent. During 2008, the capital adequacy ratio was between 10 per cent. and 12 per cent., which complies with international standards.

The recent increase in the Bank's share capital from SAR 5,625 million to SAR 7,232 million (which represents an increase of the share capital by SAR 1,607 million, taken out of the year's profit) will lead to a reinforcement of the Bank's equity and its ability to sustain a high level of growth while maintaining solid capital adequacy ratios.

As at 31 December 2008, BSF's capital adequacy ratios stood at:

Tier 1: 10.97 per cent.

Tier 1 + Tier 2: 11.55 per cent.

Strategy and Business model

BSF's primary focus is to achieve consistent and sustainable profitability while taking a cautious assessment of risk and a measured approach to business development with an emphasis on balanced growth.

This approach, together with relatively favourable economic conditions within the Kingdom notwithstanding the global economic crisis, and a well-defined business strategy, have so far benefited BSF. BSF's management believes that these will continue to benefit BSF in the medium-term.

On 16 July 2007, Standard and Poor's revised the sovereign rating for Saudi Arabia, raising it from A+ to AA-, while on 24 July 2007 Moody's Investor Service upgraded the country to A1 from A2, and on 9 July 2008 Fitch Ratings upgraded Saudi Arabia's long-term local and foreign currency issuer ratings to AA- from A+.

Based on this positive economic outlook, BSF has refined its business model to ensure that it can quickly meet the financial needs and requirements of its different segments of customers. By doing so, management of BSF believes that it will maintain growth in all of its banking activities for the coming five to ten years.

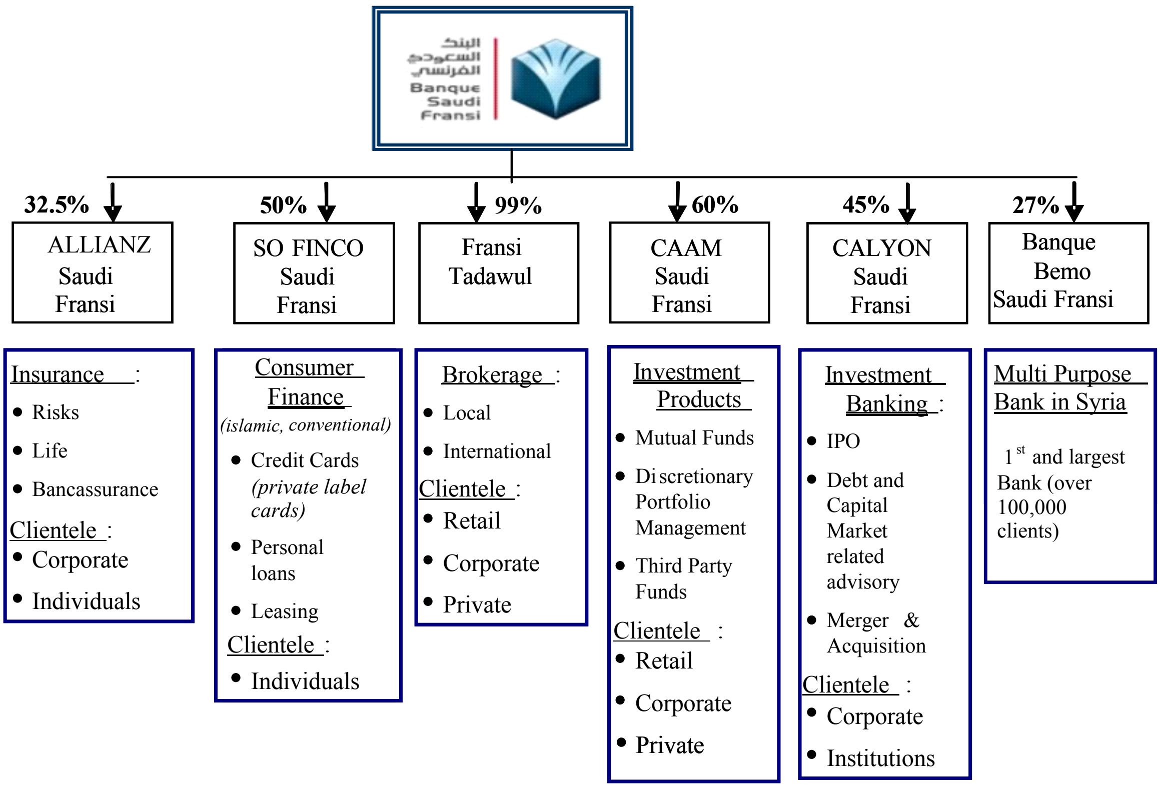
BSF's business is operated according to the following lines:

Business Segment	Division/Entity
Wholesale Banking	• Corporate Banking • Treasury and Capital Markets • Corporate Finance (joint venture with Calyon) • Commercial Banking
Retail Banking	• Retail Banking Division • Bank assurance (joint venture with Allianz) • Consumer Finance (joint venture with Sofinco)
Private Financial Services	• Private Banking • High Net Worth Division
Investors' Services	• Asset Management (joint venture with CAAM) • Brokerage (99 per cent. BSF subsidiary)

Implementation of the business model through business platforms and new subsidiaries

BSF has implemented an ambitious programme of joint ventures with leading international partners in growth market segments such as asset management, investment banking, insurance and consumer finance. Those partnerships are intended to consolidate the Bank's market share in its core segments and provide growth in newly established businesses.

The table below describes the new business model and the shareholding of BSF in those joint-ventures:



As shown in the above table BSF's group (the **Group**) is structured as follows:

- **Insurance: "Saudi Fransi Cooperative Insurance Company" also known as "Allianz Saudi Fransi":** In 2000, BSF launched a pioneering range of insurance products based on long-term investment instruments. At the time, BSF had a strategic partnership with AGF (the then number two insurance company in France). With the change in the insurance market in Saudi Arabia and the introduction of new regulations, BSF created a separate joint venture company based on the partnership with AGF. AGF has since been acquired by Allianz, the major German financial institution. The joint venture was renamed "Allianz Saudi Fransi" and BSF intends to use it to capitalise on Allianz's worldwide experience and brand recognition as the world's number two insurer to expand its offering of insurance products in Saudi Arabia. Although it is still developing, Allianz Saudi Fransi has seen its market share increase from 1 per cent. to 3 per cent. in 2008, with a total gross premium of SAR 75 million.

  The newly formed joint-venture company was incorporated on 10 October 2006 and received its license to operate from Saudi Arabia's Monetary Agency in June 2007. The company was listed on the Riyadh Stock Exchange in July 2007.

- **Leasing and Consumer Finance**: **"SOFINCO - Saudi Fransi":** Sofinco is one of the leading institutions in European consumer finance. Founded in 1951, it is wholly-owned by Crédit Agricole Group and operates in 21 countries worldwide.

  This joint venture will provide BSF with the opportunity to grow in the private retail market and give its customers access to a more sophisticated range of products and services.

- **Fransi Tadawul:** In order to meet the CMA's requirements, BSF had to spin off its brokerage division into Fransi Tadawul, a subsidiary dedicated to local and international brokerage activities, as well as custody business. Fransi Tadawul is 99 per cent. owned by BSF and received a licence to operate from the CMA in January 2008. Fransi Tadawul's core business services are local brokerage and international brokerage.

  Since 2003 BSF invested heavily in systems and services and has developed a successful brokerage business, ranking number five in Saudi Arabia during the year 2008 in local brokerage and among the top five in international brokerage according to the CMA. Building on this success, Fransi Tadawul aims to consolidate its position through continued investment in state of the art technology, notably with the integration of on-line trading platforms for all the GCC countries**.** Furthermore, in order to continue to grow and increase its market share, Fransi Tadawul signed a Cooperation Agreement in 2008 with CA Cheuvreux, the brokerage arm of CALYON.

- **CAAM - Saudi Fransi**: BSF has teamed up with Crédit Agricole Asset Management (**CAAM**) to form a joint venture dedicated to asset management, namely CAAM-Saudi Fransi. CAAM - Saudi Fransi is 60 per cent. owned by BSF. As at the date of this document, CAAM is among the five largest asset management companies in Europe with EUR 441 billion under management (more than EUR 640 billion after the merger with Société Générale Asset Management) and a presence in more than 20 countries, of which eight are financial centres. Through this partnership, management of BSF believes that BSF will be able to enhance its Asset Management platform by introducing new products covering new asset classes, new management techniques and proper transfer of technologies between CAAM and its Saudi based operations. This company has been fully operational since the beginning of 2008.

- **Calyon - Saudi Fransi:** Calyon - Saudi Fransi focuses on Investment Banking and is 45 per cent. owned by BSF and 55 per cent. owned by CALYON. This partnership with BSF's main shareholder utilises relationship and business interactions between both banks to serve an increasingly sophisticated market involving debt, equity capital underwriting, debt management, project finance and corporate advisory services.

- **Banque Bemo - Saudi Fransi (BBSF):** BBSF is a multipurpose bank in Syria. BSF's 27 per cent. share in this joint stock company has helped to enlarge the Bank's regional standing. In the four years since its establishment, BBSF has become the largest foreign bank in Syria in terms of market share for deposits and loans, having 21 branches in Syria. BBSF aims to take full advantage of the economic reforms underway in Syria to expand its business.

Recent developments

Over the years, BSF has demonstrated a sustainable pattern of growth that has established its current financial strength and leadership in the Saudi market, positioning the Bank as a modern and dynamic institution fully geared to meet the challenges of the future.

BSF announced a net profit of SAR 2,806 million for the year 2008 (representing an increase of 3.5 per cent. compared to a net profit of SAR 2,711 million in 2007). The net special commission income was SAR 2,821 million (representing an increase of 23.2 per cent. compared to a net special commission income of SAR 2,289 million in 2007). This achievement was possible thanks to a significant growth in the Bank’s loans and advances portfolio and the maintenance of funding costs at a low level

While the Bank's total operating income of SAR 4,392 million was 19 per cent. higher than in 2007, total operating expenses, other than provisions, increased by 15.6 per cent. (SAR 148 million). This has left some room for the Bank to make provisions which it believes to be prudent, in view of the global economic downturn, of SAR 94 million for credit losses (compared to SAR 42 million in 2007) and SAR 410 million for impairment charges on investments (compared to SAR 0 in 2007). As at 31 December 2008, the Bank’s balance sheet recorded an increase of 35.1 per cent. in the Bank's loans portfolio, 26.1 per cent. in its total assets and 25.4 per cent. in its customer deposits compared to 2007, with total figures standing at SAR 80.9 billion, SAR 125.9 billion and SAR 92.8 billion respectively.

In accordance with the Banking Control Law and the Regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7 per cent. of total customers’ demand deposits, and 4 per cent. of interest bearing deposits (excluding balances due to SAMA and non-resident foreign currency deposits), saving, time deposits, margins of letters of credit and guarantee, excluding all type of repo deposits. In addition to those statutory deposits, the Bank also maintains liquid reserves of not less than 20 per cent. of its deposit liabilities in the form of cash, Saudi Government securities or assets which can be converted into cash within a period not exceeding 30 days. The Bank can also raise additional funds through repo facilities available with SAMA against its holding of Saudi Government securities up to 75 per cent. of the nominal value of the securities.

Changes in markets conditions

Economic conditions in many countries have been adversely affected by the prevailing and widely reported global credit market conditions including highly publicised sub-prime mortgage-related write-downs and the unfolding 'credit crunch'.

Saudi Arabia has been affected by the global economic crisis. However, the Kingdom's announcement in December 2008 that it will continue spending on its infrastructure projects, even at the expense of a budget deficit, and the expectation that the Kingdom has built up significant reserves from the recent oil boom provide confidence that the Saudi economy will adequately manage the economic pressure from the global recession.

To date this worldwide liquidity dislocation has moderately affected economic conditions in the Kingdom in general and the Bank's operations in particular. Despite a more challenging economic environment, business in the Kingdom remains promising, showing positive indications of financial stability and profitability for the major banks in the sector, including BSF. The global liquidity upheavals have not altered the Bank's long-term strategy which its management expects to continue delivering stable expansion and profitability. However, the current turmoil in global financial markets has introduced uncertainty into the prospects of all financial institutions. Therefore the Bank is planning on the assumption that conditions will remain uncertain throughout 2009.

Expansion of the Bank's distribution network

One of BSF's primary objectives is the ongoing expansion of its distribution network.

Branches

The Branch network is being expanded along the lines of the demographic evolution of Saudi Arabia. It is also evolving in line with the strategy of the Bank (new ladies' sections, conversion of Islamic Branches) and best marketing and operating practices (renovation of existing branches, new product centres and redesigning of marketing areas).

As at 31 December 2008, the network consists of 75 fully operational branches (including 7 Islamic branches and 16 ladies' sections). This compares to 61 branches in 2005, 68 at the end of 2006 and 74 at the end of 2007.

BSF is also working on the implementation and deployment of fully-automated branches, two "mini branches" in shopping malls and self-service branches. The Bank has set itself an aggressive target for the number of new distribution points under its medium-term plan, which ends at the end of 2009.

E-Banking

One of the key successes of BSF has been the launch in 2003 and 2004 of its e-banking platforms dedicated to financial services ("Fransi plus") and on-line trading ("Fransi Tadawul system").

Since then, new services and functionalities have been deployed to introduce new delivery channels, such as the Fransi Corp system which allows corporate clients to manage their accounts and book online Letters of Credit and Letters of Guarantee.

The Bank is continuing to invest in state of the art electronic systems in order to maintain its customer base, to acquire new relationships, to increase the efficiency of delivery of its services and to reduce its operational risk

Innovation, Segmentation, Cross-selling

The Bank is constantly innovating and upgrading the range of products and services that it offers customers across different business lines.

BSF has implemented a Customer Relationship Management system that helps the Bank to identify the profile of clients, the quality of the relationship between the Bank and each of its clients, the transactions history of each client and the clients likely needs and the profitability of the relationship.

BSF uses its client segmentation systems to provide its relationship officers with the best range of products for the different types of clients. The Bank believes that detailed customer profiling will enable it to better tailor products to fit client needs and demand. Plans have been established to identify cross-selling opportunities and growth potential.

BSF also assesses customer needs through market research and customer satisfaction surveys to re-align its services and products one step ahead of its competitors.

Islamic Banking: BSF's portfolio of Shari'a products

It is part of BSF's strategy to increase its portfolio of Islamic products in all ranges of banking activities.

In order to satisfy the growing demand for Islamic banking from all segments of clients, BSF has established an Islamic Banking Unit.

In the retail banking sector BSF opened four Islamic branches in 2006, one in 2007 and two more in 2008, each wholly dedicated to Islamic finance products and services. 95 per cent. of all the Bank's loans to consumers are Shari'a compliant. Equally, in the corporate banking sector, BSF now offers corporate clients capital market products in both conventional or Islamic form.

In 2007, the volume of Shari'a compliant asset products increased by 51 per cent. and in 2008 the volume had increased by another 70 per cent.

On the liability side, the volume of Murabaha deposits increased by 260 per cent. between 2005 and 2006. As of 31 December 2008, these deposits had increased by another 288 per cent over the prior year.

Financial Track record

In 2008, according to their published audited financial statements, Saudi Arabian banks achieved a net profit of SAR 26.3 billion (USD 7 billion), a decrease of 13 per cent. over the net profit of SAR 30.2 billion (USD 8 billion) in 2007. In 2008, BSF posted a net profit of SAR 2.8 billion (USD 747 million), an increase of 3.5 per cent. over net income of SAR 2.7 billion in 2007. BSF's performance has to be viewed in perspective with the worldwide turmoil the financial sector went through during 2008. In 2008, the Bank saw a strong increase in its core businesses, the loan portfolio of the Bank reaching SAR 80.9 billion (USD 21.5 billion) while customer deposits stood at SAR 92.8 billion (USD 24.7 billion), representing a growth of 35 per cent. and 25 per cent. respectively.

The table below sets out key financial information for BSF for each of the financial years from 2003 to 2008:

(Figures in millions of USD unless otherwise stated)	2003	2004	2005	2006	2007	**2008**
Net income	316	410	591	802	723	**748**
Return on average shareholders' equity	24 per cent.	29 per cent.	35 per cent.	36 per cent.	26 per cent.	**22 per cent.**
Return on average assets	2.41 per cent.	2.71 per cent.	3.48 per cent.	4.09 per cent.	3.02 per cent.	**2.49 per cent.**
Loans and advances, net	7,127	9,190	11,461	13, 635	15,960	**21,564**
Non-Performing Loans Coverage ratio	145 per cent.	176.per cent.	182 per cent.	148 per cent.	190 per cent.	**111 per cent.**
Non-Performing Loans to Gross Loans ratio	2.01 per cent.	1.36 per cent.	1.20 per cent.	1.16 per cent.	0.72 per cent.	**0.93 per cent.**
Customer deposits	11,369	12,721	13,625	16,533	19,735	**24,744**
Total assets	14,267	15,913	18,000	21,222	26,615	**33,564**
Market capitalisation	4,932	9,288	16,200	12,420	17,362	**6,765**
Number of Shares	45,000,000	45,000,000	45,000,000	337,500,000	562,500,000	**562,500,000**
Earning per share (number of shares as at 31/12/2008)	0.56	0.73	1.05	1.43	1.29	**1.33**

In the period from 2003 to 2008, BSF recorded compound net income annual growth of 19 per cent. In parallel, BSF raised its capital in 2003, 2006, 2007 and most recently on 6 April 2009 by issuing bonus shares to its existing shareholders.

The paid-up capital of BSF increased from SAR 2.25 billion (USD 600 million) as at 31 December 2003 and again increased from SAR 5.625 billion as at 31 December 2008 to SAR 7.232 billion (USD 2.061 billion) on 6 April 2009.

Operations

BSF provides a range of financial services through its Retail Banking, Corporate Banking, Commercial Banking, Treasury, Investment Services Divisions, Insurance and Consumer Finance. Its operations focus primarily on the domestic market in Saudi Arabia.

Retail Banking

The Retail Banking Group is BSF's largest business line by the number of clients and number of employees (50 per cent. of total employees).

Retail Banking (private individual clients)

The Bank offers a wide variety of products and services through its network of 75 branches (including 7 Islamic branches) and its 16 ladies sections. These services include current accounts, savings accounts, investment funds, insurance programmes, retail lending, commercial lending, Islamic finance and credit card services. As of 31 December 2008, BSF had around 500,000 retail customers, most of whom are Saudi Arabian nationals.

- **Positioning**

BSF has historically put a strong emphasis on targeting young professionals and on reinforcing its position in this expanding market segment (half of the population in Saudi Arabia is aged below 30). In order to do so, significant investments have been made in marketing campaigns and in state of the art banking technology services.

The Bank has implemented a stringent segmentation of its retail and individual customers according to which it offers clients in each segment products and services targeted to their needs. Using segmentation programmes and client profiling, BSF offers competitive products, rates and relationship value through its "My Family", "Ladies Banking" and "Priority Banking" programmes.

The table below sets out BSF's retail main segmentation programmes:

Programme	**Target customers**	**Objective**
"My Family"	Young professionals and their families with minimum income and high potential for development	Provide average clients with complete financial plans made of several products and services
"Ladies Banking"	Ladies	Provide products and services for female clients in a dedicated environment
"Priority Banking"	Higher segment of clientele. Senior executives of companies	Provide high net worth clients with personalised services

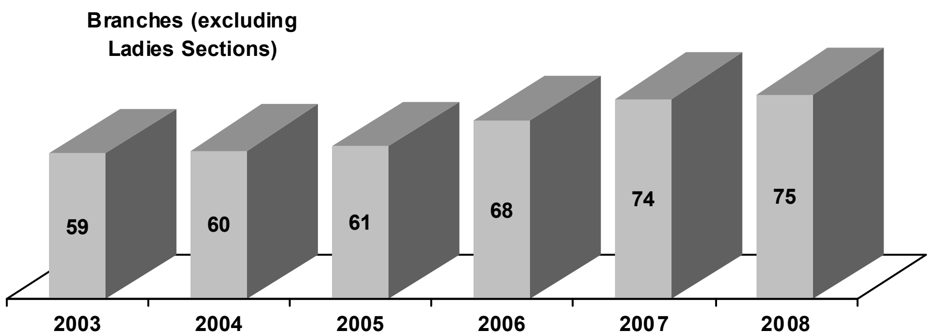
The Bank's current strategic development aims are to:

- Position BSF as the Bank for young professionals;
- Closely interact with the Crédit Agricole Group, the leading retail banking institution in France, in order to gain expertise and speed up its development;
- Provide electronic banking services through ATMs, the Internet, call centres and mobile banking;
- Establish BSF as a leader in personal financial planning by upgrading "My Family" segment to a fully fledged advisory service;
- Expand the Bank's active customer base through refined customer segmentation, namely by exploiting data on its customers to bring potential customers over to the "My Family" segment and enriching the "Priority Banking" programme (please refer to the above table).

- **Distribution Channels**

BSF has significantly enhanced its distribution channels during the last 6 years in particular through increasing its branch network.

<u>Branches</u>



The Bank's 75 branches are spread over the whole country and operate under a Regional Management, consistent with the administrative zoning of the country, i.e:

- Western Region (Jeddah): 31 Branches
- Central Region (Riyadh): 26 Branches
- Eastern Region (Dammam – Al Khobar): 18 Branches

The Bank's focus is not only on the number of branches, but also the modernisation of its network to make the branches more user-friendly for customers and to improve the Bank's retail product distribution.

All branches are equipped with state of the art ATMs and also Cash Acceptance Machines which allows conventional banking operations to be processed directly by customers. In 2008, BSF opened two fully automated self service branches ("Fransi Connection Branches") which are operated 24 hours a day.

<u>Automated Teller Machines (ATM)</u>

BSF had a network of 274 ATMs as at 31 December 2008.

The Bank has consistently increased the number of ATM's over the last five years and the machines are regularly updated with the latest technology in order to enhance their functionality. For example, during the first quarter of 2007 BSF introduced a facility that allows customers to subscribe for IPOs directly from an ATM.

Outdoor Sales

The Retail Banking Division has created teams of sales people to visit its clients directly at their place of business in order to distribute products, offer services or refer them to other product lines within the different companies affiliated with BSF. At present, BSF's Retail Banking Group employs 130 staff in 7 outdoor sales departments.

E-banking

BSF is increasingly using e-banking technologies in order to enhance its distribution channels and give it a competitive advantage, as in the case of stock brokerage business.

BSF offers its retail customers a wide range of services via the internet. These include:

- "FransiPlus" and Internet cash management solutions, which include the ability to make online payments, obtain cash advances and money transfers;
- "FransiTadawul", an online local share trading system;
- "FransiPhone", which permits clients to execute a choice of phone banking transactions and is coupled with a 24-hour call centre;
- "FransiMobile": introduced in 2008, this service allows clients to perform various transactions using their mobile phones, such as on-the-spot credit card information and bill payments;
- Interactive SMS, which extends "FransiPhone" services with on demand enquiry services such as balance enquiries, credit card limit, transactions messages and money transfers; and
- Online response to customer loan requests, credit card requests and complaint and customer feedback forms.

- **Retail Products**

BSF has established a strong portfolio of products and services.

In addition to the various standard services that the Bank offers (such as demand deposit accounts, transfers, travellers cheques, settlement of utility bills, over-the-counter transactions, etc.), the Bank also offers directly or through its subsidiaries:

- Savings Accounts;
- Consumer and Commercial Loans;
- Credit Cards/Electron Cards (Visa, Mastercard);
- Bancassurance (education and retirement plans);
- Brokerage (local and international); and
- Investment Funds.

- **Shari'a compliant Products**

BSF is strongly focusing on this growing market sector and offers a comprehensive range of products and services to its retail customers. These include:

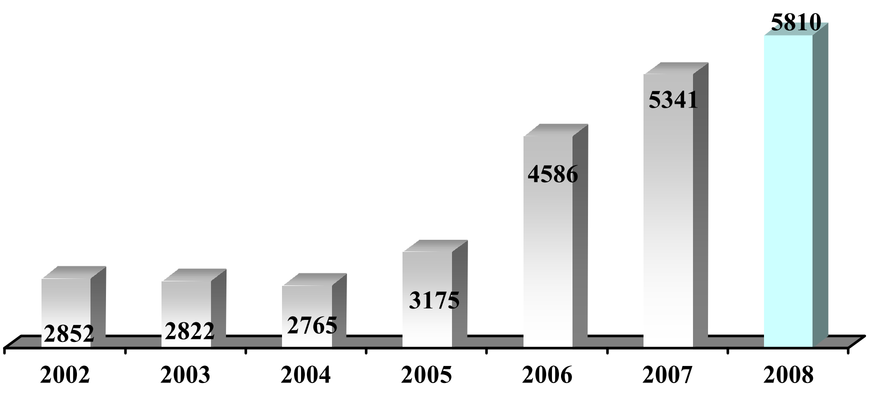
- Non-Commission Bearing Deposits;
- Personal Loans ("Murabaha" and "Tawarruq") based on commodity trading;
- Investment Funds investing in Commodity Trading and Equity Strategies ("Al Badr, "Al Naqaa", "Al Safaa", "Istithmar", "Al Fursan", "Al Qasr", "Al Qindeel", "Al Noor");
- Insurance ("Takaful Bancassurance");
- Home Financing Products ("Sakan Real Estate Financing");
- Islamic Credit Cards ("Al Hassan"); and
- Private Label Cards (PLC) which are "Murabaha" based transactions in the form of a card for the use in pre-assigned retail outlets.

In order to satisfy customers' growing interest in Islamic finance solutions, BSF has opened seven branches dedicated solely to Shari'a related products since 2006.

The Bank expects this market sector to continue to grow and is developing additional financial solutions in conjunction with prominent Shari'a scholars. During the year 2007, BSF successfully launched a Shari'a compliant equity fund investing in real estate ("Al Qasr"), and home financing products ("Al Sakan").

In addition, BSF has invested significantly in technology and has grown its market share consistently in terms of point of sale machines used by retailers. The Bank's points of sales are used by numerous well established commercial centers, hypermarkets, restaurants etc.

The following chart sets out the number of points of sale:



Expanding in this sector is part of the Bank's long term strategy and the Bank intends to continue to build its existing portfolio of relationships in an area where it can maintain good returns and risks at a reasonable level.

Wholesale Banking

This business sector focuses on two segments: the Bank's large corporate and institutional clients and the small and medium businesses.

It works in co-operation with the following divisions of the Bank:

- The Corporate Banking Division (including the Financial Institutions and Corporate Finance Division);
- The Treasury and Capital Markets Division; and
- The Investment Banking Division (through CALYON – BSF joint-ventures), to supplement the Corporate Banking Division).

The Wholesale Banking Group's strategy is to:

- Create a global range of products and provide senior relationship officers to cater for the needs of corporate and commercial customers across all business lines;
- Reinforce the link between the Corporate Banking, Commercial Banking, Treasury and Capital Market business lines; and
- Broaden the Bank's product range with a focus on Shari'a compliant products.

Corporate Banking Division

As a result of CALYON's longstanding involvement in BSF, the Corporate Banking division of BSF has been at the forefront of developing innovative solutions for the corporate market of Saudi Arabia.

The Corporate Banking Division focuses on providing financial products and services to large and medium-sized Saudi entities involved in all sectors of the Saudi economy, including manufacturing, trading, contracting operations, maintenance and information technology. It also provides services to large joint venture companies and multinational companies present in the Kingdom. In addition, the Corporate Banking Division offers financial services and products to government and quasi-governmental agencies and their affiliates and Financial Institutions trading in Saudi Arabia.

The Corporate Banking Division offers its clients a broad array of products, from the most conventional (overdraft, short to long-term bilateral loans, credit facilities, project financing, leasing, etc.) to more complex financial products and services.

The Corporate Finance Division provides capital-raising services through debt and equity by way of private placement or initial public offers where BSF acts as a financial advisor.

The Corporate Finance Division also provides a full range of structured loans, structured deposits, balance sheet management and cash management services.

- Syndication

BSF has developed an active business in syndicated transactions within Saudi Arabia as well as internationally. By doing so, BSF commits to the growth of Saudi Arabia through senior debt underwriting mandates in utility projects, greenfield projects and promising companies. Its domestic syndicated participation has been in various sectors, including industrial (petrochemicals, steel, power generation), oil, services (electricity, telecommunications, transport, financial, hospitals, construction/contractors financing) and shipping. BSF has been one of the key players in assisting in the financing of these transactions.

Its participation in foreign syndicated transactions is mostly restricted to entities which either have a Saudi shareholding, benefit the economy directly or indirectly, or provide know-how for new financing structures/sectors.

Recent transactions where BSF was appointed lead arranger or mandated lead arranger include National Industrial Gases Co (SAR 1.5 billion), M.T.C (telecoms, SAR 1.2 billion), National Petrochemical Industrial Company (USD 411 million), SABIC (USD 780 million), Saudi Oger (USD 900 million), Sumitomo

Chemical (USD 1.7 billion) and Mobily (USD 2.8 billion). In 2008, the Bank was an arranger for the Ma'aden Phosphate Company Fertilizer project (USD 5 billion).

- Project Finance

BSF has developed its capacity in managing projects. BSF's Project and Structured Finance Department is one of the leading arrangers of greenfield and brownfield financing in Saudi Arabia. BSF also has a strong expertise in the utilities sector. In 2006, the Bank was one of the key mandated lead arrangers for six green-field water and power, oil, gas, and petrochemical projects in Saudi Arabia, committing more than USD 1.0 billion in underwriting. In 2008, the Bank was an arranger for the Saudi Al-Kayyan project (USD 5 billion).

BSF has built up a team of specialists focused on economic sectors and intends to further enhance its capacity in the utilities sector.

In July 2003, BSF was involved in the first independent power plant project in Saudi Arabia (Jubail Energy Company – SADAF), in which it acted as the financial advisor to the issuer, bookrunner and coordinating bank for the debt financing of the project. There have since been numerous power plant and water related projects where BSF was the lead arranger. These include the Tihama Power Generation Company (a project developed by Saudi Oger and International Power), in February 2004, the Marubeni seawater desalination plant in November 2006, the Shaibah Waterplant project, in December 2005, the Marafiq waterplant in May 2007 and the Ma'aden Phosphate Company in December 2007. In 2008, the Bank was in charge of the Islamic structuring and documentation work on the Al-Dur project in Bahrain (USD 2.5 billion).

- Advisory

BSF has developed a leading position in Saudi Arabia through selective but extensive engagements in high profile debt advisory mandates:

In October 2005, the Bank was appointed as financial advisor to Integrated Telecom Company Limited and mandated lead arranger for a term loan and related revolving facility.

In October 2006, BSF was appointed financial advisor (with CALYON) to Saudi Aramco and Total in the Jubail Export Refinery project (a USD 6 billion project);

BSF was also appointed financial advisor in the gas expansion project for National Industrial Gas company in April 2007 (total value: SAR 4 Billion). In 2008, the Bank was appointed advisor for the Saudi Aramco company and Total refinery project in Saudi Arabia jointly with Calyon (a USD 14 billion project).

- Financial Institutions

Since its inception, BSF has maintained a strong flow of business with other banks in and outside Saudi Arabia.

The three main areas in which BSF deals with financial institutions are:

- Treasury related transactions (loans, deposits, forex, interest rates);
- Incoming and outgoing payments; and
- Trade finance related transactions (letters of credit, letters of guarantee).

The financial institutions department interacts with the other business lines, notably with the syndication team, and also with the different back-offices of the Bank in order to ensure high quality of services provided by the corresponding banking entities.

- Islamic Banking Division

BSF began providing Islamic banking activities in the late 1980s. During the first ten years, Islamic banking activities were mainly focused on corporate customers by offering lease finance, Musharkah, and securitisation products.

BSF's Islamic Banking Division was formally established in 2003 within the Corporate Banking Group in order to streamline the offering of Shari'a compliant products across all of its business lines.

In the same year, BSF appointed its Shari'a Advisory Committee in order to ascertain that all its Islamic products were complying with Shari'a requirements, from the product specifications to the booking method. Each new Islamic product requires the committee's approval which is formalised by the issuance of a "Fatwa" before launch.

The Bank continues to expand its Islamic banking business and to develop new products and services to meet the ever-increasing demands of its customers, who are gradually moving from conventional finance to Shari'a compliant alternative products. The Bank can now offer Islamic alternatives to most of the conventional Islamic products in Corporate, Retail, Investment and Treasury services.

Currently, BSF offers the following Islamic banking products to its corporate and commercial customers, which are jointly managed by the Islamic Banking Division and by the non-Islamic business lines:

– "Murabaha", loans mainly for providing financing for imports;

– "Tawarruq", the fastest growing loan product mainly for short and medium term financing needs;

– "Ijarah", lease finance used for small as well as large project finance transactions;

– "Musharkah" and auto receivables securitisation (BSF is the market leader in this product);

– "Murabaha" investments; and

– Project Finance and "Sukuk" (Islamic bonds).

BSF was involved in two major Shari'a compliant transactions in March 2007 with the raising of USD 2.875 billion for Mobily (an Ethan Etisalat company in the telecom sector) through a Murabaha facility and in 2008 with the structuring of the Al-Dur independent water and power plant company in Bahrain (USD 2.5 billion).

- Corporate Finance: Calyon Saudi Fransi

BSF's expansion in the corporate finance industry in 2008 was reinforced by the creation of an investment banking company, in partnership with Calyon, the French investment banking partner of BSF. Calyon Saudi Fransi's mandate is to originate and perform the following advisory services in the Kingdom:

➢ Equity capital markets;

➢ Private placements;

➢ Debt capital markets advisory; and

➢ Mergers and acquisitions.

This investment banking arm supplements the existing services offered by BSF with more complex and tailor-made solutions for corporate clients, such as a merger and acquisition business and advisory roles on debt/equity and projects. BSF's corporate finance team has been active during the year 2008 and has executed notable transactions. It was the financial advisor, lead manager and lead underwriter for the local IPO of Zain company (SAR 7 billion).

- Commercial Banking

BSF's Commercial Banking Division was established in 1999 and offers banking services to the mid-market segment, which includes medium-sized private entities involved in trading and manufacturing services. The Commercial Banking Division offers banking solutions to meet the needs of this fast growing sector of clients (for example, cash management, payroll processing, payment processing, structured financing and e-banking.)

The Commercial Banking Division has dedicated specialist teams to service clients.

Treasury Division

BSF Treasury Division's activities are spread across four main businesses: Money Market and Funding (the funding of the Bank's use of funds), Market Making and Trading, Foreign Exchange, Risk Advisory and Sales of products to Corporate Clients. BSF is also active in the Saudi derivatives market. BSF's Treasury Division is in charge of finding the most cost effective sources of funds to properly finance the loan books of the Bank. It must also propose risk management solutions in order to optimise the liquidity cost, the short-term interest rate gap and the compliance with ratios (liquid assets ratio and loans to deposits ratio).

The Bank offers the following products to its customers:

- Interest Rate Swaps (IRS);
- Foreign Currencies Swaps (FXS);
- Interest Rate Futures (Forex);
- Forwards (FWD);
- Bonds;
- Options on Futures; and
- Structured Products.

In order to develop as a more customer-focused organisation, the Treasury Division has created a fee-based business.

Since 2004, the Treasury Division has focused on selling products to expand its capital market client base through improved co-ordination with the Corporate and Private Banking Division.

BSF is also a major participant in the local inter-bank market, taking an active role in market-making activities in the SAR money market.

BSF is active in trading and structuring off-balance sheet products. Thanks to the support of CALYON, BSF has a strong track record in developing sophisticated derivative products (interest rates, Forex based). In addition, BSF's foreign exchange inter-bank desk has also captured a leading market share in regional inter-bank foreign exchange flows.

Taking advantage of its strong ties with the capital markets group at CALYON, BSF intends to improve its services further by introducing new systems and employing more professionals to handle a wider range of sophisticated and complex products.

BSF is now offering the Islamic version of all its capital market products. As a result, new products are constantly being developed, especially Shari'a compliant tailor-made solutions for clients, including:

- "Sukuk" and debt finance structures; and

➢ a fully fledged offering of Islamic derivatives.

Wealth Management

BSF provides personalised professional services to assist in wealth generation for the upper tier of its clientele, through its Private Banking and High Net Worth Divisions.

The main objective of the Private Banking Division is to provide private banking and wealth management services to its clients in co-ordination with the Bank's Treasury, Investment Services Division and business affiliates.

Consistent with its other lines of business, BSF uses customer segmentation and branding to identify, attract and retain the most profitable clients.

As well as offering all of BSF's products that are available to retail and corporate entrepreneurs, products offered to private banking clients are mostly tailored to suit their investment requirements with support from Asset Management and Treasury.

The Bank expects to expand its existing client base by targeting entrepreneurs. The resulting growth will be driven by a mix of value added wealth-management solutions and more traditional banking products (non-interest bearing deposits and loans).

Another key driver of growth is the cross-selling opportunities offered by the new companies and joint-ventures under development that will reinforce BSF's capability to design and market global wealth-management solutions.

Investor Services

Asset management

BSF has been operating an Asset Management Division since its establishment in 1977. Currently, BSF offers a variety of mutual funds and investment solutions for all segments of clients, from retail customers to high net worth private or corporate clients. Since 2008, in order to meet CMA requirements and to enhance its asset management platform, BSF has fully operated the Asset Management Division in joint venture with CAAM under the name of "CAAM – Saudi Fransi" which is owned at 60 per cent. by BSF and at 40 per cent. by CAAM.

CAAM-Saudi Fransi offers a range of 18 Mutual Funds, nine of which are Shari'a compliant:

➢ Seven funds are managed locally, two Saudi equity funds (one Shari'a compliant), two money market, two Murabaha funds (Shari'a compliant); and one Middle East equity real estate fund (Shari'a compliant).

➢ Eleven funds are managed by international fund managers: these funds cover all geographical zones (including Europe, North America, Asia Pacific, China, Brazil, India and Russia) and all asset classes (equity, debt, trade finance and real estate).

As at 31 December 2008, total assets under management amounted to SAR 3.1 billion (USD 0.9 billion), an increase of 7 per cent. compared to the December 2007 assets under management figure of SAR 2.9 billion (USD 0.8 billion). As at the end of 2008, CAAM-Saudi Fransi's market share in the Kingdom reached 4.2 per cent., compared to 2.9 per cent. at the end of 2007.

In addition, CAAM-Saudi Fransi offers more than 150 third party funds, financial structures and discretionary portfolio management.

CAAM-Saudi Fransi is developing differentiated, advisory-driven and customised high-performing structured notes and alternative investments targeting the more complex needs of corporate entrepreneurs and high net worth clients. Products offered include:

- Funds of hedge funds;
- Emerging market debt funds;
- Private Equity; and
- Local and International Discretionary Management.

All these funds and structured products are selected and sourced exclusively from recognised international institutions with proven track-records and ratings.

Medium Term Development

Having operated on a stand alone basis since its inception, BSF is now entering into a new phase in the development of its asset management business.

As investors' demand for effective asset allocation increases, the Bank believes that as a result of its joint venture with CAAM it is now uniquely positioned to offer high quality alternatives to diversify its clients' holdings.

Brokerage

According to Tadawul All Share Index, BSF is the fifth largest local equity broker in Saudi Arabia.

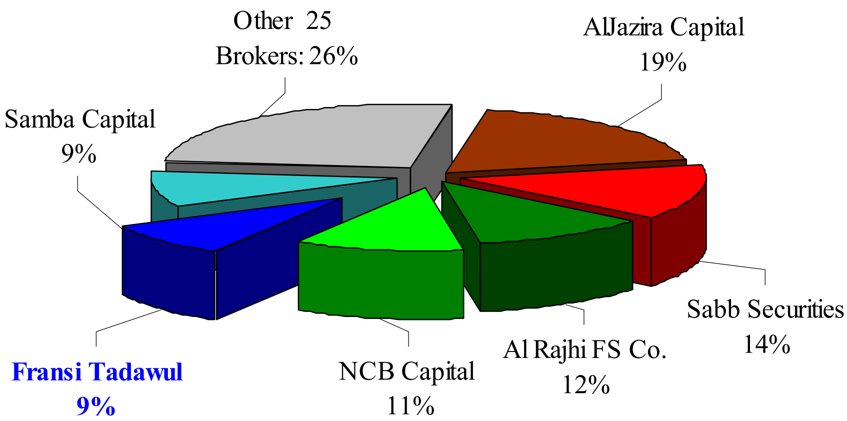
During the year 2008, the Bank had approximately a 9 per cent. market share of the Saudi local brokerage market in terms of total turnover and ranked number two in that market. In 2008 BSF was also among the top five brokers in terms of total turnover in its international brokerage business.

BSF provides a wide trading and price dissemination network, through its on-line trading system (the "Fransi Tadawul" system), enabling clients to easily access the Saudi equity markets.

As at the date of this Offering Circular, nearly 90 per cent. of trades by volume are executed by Fransi Tadawul through its on-line trading system.

In line with its general strategy, the Bank intends to continue investing in technology to offer wider, more efficient and prompter services to its customers. In order to continue to grow and increase its market share, Fransi Tadawul signed a Cooperation Agreement in 2008 with CA Cheuvreux, the brokerage arm of Calyon.

The chart below sets out the respective market shares in the brokerage business of each of the major participants in the equity brokerage business in Saudi Arabia as of 31 December 2008 (*source: Capital Market Authority)*:



With regard to its international brokerage business (non-Saudi equity markets), BSF has established a network of brokerage dealing rooms in the three regions of the Kingdom to which clients have access by telephone.

The future strategy for the Brokerage Unit is the development of a trading system to incorporate trading platforms from GCC countries, through agreements with selected brokers abroad.

In the same way as Asset Management, the Brokerage Unit of BSF has been spun-off in order to comply with CMA requirements. BSF has created a separate legal entity, "Fransi Tadawul", which inherited the Brokerage and Securities custody business.

Qualifying as an "Authorised person" for CMA purposes to deal in securities, Fransi Tadawul is the entity in the Group responsible for selling asset management and investment solutions to customers.

Risk Management

Following best banking practices, areas for risk management have been identified throughout various entities of the Bank, including compliance risks, financial risks (liquidity and interest rate risks), credit risks, operational risks and market risks. This follows the classification of the Basel Committee.

In similarity with the Crédit Agricole Group's structure, BSF's liquidity risks and investment portfolio risks are under the supervision of the Bank's Financial Direction and the Chief Financial Officer. On the other hand, credit risks, operational risks, market risks, remedial business continuity plans are under the supervision of the Risk Management Division and the Chief Risk Officer. Capital Adequacy under the Basel II Rules is managed by the Risk Management Division under the supervision of the Finance Division.

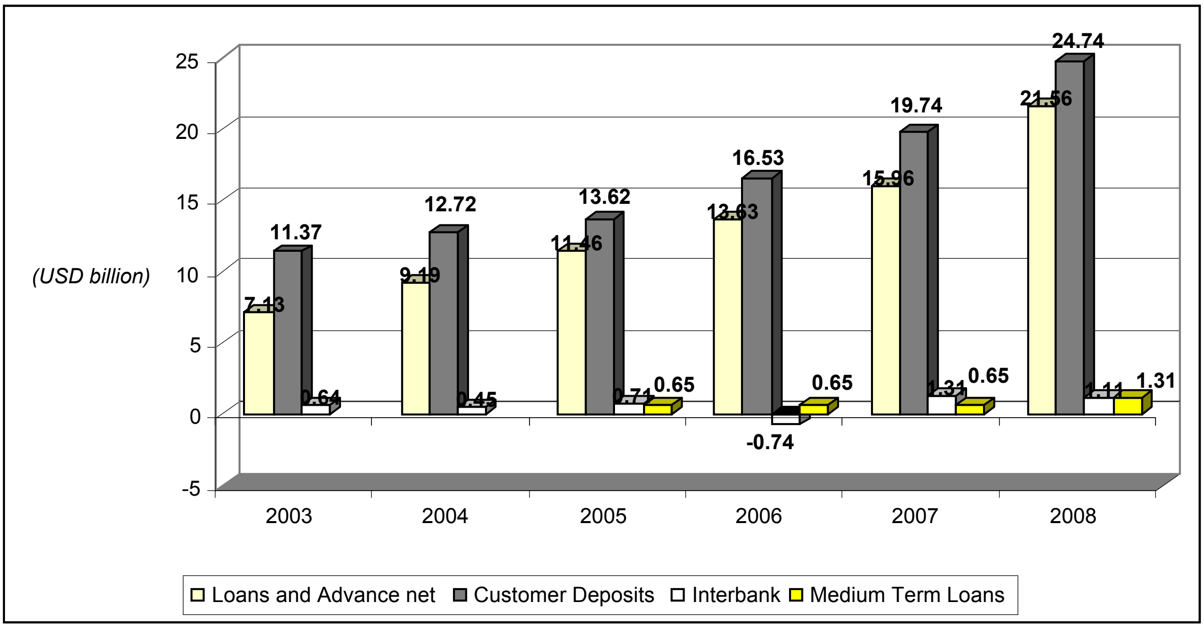
Risks monitoring performed by the Financial Direction

Liquidity Risk

BSF's funding gap is closely monitored by the Finance Division and the Chief Financial Officer. The Bank's management ensures that the Loan to Deposit Ratio stays within a limit of 85 per cent. BSF benefits from a well diversified customer deposit base that provides a stable long-term funding source.

Although BSF's credit rating quality provides an easy access to the interbank market, domestic and international, the interbank market represents a very small part of the Bank's funding. As liquidity management implies management of assets and liabilities in the two main currencies of the Bank (SAR and USD), and in order to enhance its long-term liquidity profile in USD, BSF took active steps in 2005 and 2008, and raised more than USD 1.31 billion through two syndicated medium term loans.

The following table sets out the sources of the Bank's funding:



	2004	2005	2006	2007	2008
Loans to Customers Deposit Ratio	72.2 per cent.	84.1 per cent.	82.5 per cent.	80.9 per cent.	87.1 per cent.
Loans to Total Funding Sources	72.2 per cent.	80.3 per cent.	79.4 per cent.	78.3 per cent.	82.8 per cent.

Interest Rate Risk

BSF actively manages the interest rate risk pertaining to the balance sheet assets and liabilities. BSF's management ensures that the repricing of the Banks' assets and liabilities creates a gap which falls within acceptable limits.

Such gaps are reviewed regularly and actions are taken in order to reduce these gaps as much as possible. The Assets and Liabilities Management (**ALM**) policy in place implies that assets and liabilities are equally funded and that any interest rate gaps are reduced by having recourse to interest rate swaps.

This policy ties up with the Liquidity Risk Management policy inasmuch as the liquidity created by the excess of deposits and working capital over core assets is invested in instruments, the liquidity of which stays within the Bank.

Investment Portfolio Risk

Under the supervision of the Finance Division, BSF, as of 31 December 2008, managed an investment portfolio of SAR 27.7 billion (USD 7.4 billion) made of bonds (87 per cent.), equity (1 per cent.), and Mudaraba Investments (12 per cent.), which are Islamic loans. This portfolio contributes to the management of the interest rate risk and constitutes a reserve of liquidity for the Bank, as the securities are marketable and capable of being repoed.

The following table sets out the credit risk exposure of investments:

SAR' 000	2008	2007
Saudi Government bonds	21,264,133	14,536,990
Investment grade	2,984,992	4,468,561
Unrated	3,460,898	3,370,598
Total	27,710,023	22,376,149

Saudi government bonds comprise of Saudi government development bonds, treasury bills and floating rate notes. Investment grade includes investments having credit exposure equivalent to Standard and Poor's rating of AAA to BBB. Unrated investments include local equities, foreign equities, Musharakah and Mudarabah SAR 3,323 million (2007: SAR 2,553 million).

As at 31 December 2008, the portfolio did not contain any structured finance products. 87 per cent. of the portfolio qualifies for Investment Grade and 85 per cent. of the portfolio is repoable, thus emphasising the high degree of liquidity of the portfolio.

Risk Management Division (RMD)

RMD manages risks inherent to the running of the core business of the Bank.

RMD is divided into three departments: Credit Risk, Market Risk, and Operational Risk. Each department works independently from the business units and is responsible for developing policies and procedures to identify measures and mitigate risks on a pre-emptive basis.

Credit Risk

Credit Risk represents the potential for financial loss when a borrower or counterparty defaults on its financial or contractual obligations.

The Credit Risk Division is responsible for drawing up credit policies, establishing limits, credit approval authorities and setting concentration limits.

A stringent and cautious approach to risk has helped BSF to build a high asset quality portfolio where the average cost of credit risks has been under 0.40 per cent. during each of the last 5 years (0.15 per cent. in 2008).

Complying with CALYON's credit management policy, BSF has adopted a 17-grade risk rating system in order to assess the creditworthiness of its borrowing clients.

The Credit Risk Division is organised into three separate departments:

- Credit Risk Department

The Credit Risk Department is responsible for the second level of review of a customer's file (the first level is dealt with by the relevant business line). The Credit Risk Department formalises an opinion on a credit file. If the opinion is negative, the Chief Risk Officer can veto the file and, if positive, depending on the size of the loan, the Chief Risk Officer will present the file to the executive committee for final approval. The Credit Risk Department is also responsible for ensuring that the credit file presents a "Risk Adjusted Return on Capital" that fits with the guidance set by the Finance Division.

- Credit Administration

Credit Administration is responsible for implementing credit lines and performing ongoing monitoring of risk. Credit Administration reviews the rating of the loan portfolio on a monthly basis and proposes upgrades or downgrades of files. Based on Credit Administration recommendations, the Chief Risk Officer proposes to the Senior Management the level of loan loss provisions to be booked.

Credit Administration is also responsible for organising a quarterly and annual portfolio review under the direction of the Chief Risk Officer.

- Remedial Department

The Remedial Department is responsible for following up on non-performing loans and taking the necessary measures in order to reduce exposures on defaults and optimise potential recoveries from failing parties.

Each month the Chief Risk Officer presents reports measuring portfolio risks to senior management. Monitoring involves analysing the Bank's overall portfolio by geographical location, by risk grade, by business type and by industry. These reports are also presented quarterly to the Bank's executive committee.

Market Risk

The Market Risk Department uses methodology and tools that are provided by CALYON.

The primary focus of Market Risk is to assess, measure and follow-up on the risks that are taken within the trading books managed by the Treasury Department.

The Market Risk Department has a permanent communication line with the CALYON Market Risk Department. There is a three step process to the creation of trading limits: BSF Treasury formalises a request for new sets of limits to BSF's Market Risk Department. If the request is deemed acceptable by BSF Market Risk Department, they will support and forward the file to CALYON Market Risks Department who will then give final validation.

The Market Risk Department has access to state of the art systems in order to calculate the daily profit and loss of the trading portfolio. At the date of this Offering Circular, risk limits are only expressed in term of sensitivity. However, the Market Risk Department, in order to enhance its risk assessment methods, also uses the "value at risk" (or "VaR") approach. Market Risk publishes a weekly risk report which is circulated to senior management and sent to the Market Risk Department of Calyon.

The Market Risk Department is also responsible for monitoring the risks inherent to the investment portfolio managed by the Finance Division. It is also involved upstream in the investment process where its opinion is required before final validation and processing within the proprietary portfolio.

Operational Risk

The Bank's Operational Risk Department is in charge of developing and implementing procedures and control points in order to minimise the risks pertaining to wrongdoing, unauthorised transactions, human error and other deficiencies linked to systems or external factors.

The department was created in 2005 in order to participate in the implementation of the Basel II rules.

In the context of Basel II (Pillar 1), the Operational Risk Department is in charge of building up a database of operational loss events, implementing a risk management system and developing procedures for the measurement of the operational risk relating to capital charge.

Basel II

As mentioned above, the Risk Management Division is in part responsible for implementing the Basel II Rules. This project is sponsored by the senior management of BSF and managed by the Chief Risk Officer who has set up a dedicated team for the project. The new rules focus on risk management and are expected to act as a catalyst to enhance risk management practices in banks generally.

To comply with Basel II, BSF has invested in up to date technology in terms of credit management systems and a system that calculates the Risk Weighted Assets as per the new requirements.

As of 31 December 2008, BSF produced figures for the Risk Weighted Assets as per the new regulation, adopting the standardised approach before adopting the IRB approach in 2009/2010.

Under Basel II (Pillar 3), certain quantitative and qualitative disclosures are required, and these disclosures are available on the Bank's website at www.alfransi.com.sa, as required by the SAMA.

Business continuity plan

With the continuing growth in BSF's banking activities, BSF recognises its obligation to clients, shareholders and staff to ensure the continuity of its business, in line with its commitment to safety, quality and commercial best practices. Business Continuity Management (**BCM**) was established in 2005 as a separate department. BCM works to ensure that internal BSF business groups are able to continue operations through any type of disruption, working across different BSF sites throughout the Kingdom to develop, test, and maintain business continuity.

The introduction of BCM means that the risk of business interruption has been reduced significantly, thanks to the implementation of full redundancy policy. In addition to its main data centre at its head office building in Riyadh, BSF has established a back-up data centre in its central region office building. This high-tech facility is an active and live data centre for most of the critical systems, applications and network connectivity. During the day, production is shared between the two data centres at Riyadh. Another remote back-up centre and disaster recovery data centre has been deployed at its regional office building in Jeddah (Western Region).

Automated file system backups are taken regularly and transmitted on high speed communication links to the back-up centres.

Internal audit

The Bank follows a risk-based audit methodology, which is approved by the Audit Committee and the Board of Directors. A quarterly report is prepared and discussed with the Audit Committee highlighting key risk issues.

BSF has an independent internal audit division. The Head of the Audit Division (the Inspector General designated by CALYON and approved by the Board of Directors) primarily reports to the Audit Committee scope of work, quality standards, nature of assignments and reports to the Managing Director of the Bank. Calyon's Inspector General is the secretary of the Audit Committee. Additionally, BSF's Inspector General maintains a direct line of communication with Calyon.

An "Internal Audit Charter", co-signed by the Chairman of the Audit Committee and the Managing Director, establishes its independence vis-à-vis the rest of the Bank and sets out the role and the powers of the Internal Audit Division.

According to its approved work plan, the Audit Committee meets six times a year and reviews the work of the Bank's external auditors. The Audit Committee also submits an annual report to the Board of Directors recommending the approval of the external auditors' report.

Assets and Liability Management

The Asset Liabilities Management Department is part of the Financial Division headed by BSF's Chief Financial Officer (the **CFO**).

ALM policy is aimed at managing liquidity and interest rate risks by monitoring the evolution of assets and liabilities in respect of duration and interest rate risk.

ALM has devised stringent rules and limits designed to protect the Bank from any liquidity crisis. As such, the Bank has both short and long-term liquidity limits.

It is the role of the Treasurer to ensure that the short term interest rate risk position is adequate and of the CFO to ensure the soundness of the long-term balance sheet.

Short and medium term resources are allocated to the Treasury while all resources qualifying as long term are managed by the Finance Division. Capital surplus is invested in a large investment portfolio (USD 6 billion), the purpose of which is to return and match the liquidity and interest rate gaps within imposed limits.

The Finance Division is also responsible for ensuring that the Bank's capital adequacy ratio always complies with international standards and internal policies.

In terms of governance, two committees meet on a regular basis:

1) the Treasury and Investment Committee (**TICO**) meets weekly

Chaired by the Managing Director, the TICO reviews the market conditions and their related impact on the balance sheet and profit and loss account, the evolution of deposits and the short term liquidity position of the Bank vis-à-vis its limits. The committee also looks at market risk indicators on the trading books managed by the Treasury and the performance of new sales of capital market products. The TICO also reviews the treasury position, the movements in assets and liabilities and the performance of the proprietary investment portfolio.

2) the Asset and Liability Committee (the **ALCO**) meets quarterly

The CFO chairs the ALCO. The ALCO is the forum where all matters pertaining to balance sheet items, liquidity risks, interest rate mismatch, new financial risk issues and capital adequacy are reviewed. This forum also decides on new investment proposals made by the head of the Finance Division.

The standardised agenda includes:

- Balance sheet evolution: deposits, funding requirements;
- Investment portfolio reporting: performance and compliance with limits;
- Liquidity analysis (all currencies and by currency);
- Concentration analysis;
- Prudential ratios;
- Economical interest rate risk;
- Capital Adequacy reporting and fair value impact on Equity;

Compliance and anti-money laundering control

In view of international consensus on the need for increased transparency and monitoring of financial transactions and in line with the move of Saudi and international banks to strengthen the compliance function in banks, an independent Compliance Division (the **CPD**) was established in 2003 in order to properly organise compliance activities in BSF. This division, headed by the Chief Compliance Officer, has a mandate to assess and update the Bank's obligations in the area of compliance and ethics and to specify operational principles and procedures that must be adhered to by all BSF's groups and divisions.

As such, the CPD helps to ensure that all business lines, divisions, and employees of BSF comply with laws and regulations relating to banking and financial activities, professional and ethical standards and the practices of the BSF Code of Conduct.

The Chief Compliance Officer convenes and facilitates the following committees:

- New Activities and Products Committee

  Chaired by the Managing Director, the purpose of this committee is to formalise the process and approval of new activities and products in order to achieve better control of the risks related to them. The Chief Compliance Officer is the secretary to the committee.

- Compliance Management Committee

  This quarterly committee involves all the business division heads, and the regional managers.

- New Relations Approval Committee

  This committee, headed by the Managing Director, is comprised of the Deputy Managing Director, the Chief Financial Officer, the Chief Risk Officer and the heads of business lines. Its objective is to approve new business relationships and ensure the suitability of newly acquired customers.

BSF complies with the Saudi Anti Money Laundering Law, Executive Rules and Saudi Arabian Monetary Agency Rules Governing Anti Money Laundering and Combating Terrorist Financing and the Circulars relating to money laundering. It is the obligation of the Bank and its employees to notify the relevant authorities of any suspected money laundering transactions. Staff awareness programmes and integrated systems and procedures are in place to counter money-laundering risks. These include suspicious transactions reporting, risk rating, and customer profiling systems.

The Money Laundering Control Function under the Compliance Division is responsible for coordinating the prevention, detection and combating of money-laundering activities within the Bank in conjunction with the business units. This function also ensures the development of a "Know Your Customer" culture within the Bank and ensures that procedures and softwares are in place to detect extraordinary or unusual transactions.

Anti-money laundering training is provided for staff that handle or are managerially responsible for the handling of transactions which may involve money laundering.

Human resources and training

BSF's drive to recruit Saudi Arabian staff has been of paramount importance. By the end of 2008, the ratio of Saudi Arabian personnel to the total bank staff had risen to 85 per cent.

BSF is committed to training its staff to the highest standards and continues to invest heavily in this area. The management training programme or Professional Development Programme underwent a major curriculum reform during the year. The improvements were a result of survey and interactive sessions held with business line managers and programme graduates.

BSF is committed to creating a healthy, safe and fulfilling working environment. BSF aims to attract and recruit the most talented people and provide the best available training and development facilities to them. It aims to reward its employees with competitive remuneration to encourage them to achieve their best potential within the Bank.

Corporate Governance and Management

The Board of Directors

The Board of Directors is comprised of 10 members selected and elected by the shareholders, namely, eight non-executive members of the Bank (including two representatives of the French partner, CALYON) and two executives of BSF (Managing Director and Deputy Managing Director).

The table below sets out the current members of the Board of Directors:

Name/Residence	Relationship with BSF	Positions outside the Bank
Ibrahim A Al Touq Riyadh, Saudi Arabia	Chairman of the Board of Directors	- Owner and Chairman of Al Touq Company - Board member of Saudi Industrial Group
Alain Massiera Paris, France	Board member	Deputy Chief Executive Officer of Calyon
Abdulaziz Al Rashed Riyadh, Saudi Arabia	Board and Executive Committee member	Chairman of Al Rashed Group -Board member of Al-Shifa company
Ibrahim Al-Issa Riyadh, Saudi Arabia	Board and Executive Committee member	- Chairman and owner of Al-Issa Group - Board member of Savola group
Dr. Khalid Al Mutabagani Riyadh, Saudi Arabia	Member of the Board and Audit Committee	- Board member of Jeddah National Hospital
Mousa Omran AlOmran Riyadh, Saudi Arabia	Board and Executive Committee member	- Board member of Savola group - Board member of Afia group
Jean Frederic de Leusse Paris, France	Board and Executive Committee member	Crédit Agricole SA Deputy CEO and Executive Director for the International Development
Abdulaziz H. Al Habdan Riyadh, Saudi Arabia	Board and Executive Committee member	GOSI representative
Jean Marion Riyadh, Saudi Arabia	Managing Director, Head of the Executive Committee	Calyon's seconded staff
Abdulrahman Jawa Riyadh, Saudi Arabia	Deputy Managing Director and Executive Committee member	Chairman of BBSF (Syria)

The Board of Directors meets four times a year. Reserved matters comprise agreements on strategy and budgets, review and follow-up on the Bank's financial performance, approvals of major capital expenditures, policies covering treasury, finance and acknowledgement of the conclusions rendered by the Audit Committee.

As at the date of this Offering Circular, the members of the Board of Directors referred above have no potential or actual conflicts of interest between their duties to BSF and their private interests or other duties.

The business address of each of the members of the Board of Directors and the Senior Management is at PO Box 56006, Riyadh 11554, Kingdom of Saudi Arabia.

The Executive Committee

The Executive Committee is responsible for implementing the Bank's policies, monitoring business performance, managing risks and ensuring the effectiveness of internal controls. It is also responsible for approving sizeable capital expenditure for recommendation to the Board of Directors and ensuring efficient and effective management of the Bank. Credit risks and other risk related projects are part of the agenda of the Executive Committee who take final decisions as to new business opportunities, increases of risk limits and changes in ALM policies.

The Committee acts under the delegated authority of the Board.

The Executive Committee is composed of the Managing Director, the Deputy Managing Director, and five members selected from amongst members of the Board of Directors. Chaired by the Managing Director, the Executive Committee meets at least four times a year. However, for specific files or matters that need urgent decision, the Executive Committee meets on an ad-hoc basis or can formalise opinions and recommendations through electronic communication.

The Audit Committee

The Audit Committee is nominated by the Board of Directors and is comprised of a Board of Directors member and three independent non-executive members chosen among the shareholders of the Bank. One of the members is the Inspector General of CALYON Group.

The Chief Compliance Officer sits on this committee as an observer.

The Audit Committee assists the Board in meeting its responsibilities for reviewing the effectiveness of the system of internal control and for approving the accounting policies and financial statements of the Bank. It is scheduled to meet 6 times a year.

The Audit Committee also considers the plans and findings of the Internal Audit Division. It provides a direct channel of communication between the external auditors and the Board, helping to ensure that the external audit is conducted in a thorough and effective manner and that the recommendations made in the external auditors' reports are acted upon as appropriate.

The Audit Committee recommends the appointment of external auditors and reviews the plans and results of their work.

Senior Management

The Bank's senior management comprises the following individuals:

Mr. Jean Marion (CALYON seconded staff)
Managing Director

Mr. Abdulrahman Jawa
Deputy Managing Director

Mr. Philippe Touchard (CALYON seconded staff)
Chief Financial Officer

Mr. Riyad Al Sharikh
Assistant General Manager

Mr Youssef Laban
Chief Operating Officer

Mr. Mohamad M. Abdulhadi
Head of Corporate Banking Group

Mr. Naim AlHussaini
Head of Retail Banking Group

Mr. Waleed Fatani
Head of Group Treasury

Omar Jazzar (Calyon seconded staff)
Head of Wealth Management Group

Francois Rivier (Calyon seconded staff)
Chief Risk Officer

Ahmed AlKassim
Information Technology Division Manager

Abdulaziz Omar Osman
Chief Compliance Officer

Amr AlTaher
Corporate Human Resources Manager

Saadoun Al-Saadoun
Corporate Operations Division Manager

Francois D. Delagrange (Calyon seconded staff)
Inspector General and Audit Division Manager

Shari'a Compliance Committee

The Shari'a Compliance Committee of BSF comprises reputed scholars including:

Sheikh Abdullah Al Manea (Chairman), Dr. Ali Elgari (Member and also BSF Shari'a adviser) and Dr. Abdul Sattar A Guddah (Member), each of whom are highly respected in their field. Most of the local banks have either all or two of the above persons in their Shari'a committees. Dr. Elgari and Abdul Sattar A Ghuddah are also members of the Calyon Islamic Shari'a Committee.

The duties of the Shari'a Compliance Committee includes:

- Exercising Shari'a control and oversight functions over the Islamic banking operations of the Bank;
- Exercising Shari'a control and oversight over Islamic mutual funds;
- Studying samples of contracts and agreements used in connection with all Islamic banking operations, including investment services requested by customers and giving clearances from a Shari'a compliance perspective;
- Studying documents, forms, procedures and processes followed by the Bank in connection with Islamic banking operations and giving approval from a Shari'a compliance perspective; and
- Contributing to the enhancement of Islamic banking awareness of the Bank's staff by recommending training courses and programmes on Islamic banking and participating in their implementation.

THE BANKING SECTOR IN THE KINGDOM OF SAUDI ARABIA

General

The Kingdom of Saudi Arabia has the largest economy in the Middle East and in the GCC in terms of gross domestic product and as such Saudi banks carry significant weight and influence in these regions. There are at present eleven commercial banks incorporated in the Kingdom of Saudi Arabia. There are also ten branches of foreign banks which are operating or recently licensed, namely: Gulf International Bank (**GIB**) (two branches), Emirates Bank (**EB**), BankMuscat, National Bank of Kuwait (**NBK**), National Bank of Bahrain, BNP Paribas, Deutsche Bank, J.P.Morgan Chase, National Bank of Pakistan (**NBP**) and State Bank of India (**SBI**). Of the Saudi banks, ten are publicly-listed joint stock companies and their shares are traded on the Saudi Stock Exchange. The National Commercial Bank (**NCB**) is currently the only unlisted Saudi bank, and is majority-owned by the Saudi Government. Moreover, it is worth mentioning the recent creation of a new Shari'a-compliant Saudi bank: Alinma Bank which was incorporated by Royal Decree in 2006 and is preparing itself to operate in all business segments in 2009. The profits realised by Alinma Bank for the year 2008 were not regarded as operational profits but rather as resulting from investment of the Bank's initial capital.

Among Saudi Banks, Bank A1-Bilad, Al Rajhi Bank and Al Jazira Bank provide only Shari'a-compliant banking products and services. All 11 Saudi Banks provide a broad range of retail and wholesale banking products and services.

In addition to the commercial banks, there are five state-run credit institutions, including the Saudi Industrial Development Fund and the Public Investment Fund, which provide funds for targeted sectors.

Key highlights of the trends and outlook for the Saudi banking industry are as follows:

- In spite of the global economic crisis, the profitability of the core banking sector remains strong. In 2008, all banks operating in Saudi Arabia had reported profits for the financial year.
- The combination of booming consumer appetite and renewed demand in the corporate sector has allowed for a significant retuning of most banks' balance sheets.
- With the growing sophistication and education of an increasingly young Saudi population, the Issuer expects the demand for retail banking services in the Kingdom of Saudi Arabia to continue to expand. The younger generation Saudis are now using banks to perform their financial activities, moving away from cash transactions that were preferred by their parents. This will lead to an expansion in the demand for retail services, an area highly dependent on the ability of Saudi banks to embrace technology. Most banks in the Kingdom of Saudi Arabia have upgraded their automation processes (some offering internet banking) and diversified their retail products to be better positioned to compete more effectively.
- Fee based services and products for retail markets are proliferating, the focus being turned to non-funded business volumes and cross-selling opportunities.
- Islamic banking continues to be an area of growth.

History

The first bank in the Kingdom of Saudi Arabia was the Netherlands Trading Society, which was founded in 1926 and is still operating in the Kingdom of Saudi Arabia as the Saudi Holland Bank. NCB, established as a partnership in 1950, was the first wholly Saudi-owned bank.

In 1976 the Government of the Kingdom of Saudi Arabia issued a directive requiring all banks operating within its borders to convert to entities incorporated locally in which at least 60 per cent. of the shares are owned by Saudi nationals. As at 31 December 2006, there are only four Saudi banks with active foreign shareholders. The Issuer is one of these foreign owned banks (owned 31.1 per cent. by CALYON, and the other three are as follows (the ultimate foreign shareholder in each is identified in brackets):

– The Saudi British Bank (HSBC Holdings plc)

– Arab National Bank (Arab Bank Plc)

– Saudi Hollandi Bank (The Royal Bank of Scotland Group, previously ABN AMRO Bank N.V.)

Recent Developments

As part of the Saudi Government's general initiative to liberalise the Saudi economy and encourage foreign investment, the banking and financial sector is also being opened up to foreign participation. In addition to Gulf International Bank, licenses have been granted to Emirates Bank, Bank Muscat, National Bank of Kuwait, National Bank of Bahrain, BNP Paribas, Deutsche Bank, JPMorgan Chase Bank, National Bank of Pakistan and State Bank of India to operate branches in the Kingdom of Saudi Arabia. The Saudi Government is also keen to develop the capital markets sector in the Kingdom of Saudi Arabia and in 2003 introduced capital markets legislation with the enactment of the Capital Market Law (issued by Royal Decree No. M/30 dated 1 August 2003). A regulatory authority has been established to regulate the securities business in the Kingdom of Saudi Arabia. In line with the Saudi Government's overall desire to develop and boost the capital markets in the Kingdom of Saudi Arabia, the Capital Market Authority is encouraging the participation of foreign investment banks and has granted operating licenses to a number of investment banks.

Selected Statistics of Saudi Banks - 2008 results
31 December 2008 (*in million of Saudi Riyals*)

Bank Name	**Total Assets**	**Net Income**	**Shareholder's Equity**	**Market Capitalisation**
National Commercial Bank	221,802	2,031	27,536	*Not listed*
Samba Financial Group	178,891	4,454	19,846	46,125
Al Rahji Bank	164,930	6,525	27,032	84,000
Riyadh Bank	159,653	2,639	25,690	31,800
Saudi British Bank	131,661	2,920	11,634	32,437
Banque Saudi Fransi	125,865	2,806	14,069	25,369
Arab National Bank	121,307	2,486	12,671	20,280
Saudi Hollandi Bank	61,436	1,224	5,715	10,584
Saudi Investment Bank	53,596	530	6,609	7,447
Bank Al-Jazira	27,520	222	4,637	4,415
Bank Al-Bilad	16,052	125	3,213	8,400
Al Inma Bank	15,556	390	15,390	16,650

SAUDI ARABIAN BANKING REGULATION and SUPERVISION

General

The banking sector in the Kingdom of Saudi Arabia is regulated by SAMA within the framework of the Banking Control Law (the **BCL**), which was promulgated by Royal Decree No. M/5 dated 11 June 1966. The BCL sets out the framework within which banks must operate in the Kingdom of Saudi Arabia and is supplemented by circulars, directives and guidelines issued by SAMA from time to time. These circulars, directives and guidelines are generally not made available publicly outside the banking sector.

Management of Liquidity and Credit Risk

Under the BCL, a bank's deposit liabilities must not exceed 15 times its reserves and paid-up or invested capital. Each bank is also required to maintain with SAMA a statutory deposit equal to at least 15 per cent. of its total deposit liabilities. SAMA has the power to vary this percentage within a range of 10 to 17.5 per cent. and may specify a statutory deposit percentage outside this range with the approval of the Minister of Finance and National Economy. The current percentage specified by SAMA for a statutory deposit is primarily 7 per cent. of customer demand deposits and 2 per cent. of customer savings and time deposits.

In addition to the statutory deposit, each bank in the Kingdom of Saudi Arabia is also required to maintain a liquid reserve equal to at least 15 per cent. of its total deposit liabilities and this percentage may be increased by SAMA up to a maximum of 20 per cent. The current percentage specified by SAMA for a liquid reserve is 20 per cent. of a bank's total deposit liabilities. The liquid reserve must comprise cash, gold or assets which can be converted into cash within a period not exceeding 30 days in order to comply with the requirements of the BCL.

The BCL also sets a maximum limit on the amount of financial liability that a bank may incur in respect of any one person. Under the BCL, a bank may not grant a loan, extend a credit facility, give a guarantee or incur any other financial liability in respect of any one person in an aggregate amount exceeding 25 per cent. of its total reserves and paid-up or invested capital. SAMA may increase this limit up to a maximum of 50 per cent. if it considers it to be in the public interest.

SAMA also has the power to regulate liquidity and credit risk at a bank by restricting, among other things, the maximum amount of money which may be loaned by a bank, the level of a bank's exposure to single customer and the categories of loans which a bank can make. These restrictions may vary from bank to bank depending on the relevant circumstances and are in addition to the statutory deposit and liquid reserve requirements provided for in the BCL.

SAMA carries out a full review of the operations of each bank every three years and more regular assessments of specific functions within each institution. SAMA has also intervened to support banks that have found themselves in difficulties. It acted to ease the panic that followed the 1990 Iraqi invasion of Kuwait, which directly threatened the Kingdom of Saudi Arabia's own security. Similarly, it allowed distressed banks to benefit from low cost funding in the 1980s.

SAMA has over the years developed a reputation as a strict regulator. In 1989, it introduced accounting and disclosure standards for commercial banks in the Kingdom, which essentially comply with International Financial Reporting Standards (**IFRS**). All banks in the Kingdom are now in compliance with IFRS and the Accounting Standards for Financial Institutions issued by SAMA. The banks also prepare their financial statements to comply with the BCL and the Regulations for Companies in the Kingdom of Saudi Arabia.

Reporting Requirements

Banks are required to submit monthly statements of the consolidated financial position of their domestic and foreign branches. Banks also have to submit quarterly, semi-annual and annual reports to SAMA. These bank reports are very comprehensive and cover areas from the maturity schedule of credit facilities, risk concentrations, large exposures, FX exposure, analysis of specific loan loss reserves and a calculation of the banks risk asset based capital adequacy.

The requirement is for banks to submit their audited annual statements to SAMA and within six months of the close of their financial year. Annual financial statements have to be audited and signed by at least two external auditors, Joint stock companies have to publish quarterly statements as their stocks are listed on the Saudi Stock Exchange. It should be noted, however, that quarterly financials are not audited but reviewed by the auditors in accordance with generally accepted standards applicable to review engagements and are limited in terms of the scope of disclosure. Information such as non-performing loans and the breakdown of customer deposits etc. are not disclosed.

There has been a distinct improvement in Saudi banks disclosure levels since SAMA introduced mandatory disclosure standards. Banks publish a breakdown of loans by sector and geography in addition to loans to the Government and related parties. Also reported are doubtful loans, loan loss reserves and write-offs.

Anti-Money-Laundering and Counter-Terrorist Financing

The Kingdom of Saudi Arabia is a signatory to, and has implemented measures required by, the 1988 United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (the **1988 Vienna Convention**), the International Convention for the Suppression of the Financing of Terrorism (UNSC 1373), and various other international conventions and agreements relating to money-laundering and terrorist financing.

Money laundering is considered an offence under Saudi law. Over the past 10 years Saudi Arabia has put into place a relatively comprehensive legislative and regulatory framework that deals with money-laundering and terrorist financing. Saudi Arabia implemented its first customer identification procedure in 1975. Beginning in the mid-1990s the Kingdom began to put in place a more expansive anti-money-laundering regime with the issuance of the 1995 anti-money-laundering manual and several other circulars from SAMA and other government agencies.

Saudi Arabia has comprehensive rules covering "know-your-customer" and anti-money-laundering and counter-terrorist financing requirements for the banking sector. In April 2003, SAMA issued updated Rules Governing the Opening of Bank Accounts and General Operational Guidelines (SAMA No. 3222/BC1/60: 8 April, 2003). These rules contain comprehensive requirements governing customer identification, the opening and maintenance of bank accounts, the transmission of funds and the deposit of cash. They also contain detailed rules controlling the operation of bank accounts for charitable and welfare organisations.

SAMA issued in May 2003 the Rules Governing Anti-Money-Laundering and Combating Terrorist Financing (SAMA No. BC1/122: 27 May 2003). These rules govern, amongst other things, the reporting of suspicious transactions, transaction monitoring, customer and transaction profiling, risk assessment, control systems, compliance programs, reviews and audits, know-your-customer policies and standards, and record retention.

In August 2003, Saudi Arabia updated its existing anti-money-laundering statutes with the enactment of the Anti-Money-Laundering Law (pursuant to Royal Decree No. M/39 dated 24 August 2003), providing an up-to-date statutory basis for money laundering and terrorist financing offences, establishing a Financial Intelligence Unit, and enabling a greater international exchange of financial information in cases of suspected money laundering and terrorist financing amongst law enforcement agencies and regulators.

SAMA issued a circular (Reference No. 35185/MAT/539 dated 22 November 2005) requiring all banks and financial institutions operating in Saudi Arabia to comply strictly with the provisions of the Anti-Money-Laundering Law. The CMA also issued the Anti-Money Laundering and Counter-Terrorist Financing Rules pursuant to its Resolution Number 1-39-2008 dated 1/12/2008. The Authorised Persons Regulations issued by the Capital Market Authority and regulating firms engaging in securities business (**Authorised Persons**) also require such Authorised Persons to comply with the Anti-Money-Laundering Law.

The GCC is in the unique position of being a member of the Financial Action Task Force on Money Laundering (the **FATF**), even though the individual member states of the GCC are not FATF members. As a member of the GCC, Saudi Arabia has issued laws and regulations designed to comply with the Forty Recommendations on Money Laundering and the Nine Special Recommendations on Terrorist Financing issued by the FATF.

In September 2003, the FATF carried out, in conjunction with the GCC the mutual evaluation of Saudi Arabia. This evaluation was the sixth evaluation of the GCC Member States and was performed on the basis of the common anti-money-laundering/counter terrorist financing assessment methodology employed by the FATF. With the approval of the evaluation of Saudi Arabia in February 2004, all GCC member States have now undergone a mutual evaluation and the GCC first round of evaluations has been completed. In its 2003-2004 Annual Report, the FATF concluded that Saudi Arabia "is compliant or largely compliant with most of the FATF 40 + 8 Recommendations" (see *FATF Annual Report 2003 -2004, Annex C, Kingdom of Saudi Arabia: Executive Summary FATF Recommendations for Anti-Money Laundering and Combating the Financing of Terrorism, paragraph* 57).

Auditors

As a measure of prudence, SAMA requires all banks in the Kingdom of Saudi Arabia to be audited jointly by two auditors.

Financial Requirements

SAMA has introduced regulations to ensure that banks do not have any undue concentrations to any one sector or client and that sufficient liquidity and capitalisation is maintained to support bank activities. The most pertinent of these regulations are summarised below:

(i) Doubtful and Past Due Loans/Loan Loss Reserves

In 2002, SAMA issued regulations regarding reclassification of assets as well as provisioning norms. The following table sets out the new classifications and the reserves required for prudential regulation purposes.

Classification	*Defined as*	*Reserve Required*
Current	No problems	1 per cent. of outstandings
1A (Special mention)	Potential weakness	1 per cent. of outstandings
II (Substandard)	Inadequate capacity to pay and/or profit or principal overdue by more than 90 days	25 per cent. of outstandings
III (Doubtful)	Full collection questionable and/or overdue by more than 180 days	50 per cent. of outstandings

Classification	Defined as	Reserve Required
IV (Loss)	Uncollectible and/or overdue by more than 360 days	100 per cent. of outstandings

Single party limit is 25 per cent. of the bank capital and reserves. This limit may be increased to 50 per cent. at SAMA's discretion.

(ii) Liquidity

Saudi Arabian banks are required to maintain liquid assets of at least 20 per cent. of deposit liabilities. For purposes of this calculation, cash, gold, treasury bills, government bonds, up to one month placements and any asset that can be liquidated within 30 days are included. Break down of call deposits, savings accounts and time deposits must also be shown on the balance sheet The maturity of assets and liabilities has to be disclosed to determine the sensitivity to commission rate risk,

(iii) Capital Adequacy

The GCC has introduced a common standard for capital adequacy based on the BIS capital adequacy standards. The GCC standard applicable in the Kingdom recommends a minimum 8 per cent. ratio of capital to risk weighted assets, including off-balance sheet risk. Assets are categorised into four risk groups carrying varying risk weights according to the risk assessment of the counterparty. There are also two levels of country risk, one for the GCC, OECD countries and others that have special lending arrangements with the International Monetary Fund under its general agreement to borrow, considered a preferred risk. All other countries are considered full risk. In contrast BIS only counts Saudi Risk and not all GCC at par with OECD. The other major difference is that the GCC standards account for mortgage loans as 100 per cent. risk as opposed to 50 per cent. under BIS standards.

Deposit liabilities of banks are limited to 15 times capital and reserves. In cases where this ratio is exceeded, banks have to place interest free deposits of half the excess amount with SAMA. Furthermore, 25 per cent. of net profits have to be transferred to statutory reserves until the reserve balance equals paid-up capital.

TAXATION

The following is a general description of certain Saudi Arabian and EU tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes nor does it address the considerations that are dependant on individual circumstances. Prospective purchasers of Notes should consult their own tax advisers to determine the tax consequences for them of acquiring, holding and disposing of Notes and receiving payments of profit, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries. This summary is based upon the law as in effect on the date of this Base Prospectus and is subject to any change in law that may take effect after such date.

KINGDOM OF SAUDI ARABIA

GCC holders resident in the Kingdom of Saudi Arabia for tax purposes

A GCC holder resident in the Kingdom of Saudi Arabia for tax purposes (except (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 laws of a GCC-country other than the Kingdom of Saudi Arabia with a permanent establishment in the Kingdom of Saudi Arabia) is not subject to Saudi tax, whether by withholding or direct assessment, in respect of any payment or gain realised in respect of a Note.

However, such a holder will be subject to *zakat* (a religious levy by the Saudi Government). This summary does not consider the extent to which such a holder would be liable to *zakat* as a consequence of acquiring, holding or disposing of Notes.

A **GCC Person** means (a) a citizen of a GCC-country (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 wholly by GCC citizens and established under the laws of a GCC-country. A GCC Holder is a GCC Person who holds a Note.

Non-GCC holders resident in the Kingdom of Saudi Arabia for tax purposes

Payments in the nature of profit (which includes any return on a Note by way of payment in respect of any discount element and redemption premium) to a holder who is resident in the Kingdom of Saudi Arabia for tax purposes and is not a GCC Person are not subject to Saudi withholding tax as long as certain requirements are satisfied. However, such a holder will generally be subject to Saudi taxation in respect of any income or paid it derives from the holding or disposal of a Note.

Generally, any gain realised from the disposal of securities issued by a Saudi company (other than securities traded on the Saudi Stock Exchange, provided that certain requirements are satisfied) will be subject to Saudi capital gains tax at a rate of 20 per cent. In the case of securities in bearer form, such tax is expected to apply only on a disposal made by the holder of the certificate representing such securities. Accordingly, while any Tranche of Notes is represented by a Global Note, a gain realised on a disposal of any book-entry interest in such Notes held through Euroclear or Clearstream, Luxembourg is not expected to be subject to Saudi capital gains tax although this will depend on the nature of the transfer of the interest. However, gains realised on a disposal of a Note by the holder of the certificate representing such Note (whether in the form of a Global Note or Definitive Note) will be subject to Saudi capital gains tax at a rate of 20 per cent.

Holders resident outside the Kingdom of Saudi Arabia for tax purposes

Payments in the nature of profit in respect of a Note to a holder who is resident outside the Kingdom of Saudi Arabia will be subject to Saudi withholding tax at a rate of 5 per cent. unless the provisions of a double tax treaty apply. This could include payments of profit to a GCC holder who is not resident in the Kingdom of Saudi Arabia for tax purposes. It is for the Issuer to deduct such withholding tax from payments to the holder although ultimate liability for such withholding tax rests with the holder. No Saudi withholding tax will apply to payments of principal. The Saudi tax authorities are entitled to claim from a holder any withholding tax the Issuer has failed to withhold in accordance with Saudi Arabian tax law.

The Saudi capital gains tax position on a disposal of Notes by a holder who is resident outside the Kingdom of Saudi Arabia for tax purposes is the same as that of a non-GCC Person resident in the Kingdom of Saudi Arabia, even though its holding of Notes may be outside the Kingdom of Saudi Arabia. See "*Non-GCC Person resident in the Kingdom of Saudi Arabia for tax purposes*" above.

If, however, a holder who is resident outside of the Kingdom of Saudi Arabia has a permanent establishment in the Kingdom of Saudi Arabia to which the holding of its Note is attributable, payments in the nature of profit in respect of a Note will not be subject to Saudi withholding tax as long as certain requirements are satisfied. Instead such a holder will be subject to Saudi tax in respect of any income as well as gain it derives from the holding or disposal of its Note, by way of direct assessment. The Saudi capital gains tax position on a disposal of Notes by a holder who, although resident outside the Kingdom of Saudi Arabia for tax purposes, has a permanent establishment in the Kingdom of Saudi Arabia to which the holding of the Note is attributable is the same as that of a non-GCC Person resident in the Kingdom of Saudi Arabia.

If payments of principal or profit in respect of the Notes are subject to any withholding or deduction on account of Saudi tax, Condition 8 provides for the Issuer to pay additional amounts as will result in Noteholders receiving the amounts which would otherwise been receivable, subject to certain exceptions.

UNITED KINGDOM

The following applies only to persons who are the beneficial owners of Notes and is a summary of the Issuer's understanding of current law and practice in the United Kingdom relating only to United Kingdom withholding tax treatment of payments of principal and profit in respect of Notes. It does not deal with any other United Kingdom taxation implications of acquiring, holding or disposing of Notes. The United Kingdom tax treatment of prospective Noteholders depends on their individual circumstances and may be subject to change in the future. Prospective Noteholders who may be subject to tax in a jurisdiction other than the United Kingdom or who may be unsure as to their tax position should seek their own professional advice.

Profit on the Notes

Payment of Profit on the Notes

Payments of profit on the Notes may be made without withholding on account of United Kingdom income tax.

However, Noteholders may wish to note that, in certain circumstances, HM Revenue & Customs (**HMRC**) has power to obtain information (including the name and address of the beneficial owner of the profit) from any person in the United Kingdom who either pays or credits profit to or receives profit for the benefit of a Noteholder. HMRC also has power, in certain circumstances, to obtain information from any person in the United Kingdom who pays amounts payable on the redemption of Notes to or receives such amounts for the benefit of another person, although HMRC published practice indicates that HMRC will not exercise the power referred to above to require this information in respect of amounts payable on the redemption of Notes where such amounts are paid on or before 5 April 2010. Such information may include the name and address of the beneficial owner of the amount payable on redemption. Information so obtained may, in certain circumstances, be exchanged by HMRC with the tax authorities of the jurisdiction in which the Noteholder is resident for tax purposes.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States, including Belgium from 1 January 2010, are required to provide to the tax authorities of another Member State details of payments of profit (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

On 15 September 2008 the European Commission issued a report to the Council of the European Union on the operation of the Directive, which included the Commission's advice on the need for changes to the Directive. On 13 November 2008 the European Commission published a more detailed proposal for amendments to the Directive, which included a number of suggested changes. The European Parliament approved an amended version of this proposal on 24 April 2009. If any of the proposed changes are made in relation to the Directive, they may amend or broaden the scope of the requirements described above.

SUBSCRIPTION AND SALE

The Initial Purchaser and the Dealers have, in a programme agreement (the **Programme Agreement**) dated 9 September 2009, agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under "*Form of the Notes*" and "*Terms and Conditions of the Notes*". In the Programme Agreement, the Issuer has agreed to reimburse the Initial Purchaser and the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Notes under the Programme and to indemnify the Initial Purchaser and the Dealers against certain liabilities incurred by them in connection therewith.

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver Notes (a) as part of their distribution at any time or (b) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Each issuance of Index Linked Notes or Dual Currency Notes shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer may agree as a term of the issuance and purchase of such Notes, which additional selling restrictions shall be set out in the applicable Final Terms.

Public Offer Selling Restriction under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Circular as completed by the final terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

(a) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

(b) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than EUR 43,000,000; and (3) an annual net turnover of more than EUR 50,000,000, as shown in its last annual or consolidated accounts;

(c) at any time to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(d) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an **offer of Notes to the public** in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression **Prospectus Directive** means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948, as amended; the **FIEL**) and each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEL and any other applicable laws, regulations and ministerial guidelines of Japan.

France

Each of the Dealers and the Issuer has represented and agreed that it has not offered or sold and will not offer or sell, directly or indirectly, Notes to the public in France, and it has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France, the Offering Circular, the relevant Final Terms or any other offering material relating to the Notes and such offers, sales and distributions have been and will be made in France only to (a) providers of investment services relating to portfolio management for the account of third parties, and/or (b) qualified investors (*investisseurs qualifiés*), all as defined in, and in accordance with, articles L.411-1, L.411-2, D.411-1 of the French *Code monétaire et financier*.

The Netherlands

Each Dealer has represented and agreed that any Notes with a maturity of less than 12 months and a denomination of less than EUR 50,000 will only be offered in The Netherlands to professional market parties as defined in the Financial Supervision Act and the decrees issued pursuant thereto.

The Kingdom of Saudi Arabia

Each Dealer and the Issuer has represented and agreed that no action has been or will be taken in the Kingdom of Saudi Arabia that would permit any offer or sale (of any kind) of the Notes in the Kingdom of Saudi Arabia, or possession (other than in the case of possession by the Issuer) or distribution of any offering materials in relation thereto.

General

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Offering Circular and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer nor any of the other Dealers shall have any responsibility therefor.

None of the Issuer and the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with such other restrictions as the Issuer and the relevant Dealer shall agree and as shall be set out in the applicable Final Terms.

Selling restrictions may be supplemented or modified with the agreement of the Issuer. Any such supplement or modification will be set out in the relevant Final Terms (in the case of a Supplement or modification relevant only to a particular Tranche of Notes) or (in any other case) in a supplement to this document.

GENERAL INFORMATION

Authorisation

The shareholders of the Issuer passed an OGM Resolution on 24 March 2007 approving the issuance of the Notes and authorising the Board of Directors to approve the value and terms and conditions of the Notes.

The establishment of the Programme and the issue of Notes have been duly authorised by a resolution of the Board of Directors of the Issuer dated 20 April 2008.

Each issuance of Notes must be approved by the Board of Directors and is subject to approval by SAMA. The Issuer has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes. SAMA has restricted the issuance of the Notes to an aggregate of SAR 7,500,000,000 for the years 2007 to 2011.

Listing of Notes

The admission of Notes to the Official List will be expressed as a percentage of their nominal amount (excluding accrued profit). It is expected that each Tranche of Notes which is to be admitted to the Official List and to trading on the London Stock Exchange's Regulated Market will be admitted separately as and when issued, subject only to the issue of a Global Note or Notes initially representing the Notes of such Tranche. Application has been made to the UK Listing Authority for Notes issued under the Programme to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the London Stock Exchange's Regulated Market. The listing of the Programme in respect of Notes is expected to be granted on or before 11 September 2009.

Documents Available

For the period of 12 months following the date of this Offering Circular, copies of the following documents will, when published, be available for inspection from the registered office of the Issuer and from the specified office of the Paying Agent for the time being in London:

(a) the constitutional documents of the Issuer;

(b) the audited financial statements of the Issuer in respect of the financial years ended 31 December 2007 and 2008. The Issuer currently prepares audited accounts on an annual basis;

(c) the most recently published unaudited interim financial statements (if any) of the Issuer in each case together with any audit or review reports prepared in connection therewith. The Issuer currently prepares unaudited interim accounts on a quarterly basis;

(d) the Agency Agreement, the Deed of Covenant and the forms of the Global Notes, the Notes in definitive form, the Receipts, the Coupons and the Talons;

(e) the deed of indemnity dated 9 September 2009 from the Issuer to the Dealers and the Initial Purchasers (the **Deed of Indemnity**);

(f) a copy of this Offering Circular;

(g) any future offering circulars, prospectuses, information memoranda and supplements including Final Terms (save that a Final Terms relating to a Note which is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Paying Agent as to its holding of Notes and identity) to this Offering Circular and any other documents incorporated herein or therein by reference; and

(h) in the case of each issue of Notes admitted to trading on the Regulated Market subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brusssels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

Conditions for determining price

The price and amount of Notes to be issued under the Programme will be determined by the Issuer and each relevant Dealer at the time of issue in accordance with prevailing market conditions.

Significant or Material Change

There has been no significant change in the financial or trading position of the Group since 31 December 2008 and there has been no material adverse change in the financial position or prospects of the Issuer since 31 December 2008.

Material Contracts

The issuer has not entered into any material contract in areas outside its ordinary course of business which would affect the Issuer's ability to meet an obligation to the Noteholders in respect of the Notes to be issued under the programme.

Litigation

Neither the Issuer nor any other member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position or profitability of the Issuer or the Group.

Auditors

The auditors of the Issuer are KPMG Al Fozan & Al Sadhan (**KPMG**) and Ernst & Young (**E&Y**). KPMG, through its partners, is a member of the Saudi Organization of Certified Public Accountants and has audited the Issuer's accounts, without qualification, in accordance with for each of the two financial years ended on 31 December 2007 and 2008. KPMG has no material interest in the Issuer. E&Y is a member of the Saudi Organization of Certified Public Accountants, and has audited the Issuer's accounts, without qualification, in accordance with for each of the two financial years ended on 31 December 2007 and 2008. E&Y has no material interest in the Issuer.

Post-issuance information

The Issuer does not intend to provide any post-issuance information in relation to any issues of Note.

Dealers transacting with the Issuer

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Issuer and its affiliates in the ordinary course of business.

FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Banque Saudi Fransi (A Saudi Joint Stock Company)

We have audited the accompanying consolidated financial statements of Banque Saudi Fransi (the "Bank") and its subsidiaries, which comprise the consolidated balance sheet as at December 31, 2008, and the consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes from (1) to (41) for the year then ended, other than note (36), and the information related to "Basel II disclosures" cross referenced therein, which is not required to be within the scope of our audit.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

- present fairly, in all material respects, the consolidated financial position of the Bank as at December 31, 2008, and of its consolidated financial performance and cash flows for the year then ended in accordance with Accounting Standards for Financial Institutions issued by the Saudi Arabian Monetary Agency and with International Financial Reporting Standards; and

- comply with the requirements of the Regulations for Companies, the Banking Control Law and the Bank's Articles of Association in so far as they affect the preparation and presentation of the consolidated financial statements.

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Registration No. 354

Tareq A. Al Sadhan
Registration No. 352

23 Muharram 1430H
20 January 2009

BALANCE SHEET
As at December 31, 2007 and 2006

SAR' 000	Notes	2007	2006
ASSETS			
Cash and balances with SAMA	3	10,152,190	3,398,836
Due from banks and other financial institutions	4	3,224,062	6,223,277
Investments, net	5	22,500,744	16,012,954
Loans and advances, net	6	59,849,952	51,130,195
Property and equipment, net	7	577,318	552,382
Other assets	8	3,503,844	2,263,366
Total assets		99,808,110	79,581,010
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks and other financial institutions	10	8,122,713	3,456,313
Customers' deposits	11	74,007,251	61,998,107
Other liabilities	12	4,000,011	2,284,309
Term loan	13	2,437,500	2,437,500
Total liabilities		88,567,475	70,176,229
Shareholders' equity			
Share capital	14	5,625,000	3,375,000
Statutory reserve	15	4,052,780	3,375,000
General reserve	15	1,200,000	2,500,000
Other reserves		(19,619)	(85,159)
Retained earnings		68,339	37,997
Proposed dividend	25	314,135	201,943
Total shareholders' equity		11,240,635	9,404,781
Total liabilities and shareholders' equity		99,808,110	79,581,010

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

STATEMENT OF INCOME
For the years ended December 31, 2007 and 2006

SAR' 000	Notes	2007	2006
Special commission income	17	4,940,795	4,257,134
Special commission expense	17	2,644,706	2,240,267
Net special commission income		2,296,089	2,016,867
Fees from banking services, net	18	897,234	1,571,961
Exchange income, net		187,968	144,345
Trading income, net	19	310,627	189,332
Dividend income	20	3,699	1,641
Gains on non trading investments, net	21	-	9,375
Other operating income	22	5,539	5,311
Total operating income		3,701,156	3,938,832
Salaries and employee related expenses		543,322	462,923
Rent and premises related expenses		76,858	68,980
Depreciation and amortization	7	77,965	68,138
Other general and administrative expenses		244,876	236,388
Impairment charge for credit losses, net	6	42,011	90,484
Other operating expenses	23	5,014	4,971
Total operating expenses		990,046	931,884
Net income		2,711,110	3,006,948
Basic and diluted earnings per share (in SAR)	24	4.82	5.35

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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the years ended December 31, 2007 and 2006

SAR' 000	Notes	Share capital	Statutory reserve	General reserve	Other reserves	Retained earnings	Proposed dividend	Total
2007								
Balance at the beginning of the year		**3,375,000**	**3,375,000**	**2,500,000**	**(85,159)**	**37,997**	**201,943**	**9,404,781**
Changes in equity for the year								
Net changes in fair value of cash flow hedges		-	-	-	20,286	-	-	**20,286**
Net changes in fair value of available for sale investments		-	-	-	23,189	-	-	**23,189**
Transfers to statement of income		-	-	-	22,065	-	-	**22,065**
Net income recognized directly in equity		-	-	-	65,540	-	-	**65,540**
Net income for the year		-	-	-	-	2,711,110	-	**2,711,110**
Total recognized income for the year		-	-	-	65,540	2,711,110	-	**2,776,650**
Issue of bonus shares	14	2,250,000	-	(2,250,000)	-	-	-	-
Transfer to statutory reserve	15	-	677,780	-	-	(677,780)	-	-
Transfer to general reserve	15	-	-	950,000	-	(950,000)	-	-
2006 final dividend paid		-	-	-	-	-	(201,943)	**(201,943)**
2007 interim dividend paid	25	-	-	-	-	(738,853)	-	**(738,853)**
Proposed gross final dividend	25	-	-	-	-	(314,135)	314,135	-
Balance at the end of the year		**5,625,000**	**4,052,780**	**1,200,000**	**(19,619)**	**68,339**	**314,135**	**11,240,635**

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

SAR' 000	Notes	Share capital	Statutory reserve	General reserve	Other reserves	Retained earnings	Proposed dividend	Total
2006								
Balance at the beginning of the year		**2,250,000**	**2,250,000**	**2,500,000**	**(102,428)**	**31,725**	**255,603**	**7,184,900**
Changes in equity for the year								
Net changes in fair value of cash flow hedges		-	-	-	84,328	-	-	**84,328**
Net changes in fair value of available for sale investments		-	-	-	(83,506)	-	-	**(83,506)**
Transfers to statement of income		-	-	-	16,447	-	-	**16,447**
Net income recognized directly in equity		-	-	-	17,269	-	-	**17,269**
Net income for the year		-	-	-	-	3,006,948	-	**3,006,948**
Total recognized income for the year		-	-	-	17,269	3,006,948	-	**3,024,217**
Issue of bonus shares	14	1,125,000	-	(1,125,000)	-	-	-	**-**
Transfer to statutory reserve	15	-	1,125,000	(1,125,000)	-	-	-	**-**
Transfer to general reserve	15	-	-	2,250,000	-	(2,250,000)	-	**-**
2005 final dividend paid		-	-	-	-	-	(255,603)	**(255,603)**
2006 interim dividend paid	25	-	-	-	-	(548,733)	-	**(548,733)**
Proposed gross final dividend	25	-	-	-	-	(201,943)	201,943	**-**
Balance at the end of the year		**3,375,000**	**3,375,000**	**2,500,000**	**(85,159)**	**37,997**	**201,943**	**9,404,781**

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

STATEMENT OF CASH FLOWS
For the years ended December 31, 2007 and 2006

SAR' 000	Notes	2007	2006
OPERATING ACTIVITIES			
Net income		2,711,110	3,006,948
Adjustments to reconcile net income to net cash (used in) from operating activities			
(Accretion of discounts) and amortization of premiums on non trading investments, net		(141,331)	11,129
Gains on non trading investments, net		-	(9,375)
Depreciation and amortization		77,965	68,138
Gains on disposal of property and equipment, net		(71)	(1)
Impairment charge for credit losses, net		42,011	90,484
Change in fair value of financial instruments		7,728	16,103
		2,697,412	3,183,426
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA	3	(1,070,268)	(100,452)
Due from banks and other financial institutions maturing after 90 days from the date of acquisition		(50,000)	(150,000)
Investments held as FVIS, trading		(1,209,313)	94,437
Loans and advances		(8,751,060)	(8,202,360)
Other assets		(1,359,338)	(644,518)
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		4,669,060	(1,494,732)
Customers' deposits		12,130,943	10,668,927
Other liabilities		1,717,942	418,427
Net cash from operating activities		8,775,378	3,773,155
INVESTING ACTIVITIES			
Proceeds from sales and maturities of non trading investments		4,924,075	3,049,316
Purchase of non trading investments		(9,851,413)	(1,104,059)
Investments in associates		(162,740)	-
Purchase of property and equipment		(102,960)	(144,742)
Proceeds from sales of property and equipment		130	100
Net cash (used in) from investing activities		(5,192,908)	1,800,615
FINANCING ACTIVITIES			
Dividends paid	25	(940,796)	(804,336)
Net cash used in financing activities		(940,796)	(804,336)
Increase in cash and cash equivalents		2,641,674	4,769,434
Cash and cash equivalents at the beginning of the year		7,433,071	2,663,637
Cash and cash equivalents at the end of the year	26	10,074,745	7,433,071
Special commission received during the year		4,967,737	4,102,986
Special commission paid during the year		2,550,642	2,118,742
Supplemental non cash information			
Net changes in fair value and transfers to statement of income		65,540	17,269

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

NOTES TO THE FINANCIAL STATEMENTS
For the years ended December 31, 2007 and 2006

1. General

Banque Saudi Fransi (the Bank) is a Saudi Joint Stock Company established by Royal Decree No. M/23 dated Jumada Al Thani 17, 1397H, corresponding to June 4, 1977. The Bank formally commenced its activities on Muharram 1, 1398H, corresponding to December 11, 1977, by taking over the branches of the Banque de l'Indochine et de Suez in the Kingdom of Saudi Arabia. The Bank operates under Commercial Registration Number. 1010073368 dated Safar 4, 1410H, corresponding to September 5, 1989, through its 74 branches (2006: 68 branches) in the Kingdom of Saudi Arabia, employing 2,266 people (2006: 1,998). The objective of the Bank is to provide a full range of banking services, including Islamic products, which are approved and supervised by an independent Shariah Board. The Bank's Head Office is located at Al Maa'ther Street, P.O. Box 56006, Riyadh 11554, Kingdom of Saudi Arabia.

2. Summary of significant accounting policies

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

a) Basis of presentation

The Bank follows the accounting standards for financial institutions promulgated by the Saudi Arabian Monetary Agency (SAMA) and International Financial Reporting Standards (IFRS), and complies 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, available for sale and Fair Value through Income Statement (FVIS) financial instruments. In addition, as explained fully in the related notes, 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.

During the year, the Bank has established subsidiaries, Fransi Tadawul Company (99% share in equity) and CAAM Saudi Fransi (60% share in equity) and an associate Sofinco Saudi Fransi (50% share in equity) incorporated in the Kingdom of Saudi Arabia. These companies have been established to comply with the CMA requirement of spinning off certain businesses activities from the Bank's core business. The subsidiaries have not been consolidated in the accompanying financial statements as the underlying legal formalities to commence their business activities currently under progress.

The Bank holds a 27% shareholding in an associate Banque BEMO Saudi Fransi, a bank incorporated in Syria and a 50% shareholding in InSaudi Insurance Co. incorporated in Bahrain. The Bank also owns 32.5% equity share in Assurance Saudi Fransi, an associate incorporated in the Kingdom of Saudi Arabia.

The Bank has adopted IFRS 7, financial Instruments: disclosures, amendments to IAS 1 Presentation of Financial Statements – Capital Disclosures and International Financial Reporting Interpretations Committee, (IFRIC) 10 – Interim Financial Reporting and Impairment effective January 1, 2007 with retrospective effect, wherever applicable. IFRS 7 introduces new disclosures of qualitative and quantitative information about the significance of, and the nature and extent of risks arising from financial instruments. The amendment to IAS 1 introduces disclosures about the level of capital and how the Bank manages capital. IFRIC 10 requires that the Bank shall not reverse any impairment losses recognized in a previous interim period in respect of an investment in equity instrument or a financial asset carried at cost, because the fair value cannot be reliably measured.

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

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

b) Critical accounting judgements and estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. Such estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including obtaining professional 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 & advances

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

(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 values 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.

c) Investment in associates and subsidiaries

Associates are entities in which the Bank generally holds 20% to 50% of the voting power or over which it has significant influence which is neither a subsidiary nor a joint venture. Investments in associates are initially recognised at cost and subsequently accounted for under the equity method of accounting.

Subsidiaries are entities over which the Bank has the power to govern the financial and operating policies, so as to obtain benefits from its activities, generally accompanying an ownership interest of more than one half of the voting rights. Where the Bank does not have effective control but has significant influence, the investment in a subsidiary is accounted for under the equity method and the financial statements include the appropriate share of the subsidiary's results, reserves and accumulated losses based on its latest available financial statements.

d) Settlement date accounting

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

e) Derivative financial instruments and hedging

Derivative financial instruments including forward 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 carried at their fair value as assets where the fair value is positive, and as liabilities where the fair value is negative. Fair values are obtained by reference to quoted market prices, discounted cash flow models and pricing models, as appropriate.

Any changes in the fair value of derivatives that are held for trading purposes are taken directly to statement of income and are disclosed in trading income. Derivatives held for trading also include those derivatives which 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 income statement.

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

In order to qualify for hedge accounting, it is required that the hedge should be expected to be highly effective i.e. the changes in fair value or the 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 recognized 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 recognized in the statement of income. Where the fair value hedge of a commission bearing financial instrument ceases to meet the criteria for hedge accounting, the adjustment in the carrying value is amortized to the statement of income over the remaining life of the instrument.

In relation to cash flow hedges which meet the criteria for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized directly in other reserves under shareholders' equity and the ineffective portion, if any, is recognized in the statement of income.

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

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

f) Foreign currencies

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

Transactions in foreign currencies are translated into Saudi Arabian Riyals at exchange rates prevailing at transaction dates. Monetary assets and liabilities at the year end, denominated in foreign currencies, are translated into Saudi Arabian Riyals at the exchange rates prevailing at the balance sheet date. Realized and unrealized gains or losses on exchange are credited or charged to exchange income.

Non-monetary assets and liabilities denominated in foreign currencies measured at fair value are translated using the exchange rate at the date when the fair value was determined. Translation differences on non-monetary items, such as equities at Fair Value through Income Statement (FVIS), are reported as a part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale, are included in the other reserves in equity.

g) Offsetting

Financial assets and liabilities are offset and reported net in the balance sheet when there is a legally enforceable right to set off the recognized amounts or when the Bank intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

h) Revenue recognition

Special commission income and expense for all commission bearing financial instruments, except for those classified as held for trading or designated at fair value through income statement, including fees which are considered an integral part of the effective yield of a financial instrument, are recognized in the statement of income using the effective yield method, unless collectibilty is in doubt and include premiums amortized and discount accreted during the year. Fees, commissions and exchange income from banking services are recognized when contractually earned or accrued when the service has been provided, as appropriate. Dividend income is recognized when the right to receive payment is established.

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.

Results arising from trading activities 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.

i) Sale and repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos), continue to be recognized in the balance sheet and are measured in accordance with related accounting policies for Investments held as FVIS (held for trading), available for sale, held to maturity and other investments held at amortized cost. The counter-party liability for amounts received under these agreements is included in due to banks and other financial institutions or customers' deposits, as appropriate. The difference between sale and repurchase price is treated as special commission expense and is accrued over the life of the repo agreement, on an effective interest rate basis.

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

j) Investments

All investments securities are initially recognized at fair value, and, with the exception of FVIS investments include acquisition charges associated with the investment. Premiums are amortized and discounts are accreted using the effective yield method and are taken to special commission income. Amortized cost is calculated by taking into account any discount or premium on acquisition.

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

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

Following initial recognition, subsequent transfers between the various categories of investments are not ordinarily permissible. The subsequent period end reporting values for the various categories of investments are determined as follows:

i) Held as fair value through income statement (FVIS)

Investments held as FVIS are classified as either investment held for trading or those designated as fair value through income statement at the time of initial recognition. Investments classified in this category are acquired principally for the purpose of selling or repurchasing in the short term (trading) or if designated as such by the management in accordance with criteria laid down in IAS 39. After initial recognition, investments at FVIS are measured at fair value and any change in the fair value is recognised in the statement of income for the period in which it occurs. Transaction costs, if any, are not added to the fair value measurement at initial recognition of FVIS investments. Special commission income, dividend income and gain or loss incurred on financial assets held as FVIS are reflected as trading income or expense 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 interest rates, exchange rates or equity prices. After initial recognition these investments are measured at fair value. For an available for sale investment where the fair value has not been hedged, any gain or loss arising from a change in its fair value is recognized directly in 'Other reserves' under shareholders' equity until the investment is derecognized or impaired, at which time the cumulative gain or loss previously recognized in shareholders' equity is included in the statement of income for the year.

iii) Held to maturity

Investments which have fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold up to the maturity, other than those classified as "Other investments held at amortised cost", are classified as 'held to maturity'. Held to maturity investments are subsequently measured at amortized cost, less provision for impairment in their value. Amortized cost is calculated by taking into account any discount or premium on acquisition on effective interest rate basis. Any gain or loss on such investments is recognized in the statement of income when the investment is de-recognized or impaired.

Investments classified as held to maturity cannot ordinarily be sold or reclassified and cannot be designated as a hedged item with respect to special commission rate or prepayment risk, reflecting the longer term nature of these investments.

iv) Other investments held at amortized costs

Investments with fixed or determinable payments that are not quoted in an active market are classified as ‘other investments held at amortized costs’. Other investments held at amortized costs, where the fair value has not been hedged are stated at amortized cost using effective interest rate method, less provision for impairment. Any gain or loss is recognized in the statement of income when the investment is derecognized or impaired.

k) Loans and advances

Loans and advances are non-derivative financial assets originated or acquired by the Bank with fixed or determinable payments.

All loans and advances are initially measured at fair value.

Following the initial recognition subsequent transfers between the various categories of loans and advances is not ordinarily permissible. The subsequent period end reporting values are determined as follows:

(i) Available for sale

Loans and advances which are not part of a hedging relationship and are available for sale, are subsequently measured at fair value and gains or losses arising from changes in fair value are recognized directly in ‘other reserves’ under shareholders’ equity until the loans or advances are de-recognized or impaired, at which time the cumulative gain or loss previously recognized in shareholders’ equity is included in the statement of income for the year.

(ii) Loans and advances held at amortized costs

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

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

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

l) Due from banks and other financial institutions

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

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

m) Impairment of financial assets

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

An assessment is made at each 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 recognized for changes in its carrying amounts as follows:

i) For financial assets carried at amortized cost, the carrying amount of the asset is adjusted either directly or through the use of an allowance account and the amount of the adjustment is included in the statement of income; and

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

A loan is classified as impaired when, in management's opinion, there has been deterioration in credit quality to the extent that there is no longer reasonable assurance of timely collection of the full amount of principal and special commission.

Impairment charge for credit losses, including those arising from sovereign risk exposure, is based upon the management's judgement of the adequacy of the provisions. Such assessment takes into account the composition and volume of the loans and advances, the general economic conditions and the collectibility of the outstanding loans and advances. Considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors and actual results may differ resulting in future changes in such provisions.

Specific provisions are evaluated individually for all different types of loans and advances, whereas the additional provisions are evaluated based on collective impairment of loans and advances, and are created for credit losses where there is objective evidence that the unidentified potential losses are present at the balance sheet date. The amount of the specific provision is the difference between the carrying amount and the estimated recoverable amount. The collective provision is based upon deterioration in the internal gradings or external credit ratings allocated to the borrower or group of borrowers, the current economic climate in which the borrowers operate and the experience and historical default patterns that are embedded in the components of the credit portfolio. These internal gradings take into consideration factors such as any deterioration in country risk, industry, as well as identified structural weaknesses or deterioration in cash flows.

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 de-recognition, any cumulative gain or loss previously recognised in shareholders' equity is included in the statement of income for the period.

Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted. Once a financial asset has been written down to its estimated recoverable amount, special commission income is thereafter recognized based on the rate of special commission that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

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

n) 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 is considered as assets held for sale and are initially stated at the lower of net realizable value of due loans and advances and the current fair value of the related properties, less any costs to sell. No depreciation is charged on such real estate.

Subsequent to the initial recognition, such real estate are revalued on a periodic basis and unrealized losses on revaluation, and losses or gains on disposal, are charged or credited to operating income or expense.

o) Property and equipment

Property and equipment are stated at cost and presented net of accumulated depreciation and amortization. Freehold land is not depreciated. The cost of other Property and equipment is depreciated and amortized using the straight line method over the estimated useful lives of the assets as follows:

Buildings	33 years
Leasehold improvements	Over the lease period or 10 years, whichever is shorter
Furniture, equipment and vehicles	4 to10 years

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

p) Liabilities

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

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

Financial liabilities for which there is an associated fair value hedge relationship are adjusted for fair value to the extent of the risk being hedged, and the resultant gain or loss is recognized in the statement of income. For commission bearing financial liabilities carried at amortized cost, any gain or loss is recognized in the statement of income when derecognized or impaired.

Premium received on financial guarantees are initially recognised in the financial statements at fair value in other liabilities. Subsequent to the initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligations arising as a result of guarantees. The premium received is recognised in the statement of income on a straight line basis over the life of the guarantee.

q) Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation arising from past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the costs to settle the obligation can be reliably measured or estimated.

r) Accounting for leases

i) Where the Bank is the lessee

Leases entered into by the Bank are all operating leases. Payments made under operating leases are charged to the statement of income on a straight line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

ii) Where the Bank is the lessor

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

s) Cash and cash equivalents

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

t) Derecognition of Financial Instruments

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

u) Zakat and income tax

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

Zakat and income tax are not charged to the Bank's statement of income as they are deducted from the dividends paid to the shareholders.

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 Bank's share of these funds is included in the available for sale investments and fees earned are disclosed under related party transactions.

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

w) Islamic banking products

The Bank offers its customers certain banking products, which are in accordance with Shariah rules.

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

3. Cash and balances with SAMA

SAR' 000	2007	2006
Cash in hand	472,779	496,972
Statutory deposit	3,101,507	2,031,239
Current account	15,633	1,759
Money market placements	6,562,271	868,866
Total	10,152,190	3,398,836

Money market placements represent deposits against the purchase of fixed rate bonds with agreement to resell the same at fixed future dates.

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

4. Due from banks and other financial institutions

SAR' 000	2007	2006
Current accounts	207,610	956,395
Money market placements	3,016,452	5,266,882
Total	3,224,062	6,223,277

5. Investments, net

a) These comprise the following:

SAR' 000	2007 Domestic	2007 International	2007 Total	2006 Domestic	2006 International	2006 Total
i) Held as FVIS						
Fixed rate securities	1,402,476	-	1,402,476	371,470	-	371,470
Floating rate securities	191,845	71,907	263,752	3,252	93,614	96,866
Other	-	539,289	539,289	-	527,868	527,868
Held as FVIS	1,594,321	611,196	2,205,517	374,722	621,482	996,204
ii) Available for sale						
Fixed rate securities	-	2,352,390	2,352,390	-	2,236,134	2,236,134
Floating rate securities	215,200	1,169,349	1,384,549	-	367,889	367,889
Equities	280,564	122,205	402,769	73,293	103,219	176,512
Other	2,553,135	-	2,553,135	1,636,472	-	1,636,472
Available for sale, net	3,048,899	3,643,944	6,692,843	1,709,765	2,707,242	4,417,007
iii) Held to maturity						
Fixed rate securities	2,990,117	56,245	3,046,362	1,142,235	93,058	1,235,293
Held to maturity, net	2,990,117	56,245	3,046,362	1,142,235	93,058	1,235,293
iv) Other investments held at amortized cost						
Fixed rate securities	7,516,882	36,625	7,553,507	5,299,774	36,686	5,336,460
Floating rate notes	2,627,515	375,000	3,002,515	3,727,990	300,000	4,027,990
Other investments held at amortized cost, net	10,144,397	411,625	10,556,022	9,027,764	336,686	9,364,450
Investments, net	17,777,734	4,723,010	22,500,744	12,254,486	3,758,468	16,012,954

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

SAR' 000	2007 Quoted	2007 Unquoted	2007 Total	2006 Quoted	2006 Unquoted	2006 Total
Fixed rate securities	2,408,634	11,946,101	14,354,735	2,329,192	6,850,165	9,179,357
Floating rate securities	1,648,301	3,002,515	4,650,816	461,503	4,031,242	4,492,745
Equities	161,299	241,470	402,769	80,994	95,518	176,512
Other	529,164	2,563,260	3,092,424	517,743	1,646,597	2,164,340
Investments, net	4,747,398	17,753,346	22,500,744	3,389,432	12,623,522	16,012,954

c) The analysis of unrealized gains and losses and the fair values of held to maturity investments and other investments held at amortized costs, are as follows:

SAR' 000	2007				2006			
	Carrying value	Gross un-realized gains	Gross un-realized losses	Fair Value	Carrying value	Gross un-realized gains	Gross un-realized losses	Fair Value
i) Held to maturity								
Fixed rate securities	3,046,362	50,935	(26)	3,097,271	1,235,293	15,343	(2,996)	1,247,640
Total	3,046,362	50,935	(26)	3,097,271	1,235,293	15,343	(2,996)	1,247,640
ii) Other investments held at amortized cost								
Fixed rate securities	7,553,507	137,086	(2,208)	7,688,385	5,336,460	73,227	(45,914)	5,363,773
Floating rate notes	3,002,515	-	(2,623)	2,999,892	4,027,990	15,811	-	4,043,801
Total	10,556,022	137,086	(4,831)	10,688,277	9,364,450	89,038	(45,914)	9,407,574

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

SAR' 000	2007	2006
Government and quasi Government	15,052,816	10,738,790
Corporate	3,596,456	2,463,632
Banks and other financial institutions	3,762,654	2,754,797
Others	88,818	55,735
Total	22,500,744	16,012,954

Investments held as FVIS represent investments held for trading and include Islamic securities of SAR - 218 million (2006: SAR 15 million). Other investments represent investments in international mutual funds.

Available for sale investments include Islamic securities of SAR 252 million (2006: SAR 37 million). Other available for sale represents Musharaka investments of SAR 1,000 million (2006: SAR 1,636 million) and Mudarabah investments of SAR 1,553 million (2006: SAR NIL) which are hedged and measured at fair value to the extent of the risk being hedged.

Equities reported under available for sale include the Bank's investment in its associates (refer note 1), Banque BEMO Saudi Fransi SAR 39 million (2006: SAR 32 million), Sofinco Saudi Fransi SAR 50 million (2006: NIL), Assurance Saudi Fransi SAR 33 million (2006: NIL) and InSaudi Insurance Company SAR 3 million (2006: SAR 3 million). It also includes investment in its subsidiaries Fransi Tadawul SAR 50 million (2006: NIL) and CAAM Saudi Fransi SAR 30 million (2006: NIL).

Saudi Istithmar mutual fund SAR 89 million (2006: SAR 56 million) and unquoted equity shares of SAR 69 million (2006: SAR 60 million) which are carried at cost as their fair value cannot be reliably measured, are also included under equities available for sale.

Unquoted investments include principally Saudi Government Bonds and notes of SAR 14,537 million (2006: SAR 10,541 million).

Investments include SAR 4,459 million (2006: SAR 309 million) which have been pledged under repurchase agreements with other banks and customers. The market value of such investment is SAR 4,536 million (2006: SAR 305 million).

6. Loans and Advances - Net

a) Loans and advances are classified as follows

i) Available for Sale

SAR' 000	2007					
	Over Draft	Credit Cards	Consumer Loans	Commercial Loans	Others	Total
Performing loans and advances-gross	-	-	-	188,608	-	188,608
Non performing loans and advances, net	-	-	-	-	-	-
Total available for sale loans and advances	-	-	-	188,608	-	188,608
Allowance for impairment of credit losses	-	-	-	-	-	-
Available for sale loans & advances, net	-	-	-	188,608	-	188,608

SAR' 000	2006					
	Over Draft	Credit Cards	Consumer Loans	Commercial Loans	Others	Total
Performing loans and advances-gross	-	-	-	111,223	-	111,223
Non performing loans and advances, net	-	-	-	-	-	-
Total available for sale loans and advances	-	-	-	111,223	-	111,223
Allowance for impairment of credit losses	-	-	-	-	-	-
Available for sale loans & advances, net	-	-	-	111,223	-	111,223

ii) Other loans and advances held at amortised cost

SAR' 000	2007					
	Over Draft	Credit Cards	Consumer Loans	Commercial Loans	Others	Total
Performing loans and advances-gross	5,821,346	449,084	3,936,113	46,173,510	3,671,301	60,051,354
Non performing loans and advances, net	324,426	42,720	56,989	10,919	456	435,510
Total other loans and advances held at amortised cost	6,145,772	491,804	3,993,102	46,184,429	3,671,757	60,486,864
Allowance for impairment of credit losses	(9,219)	(42,707)	(83,295)	(283,756)	(406,543)	(825,520)
Other loans and advances held at amortised cost, net	6,136,553	449,097	3,909,807	45,900,673	3,265,214	59,661,344

SAR' 000	2006					
	Over Draft	Credit Cards	Consumer Loans	Commercial Loans	Others	Total
Performing loans and advances-gross	5,972,904	321,206	3,581,092	37,732,317	3,702,281	51,309, 800
Non performing loans and advances, net	371,774	26,388	86,595	117,844	-	602,601
Total other loans and advances held at amortised cost	6,344,678	347,594	3,667,687	37,850,161	3,702,281	51,912, 401
Allowance for impairment of credit losses	(9,749)	(26,196)	(112,623)	(325,318)	(419,543)	(893,42 9)
Other loans and advances held at amortised cost, net	6,334,929	321,398	3,555,064	37,524,843	3,282,738	51,018, 972

b) Movement of allowance for impairment account

SAR' 000	2007					
	Over Draft	Credit Cards	Consumer Loans	Commercial Loans	Others	Total
Balance at beginning of the year	9,749	26,196	112,623	325,318	419,543	893,429
Provided during the year	56	30,776	29,749	87,156	-	147,737
Written off during the year	(86)	(9,679)	(58,860)	(41,295)	-	(109,920)
Recoveries of amounts previously provided	(500)	(4,586)	(217)	(87,423)	(13,000)	(105,726)
Balance at the end of the year	9,219	42,707	83,295	283,756	406,543	825,520

SAR' 000	2006					
	Over Draft	Credit Cards	Consumer Loans	Commercial Loans	Others	Total
Balance at beginning of the year	11,124	34,033	89,248	408,433	419,543	962,381
Provided during the year	127	15,382	27,109	112,935	-	155,553
Written off during the year	(568)	(17,185)	(836)	(140,847)	-	(159,436)
Recoveries of amounts previously provided	(934)	(6,034)	(2,898)	(55,203)	-	(65,069)
Balance at the end of the year	9,749	26,196	112,623	325,318	419,543	893,429

The net charge to income of SAR 42 million (2006: SAR 90 million) in respect of impairment charge for credit losses for the year is net of recoveries of SAR 106 million (2006: SAR: 65 million). The allowance for impairment includes SAR 433 million (2006: SAR 446 million) evaluated on collective impairment basis.

Non performing loans and advances are disclosed net of accumulated special commission in suspense of SAR 46 million (2006: SAR 43 million).

c) Credit Quality of Loans and Advances

i) Neither past due nor impaired loans and advances

SAR' 000	2007					
	Over Draft	Credit Cards	Consumer Loans	Commercial Loans	Others	Total
Standard	5,467,264	439,503	3,887,153	45,532,980	3,617,711	58,944,611
Special mention	62,509	1,408	2,686	829,138	53,590	949,331
Total	5,529,773	440,911	3,889,839	46,362,118	3,671,301	59,893,942

SAR' 000	2006					
	Over Draft	Credit Cards	Consumer Loans	Commercial Loans	Others	Total
Standard	5,413,364	311,267	3,545,852	36,769,206	3,600,060	49,639,749
Special mention	201,441	1,170	8,081	1,074,334	102,221	1,387,247
Total	5,614,805	312,437	3,553,933	37,843,540	3,702,281	51,026,996

ii) Ageing of past due but not impaired loans and advances

SAR' 000	2007					
	Over Draft	Credit Cards	Consumer Loans	Commercial Loans	Others	Total
Due within one year	281,206	8,173	15,957	-	-	305,336
Due beyond one year	10,367	-	30,317	-	-	40,684
Total	291,573	8,173	46,274	-	-	346,020

SAR' 000	2006					
	Over Draft	Credit Cards	Consumer Loans	Commercial Loans	Others	Total
Due within one year	350,514	8,769	26,432	-	-	385,715
Due beyond one year	7,585	-	727	-	-	8,312
Total	358,099	8,769	27,159	-	-	394,027

iii) Economic sector risk concentrations for the loans and advances and allowance for impairment losses are as follows:

SAR' 000	Performing	Non Performing, net	Allowance for impairment losses	Loans and advances, net
2007				
Government and quasi Government	1,287,522	-	-	1,287,522
Banks and other financial institutions	1,078,519	-	(7,722)	1,070,797
Agriculture and fishing	1,376,647	7,323	(11,184)	1,372,786
Manufacturing	8,895,752	5,897	(43,577)	8,858,072
Mining and quarrying	691,636	2,741	(2,767)	691,610
Electricity, water, gas and health services	1,107,110	18	(18)	1,107,110
Building and construction	6,504,492	104,515	(197,464)	6,411,543
Commerce	14,157,107	148,471	(202,670)	14,102,908
Transportation and communication	3,417,282	1,502	(8,027)	3,410,757
Services	4,810,134	63,112	(137,407)	4,735,839
Consumer loans and credit cards	4,385,197	99,709	(126,002)	4,358,904
Other	12,528,564	2,222	(88,682)	12,442,104
Total	60,239,962	435,510	(825,520)	59,849,952

SAR' 000	Performing	Non Performing, net	Allowance for impairment losses	Loans and advances, net
2006				
Government and quasi Government	1,991,524	-	-	1,991,524
Banks and other financial institutions	745,754	-	(7,722)	738,032
Agriculture and fishing	901,370	133	(4,001)	897,502
Manufacturing	6,176,403	2,337	(40,350)	6,138,390
Mining and quarrying	615,180	-	-	615,180
Electricity, water, gas and health services	965,645	18	(18)	965,645
Building and construction	6,019,091	103,568	(201,453)	5,921,206
Commerce	12,466,448	97,583	(175,569)	12,388,462
Transportation and communication	3,052,021	5,920	(12,445)	3,045,496
Services	3,745,119	65,002	(143,114)	3,667,007
Consumer loans and credit cards	3,902,298	112,983	(138,819)	3,876,462
Other	10,840,170	215,057	(169,938)	10,885,289
Total	51,421,023	602,601	(893,429)	51,130,195

Loans and advances, net include Islamic products of SAR 17,641 million (2006: SAR 10,474 million).

The impairment charge for credit losses include provisions made against non performing commitments and contingencies.

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 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.

e) Loans and advances include finance lease receivables, which are analyzed as follows:

SAR' 000	2007	2006
Gross receivable from finance leases:		
Less than 1 year	34,711	72,612
1 to 5 years	334,458	49,773
More than 5 years	405,772	66,667
	774,941	189,052
Unearned future finance income on finance leases	(15,467)	(9,298)
Net receivable from finance leases	759,474	179,754

7. Property and equipment, net

SAR' 000	Land and buildings	Leasehold improvements	Furniture, equipment and vehicles	2007 Total	2006 Total
Cost					
Balance at the beginning of the year	457,712	64,692	475,190	997,594	881,200
Additions	6,756	27,685	68,519	102,960	144,742
Disposals and retirements	(514)	(17,477)	(14,112)	(32,103)	(28,348)
Balance at the end of the year	463,954	74,900	529,597	1,068,451	997,594
Accumulated depreciation and amortization					
Balance at the beginning of the year	139,518	-	305,694	445,212	405,323
Charge for the year	12,542	17,477	47,946	77,965	68,138
Disposals and retirements	(514)	(17,477)	(14,053)	(32,044)	(28,249)
Balance at the end of the year	151,546	-	339,587	491,133	445,212
Net book value as at December 31, 2007	312,408	74,900	190,010	577,318	-
Net book value as at December 31, 2006	318,194	64,692	169,496	-	552,382

Land and buildings and leasehold improvements as at December 31, 2007 include work in progress amounting to SAR 5 million (2006: SAR 5 million) and SAR 21 million (2006: SAR 15 million) respectively. Furniture, equipment and vehicles include information technology related assets.

8. Other assets

SAR' 000	2007	2006
Accrued special commission receivable – banks and other financial institutions	5,901	8,297
– investments	167,927	216,147
– loans and advances	390,776	383,706
– derivatives	16,873	791
– other	1,450	929
Total accrued special commission receivable	582,927	609,870
Accounts receivable	167,417	502,056
Positive fair value of derivatives (note 9)	2,417,499	927,960
Other real estate	4,800	4,800
Other	331,201	218,680
Total	3,503,844	2,263,366

9. Derivatives

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

a) Swaps

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

b) Forwards and futures

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

c) Forward rate agreements

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

d) Options

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

Held for trading purposes

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

Held for hedging purposes

The Bank has adopted a comprehensive system for the measurement and the 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 in accordance with the guidelines issued by SAMA. The Board of Directors has established the levels of currency risk by setting limits on currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits. The Board of Directors has also established the level of commission rate risk by setting commission rate sensitivity limits. Commission rate exposure in terms of the sensitivity is reviewed on a periodic basis and hedging strategies are used to reduce the exposure within the established limits.

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

The Bank uses forward foreign exchange contracts to hedge against specifically identified currency risks. In addition, the Bank uses commission rate swaps and commission rate futures to hedge against the commission rate risk arising from specifically identified fixed commission rate exposures. The Bank also uses commission rate swaps to hedge against the cash flow risk arising on certain floating rate exposures. In all such cases, the hedging relationship and objective, including the details of the hedged items and hedging instrument are formally documented and the transactions are accounted for as fair value or cash flow hedge.

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

	Notional amounts by term to maturity							
SAR' 000	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
2007								
Held for trading								
Commission rate swaps	1,900,245	2,061,361	98,747,269	6,085,018	21,848,589	64,552,926	6,260,736	93,867,220
Commission rate futures and options	5,242	5,197	10,230,224	512,500	4,608,750	4,192,500	916,474	7,132,695
Forward rate agreements	-	-	-	-	-	-	-	300,000
Forward foreign exchange contracts	183,371	217,602	54,097,887	27,642,019	24,690,644	1,765,224	-	64,039,014
Currency options	221,411	108,917	12,509,716	3,222,169	4,306,193	4,981,354	-	9,854,384
Others	237	2,768	155,290	-	10,000	145,290	-	136,412
Held as fair value hedges								
Commission rate swaps	184,407	66,107	10,303,569	3,081,944	3,252,980	3,782,703	185,942	8,830,461
Held as cash flow hedges								
Commission rate swaps	148,389	1,863	5,452,450	350,000	350,000	2,608,700	2,143,750	5,837,559
Total	2,643,302	2,463,815	191,496,405	40,893,650	59,067,156	82,028,697	9,506,902	189,997,745
Fair value of netting arrangements	(225,803)	(225,803)	(17,400,780)	(3,046,388)	(1,944,586)	(12,353,806)	(56,000)	(19,946,674)
Total after netting (notes 8 and 12)	2,417,499	2,238,012	174,095,625	37,847,262	57,122,570	69,674,891	9,450,902	170,051,071
2006								
Held for trading								
Commission rate swaps	775,484	984,634	107,502,568	23,765,793	22,559,463	54,049,772	7,127,540	94,139,294
Commission rate futures and options	5,215	4,361	3,652,750	-	1,031,250	1,596,250	1,025,250	10,797,562
Forward rate agreements	-	-	-	-	-	-	-	799,188
Forward foreign exchange contracts	76,067	75,650	60,984,865	25,120,603	35,067,107	797,155	-	52,278,305
Currency options	42,248	16,265	6,120,080	1,542,730	1,603,582	2,973,768	-	5,702,714
Held as fair value hedges								
Commission rate swaps	340,926	64,964	10,492,124	3,271,067	4,606,185	2,553,372	61,500	12,494,363

SAR' 000	Positive fair value	Negative fair value	Notional amount total	Notional amounts by term to maturity				
				Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held as cash flow hedges								
Commission rate swaps	133,218	10,760	6,318,500	275,000	1,300,000	2,981,000	1,762,500	5,791,417
Total	1,373,158	1,156,634	195,070,887	53,975,193	66,167,587	64,951,317	9,976,790	182,002,843
Fair value of netting arrangements	(445,198)	(445,198)	(27,393,248)	(4,662,134)	(11,812,370)	(10,918,744)	-	(31,485,784)
Total after netting (notes 8 and 12)	927,960	711,436	167,677,639	49,313,059	54,355,217	54,032,573	9,976,790	150,517,059

Commission rate swaps include the notional amount of SAR 17,401 million (2006: SAR 27,393 million) with an aggregate positive fair value and a negative fair value of SAR 226 million (2006: SAR 445 million) which are netted out for credit exposure purposes as the Bank intends to settle these on a net basis.

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

SAR' 000 Description of hedged items	Fair value	Hedge inception value	Risk	Hedging instrument	Positive fair value	Negative fair value
2007						
Fixed commission rate investments	2,022,037	1,991,532	Fair value	Commission rate swap	9	30,059
Fixed commission rate loans	1,735,159	1,661,614	Fair value	Commission rate swap	2,673	35,193
Fixed commission rate due to banks	285,398	281,250	Fair value	Commission rate swap	4,330	-
				Forward foreign exchange	1,298	-
Fixed commission rate deposits	6,379,382	6,207,769	Fair value	Commission rate swap	176,097	855
Floating commission rate investments	4,387,063	4,387,063	Cash flow	Commission rate swap	61,249	1,863
Floating commission rate loans	1,581,250	1,581,250	Cash flow	Commission rate swap	87,140	-
2006						
Fixed commission rate due from banks	157,803	150,000	Fair Value	Commission rate swap	-	6,719
Fixed commission rate investments	1,381,197	1,374,573	Fair value	Commission rate swap	3,757	8,633
Fixed commission rate loans	1,386,525	1,306,253	Fair value	Commission rate swap	3,058	32,749
Fixed commission rate due to banks	156,807	150,000	Fair value	Commission rate swap	5,735	-
Fixed commission rate deposits	7,767,589	7,474,209	Fair value	Commission rate swap	328,376	16,863
Floating commission rate investments	4,395,879	4,395,879	Cash flow	Commission rate swap	55,889	10,760
Floating commission rate loans	1,287,857	1,287,857	Cash flow	Commission rate swap	77,329	-

The gains on the hedging instruments for fair value hedge is SAR 118 million (2006: SAR 276 million). The losses on the hedged item attributable to the hedged risk is SAR 72 million (2006: SAR 205 million). The net fair value of the derivatives is SAR 46 million (2006: SAR 71 million).

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

SAR' 000	2007	2006
Balance at beginning of the year	32,427	(77,733)
Gains from changes in fair value recognised directly in equity	20,286	84,328
Gains removed from equity and included in net special commission income	22,066	25,832
Balance at end of the year	74,779	32,427

For cash flow hedges, the amount shown as balance of reserves as at December 31, 2007 is expected to affect the profit and loss in the coming two to three years.

Approximately 53.1% (2006: 89.3%) of the net positive fair values of the Bank's derivatives are entered into with financial institutions and less than 16.7% (2006: 30.6%) of the net positive fair values of the derivatives are with any single counterpart group at the balance sheet date. The derivative activities are mainly carried out under Bank's treasury banking segment.

10. Due to banks and other financial institutions

SAR' 000	2007	2006
Current accounts	790,219	126,217
Money market deposits	7,332,494	3,330,096
Total	8,122,713	3,456,313

Money market deposits include deposits against sale of securities of SAR 2,886 million (2006: SAR NIL) with agreement to repurchase the same at fixed future dates.

11. Customers' deposits

SAR' 000	2007	2006
Demand	22,523,088	18,764,459
Saving	304,393	300,907
Time	47,759,627	41,273,044
Other	3,420,143	1,659,697
Total	74,007,251	61,998,107

Time deposits include deposits against sale of securities of SAR 1,621 million (2006: SAR 305 million) with agreement to repurchase the same at fixed future dates. Other customers' deposits include SAR 1,139 million (2006: SAR 689 million) related to margins held for irrevocable commitments.

Time deposits include Islamic products of SAR 11,530 million (2006: SAR 7,267 million).

Customers' deposits include foreign currency deposits as follows:

SAR' 000	2007	2006
Demand	2,184,654	2,849,791
Saving	16,012	21,231
Time	17,485,129	16,367,619
Other	470,406	287,162
Total	20,156,201	19,525,803

12. Other liabilities

SAR' 000	2007	2006
Accrued special commission payable – banks and other financial institutions	36,312	15,162
– customers' deposits	284,959	242,600
– term loan	352	36,417
– derivatives	13,564	1,138
– other	134,059	79,866
Total accrued special commission payable	469,246	375,183
Accrued expenses and accounts payable	1,051,975	1,006,997
Negative fair value of derivatives (note 9)	2,238,012	711,436
Other	240,778	190,693
Total	4,000,011	2,284,309

13. Term Loan

On June 29, 2005, the Bank entered into a five year syndicated term loan facility agreement for an amount of USD 650 million for general banking purposes. The facility has been drawn down in full and is repayable in 2010. However, the Bank has an option to effect early repayment subject to the terms and conditions of the related syndicated agreement.

14. Share capital

The authorised, issued and fully paid share capital of the Bank consists of 562.5 million shares of SAR 10 each (2006: 337.5 million shares of SAR 10 each).

During the year, in accordance with the shareholders' resolution passed at the General Assembly Meeting held on March 24, 2007, a bonus issue of 225 million shares at a nominal value SAR 10 each was approved to the existing shareholders, on the basis of 2 bonus shares for every 3 shares held, through the capitalization of general reserve.

Accordingly, the number of shares of the Bank have increased from 337.5 million shares to 562.5 million shares.

SAR' 000	%	2007	2006
Saudi shareholders	68.9	3,875,000	2,325,000
CALYON Corporate and Investment Bank	31.1	1,750,000	1,050,000
Total	100	5,625,000	3,375,000

15. Statutory, general and other 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.

An amount of SAR 677 million (2006: SAR 1,125 million) has been transferred from the profit for the year to statutory reserve. This reserve is currently not available for distribution.

The appropriation of SAR 950 million (2006: SAR 2,250 million) has been made to general reserve from net income for the year.

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

16. Commitments and contingencies

a) Legal proceedings

As at December 31, 2007 there were 14 (2006: 16) legal proceedings outstanding against the Bank. No material provision has been made as related professional advice indicates that it is unlikely that any significant loss will arise.

b) Capital commitments

As at December 31, 2007 the Bank had capital commitments of SAR 67 million (2006: SAR 66 million) in respect of buildings and equipment purchases.

c) Credit related commitments and contingencies

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

Guarantees and standby letters of credit, which represent irrecoverable 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.

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

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.

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

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

SAR' 000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
2007					
Letters of credit	7,855,046	2,535,628	1,783,832	552,825	12,727,331
Letters of guarantee	7,326,983	13,304,117	8,814,176	342,010	29,787,286
Acceptances	1,740,047	1,018,644	78,110	31	2,836,832
Irrevocable commitments to extend credit	197,188	82,973	2,659,440	4,200,452	7,140,053
Other	6,750	-	-	-	6,750
Total	17,126,014	16,941,362	13,335,558	5,095,318	52,498,252
2006					
Letters of credit	4,991,578	1,600,074	742,224	-	7,333,876
Letters of guarantee	3,369,243	5,946,889	5,319,331	416,284	15,051,747
Acceptances	1,045,766	651,232	31,325	-	1,728,323
Irrevocable commitments to extend credit	425,228	26,454	577,027	2,262,091	3,290,800
Other	6,750	-	-	-	6,750
Total	9,838,565	8,224,649	6,669,907	2,678,375	27,411,496

The outstanding unused portion of non-firm commitments which can be revoked unilaterally at any time by the Bank as at December 31, 2007, is SAR 27,132 million (2006: SAR 27,483 million).

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

SAR' 000	2007	2006
Government and quasi Government	567,927	502,986
Corporate	37,856,231	22,129,485
Banks and other financial institutions	13,349,410	4,332,493
Other	724,684	446,532
Total	52,498,252	27,411,496

d) Assets pledged

Assets pledged as collateral with other financial institutions are as follows:

SAR' 000	2007 Assets	2007 Related liabilities	2006 Assets	2006 Related liabilities
Other investments held at amortized cost (note 5)	1,572,957	1,591,109	308,980	304,650
Available for sale investments (note 5)	2,885,941	2,916,197	-	-
Total	4,458,898	4,507,306	308,980	304,650

e) Operating lease commitments

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

SAR' 000	2007	2006
Less than 1 year	4,278	21,680
1 to 5 years	32,685	58,406
Over 5 years	150,035	49,894
Total	186,998	129,980

17. Special commission income and expense

SAR' 000	2007	2006
Special commission income		
Investments – held as FVIS – trading	22,535	25,534
– available for sale	268,239	216,648
– held to maturity	189,358	82,390
– other investments held at amortized cost	412,574	501,403
	892,706	825,975
Due from banks and other financial institutions	466,066	269,309
Loans and advances	3,582,023	3,161,850
Total	4,940,795	4,257,134
Special commission expense		
Due to banks and other financial institutions	294,297	267,601
Customers' deposits	2,212,137	1,840,628
Term loan	138,272	132,038
Total	2,644,706	2,240,267

18. Fees from banking services, net

SAR' 000	2007	2006
Fees and commission income		
- Share trading and fund management	589,240	1,501,725
- Trade finance	174,190	159,381
- Corporate finance and advisory	158,729	101,304
- Card products	71,392	61,342
- Other banking services	46,091	17,180
Total fees and commission income	1,039,642	1,840,932
Fees and commission expense		
- Share trading and brokerage	109,465	235,234
- Custodial services	6,287	3,274
- Other banking services	26,656	30,463
Total fees and commission expense	142,408	268,971
Fees from banking services, net	897,234	1,571,961

19. Trading Income, Net

SAR' 000	2007	2006
Foreign exchange	5,225	4,232
Debt securities	66,774	26,363
Derivatives, net	227,207	123,933
Other	11,421	34,804
Total	310,627	189,332

20. Dividend income

SAR' 000	2007	2006
Available for sale investments	3,699	1,641

21. Gains on non-trading investments, net

SAR' 000	2007	2006
Available for sale	-	9,385
Other investments held at amortized cost	-	(10)
Total	-	9,375

22. Other operating income

SAR' 000	2007	2006
Gains on disposal of property and equipment	107	63
Other	5,432	5,248
Total	5,539	5,311

23.Other operating expenses

SAR' 000	2007	2006
Loss on disposal of property and equipment	36	62
Loss on disposal of other real estate	-	186
Other	4,978	4,723
Total	5,014	4,971

24. Basic and diluted earnings per share

Basic and diluted earnings per share for the years ended December 31, 2007 and 2006 is calculated by dividing the net income for the year by 562.5 million shares, to give a retrospective effect for the change in the number of shares which increased as a result of the issuance of bonus shares as set out in note 14.

25. Proposed gross dividend, zakat and income tax

The Board of Directors has proposed on December 3, 2007 a total dividend of SAR 1.75 (2006: SAR 2.00) per share for the year which is subject to the approval of the shareholders at the Annual General Assembly Meeting and regulatory agencies. The total dividend includes interim dividend of SAR 1.25 (2006: SAR 1.50) paid during the year.

Gross dividend

SAR' 000	2007	2006
Interim dividend	738,853	548,733
Final proposed dividend	314,135	201,943
Total	1,052,988	750,676

The dividends are paid to the Saudi and foreign shareholders after deduction of zakat and income tax, respectively, as follows:

i) Zakat

Zakat attributable to the Saudi shareholders for the year amounted approximately to SAR 47 million (2006: SAR 52 million) which will be deducted from their share of dividend. The net total dividend to Saudi shareholders is SAR 678 million (2006: SAR 465 million) out of which the net interim dividend paid was SAR 484 million (2006: SAR 349 million). The net dividend per share has been recalculated retrospectively to give effect for the increased number of shares as a result of bonus issue during the current year.

ii) Income tax

Income tax payable in respect of foreign shareholder – CALYON's current year's share of income is approximately SAR 171 million (2006: SAR 188 million) which will be deducted from their share of dividend for the year. The current year net dividend for the foreign shareholder is SAR 157 million (2006: SAR 45 million).

26. Cash and cash equivalents

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

SAR' 000	2007	2006
Cash and balances with SAMA excluding statutory deposits – note 3	7,050,683	1,367,597
Due from banks and other financial institutions maturing within ninety days from the date of acquisition	3,024,062	6,065,474
Total	10,074,745	7,433,071

27. Business segments

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.

The Bank's primary business is conducted in Saudi Arabia.

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between business segments, resulting in funding cost transfers. Special commission charged for these funds is based on intra-bank rates.

a) The Bank is organized into the following main business segments:

Retail Banking – incorporates private and small establishment customers' demand accounts, overdrafts, loans, saving accounts, deposits, credit and debit cards, retail investments products, consumer loans, international and local shares brokerage services, funds management, insurance (brokerage) and certain forex products.

Corporate Banking – incorporates corporate demand accounts, deposits, overdrafts, loans and other credit facilities and derivative products.

Treasury Banking – incorporates treasury services, trading activities, investment securities, money market, Bank's funding operations and derivative products.

Transactions between the business segments are reported according to the Bank's internal transfer pricing policy.

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

SAR' 000	Retail banking	Corporate banking	Treasury banking	Total
2007				
Total assets	12,254,456	51,928,414	35,625,240	99,808,110
Total liabilities	40,733,663	33,983,140	13,850,672	88,567,475
Total operating income	1,662,122	1,203,580	835,454	3,701,156
Total operating expenses	772,674	89,314	128,058	990,046
Net income	889,448	1,114,266	707,396	2,711,110
2006				
Total assets	11,125,690	42,582,170	25,873,150	79,581,010
Total liabilities	33,474,509	28,942,247	7,759,473	70,176,229
Total operating income	2,261,628	978,810	698,394	3,938,832
Total operating expenses	619,193	184,081	128,610	931,884
Net income	1,642,435	794,729	569,784	3,006,948

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

SAR' 000	Retail banking	Corporate banking	Treasury banking	Total
2007				
Balance sheet assets	11,684,178	51,472,301	32,097,690	95,254,169
Commitments and contingencies	934,253	22,915,091	-	23,849,344
Derivatives	49,802	195,848	4,844,931	5,090,581
2006				
Balance sheet assets	10,536,112	42,176,884	23,555,294	76,268,290
Commitments and contingencies	788,853	11,580,894	-	12,369,747
Derivatives	18,245	573,244	3,899,194	4,490,683

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

28. Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and will cause the other party to incur a financial loss. Credit exposures arise principally in 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 by continually assessing the creditworthiness of counterparties. The Bank's risk management policies are designed to identify and to set appropriate risk limits and to monitor the risks and adherence to limits.

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.

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 diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or business. It also takes security when appropriate.

On an ongoing basis, the Bank continues to improve its organization and resources in order to achieve strict, prudent and exhaustive risk management. The Risk Department is set up in such a way so as to assure independence of the Credit Division from the business lines. Common risk management procedures are adapted to the changes in the Bank's activities and updated on a regular basis. Business lines submit the credit applications to the Credit Division which in turn acts as Secretary of the Credit Committee. The principle of dual signature by the business line and Credit Division applies for all commitments. Above a certain limit, the files are submitted to the Executive Committee for their approval.

Risk rating is used to classify borrowing customers according to the Bank's assessment of the intrinsic risk quality of a customer. The Bank uses an automated rating system to assign the rating of customers, which takes into consideration the quantitative financial data as well as qualitative elements assigned by the business lines. The system uses a scale of 14 grades and allows comparison with ratings of international rating agencies. Corporate and commercial customers are assigned specific ratings accordingly.

The loans and advances portfolio is reviewed periodically, with the annual credit application review, which assists to maintain and improve the quality of assets. When a customer defaults on commission payment or repayment of principal, the customer is downgraded to the non performing portfolio. The non performing portfolio is dealt with by the Remedial Department within the Credit Division. Provisions for credit losses are allocated and monitored regularly.

The debt securities included in investment portfolio are mainly sovereign risk. For analysis of investments by counterparty and the details of the composition of investments, and loans and advances, refer to note 5 and 6, respectively. Information on credit risk relating to derivative instruments is provided in note 9 and for commitments and contingencies in note 16.

29. Geographical concentration

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

SAR' 000	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	Other Countries	Total
2007						
Assets						
Cash and balances with SAMA	10,108,204	379	8,584	35,023	-	10,152,190
Due from banks and other financial institutions	344,150	733,125	2,046,997	35,408	64,382	3,224,062
Investments, net	17,777,737	456,107	1,889,874	1,563,047	813,979	22,500,744
Loans and advances, net	55,189,041	996,757	3,131,265	49,212	483,677	59,849,952
Total	83,419,132	2,186,368	7,076,720	1,682,690	1,362,038	95,726,948
Liabilities						
Due to banks and other financial institutions	1,446,029	2,241,753	4,042,286	319,796	72,849	8,122,713
Customers' deposits	73,750,085	131,181	46,864	59	79,062	74,007,251
Term loan	112,500	496,875	1,509,375	75,000	243,750	2,437,500
Total	75,308,614	2,869,809	5,598,525	394,855	395,661	84,567,464
Commitments and contingencies	37,961,945	4,705,761	6,550,131	718,074	2,562,341	52,498,252
Credit exposure (credit equivalent value)						
Commitments and contingencies	17,483,724	2,340,678	3,080,032	344,468	600,442	23,849,344
Derivatives	1,544,861	212,735	2,934,740	398,245	-	5,090,581
2006						
Assets						
Cash and balances with SAMA	3,356,820	141	13,955	27,920	-	3,398,836
Due from banks and other financial institutions	1,110,194	620,485	3,243,211	634,732	614,655	6,223,277
Investments, net	12,254,486	274,922	1,527,697	1,456,241	499,608	16,012,954
Loans and advances, net	48,750,962	1,116,233	842,333	53,067	367,600	51,130,195
Total	65,472,462	2,011,781	5,627,196	2,171,960	1,481,863	76,765,262
Liabilities						
Due to banks and other financial institutions	1,475,063	665,617	1,233,618	3,527	78,488	3,456,313
Customers' deposits	61,778,988	35,156	37,177	677	146,109	61,998,107
Term loan	75,000	496,875	1,453,125	168,750	243,750	2,437,500
Total	63,329,051	1,197,648	2,723,920	172,954	468,347	67,891,920
Commitments and contingencies	22,646,253	428,528	3,189,064	84,080	1,063,571	27,411,496
Credit exposure (credit equivalent value)						
Commitments and contingencies	10,327,748	177,741	1,525,483	24,381	314,396	12,369,749
Derivatives	1,506,967	162,908	2,520,373	294,436	6,000	4,490,684

b) The distribution by geographical concentration of non performing loans and advances and impairment for credit losses are as follows:

SAR ' 000	2007 Non performing, net	2007 Allowance for impairment of credit losses	2006 Non performing, net	2006 Allowance for impairment of credit losses
Kingdom of Saudi Arabia	435,510	825,510	602,601	893,429
GCC and Middle East	-	-	-	-
Total	435,510	825,510	602,601	893,429

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 interest 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 capital market activities is managed and monitored using a combination of VAR, stress testing and sensitivity analysis.

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 applies on a daily basis a VAR methodology to in order 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 Banks ALCO committee for their review.

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

i) Interest Rate Risk

Interest rate risk arises from the possibility that the changes in interest rates will affect either the fair values or the future cash flows of the financial instruments. The Board has established interest 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 sensitivity of interest rate changes on the net commission income is monitored as part of the overall market risk review of positions by the management on a weekly basis.

The following table depicts the sensitivity to a standard change in interest rates, with other variables held constant, on the Bank's equity. The sensitivity of equity is calculated by revaluing the fixed rate and floating rate available for sale financial assets, including the effect of any associated hedges as at December 31, 2007 for the effect of assumed changes in interest 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 with significant exposure and relevant sensitivities are disclosed in SAR thousands.

SAR' 000		**2007**				
Currency	**BPS change**	**Sensitivity of Equity**				**Total**
		6 months or less	1 year or less	1-5 years or less	Over 5 years	
USD	+1	(12)	(15)	(521)	(244)	(792)
	-1	12	15	521	244	792
SAR	+1	-	(16)	(576)	-	(592)
	-1	-	16	576	-	592

SAR' 000		**2006**				
Currency	**BPS change**	**Sensitivity of Equity**				**Total**
		6 months or less	1 year or less	1-5 years or less	Over 5 years	
USD	+1	(2)	(4)	(418)	(208)	(632)
	-1	2	4	418	208	632
SAR	+1	(14)	(30)	(682)	-	(726)
	-1	14	30	682	-	726

ii) Currency Risk

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

The table below shows the currencies to which the Bank has a significant exposure as at December 31, 2007 on its non-trading monetary assets and liabilities and forecasted cash flows. The analysis calculates the effect of reasonable possible movement of the currency rate against SAR, with all other variables held constant, on the income statement due to the fair value of the currency sensitive non-trading monetary assets and liabilities. The effect on equity is not significant. A positive effect shows a potential increase in the statement of income; whereas a negative effect shows a potential net reduction in the statement of income.

SAR' 000	**2007**		**2006**	
Currency Exposures	**Change in Currency Rate in %**	**Effect on Net Income**	**Change in Currency Rate in %**	**Effect on Net Income**
USD	+5	(5,425)	+5	(45,305)
EUR	-3	(1,254)	-3	(1,499)

iii) Equity Price Risk

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

The effect on the Bank's equity investments held as available for sale due to reasonable possible change in equity indices is not material.

31. Foreign currency risk

The Bank manages exposure to 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:

SAR' 000	**2007 Long**	**2006 Long (short)**
US Dollar	279,701	(160,716)
Euro	46,580	71,205
Pound Sterling	8,508	13,053
Other	7,884	7,175

32. Commission rate risk

Commission sensitivity of assets, liabilities and off balance sheet items

The Bank manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market commission rates on its financial position and cash flows. The 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 summarizes the Bank's exposure to commission rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing and maturity dates.

SAR' 000	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total
2007						
Assets						
Cash and balances with SAMA	6,562,271	-	-	-	3,589,919	10,152,190
Due from banks and other financial institutions	2,816,452	200,000	-	-	207,610	3,224,062
Investments, net	5,724,867	6,292,924	8,641,844	899,050	942,059	22,500,744
Loans and advances, net	35,950,947	14,417,012	6,077,781	3,361,243	42,969	59,849,952
Property and equipment, net	-	-	-	-	577,318	577,318
Other assets	-	-	-	-	3,503,844	3,503,844
Total assets	51,054,537	20,909,936	14,719,625	4,260,293	8,863,719	99,808,110
Liabilities and shareholders' equity						
Due to banks and other financial institutions	6,733,498	823,996	-	-	565,219	8,122,713
Customers' deposits	41,086,624	9,200,681	1,051,711	-	22,668,235	74,007,251
Other liabilities	-	-	-	-	4,000,011	4,000,011
Term loan	2,437,500	-	-	-	-	2,437,500
Shareholders' equity	-	-	-	-	11,240,635	11,240,635
Total liabilities and shareholders' equity	50,257,622	10,024,677	1,051,711	-	38,474,100	99,808,110
On balance sheet gap	796,915	10,885,259	13,667,914	4,260,293	(29,610,381)	-
Off balance sheet gap	1,402,766	(3,397,982)	937,034	1,058,182	-	-
Total commission rate sensitivity gap	2,199,681	7,487,277	14,604,948	5,318,475	(29,610,381)	-
Cumulative commission rate sensitivity gap	2,199,681	9,686,958	24,291,906	29,610,381	-	-
2006						
Assets						
Cash and balances with SAMA	868,866	-	-	-	2,529,970	3,398,836
Due from banks and other financial institutions	5,116,882	150,000	-	-	956,395	6,223,277
Investments, net	4,994,025	1,446,680	7,749,153	1,118,716	704,380	16,012,954
Loans and advances, net	35,750,007	9,286,637	3,782,292	2,150,854	160,405	51,130,195
Property and equipment, net	-	-	-	-	552,382	552,382
Other assets	-	-	-	-	2,263,366	2,263,366
Total assets	46,729,780	10,883,317	11,531,445	3,269,570	7,166,898	79,581,010
Liabilities and shareholders' equity						
Due to banks and other financial institutions	2,835,846	494,250	-	-	126,217	3,456,313
Customers' deposits	33,482,629	8,936,680	1,005,327	-	18,573,471	61,998,107
Other liabilities	-	-	-	-	2,284,309	2,284,309
Term loan	2,437,500	-	-	-	-	2,437,500
Shareholders' equity	-	-	-	-	9,404,781	9,404,781
Total liabilities and shareholders' equity	38,755,975	9,430,930	1,005,327	-	30,388,778	79,581,010
On balance sheet gap	7,973,805	1,452,387	10,526,118	3,269,570	(23,221,880)	-
Off balance sheet gap	(4,327,682)	(361,099)	2,844,406	1,844,375	-	-
Total commission rate sensitivity gap	3,646,123	1,091,288	13,370,524	5,113,945	(23,221,880)	-
Cumulative commission rate sensitivity gap	3,646,123	4,737,411	18,107,935	23,221,880	-	-

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

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

33. Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to become unavailable immediately. 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.

In accordance with the Banking Control Law and the Regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 9% of total customers' demand deposits, and 2% of due to banks and other financial institutions (excluding balances due to SAMA and non resident foreign currency deposits), saving, time deposits, margins of letters of credit and guarantee, excluding all type of repo deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of not less than 20% of its deposit liabilities, in the form of cash, Saudi Government securities or assets which can be converted into cash within a period not exceeding 30 days. The Bank can also raise additional funds through repo facilities available with SAMA against its holding of Saudi Government securities up to 75% of the nominal value of securities.

The table below summarizes 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 account of the effective maturities as indicated by the Bank's deposit retention history. Management monitors the maturity profile to ensure that adequate liquidity is maintained.

SAR' 000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
2007						
Assets						
Cash and balances with SAMA	6,562,271	-	-	-	3,589,919	10,152,190
Due from banks and other financial institutions	2,816,452	200,000	-	-	207,610	3,224,062
Investments, net	1,802,053	6,231,706	12,008,726	1,516,200	942,059	22,500,744
Loans and advances, net	22,796,943	10,868,166	11,384,508	8,933,379	5,866,956	59,849,952
Property and equipment, net	-	-	-	-	577,318	577,318
Other assets	-	-	-	-	3,503,844	3,503,844
Total assets	33,977,719	17,299,872	23,393,234	10,449,579	14,687,706	99,808,110
Liabilities and shareholders' equity						
Due to banks and other financial institutions	6,733,498	823,996	-	-	565,219	8,122,713
Customers' deposits	37,983,242	9,200,681	1,051,711	-	25,771,617	74,007,251
Other liabilities	-	-	-	-	4,000,011	4,000,011
Term loan	-	-	2,437,500	-	-	2,437,500
Shareholders' equity	-	-	-	-	11,240,635	11,240,635
Total liabilities and shareholders' equity	44,716,740	10,024,677	3,489,211	-	41,577,482	99,808,110

SAR' 000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
2006						
Assets						
Cash and balances with SAMA	868,866	-	-	-	2,529,970	3,398,836
Due from banks and other financial institutions	5,116,882	150,000	-	-	956,395	6,223,277
Investments, net	745,081	2,478,665	10,966,112	1,118,716	704,380	16,012,954
Loans and advances, net	21,457,595	6,929,360	10,390,940	6,553,571	5,798,729	51,130,195
Property and equipment , net	-	-	-	-	552,382	552,382
Other assets	-	-	-	-	2,263,366	2,263,366
Total assets	28,188,424	9,558,025	21,357,052	7,672,287	12,805,222	79,581,010
Liabilities and shareholders' equity						
Due to banks and other financial institutions	2,835,846	494,250	-	-	126,217	3,456,313
Customers' deposits	31,925,357	8,936,680	1,005,327	-	20,130,743	61,998,107
Other liabilities	-	-	-	-	2,284,309	2,284,309
Term loan	-	-	2,437,500	-	-	2,437,500
Shareholders' equity	-	-	-	-	9,404,781	9,404,781
Total liabilities and shareholders' equity	34,761,203	9,430,930	3,442,827	-	31,946,050	79,581,010

34. 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 held to maturity and other financial instruments held at amortized cost are not significantly different from the carrying values included in the financial statements.

The estimated fair values of the held to maturity investments and other investments held at amortized cost, is based on quoted market prices when available or pricing models. Consequently, differences can arise between carrying values and fair value estimates. The fair values of these investments are disclosed in note 5.

35. Related party transactions

In the ordinary course of its activities, the Bank transacts business with related parties. In the opinion of the management and the Board, the related party transactions are carried out on an arm's length basis. The related party transactions are governed by limits set by the Banking Control Law and Regulations issued by SAMA. The balances as at December 31 resulting from such transactions included in the financial statements are as follows:

SAR' 000	2007	2006
Credit Agricole Group		
Investments	887,079	502,442
Due from banks and other financial institutions	902,457	739,549
Due to banks and other financial institutions	1,318,272	1,298,616
Derivatives at (negative) positive fair value	(808,682)	85,478
Commitments and contingencies	2,180,233	1,493,960
Associates		
Investments	204,835	35,403
Due from banks and other financial institutions	-	-
Loans and advances	3,750	3,750
Due to banks and other financial institutions	72,811	90,217
Customers' deposits	2,973	12,091
Commitments and contingencies	21,795	24,420
Directors, other major shareholders' and their affiliates		
Loans and advances	2,165,060	1,347,959
Customers' deposits	3,914,117	3,512,905
Derivatives at positive fair value	32,923	2,377
Commitments and contingencies	244,046	176,313
Bank's mutual funds		
Investments	88,818	55,735
Loans and advances	-	-
Customers' deposits	497,189	457,570

Other major shareholders represent shareholdings excluding the foreign shareholder of more than 5% of the Bank's share capital.

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

SAR' 000	2007	2006
Special commission income	97,811	68,132
Special commission expense	212,452	213,359
Fees from banking services	38,684	86,410
Directors' fees	2,774	1,480
Other general and administrative expenses	373	144

The total amount of short term benefits paid to key management personnel during the year is SAR 45 million (2006: SAR 37 million). The key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly.

36. Capital adequacy

The Bank monitors the adequacy of its capital using ratios established by the 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 a weighted amount to reflect their relative risk.

	2007		2006	
SAR' 000	**Capital**	**Ratios %**	**Capital**	**Ratios %**
Tier 1	11,240,635	12.21%	9,404,781	14.38%
Tier 1 + Tier 2	11,240,635	12.21%	9,404,781	14.38%

	Risk weighted assets					
	2007			2006		
SAR' 000	**Carrying value or notional**	**Credit equivalent**	**Risk weighted assets**	**Carrying value or notional**	**Credit equivalent**	**Risk weighted assets**
Balance sheet assets						
0 %	25,663,482		-	21,253,730		-
20 %	4,017,438		803,488	6,474,928		1,294,985
100 %	70,127,190		70,127,190	51,852,352		51,852,352
Total	99,808,110		70,930,678	79,581,010		53,147,337
Commitments and contingencies						
0 %	307,500	153,750	-	-	-	-
20 %	10,321,512	4,807,378	961,476	3,278,859	1,544,741	308,947
100 %	41,869,240	18,888,216	18,888,216	24,132,637	10,825,006	10,825,006
Total	52,498,252	23,849,344	19,849,692	27,411,496	12,369,747	11,133,953
Derivatives						
0 %	14,466,298	157,139	-	3,300,321	36,531	-
20 %	133,724,196	4,046,959	809,392	145,848,406	3,715,419	743,085
50 %	25,905,131	886,483	443,242	18,528,912	738,733	369,367
Total	174,095,625	5,090,581	1,252,634	167,677,639	4,490,683	1,112,452
Total risk weighted assets			92,033,004			65,393,742

37. 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. However, the Bank's share of these funds is included in the available for sale investments and fees earned are disclosed under related party transactions.

The Bank also offers Islamic investment management services to its customers, which include management of certain investment funds in consultation with professional investment advisors, having net asset values totalling SAR 2,257 million (2006: SAR 1,874 million).

38. Post balance sheet events

Basel II Framework

Effective January 1, 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 36.

39. Prospective changes in International Financial Reporting Framework

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 January 1, 2009.

40. Comparative figures

Prior year figures have been reclassified wherever necessary to conform to current year presentation.

41. Board of directors approval

The financial statements were approved by the Board of Directors on January 20, 2008 corresponding to Moharram 12, 1429H.

INDEPENDENT AUDITORS' REPORT

TO: THE SHAREHOLDERS OF THE BANQUE SAUDI FRANSI
(A Saudi Joint Stock Company)

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Accounting Standards for Financial Institutions issued by the Saudi Arabian Monetary Agency, International Financial Reporting Standards, the provisions of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's Articles of Association.

This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

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

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

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 31 December 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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Kingdom of Saudi Arabia	Kingdom of Saudi Arabia
Fahad A. Al-Toaimi	Tareq Al Sadhan
Certified Public Accountant	Certified Public Accountant
Registration No. 354	Registration No. 352

Muharram 10, 1429H
January 19, 2008

BALANCE SHEET
As at December 31, 2007 and 2006

SAR' 000	Notes	2007	2006
ASSETS			
Cash and balances with SAMA	3	10,152,190	3,398,836
Due from banks and other financial institutions	4	3,224,062	6,223,277
Investments, net	5	22,500,744	16,012,954
Loans and advances, net	6	59,849,952	51,130,195
Property and equipment, net	7	577,318	552,382
Other assets	8	3,503,844	2,263,366
Total assets		99,808,110	79,581,010
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks and other financial institutions	10	8,122,713	3,456,313
Customers' deposits	11	74,007,251	61,998,107
Other liabilities	12	4,000,011	2,284,309
Term loan	13	2,437,500	2,437,500
Total liabilities		88,567,475	70,176,229
Shareholders' equity			
Share capital	14	5,625,000	3,375,000
Statutory reserve	15	4,052,780	3,375,000
General reserve	15	1,200,000	2,500,000
Other reserves		(19,619)	(85,159)
Retained earnings		68,339	37,997
Proposed dividend	25	314,135	201,943
Total shareholders' equity		11,240,635	9,404,781
Total liabilities and shareholders' equity		99,808,110	79,581,010

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

STATEMENT OF INCOME
For the years ended December 31, 2007 and 2006

SAR' 000	Notes	2007	2006
Special commission income	17	4,940,795	4,257,134
Special commission expense	17	2,644,706	2,240,267
Net special commission income		2,296,089	2,016,867
Fees from banking services, net	18	897,234	1,571,961
Exchange income, net		187,968	144,345
Trading income, net	19	310,627	189,332
Dividend income	20	3,699	1,641
Gains on non trading investments, net	21	-	9,375
Other operating income	22	5,539	5,311
Total operating income		3,701,156	3,938,832
Salaries and employee related expenses		543,322	462,923
Rent and premises related expenses		76,858	68,980
Depreciation and amortization	7	77,965	68,138
Other general and administrative expenses		244,876	236,388
Impairment charge for credit losses, net	6	42,011	90,484
Other operating expenses	23	5,014	4,971
Total operating expenses		990,046	931,884
Net income		2,711,110	3,006,948
Basic and diluted earnings per share (in SAR)	24	4.82	5.35

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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2007 and 2006

SAR' 000	Notes	Share capital	Statutory reserve	General reserve	Other reserves	Retained earnings	Proposed dividend	Total
2007								
Balance at the beginning of the year		**3,375,000**	**3,375,000**	**2,500,000**	**(85,159)**	**37,997**	**201,943**	**9,404,781**
Changes in equity for the year								
Net changes in fair value of cash flow hedges		-	-	-	20,286	-	-	**20,286**
Net changes in fair value of available for sale investments		-	-	-	23,189	-	-	**23,189**
Transfers to statement of income		-	-	-	22,065	-	-	**22,065**
Net income recognized directly in equity		-	-	-	65,540	-	-	**65,540**
Net income for the year		-	-	-	-	2,711,110	-	**2,711,110**
Total recognized income for the year		-	-	-	65,540	2,711,110	-	**2,776,650**
Issue of bonus shares	14	2,250,000	-	(2,250,000)	-	-	-	-
Transfer to statutory reserve	15	-	677,780	-	-	(677,780)	-	-
Transfer to general reserve	15	-	-	950,000	-	(950,000)	-	-
2006 final dividend paid		-	-	-	-	-	(201,943)	**(201,943)**
2007 interim dividend paid	25	-	-	-	-	(738,853)	-	**(738,853)**
Proposed gross final dividend	25	-	-	-	-	(314,135)	314,135	-
Balance at the end of the year		**5,625,000**	**4,052,780**	**1,200,000**	**(19,619)**	**68,339**	**314,135**	**11,240,635**

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

SAR' 000	Notes	Share capital	Statutory reserve	General reserve	Other reserves	Retained earnings	Proposed dividend	Total
2006								
Balance at the beginning of the year		**2,250,000**	**2,250,000**	**2,500,000**	**(102,428)**	**31,725**	**255,603**	**7,184,900**
Changes in equity for the year								
Net changes in fair value of cash flow hedges		-	-	-	84,328	-	-	**84,328**
Net changes in fair value of available for sale investments		-	-	-	(83,506)	-	-	**(83,506)**
Transfers to statement of income		-	-	-	16,447	-	-	**16,447**
Net income recognized directly in equity		-	-	-	17,269	-	-	**17,269**
Net income for the year		-	-	-	-	3,006,948	-	**3,006,948**
Total recognized income for the year		-	-	-	17,269	3,006,948	-	**3,024,217**
Issue of bonus shares	14	1,125,000	-	(1,125,000)	-	-	-	**-**
Transfer to statutory reserve	15	-	1,125,000	(1,125,000)	-	-	-	**-**
Transfer to general reserve	15	-	-	2,250,000	-	(2,250,000)	-	**-**
2005 final dividend paid		-	-	-	-	-	(255,603)	**(255,603)**
2006 interim dividend paid	25	-	-	-	-	(548,733)	-	**(548,733)**
Proposed gross final dividend	25	-	-	-	-	(201,943)	201,943	**-**
Balance at the end of the year		**3,375,000**	**3,375,000**	**2,500,000**	**(85,159)**	**37,997**	**201,943**	**9,404,781**

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

STATEMENT OF CASH FLOWS
For the years ended December 31, 2007 and 2006

SAR' 000	Notes	2007	2006
OPERATING ACTIVITIES			
Net income		2,711,110	3,006,948
Adjustments to reconcile net income to net cash (used in) from operating activities			
(Accretion of discounts) and amortization of premiums on non trading investments, net		(141,331)	11,129
Gains on non trading investments, net		-	(9,375)
Depreciation and amortization		77,965	68,138
Gains on disposal of property and equipment, net		(71)	(1)
Impairment charge for credit losses, net		42,011	90,484
Change in fair value of financial instruments		7,728	16,103
		2,697,412	3,183,426
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA	3	(1,070,268)	(100,452)
Due from banks and other financial institutions maturing after 90 days from the date of acquisition		(50,000)	(150,000)
Investments held as FVIS, trading		(1,209,313)	94,437
Loans and advances		(8,751,060)	(8,202,360)
Other assets		(1,359,338)	(644,518)
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		4,669,060	(1,494,732)
Customers' deposits		12,130,943	10,668,927
Other liabilities		1,717,942	418,427
Net cash from operating activities		8,775,378	3,773,155
INVESTING ACTIVITIES			
Proceeds from sales and maturities of non trading investments		4,924,075	3,049,316
Purchase of non trading investments		(9,851,413)	(1,104,059)
Investments in associates		(162,740)	-
Purchase of property and equipment		(102,960)	(144,742)
Proceeds from sales of property and equipment		130	100
Net cash (used in) from investing activities		(5,192,908)	1,800,615
FINANCING ACTIVITIES			
Dividends paid	25	(940,796)	(804,336)
Net cash used in financing activities		(940,796)	(804,336)
Increase in cash and cash equivalents		2,641,674	4,769,434
Cash and cash equivalents at the beginning of the year		7,433,071	2,663,637
Cash and cash equivalents at the end of the year	26	10,074,745	7,433,071
Special commission received during the year		4,967,737	4,102,986
Special commission paid during the year		2,550,642	2,118,742
Supplemental non cash information			
Net changes in fair value and transfers to statement of income		65,540	17,269

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

NOTES TO THE FINANCIAL STATEMENTS
For the years ended December 31, 2007 and 2006

1. General

Banque Saudi Fransi (the Bank) is a Saudi Joint Stock Company established by Royal Decree No. M/23 dated Jumada Al Thani 17, 1397H, corresponding to June 4, 1977. The Bank formally commenced its activities on Muharram 1, 1398H, corresponding to December 11, 1977, by taking over the branches of the Banque de l'Indochine et de Suez in the Kingdom of Saudi Arabia. The Bank operates under Commercial Registration Number. 1010073368 dated Safar 4, 1410H, corresponding to September 5, 1989, through its 74 branches (2006: 68 branches) in the Kingdom of Saudi Arabia, employing 2,266 people (2006: 1,998). The objective of the Bank is to provide a full range of banking services, including Islamic products, which are approved and supervised by an independent Shariah Board. The Bank's Head Office is located at Al Maa'ther Street, P.O. Box 56006, Riyadh 11554, Kingdom of Saudi Arabia.

2. Summary of significant accounting policies

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

a) Basis of presentation

The Bank follows the accounting standards for financial institutions promulgated by the Saudi Arabian Monetary Agency (SAMA) and International Financial Reporting Standards (IFRS), and complies 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, available for sale and Fair Value through Income Statement (FVIS) financial instruments. In addition, as explained fully in the related notes, 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.

During the year, the Bank has established subsidiaries, Fransi Tadawul Company (99% share in equity) and CAAM Saudi Fransi (60% share in equity) and an associate Sofinco Saudi Fransi (50% share in equity) incorporated in the Kingdom of Saudi Arabia. These companies have been established to comply with the CMA requirement of spinning off certain businesses activities from the Bank's core business. The subsidiaries have not been consolidated in the accompanying financial statements as the underlying legal formalities to commence their business activities currently under progress.

The Bank holds a 27% shareholding in an associate Banque BEMO Saudi Fransi, a bank incorporated in Syria and a 50% shareholding in InSaudi Insurance Co. incorporated in Bahrain. The Bank also owns 32.5% equity share in Assurance Saudi Fransi, an associate incorporated in the Kingdom of Saudi Arabia.

The Bank has adopted IFRS 7, financial Instruments: disclosures, amendments to IAS 1 Presentation of Financial Statements – Capital Disclosures and International Financial Reporting Interpretations Committee, (IFRIC) 10 – Interim Financial Reporting and Impairment effective January 1, 2007 with retrospective effect, wherever applicable. IFRS 7 introduces new disclosures of qualitative and quantitative information about the significance of, and the nature and extent of risks arising from financial instruments. The amendment to IAS 1 introduces disclosures about the level of capital and how the Bank manages capital. IFRIC 10 requires that the Bank shall not reverse any impairment losses recognized in a previous interim period in respect of an investment in equity instrument or a financial asset carried at cost, because the fair value cannot be reliably measured.

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

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

b) Critical accounting judgements and estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. Such estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including obtaining professional 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 & advances

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

(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 values 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.

c) Investment in associates and subsidiaries

Associates are entities in which the Bank generally holds 20% to 50% of the voting power or over which it has significant influence which is neither a subsidiary nor a joint venture. Investments in associates are initially recognised at cost and subsequently accounted for under the equity method of accounting.

Subsidiaries are entities over which the Bank has the power to govern the financial and operating policies, so as to obtain benefits from its activities, generally accompanying an ownership interest of more than one half of the voting rights. Where the Bank does not have effective control but has significant influence, the investment in a subsidiary is accounted for under the equity method and the financial statements include the appropriate share of the subsidiary's results, reserves and accumulated losses based on its latest available financial statements.

d) Settlement date accounting

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

e) Derivative financial instruments and hedging

Derivative financial instruments including forward 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 carried at their fair value as assets where the fair value is positive, and as liabilities where the fair value is negative. Fair values are obtained by reference to quoted market prices, discounted cash flow models and pricing models, as appropriate.

Any changes in the fair value of derivatives that are held for trading purposes are taken directly to statement of income and are disclosed in trading income. Derivatives held for trading also include those derivatives which 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 income statement.

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

In order to qualify for hedge accounting, it is required that the hedge should be expected to be highly effective i.e. the changes in fair value or the 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 recognized 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 recognized in the statement of income. Where the fair value hedge of a commission bearing financial instrument ceases to meet the criteria for hedge accounting, the adjustment in the carrying value is amortized to the statement of income over the remaining life of the instrument.

In relation to cash flow hedges which meet the criteria for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized directly in other reserves under shareholders' equity and the ineffective portion, if any, is recognized in the statement of income.

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

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

f) Foreign currencies

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

Transactions in foreign currencies are translated into Saudi Arabian Riyals at exchange rates prevailing at transaction dates. Monetary assets and liabilities at the year end, denominated in foreign currencies, are translated into Saudi Arabian Riyals at the exchange rates prevailing at the balance sheet date. Realized and unrealized gains or losses on exchange are credited or charged to exchange income.

Non-monetary assets and liabilities denominated in foreign currencies measured at fair value are translated using the exchange rate at the date when the fair value was determined. Translation differences on non-monetary items, such as equities at Fair Value through Income Statement (FVIS), are reported as a part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale, are included in the other reserves in equity.

g) Offsetting

Financial assets and liabilities are offset and reported net in the balance sheet when there is a legally enforceable right to set off the recognized amounts or when the Bank intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

h) Revenue recognition

Special commission income and expense for all commission bearing financial instruments, except for those classified as held for trading or designated at fair value through income statement, including fees which are considered an integral part of the effective yield of a financial instrument, are recognized in the statement of income using the effective yield method, unless collectibilty is in doubt and include premiums amortized and discount accreted during the year. Fees, commissions and exchange income from banking services are recognized when contractually earned or accrued when the service has been provided, as appropriate. Dividend income is recognized when the right to receive payment is established.

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.

Results arising from trading activities 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.

i) Sale and repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos), continue to be recognized in the balance sheet and are measured in accordance with related accounting policies for Investments held as FVIS (held for trading), available for sale, held to maturity and other investments held at amortized cost. The counter-party liability for amounts received under these agreements is included in due to banks and other financial institutions or customers' deposits, as appropriate. The difference between sale and repurchase price is treated as special commission expense and is accrued over the life of the repo agreement, on an effective interest rate basis.

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

j) Investments

All investments securities are initially recognized at fair value, and, with the exception of FVIS investments include acquisition charges associated with the investment. Premiums are amortized and discounts are accreted using the effective yield method and are taken to special commission income. Amortized cost is calculated by taking into account any discount or premium on acquisition.

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

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

Following initial recognition, subsequent transfers between the various categories of investments are not ordinarily permissible. The subsequent period end reporting values for the various categories of investments are determined as follows:

i) Held as fair value through income statement (FVIS)

Investments held as FVIS are classified as either investment held for trading or those designated as fair value through income statement at the time of initial recognition. Investments classified in this category are acquired principally for the purpose of selling or repurchasing in the short term (trading) or if designated as such by the management in accordance with criteria laid down in IAS 39. After initial recognition, investments at FVIS are measured at fair value and any change in the fair value is recognised in the statement of income for the period in which it occurs. Transaction costs, if any, are not added to the fair value measurement at initial recognition of FVIS investments. Special commission income, dividend income and gain or loss incurred on financial assets held as FVIS are reflected as trading income or expense 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 interest rates, exchange rates or equity prices. After initial recognition these investments are measured at fair value. For an available for sale investment where the fair value has not been hedged, any gain or loss arising from a change in its fair value is recognized directly in 'Other reserves' under shareholders' equity until the investment is derecognized or impaired, at which time the cumulative gain or loss previously recognized in shareholders' equity is included in the statement of income for the year.

iii) Held to maturity

Investments which have fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold up to the maturity, other than those classified as "Other investments held at amortised cost", are classified as 'held to maturity'. Held to maturity investments are subsequently measured at amortized cost, less provision for impairment in their value. Amortized cost is calculated by taking into account any discount or premium on acquisition on effective interest rate basis. Any gain or loss on such investments is recognized in the statement of income when the investment is de-recognized or impaired.

Investments classified as held to maturity cannot ordinarily be sold or reclassified and cannot be designated as a hedged item with respect to special commission rate or prepayment risk, reflecting the longer term nature of these investments.

iv) Other investments held at amortized costs

Investments with fixed or determinable payments that are not quoted in an active market are classified as 'other investments held at amortized costs'. Other investments held at amortized costs, where the fair value has not been hedged are stated at amortized cost using effective interest rate method, less provision for impairment. Any gain or loss is recognized in the statement of income when the investment is derecognized or impaired.

k) Loans and advances

Loans and advances are non-derivative financial assets originated or acquired by the Bank with fixed or determinable payments.

All loans and advances are initially measured at fair value.

Following the initial recognition subsequent transfers between the various categories of loans and advances is not ordinarily permissible. The subsequent period end reporting values are determined as follows:

(i) Available for sale

Loans and advances which are not part of a hedging relationship and are available for sale, are subsequently measured at fair value and gains or losses arising from changes in fair value are recognized directly in ‘other reserves’ under shareholders’ equity until the loans or advances are de-recognized or impaired, at which time the cumulative gain or loss previously recognized in shareholders’ equity is included in the statement of income for the year.

(ii) Loans and advances held at amortized costs

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

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

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

l) Due from banks and other financial institutions

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

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

m) Impairment of financial assets

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

An assessment is made at each 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 recognized for changes in its carrying amounts as follows:

i) For financial assets carried at amortized cost, the carrying amount of the asset is adjusted either directly or through the use of an allowance account and the amount of the adjustment is included in the statement of income; and

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

A loan is classified as impaired when, in management's opinion, there has been deterioration in credit quality to the extent that there is no longer reasonable assurance of timely collection of the full amount of principal and special commission.

Impairment charge for credit losses, including those arising from sovereign risk exposure, is based upon the management's judgement of the adequacy of the provisions. Such assessment takes into account the composition and volume of the loans and advances, the general economic conditions and the collectibility of the outstanding loans and advances. Considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors and actual results may differ resulting in future changes in such provisions.

Specific provisions are evaluated individually for all different types of loans and advances, whereas the additional provisions are evaluated based on collective impairment of loans and advances, and are created for credit losses where there is objective evidence that the unidentified potential losses are present at the balance sheet date. The amount of the specific provision is the difference between the carrying amount and the estimated recoverable amount. The collective provision is based upon deterioration in the internal gradings or external credit ratings allocated to the borrower or group of borrowers, the current economic climate in which the borrowers operate and the experience and historical default patterns that are embedded in the components of the credit portfolio. These internal gradings take into consideration factors such as any deterioration in country risk, industry, as well as identified structural weaknesses or deterioration in cash flows.

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 de-recognition, any cumulative gain or loss previously recognised in shareholders' equity is included in the statement of income for the period.

Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted. Once a financial asset has been written down to its estimated recoverable amount, special commission income is thereafter recognized based on the rate of special commission that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

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

n) 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 is considered as assets held for sale and are initially stated at the lower of net realizable value of due loans and advances and the current fair value of the related properties, less any costs to sell. No depreciation is charged on such real estate.

Subsequent to the initial recognition, such real estate are revalued on a periodic basis and unrealized losses on revaluation, and losses or gains on disposal, are charged or credited to operating income or expense.

o) Property and equipment

Property and equipment are stated at cost and presented net of accumulated depreciation and amortization. Freehold land is not depreciated. The cost of other Property and equipment is depreciated and amortized using the straight line method over the estimated useful lives of the assets as follows:

Buildings	33 years
Leasehold improvements	Over the lease period or 10 years, whichever is shorter
Furniture, equipment and vehicles	4 to10 years

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

p) Liabilities

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

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

Financial liabilities for which there is an associated fair value hedge relationship are adjusted for fair value to the extent of the risk being hedged, and the resultant gain or loss is recognized in the statement of income. For commission bearing financial liabilities carried at amortized cost, any gain or loss is recognized in the statement of income when derecognized or impaired.

Premium received on financial guarantees are initially recognised in the financial statements at fair value in other liabilities. Subsequent to the initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligations arising as a result of guarantees. The premium received is recognised in the statement of income on a straight line basis over the life of the guarantee.

q) Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation arising from past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the costs to settle the obligation can be reliably measured or estimated.

r) Accounting for leases

i) Where the Bank is the lessee

Leases entered into by the Bank are all operating leases. Payments made under operating leases are charged to the statement of income on a straight line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

ii) Where the Bank is the lessor

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

s) Cash and cash equivalents

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

t) Derecognition of Financial Instruments

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

u) Zakat and income tax

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

Zakat and income tax are not charged to the Bank's statement of income as they are deducted from the dividends paid to the shareholders.

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 Bank's share of these funds is included in the available for sale investments and fees earned are disclosed under related party transactions.

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

w) Islamic banking products

The Bank offers its customers certain banking products, which are in accordance with Shariah rules.

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

3. Cash and balances with SAMA

SAR' 000	2007	2006
Cash in hand	472,779	496,972
Statutory deposit	3,101,507	2,031,239
Current account	15,633	1,759
Money market placements	6,562,271	868,866
Total	10,152,190	3,398,836

Money market placements represent deposits against the purchase of fixed rate bonds with agreement to resell the same at fixed future dates.

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

4. Due from banks and other financial institutions

SAR' 000	2007	2006
Current accounts	207,610	956,395
Money market placements	3,016,452	5,266,882
Total	3,224,062	6,223,277

5. Investments, net

a) These comprise the following:

SAR' 000	2007 Domestic	2007 International	2007 Total	2006 Domestic	2006 International	2006 Total
i) Held as FVIS						
Fixed rate securities	1,402,476	-	1,402,476	371,470	-	371,470
Floating rate securities	191,845	71,907	263,752	3,252	93,614	96,866
Other	-	539,289	539,289	-	527,868	527,868
Held as FVIS	1,594,321	611,196	2,205,517	374,722	621,482	996,204
ii) Available for sale						
Fixed rate securities	-	2,352,390	2,352,390	-	2,236,134	2,236,134
Floating rate securities	215,200	1,169,349	1,384,549	-	367,889	367,889
Equities	280,564	122,205	402,769	73,293	103,219	176,512
Other	2,553,135	-	2,553,135	1,636,472	-	1,636,472
Available for sale, net	3,048,899	3,643,944	6,692,843	1,709,765	2,707,242	4,417,007
iii) Held to maturity						
Fixed rate securities	2,990,117	56,245	3,046,362	1,142,235	93,058	1,235,293
Held to maturity, net	2,990,117	56,245	3,046,362	1,142,235	93,058	1,235,293
iv) Other investments held at amortized cost						
Fixed rate securities	7,516,882	36,625	7,553,507	5,299,774	36,686	5,336,460
Floating rate notes	2,627,515	375,000	3,002,515	3,727,990	300,000	4,027,990
Other investments held at amortized cost, net	10,144,397	411,625	10,556,022	9,027,764	336,686	9,364,450
Investments, net	17,777,734	4,723,010	22,500,744	12,254,486	3,758,468	16,012,954

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

SAR' 000	2007 Quoted	2007 Unquoted	2007 Total	2006 Quoted	2006 Unquoted	2006 Total
Fixed rate securities	2,408,634	11,946,101	14,354,735	2,329,192	6,850,165	9,179,357
Floating rate securities	1,648,301	3,002,515	4,650,816	461,503	4,031,242	4,492,745
Equities	161,299	241,470	402,769	80,994	95,518	176,512
Other	529,164	2,563,260	3,092,424	517,743	1,646,597	2,164,340
Investments, net	4,747,398	17,753,346	22,500,744	3,389,432	12,623,522	16,012,954

c) The analysis of unrealized gains and losses and the fair values of held to maturity investments and other investments held at amortized costs, are as follows:

SAR' 000	2007				2006			
	Carrying value	Gross un-realized gains	Gross un-realized losses	Fair Value	Carrying value	Gross un-realized gains	Gross un-realized losses	Fair Value
i) Held to maturity								
Fixed rate securities	3,046,362	50,935	(26)	3,097,271	1,235,293	15,343	(2,996)	1,247,640
Total	3,046,362	50,935	(26)	3,097,271	1,235,293	15,343	(2,996)	1,247,640
ii) Other investments held at amortized cost								
Fixed rate securities	7,553,507	137,086	(2,208)	7,688,385	5,336,460	73,227	(45,914)	5,363,773
Floating rate notes	3,002,515	-	(2,623)	2,999,892	4,027,990	15,811	-	4,043,801
Total	10,556,022	137,086	(4,831)	10,688,277	9,364,450	89,038	(45,914)	9,407,574

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

SAR' 000	2007	2006
Government and quasi Government	15,052,816	10,738,790
Corporate	3,596,456	2,463,632
Banks and other financial institutions	3,762,654	2,754,797
Others	88,818	55,735
Total	22,500,744	16,012,954

Investments held as FVIS represent investments held for trading and include Islamic securities of SAR - 218 million (2006: SAR 15 million). Other investments represent investments in international mutual funds.

Available for sale investments include Islamic securities of SAR 252 million (2006: SAR 37 million). Other available for sale represents Musharaka investments of SAR 1,000 million (2006: SAR 1,636 million) and Mudarabah investments of SAR 1,553 million (2006: SAR NIL) which are hedged and measured at fair value to the extent of the risk being hedged.

Equities reported under available for sale include the Bank's investment in its associates (refer note 1), Banque BEMO Saudi Fransi SAR 39 million (2006: SAR 32 million), Sofinco Saudi Fransi SAR 50 million (2006: NIL), Assurance Saudi Fransi SAR 33 million (2006: NIL) and InSaudi Insurance Company SAR 3 million (2006: SAR 3 million). It also includes investment in its subsidiaries Fransi Tadawul SAR 50 million (2006: NIL) and CAAM Saudi Fransi SAR 30 million (2006: NIL).

Saudi Istithmar mutual fund SAR 89 million (2006: SAR 56 million) and unquoted equity shares of SAR 69 million (2006: SAR 60 million) which are carried at cost as their fair value cannot be reliably measured, are also included under equities available for sale.

Unquoted investments include principally Saudi Government Bonds and notes of SAR 14,537 million (2006: SAR 10,541 million).

Investments include SAR 4,459 million (2006: SAR 309 million) which have been pledged under repurchase agreements with other banks and customers. The market value of such investment is SAR 4,536 million (2006: SAR 305 million).

6. Loans and Advances - Net

a) Loans and advances are classified as follows

i) Available for Sale

SAR' 000	2007					
	Over Draft	Credit Cards	Consumer Loans	Commercial Loans	Others	Total
Performing loans and advances-gross	-	-	-	188,608	-	188,608
Non performing loans and advances, net	-	-	-	-	-	-
Total available for sale loans and advances	-	-	-	188,608	-	188,608
Allowance for impairment of credit losses	-	-	-	-	-	-
Available for sale loans & advances, net	-	-	-	188,608	-	188,608

SAR' 000	2006					
	Over Draft	Credit Cards	Consumer Loans	Commercial Loans	Others	Total
Performing loans and advances-gross	-	-	-	111,223	-	111,223
Non performing loans and advances, net	-	-	-	-	-	-
Total available for sale loans and advances	-	-	-	111,223	-	111,223
Allowance for impairment of credit losses	-	-	-	-	-	-
Available for sale loans & advances, net	-	-	-	111,223	-	111,223

ii) Other loans and advances held at amortised cost

SAR' 000	2007					
	Over Draft	Credit Cards	Consumer Loans	Commercial Loans	Others	Total
Performing loans and advances-gross	5,821,346	449,084	3,936,113	46,173,510	3,671,301	60,051,354

Non performing loans and advances, net	324,426	42,720	56,989	10,919	456	435,510
Total other loans and advances held at amortised cost	6,145,772	491,804	3,993,102	46,184,429	3,671,757	60,486,864
Allowance for impairment of credit losses	(9,219)	(42,707)	(83,295)	(283,756)	(406,543)	(825,520)
Other loans and advances held at amortised cost, net	6,136,553	449,097	3,909,807	45,900,673	3,265,214	59,661,344

SAR' 000	**2006**					
	Over Draft	**Credit Cards**	**Consumer Loans**	**Commercial Loans**	**Others**	**Total**
Performing loans and advances-gross	5,972,904	321,206	3,581,092	37,732,317	3,702,281	51,309, 800
Non performing loans and advances, net	371,774	26,388	86,595	117,844	-	602,601
Total other loans and advances held at amortised cost	6,344,678	347,594	3,667,687	37,850,161	3,702,281	51,912, 401
Allowance for impairment of credit losses	(9,749)	(26,196)	(112,623)	(325,318)	(419,543)	(893,42 9)
Other loans and advances held at amortised cost, net	6,334,929	321,398	3,555,064	37,524,843	3,282,738	51,018, 972

b) Movement of allowance for impairment account

SAR' 000	**2007**					
	Over Draft	**Credit Cards**	**Consumer Loans**	**Commercial Loans**	**Others**	**Total**
Balance at beginning of the year	9,749	26,196	112,623	325,318	419,543	893,429
Provided during the year	56	30,776	29,749	87,156	-	147,737
Written off during the year	(86)	(9,679)	(58,860)	(41,295)	-	(109,920)
Recoveries of amounts previously provided	(500)	(4,586)	(217)	(87,423)	(13,000)	(105,726)
Balance at the end of the year	9,219	42,707	83,295	283,756	406,543	825,520

SAR' 000	**2006**					
	Over Draft	**Credit Cards**	**Consumer Loans**	**Commercial Loans**	**Others**	**Total**
Balance at beginning of the year	11,124	34,033	89,248	408,433	419,543	962,381
Provided during the year	127	15,382	27,109	112,935	-	155,553
Written off during the year	(568)	(17,185)	(836)	(140,847)	-	(159,436)
Recoveries of amounts previously provided	(934)	(6,034)	(2,898)	(55,203)	-	(65,069)
Balance at the end of the year	9,749	26,196	112,623	325,318	419,543	893,429

The net charge to income of SAR 42 million (2006: SAR 90 million) in respect of impairment charge for credit losses for the year is net of recoveries of SAR 106 million (2006: SAR: 65 million). The allowance for impairment includes SAR 433 million (2006: SAR 446 million) evaluated on collective impairment basis.

Non performing loans and advances are disclosed net of accumulated special commission in suspense of SAR 46 million (2006: SAR 43 million).

c) Credit Quality of Loans and Advances

i) Neither past due nor impaired loans and advances

SAR' 000	2007					
	Over Draft	Credit Cards	Consumer Loans	Commercial Loans	Others	Total
Standard	5,467,264	439,503	3,887,153	45,532,980	3,617,711	58,944,611
Special mention	62,509	1,408	2,686	829,138	53,590	949,331
Total	5,529,773	440,911	3,889,839	46,362,118	3,671,301	59,893,942

SAR' 000	2006					
	Over Draft	Credit Cards	Consumer Loans	Commercial Loans	Others	Total
Standard	5,413,364	311,267	3,545,852	36,769,206	3,600,060	49,639,749
Special mention	201,441	1,170	8,081	1,074,334	102,221	1,387,247
Total	5,614,805	312,437	3,553,933	37,843,540	3,702,281	51,026,996

ii) Ageing of past due but not impaired loans and advances

SAR' 000	2007					
	Over Draft	Credit Cards	Consumer Loans	Commercial Loans	Others	Total
Due within one year	281,206	8,173	15,957	-	-	305,336
Due beyond one year	10,367	-	30,317	-	-	40,684
Total	291,573	8,173	46,274	-	-	346,020

SAR' 000	2006					
	Over Draft	Credit Cards	Consumer Loans	Commercial Loans	Others	Total
Due within one year	350,514	8,769	26,432	-	-	385,715
Due beyond one year	7,585	-	727	-	-	8,312
Total	358,099	8,769	27,159	-	-	394,027

iii) Economic sector risk concentrations for the loans and advances and allowance for impairment losses are as follows:

SAR' 000	Performing	Non Performing, net	Allowance for impairment losses	Loans and advances, net
2007				
Government and quasi Government	1,287,522	-	-	1,287,522
Banks and other financial institutions	1,078,519	-	(7,722)	1,070,797
Agriculture and fishing	1,376,647	7,323	(11,184)	1,372,786
Manufacturing	8,895,752	5,897	(43,577)	8,858,072
Mining and quarrying	691,636	2,741	(2,767)	691,610
Electricity, water, gas and health services	1,107,110	18	(18)	1,107,110
Building and construction	6,504,492	104,515	(197,464)	6,411,543
Commerce	14,157,107	148,471	(202,670)	14,102,908
Transportation and communication	3,417,282	1,502	(8,027)	3,410,757
Services	4,810,134	63,112	(137,407)	4,735,839
Consumer loans and credit cards	4,385,197	99,709	(126,002)	4,358,904
Other	12,528,564	2,222	(88,682)	12,442,104
Total	60,239,962	435,510	(825,520)	59,849,952

SAR' 000	Performing	Non Performing, net	Allowance for impairment losses	Loans and advances, net
2006				
Government and quasi Government	1,991,524	-	-	1,991,524
Banks and other financial institutions	745,754	-	(7,722)	738,032
Agriculture and fishing	901,370	133	(4,001)	897,502
Manufacturing	6,176,403	2,337	(40,350)	6,138,390
Mining and quarrying	615,180	-	-	615,180
Electricity, water, gas and health services	965,645	18	(18)	965,645
Building and construction	6,019,091	103,568	(201,453)	5,921,206
Commerce	12,466,448	97,583	(175,569)	12,388,462
Transportation and communication	3,052,021	5,920	(12,445)	3,045,496
Services	3,745,119	65,002	(143,114)	3,667,007
Consumer loans and credit cards	3,902,298	112,983	(138,819)	3,876,462
Other	10,840,170	215,057	(169,938)	10,885,289
Total	51,421,023	602,601	(893,429)	51,130,195

Loans and advances, net include Islamic products of SAR 17,641 million (2006: SAR 10,474 million).

The impairment charge for credit losses include provisions made against non performing commitments and contingencies.

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 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.

e) Loans and advances include finance lease receivables, which are analyzed as follows:

SAR' 000	2007	2006
Gross receivable from finance leases:		
Less than 1 year	34,711	72,612
1 to 5 years	334,458	49,773
More than 5 years	405,772	66,667
	774,941	189,052
Unearned future finance income on finance leases	(15,467)	(9,298)
Net receivable from finance leases	759,474	179,754

7. Property and equipment, net

SAR' 000	Land and buildings	Leasehold improvements	Furniture, equipment and vehicles	2007 Total	2006 Total
Cost					
Balance at the beginning of the year	457,712	64,692	475,190	997,594	881,200
Additions	6,756	27,685	68,519	102,960	144,742
Disposals and retirements	(514)	(17,477)	(14,112)	(32,103)	(28,348)
Balance at the end of the year	463,954	74,900	529,597	1,068,451	997,594
Accumulated depreciation and amortization					
Balance at the beginning of the year	139,518	-	305,694	445,212	405,323
Charge for the year	12,542	17,477	47,946	77,965	68,138
Disposals and retirements	(514)	(17,477)	(14,053)	(32,044)	(28,249)
Balance at the end of the year	151,546	-	339,587	491,133	445,212
Net book value as at December 31, 2007	312,408	74,900	190,010	577,318	-
Net book value as at December 31, 2006	318,194	64,692	169,496	-	552,382

Land and buildings and leasehold improvements as at December 31, 2007 include work in progress amounting to SAR 5 million (2006: SAR 5 million) and SAR 21 million (2006: SAR 15 million) respectively. Furniture, equipment and vehicles include information technology related assets.

8. Other assets

SAR' 000	2007	2006
Accrued special commission receivable – banks and other financial institutions	5,901	8,297
– investments	167,927	216,147
– loans and advances	390,776	383,706
– derivatives	16,873	791
– other	1,450	929
Total accrued special commission receivable	582,927	609,870
Accounts receivable	167,417	502,056
Positive fair value of derivatives (note 9)	2,417,499	927,960
Other real estate	4,800	4,800
Other	331,201	218,680
Total	3,503,844	2,263,366

9. Derivatives

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

a) Swaps

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

b) Forwards and futures

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

c) Forward rate agreements

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

d) Options

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

Held for trading purposes

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

Held for hedging purposes

The Bank has adopted a comprehensive system for the measurement and the 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 in accordance with the guidelines issued by SAMA. The Board of Directors has established the levels of currency risk by setting limits on currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits. The Board of Directors has also established the level of commission rate risk by setting commission rate sensitivity limits. Commission rate exposure in terms of the sensitivity is reviewed on a periodic basis and hedging strategies are used to reduce the exposure within the established limits.

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

The Bank uses forward foreign exchange contracts to hedge against specifically identified currency risks. In addition, the Bank uses commission rate swaps and commission rate futures to hedge against the commission rate risk arising from specifically identified fixed commission rate exposures. The Bank also uses commission rate swaps to hedge against the cash flow risk arising on certain floating rate exposures. In all such cases, the hedging relationship and objective, including the details of the hedged items and hedging instrument are formally documented and the transactions are accounted for as fair value or cash flow hedge.

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

	Notional amounts by term to maturity							
SAR' 000	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
2007								
Held for trading								
Commission rate swaps	1,900,245	2,061,361	98,747,269	6,085,018	21,848,589	64,552,926	6,260,736	93,867,220
Commission rate futures and options	5,242	5,197	10,230,224	512,500	4,608,750	4,192,500	916,474	7,132,695
Forward rate agreements	-	-	-	-	-	-	-	300,000
Forward foreign exchange contracts	183,371	217,602	54,097,887	27,642,019	24,690,644	1,765,224	-	64,039,014
Currency options	221,411	108,917	12,509,716	3,222,169	4,306,193	4,981,354	-	9,854,384
Others	237	2,768	155,290	-	10,000	145,290	-	136,412
Held as fair value hedges								
Commission rate swaps	184,407	66,107	10,303,569	3,081,944	3,252,980	3,782,703	185,942	8,830,461
Held as cash flow hedges								
Commission rate swaps	148,389	1,863	5,452,450	350,000	350,000	2,608,700	2,143,750	5,837,559
Total	2,643,302	2,463,815	191,496,405	40,893,650	59,067,156	82,028,697	9,506,902	189,997,745
Fair value of netting arrangements	(225,803)	(225,803)	(17,400,780)	(3,046,388)	(1,944,586)	(12,353,806)	(56,000)	(19,946,674)
Total after netting (notes 8 and 12)	2,417,499	2,238,012	174,095,625	37,847,262	57,122,570	69,674,891	9,450,902	170,051,071
2006								
Held for trading								
Commission rate swaps	775,484	984,634	107,502,568	23,765,793	22,559,463	54,049,772	7,127,540	94,139,294
Commission rate futures and options	5,215	4,361	3,652,750	-	1,031,250	1,596,250	1,025,250	10,797,562
Forward rate agreements	-	-	-	-	-	-	-	799,188
Forward foreign exchange contracts	76,067	75,650	60,984,865	25,120,603	35,067,107	797,155	-	52,278,305
Currency options	42,248	16,265	6,120,080	1,542,730	1,603,582	2,973,768	-	5,702,714
Held as fair value hedges								

SAR' 000	Notional amounts by term to maturity							
	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Commission rate swaps	340,926	64,964	10,492,124	3,271,067	4,606,185	2,553,372	61,500	12,494,363
Held as cash flow hedges								
Commission rate swaps	133,218	10,760	6,318,500	275,000	1,300,000	2,981,000	1,762,500	5,791,417
Total	1,373,158	1,156,634	195,070,887	53,975,193	66,167,587	64,951,317	9,976,790	182,002,843
Fair value of netting arrangements	(445,198)	(445,198)	(27,393,248)	(4,662,134)	(11,812,370)	(10,918,744)	-	(31,485,784)
Total after netting (notes 8 and 12)	927,960	711,436	167,677,639	49,313,059	54,355,217	54,032,573	9,976,790	150,517,059

Commission rate swaps include the notional amount of SAR 17,401 million (2006: SAR 27,393 million) with an aggregate positive fair value and a negative fair value of SAR 226 million (2006: SAR 445 million) which are netted out for credit exposure purposes as the Bank intends to settle these on a net basis.

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

SAR' 000 Description of hedged items	Fair value	Hedge inception value	Risk	Hedging instrument	Positive fair value	Negative fair value
2007						
Fixed commission rate investments	2,022,037	1,991,532	Fair value	Commission rate swap	9	30,059
Fixed commission rate loans	1,735,159	1,661,614	Fair value	Commission rate swap	2,673	35,193
Fixed commission rate due to banks	285,398	281,250	Fair value	Commission rate swap	4,330	-
				Forward foreign exchange	1,298	-
Fixed commission rate deposits	6,379,382	6,207,769	Fair value	Commission rate swap	176,097	855
Floating commission rate investments	4,387,063	4,387,063	Cash flow	Commission rate swap	61,249	1,863
Floating commission rate loans	1,581,250	1,581,250	Cash flow	Commission rate swap	87,140	-
2006						
Fixed commission rate due from banks	157,803	150,000	Fair Value	Commission rate swap	-	6,719
Fixed commission rate investments	1,381,197	1,374,573	Fair value	Commission rate swap	3,757	8,633
Fixed commission rate loans	1,386,525	1,306,253	Fair value	Commission rate swap	3,058	32,749
Fixed commission rate due to banks	156,807	150,000	Fair value	Commission rate swap	5,735	-
Fixed commission rate deposits	7,767,589	7,474,209	Fair value	Commission rate swap	328,376	16,863
Floating commission rate investments	4,395,879	4,395,879	Cash flow	Commission rate swap	55,889	10,760
Floating commission rate loans	1,287,857	1,287,857	Cash flow	Commission rate swap	77,329	-

The gains on the hedging instruments for fair value hedge is SAR 118 million (2006: SAR 276 million). The losses on the hedged item attributable to the hedged risk is SAR 72 million (2006: SAR 205 million). The net fair value of the derivatives is SAR 46 million (2006: SAR 71 million).

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

SAR' 000	2007	2006
Balance at beginning of the year	32,427	(77,733)
Gains from changes in fair value recognised directly in equity	20,286	84,328
Gains removed from equity and included in net special commission income	22,066	25,832
Balance at end of the year	74,779	32,427

For cash flow hedges, the amount shown as balance of reserves as at December 31, 2007 is expected to affect the profit and loss in the coming two to three years.

Approximately 53.1% (2006: 89.3%) of the net positive fair values of the Bank's derivatives are entered into with financial institutions and less than 16.7% (2006: 30.6%) of the net positive fair values of the derivatives are with any single counterpart group at the balance sheet date. The derivative activities are mainly carried out under Bank's treasury banking segment.

10. Due to banks and other financial institutions

SAR' 000	2007	2006
Current accounts	790,219	126,217
Money market deposits	7,332,494	3,330,096
Total	8,122,713	3,456,313

Money market deposits include deposits against sale of securities of SAR 2,886 million (2006: SAR NIL) with agreement to repurchase the same at fixed future dates.

11. Customers' deposits

SAR' 000	2007	2006
Demand	22,523,088	18,764,459
Saving	304,393	300,907
Time	47,759,627	41,273,044
Other	3,420,143	1,659,697
Total	74,007,251	61,998,107

Time deposits include deposits against sale of securities of SAR 1,621 million (2006: SAR 305 million) with agreement to repurchase the same at fixed future dates. Other customers' deposits include SAR 1,139 million (2006: SAR 689 million) related to margins held for irrevocable commitments.

Time deposits include Islamic products of SAR 11,530 million (2006: SAR 7,267 million).

Customers' deposits include foreign currency deposits as follows:

SAR' 000	2007	2006
Demand	2,184,654	2,849,791
Saving	16,012	21,231
Time	17,485,129	16,367,619
Other	470,406	287,162
Total	20,156,201	19,525,803

12. Other liabilities

SAR' 000	2007	2006
Accrued special commission payable – banks and other financial institutions	36,312	15,162
– customers' deposits	284,959	242,600
– term loan	352	36,417
– derivatives	13,564	1,138
– other	134,059	79,866
Total accrued special commission payable	469,246	375,183
Accrued expenses and accounts payable	1,051,975	1,006,997
Negative fair value of derivatives (note 9)	2,238,012	711,436
Other	240,778	190,693
Total	4,000,011	2,284,309

13. Term Loan

On June 29, 2005, the Bank entered into a five year syndicated term loan facility agreement for an amount of USD 650 million for general banking purposes. The facility has been drawn down in full and is repayable in 2010. However, the Bank has an option to effect early repayment subject to the terms and conditions of the related syndicated agreement.

14. Share capital

The authorised, issued and fully paid share capital of the Bank consists of 562.5 million shares of SAR 10 each (2006: 337.5 million shares of SAR 10 each).

During the year, in accordance with the shareholders' resolution passed at the General Assembly Meeting held on March 24, 2007, a bonus issue of 225 million shares at a nominal value SAR 10 each was approved to the existing shareholders, on the basis of 2 bonus shares for every 3 shares held, through the capitalization of general reserve.

Accordingly, the number of shares of the Bank have increased from 337.5 million shares to 562.5 million shares.

SAR' 000	%	2007	2006
Saudi shareholders	68.9	3,875,000	2,325,000
CALYON Corporate and Investment Bank	31.1	1,750,000	1,050,000
Total	100	5,625,000	3,375,000

15. Statutory, general and other 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.

An amount of SAR 677 million (2006: SAR 1,125 million) has been transferred from the profit for the year to statutory reserve. This reserve is currently not available for distribution.

The appropriation of SAR 950 million (2006: SAR 2,250 million) has been made to general reserve from net income for the year.

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

16. Commitments and contingencies

a) Legal proceedings

As at December 31, 2007 there were 14 (2006: 16) legal proceedings outstanding against the Bank. No material provision has been made as related professional advice indicates that it is unlikely that any significant loss will arise.

b) Capital commitments

As at December 31, 2007 the Bank had capital commitments of SAR 67 million (2006: SAR 66 million) in respect of buildings and equipment purchases.

c) Credit related commitments and contingencies

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

Guarantees and standby letters of credit, which represent irrecoverable 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.

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

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.

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

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

SAR' 000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
2007					
Letters of credit	7,855,046	2,535,628	1,783,832	552,825	12,727,331
Letters of guarantee	7,326,983	13,304,117	8,814,176	342,010	29,787,286
Acceptances	1,740,047	1,018,644	78,110	31	2,836,832
Irrevocable commitments to extend credit	197,188	82,973	2,659,440	4,200,452	7,140,053
Other	6,750	-	-	-	6,750
Total	17,126,014	16,941,362	13,335,558	5,095,318	52,498,252
2006					
Letters of credit	4,991,578	1,600,074	742,224	-	7,333,876
Letters of guarantee	3,369,243	5,946,889	5,319,331	416,284	15,051,747
Acceptances	1,045,766	651,232	31,325	-	1,728,323
Irrevocable commitments to extend credit	425,228	26,454	577,027	2,262,091	3,290,800
Other	6,750	-	-	-	6,750
Total	9,838,565	8,224,649	6,669,907	2,678,375	27,411,496

The outstanding unused portion of non-firm commitments which can be revoked unilaterally at any time by the Bank as at December 31, 2007, is SAR 27,132 million (2006: SAR 27,483 million).

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

SAR' 000	2007	2006
Government and quasi Government	567,927	502,986
Corporate	37,856,231	22,129,485
Banks and other financial institutions	13,349,410	4,332,493
Other	724,684	446,532
Total	52,498,252	27,411,496

d) Assets pledged

Assets pledged as collateral with other financial institutions are as follows:

SAR' 000	2007 Assets	2007 Related liabilities	2006 Assets	2006 Related liabilities
Other investments held at amortized cost (note 5)	1,572,957	1,591,109	308,980	304,650
Available for sale investments (note 5)	2,885,941	2,916,197	-	-
Total	4,458,898	4,507,306	308,980	304,650

e) Operating lease commitments

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

SAR' 000	2007	2006
Less than 1 year	4,278	21,680
1 to 5 years	32,685	58,406
Over 5 years	150,035	49,894
Total	186,998	129,980

17. Special commission income and expense

SAR' 000	2007	2006
Special commission income		
Investments – held as FVIS – trading	22,535	25,534
– available for sale	268,239	216,648
– held to maturity	189,358	82,390
– other investments held at amortized cost	412,574	501,403
	892,706	825,975
Due from banks and other financial institutions	466,066	269,309
Loans and advances	3,582,023	3,161,850
Total	4,940,795	4,257,134
Special commission expense		
Due to banks and other financial institutions	294,297	267,601
Customers' deposits	2,212,137	1,840,628
Term loan	138,272	132,038
Total	2,644,706	2,240,267

18.Fees from banking services, net

SAR' 000	2007	2006
Fees and commission income		
- Share trading and fund management	589,240	1,501,725
- Trade finance	174,190	159,381
- Corporate finance and advisory	158,729	101,304
- Card products	71,392	61,342
- Other banking services	46,091	17,180
Total fees and commission income	1,039,642	1,840,932
Fees and commission expense		
- Share trading and brokerage	109,465	235,234
- Custodial services	6,287	3,274
- Other banking services	26,656	30,463
Total fees and commission expense	142,408	268,971
Fees from banking services, net	897,234	1,571,961

19. Trading Income, Net

SAR' 000	2007	2006
Foreign exchange	5,225	4,232
Debt securities	66,774	26,363
Derivatives, net	227,207	123,933
Other	11,421	34,804
Total	310,627	189,332

20. Dividend income

SAR' 000	2007	2006
Available for sale investments	3,699	1,641

21. Gains on non-trading investments, net

SAR' 000	2007	2006
Available for sale	-	9,385
Other investments held at amortized cost	-	(10)
Total	-	9,375

22. Other operating income

SAR' 000	2007	2006
Gains on disposal of property and equipment	107	63
Other	5,432	5,248
Total	5,539	5,311

23.Other operating expenses

SAR' 000	2007	2006
Loss on disposal of property and equipment	36	62
Loss on disposal of other real estate	-	186
Other	4,978	4,723
Total	5,014	4,971

24. Basic and diluted earnings per share

Basic and diluted earnings per share for the years ended December 31, 2007 and 2006 is calculated by dividing the net income for the year by 562.5 million shares, to give a retrospective effect for the change in the number of shares which increased as a result of the issuance of bonus shares as set out in note 14.

25.Proposed gross dividend, zakat and income tax

The Board of Directors has proposed on December 3, 2007 a total dividend of SAR 1.75 (2006: SAR 2.00) per share for the year which is subject to the approval of the shareholders at the Annual General Assembly Meeting and regulatory agencies. The total dividend includes interim dividend of SAR 1.25 (2006: SAR 1.50) paid during the year.

Gross dividend

SAR' 000	2007	2006
Interim dividend	738,853	548,733
Final proposed dividend	314,135	201,943
Total	1,052,988	750,676

The dividends are paid to the Saudi and foreign shareholders after deduction of zakat and income tax, respectively, as follows:

i) Zakat

Zakat attributable to the Saudi shareholders for the year amounted approximately to SAR 47 million (2006: SAR 52 million) which will be deducted from their share of dividend. The net total dividend to Saudi shareholders is SAR 678 million (2006: SAR 465 million) out of which the net interim dividend paid was SAR 484 million (2006: SAR 349 million). The net dividend per share has been recalculated retrospectively to give effect for the increased number of shares as a result of bonus issue during the current year.

ii) Income tax

Income tax payable in respect of foreign shareholder – CALYON's current year's share of income is approximately SAR 171 million (2006: SAR 188 million) which will be deducted from their share of dividend for the year. The current year net dividend for the foreign shareholder is SAR 157 million (2006: SAR 45 million).

26. Cash and cash equivalents

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

SAR' 000	2007	2006
Cash and balances with SAMA excluding statutory deposits – note 3	7,050,683	1,367,597
Due from banks and other financial institutions maturing within ninety days from the date of acquisition	3,024,062	6,065,474
Total	10,074,745	7,433,071

27. Business segments

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.

The Bank's primary business is conducted in Saudi Arabia.

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between business segments, resulting in funding cost transfers. Special commission charged for these funds is based on intra-bank rates.

a) The Bank is organized into the following main business segments:

Retail Banking – incorporates private and small establishment customers' demand accounts, overdrafts, loans, saving accounts, deposits, credit and debit cards, retail investments products, consumer loans, international and local shares brokerage services, funds management, insurance (brokerage) and certain forex products.

Corporate Banking – incorporates corporate demand accounts, deposits, overdrafts, loans and other credit facilities and derivative products.

Treasury Banking – incorporates treasury services, trading activities, investment securities, money market, Bank's funding operations and derivative products.

Transactions between the business segments are reported according to the Bank's internal transfer pricing policy.

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

SAR' 000	Retail banking	Corporate banking	Treasury banking	Total
2007				
Total assets	12,254,456	51,928,414	35,625,240	99,808,110
Total liabilities	40,733,663	33,983,140	13,850,672	88,567,475
Total operating income	1,662,122	1,203,580	835,454	3,701,156
Total operating expenses	772,674	89,314	128,058	990,046
Net income	889,448	1,114,266	707,396	2,711,110
2006				
Total assets	11,125,690	42,582,170	25,873,150	79,581,010
Total liabilities	33,474,509	28,942,247	7,759,473	70,176,229
Total operating income	2,261,628	978,810	698,394	3,938,832
Total operating expenses	619,193	184,081	128,610	931,884
Net income	1,642,435	794,729	569,784	3,006,948

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

SAR' 000	Retail banking	Corporate banking	Treasury banking	Total
2007				
Balance sheet assets	11,684,178	51,472,301	32,097,690	95,254,169
Commitments and contingencies	934,253	22,915,091	-	23,849,344
Derivatives	49,802	195,848	4,844,931	5,090,581
2006				
Balance sheet assets	10,536,112	42,176,884	23,555,294	76,268,290
Commitments and contingencies	788,853	11,580,894	-	12,369,747
Derivatives	18,245	573,244	3,899,194	4,490,683

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

28. Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and will cause the other party to incur a financial loss. Credit exposures arise principally in 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 by continually assessing the creditworthiness of counterparties. The Bank's risk management policies are designed to identify and to set appropriate risk limits and to monitor the risks and adherence to limits.

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.

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 diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or business. It also takes security when appropriate.

On an ongoing basis, the Bank continues to improve its organization and resources in order to achieve strict, prudent and exhaustive risk management. The Risk Department is set up in such a way so as to assure independence of the Credit Division from the business lines. Common risk management procedures are adapted to the changes in the Bank's activities and updated on a regular basis. Business lines submit the credit applications to the Credit Division which in turn acts as Secretary of the Credit Committee. The principle of dual signature by the business line and Credit Division applies for all commitments. Above a certain limit, the files are submitted to the Executive Committee for their approval.

Risk rating is used to classify borrowing customers according to the Bank's assessment of the intrinsic risk quality of a customer. The Bank uses an automated rating system to assign the rating of customers, which takes into consideration the quantitative financial data as well as qualitative elements assigned by the business lines. The system uses a scale of 14 grades and allows comparison with ratings of international rating agencies. Corporate and commercial customers are assigned specific ratings accordingly.

The loans and advances portfolio is reviewed periodically, with the annual credit application review, which assists to maintain and improve the quality of assets. When a customer defaults on commission payment or repayment of principal, the customer is downgraded to the non performing portfolio. The non performing portfolio is dealt with by the Remedial Department within the Credit Division. Provisions for credit losses are allocated and monitored regularly.

The debt securities included in investment portfolio are mainly sovereign risk. For analysis of investments by counterparty and the details of the composition of investments, and loans and advances, refer to note 5 and 6, respectively. Information on credit risk relating to derivative instruments is provided in note 9 and for commitments and contingencies in note 16.

29. Geographical concentration

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

SAR' 000	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	Other Countries	Total
2007						
Assets						
Cash and balances with SAMA	10,108,204	379	8,584	35,023	-	10,152,190
Due from banks and other financial institutions	344,150	733,125	2,046,997	35,408	64,382	3,224,062
Investments, net	17,777,737	456,107	1,889,874	1,563,047	813,979	22,500,744
Loans and advances, net	55,189,041	996,757	3,131,265	49,212	483,677	59,849,952
Total	83,419,132	2,186,368	7,076,720	1,682,690	1,362,038	95,726,948
Liabilities						
Due to banks and other financial institutions	1,446,029	2,241,753	4,042,286	319,796	72,849	8,122,713
Customers' deposits	73,750,085	131,181	46,864	59	79,062	74,007,251
Term loan	112,500	496,875	1,509,375	75,000	243,750	2,437,500
Total	75,308,614	2,869,809	5,598,525	394,855	395,661	84,567,464
Commitments and contingencies	37,961,945	4,705,761	6,550,131	718,074	2,562,341	52,498,252
Credit exposure (credit equivalent value)						
Commitments and contingencies	17,483,724	2,340,678	3,080,032	344,468	600,442	23,849,344
Derivatives	1,544,861	212,735	2,934,740	398,245	-	5,090,581
2006						
Assets						
Cash and balances with SAMA	3,356,820	141	13,955	27,920	-	3,398,836
Due from banks and other financial institutions	1,110,194	620,485	3,243,211	634,732	614,655	6,223,277
Investments, net	12,254,486	274,922	1,527,697	1,456,241	499,608	16,012,954
Loans and advances, net	48,750,962	1,116,233	842,333	53,067	367,600	51,130,195
Total	65,472,462	2,011,781	5,627,196	2,171,960	1,481,863	76,765,262
Liabilities						
Due to banks and other financial institutions	1,475,063	665,617	1,233,618	3,527	78,488	3,456,313
Customers' deposits	61,778,988	35,156	37,177	677	146,109	61,998,107
Term loan	75,000	496,875	1,453,125	168,750	243,750	2,437,500
Total	63,329,051	1,197,648	2,723,920	172,954	468,347	67,891,920
Commitments and contingencies	22,646,253	428,528	3,189,064	84,080	1,063,571	27,411,496
Credit exposure (credit equivalent value)						
Commitments and contingencies	10,327,748	177,741	1,525,483	24,381	314,396	12,369,749
Derivatives	1,506,967	162,908	2,520,373	294,436	6,000	4,490,684

b) The distribution by geographical concentration of non performing loans and advances and impairment for credit losses are as follows:

SAR ' 000	2007		2006	
	Non performing, net	Allowance for impairment of credit losses	Non performing, net	Allowance for impairment of credit losses
Kingdom of Saudi Arabia	435,510	825,510	602,601	893,429
GCC and Middle East	-	-	-	-
Total	435,510	825,510	602,601	893,429

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 interest 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 capital market activities is managed and monitored using a combination of VAR, stress testing and sensitivity analysis.

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 applies on a daily basis a VAR methodology to in order 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 Banks ALCO committee for their review.

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

i) Interest Rate Risk

Interest rate risk arises from the possibility that the changes in interest rates will affect either the fair values or the future cash flows of the financial instruments. The Board has established interest 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 sensitivity of interest rate changes on the net commission income is monitored as part of the overall market risk review of positions by the management on a weekly basis.

The following table depicts the sensitivity to a standard change in interest rates, with other variables held constant, on the Bank's equity. The sensitivity of equity is calculated by revaluing the fixed rate and floating rate available for sale financial assets, including the effect of any associated hedges as at December 31, 2007 for the effect of assumed changes in interest 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 with significant exposure and relevant sensitivities are disclosed in SAR thousands.

SAR' 000		**2007**				
Currency	**BPS change**	**Sensitivity of Equity**				**Total**
		6 months or less	1 year or less	1-5 years or less	Over 5 years	
USD	+1 -1	(12) 12	(15) 15	(521) 521	(244) 244	(792) 792
SAR	+1 -1	- -	(16) 16	(576) 576	- -	(592) 592

SAR' 000		**2006**				
Currency	**BPS change**	**Sensitivity of Equity**				**Total**
		6 months or less	1 year or less	1-5 years or less	Over 5 years	
USD	+1 -1	(2) 2	(4) 4	(418) 418	(208) 208	(632) 632
SAR	+1 -1	(14) 14	(30) 30	(682) 682	- -	(726) 726

ii) Currency Risk

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

The table below shows the currencies to which the Bank has a significant exposure as at December 31, 2007 on its non-trading monetary assets and liabilities and forecasted cash flows. The analysis calculates the effect of reasonable possible movement of the currency rate against SAR, with all other variables held constant, on the income statement due to the fair value of the currency sensitive non-trading monetary assets and liabilities. The effect on equity is not significant. A positive effect shows a potential increase in the statement of income; whereas a negative effect shows a potential net reduction in the statement of income.

SAR' 000	2007		2006	
Currency Exposures	Change in Currency Rate in %	Effect on Net Income	Change in Currency Rate in %	Effect on Net Income
USD	+5	(5,425)	+5	(45,305)
EUR	-3	(1,254)	-3	(1,499)

iii) Equity Price Risk

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

The effect on the Bank's equity investments held as available for sale due to reasonable possible change in equity indices is not material.

31. Foreign currency risk

The Bank manages exposure to 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:

SAR' 000	2007 Long	2006 Long (short)
US Dollar	279,701	(160,716)
Euro	46,580	71,205
Pound Sterling	8,508	13,053
Other	7,884	7,175

32. Commission rate risk

Commission sensitivity of assets, liabilities and off balance sheet items

The Bank manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market commission rates on its financial position and cash flows. The 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 summarizes the Bank's exposure to commission rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing and maturity dates.

SAR' 000	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total
2007						
Assets						
Cash and balances with SAMA	6,562,271	-	-	-	3,589,919	10,152,190
Due from banks and other financial institutions	2,816,452	200,000	-	-	207,610	3,224,062
Investments, net	5,724,867	6,292,924	8,641,844	899,050	942,059	22,500,744
Loans and advances, net	35,950,947	14,417,012	6,077,781	3,361,243	42,969	59,849,952
Property and equipment, net	-	-	-	-	577,318	577,318
Other assets	-	-	-	-	3,503,844	3,503,844
Total assets	51,054,537	20,909,936	14,719,625	4,260,293	8,863,719	99,808,110
Liabilities and shareholders' equity						
Due to banks and other financial institutions	6,733,498	823,996	-	-	565,219	8,122,713
Customers' deposits	41,086,624	9,200,681	1,051,711	-	22,668,235	74,007,251
Other liabilities	-	-	-	-	4,000,011	4,000,011
Term loan	2,437,500	-	-	-	-	2,437,500
Shareholders' equity	-	-	-	-	11,240,635	11,240,635
Total liabilities and shareholders' equity	50,257,622	10,024,677	1,051,711	-	38,474,100	99,808,110
On balance sheet gap	796,915	10,885,259	13,667,914	4,260,293	(29,610,381)	-
Off balance sheet gap	1,402,766	(3,397,982)	937,034	1,058,182	-	-
Total commission rate sensitivity gap	2,199,681	7,487,277	14,604,948	5,318,475	(29,610,381)	-
Cumulative commission rate sensitivity gap	2,199,681	9,686,958	24,291,906	29,610,381	-	-
2006						
Assets						
Cash and balances with SAMA	868,866	-	-	-	2,529,970	3,398,836
Due from banks and other financial institutions	5,116,882	150,000	-	-	956,395	6,223,277
Investments, net	4,994,025	1,446,680	7,749,153	1,118,716	704,380	16,012,954
Loans and advances, net	35,750,007	9,286,637	3,782,292	2,150,854	160,405	51,130,195
Property and equipment, net	-	-	-	-	552,382	552,382
Other assets	-	-	-	-	2,263,366	2,263,366
Total assets	46,729,780	10,883,317	11,531,445	3,269,570	7,166,898	79,581,010
Liabilities and shareholders' equity						
Due to banks and other financial institutions	2,835,846	494,250	-	-	126,217	3,456,313
Customers' deposits	33,482,629	8,936,680	1,005,327	-	18,573,471	61,998,107
Other liabilities	-	-	-	-	2,284,309	2,284,309

Term loan	2,437,500	-	-	-	-	2,437,500
Shareholders' equity	-	-	-	-	9,404,781	9,404,781
Total liabilities and shareholders' equity	38,755,975	9,430,930	1,005,327	-	30,388,778	79,581,010
On balance sheet gap	7,973,805	1,452,387	10,526,118	3,269,570	(23,221,880)	-
Off balance sheet gap	(4,327,682)	(361,099)	2,844,406	1,844,375	-	-
Total commission rate sensitivity gap	3,646,123	1,091,288	13,370,524	5,113,945	(23,221,880)	-
Cumulative commission rate sensitivity gap	3,646,123	4,737,411	18,107,935	23,221,880	-	-

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

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

33. Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to become unavailable immediately. 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.

In accordance with the Banking Control Law and the Regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 9% of total customers' demand deposits, and 2% of due to banks and other financial institutions (excluding balances due to SAMA and non resident foreign currency deposits), saving, time deposits, margins of letters of credit and guarantee, excluding all type of repo deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of not less than 20% of its deposit liabilities, in the form of cash, Saudi Government securities or assets which can be converted into cash within a period not exceeding 30 days. The Bank can also raise additional funds through repo facilities available with SAMA against its holding of Saudi Government securities up to 75% of the nominal value of securities.

The table below summarizes 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 account of the effective maturities as indicated by the Bank's deposit retention history. Management monitors the maturity profile to ensure that adequate liquidity is maintained.

SAR' 000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
2007						
Assets						
Cash and balances with SAMA	6,562,271	-	-	-	3,589,919	10,152,190
Due from banks and other financial institutions	2,816,452	200,000	-	-	207,610	3,224,062
Investments, net	1,802,053	6,231,706	12,008,726	1,516,200	942,059	22,500,744
Loans and advances, net	22,796,943	10,868,166	11,384,508	8,933,379	5,866,956	59,849,952
Property and equipment, net	-	-	-	-	577,318	577,318
Other assets	-	-	-	-	3,503,844	3,503,844
Total assets	33,977,719	17,299,872	23,393,234	10,449,579	14,687,706	99,808,110

Liabilities and shareholders' equity						
Due to banks and other financial institutions	6,733,498	823,996	-	-	565,219	8,122,713
Customers' deposits	37,983,242	9,200,681	1,051,711	-	25,771,617	74,007,251
Other liabilities	-	-	-	-	4,000,011	4,000,011
Term loan	-	-	2,437,500	-	-	2,437,500
Shareholders' equity	-	-	-	-	11,240,635	11,240,635
Total liabilities and shareholders' equity	44,716,740	10,024,677	3,489,211	-	41,577,482	99,808,110

SAR' 000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
2006						
Assets						
Cash and balances with SAMA	868,866	-	-	-	2,529,970	3,398,836
Due from banks and other financial institutions	5,116,882	150,000	-	-	956,395	6,223,277
Investments, net	745,081	2,478,665	10,966,112	1,118,716	704,380	16,012,954
Loans and advances, net	21,457,595	6,929,360	10,390,940	6,553,571	5,798,729	51,130,195
Property and equipment , net	-	-	-	-	552,382	552,382
Other assets	-	-	-	-	2,263,366	2,263,366
Total assets	28,188,424	9,558,025	21,357,052	7,672,287	12,805,222	79,581,010
Liabilities and shareholders' equity						
Due to banks and other financial institutions	2,835,846	494,250	-	-	126,217	3,456,313
Customers' deposits	31,925,357	8,936,680	1,005,327	-	20,130,743	61,998,107
Other liabilities	-	-	-	-	2,284,309	2,284,309
Term loan	-	-	2,437,500	-	-	2,437,500
Shareholders' equity	-	-	-	-	9,404,781	9,404,781
Total liabilities and shareholders' equity	34,761,203	9,430,930	3,442,827	-	31,946,050	79,581,010

34. 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 held to maturity and other financial instruments held at amortized cost are not significantly different from the carrying values included in the financial statements.

The estimated fair values of the held to maturity investments and other investments held at amortized cost, is based on quoted market prices when available or pricing models. Consequently, differences can arise between carrying values and fair value estimates. The fair values of these investments are disclosed in note 5.

35. Related party transactions

In the ordinary course of its activities, the Bank transacts business with related parties. In the opinion of the management and the Board, the related party transactions are carried out on an arm's length basis. The related party transactions are governed by limits set by the Banking Control Law and Regulations issued by SAMA. The balances as at December 31 resulting from such transactions included in the financial statements are as follows:

SAR' 000	2007	2006
Credit Agricole Group		
Investments	887,079	502,442
Due from banks and other financial institutions	902,457	739,549
Due to banks and other financial institutions	1,318,272	1,298,616
Derivatives at (negative) positive fair value	(808,682)	85,478
Commitments and contingencies	2,180,233	1,493,960
Associates		
Investments	204,835	35,403
Due from banks and other financial institutions	-	-
Loans and advances	3,750	3,750
Due to banks and other financial institutions	72,811	90,217
Customers' deposits	2,973	12,091
Commitments and contingencies	21,795	24,420
Directors, other major shareholders' and their affiliates		
Loans and advances	2,165,060	1,347,959
Customers' deposits	3,914,117	3,512,905
Derivatives at positive fair value	32,923	2,377
Commitments and contingencies	244,046	176,313
Bank's mutual funds		
Investments	88,818	55,735
Loans and advances	-	-
Customers' deposits	497,189	457,570

Other major shareholders represent shareholdings excluding the foreign shareholder of more than 5% of the Bank's share capital.

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

SAR' 000	2007	2006
Special commission income	97,811	68,132
Special commission expense	212,452	213,359
Fees from banking services	38,684	86,410
Directors' fees	2,774	1,480
Other general and administrative expenses	373	144

The total amount of short term benefits paid to key management personnel during the year is SAR 45 million (2006: SAR 37 million). The key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly.

36. Capital adequacy

The Bank monitors the adequacy of its capital using ratios established by the 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 a weighted amount to reflect their relative risk.

	2007		2006	
SAR' 000	**Capital**	**Ratios %**	**Capital**	**Ratios %**
Tier 1	11,240,635	12.21%	9,404,781	14.38%
Tier 1 + Tier 2	11,240,635	12.21%	9,404,781	14.38%

	Risk weighted assets					
	2007			2006		
SAR' 000	**Carrying value or notional**	**Credit equivalent**	**Risk weighted assets**	**Carrying value or notional**	**Credit equivalent**	**Risk weighted assets**
Balance sheet assets						
0 %	25,663,482		-	21,253,730		-
20 %	4,017,438		803,488	6,474,928		1,294,985
100 %	70,127,190		70,127,190	51,852,352		51,852,352
Total	99,808,110		70,930,678	79,581,010		53,147,337
Commitments and contingencies						
0 %	307,500	153,750	-	-	-	-
20 %	10,321,512	4,807,378	961,476	3,278,859	1,544,741	308,947
100 %	41,869,240	18,888,216	18,888,216	24,132,637	10,825,006	10,825,006
Total	52,498,252	23,849,344	19,849,692	27,411,496	12,369,747	11,133,953
Derivatives						
0 %	14,466,298	157,139	-	3,300,321	36,531	-
20 %	133,724,196	4,046,959	809,392	145,848,406	3,715,419	743,085
50 %	25,905,131	886,483	443,242	18,528,912	738,733	369,367
Total	174,095,625	5,090,581	1,252,634	167,677,639	4,490,683	1,112,452
Total risk weighted assets			92,033,004			65,393,742

37. 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. However, the Bank's share of these funds is included in the available for sale investments and fees earned are disclosed under related party transactions.

The Bank also offers Islamic investment management services to its customers, which include management of certain investment funds in consultation with professional investment advisors, having net asset values totalling SAR 2,257 million (2006: SAR 1,874 million).

38. Post balance sheet events

Basel II Framework

Effective January 1, 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 36.

39. Prospective changes in International Financial Reporting Framework

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 January 1, 2009.

40. Comparative figures

Prior year figures have been reclassified wherever necessary to conform to current year presentation.

41. Board of directors approval

The financial statements were approved by the Board of Directors on January 20, 2008 corresponding to Moharram 12, 1429H.

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