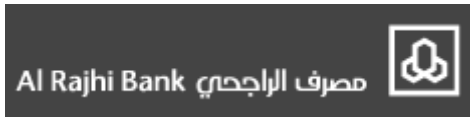


**AL RAJHI BANKING AND INVESTMENT
CORPORATION**
(Saudi Joint Stock Company)



**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
TOGETHER WITH AUDITORS' REPORT**

AL RAJHI BANKING AND INVESTMENT CORPORATION
(Saudi Joint Stock Company)

CONSOLIDATED BALANCE SHEETS
AS AT 31 DECEMBER 2007 AND 2006
(SR '000)

	Note	2007	2006
ASSETS			
Cash and precious metals	3	3,486,046	4,844,636
Balances with Saudi Arabian Monetary Agency ("SAMA")	4	9,655,153	4,399,266
Due from banks	5	790,645	1,451,970
Investments, net:			
Mutajara		42,605,089	34,171,306
Installment sale		55,989,774	51,556,292
Istisnaa		1,630,014	2,164,153
Murabaha		4,078,388	1,240,553
Other	7	572,180	430,884
Total investments, net	6	104,875,445	89,563,188
Customer debit current accounts, net	8	909,918	719,387
Property and equipment, net	9	2,591,101	1,976,551
Other assets, net	10	2,578,174	2,253,746
TOTAL ASSETS		124,886,482	105,208,744
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities:			
Due to banks	11	2,593,090	3,473,246
Syndicated murabaha financing from banks	12	1,875,000	1,875,000
Customer deposits	13	89,725,167	73,397,980
Other customer accounts (including margins on letters of credit, third party funds, certified checks and transfers)		3,030,969	2,484,442
Other liabilities	14	4,056,144	3,798,600
Total liabilities		101,280,370	85,029,268
Shareholders' equity			
Share capital	15	13,500,000	6,750,000
Statutory reserve	16	7,096,219	5,483,508
General reserve	16	197,650	1,400,000
Retained earnings		1,588,326	5,547,650
Proposed gross dividends	23	1,223,917	998,021
Total shareholders' equity		23,606,112	20,179,476
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		124,886,482	105,208,744

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

AL RAJHI BANKING AND INVESTMENT CORPORATION
(Saudi Joint Stock Company)

CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(SR '000)

	Note	2007	2006
INCOME:			
Income from investments:			
Mutajara		2,797,651	1,728,571
Installment sale		5,467,749	5,318,180
Istisnaa		194,092	240,606
Murabaha		108,089	359,379
Other		15,535	11,530
Total income from investments		8,583,116	7,658,266
Income paid to customers and banks on time investments		(751,593)	(762,589)
Income paid on syndicated murabaha financing from banks		(109,711)	(69,591)
Income from investments, net	19	7,721,812	6,826,086
Income from investment properties		-	16,617
Mudaraba fees		71,249	97,888
Fees from banking services, net	20	980,625	1,563,319
Exchange income, net		470,872	390,299
Other operating income	21	76,538	615,689
Total operating income		9,321,096	9,509,898
EXPENSES:			
Salaries and employee related benefits		1,451,180	1,119,099
Rent and premises related expenses		117,918	95,290
Impairment charge for investments and other	6-2 & 17	443,240	252,644
Depreciation and amortization		288,159	183,778
Other general and administrative expenses		567,831	555,290
Board of directors' remuneration	29	3,111	1,906
Total operating expenses		2,871,439	2,208,007
NET INCOME		6,449,657	7,301,891
Weighted average number of shares outstanding	15 & 22	1,350 million	1,350 million
EARNINGS PER SHARE (IN SR)	22	4.78	5.41

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

AL RAJHI BANKING AND INVESTMENT CORPORATION
(Saudi Joint Stock Company)

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

(SR '000)

	<u>Notes</u>	<u>Share capital</u>	<u>Statutory reserve</u>	<u>General reserve</u>	<u>Retained earnings</u>	<u>Proposed gross dividends</u>	<u>Total</u>
<u>2007</u>							
Balance at January 1, 2007		6,750,000	5,483,805	1,400,000	5,547,650	998,021	20,179,476
Transfer to accrued zakat	23	-	-	-	-	(323,021)	(323,021)
Dividends paid for prior year		-	-	-	-	(675,000)	(675,000)
Bonus share issue	15	6,750,000	-	(1,202,350)	(5,547,650)	-	-
Net income		-	-	-	6,449,657	-	6,449,657
Transfer to statutory reserve		-	1,612,414	-	(1,612,414)	-	-
Interim dividends paid for the first half of the current year		-	-	-	(2,025,000)	-	(2,025,000)
Proposed gross dividends	23	-	-	-	(1,223,917)	1,223,917	-
Balance at December 31, 2007		13,500,000	7,096,219	197,650	1,588,326	1,223,917	23,606,112
<u>2006</u>							
Balance at January 1, 2006		4,500,000	3,658,332	1,400,000	3,319,253	591,709	13,469,294
Transfer to accrued zakat		-	-	-	-	(141,709)	(141,709)
Dividends paid for prior year		-	-	-	-	(450,000)	(450,000)
Bonus share issue	15	2,250,000	-	-	(2,250,000)	-	-
Net income		-	-	-	7,301,891	-	7,301,891
Transfer to statutory reserve		-	1,825,473	-	(1,825,473)	-	-
Proposed gross dividends	23	-	-	-	(998,021)	998,021	-
Balance at December 31, 2006		6,750,000	5,483,805	1,400,000	5,547,650	998,021	20,179,476

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

AL RAJHI BANKING AND INVESTMENT CORPORATION
(Saudi Joint Stock Company)

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

(SR '000)

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	6,449,657	7,301,891
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	288,159	183,778
Impairment charge for investments and other	443,240	252,644
Gain on sale of property and equipment	(7)	(278)
Net (increase) decrease in operating assets:		
Statutory deposit with SAMA (Note 4)	(2,682,599)	(132,299)
Customer debit current accounts	(197,531)	(497,503)
Other assets	(341,685)	(267,487)
Net increase (decrease) in operating liabilities:		
Due to banks	(880,156)	38,697
Syndicated murabaha financing from banks	-	1,875,000
Customer deposits	16,327,187	3,164,846
Other customer accounts	546,527	162,645
Other liabilities	(73,068)	(2,089,316)
Net cash provided by operating activities	<u>19,879,724</u>	<u>9,992,618</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Mutajara	(8,360,872)	(10,548,998)
Installment sale	(4,899,689)	(4,308,974)
Istisnaa	534,139	392,929
Murabaha	(2,873,189)	5,179,624
Other investments	(141,296)	(209,886)
Investment properties	-	194,240
Purchase of property and equipment	(885,452)	(792,551)
Proceeds from sale of property and equipment	8	807
Net cash used in investing activities	<u>(16,626,351)</u>	<u>(10,092,809)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid	(2,700,000)	(450,000)
Net cash used in financing activities	<u>(2,700,000)</u>	<u>(450,000)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	553,373	(550,191)
Cash and cash equivalents at the beginning of year	<u>6,299,895</u>	<u>6,850,086</u>
CASH AND CASH EQUIVALENTS AT THE END OF YEAR (Note 24)	<u>6,853,268</u>	<u>6,299,895</u>

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

AL RAJHI BANKING AND INVESTMENT CORPORATION
(Saudi Joint Stock Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

1. GENERAL

a) Incorporation and operations

Al Rajhi Banking and Investment Corporation, a Saudi Joint Stock Company, (the “Corporation”), was formed and licensed pursuant to Royal Decree No. M/59 dated 3 Dhul Qadah 1407H (corresponding to June 29, 1987) and in accordance with Article 6 of the Council of Ministers’ Resolution No. 245, dated 26 Shawal 1407H (corresponding to June 23, 1987).

The Corporation operates under Commercial Registration No. 1010000096 and its Head Office is located at the following address:

Al Rajhi Banking and Investment Corporation
P.O. Box 28
Riyadh 11411
Kingdom of Saudi Arabia

The objectives of the Corporation are to carry out banking and investment activities in accordance with its Articles of Association and By-Laws, the Banking Control Law and the Council of Ministers’ Resolution referred to above. The Corporation is engaged in banking and investment activities inside and outside the Kingdom of Saudi Arabia for its own account and on behalf of others. At December 31, 2007, the Corporation had 403 branches (2006: 389 branches) and employed 8,036 employees as at December 31, 2007 (2006: 7,534 employees). The Corporation has established wholly or substantially owned subsidiaries as set out in Note 2-c.

b) Shari’a Authority

As a commitment from the Corporation for its activities to be in compliance with Islamic Shari’a legislations, the Corporation has, since inception, established a Shari’a Authority (the “Authority”) to ascertain that the Corporation’s activities are subject to its approval and control. The Authority had reviewed several of the Corporation’s activities and issued the required decisions thereon.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in preparing these consolidated financial statements are set out below. The accounting policies used in the preparation of these consolidated financial statements are consistent with those of prior year.

a) Basis of Presentation

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

The consolidated financial statements are prepared under the historical cost convention as modified for the measurement at fair value of investments held as fair value through income statement (FVIS).

The Corporation has adopted IFRS 7 - Financial Instruments: disclosures, amendments of IAS 1 - Capital Disclosures, and International Financial Reporting Interpretations Committee (IFRIC) 10 - Interim Financial Reporting and Impairment, effective January 1, 2007 with retrospective effect, whenever applicable. IFRS 7 introduces new disclosures of qualitative information about the significance of, and the nature and extent of risk arising from financial instruments. The amendment to IAS 1 introduces disclosures about the level of capital and how the Corporation’s manages capital. IFRIC 10 requires that the Corporation shall not reverse any impairment losses recognized in the previous interim period in respect of an investment in equity instrument or the financial asset carried at cost, because the fair value cannot be reliably measured.

The consolidated financial statements are presented in Saudi Riyal (SR) and are rounded off to the nearest thousand.

b) Critical accounting judgments, estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgments in the process of applying the Corporation’s accounting policies. Such estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances.

c) Basis of the preparation of the consolidated financial statements

These consolidated financial statements include the accounts of Al Rajhi Banking and Investment Corporation and its subsidiaries in which the Corporation's shareholdings exceed 50% of their share capital and have the power to govern their financial and operational policies. Significant balances and transactions between the Corporation and its subsidiaries and those among subsidiaries are eliminated upon consolidation.

Subsidiaries are consolidated from the date on which control is transferred to the Corporation till the date control ceases. The financial statements of the subsidiaries are prepared for the same reporting year as that of the Corporation, using consistent accounting policies.

The consolidated subsidiaries as at December 31 are as follows:

SUBSIDIARIES	Shareholding %	
	2007	2006
SPC Limited - British Virgin Islands	99%	99%
Arpent VAT Limited – UK	100%	100%
Al Rajhi Investment Corporation Limited - London	100%	100%
ARA 1 Company Limited – Jersey	99%	99%
Al Rajhi Company for Development Limited - Riyadh	99%	99%
Al Rajhi Banking & Investment Corporation BHD-Malaysia	100%	100%
Al Rajhi Financial Services Company	99%	-

To comply with Capital Market Authority requirements, the Corporation has established a new company for brokerage business under the name of "Al Rajhi Financial Services Company" by spinning off all the brokerage business from the Corporation. The results of operations of this subsidiary have not been consolidated in the accompanying consolidated financial statements as it has not commenced its commercial activities yet.

d) Zakat

Zakat is calculated based on the zakat rules and regulations in the Kingdom of Saudi Arabia and is considered as a liability on the shareholders to be deducted from dividends. In the case of any differences between the Corporation's calculation and the Department of Zakat and Income Tax's (DZIT) assessment, such differences will be charged to the general reserve.

e) Trade date accounting

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

f) Foreign currencies and precious metals

Transactions in foreign currencies and precious metals are translated into Saudi Riyals at exchange rates, and the prices of precious metals, prevailing on the dates of the transactions. Monetary assets and liabilities at the year end denominated in foreign currencies, and precious metals, are translated into Saudi Riyals at exchange rates and prices of precious metals prevailing at the consolidated balance sheet date.

Realized and unrealized gains or losses on exchange and prices of precious metals are credited or charged to the consolidated statement of income.

The monetary assets and liabilities of foreign subsidiaries are translated at rates of exchange prevailing at the consolidated balance sheet date. The statements of income of foreign subsidiaries are translated at the average exchange rates for the year.

Exchange differences, if materials, arising on monetary items that form part of net investments in subsidiaries, are included as a separate component in the shareholders' equity.

g) Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and are reported net in the consolidated balance sheet when there is a legally enforceable right to set off the recognized amounts, and when the Corporation intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

h) Revenue recognition

- Income from mutajara, murabaha, musharaka after the sale of shares, installment sale and istisnaa financing, is recognized based on effective yield basis on the outstanding balances. No additional income is charged on the overdue balances.
- Income from istisnaa arises from execution and financing of projects. Income from the executed part of istisnaa contract under progress is recognized using the percentage of completion method. However, if the cost to complete the contract cannot be reasonably estimated, then income is recognized upon the completion of the contract. Such income is included under istisnaa income in the consolidated statement of income.
- Fees from banking services are recognized as and when the related services are rendered on the accrual basis of accounting.

i) Investments and provisions for impairment

The Corporation classifies its major investments as follows:

- i. Held at amortized cost - such investments are measured at amortized cost, and comprise mutajara, installment sale, istisnaa and murabaha.

- ii. Held as FVIS - such investments are measured at fair value, and comprise real estate, mutual funds, and other investments.

Investments held at amortized cost are initially recognized at cost and subsequently measured at cost less any amounts written off, and provision for impairment.

Investments held as FVIS are initially recognized at cost and are subsequently measured at fair value. Any change in fair value is charged to the consolidated statement of income. Investments, where fair value cannot be reliably measured, are carried at cost.

Provision for investments, including those arising from sovereign credit risk exposure, if any, are determined according to management's assessment of the adequacy of the recorded provision on a periodic basis. Such assessment takes into account the composition and volume of the related accounts, the historical pattern of losses, the credit rating of the customers, and the economic environment in which the customers operate.

For presentation purposes in the consolidated financial statements, provision for investments is deducted from the related investment account.

j) Impairment of financial assets

An assessment is made at each consolidated balance sheet date to determine whether there is objective evidence that a financial asset or a group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of the future anticipated cash flows, is recognized for changes in the asset's carrying amount. The carrying amount of the financial assets held at amortized cost, is adjusted either directly or through the use of an provision account, and the amount of the adjustment is included in the consolidated statement of income.

Specific provisions are evaluated individually for all different types of investments. Considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions. In addition to the specific provisions described above, the Corporation also makes collective impairment provisions, which are evaluated on a group basis and are created for losses, where there is objective evidence that a group of investments has greater risk of impairment than when originally initiated. The amount of the provision is estimated based on the historical default patterns of the investment counter-parties as well as their credit ratings, taking into account the current economic climate.

The criteria that the Corporation uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or profit.
- Cash flow difficulties experienced by the customer.
- Breach of repayment covenants or conditions.

- Initiation of bankruptcy proceedings against the customer.
- Deterioration of the customer's competitive position.
- Deterioration in the value of collateral.

When an investment amount is uncollectible, it is written off against the related provision for impairment. Such investments are written off after all necessary procedures have been completed and the amount of the loss has been determined.

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

Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted.

k) De-recognition of financial assets and liabilities

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire or if the corporation has not retained control on the financial asset.

A financial liability can be only derecognized when it is extinguished, that is when the obligation specified in the contract is either discharged, cancelled or expires.

l) Customer debit current accounts

All non-commission bearing customer debit current accounts are stated at cost, less doubtful amounts and provision for impairment, if any.

m) Property and equipment

Property and equipment are stated at cost, net of accumulated depreciation and amortization. Land is not depreciated. The cost of other property and equipment is depreciated or amortized using the straight-line method over the estimated useful lives of the assets, as follows:

Leasehold land improvements	over the period of the lease
Buildings	20 years
Leasehold building improvements	3 years
Equipment and furniture	3 to 10 years.

n) Customer deposits

Non-commission bearing customer deposits are initially recognized at cost, being the fair value of the consideration received, and are subsequently measured at amortized cost.

o) Provisions

Provisions are recognized when the Corporation has present legal, or constructive, obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

p) Acceptances

Acceptances comprise undertakings by the Corporation to pay bills of exchange drawn on customers. The Corporation expects most acceptances to be settled simultaneously with the related reimbursement from the customers. Acceptances are accounted for as off balance sheet transactions and are disclosed as commitments and contingencies.

q) Accounting for leases

Leases entered into by the Corporation as a lessee are all operating leases. Accordingly, payments are charged to the consolidated statement of income on straight-line basis over the period of the lease. Leases entered into by the Corporation as a lessor are all operating leases.

r) Cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents are defined as those amounts included in cash and precious metals, balances with SAMA (excluding the statutory deposit) and due from banks maturing within ninety days on acquisition.

s) Special commission excluded from the consolidated statement of income

In accordance with the Shari'a Authority's resolutions, special commission income received by the Corporation is excluded from the determination of income, and is recorded as other liabilities in the consolidated balance sheet to be paid as charities.

t) Mudaraba funds

The Corporation carries out mudaraba transactions on behalf of its customers, and are treated by the Corporation as being restricted investments, These are included as off balance sheet items. The Corporation's share of profits from managing such funds is included in the consolidated statement of income.

u) Investment management services

The Corporation provides investment management services to its customers, which include management of certain mutual funds. Assets held in trust or in a fiduciary capacity are not treated as assets of the Corporation and, accordingly, are not included in the consolidated financial statements.

3. CASH AND PRECIOUS METALS

Cash and precious metals as of December 31 comprise the following:

	(SR '000)	
	<u>2007</u>	<u>2006</u>
Cash and precious metals on hand	3,485,408	4,844,002
Precious metals with correspondents	638	634
Total	<u>3,486,046</u>	<u>4,844,636</u>

4. BALANCES WITH SAMA

The balances with SAMA as of December 31 comprise the following:

	(SR'000)	
	<u>2007</u>	<u>2006</u>
Statutory deposit	7,078,576	4,395,977
Current accounts	2,576,577	3,289
Total	<u>9,655,153</u>	<u>4,399,266</u>

In accordance with the Banking Control Law and Regulations issued by SAMA, the Corporation is required to maintain a statutory deposit with SAMA at stipulated percentages of its customer deposits and other customer accounts, calculated at the end of each Gregorian month.

5. DUE FROM BANKS

Due from banks as of December 31, comprise current accounts as follows:

	(SR'000)	
	<u>2007</u>	<u>2006</u>
Inside the Kingdom	1,500	2,000
Outside the Kingdom	789,145	1,449,970
Total	<u>790,645</u>	<u>1,451,970</u>

6. INVESTMENTS, NET

6 – 1 Investments

a) Investments, net as of December 31, comprise the following:

	(SR'000)			<u>2006</u> <u>Net</u>
	<u>2007</u>			
	<u>Gross</u>	<u>Provision</u>	<u>Net</u>	
<u>Held at amortized cost</u>				
Mutajara	42,958,905	(353,816)	42,605,089	34,171,306
Installment sale	58,501,530	(2,511,756)	55,989,774	51,556,292
Istisnaa	1,630,014	-	1,630,014	2,164,153
Murabaha	4,588,872	(510,484)	4,078,388	1,240,553
Total	<u>107,679,321</u>	<u>(3,376,056)</u>	<u>104,303,265</u>	<u>89,132,304</u>
<u>Held as FVIS</u>				
Other (see Note 7)	609,660	(37,480)	572,180	430,884
Total	<u>609,660</u>	<u>(37,480)</u>	<u>572,180</u>	<u>430,884</u>
Grand total	<u>108,288,981</u>	<u>(3,413,536)</u>	<u>104,875,445</u>	<u>89,563,188</u>

b) The net investments by location, inside and outside the Kingdom, as of December 31 are as follows:

Description	(SR'000)						<u>2006</u> <u>Total</u>
	<u>2007</u>						
	<u>Mutajara</u>	<u>Installment sale</u>	<u>Istisnaa</u>	<u>Murabaha</u>	<u>Other</u>	<u>Total</u>	
Inside the Kingdom	36,870,915	58,501,530	1,630,014	1,910,407	496,041	99,408,907	84,184,664
Outside the Kingdom	6,087,990	-	-	2,678,465	113,619	8,880,074	8,147,577
Total	<u>42,958,905</u>	<u>58,501,530</u>	<u>1,630,014</u>	<u>4,588,872</u>	<u>609,660</u>	<u>108,288,981</u>	<u>92,332,241</u>
Provision	(353,816)	(2,511,756)	-	(510,484)	(37,480)	(3,413,536)	(2,769,053)
Net	<u>42,605,089</u>	<u>55,989,774</u>	<u>1,630,014</u>	<u>4,078,388</u>	<u>572,180</u>	<u>104,875,445</u>	<u>89,563,188</u>

The effective yield on investments amounted to 7.2% for the year ended December 31, 2007 (2006: 7.5%).

Investments held at amortized cost are disclosed net of cumulative deferred income amounting to SR 23,537 million as at December 31, 2007 (2006: SR 21,656 million).

Other investments include unquoted equity investments amounting to SR 40 million as at December 31, 2007 and 2006, carried at cost as their fair values cannot be reliably measured. Also, they include investments in mutual funds amounting to SR 130 million as at December 31, 2007 (2006: SR 125 million) carried at fair value (Note 7).

Istisnaa:

At the beginning of 1993, the Corporation signed istisnaa contracts with the Ministry of Education, under the guarantee of the Ministry of Finance, for the construction of 400 schools within approximately 24 months. The value of the contracts is payable in quarterly installments over 10 years from the date of the initial handover of each school, or the date of the completion of the construction contract period, whichever comes later. As of December 31, 2007 and 2006, the Corporation had finally handed over 399 schools. The outstanding balance on these contracts as at December 31, 2007 amounted to SR 13,123 thousand (2006: SR 168,825 thousand).

The istisnaa balance as shown in the consolidated balance sheet as at December 31, 2007, includes an amount of SR 1,616,891 thousand (2006: SR 1,995,328 thousand), representing the cost of erection of power plant in the Kingdom of Saudi Arabia under an istisnaa contract with the Saudi Electricity Company. The project was completed in November 2002, and the balance is payable by the Saudi Electricity Company in monthly installments over 10 years, with effect from January 15, 2002.

- c) The net investments concentration risks and the related provision, by major economic sectors at December 31, are as follows:

2007

Description	(SR'000)			
	Performing	Non-Performing	Provision	Net
Banks and other financial institutions	7,892,765	-	-	7,892,765
Commerce	18,481,043	1,249,718	(823,221)	18,907,540
Industry	3,653,088	-	-	3,653,088
Public (Government)	11,504,952	8,204	-	11,513,156
Services	2,645,657	-	-	2,645,657
Agriculture and fishing	1,247,092	-	-	1,247,092
Building and construction	4,914,101	16,321	(16,321)	4,914,101
Personal	53,189,979	1,816,430	(1,717,572)	53,288,837
Other	1,632,151	37,480	(37,480)	1,632,151
Total	105,160,828	3,128,153	(2,594,594)	105,694,387
Additional portfolio provision			(818,942)	(818,942)
Balance			(3,413,536)	104,875,445

2006

Description	(SR'000)			Net
	Performing	Non-Performing	Provision	
Banks and other financial institutions	11,647,800	29,574	(29,574)	11,647,800
Commerce	11,829,442	631,819	(386,965)	12,074,296
Industry	2,156,096	-	-	2,156,096
Public (Government)	9,038,928	-	-	9,038,928
Services	798,735	-	-	798,735
Agriculture and fishing	1,620,774	-	-	1,620,774
Building and construction	2,530,978	-	-	2,530,978
Personal	50,233,905	1,345,826	(1,345,826)	50,233,905
Other	430,884	37,480	(37,480)	430,884
Total	90,287,542	2,044,699	(1,799,845)	90,532,396
Additional portfolio provision			(969,208)	(969,208)
Balance			(2,769,053)	89,563,188

- d) The table below depicts the categories of investments as shown in the balance sheet as per main business segments:

2007

	(SR'000)			Total
	Corporate	Retail	Treasury and International Investments	
Mutajara	23,995,883	-	18,963,022	42,958,905
Installment sale	1,741,372	56,760,158	-	58,501,530
Istisnaa	1,630,014	-	-	1,630,014
Murabaha	1,007,011	3,581,861	-	4,588,872
Total	28,374,280	60,342,019	18,963,022	107,679,321
Less: Provision	(277,633)	(2,997,664)	(100,759)	(3,376,056)
Investment, net	28,096,647	57,344,355	18,862,263	104,303,265

2006

	(SR'000)			Total
	Corporate	Retail	Treasury and International Investments	
Mutajara	14,116,961	-	20,467,709	34,584,670
Installment sale	802,633	52,705,995	-	53,508,628
Istisnaa	2,164,153	-	-	2,164,153
Murabaha	189,302	1,417,124	-	1,606,426
Total	17,273,049	54,123,119	20,467,709	91,863,877
Less: Provision	(238,773)	(2,293,633)	(199,167)	(2,731,573)
Investments, net	17,034,276	51,829,486	20,268,542	89,132,304

- e) The table below summarizes Investment balances at December 31 (past due and impaired):

2007

	(SR'000)					
	Neither past due nor impaired	Past due but not impaired	Impaired	Total	Provision	Net
Corporate	27,568,338	101,863	704,079	28,374,280	(277,633)	28,096,647
Retail	58,021,648	34,536	2,285,835	60,342,019	(2,997,664)	57,344,355
Treasury and international investments	18,862,263	-	100,759	18,963,022	(100,759)	18,862,263
Total	104,452,249	136,399	3,090,673	107,679,321	(3,376,056)	104,303,265

2006

	(SR'000)					
	Neither past due nor impaired	Past due but not impaired	Impaired	Total	Provision	Net
Corporate	16,826,369	38,260	408,420	17,273,049	(238,773)	17,034,276
Retail	52,408,575	314,912	1,399,633	54,123,120	(2,293,633)	51,829,487
Treasury and international investments	20,268,542	-	199,166	20,467,708	(199,167)	20,268,541
Total	89,503,486	353,172	2,007,219	91,863,877	(2,731,573)	89,132,304

Investments past due for less than 90 days are not treated as impaired, unless other available information provides otherwise.

- f) The tables below depicts the quality of investments past due (up to 90 days) but not impaired at 31 December:

2007

	(SR'000)			
	Corporate	Retail	Treasury and International Investments	Total
Standard	90,003	32,189	-	122,192
Special mention	11,860	2,347	-	14,207
Total	101,863	34,536	-	136,399

2006

	(SR'000)			Total
	Corporate	Retail	Treasury and International Investments	
Standard	14,105	289,836	-	303,941
Special mention	24,155	25,076	-	49,231
Total	38,260	314,912	-	353,172

- g) The tables below set out the aging of investments past due but not impaired as of 31 December:

2007

Age	(SR'000)			Total
	Corporate	Retail	Treasury and International Investments	
up to 30 days	74,907	26,409	-	101,316
30 -60 days	15,096	5,780	-	20,876
60-90 days	11,860	2,347	-	14,207
Total	101,863	34,536	-	136,399
Fair value of collateral	92,860	-	-	92,860

2006

Age	(SR'000)			Total
	Corporate	Retail	Treasury and International Investments	
up to 30 days	13,186	229,333	-	242,519
30 -60 days	919	60,503	-	61,422
60-90 days	24,155	25,076	-	49,231
Total	38,260	314,912	-	353,172
Fair value of collateral	25,497	-	-	25,497

Upon initial recognition of Investments, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to market price.

- h) The table below sets out gross balances of individually impaired Investments, together with the fair value of related collateral held by the Corporation as at 31 December:

2007

	(SR'000)			
	Corporate	Retail	Treasury and International Investments	Total
Individually impaired loans	704,079	-	-	704,079
Fair value of collateral	157,125	-	-	157,125

2006

	(SR'000)			
	Corporate	Retail	Treasury and International Investments	Total
Individually impaired loans	408,420	-	-	408,420
Fair value of collateral	160,697	-	-	160,697

6 – 2 Impairment charge for investments:

The movement in the impairment provision for Investments for the years ended 31 December is as follows:

2007

	(SR'000)			
	Corporate	Treasury and International Investments	Retail	Total
Balance at the beginning of the year	238,773	199,167	2,293,633	2,731,573
Provided during the year	25,454	-	501,561	527,015
Recoveries of amounts previously provided	-	(98,365)	-	(98,365)
Transfer from other provisions (Note 17)	13,406	-	270,735	284,141
Disposals (dad debts written off)	-	(43)	(68,265)	(68,308)
Balance at the end of the year	277,633	100,759	2,997,664	3,376,056

2006

	(SR'000)			
	Corporate	Treasury and International Investments	Retail	Total
Balance at the beginning of the year	238,773	423,416	2,056,125	2,718,314
Provided during the year	-	-	304,893	304,893
Recoveries of amounts previously provided	-	(224,249)	-	(224,249)
Disposals (bad debts written off)	-	-	(67,385)	(67,385)
Balance at the end of the year	238,773	199,167	2,293,633	2,731,573

7. OTHER INVESTMENTS, NET

Other investments, net comprise the following as of December 31:

	(SR'000)	
	2007	2006
Investments in land, real estate, vehicles and others	439,123	303,087
Equity investments	40,150	40,099
Investments in mutual funds	130,387	125,178
Total	609,660	468,364
Less: provision	(37,480)	(37,480)
Other investments, net	572,180	430,884

8. CUSTOMER DEBIT CURRENT ACCOUNTS, NET

Customer debit current accounts, net comprise the following as of December 31:

	(SR'000)	
	2007	2006
Customer debit current accounts	1,526,609	1,443,967
Less: provision (see Note 17)	(616,691)	(724,580)
Customer debit current accounts, net	909,918	719,387

9. PROPERTY AND EQUIPMENT, NET

Property and equipment, net comprise the following as of December 31:

	(SR'000)					
	Land	Leasehold land improvements	Buildings	Leasehold building improvements	Equipment and furniture	Total
<u>COST</u>						
At December 31, 2006	1,142,840	2,328	461,935	139,869	1,407,873	3,154,845
Additions	118,495	-	238,601	147,779	380,578	885,453
Disposals	-	-	-	-	(65)	(65)
At December 31, 2007	1,261,335	2,328	700,536	287,648	1,788,386	4,040,233
<u>ACCUMULATED DEPRECIATION & AMORTIZATON</u>						
At December 31, 2006	-	1,175	127,161	-	1,049,958	1,178,294
Charge for the year	-	61	14,223	67,671	188,947	270,902
Disposals	-	-	-	-	(64)	(64)
At December 31, 2007	-	1,236	141,384	67,671	1,238,841	1,449,132
<u>NET BOOK VALUE</u>						
At December 31, 2007	1,261,335	1,092	559,152	219,977	549,545	2,591,101
At December 31, 2006	1,142,840	1,153	334,774	139,869	357,915	1,976,551

Buildings include work-in-progress amounting to SR 307 million as at December 31, 2007 (2006: SR 203.5 million).

The Corporation has transferred the legal ownership of the assets acquired from Al Rajhi Company for Currency Exchange and Commerce (under liquidation), with the exception of certain assets with a net book value approximating SR 5.9 million as at December 31, 2007 (2006: SR 6.1 million), which are currently in the process of being transferred to the Corporation.

10. OTHER ASSETS, NET

Other assets, net comprise the following as of December 31:

	(SR'000)	
	2007	2006
Accrued income on mutajara investments	1,059,039	999,665
Accrued income on murabaha investments	32,835	103,848
Accrued income on other investments	78,991	171,082
Advances to others	315,053	338,138
Cheques under collection	447,028	258,470
Others	720,256	457,571
Total	2,653,202	2,328,774
Less: provision (see Note 17)	(75,028)	(75,028)
Other assets, net	2,578,174	2,253,746

11. DUE TO BANKS

Due to banks comprise the following as of December 31:

	(SR'000)	
	<u>2007</u>	<u>2006</u>
Current accounts	2,478,209	1,467,021
Banks' time investments	114,881	<u>2,006,225</u>
Total	<u>2,593,090</u>	<u>3,473,246</u>

Due to banks by location, inside and outside the Kingdom, as of December 31, are as follows:

	(SR'000)	
	<u>2007</u>	<u>2006</u>
Inside the Kingdom	142,751	919,989
Outside the Kingdom	2,450,339	<u>2,553,257</u>
Total	<u>2,593,090</u>	<u>3,473,246</u>

12. SYNDICATED MURABAHA FINANCING FROM BANKS

Syndicated murabaha financing from banks represents facilities in the amount of USD 500 million (SR 1,875 million) for three years obtained from consortium of banks during 2006. The facilities accrue profit which is payable on six semi-annual installments over three years. The final sixth installment of profit is payable together with the principal amount according to the facility agreement.

13. CUSTOMER DEPOSITS

Customer deposits by currency comprise the following as of December 31:

	(SR'000)	
	<u>2007</u>	<u>2006</u>
Saudi Riyals	87,284,828	71,669,395
Foreign currencies	2,440,339	<u>1,728,585</u>
Total	<u>89,725,167</u>	<u>73,397,980</u>

Customer deposits by type comprise the following as of December 31:

	(SR'000)	
	<u>2007</u>	<u>2006</u>
Demand deposits	81,210,589	62,309,507
Customer time investments	8,514,578	<u>11,088,473</u>
Total	<u>89,725,167</u>	<u>73,397,980</u>

14. OTHER LIABILITIES

Other liabilities comprise the following as of December 31:

	(SR'000)	
	<u>2007</u>	<u>2006</u>
Accounts payable	1,988,326	2,062,725
Provision for employees' end of service benefits	413,663	375,960
Charities (see Note 32)	55,449	570
Other (see Note 17)	1,598,706	1,359,345
Total	<u>4,056,144</u>	<u>3,798,600</u>

15. SHARE CAPITAL

The shareholders have agreed in the Extraordinary General Assembly meeting held on 4 Safar 1427H (corresponding to March 4, 2006), to increase the authorized, issued and fully paid, share capital of the Corporation from SR 4,500 million to SR 6,750 million by transferring SR 2,250 million from the retained earnings through the issuance of one bonus share for each two shares held, resulting in the increase in the number of issued shares 135 million shares with a par value of SR 50 each.

In accordance with the Capital Market Authority's resolution dated March 27, 2006, the shares of the Corporation were split into five shares of every one share effective April 8, 2006. Accordingly, the number of shares of the Corporation (including 45 million bonus shares of SR 50 each) has increased from 135 million shares of SR 50 each to 675 million shares of SR 10 each as at December 31, 2006 (2005: 90 million shares of SR 50 each).

At the Extraordinary General Assembly meeting held on 13 Safar 1428H (corresponding to March 3, 2007), the shareholders approved an increase in the share capital of the Corporation from SR 6,750 million to SR 13,500 million, by transferring SR 6,750 million from the retained earnings and general reserve through the issuance of one bonus share for each share held.

16. STATUTORY AND GENERAL RESERVES

The Banking Control Law in Saudi Arabia and the Articles of Association of the Corporation require a transfer to statutory reserve at a minimum of 25% of net income for the year. The Corporation may discontinue such transfers when the reserve equals the paid up share capital. This reserve is presently not available for distribution.

In addition, the Corporation makes an appropriation to general reserve for general banking risks, zakat and others.

17. PROVISION FOR DOUBTFUL ACCOUNTS AND OTHER

The movements in the provision for doubtful accounts and other for the years ended December 31, are summarized as follows:

	(SR'000)	
	<u>2007</u>	<u>2006</u>
Balance at the beginning of the year	1,646,757	1,669,759
Additions	14,590	172,000
Disposals, net	(89,737)	(195,002)
Transfers to Investment Provisions (Note 6-2)	<u>(284,141)</u>	<u>-</u>
Balance at the end of the year	<u>1,287,469</u>	<u>1,646,757</u>

The provision for doubtful accounts and other as at December 31, 2007 includes an amount of SR 616,691 thousand (2006: SR 724,580 thousand) netted off from customer debit current accounts, and SR 590,051 thousand (2006: SR 841,450 thousand) included in other liabilities, and an amount of SR 75,028 thousand netted off from other assets, and SR 5,699 thousand netted off from due from banks for 2007 and 2006.

18. COMMITMENTS AND CONTINGENCIES

a) Legal proceedings

As at December 31, 2007, there were legal proceedings outstanding against the Corporation. Provisions have been made for some of these legal cases based on the assessment of the Corporation's legal advisors.

b) Capital commitments

As at December 31, 2007, the Corporation had capital commitments of SR 110.2 million (2006: SR 84 million) relating to contracts for computer software update and development.

c) Credit related commitments and contingencies

The primary purpose of these instruments is to ensure that funds are available to customers as required. Credit related commitments and contingencies mainly comprise of letters of guarantee, standby letters of credit, acceptances and unused commitments to extend credit. Guarantees and standby letters of credit, which represent irrevocable assurances that the Corporation will make payments in the event that a customer cannot meet his obligations to third parties, carry the same credit risk as investments.

Letters of credit, which are written undertakings by the Corporation on behalf of a customer authorizing a third party to draw drafts on the Corporation up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate, and therefore, carry less risk. Acceptances comprise undertakings by the Corporation to pay bills of exchange drawn on customers.

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

Commitments to extend credit represent unused portions of authorization to extended credit, principally in the form of investments, guarantees and letters of credit. With respect to credit risk relating to commitments to extend unused credit, the Corporation is potentially exposed to a loss in an amount which is equal to the total unused commitments. The likely amount of loss, which cannot be reasonably estimated, is expected to be considerably less than the total unused commitments, since 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.

1. The contractual maturities of commitments and contingencies liabilities are as follows at December 31:

2007

	(SR '000)				
	Less than 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Letters of credit and acceptances	1,761,433	2,109,661	463,580	1,101,107	5,435,781
Letters of guarantee	644,980	3,615,353	1,623,056	575,559	6,458,948
Irrevocable commitments to extend credit	765,051	3,971,514	1,974,911	122,561	6,834,037
Total	3,171,464	9,696,528	4,061,547	1,799,227	18,728,766

2006

	(SR '000)				
	Less than 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Letters of credit and acceptances	1,127,215	1,477,987	137,985	305	2,743,492
Letters of guarantee	217,369	1,400,236	955,541	247,342	2,820,488
Irrevocable commitments to extend credit	1,093,802	2,512,493	1,715,825	15,963	5,338,083
Total	2,438,386	5,390,716	2,809,351	263,610	10,902,063

The unused portion of non firm commitments, which can be revoked at any time, that is outstanding as at December 31, 2007, amounted to SR 3,286 million (2006: SR 709 million).

2. The analysis of commitments and contingencies by counter-party is as follows as at December 31:

	(SR'000)	
	<u>2007</u>	<u>2006</u>
Government and quasi Government	3,212,598	2,677,142
Corporate	2,625,226	1,079,191
Banks and other financial institutions	11,100,598	6,880,878
Other	1,790,344	264,852
Total	<u>18,728,766</u>	<u>10,902,063</u>

d) Operating lease commitments

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

	(SR'000)	
	<u>2007</u>	<u>2006</u>
Less than one year	47,479	31,192
One year to five years	39,437	39,702
Over five years	27,752	27,811
Total	<u>114,668</u>	<u>98,705</u>

19. INCOME FROM INVESTMENTS, NET

Income from investments, net for the years ended December 31, comprises the following:

	(SR'000)	
	<u>2007</u>	<u>2006</u>
Income from investments held at amortized cost, net		
Mutajara	2,797,651	1,728,571
Installment sale	5,467,749	5,318,180
Istisnaa	194,092	240,606
Murabaha	108,089	359,379
Total income from investments held at amortized cost	<u>8,567,581</u>	<u>7,646,736</u>
Income paid to customer time investments	(751,593)	(762,589)
Income paid to syndicated murabaha financing from banks	(109,711)	(69,591)
Income from investments held at amortized cost, net	<u>7,706,277</u>	<u>6,814,556</u>
Income from investments held as FVIS		
Other	15,535	11,530
Total income from investments held as FVIS	<u>15,535</u>	<u>11,530</u>
Income from investments, net	<u>7,721,812</u>	<u>6,826,086</u>

20. FEES FROM BANKING SERVICES, NET

Fees from banking services, net for the years ended December 31, comprise the following:

	(SR'000)	
	2007	2006
Fees income		
Fees from share trading services	498,892	1,510,666
Fees from payment service systems	164,375	150,077
Fees from remittance business	167,065	132,437
Fees from credit card	107,934	93,351
Other	448,214	249,635
Total fees income	1,386,480	2,136,166
Fees expense		
Fees for share trading services	(128,079)	(349,450)
Fees for payment service systems	(277,776)	(223,397)
Total fees expense	(405,855)	(572,847)
Fees from banking services, net	980,625	1,563,319

21. OTHER OPERATING INCOME

Other operating income for the years ended December 31, comprises the following:

	(SR'000)	
	2007	2006
Income from sale of other investments (vehicles)	8,882	2,922
Gain from sale of building	-	139,059
Other income, net	67,656	473,708
Total fees income	76,538	615,689

22. EARNINGS PER SHARE

Earnings per share are calculated by dividing the net income for the year by the weighted average number of shares outstanding during the year. Earnings per share for the year ended December 31, 2006 have been retrospectively restated to reflect the effect of the issue of the bonus shares (Note 15), in accordance with IAS 33 – Earnings Per Share.

23. PAID AND PROPOSED GROSS DIVIDENDS AND ZAKAT

The Corporation has distributed dividends for the first half of 2007 amounting to SR 2,025,000 thousand (i.e. SR 1.50 per share), net of zakat on shareholders. Also proposed gross dividends for the second half of 2007 amounting to SR 1,223,917 thousand (2006: SR 998,021 thousand) of which SR 548,917 thousand (2006: SR 323,021 thousand) was deducted for zakat from the proposed gross dividends, resulting in a net dividend of SR 2 per share for 2007 (2006: SR 1 per share).

The Department of Zakat and Income Tax (DZIT) has issued zakat assessments for the years up to 2001. The Corporation appealed against these assessments. The assessments and the Zakat status have been finalized up to 1990.

The Tax Appellate Committee has issued its final rulings for the years 1991 to 1998 mostly in the Corporation's favour. Accordingly, the Corporation has reversed the excess zakat provisions and recognized them as revenue in the consolidated statement of income.

The Corporation's management believes that adequate provisions have been made for zakat differences, if any, for the prior years up to December 31, 2000. The Corporation has not received any assessment for the years subsequent to 2001.

Effective January 1, 2001, the Corporation has changed its zakat accounting policy to consider it as a liability of the shareholders, rather than as an expense to be charged to consolidated statement of income. Differences, if any, between the Corporation's calculation and the DZIT's assessment will be charged to the general reserve.

24. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the consolidated statement of cash flows comprise the following as of December 31:

	(SR'000)	
	2007	2006
Cash and precious metals	3,486,046	4,844,636
Due from banks (current accounts)	790,645	1,451,970
Balances with SAMA (current accounts)	2,576,577	3,289
Total	6,853,268	6,299,895

25. SEGMENTAL INFORMATION

For management purposes, the Corporation is organized into the following main businesses segments:

Individuals segment (retail):	Incorporates customer credit current accounts relating to individuals, credit facilities, and customers debit current accounts (overdrafts), and fees from banking services and remittances.
Corporate segment:	Incorporates corporate customer deposits, credit facilities, and debit current accounts (overdrafts).
Treasury and Financial Institution segment:	Incorporates treasury services, financial institutions and international trading portfolios.
Investment segment:	Incorporates investments of individuals and corporate in mutual funds, local and international share trading services, and investment portfolios.

Transactions between the above segments are on normal commercial terms and conditions. There are no material items of income or expenses between the above segments. Assets and liabilities for the segments comprise operating assets and liabilities, which represents the majority of the Corporation's assets and liabilities.

The Corporation carries out its activities principally in the Kingdom of Saudi Arabia, and has six subsidiaries, five of which are registered outside the Kingdom of Saudi Arabia as of December 31, 2007, as listed in Note 2-c.

The total assets, liabilities, commitments, contingencies and results of operations of these subsidiaries are not material to the Corporation's consolidated financial statements as a whole.

- a) The Corporation's total assets and liabilities, together with its total operating income and expenses, and net income, for the years ended December 31, for each segment are as follows:

2007

	(SR'000)				
	Individuals segment (retail)	Corporate segment	Treasury and Financial Institution segment	Investment segment	Total
Total assets	62,455,161	30,782,506	31,648,815	-	124,886,482
Total liabilities	77,991,960	18,049,901	5,238,509	-	101,280,370
Total operating income	6,108,026	1,210,464	1,560,573	442,033	9,321,096
Total operating expenses	(2,372,147)	(169,215)	(164,659)	(165,418)	(2,871,439)
Net income	3,735,879	1,041,249	1,395,914	276,615	6,449,657

2006

	(SR'000)				
	Individuals segment (retail)	Corporate segment	Treasury and Financial Institution segment	Investment segment	Total
Total assets	58,757,787	18,244,150	28,206,807	-	105,208,744
Total liabilities	58,702,553	17,601,463	8,725,252	-	85,029,268
Total operating income	6,243,012	1,120,525	884,536	1,261,825	9,509,898
Total operating expenses	(2,016,102)	(120,688)	76,188	(147,405)	(2,208,007)
Net income	4,226,910	999,837	960,724	1,114,420	7,301,891

b) The Corporation's credit exposure by business segments as of December 31, is as follows:

2007

	(SR'000)				
	Individuals segment (retail)	Corporate segment	Treasury and Financial Institution segment	Investment segment	Total
Consolidated balance sheet assets	55,448,000	30,857,000	20,271,008	-	106,576,008
Commitments and contingencies	1,780,982	4,052,977	6,060,770	-	11,894,729

2006

	(SR'000)				
	Individuals segment (retail)	Corporate segment	Treasury and Financial Institution segment	Investment segment	Total
Consolidated balance sheet assets	52,147,875	17,638,130	21,948,540	-	91,734,545
Commitments and contingencies	251,136	2,577,238	2,735,606	-	5,563,980

Credit risks comprise the carrying value of the consolidated balance sheet assets, except for cash and precious metals, balances with SAMA, investment properties, property and equipment and other assets.

26. FINANCIAL RISK MANAGEMENT

The Corporation's activities are exposed to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the banking business, and these risks are an inevitable consequence of participating in financial markets. The Corporation's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Corporation's financial performance.

The Corporation's risk management policies, procedures and systems are designed to identify and analyze these risks and to set appropriate risk mitigates and controls. The Corporation reviews its risk management policies and systems on an ongoing basis to reflect changes in markets, products and emerging best practice.

Risk management is performed by the Credit and Risk Management Group (CRMG) under policies approved by the Board of Directors. The CRMG identifies and evaluates financial risks in close co-operation with the Corporation's operating units. The most important types of risks identified by the Corporation are credit risk, operational risks, liquidity risk and market risk. Market risk includes currency risk, profit rate risk and other price risk.

26-1 Credit risk

Credit Risk is considered to be the most significant and pervasive risk for the Corporation. The Corporation takes on exposure to credit risk, which is the risk that the counter-party to a financial transaction will fail to discharge an obligation causing the Corporation to incur a financial loss. Credit risk arises principally in Investments and from cash and deposits held with other banks. Further, there is credit risk in certain off-balance sheet financial instruments, including guarantees, letters of credit, acceptances and commitments to extend credit. Credit risk monitoring and control is performed by the CRMG which sets parameters and thresholds around the Corporation's investment activities.

a. Credit risk measurement

Investments

The Corporation has structured a number of financial products which are in accordance with Shari'a principles in order to meet the customer demand. These products are all classified as Investments in the Corporation's consolidated balance sheet. In measuring credit risk of Investments at a counterparty level, the Corporation considers the overall credit worthiness of the customer based on a proprietary risk methodology. For corporate customers, this risk rating methodology utilizes a 10 point scale based on quantitative and qualitative factors with 7 performing categories along with a security indicator based on a coverage ratio. The risk rating process is intended to advise the parties in charge of credit approvals of the inherent risks in the proposed financial assets and assist in determining suitable pricing commensurate with the associated risks.

This enables the Corporation to detect any weakness in the portfolio quality and make appropriate adjustments to credit risk provisions, where credit quality has deteriorated and where losses are likely to arise. The Corporation evaluates

individual corporate customer balances which are past due to make appropriate provisions against investments. For the remaining corporate customer portfolio, the Corporation applies a loss rate to determine an appropriate collective provision. The loss rate is determined based on historical experience of credit losses.

For retail customers, credit risk is determined using a detailed credit program with well defined parameters. In order to monitor credit risk in the retail portfolio, the Corporation has formulated guidelines for each retail product. These guidelines provide for various quantitative and qualitative factors for critically scrutinizing, sanctioning and monitoring credit risks.

b. Risk limit control and mitigation policies

The responsibility for credit risk management is enterprise wide in scope. Strong risk management is integrated into daily processes, decision making and strategy setting, thereby, making the understanding and management of credit risk the responsibility of every business segment.

In order to ensure objectivity, accountability and to reinforce participation, the following business units within the Corporation assist in the credit control process:

- Underwriting Unit,
- Credit Administration Monitoring and Control Unit,
- Remedial Unit;
- Credit Policy Unit
- Retail Credit Unit

The monitoring and management of credit risk associated with these Investments are made by setting approved credit limits. The Corporation manages limits and controls concentrations of credit risk wherever they are identified, in particular, to individual customers and groups, and to industries and countries.

Concentrations of credit risks arise when a number of customers are engaged in similar business activities, 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 risks indicate the relative sensitivity of the Corporation's performance to developments affecting a particular industry or geographical location.

The Corporation seeks to manage its credit risk exposure through diversification of its investments to ensure there is no undue concentration of risks with individuals or groups of customers in specific geographical locations or economic sectors.

The Corporation manages credit risk by placing limits on the amount of risk accepted in relation to individual customers and groups, and to geographic and economic segments. Such risks are monitored on a regular basis and are subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, economic sector and by country are approved at least annually by the Executive Committee.

Exposure to credit risk is also managed through regular analysis of the ability of customers and potential customers to meet financial and contractual repayment obligations and by revising financial limits where appropriate.

Some other specific control and mitigation measures are outlined below.

b-1) Collateral

The Corporation implements guidelines on the level and quality of specific classes of collateral. The principal collateral types are:

- Mortgages over residential and commercial properties.
- Cash, shares, and general assets for customer
- Shares for Murabaha transactions

b-2) Collateralized Credit - related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as traditional banking products of the Corporation.

Documentary and commercial letters of credit – which are written undertakings by the Corporation on behalf of a customer authorizing a third party to draw drafts on the Corporation up to a stipulated amount under specific terms and conditions, are collateralized by the underlying goods to which they relate, and therefore, risk is partially mitigated.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of further investment products, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Corporation is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

c. Impairment and provisioning policies

Impairment provisions are recognized for financial reporting purposes only for losses that have been incurred at the balance sheet date based on objective evidence of impairment, and management judgment. Due to the different approaches applied for provisioning, the amount of incurred credit losses provided for in the financial statements is usually higher than the amount determined for banking regulation purposes. Management determines whether objective evidence of impairment exists under IAS 39, based on the following criteria as defined by the Corporation:

- Delinquency in contractual payments of principal or profit.
- Cash flow difficulties experienced by the customer.
- Breach of repayment covenants or conditions.
- Initiation of bankruptcy proceedings against the customer.
- Deterioration of the customer's competitive position.
- Deterioration in the value of collateral.

The Corporation's policy requires the review of each individual corporate customer at least annually or more regularly when individual circumstances require. Impairment provisions on individually assessed accounts are determined by an evaluation of incurred losses at the balance sheet date on a case-by-case basis, and by using management judgment.

The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

Collectively assessed impairment provisions are provided for:

- Portfolios of homogenous assets mainly relating to the retail investment portfolio that is individually not significant.
- On the corporate portfolio for investments where losses have been incurred but not yet identified, by using historical experience, judgment and statistical techniques.

The table below sets out the maximum exposure to credit risk at the reporting date without considering collateral or other credit enhancements and includes the off-balance sheet financial instruments involving credit risks.

	(SR'000)	
	2007	2006
On-balance sheet items:		
Due from banks	790,645	1,451,970
Investments, net		
- Corporate	28,096,647	17,034,276
- Individuals (retail)	57,344,355	51,829,487
- Treasury and International Investments	18,862,263	20,268,541
Customer debit current accounts, net	909,918	719,387
Other assets, net	2,578,174	2,253,746
Total on-balance sheet items	108,582,002	93,557,407
Off-balance sheet items:		
Letter of credit and acceptances	5,435,781	2,743,492
Letters of guarantee	6,458,948	2,820,488
Irrevocable commitments to extend credit	6,834,037	5,338,083
Total off-balance sheet items	18,728,766	10,902,063
Maximum exposure	127,310,768	104,459,470

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The above table represents a worse case scenario of credit risk exposure to the Corporation at December 31, 2007 and 2006, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the consolidated balance sheet.

26-2 Liquidity risks

Liquidity risk is the risk that the Corporation will be unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and lenders and fulfill investment commitments. Liquidity risk can be caused by market disruptions or by credit downgrades, which may cause certain sources of funding to become unavailable immediately. Diverse funding sources available to the Corporation help mitigate this risk. Assets are managed with liquidity in mind, maintaining a conservative balance of cash and cash equivalents.

Liquidity risk management process

The Corporation's liquidity management process, as monitored by the Corporation's Assets and Liabilities Committee (ALCO), includes:

- Day-to-day funding, managed by Treasury to ensure that requirements can be met and this includes replenishment of funds as they mature or are invested;
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements;
- Managing the concentration and profile of debt maturities;
- Diverse funding sources;
- ALCO liquidity management and asset and liability matching.

Monitoring and reporting take the form of analyzing cash flows of items with both contractual and non-contractual maturities. The net cash flows are measured and ensured that they are within acceptable limits. The Treasury / ALCO also monitors the level and type of unused commitments, usage of overdraft facilities and the potential impact contingent liabilities such as standby letters of credit and guarantees may have on the Corporation's liquidity position.

The tables below summarize the maturity profile of the Corporation's assets and liabilities, on the basis of the remaining maturity as of the consolidated balance sheet date to the contractual maturity date. All customer deposits are assumed to be on demand without regard to depositor behavior and retention rates.

Management monitors the maturity profile to ensure that adequate liquidity is maintained. Assets available to meet all of the liabilities and to cover outstanding commitments include cash and precious metals, balances with SAMA and due from banks and Investments. Further, in accordance with the Banking Control Law and Regulations issued by SAMA, the Corporation maintains a statutory deposit equal to a sum not less than 9% (2006: 7%) of total customer deposits, and 2% of total other customer accounts. In addition to the statutory deposit, the Corporation maintains a liquid reserve of not less than 20% of the deposit liabilities, in the form of cash, gold or assets which can be converted into cash within a period not exceeding 30 days. Also, the Corporation has the ability to raise additional funds through special investment arrangements with SAMA including deferred sales transactions.

The contractual maturities of assets, liabilities and shareholders' equity as of 31 December based on discounted cash flows are as follows:

2007

	(SR'000)					
	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and cash equivalents	6,853,268	-	-	-	-	6,853,268
Statutory deposit with SAMA	-	-	-	-	7,078,576	7,078,576
Investments, net						
-Mutajara	9,081,000	12,989,000	10,747,000	9,788,089	-	42,605,089
-Installment Sale	3,983,000	8,951,000	39,483,000	3,572,774	-	55,989,774
-Istisnaa	111,000	304,000	1,213,000	2,014	-	1,630,014
-Murabaha	1,108,000	106,000	734,000	2,130,388	-	4,078,388
-Other	-	-	-	-	572,180	572,180
Customer debit current accounts, net	894,460	15,458	-	-	-	909,918
Property and equipment, net	-	-	-	-	2,591,101	2,591,101
Other assets, net	-	-	-	-	2,578,174	2,578,174
Total	22,030,728	22,365,458	52,177,000	15,493,265	12,820,031	124,886,482
Liabilities and Shareholders' equity						
Due to banks	2,593,090	-	-	-	-	2,593,090
Syndicate murabaha financing from banks	-	-	1,875,000	-	-	1,875,000
Customer Deposits	82,313,000	6,866,000	409,000	137,167	-	89,725,167
Other customer account	3,030,969	-	-	-	-	3,030,969
Other liabilities	-	-	-	-	4,056,144	4,056,144
Shareholders' equity	-	-	-	-	23,606,112	23,606,112
Total	87,937,059	6,866,000	2,284,000	137,167	27,662,256	124,886,482

2006**(SR'000)**

	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and cash equivalents	6,299,895	-	-	-	-	6,299,895
Statutory deposit with SAMA	-	-	-	-	4,395,977	4,395,977
Investments, net						
-Mutajara	14,400,062	16,532,145	2,974,614	264,485	-	34,171,306
-Installment sale	2,637,315	7,568,531	29,568,092	11,782,354	-	51,556,292
-Istisnaa	274,000	343,000	1,547,153	-	-	2,164,153
-Murabaha	697,000	459,000	84,553	-	-	1,240,553
-Other	-	-	-	-	430,884	430,884
Customer debit current accounts, net	597,609	64,069	57,709	-	-	719,387
Property and equipment, net	-	-	-	-	1,976,551	1,976,551
Other assets, net	-	-	-	-	2,253,746	2,253,746
Total	24,905,881	24,966,745	34,232,121	12,046,839	9,057,158	105,208,744
Liabilities and Shareholders equity						
Due to banks	3,473,246	-	-	-	-	3,473,246
Syndicate Murrabaha financing from banks	-	-	1,875,000	-	-	1,875,000
Customer deposits	73,397,980	-	-	-	-	73,397,980
Other customer accounts	2,484,442	-	-	-	-	2,484,442
Other liabilities	-	-	-	-	3,798,600	3,798,600
Shareholders' equity	-	-	-	-	20,179,476	20,179,476
Total	79,355,668	-	1,875,000	-	23,978,076	105,208,744

The following tables disclose the maturity of contractual financial liabilities on undiscounted cash flows as at 31 December:

2007

	(SR'000)					
	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	No fixed maturity	Total
Due to banks	2,478,209	-	-	-	-	2,478,209
Direct Investment (Banks)	-	116,041	-	-	-	116,041
Syndicate murrabaha financing from banks	-	107,955	1,929,126	-	-	2,037,081
Direct Investment (Customer)	4,265,047	4,431,977	-	-	-	8,697,024
Customer deposits	81,210,589	-	-	-	-	81,210,589
Other customer accounts	3,030,969	-	-	-	-	3,030,969
Other liabilities	-	-	-	-	4,056,144	4,056,144
Total	90,984,814	4,655,973	1,929,126	-	4,056,144	101,626,057

2006

	(SR'000)					
	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	No fixed maturity	Total
Due to banks	1,467,021	-	-	-	-	1,467,021
Direct Investment (Banks)	2,028,564	-	-	-	-	2,028,564
Syndicate murrabaha financing from banks	-	108,549	2,037,081	-	-	2,145,630
Direct Investment (Customer)	11,367,320	-	-	-	-	11,367,320
Customer deposits	62,309,507	-	-	-	-	62,309,507
Other customer account	2,484,442	-	-	-	-	2,484,442
Other liabilities	-	-	-	-	3,798,600	3,798,600
Total	79,656,854	108,549	2,037,081	-	3,798,600	85,601,084

26-3 Market risks

The Corporation is exposed to market risk, which is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risks arise on profit rate products, foreign currency and mutual fund products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as profit rates, foreign exchange rates and quoted market prices.

Market risk exposures are monitored by Finance and reported to ALCO on a monthly basis. ALCO deliberates on the risks taken and ensure that they are appropriate.

a. Foreign currency risks

The Corporation is exposed to the effects of fluctuations in foreign currency exchange rates on its financial position, results of operations and cash flows. The Corporation's management sets limits on the level of exposure by currency and in total for both overnight and intra day positions, which are monitored daily.

The tables below summarize the Corporation's exposure to foreign currency exchange rate risk at December 31, 2007 and 2006 and the concentration of currency risks. Included in the table are the Corporation's financial instruments at carrying amounts, categorized by currency.

2007**(SR'000)**

	BANGLADESH				LEBANESE	MALAYSIAN		POUND		
	UAE DIRHAM	TAKA	JAPANESE YEN	EURO	LIRA	RINGGIT	US DOLLAR	STERLING	OTHER	TOTAL
ASSETS										
Cash and cash equivalent	33,966	2	44	80,624	150	2,838	136,006	20,605	166,054	440,289
Due from banks	107,470	21,971	34,400	148,992	5,769	-	199,132	3,598	214,492	735,824
Investments										
Mutajara	-	-	-	294,540	-	-	5,087,438	50,832	-	5,432,810
Installment sale	-	-	-	-	-	-	251,967	-	-	251,967
Murabaha	-	-	-	-	-	-	6,599	-	-	6,599
Other	-	-	-	512	-	680,786	4,939,303	2,907	-	5,623,508
Customer debit current account, net	-	-	-	1,239	-	-	628	77,608	-	79,475
Other assets, net	(1,333)	-	(161)	1,013	-	-	108,974	371	21	108,885
Total Assets	140,103	21,973	34,283	526,920	5,919	683,624	10,730,047	155,921	380,567	12,679,357
LIABILITIES										
Due to banks	71,492	63,488	-	90,370	-	-	626,182	66,213	102,188	1,019,933
Syndicate murabaha financing from banks	-	-	-	-	-	-	1,875,000	-	-	1,875,000
Customer deposits	1,114	-	7,091	339,751	12,348	2	5,534,281	4,207	26,973	5,925,767
Other customer accounts	1,355	-	8,932	73,222	-	-	290,643	3,137	5,690	382,979
Other liabilities	5,028	52,745	740	12,523	59,949	1	206,249	5,862	86,191	429,288
Total Liabilities	78,989	116,233	16,763	515,866	72,297	3	8,532,355	79,419	221,042	9,632,967
Net	61,114	(94,260)	17,520	11,054	(66,378)	683,621	2,197,692	76,502	159,525	3,046,390

2006**(SR'000)**

	BANGLADESH				LEBANESE	MALAYSIAN		POUND		
	UAE DIRHAM	TAKA	JAPANESE YEN	EURO	LIRA	RINGGIT	US DOLLAR	STERLING	OTHER	TOTAL
ASSETS										
Cash and cash equivalents	15,390	68	147	23,500	2,799	2,107	103,007	15,918	70,890	233,826
Due from banks	120,990	461	107,190	587,976	5,313	-	113,854	178,182	350,421	1,464,387
Investments										
Mutajara	-	-	-	2,995	-	-	11,825,846	-	-	11,828,841
Installment sale	-	-	-	-	-	-	-	-	-	-
Murabaha	-	-	-	-	-	-	199,022	-	-	199,022
Other	-	-	-	432	-	318,968	4,934,600	2,850	-	5,256,850
Customer debit current account, net	-	-	-	1,109	-	-	1,332	78,685	-	81,126
Other assets, net	(1,332)	-	(151)	80	-	-	118,692	(96)	19	117,212
Total Assets	135,048	529	107,186	616,092	8,112	321,075	17,296,353	275,539	421,330	19,181,264
LIABILITIES										
Due to banks	51,652	41,171	1,835	11,293	14	-	1,692,120	6,261	308,578	2,112,924
Syndicate murabaha financing from banks	-	-	-	-	-	-	1,875,000	-	-	1,875,000
Customer deposits	75	-	3,452	(95,299)	12,315	1	6,763,046	82,373	22,058	6,788,021
Other customer accounts	1,683	-	12,511	303,885	-	-	411,233	8,022	9,545	746,879
Other liabilities	11,290	33,586	973	17,503	59,138	2	107,686	3,878	80,312	314,368
Total Liabilities	64,700	74,757	18,771	237,382	71,467	3	10,849,085	100,534	420,493	11,837,192
Net	70,348	(74,228)	88,415	378,710	(63,355)	321,072	6,447,268	175,005	837	7,344,072

A substantial portion of the net foreign currency exposure to the Corporation is in US Dollars, where the SR is pegged to the US Dollar. The other currency exposures are not considered significant to the Corporation's foreign currency risks as the Corporation does not expose itself to substantial holdings of these currencies.

The Corporation has performed a sensitivity analysis for the reasonably possible changes in foreign exchange rates, other than US Dollars, using historical average exchange rates and has determined that there is no significant impact on its net foreign currency exposures.

b. Profit rate risk

Cash flow profit rate risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in market profit rates. The Corporation does not have any significant exposure to the effects of fluctuations in prevailing level of market profit rates on its future cash flows as a significant portion of profit earning financial assets and profit bearing liabilities are at fixed rates and are carried in the financial statements at amortized cost. In addition to this, a substantial portion of the Corporation's financial liabilities are non-profit bearing.

c. Price risk

The Corporation has certain Investments which are carried at fair value through the income statement and includes Investments in quoted mutual funds and other investments. Price risk arises due to changes in quoted market prices of mutual funds.

As these Investments are in a limited number of funds and are not significant to the total Investment portfolio, the Corporation monitors them periodically and determines the risk of holding them based on changes in market prices. The Corporation has determined that there would be an insignificant impact on net income and shareholders' equity for changes in market prices of these mutual funds.

Other Investments involves little or no risks as these are bought for immediate sales. Investments are made only with a confirmed sale order and therefore involve minimal risk.

27. GEOGRAPHICAL CONCENTRATION

- a) The distribution by the geographical region of the major categories of assets, liabilities, commitments, contingencies and credit exposure accounts as of December 31, is as follows:

2007	(SR '000)							
	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other Countries	Total
Assets								
Cash, precious metals and balances with SAMA	13,118,131	-	-	-	-	23,068	-	13,141,199
Due from banks	1,500	99,319	71,317	325,251	-	282,809	10,449	790,645
Investments, net:								
Mutajara	36,617,856	4,599,686	1,331,297	-	-	56,250	-	42,605,089
Installment sale	55,989,774	-	-	-	-	-	-	55,989,774
Istisnaa	1,630,014	-	-	-	-	-	-	1,630,014
Murabaha	1,434,089	-	-	-	-	2,644,299	-	4,078,388
Other	496,041	12,446	37,117	26,576	-	-	-	572,180
Total	109,287,405	4,711,451	1,439,731	351,827	-	3,006,426	10,449	118,807,289
Liabilities								
Due to banks	142,751	1,119,998	32,128	-	-	1,058,037	240,176	2,593,090
Syndicated murabaha financing from banks	-	1,875,000	-	-	-	-	-	1,875,000
Customer deposits	88,305,356	-	-	-	-	1,419,811	-	89,725,167
Total	88,448,107	2,994,998	32,128	-	-	2,477,848	240,176	94,193,257
Commitments and contingencies								
	12,607,704	923,918	55,028	982,044	186,596	992,123	2,981,353	18,728,766
Credit exposure (stated at credit equivalent value)								
Commitments and contingencies	5,828,532	923,918	53,810	982,044	186,596	938,476	2,981,353	11,894,729

2006**SR '000**

	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other Countries	Total
Assets								
Cash, precious metals and balances with SAMA	9,243,902	-	-	-	-	-	-	9,243,902
Due from banks	2,000	525,221	588,599	36,291	-	130,117	169,742	1,451,970
Investments, net:								
Mutajara	26,531,477	2,086,397	4,823,227	518,130	-	212,075	-	34,171,306
Installment sale	51,556,292	-	-	-	-	-	-	51,556,292
Istisnaa	2,164,153	-	-	-	-	-	-	2,164,153
Murabaha	1,040,666	-	-	-	-	199,887	-	1,240,553
Other	359,670	11,118	32,980	27,116	-	-	-	430,884
Total	90,898,160	2,622,736	5,444,806	581,537	-	542,079	169,742	100,259,060
Liabilities								
Due to banks	919,989	1,438,699	445,374	239,817	-	190,594	238,773	3,473,246
Syndicated murabaha financing from banks	-	1,875,000	-	-	-	-	-	1,875,000
Customer deposits	73,397,980	-	-	-	-	-	-	73,397,980
Total	74,317,969	3,313,699	445,374	239,817	-	190,594	238,773	78,746,226
Commitments and contingencies								
Total	8,254,166	622,589	18,963	522,320	191,835	101,302	1,190,888	10,902,063
Credit exposure (stated at credit equivalent value)								
Commitments and contingencies	2,916,083	622,589	18,963	522,320	191,835	101,302	1,190,888	5,563,980

Credit equivalent amounts reflect the amounts that result from conversion of the Corporation's off-balance sheet liabilities relating to commitments and contingencies into the risk equivalent of investments, using credit conversion factors prescribed by SAMA. Credit conversion factor is meant to capture the potential credit risk related to the exercise of that commitment.

- b) The distributions by geographical concentration of non-performing investments and provisions for investments losses as of December 31, are as follows:

2007

	(SR'000)		
	Non-performing	Provisions for investment losses	Net
Kingdom of Saudi Arabia	2,989,914	(2,456,355)	533,559
Other GCC and Middle East	-	-	-
Europe	37,480	(37,480)	-
North America	100,759	(100,759)	-
Total	3,128,153	(2,594,594)	533,559

2006

	(SR'000)		
	Non-performing	Provisions for investment losses	Net
Kingdom of Saudi Arabia	1,808,052	(1,563,198)	244,854
Other GCC and Middle East	29,574	(29,574)	-
Europe	37,480	(37,480)	-
North America	169,593	(169,593)	-
Total	2,044,699	(1,799,845)	244,854

28. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties, in an arm's length transaction. Consequently, differences can arise between carrying values and estimated fair value.

The estimated fair values of the on-balance sheet financial instruments, excluding istisnaa, murabaha and installment sale held at amortized cost, are not significantly different from their carrying values included in the consolidated financial statements.

29. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Corporation transacts business with related parties. The related party transactions are governed by limits set by the Banking Control Law and the regulations issued by SAMA. The nature and balances resulting from such transactions as at December 31, are as follows:

Related parties	Type of transaction	2007		2006	
		Debit	Credit	Debit	Credit
Members of the Board of Directors	Letters of credit	222,233	-	235,327	-
	Musharaka bills	657,213	-	610,063	-
	Mutajara	3,200,764	-	3,159,154	-
	Murabaha bills	74,089	-	144,751	-
	Current accounts	44,334	301,854	208	210,264
	Letters of guarantee	291,057	-	274,594	-
	Guarantees	66,000	-	66,000	-
Companies and establishments guaranteed by members of the Board of Directors	Letters of credit	-	-	738	-
	Mutajara	21,601	-	16,426	-
	Musharaka bills	-	-	684	-
	Current accounts	-	-	959	-
	Letters of guarantee	42,081	-	12,524	-
Mudaraba funds (see Note 33)	Current accounts	-	36,711	-	175
	Mudaraba	-	2,593,397	-	2,240,732
	Investment in mutual funds	130,387	-	125,178	-
Other major shareholders with shareholding of more than 5% of the Corporation's share capital	Direct investments	-	1,505,327	-	1,517,925
	Other liabilities	-	12,393	-	9,381

Income and expenses pertaining to transactions with related parties included in the consolidated financial statements for the years ended December 31, are as follows:

	(SR'000)	
	<u>2007</u>	<u>2006</u>
Income from investments	247,682	220,646
Other operating income	1,536	6,288
Employees' salaries and benefits (air tickets)	9,373	5,515
Rent and premises related expenses	2,329	2,331
Board of Directors' remunerations	3,111	1,906

The amounts of compensations recorded in favour of or paid to the Board of Directors and the executive management personnel during the years ended December 31, are as follows:

	(SR'000)	
	<u>2007</u>	<u>2006</u>
Short-term benefits	20,392	12,521
Provision for end of service benefits	1,043	1,658

The executive management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Corporation directly or indirectly.

30. MUDARABA FUNDS

Mudaraba funds as of December 31, comprise the following:

	(SR'000)	
	<u>2007</u>	<u>2006</u>
Customers' investments	429,882	1,874,377
Current accounts, metals	21,610	19,238
Total	<u><u>451,492</u></u>	<u><u>1,893,615</u></u>

31. EMPLOYEES' FUND

In accordance with the General Assembly's resolution dated 20 Shawwal 1410H (corresponding to May 15, 1990), 150 thousand shares at par value of SR 15 million were granted to the Employees' Fund (the "Fund"). The Board of Directors (the "Board") issued various resolutions in this respect, the last of which was resolution No. 9 dated March 22, 1990, in which the Board designated the abovementioned shares to the Fund under certain conditions. The par value of these shares is considered as a loan to be repaid to the Corporation as part of a permanent loan of SR 50 million extended by the Corporation, without any charge, of which SR 7 million was repaid during 1994. Also, the Fund received additional 150 thousand shares in a one for one bonus issue during 1991, representing the fund's share of dividends distributed for 1991. The Fund also received an additional 150 thousand bonus shares representing the Fund's share of the dividends distributed during 1998. The total number of shares, after the share split,

amounted to 900 thousand shares as at December 31, 1998. The Fund also received additional 900 thousand bonus shares representing the Fund's share of the dividends distributed during 2005. Further, the Fund received another 900 thousand bonus shares representing its share in the dividends distributed to shareholders during 2006. Consequently, the total number of the shares after share split per CMA's resolution of 5 shares for each share held is 13,500 thousand shares as of December 31, 2006. Also, the fund received 13,500 thousand bonus shares representing its shares in the dividends distributed to shareholders during 2007, the total number of shares is 27,000 thousand as of December 31, 2007. The Fund's income from subscriptions, investments and others, excluding share of profits, amounted to SR 4,415 thousand, and expenses amounted to SR 68 thousand for 2007. The market value of the shares designated to the Fund, as per SAMA's Circular at December 31, 2007, amounted to SR 3,624,750 thousand. Separate financial statements are prepared for the Fund, which are not included in the accompanying consolidated financial statements.

32. SPECIAL COMMISSIONS EXCLUDED FROM THE CONSOLIDATED STATEMENTS OF INCOME

The following represents the movements in charities account, which is included in other liabilities (see Note 15):

	(SR'000)	
	2007	2006
Balance, beginning of the year	570	5,977
Additions during the year	55,879	3,208
Payments during the year	(1,000)	(8,615)
Balance, end of the year	<u>55,449</u>	<u>570</u>

33. INVESTMENT MANAGEMENT SERVICES

The Corporation offers investment services to its customers. The Corporation has established a number of mudaraba funds in different investment aspects (the Commodities Mudaraba Fund – USD, the Commodities Mudaraba Fund - EURO, the Global Equity Fund, the Egyptian Equity Fund, First and Second Al Rajhi Balanced Fund, the Al Rajhi Small Capitalization Fund, the Commodities Mudaraba Fund - Saudi Riyal, the European Equity Fund, the Al Jawhara Ladies Fund, the Children Fund - USD, the Local Shares Fund, the Al Rajhi GCC Equity Fund, India and China Equity Fund, and First Real Estate Fund and Al Rajhi Cement and Petrochemical equity fund). These funds are managed by the Corporation's Investment Department, and a portion of the funds is also invested in participation with the Corporation. Mutual funds' financial statements are not included in the consolidated financial statements of the Corporation. The Corporation's share of investments in these funds is included under other investments, and is disclosed under related party transactions. Funds invested in participation with the Corporation amounted to SR 2,593,397 thousand at December 31, 2007 (2006: SR 2,240,732 thousand).

34. CAPITAL ADEQUACY

The Corporation monitors the adequacy of its capital using ratios established by SAMA. These ratios measure capital adequacy by comparing the Corporation's eligible capital with its consolidated balance sheet assets, commitments and contingencies, to reflect their relative risk.

	2007		2006	
	Capital SR'000	Ratio %	Capital SR'000	Ratio %
Tier I – capital	23,606,112	%23.6	20,179,476	%25.3
Tier I + Tier II capital	24,425,054	%24.4	21,148,684	%26.5

RISK WEIGHTED ASSETS

	SR'000					
	2007			2006		
	Carrying value/ notional amount	Credit equivalent	Risk weighted assets	Carrying value/ notional amount	Credit equivalent	Risk weighted assets
Consolidated balance sheet assets						
0%	22,688,165		-	16,784,650		-
20%	7,807,515		1,561,503	13,335,565		2,667,113
100%	94,390,802		94,390,802	75,088,529		75,088,529
Total	124,886,482		95,952,305	105,208,744		77,755,642
Commitments and contingencies						
0%	6,834,037	-	-	5,338,083	-	-
20%	5,435,781	5,435,781	1,087,156	2,743,492	2,743,492	548,698
50%	6,458,948	6,458,948	3,229,474	2,820,488	2,820,488	1,410,244
100%	-	-	-	-	-	-
Total	18,728,766	11,894,729	4,316,630	10,902,063	5,563,980	1,958,942
Grand Total			100,268,935			79,714,584

35. COMPARATIVE AMOUNTS

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

36. POST BALANCE SHEET EVENTS

- A) The Corporation's Board of directors proposed in its meeting dated January 21, 2008 distribution of dividends to the shareholders for the second half of the current fiscal year, for an amount of SR 675 million, net of zakat attributable to shareholders, at SR 0.50 per share, and to increase the Corporation's capital to SR 15,000 million from SR 13,500 million by transferring SR 1,500 million from the retained earnings, provided that one bonus share is to be issued for every nine shares held. This is subject to approval of the Extraordinary General Assembly in its next meeting.
- B) Effective January 1, 2008 as approved by SAMA, the Corporation 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 34.
- C) Subsequent to balance sheet date, the Corporation has launched the "Employees Share Participation" and the "Employees Share Grand" plans. Eligible employees are subject to certain condition to enroll into these two plans. These plans describe the basis of calculation of entitlements as per categories of employees.

37. PROSPECTIVE CHANGE IN INTERNATIONAL FINANCIAL REPORTING FRAMEWORK

The Corporation has chosen not to early adopt IFRS 8- Operating Segments which has been published and is mandatory for compliance for the Corporation's accounting year beginning January 1, 2009.

38. APPROVAL OF THE BOARD OF DIRECTORS

The consolidated financial statements were approved by the Board of Directors on 12 Muharram 1429H (corresponding to January 21, 2008).