

**In The Name Of Allah
The Most Merciful, The Most Gracious**



His Royal Highness

King **Abdullah Bin Abdulaziz Al-Saud**

Custodian of the Two Holly Mosques



His Royal Highness

Crown Prince **Naif Bin Abdulaziz Al-Saud**

Second Deputy Premier
& Minister of Interior



His Royal Highness

Crown Prince **Sultan Bin Abdulaziz Al-Saud**

The Deputy Premier



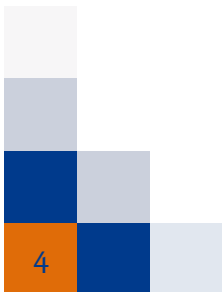




**LARGEST
"CONSUMER FINANCE"
BANK IN KSA**

Contents

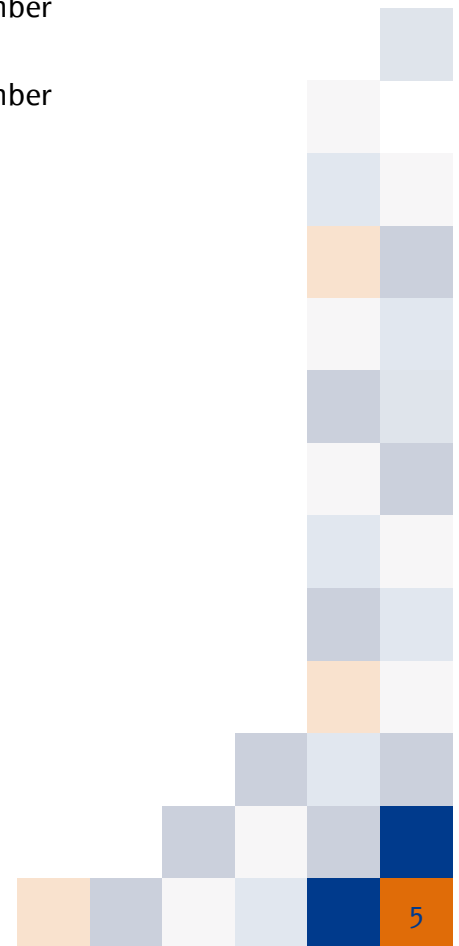
Board of Directors	5
Board of Directors' Report	8
Summary of Year's Activity	18
Consolidated Financial Statements	28
Notes to the Financial Statements	34
Auditor's Report	74
Annual Disclosure of Basel II	78



Board of Directors

* Suleiman bin Abdulaziz Al Rajhi	Chairman, Board of Directors
* Abdullah bin Suleiman Al Rajhi	Managing Director & CEO
* Suleiman bin Saleh Al Rajhi	Board of Directors Member
Abdullah bin Abdulaziz Al Rajhi	Board of Directors Member
* Salah bin Ali Aba Al Khalil	Board of Directors Member
Mohammed bin Abdulaziz Al Rajhi	Board of Directors Member
Mohammed bin Abdullah Al Rajhi	Board of Directors Member
Ali bin Ahmed Al Shidi	Board of Directors Member
Saeed bin Omar Al Issaea	Board of Directors Member
Mohammed bin Othman Al Bishr	Board of Directors Member
Abdulaziz bin Khaled Al Ghfayli	Board of Directors Member

* Executive Committee Members





 THE WORLD ISLAMIC BANKING
COMPETITIVENESS REPORT

2004

The IBC
International
Award
Exo

ANNUAL &
STATEMENT CORP.

**#1 RATED BANK IN
KSA - EUROMONEY**

EUROMONEY

2009
Awards for
excellence

#1 rated Bank in KSA

Al Rajhi Bank

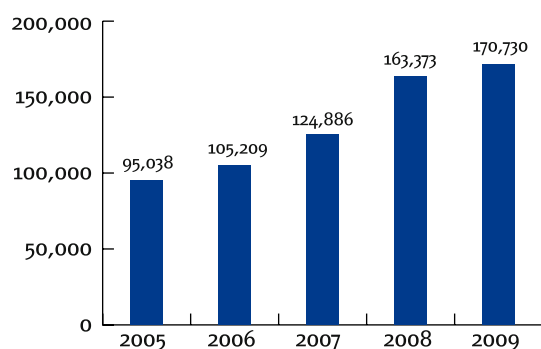
Board of Directors' Report

Distinguished Shareholders, May peace be upon you,

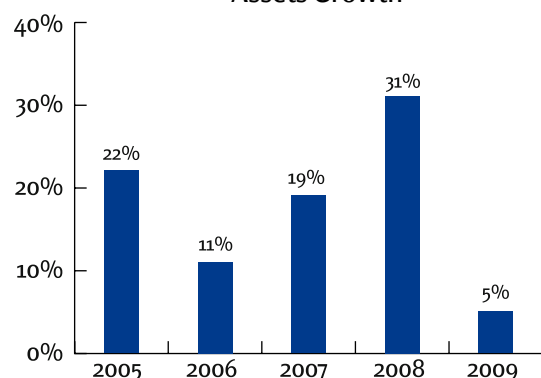
The Board Of Directors is pleased to share with you its annual report, which highlights the activities of the Bank for the fiscal year ending December 31, 2009. In 2009, the economic situation in the Kingdom contributed to achieving accelerated growth for the Bank's activities, which were in line with local economic trends. Throughout the year the Bank worked diligently to take advantage of and benefit from the Kingdom's positive growth, acting according to economic indicators reflecting the expansion and diversification of the national economic base. Moreover, the economic projections for the year 2010 indicate continuous growth of all the various economic sectors, including the financial sector.

The Bank celebrated its 22nd anniversary in 2009 with many achievements that included developing banking services, providing financial products to meet the expectations of corporate and individual customers, and reinforcing the pioneering role of the Bank in its many activities. The Bank also adopted a progressive management restructuring process to provide enhanced support for its strategic objectives.

Total Assets SR Millions



Assets Growth



Financial Results

In 2009, the Bank made SR 6,767 million in net profit compared to the SR 6,525 million of 2008, which is an increase of 4%.

The financing net income and return on investment amounted to SR 9,354 million compared to SR 8,494 million in 2008 with an increase of 10%.

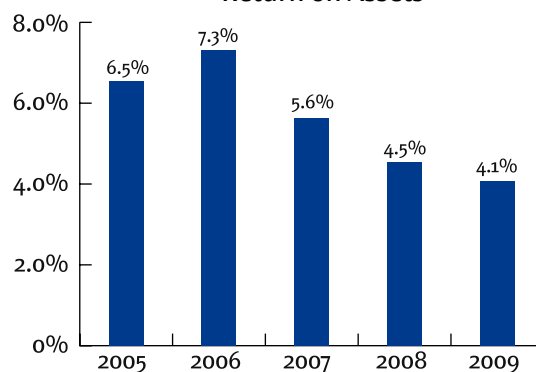
The revenue on banking services got to SR 1,973 million in contrast to the 2008 amount of SR 1,724 million with an increase of over 14%. The total operating income amounted to SR 11,505 million compared to SR 10,575 million in 2008 with an increase of 9%.

The financing portfolio diversified into a variety of trading products such as Mutajara, Istisnaa, Ijara, Murabaha and Installment Sale. Its net asset amounted to SR 149 billion in contrast to the SR 141 billion of 2008 with an increased rate of 6%. In the same context, the shareholders' equity increased to SR 29 billion compared to SR 27 billion with a rise of 6.3%. The total assets also increased by 5% from SR 163 billion in 2008 to SR 171 billion.

At the same time, the customers' balances got to SR 121 billion compared to the SR 117 billion of 2008 with an escalation of 3.4%, which reflects the customers' confidence in the Bank and the remarkable growth of its market share in the banking sector.

In addition, the Bank achieved a high average return on assets of 4.1% while the return on shareholders' equity amounted to 24% and the share's profit reached SR 4.51 compared to the SR 4.35 of 2008.

Return on Assets



Impact of the Bank's Major Activities

The following analyzes the Bank's total assets and liabilities, operating income, expenses and net income of the two years ending on December 31, 2009-2008.

2009

(SR'000)

	Retail	Corporate	Treasury	Investment	Total
Total Assets	69,770,859	50,978,976	49,561,176	418,718	170,729,729
Total Liabilities	94,498,367	33,941,558	11,877,507	1,671,413	141,988,845
Total Income from Operations	7,153,698	2,167,368	1,721,536	462,690	11,505,292
Total Operational Expenses	(2,922,525)	(1,253,525)	(337,851)	(224,163)	(4,738,064)
Net Income	4,231,173	913,843	1,383,685	238,527	6,767,228

2008

(SR'000)

	Retail	Corporate	Treasury	Investment	Total
Total Assets	63,139,914	53,589,887	46,154,110	489,313	163,373,224
Total Liabilities	71,441,566	51,714,002	11,527,193	1,658,664	136,341,425
Total Income from Operations	5,780,527	2,454,772	1,996,514	343,454	10,575,267
Total Operational Expenses	(2,801,269)	(694,159)	(379,021)	(176,214)	(4,050,663)
Net Income	2,979,258	1,760,613	1,617,493	167,240	6,524,604

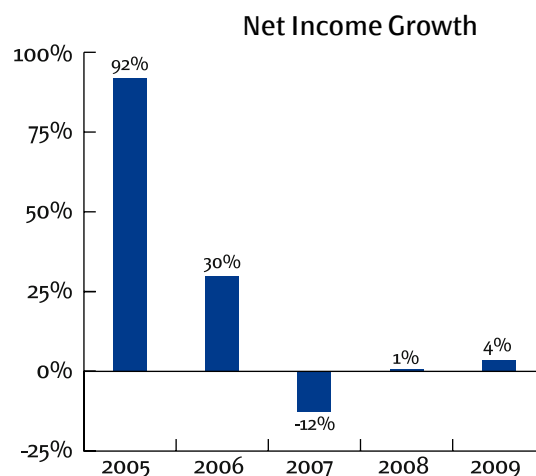
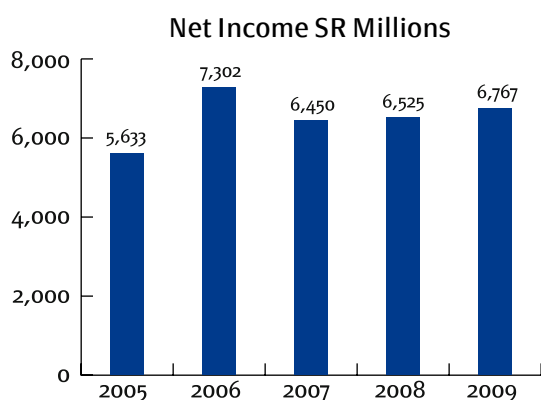
Summary of net results of operations for the past five years (SR 000)

	2009	2008	2007	2006	2005
Total Assets	170,729,729	163,373,224	124,886,482	105,208,744	95,037,981
Net Investment	151,595,350	142,287,129	104,875,445	89,563,188	80,134,684
Total Liabilities	141,988,845	341,425,136	101,280,370	85,029,268	81,568,687
Total Equity	28,740,884	27,031,799	23,606,112	20,179,476	13,469,294
Deposits	120,533,020	116,611,043	89,725,167	73,397,980	70,112,192
Net Profit	6,767,228	6,524,604	6,449,657	7,301,891	5,633,327
Share Profit	4,51	4,35	4,30	5,41	8,35

Geographical Analysis of Revenues

The Bank's revenues are derived from both its local and international activities. The following tables describe this fact:

Within the Kingdom	Outside the Kingdom
6,782,697	(15, 469)



Subsidiary Companies

The Bank owns several affiliated companies that help manage its business activities and diversify its revenues; the following table shows the ownership percentages of these companies.

	% Ownership		Activity's Type
	2009	2008	2009
SPC Ltd., British Virgin Islands	-	99%	Real Estate
Arpent Vat Services Ltd. - UK	-	100%	Real Estate
Al Rajhi Investment Ltd., London	-	100%	Consultancy Services
ARA Co. (1) Ltd., Jersey	-	99%	Aircraft Rental
Al Rajhi Development Co. Ltd., Riyadh	99%	99%	Real Estate
Al Rajhi Banking Investment Company Ltd., Malaysia	100%	100%	Banking Services
Al Rajhi Financial Services Company Riyadh	99%	99%	Financial

Dividend Distribution

After deduction of all overhead expenses, Zakat and other costs, the Bank distributes its net profits under article 41 provision of the Bank and related laws and regulations. The Board of Directors, as a result of the outstanding performance and net profits of the present year, recommends that profits be distributed as follows:

(SR'ooo)	
Year's profit	6,767,228
Profit from last year	121,286
Interim dividend distribution during the first half of the year, at the rate of SR 1.25 per share	(1,875,000)
Proposed dividend distribution during the second half of the year, at the rate of SR 1.50 per share	(2,250,000)
Transfer to legal reserve	(1,691,807)
General reserve	(366,465)
Zakkat accruals	(327,459)
Profit to be transferred to next year	377,783

Board of Directors

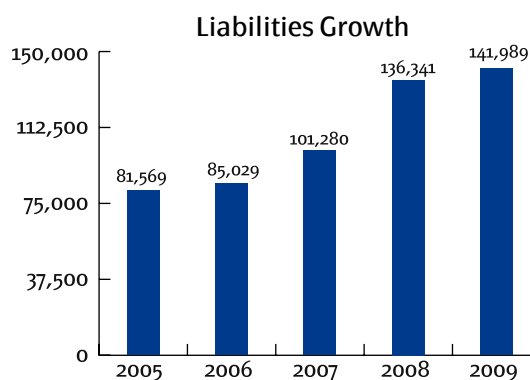
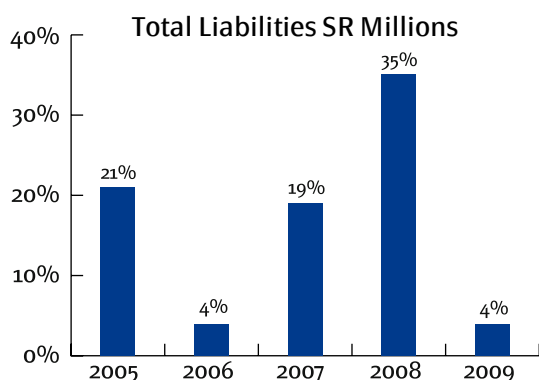
The Board of Directors consists of 11 members elected by the Ordinary General Assembly every 3 years. Each member can be re-elected after completing his term, in accordance with the Bank's regulations. According to the definitions mentioned in article 2 of the Corporate Governance Act of Saudi Arabia, issued by the Capital Market Authority, members are classified as follows:

Name	Functions	Membership Type	Membership in Other Joint Stock Companies
Suleiman bin Abdulaziz Al Rajhi	Chairman, Board of Directors	Non-Executive Member (Dependent)	Yanbu Cement Companies NADEC Agricultural Company
Abdullah bin Suleiman Al Rajhi	Managing Director & CEO	Executive Member (Dependent)	Al Rajhi Takaful Agency
Suleiman bin Saleh Al Rajhi	Board of Directors Member	Non-Executive Member (Independent)	
Abdullah bin Abdulaziz Al Rajhi	Board of Directors Member	Non-Executive Member (Dependent)	Tabuk Agricultural Company
Salah bin Ali Aba Al Khalil	Board of Directors Member	Non-Executive Member (Independent)	
Mohammed bin Abdulaziz Al Rajhi	Board of Directors Member	Non-Executive Member (Independent)	National Gypsum Company
Mohammed bin Abdullah Al Rajhi	Board of Directors	Non-Executive Member (Independent)	Tabuk Agricultural Company
Ali bin Ahmed Al Shidi	Board of Directors Member	Non-Executive Member (Independent)	
Saeed bin Omar Al Issaea	Board of Directors Member	Non-Executive Member (Independent)	
Mohammed bin Othman Al Bishr	Board of Directors Member	Non-Executive Member (Independent)	
Abdulaziz bin Khaled Al Ghfayli	Board of Directors Member (Representative of General Organization for Social Insurance)	Non-Executive Member (Dependent)	Savola Company

Changes in shares' ownership for the CEO, Board Members, Senior Executives and their families (wives & children)

CEO, Board Members, Senior Executives and their families (wives & children)

Number of Shares Beginning of the year	% Ownership During the year	Net Changes During the year	% Changes During the year	Number of Shares End of the year	% Ownership End of the year
495,162,970	33.01 %	150,159,106	10.01 %	645,322,076	43.02 %



The Board of Directors held the following 6 meetings in 2009

	Date	Number of Attendees	% Attended
1.	2009/01/19	8	72%
2.	2009/02/23	10	91%
3.	2009/05/16	9	82%
4.	2009/08/16	8	73%
5.	2009/10/20	10	91%
6.	2009/12/28	10	91%

Name	Attended Sessions
Suleiman bin Abdulaziz Al Rajhi	6 Sessions
Abdullah bin Suleiman Al Rajhi	6 Sessions
Suleiman bin Saleh Al Rajhi	6 Sessions
Abdullah bin Abdulaziz Al Rajhi	6 Sessions
Salah bin Ali Aba Al Khalil	6 Sessions
Mohammed bin Ibrahim Al Issa*	2 Sessions
Mohammed bin Abdulaziz Al Rajhi	-
Mohammed bin Abdullah Al Rajhi	4 Sessions
Ali bin Ahmed Al Shidi	5 Sessions
Saeed bin Omar Al Issaea	4 Sessions
Mohammed bin Othman Al Bishr	6 Sessions
Abdulaziz bin Khaled Al Ghfayli**	3 Sessions

The Board of Directors executes its functions and missions through major committees formed by Board members, except the audit committee that consists of 5 non-executive independent Board members. The Executive Committee, headed by the CEO, carries out all the functions and authorities the Bank entrusts it with.

It also studies all matters that require a Board recommendation or decision.

It held 7 sessions in 2009 and its members are: (Suleiman Bin Abdul Aziz Al Rajhi, Abdullah Bin Suleiman Al Rajhi, Salah Bin Ali Aba Khail, Suleiman Bin Saleh Al Rajhi). The Remunerations and Rewards Committee is formed by 3 members: (Abdullah Bin Suleiman Al Rajhi; Salah Bin Ali Aba Khail; Suleiman Bin Saleh Al Rajhi); and is in charge of functions assigned to it through executive by-laws.

The Remuneration and Rewards Committee's main function is to recommend the selection of Board members, the designation of senior executives and determine their salaries and remunerations. This committee held 7 sessions in 2009. Meanwhile, the Audit Committee plays a fundamental role in helping the Board of Directors meet its regulatory financial and accounting obligations. In addition, it performs all matters related to financial audit, and coordinates with external auditors. The Audit Committee held 5 sessions in 2009 and its members consist of (Suleiman Bin Saleh Al Rajhi, Sultan Bin Mohamed Al Sultan, Ali Bin Ahmad Al Shaddi, Abdullah Bin Ibrahim Al Sayyari, Abdul Al Rahman Bin Saleh Al Fiz). The last specializes in financial issues and accountability.

* The last session that member Mohamed Al Issa participated in was session number 128, held on 16/5/2009

** The first session Mr. Abdul Aziz Ghfayli participated in was session number 129, held on 16/8/2009

Remunerations and Compensations

The Bank pays the expenses and remunerations of Board members who attend the sessions, as well as that of the subsidiary committees under article 19 provision of the Bank Article of Association. It also pays salaries, remunerations and compensations to senior executives in accordance with their respective contracts. The following is a detailed description of all expenses, remunerations and salaries paid to Board members and the seven senior executives of the Bank, including the CEO and the Financial Director.

Description	Executive Board Members	Non-Executive Board Members	Senior Executive
Salaries & Remunerations	2,598,000	-	6,282,384
Allowances	685,500	144,000	1,332,498
Periodic Bonuses	3,031,000	2,340,667	5,384,785
Incentive Plans	-	-	3,325,000
Other Remunerations or Benefits Paid on a Monthly or Annual Basis	-	-	-
Total	6,314,500	2,484,667	16,324,667

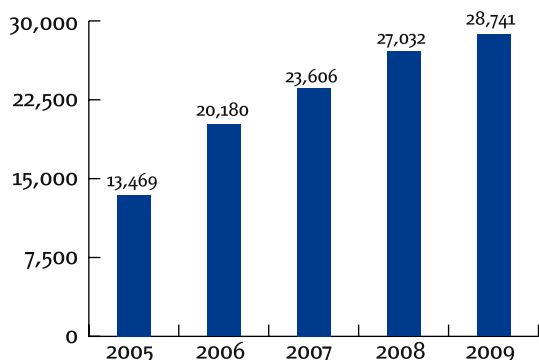
Penalties and Fines Imposed on the Bank

The Bank was not subjected to any significant penalty procedures or fines in 2009.

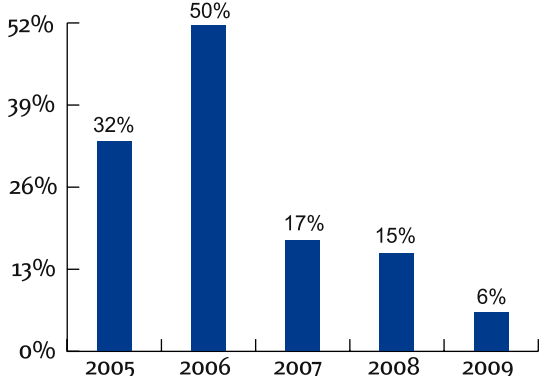
Contracts with Related Parties

Contrary to information mentioned in note No. (29), the Board members, CEO, Deputy CEO and the Financial Director have no other substantial interests.

Total Owners' Equity SR Millions



Owners' Equity Growth



Regulatory Payments

Party	(SR,000)
Zakat from Shareholders	327,459
General Organization for Social Insurance	139,598
Imam Mohammed Bin Saud Islamic University	552
Total	467,609

Employee Benefits and Plans

The employees' benefits and plans are paid in the Bank during or at the end of their services, according to Saudi Labour Laws and Bank policies. The balance for the allocations of end of service reached SR 557 million at the end of 2009.

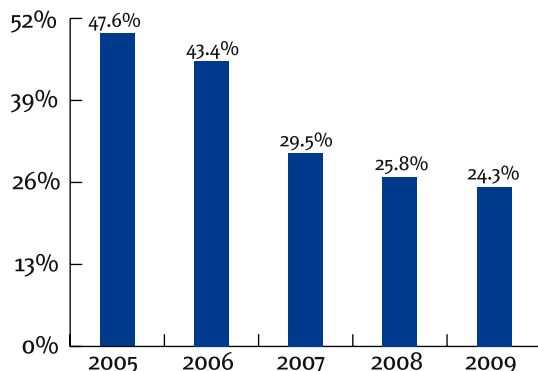
Based on Board members' decision number 9, dated 22/3/1990, and the General Assembly's decision, dated

20/11/1410 H, 15/5/1990, 150 thousand of the Bank's shares were allocated to the Employees' Fund under specified terms and conditions. The value of these shares, estimated at SR 15 million, was considered to be a debt on the account of the Employees' Fund and a part of the soft loan of SR 50 million given by the Bank to the Fund. This loan's amount was fully repaid and the shares' growth increased thanks to the granting of free shares, which were distributed as dividends that increased the Bank's capital over the past years. The number of these shares reached, after split, SR 30 million by 31/12/2009, according to the Capital Market Authority.

On 5/11/2007, the Board of Directors decided that the Bank should grant the Employees' Fund a soft loan of SR 125 million to be repaid in 2 years. From this loan, SR 70 million was already repaid and the other SR 55 million will be repaid in due course. The Fund's assets and resource investments, as well as its revenues' distribution would be executed to finance the following programs: the participation program of employees in the Fund, the program of granting Bank shares to the Fund for special employees and the Fund's offer of the Personal Soft Loans Program for employees. These programs function in accordance with their respective terms and conditions, which are approved by the Board of Directors. The latter subsequently approves every other project related to employees.

In the same context, the Employees' Fund is treated as an autonomous entity with independent financial statements that are, therefore, not included in the consolidated financial statements of the Bank.

Return on Shareholders' Equity



Accounting Records

The Board of Directors assures the following:

- Accounting records have been properly prepared in accordance with applicable accounting policies and criteria.
- There are no doubts regarding the Bank's capability to carry on with its activities.

Annual Audit Results of the Internal Control System's Effectiveness

- The Internal Control System has been properly prepared to meet the required effectiveness due to the following:
 - Existence of departments specialized in fields of audit, compliance control and risk management
 - Existence of the Audit Committee in order to ensure the adoption of the best governance practices and to contribute to reinforcing the independence of internal and external auditors. This committee, by receiving regular reports about the departments' activities that need auditing, provides a continuous assessment of the Internal Control System and its effectiveness
- Internal Control Management supervises the efficiency and sufficiency of the Internal Control System based on an annual plan approved by the Audit Committee. At the same time, some aspects of Internal Control are regularly supervised by the auditors and through SAMA tests.
- Great attention is paid to the Internal Control System's results and every remark mentioned is seriously taken into consideration in order to avoid any repetitive mistakes.

Future Risks

It is expected for Al Rajhi Bank to face increasing challenges in 2010. This is because of the international financial crisis and the repercussions it generated, in terms of slowness, that could affect the Saudi Market. The slowness of economic growth, along with the distance factor, could prevent the Bank from taking any risks, which in turn could decrease the growth average of loans and deteriorate the quality of assets and profits. Thus, it is expected that the decreasing percentage of investments in the private sector will set off huge amounts of investments that are economically supported by the Government.

Based on what is mentioned above, Al Rajhi Bank has succeeded in maintaining a good status, which enables it to face the expected increased challenges because it still benefits from its great local privileges.

The Corporate Governance Act

In general, the Bank works under the terms, by-laws and guidelines of the Corporate Governance Act, which is issued by the Capital Market Authority. The Bank's management has applied the Act's obligatory by-laws and most of the guidelines. Some of the guidelines mentioned in the Act that were not applied by the Bank in 2009 are as follow:

• Accumulative Voting

The Bank did not yet work in the Accumulative Voting requirements, but it carries on with preparations to apply this kind of voting system in the near future. It is important for the Bank's shareholders to be aware of this system's benefits in order to attain the best it has to offer.

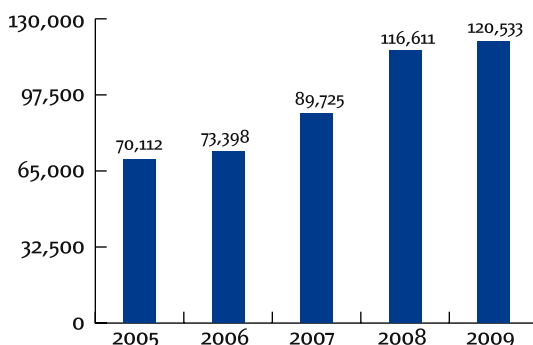
• Special Governance System for the Bank

The Bank works under most of the General Governance Act's requirements and especially the obligatory ones. The Bank is actually preparing its own Governance Act with respect to the requirements of the Governance Act issued by the Capital Market Authority. However, at this point, the Bank prefers to slow down with writing its own Act due to the near issuance of SAMA's Corporate Governance Act.

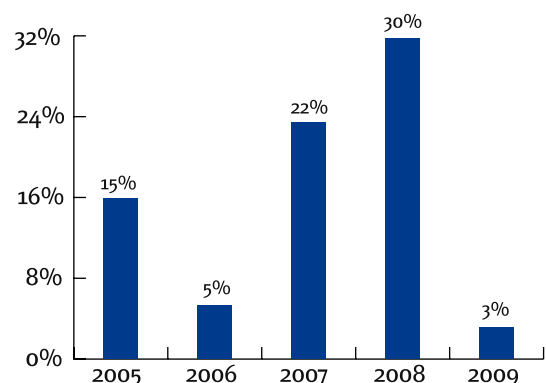
• Policy to Organize Relations with Business Owners

The policy is being prepared to be comprehensive, meaningful, able to protect all fields and reflect the Bank's policy concerning Social Responsibility, which is one of the main pillars of the Bank's current activities.

Customer Deposits SR Millions



Customer Deposits Growth



Auditors

During the Ordinary General Assembly of shareholders, dated 23/02/2009 G, Ernest & Young and Price Waterhouse Coopers have been re-appointed auditors of the Bank's accounts for the fiscal year of 2009. The next Ordinary General Assembly is going to re-designate the current auditors or choose other ones for the fiscal year of 2010, God Willing, based on a recommendation from the Audit Committee.

Conclusion

The Board of Directors is pleased to express their pride in the positive results achieved by the Bank in 2009. On this occasion, they want to express their appreciation to the Custodian of the two Holy Mosques, King Abdullah Bin Abdulaziz Al Saud and the Crown Prince, the Deputy Premier and Minister of Defense & Aviation and Inspector General, HRH Prince Sultan Bin Abdulaziz Al Saud, and the Crown Prince, the second Deputy Premier and Minister of Interior, HRH Prince Naif Bin Abdulaziz Al Saud, and to our prudent government.

The Board would also like to express their sincere appreciation to the Ministry of Finance, Ministry of Commerce & Industry, Saudi Arabian Monetary Agency (SAMA) and the Capital Market Authority for their

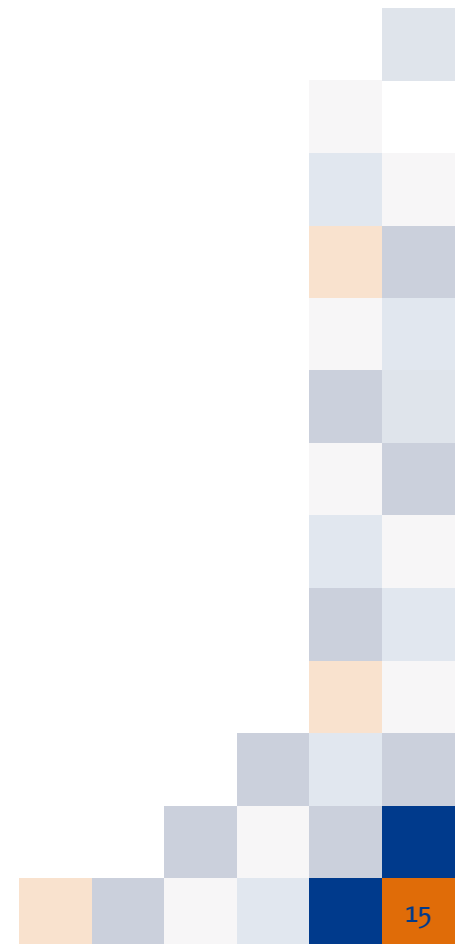
constant cooperation and support in developing the banking sector, which manifested itself in the reinforcement of the national economy.

The Board members present their gratitude to their eminence the Chairman and the members of the Bank's Shariah' Board for their efforts and contributions in the form of advice, patience and explanations on all issues presented to them with regards to the banking and investment activities and services that the Bank offers its customers. The Board wishes that Almighty Allah would best reward them for their efforts.

The Board would like to seize this opportunity to express their gratitude and appreciation to the honorable shareholders, correspondents and customers for their support, trust and cooperation, which led to the achievement of further advancement and prosperity for the Bank.

Last, but not least, the Board would like to present their sincere appreciation to all the loyal Bank employees for their genuine efforts and devotion in accomplishing their obligations and tasks.

Board of Directors





A 3D bar chart with an upward-pointing arrow, set against a blue background with a grid pattern. The chart consists of several vertical bars of varying heights, with the tallest bar on the left. An arrow points upwards from the top of the tallest bar. The background is a dark blue gradient with a light blue grid pattern.

**MOST PROFITABLE
BANK IN KSA
FOR THE LAST 5 YEARS**

Summary of the Year's Activity

Shariah Group

Since its early inception, the Bank established an independent Shariah Board, formed and ratified by the Constituent General Assembly with the objective of ensuring that all Bank activities are subject to the approval of said Board and subsequently exercising the necessary controls through the Shariah Control Department that reports directly to this Board.

Since its commencement and up to the close of 2009, decisions issued by the Shariah Board amounted to (901) decisions, of which (50) were issued in the course of this year alone. During the year 2009, the Board also held (40) sessions to approve a large number of contracts, agreements and forms and to tackle a number of remarks, while also responding to a large number of inquiries.

The Shariah Group is comprised of the following departments:

1- Secretariat Department:

The secretariat of the Shariah Board is in Charge of preparing subjects of discussion to be presented to that Board, and preparing for Board meetings. During this year, the Shariah Board prepared more than (200) subjects for presentation and deliberation. Additionally, the Board's Secretariat has developed the necessary tools for juristic research through the implementation of a number of accounting application softwares in this field.

2- Juristic Control Department

The Juristic Control Department is in charge of supervising the activities of the Bank with regard to verifying the implementation of the Shariah Board's decisions. In this regard, the Juristic Control Department conducted more than 160 control visits to the Bank's Head Office and branches, transfer centers, trading rooms, dealing rooms, etc.

The Juristic Control Department adopted a comprehensive awareness and training project, and made it available to all Bank employees. The Department put together an implementation policy based on a number of training sessions, awareness publications and the issuance of juristic publications.

Retail Banking Group

• The Retail Banking Group offers a wide spectrum of financing products and banking services to individual customers including current accounts, Personal Finance, Real Estate Finance and Auto Finance products. These products and services are provided through the Bank's Kingdom wide branch network.

- In the course of expanding the Bank's branch network, 19 new branches were opened and 48 existing branches were renovated and developed.
- Tahweel Al Rajhi is another important factor of the Retail Banking component. It offers remittance products and services to a broad customer base, with coverage reaching more than 50 destinations. In 2009, 8 new remittance centers were opened.
- There were 250 ATM machines and 2,350 Point of Sale machines added as channels of electronic banking. In this regard, Al Rajhi Bank is considered to be the largest channel provider in the Kingdom's banking industry with a range of coverage that uses branches, ATMs, POS terminals, Internet banking and mobile banking. The number of customers registered for Phone Banking Services reached approximately 1.8 million customers.
- More than one million customers performing an average 2 million transactions per month are using the award winning Retail Online Banking service. A market study in 2009 declared our online services to have been rated the best by customers.
- Comprehensive mobile banking services and Al Rajhi Mobile have recently been launched to offer Internet Banking Services to customers on the move.
- To enhance and foster our communication with customers, we introduced the following in 2009:
 - Electronic means for customers to execute their branch transactions
 - Instant issuance of credit cards in branches
 - Statements available through online banking
 - New user friendly ATM screens

Corporate Banking Group

- As one of the largest Islamic Banks in the world, Al Rajhi Bank's Corporate Banking Group (CBG) offers its corporate and commercial client base a wide range of Shariah compliant financial solutions and products such as Bal Ajel, Murabaha, Musharaka, Istisnaa and Ijara. In 2009, the Corporate Banking Group continued to support and serve its valuable relationships in both the corporate and commercial banking sectors with optimum banking solutions, despite the difficult economical conditions worldwide.
- Our Corporate Banking Group believes that Transactional Banking is one of the necessities of the corporate and commercial banking sectors. In light of

that, they continued to heavily invest in improving the Transactional Banking platform in 2009, and will continue to do so in 2010 in order to enhance all features and capabilities to increase the satisfaction of our client base. Currently, the Corporate Banking Group's Transactional Banking has world-class Cash Management products and Trade Finance services as is described below:

Cash Management and Electronic Solutions

- In order to facilitate efficient, cost-effective electronic banking, several key enhancements and upgrades, including a radical new user interface, were successfully applied to the corporate electronic banking platform in 2009. These enhancements culminated in a significant 49% increase in active electronic subscribers and impacted the overall volume of transactions made with an increase of 46%.
- The incorporation of the Payroll suite of services has been successfully completed and all corporate customers have been migrated from the old Payroll system. Internet security is a crucial element of online banking services and a significant step to improve security has been taken by introducing Security Tokens to all Internet banking subscribers, bringing Al Rajhi Bank's electronic banking up to the highest international security standards. It is expected that all subscribers will come under this new security protocol by the first quarter of 2010.

Global Trade Finance

- During the year 2009, the Trade Business Unit has been reshaped and customers saw better and wider Al Rajhi Bank delivery services. Many aspects of the business have improved and we continue the process of expanding Shariah compliant facilities.
- Beyond Internet applications, the e-Trade platform has been launched and customers have begun using it, seeing terrific improvements on process efficiency, delivery time and error reductions.

Treasury Group

The Treasury Group offers a range of funding and foreign exchange services to their customers and other departments within the Bank. The Group plays a leading role in local, regional and offshore foreign exchange markets, and has achieved significant market shares as a result of the Bank's strong retail franchise.

- The Funding and Investment Team focuses on satisfying the Bank's funding requirements and implementing strategies to manage liquidity. The Team takes advantage of the comparative margin of profit between accrued assets and liabilities in an effective manner. This is done with the objective of optimizing profitability and satisfying prudential liquidity standards.

- The Cash Management Team manages the Bank's own accounts in over 40 different countries and that contributes to providing a seamless remittance service for customers.
- The year 2009 was a challenging one for all financial markets in the wake of the global financial crisis. However, the Bank's strong balance sheet, along with the market's strong credit appetite for Al Rajhi Bank, meant that the Treasury Group was able to source required funding without difficulty. The Treasury Group was also able to successfully take advantage of the opportunity availed by the fluctuations in foreign exchange markets.
- The dedicated Treasury Sales Team continued to build and maintain long-term relationships with its loyal client base, offering them high quality services based on a philosophy of partnership that supports the long-term growth of customer businesses. This is achieved through the timely supply of information on market movements and events by e-mail and by short messages (SMS). This keeps our customers acquainted with the market and assists them in making timely decisions. The Treasury Group further expanded its geographical reach in order to enhance their sources of liquidity and help the foreign exchange business grow.

Al Rajhi Capital Company

- Al Rajhi Capital Company (ARC) is the name of the company under which the Bank conducts its Investment Banking businesses and Al Rajhi Bank owns 99% of it. Saudi Arabia's Capital Markets Authority (CMA) duly licensed the company.
- Al Rajhi Capital was created with the goal of achieving a fully integrated Investment Banking Business comprised of the following five core divisions:
 - Asset Management Division
 - Brokerage Division
 - Investment Banking Division
 - Leveraged Finance & Real Estate Division
 - Private Equity Division

ARC Asset Management Division

- ARC Asset Management specializes in investment strategies for institutional and individual investors. They offer a full range of Shariah compliant Asset Management products for individual investors, pension funds, foundations, and other institutional investors.
- They have established track records in strategies across the risk/return spectrum in all major asset



classes. Their fixed income strategies include cash and commodity funds, and also offer customized fixed income solutions. Their equity strategies are based on fundamental research and quantitative analysis applied by experienced managers.

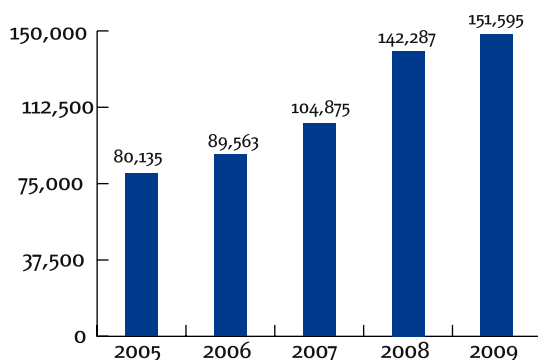
ARC Brokerage Division

- The ARC Brokerage Division market share has increased by more than 20% from year to year, in spite of strong constraining factors such as the extensive Restructuring Plan and the added competition from established and new competitors. Teamwork, hard effort, continuous commitment and customer-focused initiatives were responsible for this increase in market share that allowed us to achieve the 2nd position in Saudi Arabia.
- A bouquet of planned initiatives was implemented in 2009 targeting sales network optimization, upgraded operational efficiency and improved customers' satisfaction. The 2009 Restructuring Plan focused on services and customers' trading functions based on their needs and demands. A 500% increase in customer base on the Automated Phone Trading (APT) platform is evidence that ARC Brokerage has appropriately enhanced its e-Channels upgrades, which opened up a large range of modern trading functions for its customers.

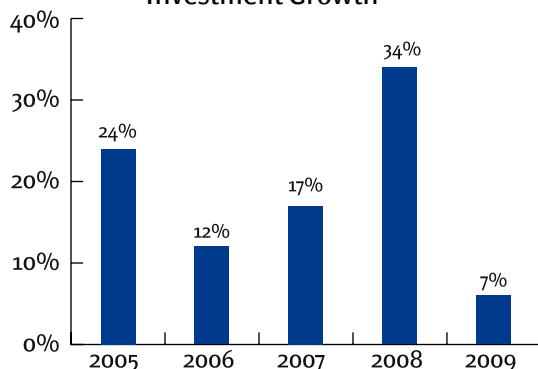
ARC Investment Banking Division

- The ARC Investment Banking Division provides financial advisory and capital-raising services to corporations and governments that exist within our target markets. From here, ARC took an integrated approach

Total Finance & Investment SR Millions



Investment Growth



to client coverage, organizing bankers, products and geographic groups. ARC Bankers work with product specialists in Equity Capital Markets and Debt Capital Markets who help clients meet their strategic and financial objectives.

- In 2009, Al Rajhi Capital became the number one leading Investment Bank in equity capital market transactions in Saudi Arabia. This was due to our accomplishments in acting as the underwriter, lead manager and receiving Bank on Initial Public Offerings and Rights' Issues in the Saudi Stock Markets, totaling SR 4.8 billion.

ARC Leveraged Finance and Real Estate Division

- In 2009, our Debt Capital Market business continued to partner with clients on some of their most important transactions. ARC cemented its capabilities in both the finance and real estate areas by focusing on hiring professionals in leveraged finance and real estate, and a team that secures new debt advisory mandates.
- Amid weakening global and regional growth, clients increased the amount of business they do with us. Major accomplishments in 2009, positioned our businesses as one of the leaders in the Debt Capital Markets in Saudi Arabia, including acting as lead advisors and arrangers for transactions in excess of SAR 5 billion.

Despite the weaker outlook for Project Finance in 2010, Leveraged Finance and Real Estate have a healthy transaction pipeline and mandates from 2009; hence, the focus in 2010 will be on the execution of these existing mandates.

ARC Private Equity Division

- In 2009, Al Rajhi Capital launched its Private Equity business by making a significant commitment to invest seed capital for the development of a series of private equity funds targeting investments in real estate, growth capital, infrastructure and other sectors of the economy.
- ARC increased the number of professional staff dedicated to managing the growth of its private equity business, and set as their primary objectives the achievement of top quartile performance returns, execution of the private equity business with integrity, professionalism and investment discipline, in order to build the best-in-class regional private equity team.

ARB Malaysia's Performance

- In 2009, despite a challenging business climate and a global slowdown, the Bank made a turnaround performance recording a profit of Ringgitt 19.7 million since it commenced its operations on 16 October 2006. However, the provisioning required on a trade deal had resulted in the Bank recording a loss of Ringgitt 14.5 million.

- Total assets have increased from Ringgitt 4.8 billion to Ringgitt 5.7 billion for the financial year that ended 31 December 2009.
- The Bank has built up a 390 strong, dedicated and professional team in 19 branches spread across Malaysia offering universal services for its Retail, Corporate, Treasury and Investment Banking customers. The year 2009 also saw the Bank become the first Islamic Bank invited to join the MEPS network, thereby enabling our customers' immediate access to 9,000 ATMs nationwide.
- The outlook for 2010 sees improvements as the economy is expected to pick-up after a year of negative growth. The Bank will remain competitive in the challenging environment ahead and is expected to continue picking up traction on its growth momentum by lining up key initiatives to widen the business platform, target the right customers and deliver an all-round good service quality experience.

Financial Group

- This year was filled with challenges and accomplishments that included the Financial Group's successful implementation of the International Financial Reporting Standard (IFRS 8).
- The Financial Group, with its team of professional accountants, continued its drive to establish the best Financial Management systems, policies, procedures and practices. They also continue to place special emphasis on automating the processing environment in order to minimize manual intervention.
- The Financial Group believes in their role as an effective partner in all the different sectors of our organization. They support business strategy and product developments, closely monitor external events that have an impact on the Bank's finances and accordingly, proactively recommend remedial measures.
- The professional accountants who make up the Financial Group are tenacious in achieving and delivering quality products on time, every time. They continue to establish the best mould for a successful business by applying the latest technological advances and best international practices.

Credit & Risk Management Group

- The Board recognizes that effective management of risk is an integral part of overall sound management and is vital to the continued growth and success of Al Rajhi Bank. This has been affected by the significant investment made by the Bank within the Credit and Risk Management area in terms of people, technology, policies and processes. CRMG is now an active partner and contributor to the Bank's growth, value

creation and strategic direction, whilst at the same time controlling any downside risks.

- The Management Committees and Board Committees guide and assist with the overall management and control of the Bank's risks. This ensures that the Bank's risks are identified, analyzed, evaluated, monitored and communicated within and outside the organization and that adequate controls are effectively in place.
- Al Rajhi Bank's integrated risk management framework allows the Credit and Risk Management Group (CRMG) to develop, maintain and create associated policies for many of the risks facing by the Bank including, but not exclusive to: credit risk, market risk, operational risk, liquidity risk, profit rate risk and reputational and strategic risk. On the other hand, the Risk Management framework's independent review is carried out through an Internal and External Audit and under the pro-active oversight of the Saudi Arabian Monetary Agency, SAMA.
- In 2009, the Credit & Risk Management Group instituted a number of enhancements to the Banks Risk Management infrastructure, systems and processes. These included significant progress in the implementation of the Basel II framework, achieving key milestones such as the development of new rating models, the refinement of existing rating models, the revision of pricing tools like RAROC implementation. Further notable improvements were applied to credit, operational and market risk managements in terms of people, policies, procedures, Bank wide training and IT systems.
- The Bank will continue to develop and improve its Risk Management philosophy and capabilities to ensure that our risk management is world-class. We also continue to optimize return on the risk/return front and maintain consistent market leadership and profitability within agreed risk parameters, as determined by the Board of Directors.

Strategy & International Business Development Group

- The long-term vision of Al Rajhi Bank is to become a leading regional financial services organization and deliver strong shareholder value.
- The Group's Management is anticipating growth opportunities to continue to be present for those institutions that have a strong capital base and the right business focus and delivery commitment. In that re-



gard, the Group's strategy is based on the following goals:

- Expand and diversify the Retail Banking services so as to solidify the Bank's leadership position
 - Continue enhancing capabilities in Corporate Banking based on the needs of our customers in different segments
 - Introduce new attractive saving & investment products and services that cater to the needs of individuals and corporations
 - Create a closer relationship with our clients and strive to offer our efficient and high quality service at all times
 - Develop distinctive capabilities in performance and Risk Management
 - Update the technology platform that enables us to achieve our business aspirations and fulfil our promises to our clients
- In the year 2009, we also registered and obtained licences with the Central Banks of Kuwait and Jordan and plan to start commercial operations in both countries immediately. We will continue offering our regional, corporate & individual clients integrated financial services while bringing our Islamic Banking expertise to new countries and clients.
 - The Strategy & International Business Group will continuously assess further unprocessed expansion opportunities and/or acquisitions, which will be periodically presented to the Group's Board of Directors.

Human Resources

- Our relentless focus on talent retention, attraction and development is generating positive vibes throughout the Bank and a particular example of that is our LEAD program.
- A group of senior managers, dubbed as LEAD, benefited by creating a structured plan that exposed them to a series of world class development programs in Leadership, Soft Skills and Functional Training supported by Technical Training.
- A core group from the LEAD team was chosen to be provided with a dedicated personal coach to give individual attention to their personal development and hone their Leadership Skills.
- The chosen leaders will provide the Bank with a rich source for the future needs that develop within the Bank.
- A major project to broaden the grading structure was undertaken this year. It creates a smoother organization and positively contributes to staff motivation, efficiency

improvements and the revamp of the reward strategy in order to be sufficiently competitive in the marketplace.

- On the productivity front, meticulous planning and execution to ensure no loss of output achieved an overall 5% reduction in headcount.
- The retention strategies implemented in the past and stability in the banking environment helped to peg our attrition rate to less than 8 % against a target of 10%.
- There were, 330 new staff members recruited due to our focus on Saudi Human Resources and which contributed to our Saudisation percentage exceeding 90% in December.

Shared Services Group

Information Technology Department

- In the year 2009, our accomplishments have improved and supported the Bank's position in all different channels. We enhanced and launched new products in Customer Trade Finance (CTF), Credit Cards, Corporate Internet Banking (eCorporate), GCP, CA Workflow, Banknote, EMV Credit Card and many others.
- To optimize and enhance IT operation capabilities and processes, we implemented ITIL V3 standards in order to clearly distinguish and specify key business users and stakeholders and the best practices and businesses for them.
- By adopting the new EPM approach in improving Program Governance and Project Management, we can deliver entire business projects on time, in a cost effective manner and without sacrificing quality.
- We have reviewed and updated our IT architecture in order to effectively control changes in applications and infrastructure, and to protect and support our businesses.
- To facilitate money handling for our customers, we enlarged the capacity of our ATMs to 150 transactions per second during peak hours. At the same time, by implementing a quick and easy consumer lending system, we processed one million loans.
- By initiating a number of valuable and important services in the Internet Banking channel, we reached one million registered customers who are all provided with 2.4m processing capabilities for Internet transactions.
- To serve our customers quickly and more effectively, the branches have been equipped with Paperless transactions, branch process enhancement and Instant Issu-

ance of Credit Cards service. We have dedicated a separate section for information technology with the ability to assimilate the operations of the Kuwait branch. We also engaged to comply with the SAMA PCI mandate.

- Our call center deals with eight million calls each month in a service support that reaches two million of our IVR customers. With this highly reliable system, we were able to process one million payroll transactions on payroll day

Risk Sector

- During 2009, the Shared Services Group created a Business Continuity and Shared Services Risk sector (BC & SSR) that incorporates the Al Rajhi Bank Information Security Department. Departments that are components of this sector are tasked with several critical objectives:

- 1- Define and embed a sustainable business continuity community
- 2- Establish key business continuity and crisis management policies and procedures
- 3- Provide subject matter expertise for the IT Disaster Recovery strategy and approach
- 4- Enhance the environment of risk control within the Shared Services Group
- 5- Manage the complex Information Security System used within the Bank

- To accomplish the Departments' objectives in the financial year of 2009, the BC & SSR initiated several key projects that will enable us to support both their strategies, that of the Shared Services Group and the Bank as a whole.

- We have been and still are in the process of hiring a skilled professional team that will enable us to deliver our initiatives. This is in order to help make the Bank a more sustainable organization over the course of 2010 and to reduce the levels of operational risks in the realms of IT, business operations and information security.

- Here are examples of the initiatives we commenced and/or completed in 2009:

- Pandemic Risk Assessment
- Identity Access Management
- Critical Application Risk Assessments
- Continuous Monitoring of Key Systems
- Crisis Management Guide
- Information Security Awareness program and its incorporation into annual training

- Finally, we are in the closing stages of an enterprise-wide project that will ensure that the Bank has an up-to-date and well-managed set of policies and procedures for all our key functions.

Engineering & Premises Department

- 46 branches have been constructed as per the plan (19 new ones and 27 relocations)
- 13 branches have been refurbished (11 relocations and 2 in the same location)
- 5 Tahweel Centers have been refurbished (3 new and 2 in the same location)
- 3 corporate branches have been developed
- 2 cash Centers have been refurbished
- 160 ATMs
- Development of the Archive Center in AISulai
- Completion of the Al-Aali project and contracts to organize and initiate the marketing and sale of (49) plots

Contracts and Purchasing

- Reporting to the Administration Group is the Contracts and Purchasing Division, which is in charge of supplying the Bank with cost effective and the highest quality goods and services, as well as the monitoring and management of expenses related to the Bank's operations.

- The administration Group oversees the Medical Services Function, which serves more than 26,000 of the Bank's personnel and their dependent family members Kingdom-wide.

Maintenance & Support Services

- (The archiving of 60,000 files is completed) they represent the total number of documents assigned to the first year of the Electronic Archiving Project.
- The application of the barcode is initiated so as to organize, store, and retrieve documents efficiently and identify the required documents easily and quickly.
- The expenses of maintenance and support services were reduced by 15%.



Security and Safety

The Security and Safety Department's many achievements for the year 2009 include:

- The successful completion of the evacuation plan for the Head Office
- The completed linking of branch security systems to the main central station, to be controlled smoothly by remote
- The completed centralization of all CCTV captures and CDs to a multimedia storage server saving the time and effort needed while using the old method
- Provided security for over 300 new ALR ATMs
- Providing security for more than 58 new branches and centers and developing security systems for over 40 branches and centers

Compliance Control Department

- The Compliance Control Department is in charge of following up on the implementation of the compliance policy. This policy is applied to the systems and guidelines that were subsequently developed into a mandatory guide for all Bank departments. The guide of conduct applied to the Bank's businesses ensures the proper and legal applicable implementation procedures and corrects any omissions that may be encountered in the course of the Bank's practical application in coordination with respective departments.
- During 2009, the Compliance function was strengthened with the appointment of a Head who has over 18 years of international experience. The team was further augmented with the recruitment of Compliance Relationship Managers to support business groups. In addition, a dedicated Compliance Training Manager was also appointed to bring greater focus on Compliance & AML Training across Al Rajhi Bank. The Compliance Committee, comprising of senior management, was formed in June 2009.

- The minutes of quarterly meetings conducted by the compliance Committee, covering various Compliance & AML topics, are shared with the Board of Directors and Audit Committee. Through participation in a number of committees at the level of the Saudi Arabian Monetary Agency, SAMA, the Compliance Control Department, in collaboration with other local banks, endeavors to highlight the Bank's efforts and sincere desire to achieve the highest levels of compliance through the implementation of relevant banking systems at the local and global levels.

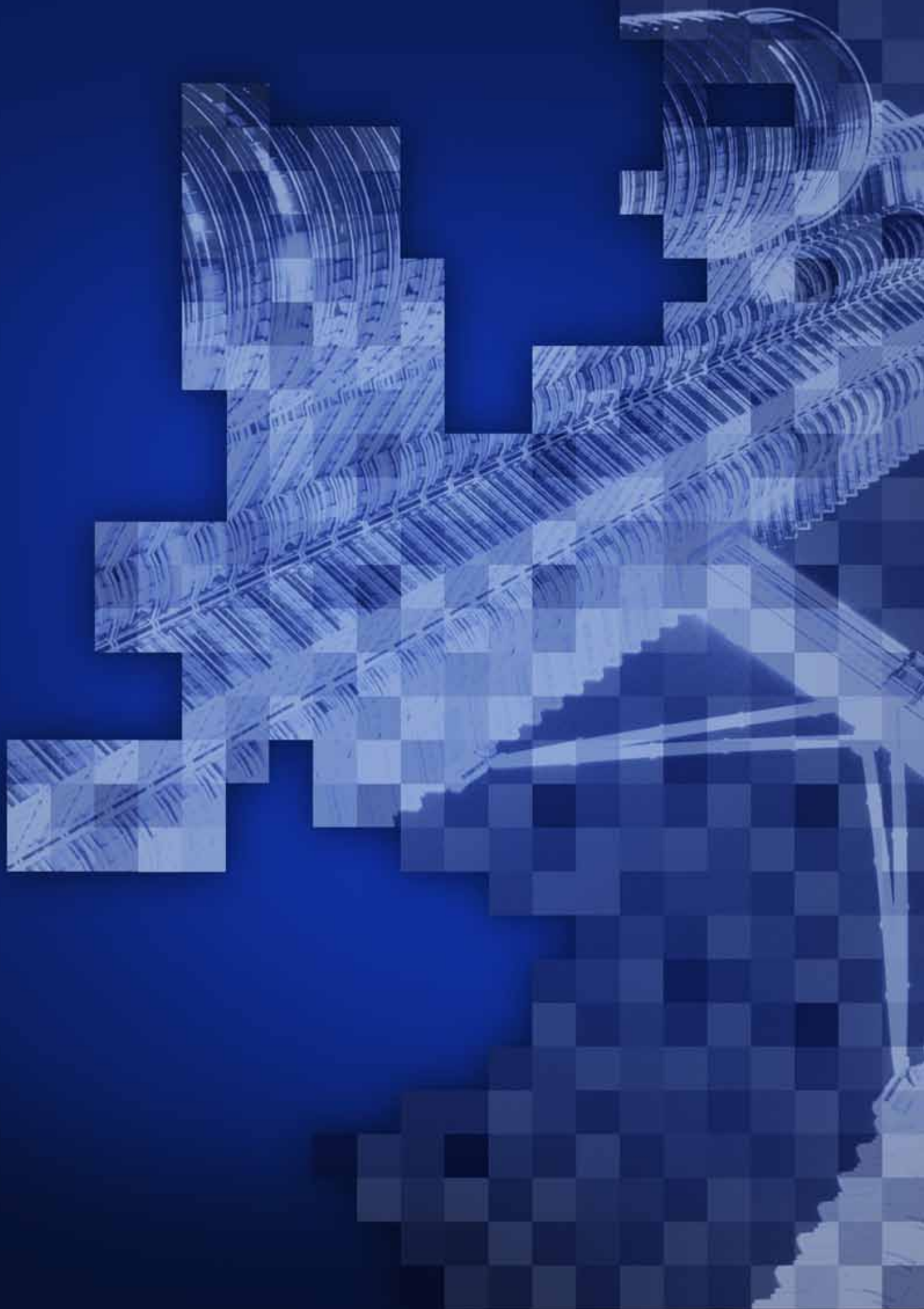
Anti-money Laundering Department

- The top management of Al Rajhi Bank is concerned with safeguarding the Bank's relations against any illegal or suspicious dealings. This concern is in line with the Bank's conviction of the necessity to protect the integrity of the national economy and the interests of our clientele.
- For this reason, the Anti-money Laundering Department, through constant direction from the Bank's top management and competent authorities in the Kingdom of Saudi Arabia, endeavors to prevent any illegal dealings through the study and analysis of suspicious transactions. In the course of the second half of this year, the Anti-money Laundering Department adopted a number of high-tech systems to assist in the uncovering of suspicious dealings within a short period of time.
- The Anti-money Laundering Department also endeavors to develop similar systems and adapt them to any future developments in the course of money laundering. Because of the great importance of training in this regard, this Department plans to train its personnel, in the field of combating money laundering, in a constant and professional manner.

Social Responsibility

- Al Rajhi Bank deepened the meaning and application of the overall concept of social responsibility both within the Bank and publicly. We are propagating the culture of individual social responsibility by introducing miscellaneous programs based on a clear social care policy. As a result, the Bank realized outstanding achievements for which it received several prizes and celebrations.
- Within the business environment, various activities were organized including senior leaders workshops on corporate social responsibility, smoking awareness exhibitions, blood donation campaigns, flu vaccination campaigns, utilities rationalization, water and electricity conservation, waste paper recycling, and the attrition of employees was reduced compared to 2008.
- The Bank takes pride in the variety of social services it supported and sponsored. Their initiatives included disseminating the culture of social responsibility among the mass media people, supporting small enterprises for producing families, voluntary participation in improving the environment, supporting academically distinguished girls, the skillful development of students, in addition to the allocation of SR 70 million from the Purification Account to establish a dispensary at King Saud University and SR 2 million for the Prince Sultan Emergency Project.
- The Bank also provided banking and technological services for charity foundations.







**GROWING
INTERNATIONAL PRESENCE
MALAYSIA, KUWAIT
AND JORDAN**

AL RAJHI BANKING AND INVESTMENT CORPORATION
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2009
TOGETHER WITH AUDITORS' REPORT

(SR'000)

	Notes	2009	2008
ASSETS:			
Cash	4	3,449,155	3,629,777
Balances with Saudi Arabian Monetary Agency ("SAMA")	5	7,963,865	7,672,252
Due from banks and other financial institutions	6	1,281,444	2,891,765
Financing, net	7	148,707,005	140,676,723
Investments	8	2,888,345	1,610,406
Customer debit current accounts, net	9	695,791	914,228
Property and equipment, net	10	3,182,157	2,868,160
Other assets, net	11	2,561,967	3,109,913
TOTAL ASSETS		170,729,729	163,373,224
LIABILITIES AND SHAREHOLDERS' EQUITY:			
LIABILITIES	12	6,102,073	7,901,630
Due to banks and other financial institutions	13	-	1,875,000
Syndicated Murabaha financing from banks	14	120,533,020	116,611,043
Customer deposits		2,328,820	2,129,999
Other customer accounts (including margins on letters of credit, third party funds, certified cheques and transfers)	15	13,024,932	7,823,753
Other liabilities		141,988,845	136,341,425
TOTAL LIABILITIES:			
Share capital	16	15,000,000	15,000,000
Statutory reserve	17	10,419,177	8,727,370
Retained earnings		744,248	121,286
Proposed gross dividends	23	2,577,459	3,183,143
Total Shareholders' Equity		28,740,884	27,031,799
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		170,729,729	163,373,224

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

AL RAJHI BANKING AND INVESTMENT CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE TWO YEARS ENDING DECEMBER 31, 2009 AND 2008

(SR'000)

	Notes	2009	2008
INCOME:			
Gross financing income		9,802,325	9,423,272
Income paid to customers on time investments		(529,816)	(819,453)
Income paid on syndicated Murabaha financing from banks		(40,447)	(107,156)
Net Financing Income		9,232,062	8,496,663
Investments income (expense)	19	121,970	(2,222)
Fees from banking services, net	20	1,390,980	1,241,267
Exchange income, net	21	582,322	483,459
Other operating income		177,958	356,100
Total Operating Income		11,505,292	10,575,267
EXPENSES:			
Salaries and employee related benefits		1,718,725	1,648,657
Rent and premises related expenses		144,438	136,830
Impairment charge for financing and other	7,2	1,760,727	1,227,423
Other general and administrative expenses		788,584	651,277
Depreciation and amortization		322,619	383,401
Board of directors' remuneration	29	2,971	3,075
Total Operating Expenses		4,738,064	4,050,663
Net Income		6,767,228	6,524,604
Comprehensive Income		-	-
NET COMPREHENSIVE INCOME		6,767,228	6,524,604
Weighted average number of outstanding shares	22,16	1,500 million	1,500 million
EARNINGS PER SHARE (IN SR)	22	4,51	4,35

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

AL RAJHI BANKING AND INVESTMENT CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDING DECEMBER 31, 2009 AND 2008

(SR'000)

	Notes	Share Capital	Statutory Reserve	General Reserve	Retained Earnings	Proposed Gross Dividends	Total
2009							
Balance on January 1, 2009		15,000,000	8,727,370	-	121,286	3,183,143	27,031,799
Dividends paid for prior year		-	-	-	-	(2,625,000)	(2,625,000)
Transfer to general reserve	17	-	-	-	-	-	-
Net comprehensive income		-	-	-	6,767,228	-	6,767,228
Transfer to statutory reserve		-	1,691,807	-	(1,691,807)	-	-
Interim dividends paid for the first half of the current year	23	-	-	-	(1,875,000)	-	(1,875,000)
Proposed gross dividends	23 ⁹¹⁷	-	-	-	(2,577,459)	2,577,459	-
Transfer to accrued zakat	23	-	-	-	-	(558,143)	(558,143)
Balance on December 31, 2009		15,000,000	10,419,177	-	744,248	2,577,459	28,740,884
2008							
Balance on January 1, 2008		13,500,000	7,096,219	197,650	1,588,326	1,223,917	23,606,112
Dividends paid for prior year		-	-	-	-	(675,000)	(675,000)
Bonus share issue	16	1,500,000	-	-	(1,500,000)	-	-
Transfer to general reserve	17	-	-	88,326	(88,326)	-	-
Net comprehensive income		-	-	-	6,524,604	-	6,524,604
Transfer to statutory reserve		-	1,631,151	-	(1,631,151)	-	-
Interim dividends paid for the first half of the current year	23	-	-	-	(1,875,000)	-	(1,875,000)
Proposed gross dividends	23 ⁹¹⁷	-	-	(285,976)	(2,897,167)	3,183,143	-
Transfer to accrued zakat	23	-	-	-	-	(548,917)	(548,917)
Balance on December 31, 2008		15,000,000	8,727,370	-	121,286	3,183,143	27,031,799

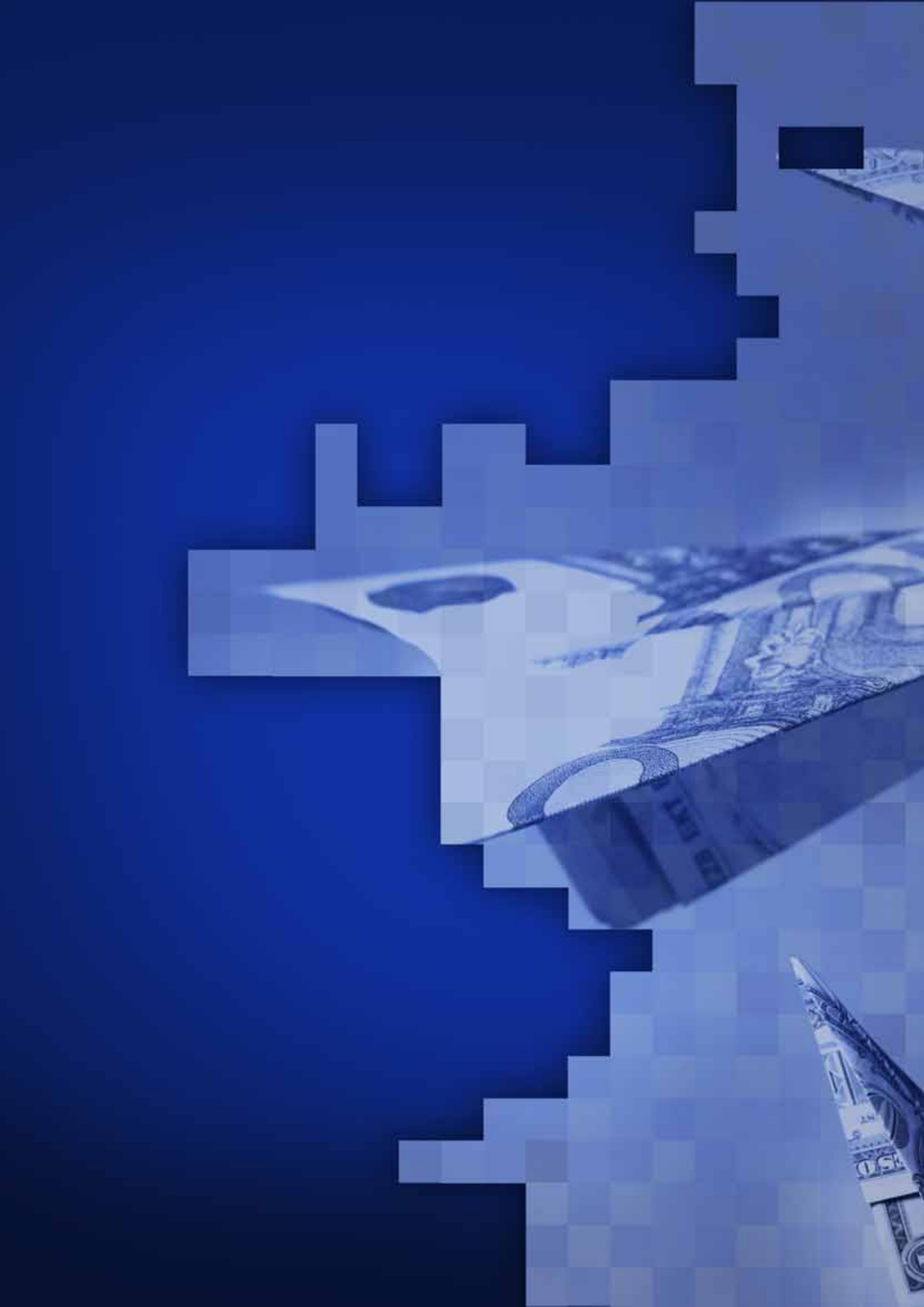
The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

AL RAJHI BANKING AND INVESTMENT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDING DECEMBER 31, 2009 AND 2008

(SR'000)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	6,767,228	6,524,604
Adjustments to reconcile net income to net cash, provided by operating activities:		
Depreciation and amortization	322,619	383,401
Gain on sale of property and equipment	(17,872)	-
Impairment charge for financing and other, net	1,760,727	1,227,423
Net (increase) decrease in operating assets:		
Statutory deposit with SAMA (note 5)	(291,772)	(593,227)
Financing	(9,773,533)	(38,789,147)
Investments	(1,277,939)	(1,038,226)
Customer debit current accounts	200,961	175,766
Other assets	547,946	(572,017)
Net increase (decrease) in operating liabilities:		
Due to banks and other financial institutions	(1,799,557)	5,308,540
Customer deposits	3,921,977	26,885,876
Other customer accounts	198,821	117,220
Other liabilities	4,643,036	3,218,692
Net cash provided by operating activities	5,202,642	2,848,905
CASH FLOWS FROM INVESTMENT ACTIVITIES:		
Purchase of property and equipment	(905,880)	(630,182)
Proceeds from disposal of property and equipment	287,136	-
Net cash used in investment activities	(618,744)	(630,182)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Syndicated Murabaha financing from banks	(1,875,000)	-
Dividends paid	(4,500,000)	(2,550,000)
Net cash used in financing activities	(6,375,000)	(2,550,000)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,791,102)	(331,277)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	6,521,991	6,853,268
CASH AND CASH EQUIVALENTS AT THE END OF YEAR (Note 24)	4,730,889	6,521,991

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





**LARGEST
REMITTER IN KSA**

Al Rajhi Banking and Investment Corporation

Notes of Consolidated Financial Statements

For the Two Years Ending December 31, 2009 and 2008

1- General

a) Incorporation and Operations

Al Rajhi Banking and Investment Corporation, a Saudi Joint Stock Company, (the "Bank"), 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 Bank operates under Commercial Registration No. 1010000096 and its Head Office is located at the following address:

Al Rajhi Bank
Olaya Street
P.O. Box 28
Riyadh 11411
Kingdom of Saudi Arabia

The objectives of the Bank 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 Bank is engaged in banking and investment activities for its own account and on behalf of others inside and outside the Kingdom of Saudi Arabia through 477 branches including the branches outside the Kingdom as on 31 December 2009 (2008: 456 branches) and 8,307 employees as on December 31, 2009 (2008: 8,299 employees). The Bank has established a number of wholly or substantially owned subsidiaries as set out below:

b) Shariah Authority

As a commitment from the Bank, for its activities to be in compliance with Islamic Shariah legislations, the Bank has, since inception, established a Shariah Authority to ascertain that the Bank's activities are subjected to its approval and control. The Shariah Authority had reviewed several of the Bank's activities and issued the required decisions thereon.

2- Basis of Presentation

a) Statement of Compliance

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

b) Basis of Measurement

The consolidated financial statements are prepared under the historical cost convention modified for measurement at fair value of investments held as Fair Value Through Income Statement ("FVIS").

c) Functional and Presentation Currency

The consolidated financial statements are presented in Saudi Riyal ("SR"), the Bank's functional currency and are rounded off to the nearest thousand.

SUBSIDIARIES	Shareholding %	
	2009	2008
SPC Limited - British Virgin Islands	-	99%
Arpent VAT Limited - UK	-	100%
Al Rajhi Investment Corporation Limited - London	-	100%
ARA (1) Company Limited - Jersey	-	99%
Al Rajhi Company for Development Limited - Riyadh	99%	99%
Al Rajhi Corporation Limited-Malaysia	100%	100%
Al Rajhi Capital Company	99%	99%

Some of the subsidiaries were liquidated in 2009, since the purpose for which they were formed had been accomplished.

d) 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 Bank'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.

Significant areas where management used estimates, assumptions or exercised judgements are as follow:

1) Impairment for credit losses on financing

The Bank reviews its financing 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 financing 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.

2) Going concern

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

3) 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 the prior year, except for the adoption of IFRS 8. Operating Segments and amendments to existing standards are as mentioned below:

- IFRS 8 "Operating Segments", which supersedes IAS 14 "Segment Reporting" and requires disclosure of information about the Bank's operating segments;
- Amendments and revisions to IAS 1 "Presentation of Financial Statements";

- Amendments to IFRS 7, "Financial instruments: Disclosures" - The amendment requires enhanced disclosures about fair value measurements and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy.

The Bank has adopted the standard and amendments with retrospective effect, which had no impact on the financial position and financial performance of the Bank. The comparative information has been restated, where required, to conform to the current year presentation.

3) Basis of the Preparation of the Consolidated Financial Statements

a) Financial Statements

These consolidated financial statements include the accounts of Al Rajhi Bank and its subsidiaries in which the Bank's shareholdings exceed 50% of their share capital and the Bank has the power to govern their financial and operational policies. The financial statements of subsidiaries are prepared for the same reporting year as that of the Bank, using consistent accounting policies.

Subsidiaries are all 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 a shareholding of more than one half of the voting rights. Subsidiaries are consolidated from the date on which control is transferred to the Bank and cease to be consolidated from the date on which the control is transferred from the Bank. The results of subsidiaries acquired or disposed of during the year, if any, are included in the consolidated income statement from the date of the acquisition or up to the date of disposal, as appropriate.

Inter-group balances and any income and expenses arising from intra-group transactions, are eliminated in preparing these consolidated financial statements. As on December 31, 2009 and 2008 interests in subsidiaries not directly owned by the Bank are owned by representative shareholders for the beneficial interest of the Bank and hence are not separately disclosed on the consolidated statement of financial position or statement of comprehensive income.

b) Zakat

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

c) Trade Date

All regular purchases and sales of financial assets are recognized and derecognized on the trade date (i.e. the date that the Bank 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.

d) Foreign Currencies

Transactions in foreign currencies are translated into Saudi Riyals at exchange rates prevailing on the dates of the transactions. Monetary assets and liabilities at the year-end, denominated in foreign currencies, are translated into Saudi Riyals at exchange rates and prices prevailing at the date of the consolidated statement of financial position.

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

The monetary assets and liabilities of foreign subsidiaries are translated at the rates of exchange prevailing on the date of the consolidated statement of financial position. The statements of income of foreign subsidiaries are translated at the average exchange rates of that year.

e) Offsetting of Financial Assets and Liabilities

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

f) Revenue Recognition

- Income from Mutajara, Murabaha, Musharaka Installment Sale and Istisnaa Financing, is recognized based on the effective yield basis of the outstanding balances.
- Fees and commissions are recognized when the service has been provided. Financing commitment fees 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 financing. Portfolio and other management advisory and service fees are recognized based on applicable service contracts, usually on a time-proportionate basis. Fee received on asset management, wealth management, financial planning, custody services and other similar services that are provided over an extended period of time, are recognized over the period throughout which the service is being provided. When a financing commitment is not expected to result in the draw-down of a financing, financing commitment fees are recognised on a

straight-line basis over the commitment period.

- Dividend income is recognised when the right to receive income is established.
- Exchange income/loss is recognized when it is earned/incurred.

g) Financing and Investments

The Bank offers non-interest based products including Mutajara, Installment Sales, Murabaha and Istisnaa to its customers in compliance with Shariah rules.

The Bank classifies its principal financing and investments as follows:

1- Held at amortized cost

such financing which meets the definition of loans and receivable under IAS 39, are measured at amortized cost, and comprise Mutajara, Installment Sale, Istisnaa and Murabaha accounts balances.

2- Held as FVIS

Investments in this category are classified as either investments held for trading or those designated as FVIS on initial recognition. Such investments are measured at fair value, and comprise land, real estate, mutual funds, and other investments.

Financing held at amortized cost are initially recognized at fair value and subsequently measured at amortized cost minus any amounts that are written off and provisions for impairment.

Investments held as FVIS are initially recognized at fair value and are subsequently measured at fair value. Any change in fair value is charged to the consolidated statement of comprehensive income.

h) Impairment of Financial Assets

An assessment is made on the date of each financial position statement 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 difference between the assets' carrying amount and the present value of estimated future cash flows is calculated and any impairment loss is recognized for changes in that asset's carrying amount. The carrying amount of the financial assets held at amortized cost, is adjusted either directly or through the use of a provision account, and the amount of the adjustment is included in the consolidated statement of comprehensive income.

Specific provisions are evaluated individually. Considerable judgment 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 result-

ing in future changes to such provisions. In addition to the specific provisions described above, the Bank also makes collective impairment provisions, which are evaluated on a group basis and are created for losses, where there is objective evidence that unidentified losses exist at the reporting date. The amount of the provision is estimated based on the historical default patterns of the investment and financing counter-parties as well as their credit ratings, taking into account the current economic climate.

The criteria that the Bank 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 collateral value

When the financing amount is uncollectible, it is written-off against the related provision for impairment. Such financing is 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 statement of "comprehensive income impairment charge". Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted.

i) De-recognition of Financial Assets and Liabilities

A financial asset is de-recognized when the contractual rights to cash flows from that financial asset expire or if the Bank has not retained control of the financial asset. A financial liability can only be de-recognized when it is extinguished, that is when the obligation specified in the contract is either discharged, cancelled or expires.

j) Customer Debit Current Accounts

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

k) 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:

Leaseheld Land Improvements	Over the Period of the Lease
Buildings	33 years
Leaseheld Building Improvements	3 years
Equipment and Furniture	3 to 10 years

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at each statement of financial position date.

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

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

l) Customer Deposits

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

m) Provisions

Provisions are recognized when the Bank has a 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.

n) Accounting for Leases

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



o) 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 balances with SAMA (excluding the statutory deposit) and due from banks maturing within ninety days of acquisition.

p) Special Commission Excluded from the Consolidated Statement of Income

In accordance with the Shariah Authority's resolutions, special commission income received by the Bank is excluded from the determination of income is recorded as other liabilities in the consolidated statement of financial position and is paid as charity.

q) Mudaraba Funds

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

r) Investment Management Services

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

The Bank's share of these funds is included under FVIS investments. Fees earned are disclosed under related party transactions.

4- Cash

Cash as of December 31st comprises the following:

	(SR'000)	
	2009	2008
Cash on Hand	3,448,512	3,629,138
Precious Metals	643	639
Total	3,449,155	3,629,777

5- Balances with SAMA

The balances with SAMA, as of December 31st, are comprised of the following:

	(SR'000)	
	2009	2008
Statutory Deposit	7,963,575	7,671,803
Current Accounts	290	449
Total	7,963,865	7,672,252

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

6- Due from Banks and other Financial Institutions

Dues from banks and other financial institutions, as of December 31st, comprise the following current accounts:

	(SR'000)	
	2009	2008
Inside the Kingdom	152	2,500
Outside the Kingdom	1,281,292	2,889,265
Total	1,281,444	2,891,765

The above balance due from banks and other financial institutions does not include any past dues or impaired balances as of December 31st, 2009.

7- Financing, Net

7-1 Financing

a) Financing as of December 31st, is comprised of the following:

(SR'000)				
	2008		2009	
	Gross	Provision	Net	Net
Held at Amortized Cost:				
Treasury Mutajara	35,607,474	-	35,607,474	31,383,681
Corporate Mutajara	33,617,236	(1,989,072)	31,628,164	35,569,297
Installment Sale	67,305,115	(1,520,615)	65,784,500	59,070,283
Istisnaa	901,282	-	901,282	1,290,412
Murabaha	14,902,777	(675,395)	14,227,382	13,019,556
Visa cards	565,369	(7,166)	558,203	343,494
Total	152,899,253	(4,192,248)	148,707,005	140,676,723

B) Net financing by location, inside and outside the Kingdom, as of December 31st are as follows:

(SR'000)								
Description	2009							2008
	Treasury Muta-jara	Corpo-rate Mutajara	Install-ment Sale	Istisnaa	Mu-rabaha	Visa	Total	Total
Inside the Kingdom	31,655,368	33,617,236	67,159,385	901,282	7,353,929	565,369	141,252,569	106,849,380
Outside the Kingdom	3,952,106	-	145,730	-	7,548,848	-	11,646,684	37,777,673
Total	35,607,474	33,617,236	67,305,115	901,282	14,902,777	565,369	152,899,253	144,627,053
Provision	-	(1,989,072)	(1,520,615)	-	(675,395)	(7,166)	(4,192,248)	(3,950,330)
Net	35,607,474	31,628,164	65,784,500	901,282	14,227,382	558,203	148,707,005	140,676,723

C- Net financing concentration risks and related provisions, by major economic sectors on December 31st, are as follows:

2009		(SR'000)		
Description	Performing	Non-Performing	Provision	Net
Banks and Other Financial Institutions	13,081,203	-	-	13,081,203
Commerce	25,159,225	2,738,419	(1,171,763)	26,725,881
Industry	10,904,170	-	-	10,904,170
Public (Government)	24,241,526	-	-	24,241,526
Services	4,990,253	-	-	4,990,253
Agriculture and Fishing	1,664,214	-	-	1,664,214
Building and Construction	8,754,008	12,032	(151)	8,765,889
Personal	58,523,482	1,115,930	(1,015,676)	58,623,736
Other	1,714,791	-	-	1,714,791
Total	149,032,872	3,866,381	(2,187,590)	150,711,663
Additional Portfolio Provision			(2,004,658)	(2,004,658)
Balance			(4,192,248)	148,707,005

2008		(SR'000)		
Description	Performing	Non-Performing	Provision	Net
Banks and Other Financial Institutions	7,673,886	-	-	7,673,886
Commerce	34,982,230	1,422,670	(453,811)	35,951,089
Industry	5,536,800	-	-	5,536,800
Public (Government)	25,053,646	9,420	(8,933)	25,054,133
Services	3,392,360	-	-	3,392,360
Agriculture and Fishing	1,772,022	-	-	1,772,022
Building and Construction	8,133,026	24,954	(16,827)	8,141,153
Personal	53,341,937	1,309,438	(952,409)	53,698,966
Other	1,974,664	-	-	1,974,664
Total	141,860,571	2,766,482	(1,431,980)	143,195,073
Additional Portfolio Provision			(2,518,350)	(2,518,350)
Balance			(3,950,330)	140,676,723

D- The table below depicts the financing categories as shown in the financial position statement as per the main business segments on December 31st:

2009		(SR'000)		
	Retail	Corporate	Treasury	Total
Treasury Mutajara	-	-	35,607,474	35,607,474
Corporate Mutajara	-	33,617,236	-	33,617,236
Installment Sale	61,456,668	5,848,447	-	67,305,115
Istisnaa	-	901,282	-	901,282
Murabaha	2,202,425	11,034,666	1,665,686	14,902,777
Visa	565,369	-	-	565,369
Total	64,224,462	51,401,631	37,273,160	152,899,253
Less: Provision	(2,178,601)	(2,013,647)	-	(4,192,248)
Financing, Net	62,045,861	49,387,984	37,273,160	148,707,005

2008		(SR'000)		
	Retail	Corporate	Treasury	Total
Treasury Mutajara	-	-	31,383,681	31,383,681
Corporate Mutajara	-	36,728,640	-	36,728,640
Installment Sale	57,607,442	3,729,293	-	61,336,735
Istisnaa	-	1,290,412	-	1,290,412
Murabaha	3,938,452	8,255,348	1,340,708	13,534,508
Visa	353,077	-	-	353,077
Total	61,898,971	50,003,693	32,724,389	144,627,053
Less: Provision	(2,766,411)	(1,183,919)	-	(3,950,330)
Financing, Net	59,132,560	48,819,774	32,724,389	140,676,723

E- The table below summarizes financing balances from December 31st, that are neither past due nor impaired, past due but not impaired and impaired, as per the main business segments of the Bank:

2009		(SR'000)				
	Neither Past Due Nor Impaired	Past Due But Not Impaired	Impaired	Total	Provision	Net
Retail	62,995,093	113,439	1,115,930	64,224,462	(2,178,601)	62,045,861
Corporate	48,102,102	549,078	2,750,451	51,401,631	(2,013,647)	49,387,984
Treasury	37,273,160	-	-	37,273,160	-	37,273,160
Total	148,370,355	662,517	3,866,381	152,899,253	(4,192,248)	148,707,005

2008		(SR'000)				
	Neither Past Due Nor Impaired	Past Due But Not Impaired	Impaired	Total	Provision	Net
Retail	60,035,957	34,331	1,828,683	61,898,971	(2,766,411)	59,132,560
Corporate	48,994,500	71,394	937,799	50,003,693	(1,183,919)	48,819,774
Treasury	32,724,389	-	-	32,724,389	-	32,724,389
Total	141,754,846	105,725	2,766,482	144,627,053	(3,950,330)	140,676,723

Financing past dues for less than 90 days are not treated as impaired, unless other available information proves otherwise. Neither past due nor impaired and past due but not impaired comprise the total performing financing.

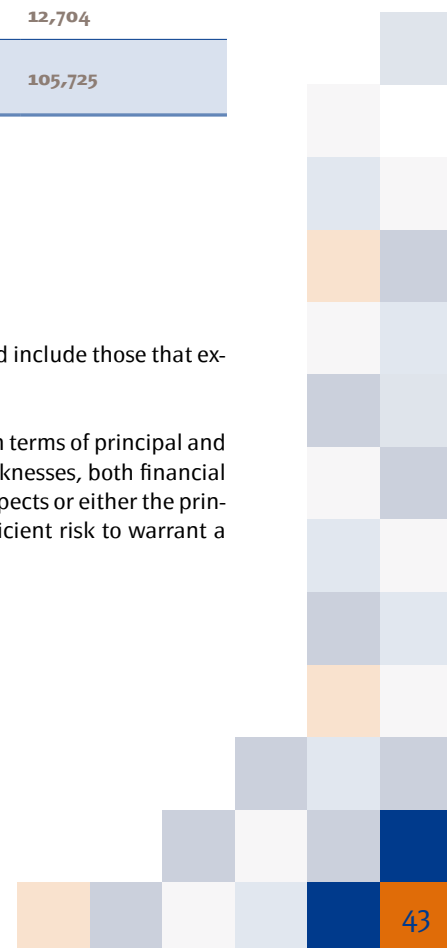
F- The tables below depict the quality of financing past due (up to 90 days) but not impaired of December 31st:

2009		(SR'000)		
	Retail	Corporate	Treasury	Total
Standard	106,300	363,072	-	469,372
Special Mention	7,139	186,006	-	193,145
Total	113,439	549,078	-	662,517

2008		(SR'000)		
	Retail	Corporate	Treasury	Total
Standard	28,137	64,884	-	93,021
Special Mention	6,194	6,510	-	12,704
Total	34,331	71,394	-	105,725

Financing under the standard category is performing, has sound fundamental characteristics and include those that exhibit neither actual nor potential weaknesses.

The special mention category includes financing that is also performing, current and up to date in terms of principal and profit payments. However, it requires close management attention as it may have potential weaknesses, both financial and non-financial, that may at some future date result in the deterioration of the repayment prospects or either the principal or the profit payments. The special mention financing would not expose the Bank to sufficient risk to warrant a worse classification.



G- The tables below show the aging of financing past due but not impaired as of December 31st:

2009		(SR'000)		
	Retail	Corporate	Treasury	Total
Up to 30 Days	58,787	173,885	-	232,672
30 - 60 Days	47,513	189,187	-	236,700
60-90 Days	7,139	186,006	-	193,145
Total	113,439	549,078	-	662,517
Fair Value of Collateral	-	240,390	-	240,390

2008		(SR'000)		
	Retail	Corporate	Treasury	Total
Up to 30 Days	19,722	58,480	-	78,202
30 - 60 Days	8,415	6,404	-	14,819
60-90 Days	6,194	6,510	-	12,704
Total	34,331	71,394	-	105,725
Fair Value of Collateral	-	37,464	-	37,464

The fair value of collateral is based on valuation techniques and quoted prices (wherever available).

H- The table below sets out gross balances of individually impaired financing, together with the fair value of related collaterals held by the Bank as of December 31st:

2009	(SR'000)
------	----------

	Retail	Corporate	Treasury	Total
Individually Impaired Financing	-	2,750,451	-	2,750,451
Fair Value of Collateral	-	492,844	-	492,844

2008	(SR'000)
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	Retail	Corporate	Treasury	Total
Individually Impaired Financing	-	937,799	-	937,799
Fair Value of Collateral	-	93,310	-	93,310

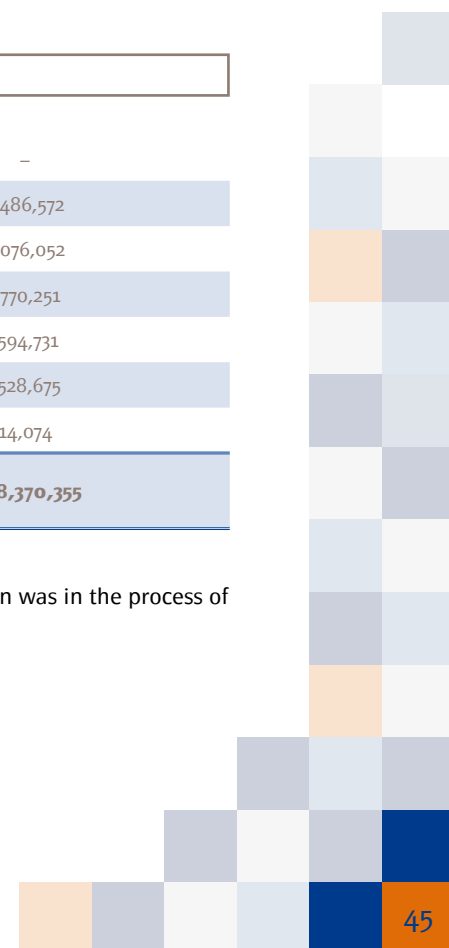
The Bank in the ordinary course of financing activities holds collaterals as security to mitigate credit risk in financing. These collaterals mostly include customer deposits and other cash deposits, financial guarantees, local and international equities, real estate and other property and equipment. The collaterals are held mainly against commercial and consumer financing and are managed against relevant exposures at their net realizable values.

I- The tables below depict the quality of neither past due nor impaired:

2009	(SR'000)
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Risk Rating 1	-
Risk Rating 2	24,486,572
Risk Rating 3	20,076,052
Risk Rating 4	28,770,251
Risk Rating 5	51,594,731
Risk Rating 6	15,528,675
Risk Rating 7	7,914,074
Total	148,370,355

Comparative information for 2008 is not presented since the system to capture such information was in the process of implementation.



Risk Rating (1) Exceptional

Obligors of unquestioned credit standing at the pinnacle of credit quality.

Risk Rating (2) Excellent

Obligors of the highest quality, presently and prospectively. Virtually no risk in lending to this class. Cash flows reflect exceptionally large and stable margins of protection. Projected cash flows, including anticipated credit extensions, indicate strong liquidity levels and debt service coverage. Balance Sheet parameters are strong, with excellent asset quality in terms of value and liquidity.

Risk Rating (3) Superior

Typically obligors at the lower end of the high quality range with excellent prospects. Very good asset quality and liquidity. Consistently strong debt capacity and coverage. There could however be some elements, which could with low likelihood, impair performance in the future.

Risk Rating (4) Good

Typically obligors in the high end of the medium range who are definitely sound with minor risk characteristics. Elements of strength are present in such areas as liquidity, stability of margins, cash flows, diversity of assets, and lack of dependence on one type of business.

Risk Rating (5) Satisfactory

These are obligors with smaller margins of debt service coverage and with some elements of reduced strength. Satisfactory asset quality, liquidity, and good debt capacity and coverage. A loss year or declining earnings trend may occur, but the borrowers have sufficient strength and financial flexibility to offset these issues.

Risk Rating (6) Adequate

Obligors with declining earnings, strained cash flow, increasing leverage and/or weakening market fundamentals that indicate above average risk. Such borrowers have limited additional debt capacity, modest coverage, average or below average asset quality and market share. Present borrower performance is satisfactory, but could be adversely affected by developing collateral quality/adequacy etc.

Risk Rating (7) Very High Risk

Generally undesirable business constituting an undue and unwarranted credit risk but not to the point of justifying a substandard classification. No loss of principal or interest has taken place. Potential weakness might include a weakening financial condition, an unrealistic repayment program, inadequate sources of funds, or a lack of adequate collateral, credit information or documentation. The entity is undistinguished and mediocre. No new or incremental credits will generally be considered for this category.

7 – 2 Impairment Charge for Financing:

The movement in the impairment provision for financing, for the years ending on December 31st, is as follows:

2009		(SR'000)		
	Retail	Corporate	Treasury	Total
Balance at the Beginning of the Year	2,766,411	1,183,919	-	3,950,330
Provided During the Year	707,166	1,000,753	-	1,707,919
Disposals (bad debts written off)	(1,294,976)	(171,025)	-	(1,466,001)
Balance at the End of the Year	2,178,601	2,013,647	-	4,192,248

2008		(SR'000)		
	Retail	Corporate	Treasury	Total
Balance at the Beginning of the Year	3,026,447	900,472	100,759	4,027,678
Provided During the Year	736,884	493,216	-	1,230,100
Recoveries of Amounts Previously Provided	-	-	(100,759)	(100,759)
Disposals (bad debts written off)	(996,920)	(209,769)	-	(1,206,689)
Balance at the End of the Year	2,766,411	1,183,919	-	3,950,330

8- Investments

FVIS investments comprise the following, as of December 31st:

(SR'000)		
	2009	2008
Investments in land, real estate, vehicles and others	1,187,262	569,722
Investment in Sukuk	703,531	705,785
Equity investments	753,607	172,978
Investments in mutual funds	243,945	161,921
Total	2,888,345	1,610,406

The designated FVIS investments included above are so designated when the financial instruments are being evaluated on a fair value basis and are in accordance with the documented risk management strategy of the Bank.

Investments do not include balances that are past due or impaired as of December 31, 2009.

9- Customer Debit Current Accounts, Net

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

(SR'000)		
	2009	2008
Customer Debit Current Accounts (inside the Kingdom)	741,023	914,228
Less: Provision	(45,232)	-
Customer Debit Current Accounts, Net	695,791	914,228

10- Property and Equipment, Net

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

(SR'000)							
	Land	Leaseh- eld Land Improve- ments	Buildings	Leaseheld Building Improve- ments	Equip- ment and Furniture	Total 2009	Total 2008
COST:							
On January 1	1,278,261	2,328	961,348	433,324	1,988,082	4,663,343	4,040,233
Additions	-	-	254,393	83,120	568,367	905,880	630,182
Disposals	(6,408)	-	(90,305)	-	(553,148)	(649,861)	(072,,7)
On December 31	1,271,853	2,328	1,125,436	516,444	2,003,301	4,919,362	4,663,343
ACCUMULATED, DEPRECIATION & AMORTIZATION							
On January 1	-	1,297	153,819	168,259	1,471,808	1,795,183	1,449,132
Charge for the year	-	61	16,961	115,280	190,317	322,619	353,123
Disposals	-	-	(90,306)	-	(290,291)	(380,597)	(7,072)
On December 31	-	1,358	80,474	283,539	1,371,834	1,737,205	1,795,183
NET BOOK VALUE							
On December 31, 2009	1,271,853	970	1,044,962	232,905	631,467	3,182,157	
On December 31, 2008	1,278,261	1,031	807,529	265,065	516,274		2,868,160

Buildings include work-in-progress amounting to SR 387 million as on December 31, 2009 (2008: SR 443 million).

11- Other Assets, Net

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

(SR'000)		
	2009	2008
Accrued Income on Mutajara Financing	663,500	1,252,692
Accrued Income on Murabaha Financing	92,351	85,853
Accrued Income on Other Investments	103,122	134,556
Advances to Others	280,980	361,282
Cheques Under Collection	153,491	573,740
Prepaid Expenses	198,887	153,334
Other Receivables	202,540	394,064
Others	887,062	231,510
Total	2,581,933	3,187,031
Less: Provision	(19,966)	(77,118)
Other Assets, Net	2,561,967	3,109,913

12- Due to Banks and Other Financial Institutions

Dues to banks and other financial institutions comprise the following, as of December 31st:

(SR'000)		
	2009	2008
Current Accounts	2,113,327	3,806,705
Banks' Time Investments	3,988,746	4,094,925
Total	6,102,073	7,901,630

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

(SR'000)		
	2009	2008
Inside the Kingdom	3,649,873	2,217,936
Outside the Kingdom	2,452,200	5,683,694
Total	6,102,073	7,901,630

13- 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 a consortium of banks. The accrued profit together with the principal amount, according to the facility agreement, was paid during May 2009.

14- Customer Deposits

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

(SR'000)		
	2009	2008
Saudi Riyals	116,112,497	111,589,544
Foreign Currencies	4,420,523	5,021,499
Total	120,533,020	116,611,043

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

(SR'000)		
	2009	2008
Demand Deposits	107,004,245	96,164,697
Customer Time Investments	13,528,775	20,446,346
Total	120,533,020	116,611,043

15- Other Liabilities

Other liabilities comprise the following, as of December 31st:

(SR'000)		
	2009	2008
Due to SAMA	7,518,000	3,041,000
Accounts Payable	2,880,621	2,418,625
Provision for Employees' End of Service Benefits	557,558	474,822
Charities (see note 31)	78,206	64,810
Other	1,990,547	1,824,496
Total	13,024,932	7,823,753

The balance due to SAMA represents the amount utilized by the Bank for a short term period as per the agreement with SAMA.

16- Share Capital

The authorized, issued and fully paid share capital of the Bank consists of 1.5 billion shares of SR 10 each.

At the Extraordinary General Assembly meeting, held on 17 Safar 1429H (corresponding to February 24, 2008), the shareholders approved an increase in the share capital of the Bank from SR 13,500 million to SR 15,000 million, by transferring SR 1,500 million from the retained earnings through the issuance of a one - for - nine bonus share dividend.

17- Statutory and General Reserves

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

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

At the Extraordinary General Assembly meeting held on 17 Safar 1429H (corresponding to February 24, 2008), the shareholders approved to transfer SR 88.3 million from the retained earnings to the general reserve. The board of directors in its meeting held on January 19, 2009 proposed transferring SR 286 million from general reserve to retained earning.

18- Commitments and Contingencies

a) Legal proceedings

As on December 31, 2009, there were certain legal proceedings outstanding against the Bank. Provisions have been made for some of these legal cases based on the assessment of the Bank's legal advisors.

b) Capital commitments

As on December 31, 2009, the Bank had capital commitments of SR 82.9 million (2008: SR 95.5 million) relating to contracts for computer software update and development.

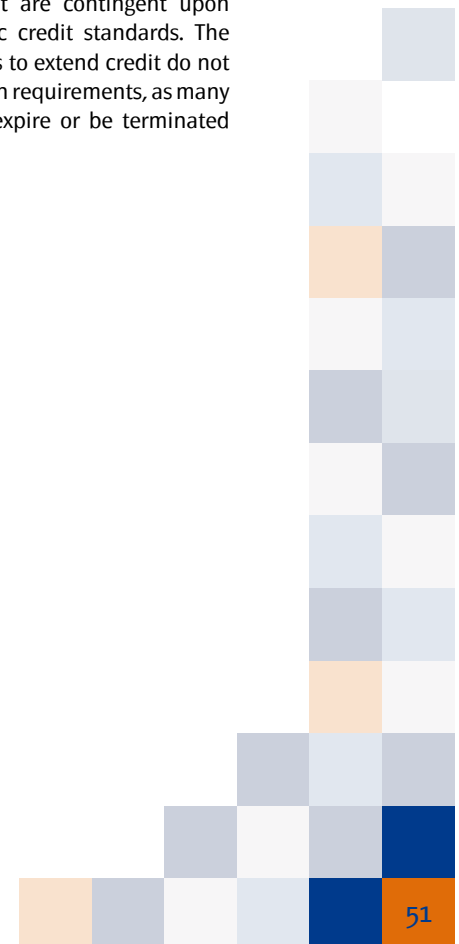
c) Credit related commitments and contingencies

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 Bank will make payments in the event that a customer cannot meet his obligations to third parties, carry the same credit risk as financing.

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 collateralized by the underlying shipments of goods to which they relate, and therefore, carry less risk. Acceptances comprise undertakings by the Bank 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 Bank 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 financing, guarantees and letters of credit. With respect to credit risk relating to commitments to extend unused credit, the Bank is potentially exposed to a loss in an amount that 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 be terminated without being funded.



1- The contractual maturities of commitments and contingencies liabilities are as follows, on December 31st:

2009		(SR'000)			
	Less than 3 months	From 3 to 12 months	From 1 to 5 years	Over 1 to 5 years	Total
Letters of Credit and Acceptances	387,295	546,455	245,767	1,684,565	4,864,082
Letters of Guarantee	4,353,113	1,194,322	1,895,828	111,901	7,555,164
Irrevocable Commitments to Extend Credit	437,387	678,145	6,380,553	4,081,861	11,577,946
Total	7,177,795	2,418,922	8,522,148	5,878,327	23,997,192

2008		(SR'000)			
	Less than 3 months	From 3 to 12 months	From 1 to 5 years	Over 1 to 5 years	Total
Letters of Credit and Acceptances	1,890,553	1,235,811	373,271	1,098,107	4,597,742
Letters of Guarantee	414,633	4,149,105	3,162,881	278,221	8,004,840
Irrevocable Commitments to Extend Credit	2,255,712	3,429,890	2,746,027	1,062,280	9,493,909
Total	4,560,898	8,814,806	6,282,179	2,438,608	22,096,491

The unused portion of non-firm commitments, which can be revoked at any time, that is outstanding as of December 31st, 2009, amounted to SR 8,378 million (2008: SR 9,320 million).

2- The analysis of commitments and contingencies by counter-party, is as follows on December 31st:

(SR'000)		
	2009	2008
Corporate	8,450,877	8,418,858
Other	15,546,315	13,677,633
Total	23,997,192	22,096,491

d) Operating lease commitments

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

(SR'000)		
	2009	2008
Less Than One Year	11,028	19,825
One Year to Five Years	98,597	76,070
Over Five Years	26,077	33,798
Total	135,702	129,693

19- Net Financing Income

Net financing income for the years ending on December 31st, comprise the following:

(SR'000)		
	2009	2008
Treasury Mutajara	842,362	821,826
Corporate Mutajara	2,002,859	2,226,728
Installment Sale	6,266,509	5,740,385
Istisnaa	108,141	150,913
Murabaha	582,454	483,420
Gross Financing Income	9,802,325	9,423,272
Income paid to customers on time investments	(529,816)	(819,453)
Income paid on syndicated Murabaha financing from banks	(40,447)	(107,156)
Net Financing Income	9,232,062	8,496,663

20- Fees From Banking Services, Net

Fees from banking services, net for the years ending on December 31st, comprise the following:

(SR'000)		
	2009	2008
Fee Income		
Fees from share trading services	319,745	543,176
Fees from payment service systems	320,413	257,769
Fees from remittance business	250,378	218,690
Fees from credit cards	155,174	117,991
Other	827,797	718,411
Total Fee Income	1,873,507	1,856,037
Fee Expense		
Fees for share trading services	(108,577)	(289,130)
Fees for payment service systems	(373,950)	(325,640)
Total Fee Expense	(482,527)	(614,770)
Fees from Banking Services, Net	1,390,980	1,241,267

21- Other Operating Income

Other operating income for the years ending on December 31st, comprise the following:

(SR'000)		
	2009	2008
Income from sale of other investments (vehicles)	13,167	6,939
Mudaraba income	36,325	76,489
Other income, net	128,466	272,672
Total fees income	177,958	356,100

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.

23- Paid and Proposed Gross Dividends and Zakat

The Bank distributed dividends for the first half of 2009 amounting to SR 1,875,000 thousand (i.e. SR 1.25 per share). Also the Board proposed gross dividends for the second half of 2009 amounting to SR 2,577,459 thousand (2008: SR 3,183,143 thousand) of which SR 327,459 thousand (2008: SR 558,143 thousand) was deducted for zakat from the proposed gross dividends, resulting in a net dividend of SR 2.75 per share for 2009 (2008: SR 3 per share).

The zakat assessments for the years through 1997 have been finalized with the Department of Zakat and Income Tax ("DZIT"). The DZIT issued assessments for the years 1998 through 2006, which were appealed by the Bank.

Adequate provisions have been made for the above mentioned years.

24- The Zakat Assessments for Cash and Cash Equivalents

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

(SR'000)		
	2009	2008
Cash	3,449,155	3,629,777
Due from banks (current accounts)	1,281,444	2,891,765
Balances with SAMA (current accounts)	290	449
Total	4,730,889	6,521,991

25- Segmental Information

The Bank has adopted IFRS 8 Operating Segments, effective since January 1, 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports on components of the Bank that are regularly reviewed by the chief operating decision maker, principally the Chief Executive Officer, in order to allocate resources to the segments and assess its performance. Following the adoption of IFRS 8, the identification of the Bank's reportable segments has not changed.

For management purposes, the Bank is organized into the following main business segments:

Retail segment (individual):	Includes individual customer deposits, credit facilities, customer debit current accounts (overdrafts), fees from banking services and remittance business.
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Corporate segment:	Incorporates deposits of VIP, corporate customer deposits, credit facilities and debit current accounts (overdrafts).
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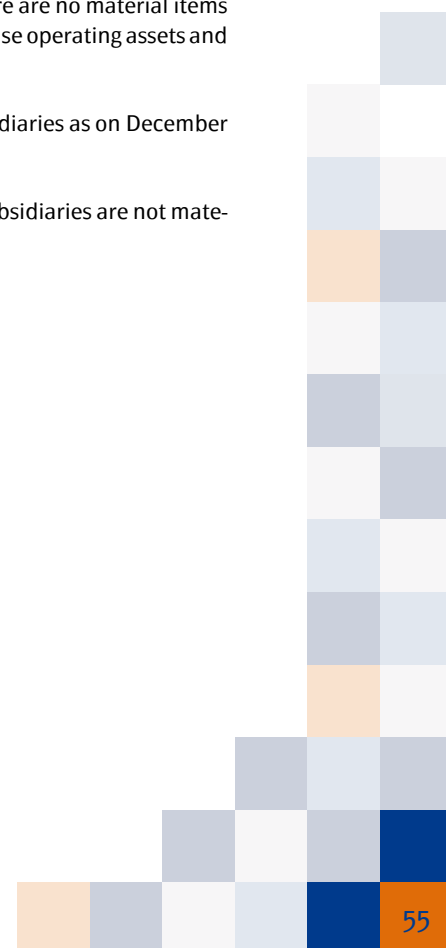
Treasury segment:	Incorporates treasury services and international trading portfolios.
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Investment services and brokerage segments:	Incorporates investments of individuals and corporate in mutual funds, local and international share trading services and investment portfolios.
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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 represent the majority of the Bank's assets and liabilities.

The Bank carries out its activities principally in the Kingdom of Saudi Arabia, and has three subsidiaries as on December 31st, 2009 (2008: seven subsidiaries), as listed in note 1-a.

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



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

2009		(SR'000)			
	Retail Segment	Corporate Segment	Treasury Segment	Investment Services and Brokerage Segment	Total
Total assets	69,770,859	50,978,976	49,561,176	418,718	170,729,729
Capital expenditures	553,359	7,348	345,173	-	905,880
Total liabilities	94,498,367	33,941,558	11,877,507	1,671,413	141,988,845
Gross financing income	6,048,622	2,842,664	840,353	70,686	9,802,325
Income paid to customers on time investments	(91,424)	(3,977)	(372,013)	(62,402)	(529,816)
Income paid on syndicated Murabaha financing from banks	-	-	(40,447)	-	(40,447)
Total operating income	7,153,698	2,167,368	1,721,536	462,690	11,505,292
Impairment charge for financing and other, net	(622,379)	(1,037,918)	(100,430)	-	(1,760,727)
Depreciation and amortization	(222,395)	(7,439)	(72,922)	(19,863)	(322,619)
Other operating expenses	(2,077,751)	(208,168)	(164,499)	(204,300)	(2,654,718)
Total operating expenses	(2,922,525)	(1,253,525)	(337,851)	(224,163)	(4,738,064)
Net income	4,231,173	913,843	1,383,685	238,527	6,767,228

2008		(SR'000)			
	Retail Segment	Corporate Segment	Treasury Segment	Investment Services and Brokerage Segment	Total
Total assets	63,139,914	53,589,887	46,154,110	489,313	163,373,224
Capital expenditures	511,289	14,475	104,418	-	630,182
Total liabilities	71,441,566	51,714,002	11,527,193	1,658,664	136,341,425
Gross financing income	5,527,165	2,757,158	999,343	139,606	9,423,272
Income paid to customers on time investments	(193,360)	(18,343)	(592,562)	(15,188)	(819,453)
Income paid on syndicated Murabaha financing from banks	-	-	(107,156)	-	(107,156)
Total operating income	5,780,527	2,454,772	1,996,514	343,454	10,575,267
Impairment charge for financing and other, net	(515,711)	(441,906)	(269,806)	-	(1,227,423)
Depreciation and amortization	(298,698)	(14,010)	(46,685)	(24,008)	(383,401)
Other operating expenses	(1,986,860)	(238,243)	(62,530)	(152,206)	(2,439,839)
Total operating expenses	(2,801,269)	(694,159)	(379,021)	(176,214)	(4,050,663)
Net income	2,979,258	1,760,613	1,617,493	167,240	6,524,604

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

2009 (SR'000)					
	Retail Segment	Corporate Segment	Treasury Segment	Investment Services and Brokerage Segment	Total
Consolidated balance sheet assets	62,600,808	50,260,924	40,438,428	272,425	153,572,585
Commitments and contingencies excluding irrevocable commitments to extend credit	7,856,286	4,562,960	-	-	12,419,246

2008 (SR'000)					
	Retail Segment	Corporate Segment	Treasury Segment	Investment Services and Brokerage Segment	Total
Consolidated balance sheet assets	56,370,618	52,795,778	36,621,737	304,989	146,093,122
Commitments and contingencies excluding irrevocable commitments to extend credit	7,053,583	5,548,999	-	-	12,602,582

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

26- Financial Risk Management

The Bank's activities have exposed it 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 Bank's aim is, therefore, to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.

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

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 Bank's operating units. The most important types of risks identified by the Bank are credit risk, operational risk, liquidity risk and market risk. Market risk includes currency risk, profit rate risk and price risk.

26-1 Credit Risk

Credit Risk is considered to be the most significant and pervasive risk for the Bank. The Bank takes on exposure to credit risk, which is the risk where the counterparty to a financial transaction will fail to discharge an obligation causing the Bank to incur a financial loss. Credit risk arises principally from financing (credit facilities provided to customers) 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 for the Bank's financing activities.

a- Credit Risk Measurement

Financing

The Bank has structured a number of financial products, which are in accordance with Shariah Law, in order to meet customer demand. These products are all classified as financing assets in the Bank's consolidated financial position statement. In measuring credit risk of financing at a counter-party level, the Bank considers the overall credit worthiness of the customer based on a proprietary risk methodology. This risk rating methodology utilizes a 22 point scale based on quantitative and qualitative factors with 19 (rated 1-7) performing categories and three non performing categories (rated 8-10). The risk rating process is intended to advise the various independent approval authorities of the inherent risks associated with the counter-party and assist in determining suitable pricing commensurate with the associated risk.

This process also enables the Bank to detect any weakness in portfolio quality and make appropriate adjustments to credit risk allowances, where credit quality has deteriorated and where losses are likely to arise.

The Bank evaluates individual corporate customer balances, which are past due, to make appropriate allowances against investments. For the remaining (performing) corporate portfolio, the Bank applies a loss rate to determine an appropriate collective allowance. The loss rate is determined based on historical experience of credit losses.

Settlement Risk

The Bank is also exposed to a settlement risk in its dealings with other financial institutions. These risks arise when the Bank pays away its side of the transaction to the other bank or counterparty before receiving payment from the third party. The risk is that the third party may not pay its obligation. Though these exposures are short in duration, they can be significant. This risk is mitigated by dealing with highly rated counterparties, holding collateral and limiting the size of exposure according to the risk rating of the counterparty.

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 ownership, the following business units within the Bank assist in the credit control process:

- Corporate Credit 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 financings are made by setting approved credit limits. The Bank manages limit and control 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 Bank's performance to developments affecting a particular industry or geographical location.

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

The Bank 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 reviewed at least annually.

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

Some other specific control and mitigation measures are outlined below.

b-1) Collateral

The Bank 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 of customer
- Shares of Murabaha (collateralized share trading) transactions

b-2) Collateralized credit - related commitments

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

Documentary and commercial 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 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 financing products, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank 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 financial position statement date, based on objective evidence of impairment, and management judgment.

Management determines whether objective evidence of impairment exists under IAS 39, based on the following criteria, as defined by the Bank:

- 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 collateral value

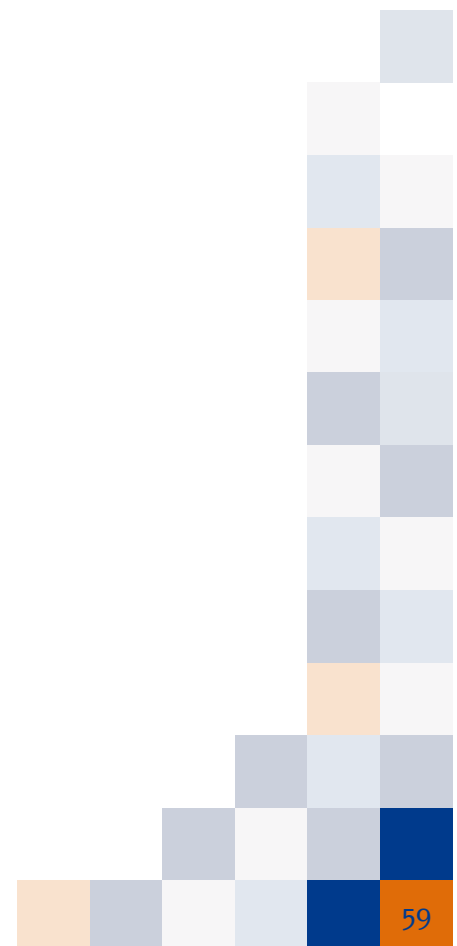
The Bank's policy requires the review of each individual corporate customer at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of incurred losses at the statement of financial position date 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 allowances are provided for:

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

The next table 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)		
	2009	2008
On-balance Sheet Items:		
Due from banks and other financial institutions	1,281,444	2,891,765
Financing, Net		
- Corporate	49,387,984	48,819,774
- Retail	62,045,861	59,132,560
- Treasury	37,273,160	32,724,389
Customer debit current accounts, net	695,791	914,228
Other assets, net	2,561,967	3,109,913
Total On-balance Sheet Items	153,246,207	147,592,629
Off-balance Sheet Items:		
Letters of credit and acceptances	4,864,082	4,597,742
Letters of guarantee	7,555,164	8,004,840
Irrevocable commitments to extend credit	11,577,946	9,493,909
Total Off-balance Sheet Items	23,997,192	22,096,491
Maximum Exposure to Credit Risk	177,243,399	169,689,120

The above table represents a worse case scenario of credit risk exposure to the Bank on December 31, 2009 and 2008, 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 statement of financial position.

26-2 Liquidity risks

Liquidity risk is the risk where the Bank is unable to meet the payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequences may be the failure to meet obligations to repay depositors and lenders and fulfill commitments to lend. 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 Bank 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 Bank's liquidity management process, as monitored by the Bank's Asset 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;
- Maintaining diversified funding sources;
- Liquidity management and asset and liability mismatching.

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 to ensure that they are within acceptable ranges. The Treasury/ALCO also monitors the level and type of undrawn lending commitments, usage of overdraft facilities and the potential impact of contingent liabilities such as standby letters of credit and guarantees made on the Bank's liquidity position. The tables below summarize the maturity profile of the Bank's assets and liabilities, on the basis of the remaining maturity as of the consolidated statement of the financial position date to the contractual maturity date.

Management monitors the maturity profile to ensure

that adequate liquidity is maintained. The assets available to meet all liabilities and cover outstanding financing commitments include cash and precious metals, balances with SAMA and dues from banks. Further, in accordance with the Banking Control Law and Regulations issued by SAMA, the Bank maintains a statutory deposit equal to a sum not less than 7% of total customer deposits, and 4% of the total accounts of other customers. In addition to the statutory deposit, the Bank 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 Bank has the ability to raise additional funds through special financing arrangements with SAMA, including deferred sales transactions.

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

2009		(SR'000)					
	Less than 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	No Fixed Maturity	Total	
Assets:							
Cash	3,449,155	-	-	-	-	3,449,155	
Statutory deposit with SAMA	2,695,148	1,242,318	-	4,026,399	-	7,963,865	
Due from banks and other financial institutions	1,281,444	-	-	-	-	1,281,444	
Financing, net	43,017,904	37,538,722	54,873,596	13,276,783	-	148,707,005	
Investments	2,667,980	220,365	-	-	-	2,888,345	
Customer debit current accounts, net	591,422	20,874	83,495	-	-	695,791	
Property and equipment, net	-	-	-	-	3,182,157	3,182,157	
Other assets, net	301,338	992,860	69,726	1,198,043	-	2,561,967	
Total	54,004,391	40,015,139	55,026,817	18,501,225	3,182,157	170,729,729	
Liabilities and Shareholders' Equity:							
Due to banks and other financial institutions	2,113,327	3,988,746	-	-	-	6,102,073	
Customer deposits	107,004,245	-	-	13,528,775	-	120,533,020	
Other customer accounts	2,328,820	-	-	-	-	2,328,820	
Other liabilities	10,559,000	-	-	-	2,465,932	13,024,932	
Shareholders, equity	-	-	-	-	28,740,884	28,740,884	
Total	122,005,392	3,988,746	-	13,528,775	13,528,775	170,729,729	

2008		(SR'000)					
	Less than 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	No Fixed Maturity	Total	
Assets:							
Cash	3,629,777	-	-	-	-	3,629,777	
Statutory deposit with SAMA	-	-	-	-	7,672,252	7,672,252	
Due from banks and other financial institutions	2,891,765	-	-	-	-	2,891,765	
Financing, net	23,519,326	48,231,616	57,061,068	11,864,713	-	140,676,723	
Investments	1,487,541	122,865	-	-	-	1,610,406	
Customer debit current accounts, net	793,887	18,126	102,215	-	-	914,228	
Property and equipment, net	-	-	-	-	2,868,160	2,868,160	
Other assets, net	-	-	-	-	3,109,913	3,109,913	
Total	32,322,296	48,372,607	57,163,283	11,864,713	13,650,325	163,373,224	
Liabilities and Shareholders' Equity:							
Due to banks and other financial institutions	3,806,705	4,094,925	-	-	-	7,901,630	
Syndicated Murabaha financing from banks	251,108	1,623,892	-	-	-	1,875,000	
Customer deposits	96,164,697	20,308,432	135,415	2,499	-	116,611,043	
Other customer accounts	2,129,999	-	-	-	-	2,129,999	
Other liabilities	5,299,246	-	-	-	2,524,507	7,823,753	
Shareholders, equity	-	-	-	-	27,031,799	27,031,799	
Total	107,651,755	26,027,249	135,415	2,499	29,556,306	163,373,224	

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

2009		(SR'000)					
	Less than 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	No Fixed Maturity	Total	
Due to banks and other financial institutions	2,113,327	4,010,584	-	-	-	6,123,911	
Customer deposits	107,004,245	-	-	13,603,168	-	120,607,413	
Other customer accounts	2,328,820	-	-	-	-	2,328,820	
Other liabilities	10,559,000	-	-	-	2,465,932	13,024,932	
Total	122,005,392	4,010,584	-	13,603,168	2,465,932	142,085,076	

2008	(SR'000)					
	Less than 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	No Fixed Maturity	Total
Due to banks and other financial institutions	3,806,705	4,094,925	-	-	-	7,901,630
Syndicate Murabaha financing from banks	251,108	1,633,265	-	-	-	1,884,373
Customer deposits	108,335,177	8,408,174	146,713	2,855	-	116,892,919
Other customer accounts	2,129,999	-	-	-	-	2,129,999
Other liabilities	5,299,246	-	-	-	2,524,507	7,823,753
Total	119,822,235	14,136,364	146,713	2,855	2,524,507	136,632,674

The cumulative maturities of commitments and contingencies are given in note 18-C-1 of the financial statements.

26-3 Market Risks

The Bank is exposed to market risks, which is that fair value or 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 ensures that they are appropriate.

a- Market Risks - Speculative Operations

The Bank is not exposed to market risks from speculative operations. The Bank is committed to Shariah guidelines, which do not permit it to enter into contracts or speculative instruments such as hedging options, forward contracts and derivatives.

b- Market Risks

- Banking operations

The Bank is exposed to market risks, which is that fair value or 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.

- Profit rate risk

Cash flow profit rate risk is the risk that future cash flows of a financial instrument will fluctuate due to changes in market profit rates. The Bank does not have any significant exposure to the effects of fluctuations in the 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 Bank's financial liabilities are non-interest bearing.

- Foreign currency risks

The Bank is exposed to the effects of fluctuations in foreign currency exchange rates on its financial position, results of operations and cash flows. The Bank'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.

A substantial portion of the net foreign currency exposure to the Bank is in US Dollars, where the SR is pegged to the US Dollar. The other currency exposures are not considered significant to the Bank's foreign currency risks and as a result the Bank is not exposed to major foreign currency risks.

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

The tables below summarize the Bank's exposure to foreign currency exchange rate risk on December 31st, 2009 and 2008 and the concentration of currency risks. Included in the table are the Bank's financial instruments of carrying amounts, categorized by currency:

2009										
(SR'ooo)										
	UAE DIR- HAM	BANGLA- DESH TAKA	JAPA- NESE YEN	EURO	LEBA- NESE LIRA	MALAY- SIAN RINGGIT	US DOL- LAR	POUND STER- LING	OTHER	TOTAL
ASSETS:										
Cash and cash equivalent	9,585	-	8	31,665	213	35,793	108,301	13,685	44,194	243,444
Due from banks and other financial institutions	58,070	84,242	10,708	141,181	9,148	122,889	389,241	2,973	462,841	1,281,293
Financing, net	-	-	-	232,467	-	5,801,295	10,568,647	-	-	16,602,409
Investments	-	-	-	553	-	1,135,424	291,297	-	-	1,427,274
Customer debit current account, net	-	-	-	1,211	-	-	5	8	-	1,224
Other assets, net	(1,334)	-	(195)	61	-	92,381	149,563	-	104	240,580
Total Assets	66,321	84,242	10,521	407,138	9,361	7,187,782	11,507,054	16,666	507,139	19,796,224
LIABILITIES:										
Due to banks and other financial institutions	5,198	-	-	97,646	-	1,711,580	457,230	2,188	3,650	2,277,492
Customer deposits	2,073	-	1,493	170,244	12,011	3,701,881	518,254	9,292	5,275	4,420,523
Other customer accounts	9,801	-	3,249	77,478	-	-	481,752	4	1,519	573,803
Other liabilities	3,888	81,009	888	8,237	60,132	54,915	(141,529)	5,468	83,579	156,587
Total Liabilities	20,960	81,009	5,630	353,605	72,143	5,468,376	1,315,707	16,952	94,023	7,428,405
Net	45,361	3,233	4,891	53,533	(62,782)	1,719,406	10,191,347	(286)	413,116	12,367,819

2008

(SR'000)

	UAE DIR- HAM	BANGLA- DESH TAKA	JAPA- NESE YEN	EURO	LEBA- NESE LIRA	MALAY- SIAN RING- GIT	US DOL- LAR	POUND STER- LING	OTHER	TOTAL
ASSETS:										
Cash and cash equivalent	14,156	-	8	40,046	176	29,428	132,374	4,892	89,673	310,753
Due from banks and other financial institutions	237,041	45,670	167,681	70,909	8,657	316,439	1,775,507	7,953	-	2,629,857
Financing, net	-	-	-	523,944	-	4,630,187	3,157,044	-	241,928	8,553,103
Investments	2,781	-	5,259	315,520	-	628,827	1,665,829	5,568	-	2,623,784
Customer debit current account, net	-	-	-	-	-	-	688	54,034	-	54,722
Other assets, net	(1,336)	-	(199)	284	-	121,120	42,009	-	110,447	272,1325
Total Assets	252,642	45,670	172,749	950,703	8,833	5,726,001	6,773,451	72,447	442,048	14,444,544
LIABILITIES:										
Due to banks and other financial institutions	50,513	-	-	27,681	-	1,879,109	1,500,249	2,742	113,191	3,573,485
Syndicate Murabaha financing from banks	-	-	-	-	-	-	1,875,000	-	-	1,875,000
Customer deposits	165	-	1,090	386,498	12,195	2,969,385	1,640,993	6,358	4,815	5,021,499
Other customer accounts	7,975	-	186,189	568,535	-	-	1,233,989	5,731	119,441	2,121,860
Other liabilities	4,222	73,980	909	6,610	60,296	63,084	119,678	3,990	79,967	412,736
Total Liabilities	62,875	73,980	188,188	989,324	72,491	4,911,578	6,369,909	18,821	317,414	13,004,580
Net	189,767	(28,310)	(15,439)	(38,621)	(63,658)	814,423	403,542	53,626	124,634	1,439,964

c- Price Risk

The Bank 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 the quoted market prices of these mutual funds.

As these investments are in a limited number of funds and are not significant to the total investment portfolio, the Bank monitors them periodically and determines the risk of holding them based on changes in market prices.

Other investments have 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.

d- Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems,

and external events.

Operational risk is inherent in most of the Bank's activities, this necessitates an integrated approach to the identification, measurement and monitoring of operational risk.

An Operational Risk Management Unit (ORMU) has been established within the Credit and Risk Management Group, which facilitates the management of operational risk within the Bank. ORMU facilitates the management of operational risk by setting policies, developing systems, tools and methodologies, overseeing their implementation and use within business units and providing ongoing monitoring and guidance across the Bank.

The three primary operational risk management processes in the Bank are Risk Control Self Assessment, Operational Loss Database and eventual implementation of Key Risk Indicators, which are designed to function in a mutually reinforcing manner.

27- Geographical Concentration

A- Distribution by the geographical region of the major categories of assets, liabilities, commitments, contingencies and credit exposure accounts, as of December 31st, is as follows:

2009								
(SR'000)								
	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other Countries	Total
Assets:								
Cash and balances with SAMA	11,378,837	-	-	-	-	34,183	-	11,413,020
Due from banks and other financing institutions	152	514,946	186,085	165,741	-	410,537	3,983	1,281,444
Financing, net	137,182,750	2,733,042	2,989,919	-	-	5,801,294	-	148,707,005
Investments	1,846,646	724,437	23,039	193,157	-	101,066	-	2,888,345
Total	150,408,385	3,972,425	3,199,043	358,898	-	6,347,080	3,983	164,289,814
Liabilities:								
Due to banks and other financing institutions	3,649,873	577,310	18,252	60,921	-	1,787,655	8,062	6,102,073
Customer deposits	116,831,199	-	-	-	-	3,701,821	-	120,533,020
Total	120,481,072	577,310	18,252	60,921	-	5,489,476	8,062	126,635,093
Commitments and Contingencies	21,810,872	153,145	222,930	67,350	-	1,667,083	75,812	23,997,192
Credit Exposure (stated at credit equivalent value) Commitments and Contingencies	12,267,585	107,739	22,783	5,695	-	14,867	577	12,419,246

2008								
(SR'000)								
	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other Countries	Total
Assets:								
Cash and balances with SAMA	11,273,256	-	-	-	-	28,773	-	11,302,029
Due from banks and other financing institutions	2,500	525,363	97,369	1,556,498	-	447,897	262,138	2,891,765
Financing, net	103,662,882	32,382,029	-	-	-	463,812	-	140,676,723
Investments	567,125	733,912	17,071	117,869	-	174,429	-	1,610,406
Total	115,505,763	33,641,304	114,440	1,674,367	-	5,282,911	262,138	156,480,923
Liabilities:								
Due to banks and other financing institutions	2,217,936	2,783,009	109,764	1,245,290	-	1,502,737	42,894	7,901,630
Syndicated Murabaha financing from banks	-	1,875,000	-	-	-	-	-	1,875,000
Customer deposits	113,641,658	-	-	-	-	2,969,385	-	116,611,043
Total	115,859,594	4,658,009	109,764	1,245,290	-	4,472,122	42,894	126,387,673
Commitments and Contingencies	15,852,123	768,436	51,230	1,128,341	968,814	987,019	2,340,528	22,096,491
Credit Exposure (stated at credit equivalent value) Commitments and Contingencies	7,297,481	768,436	50,617	1,128,341	31,314	985,865	2,340,528	12,602,582

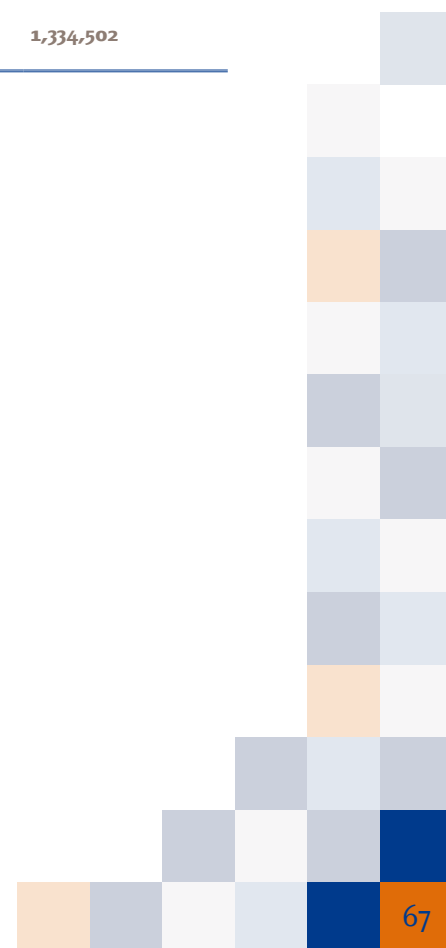
The credit equivalent value amounts reflect the amounts that result from the conversion of the Bank's liabilities off the balance sheet, which are specific to commitments and obligations and to the credit risk incurred by the funds using credit conversion rates fixed by the Saudi Arabian Monetary Agency. Credit conversion rates are used to cover potential credit risk as a result of the Bank's efforts to fulfill its obligations.

B- Distributions by geographical concentration of non-performing financing and provisions for financing losses, as of December 31st, are as follows:

2009	(SR'000)		
	Non-performing	Provisions for Financing Losses	Net
Kingdom of Saudi Arabia	3,866,381	(2,187,590)	1,678,791
Europe	-	-	-
North America	-	-	-
Total	3,866,381	(2,187,590)	1,678,791

2008	(SR'000)		
	Non-performing	Provisions for Financing Losses	Net
Kingdom of Saudi Arabia	2,766,482	(1,431,980)	1,334,502
Europe	-	-	-
North America	-	-	-
Total	2,766,482	(1,431,980)	1,334,502

Refer to note 7-c for performing financing.



28- Fair Value of Financial Assets and Liabilities

Determination of fair value and fair value hierarchy

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

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

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

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

Assets at fair values are as follows:

(SR'000)				
	Level 1	Level 2	Level 3	Total
Financial Assets:				
Financial assets at FVIS	928,985	-	1,959,360	2,888,345

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable and willing parties in an arm's length transaction. The fair value of the financial position statement for financial instruments are not significantly different from the carrying values included in the consolidated financial statements. The fair values of financing dues from and to banks, which are carried at amortized cost, are not significantly different from the carrying values included in the financial statements, since the current market commission rates for similar financial instruments are not significantly different from the contracted rates, and for the short duration with regards to dues from and to banks.

The value obtained from the relevant valuation model may differ from the transaction price of a financial instrument. The difference between the transaction price and the model value, commonly referred to as "day one profit and loss", is either amortized over the life of the transaction, deferred until the instrument's fair value can be determined using market observable data, or realized through disposal. Subsequent changes in fair value are recognized immediately in the income statement without the reversal of deferred day one profits and losses.

29- Related Party Transactions

In the ordinary course of business the Bank does business with related parties. The related party transactions are governed by limits set by the Banking Control Law and Regulations issued by SAMA. The nature and balances resulting from such transactions as on December 31st, are as follows:

(SR'000)

Related Parties	Type of Transaction	2009		2008	
		Debit	Credit	Debit	Credit
Members of the Board of Directors	Letters of credit*	325,672	-	309,512	-
	Musharaka bills*	784,973	-	905,437	-
	Mutajara	3,073,303	-	2,833,175	-
	Murabaha bills*	-	-	2,063	-
	Current accounts/deposits	66,113	351,694	44,833	236,817
	Letters of guarantee*	274,087	-	312,464	-
	Acceptances*	8,719	-	-	-
	Direct investments (deposits)	-	-	-	17,884
	Guarantees*	66,000	-	66,000	-
Companies and establishments guaranteed by members of the Board of Directors	Mutajara	485,175	-	677,031	-
	Letters of credit*	5,121	-	-	-
	Musharaka bills*	626	-	-	-
	Letters of guarantee*	3,819	-	46,968	-
Mudaraba funds (see note 30)	Current accounts/deposits	-	6,706	-	211,687
	Mudaraba* (note 32)	-	4,025,270	-	2,453,245
	Investment in mutual funds (note 8)	243,945	-	161,921	-
Other major shareholders with shareholding of more than 5% of the Bank's share capital	Direct investments (deposits)	-	1,515,469	-	1,544,359
	Current accounts/deposits	-	17,447	-	7,327
	Investment in mutual funds*	-	70,926	-	62,638
	Other liabilities	-	12,928	-	12,906

* = off balance sheet

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

(SR'000)		
	2009	2008
Income from financing	124,677	178,977
Other operating income	13	1,019
Employees' salaries and benefits (air tickets)	13,175	10,257
Rent and premises related expenses	1,526	2,396
Board of Directors' remunerations	2,971	3,075

The amounts of compensation recorded in favor of or paid to the Board of Directors and the executive management personnel during the years ending December 31st, are as follows:

(SR'000)		
	2009	2008
Short-term benefits	22,603	27,346
Provision for end of service benefits	1,317	1,209

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

30- Mudaraba Funds

Mudaraba Funds, as of December 31st, comprise the following:

(SR'000)		
	2009	2008
Investments	47,875	313,356
Current accounts, metals	10,902	11,399
Total	58,777	324,755

31- Special Commissions Excluded from the Consolidated Statements of Income

The following represents movements in charity accounts, which is included in other liabilities (see note 15):

(SR'000)		
	2009	2008
Balance at beginning of year	64,810	55,449
Additions during the year	18,912	30,198
Payments during the year	(5,516)	(20,837)
Balance at End of Year	78,206	64,810

32- Investment Management Services

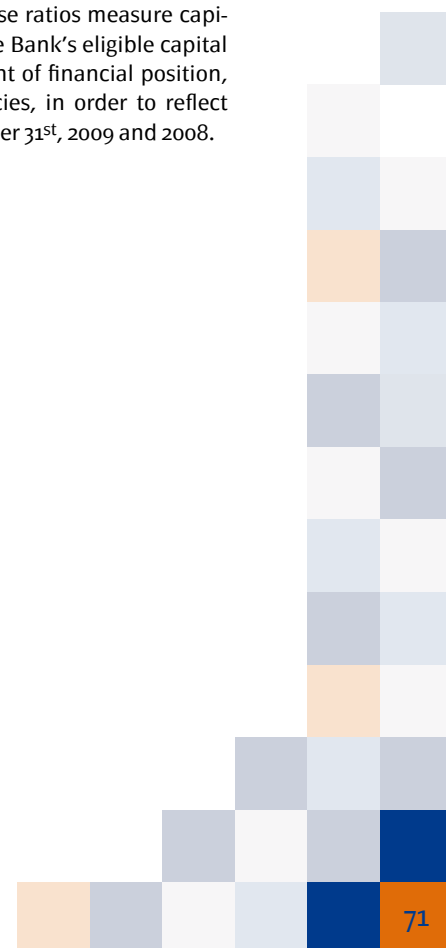
The Bank offers investment services to its customers. The Bank has established a number of Mudaraba funds in different investment aspects. These funds are managed by the Bank's Investment Department, and a portion of the funds is also invested in participation with the Bank. Mutual funds' financial statements are not included in the consolidated financial position statement of the Bank. The Bank's share of investments in these funds is included under investments, and is disclosed under related party transactions. Funds invested in participation with the Bank amounted to SR 4,025,270 thousand on December 31, 2009 (2008: SR 2,453,245 thousand).

33- Capital Adequacy

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

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management. SAMA requires to hold the minimum level of the regulatory capital and maintain an 8% ratio of total regulatory capital to risk-weighted asset .

The Bank monitors the adequacy of its capital using ratios established by SAMA. These ratios measure capital adequacy by comparing the Bank's eligible capital with its consolidated statement of financial position, commitments and contingencies, in order to reflect their relative risk as of December 31st, 2009 and 2008.



(SR'ooo)		
	2009	2008
Credit risk-weighted assets	129,319,360	117,273,012
Operational risk-weighted assets	17,946,355	17,932,387
Market risk-weighted assets	11,699,738	1,576,300
Total Pillar I – Risk-weighted Assets	158,965,453	136,781,699
Tier I capital	21,973,656	20,468,640
Tier II capital	8,701,577	9,506,962
Total Tier I & II Capital	30,675,233	29,975,602
Capital adequacy Ratio %		
Tier I ratio	13,82%	14,60%
Tier II ratio	19,30%	21,39%

34- Comparative Figures

Certain prior year amounts have been reclassified to conform with the current year presentation. More specifically, the investment caption in 2008 was reclassified into two separate captions i.e. financing and investments based on regulatory requirements.

35- Post Financial Position Events

The Bank's Board of Directors proposed, in its meeting dated January 18, 2010, a distribution of dividends to shareholders, for the second half of the current fiscal Year, in the amount of SR 2.250 million. This amounts to SR 1.50 per share net of zakat.

The Board's proposal is subject to the approval of the Extraordinary General Assembly in its next meeting.

36- Issued IFRS but not yet Effective

The Bank has chosen to not adopt IFRS 9, "Financial Instruments" too early, which has been published and is mandatory for compliance in the Bank's fiscal year beginning January 1, 2013.

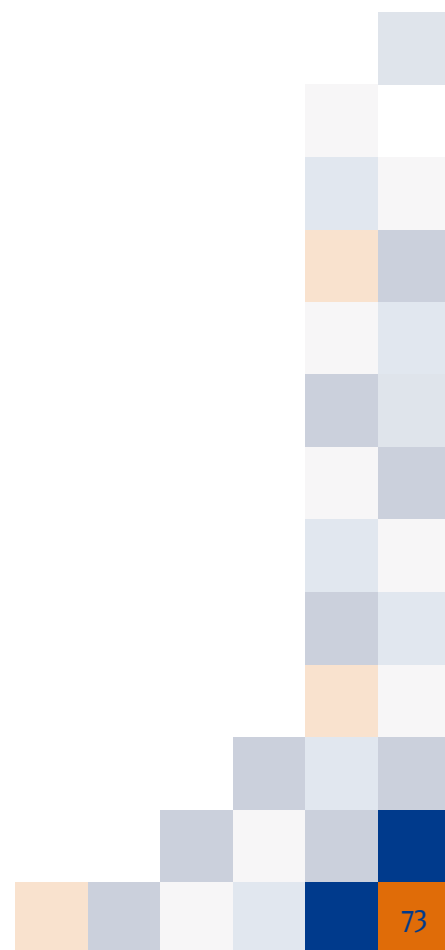
37- Board of Directors' Approval

The consolidated financial statements were approved by the Board of Directors on 3 Safar 1431H (corresponding to January 18, 2010).

38- Basel II Pillar 3 Disclosures (Unaudited)

Under Basel II pillar 3, certain quantitative and qualitative disclosures are required.

These disclosures will be made available on the Bank's website www.alrajhibank.com.sa and the annual report respectively, as required by the Saudi Arabian Monetary Agency.





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INDEPENDENT AUDITORS' REPORT

**TO: THE SHAREHOLDERS OF
AL RAJHI BANKING AND INVESTMENT CORPORATION
(Saudi Joint Stock Company)**

We have audited the accompanying consolidated financial statements of Al Rajhi Banking and Investment Corporation (the "Bank") and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and the other explanatory notes from (1) to (37). We have not audited note (38), nor the information related to "Basel II disclosures" cross-referenced therein, which is not required to be within the scope of our audit.

Management Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the



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Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

- present fairly, in all material respects, the consolidated financial position of the Bank and its subsidiaries as at 31 December 2009, and of their financial performance and their 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, in all material respects, with the requirements of the Regulations for Companies, the Banking Control Law and the Bank's Articles of Association and By-Laws in so far as they affect the preparation and presentation of the consolidated financial statements.

Ernst & Young

Fahad M. Al-Toaimi
Registration No. 354



PricewaterhouseCoopers Al Juraid

Walid I. Shukri
Registration No. 329



January 30, 2010
(15 Safar, 1431H)





**LARGEST BANK
EMPLOYER IN KSA
WITH OVER 7,500
EMPLOYEES**

Annual Disclosure Of Basel II Requirements

31 December 2009

Table (1)

Scope Of Application

a) This applies to Al Rajhi Banking and Investment Corporation, Saudi Arabia.

b) The financial results of all subsidiaries are fully consolidated in publishing the results of Al Rajhi Banking and Investment Corporation, Saudi Arabia. Brief descriptions of the entities in the group are as follows:

- 1) Al Rajhi Capital Company
The company was incorporated in 2007 as a wholly owned subsidiary of Al Rajhi Bank in KSA. The subsidiary engages in Mutual Fund Management, Brokerage and Corporate Finance.
- 2) Al Rajhi Company for Development, Riyadh
The company was incorporated in 2000 for investments in Land, Buildings and Real estate; and it is 99% owned by Al Rajhi Bank.
- 3) Al Rajhi Banking and Investment Corporation BHD Malaysia
The company was incorporated in 2006, providing Islamic banking services in Malaysia, and is 100% owned by Al Rajhi Bank.

c) There are no restrictions, or other major impediments, on transfer of funds or regulatory capital within the group. However, this is subject to the satisfaction of all internal and external approval by relevant authorities.

The Bank aims to maximize shareholder's value through an optimal capital structure that protects the stakeholder's interests, even under the most extreme, stress situations, provides sufficient room for growth, while meeting the regulatory requirements, and at the same time gives reasonable return to shareholders.

The ultimate objectives of capital management are threefold:

- 1- Ensure stability of the Bank by holding sufficient capital to cover unexpected losses
- 2- Promote the efficient use of capital by optimizing risk adjusted return
- 3- Prudent decision making and pro-active risk management through an efficient and effective allocation of capital across the businesses

The Bank measures various types of capital:

1. Regulatory Capital: Measure of capital needed to protect banks against insolvency. The regulator provides guidelines on how banks should measure regulatory capital and typically sets minimum standards for banks. This approach is used for regulatory reporting and is in compliance with SAMA's rules
2. Accounting Capital: This measures equity capital as defined by accounting rules. Accordingly, this measurement is essentially the sum of paid-up capital, eligible reserves, interim profits and revaluation reserve
3. Statutory/Legal Capital: This measures the required capital for the Bank to be able to legally operate. The minimum statutory capital is set by the regulator and usually incorporates share capital as well as retained earnings

Al Rajhi Bank currently uses the standardized method for calculation of the capital adequacy ratio and this methodology will be used until such time the Bank moves towards Economic Capital.

Table (2)

Capital Structure

Capital of Al Rajhi Bank consists of:

- 1- 1,500,000,000 fully paid up ordinary shares of SR 10 each

General Qualitative Disclosure Requirements Structure & Organization of the Relevant Risk Management Function

a) Corporate Governance (Policies, Procedures & Governance Structure) :

The risk management framework is integral to the operations and culture of Al Rajhi Bank. Risks are proactively managed within the Bank, while the framework is flexible enough to incorporate the new businesses

Table (3)

Capital Adequacy

Capital adequacy indicates the ability of the Bank to meet any contingency without compromising the interests of the depositors and to provide credit across business cycles. Sufficient capital, in relation to the risk profile of the Bank's assets, helps promote financial stability and the confidence of shareholders.

the Bank undertakes. The framework is comprehensive and has been communicated from the Board of Directors down to the individual business lines. Al Rajhi Bank's business strategy is to achieve the objective of being a strong financial partner with insight and transparency in risk-taking. The Risk Governance framework supports this objective.

The Risk Governance structure is comprised of the following committees: Board of Directors, Executive Committee of the Board, Audit Committee of the Board, High Management Committee, Asset and Liability Management Committee (ALCO), Credit Committee, Remedial Management Committee, Risk Management Committee, IT Steering Committee, Purchasing Committee, Human Resources Committee, Compliance Committee, Nomination & Bonus Committee and High Shariah Committee.

The following guiding principles apply to all Credit Risk Management activities:

1. Independence: A clear separation exists between Credit Risk Management and the business divisions. All activities, which commit the Bank either legally or morally to a position of risk, require prior approval by authorized individuals or committees at the appropriate level from both Credit Risk Management and the business
2. Transparency: Credit Risk Management structures, policies and procedures are transparent, based on consistent principles, which are well communicated at all levels
3. Approval Authority: Committee and individual approval authorities are delegated by the Board of Directors
4. Dual Signature: Risk taking commitments require the approval of at least two authorized individuals
5. Accountability: Risk and reward from a transaction are borne by the same business unit that forms an integral part of the key performance objectives of the business

The functional management of risk across the Bank is undertaken by the Credit Risk Management Group headed by the Chief Risk Officer who reports to the CEO. The Credit Risk Management Group is comprised of: Corporate Credit Management, Risk Management, Credit Policy & IT Projects and Credit Administration Monitoring & Control.

The Credit Risk Management Group activities comprise the following:

- Evaluation and approval of risk limits/exposures within delegated authorities (or recommendation to higher approval authorities in case of large exposures), are independent of the business
- Development, communication, guidance and monitoring of adherence to comprehensive risk policies
- Recommendation, jointly with the Business Units of the Bank's risk appetite across all types and categories of risks, to the Board of Directors
- Daily management of all other risk functions, including the control, monitoring and reporting of risk

limits and exposures for internal control and regulatory compliance purposes

1) Credit Risk

Credit Risk is the potential risk of loss of revenue, principal and capital as a result of default or the inability of a borrower or counter party to meet the terms of a contract through financing, dealing and investment activities.

The Bank addresses credit risk, which is the largest risk faced by the Bank, through the following process:

All Credit Processes – approval, disbursements, administration, classification, recoveries and write-offs are governed by the Banks Credit Policy which is reviewed by Credit Risk Management and approved by the Board.

All Lending Proposals – all credit proposals are independently reviewed by Credit Risk Management who either approves within delegated limits or recommends them for approval to a higher approval authority.

All Corporate Lending Accounts – are reviewed on an annual basis, at a minimum.

Concentration of exposures to counter parties, geographies and sectors are governed and monitored by regulatory guidelines and limits prescribed by the Credit Policy.

Corporate Borrowers are risk-rated using an internal risk-rating methodology that provides support for credit decisions.

2) Market Risk

Market Risk is the risk of loss resulting from on and off balance sheet positions, as a result of adverse movements in market prices. The management of market risk is achieved by the analysis, identification, monitoring, control and reporting of all activities that result from transactional exposures. Market Risk components are profit rate risk, foreign exchange risk, equity price risk and commodity price risk.

a- Profit Rate Risk

Profit Rate Risk refers to the potential impact on the Bank's net income margin that may be caused by the changes in market rates of return.

The Bank manages profit rate risk by incorporating ALCO values that pertain to pricing risk, by evaluating the potential impact of a 200 bps movement in market rates.

b- Foreign Exchange Risk

Foreign Exchange Risk refers to the impact of adverse exchange rate movements on foreign currency exposures arising out of customer transactions undertaken

by the Bank. Foreign currency positions are marked to market on a daily basis and are monitored against pre-determined position limits.

FX customer transactions are driven primarily by remittances. Total exposures are small relative to market volumes.

c- Equity Price Risk/Commodity Price Risk

Equity Price Risk is the impact of adverse price movements in the price of equities on equity positions. Equity open positions are marked to market against prevailing market prices on a regular basis.

The Bank has equity exposure in the form of mutual funds and limited direct share investments. The mutual fund exposure arises when the Bank issues new funds that are administered by an asset manager. External asset managers typically require the Bank to commit that it will gather a certain number of mutual funds. While the Bank is selling the funds to a customer; it holds the difference between the committed amount and the amount sold to the customer in its books. These equities are considered long term investments and Shariah compliant. The Bank is exposed to volatility in the price of the mutual funds it has in its books. The values of the investments are updated regularly by Finance and are not considered material. The Bank has limited direct share investments that it holds for an unspecified period of time, which may be sold in response to needs for liquidity or changes in profit rates or equity prices. The Bank does not actively trade these investments and the value of the investments are updated by Finance and is not considered material.

Commodity Risk refers to the risk of loss arising from movements in commodity prices. The commodity portfolio will be revalued on a regular basis to capture the changes in market value that are due to changing economic conditions.

As an Islamic bank, the Bank buys and sells commodities to facilitate customer transactions and to ensure compliance with Shariah. The Bank does not conduct proprietary trading in commodities for its own profit. The Bank's exposure to a commodity pricing volatility is usually limited to 1-2 hours, which is considered to be insignificant.

3) Liquidity Risk

Liquidity Risk refers to the Bank's potential inability to pay its debts and obligations (funding requirements) when due because of its failure to convert assets into cash, its inability to procure enough funds or if it can, that the funds come with an exceptionally high cost that may affect the institutions' incomes and capital (cash flow mismatches at a reasonable cost). In addition, liquidity risk may result in the Bank's inability to unwind or offset underlying risks from assets it currently holds, which may force the Bank to sell its assets at a loss as the assets are illiquid or the market is suffering from a liquidity crunch.

Under Liquidity Risk, the Bank considers the following three to be the main risk types:

- 1- Term Liquidity and Call Risk: Term liquidity risk arises when there is a mismatch between incoming and outgoing payments. There may be unexpected delays in repayments (term liquidity risk) or unexpectedly high payment outflows (call risk)
- 2- Structural Liquidity Risk: This type of liquidity risk refers to the fact that the cost of liquidity, for the purpose of closing liquidity gaps, can change if refinancing becomes more expensive due to a decline in the Bank's creditworthiness
- 3- Market Liquidity Risk: Market liquidity risks arise when a position cannot be sold within a desired time period or only at a discount. This is especially the case with securities in illiquid markets

4) Operational Risk

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people, systems, and external events. An Operational Risk Management Unit (ORMU) has been established within the Credit and Risk Management Group, which facilitates the management of operational risk within the Bank. ORMU facilitates the management of operational risk by setting policies, developing systems, tools and methodologies, overseeing their implementation and use within the business units and providing ongoing monitoring and guidance across the Bank. A Group Operational Risk Committee has been established, which reports through the Risk Management Committee.

Credit Risk

Default/Counter Party Risk

The Bank has quantified its default risk as part of Pillar I using the Standardized Approach. This approach will continue to be used to determine the amount of capital the Bank will hold for default/counter party risk.

In this method, risk weights are defined, for certain types of credit exposures, primarily on the basis of an external rating provided by rating agencies for obligors with no internal rating. The default risk is then equated to the resulting capital requirements.

While calculating capital requirements, various credit risk mitigation techniques are used in order to limit credit risk. These include financial collateral such as cash and shares, certain forms of physical collateral such as real estate, as well as guarantees.

Overall, the Bank uses the Standardized Approach to calculate the associated capital. However, any additional capital required under Pillar 2 is calculated using proprietary developed internal models.

Capital Treatment of Exposures:

Under the guidelines of SAMA of the Standardized Approach, the Bank categorizes as follows:

- 1- Sovereigns: SAMA requires that the Bank, operating in Saudi Arabia with exposures to other sover-

eigns (meeting the guidance criteria prescribed by Basel II), use the preferential risk weight assigned to the sovereign by the relevant national supervisory authority

2- Claims on banks and security firms are to use Option 2 under the Basel II Guidelines

3- MDB's, Claims on Corporates, claims included in the regulatory non-mortgage retail portfolios, claims secured by residential mortgages, claims secured by commercial real estate, past due loans and off balance sheet items all follow SAMA guidelines on Basel II

Table (4)

Credit Risk: General Disclosures for All Banks

1. Definitions of Past Due and Impaired For Accounting Purposes:

A financed asset is considered past due when a repayment is 90 days overdue or less. However, if the repayment is more than 90 days overdue the finance is considered impaired.

For Basel II Purposes:

- Once the Bank suggests that the party financier will not be paid in full its obligations to the Bank, the Bank notes resorting to take measures such as liquidation guarantees, if any.
- Late payment of credit facilities for more than 90 days of any obligation towards the bank, credit.

2. Description of Approaches Followed for Specific and General Allowances and Statistical Methods

- Portfolios that are considered individually significant, i.e. Corporate Bank Assets, are reviewed individually for impairment, and any asset with specific impairment is afforded a specific reserve taking into account potential future cash flow recoveries net of collateral
- Unimpaired individually significant assets are grouped together and a provision is afforded, based on a study undertaken on the historical performance of the portfolio
- Portfolios that are not considered individually significant, i.e. Retail Bank Assets, are provisioned based on a behavioral analysis of the underlying portfolio

3. Discussion of the Bank's Credit Risk Management policy

Credit risk is considered to be the most significant and pervasive risk for the Bank. The Bank takes on exposure to credit risk, which is the risk where the counter-

party to a financial transaction will fail to discharge an obligation when due, causing the Bank to incur a financial loss. Credit risk arises principally from financing (credit facilities provided to customers) and from investments held with financial institutions. 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 Credit Risk Management Group, which sets parameters and thresholds around the Bank's financing activities.

a- Credit Risk Measurement

Financing:

The Bank has structured a number of financial products, which are structured in accordance with Shariah Law, in order to meet customer demand. These products are all classified as financing assets in the Bank's consolidated balance sheet. In measuring the credit risk of financed assets at a counterparty level, the Bank considers the overall credit worthiness of the customer based on a proprietary risk methodology. For corporate customers, this risk rating methodology utilizes a 22 point scale, based on quantitative and qualitative factors with 19 performing categories. The risk rating process is intended to reflect counter-party credit quality and assist in determining suitable pricing commensurate with the associated risks.

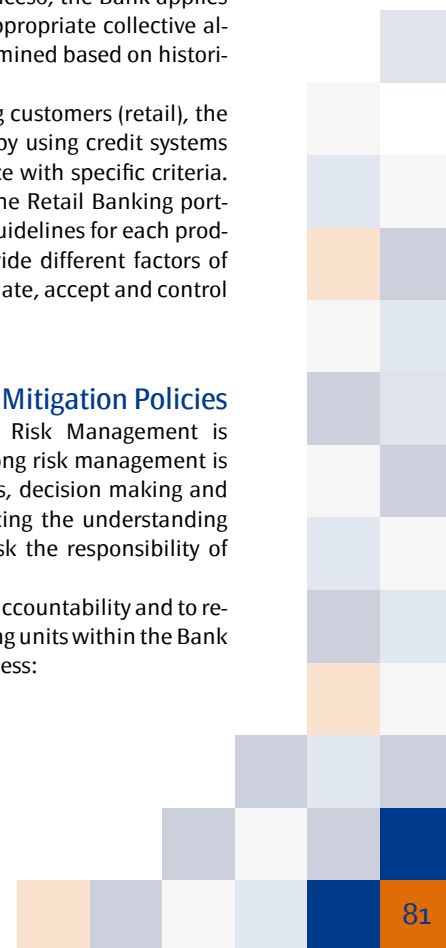
The risk rating process enables the Bank to detect any weakness in the credit portfolio quality and make appropriate adjustments to credit risk allowances where credit quality has deteriorated and where losses are likely to arise. The Bank evaluates individual corporate customer balances, which are past due to make appropriate allowances against financed assets. For the remaining corporate balances⁶, the Bank applies a loss rate to determine an appropriate collective allowance. The loss rate is determined based on historical experience of credit losses.

With regards to Retail Banking customers (retail), the Bank determines credit risks by using credit systems that are detailed in accordance with specific criteria. To monitor the credit risk of the Retail Banking portfolio, the Bank is developing guidelines for each product and these guidelines provide different factors of quality and quantity that evaluate, accept and control credit risk.

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 ownership, the following units within the Bank assist in the credit control process:



- Corporate Credit Unit (Credit Evaluation and Assessment)
- Credit Administration Monitoring and Control Unit
- Remedial Unit
- Credit Policy Unit
- Retail Credit Unit (Credit Evaluation and Assessment)

The monitoring and management of credit risk associated with financing are made by setting approved credit limits. The Bank 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. Concentration of credit risks indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

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

The Bank 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. The limits on level of credit risk, by product, economic sector and by country, are reviewed at least annually.

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 credit limits where appropriate.

Table (5)

Standardized Approach and Supervisory Risk Weights in the IRB Approaches

The Bank uses the following ECAIs :

S&P
Moody's
Fitch

The types of exposures for which each agency is used are for Corporate, Banks, Public Sector Entities (PSE's) & Sovereign.

Per Basel II Guidelines, we map the ECAIs rating to the standardized risk weight outlined by Basel II.

Table (6)

Credit Risk: Disclosures for Portfolios Subject to IRB Approaches

NOT APPLICABLE

Table (7)

Credit Risk Mitigation: Disclosures for Standardized and IRB Approaches

The general qualitative disclosure requirement, with respect to credit risk mitigation, includes:

- policies and processes for, and an indication of the extent to which the Bank makes use of, on- and off balance sheet netting;
- policies and processes for collateral valuation and management;
- a description of the main types of collateral taken by the Bank;
- the main types of guarantor and their creditworthiness; and
- information about (market or credit) risk concentrations within the mitigation taken.

Risk Management and Mitigation:

Management and mitigation of credit risk is core to the way the Bank operates and the way it does business. Listed below are some of the ways the Bank manages and mitigates credit risk:

1. **Limit Setting:** The Bank has set different limits to protect itself. These include limits on how the credit facilities granted to companies are based on their capital and reserves, the maximum total loan granted is based on the Bank's capital as well as the rating of the customer, restrictions on allowable loan tenure for different customer rating and limits on sector concentration.
2. **Tangible Collateral and Guarantees:** Different requirements have been set, depending on the type of transfer product, for the types of acceptable collateral (e.g., cash, shares, real-estate, other pledges, third party guarantees, etc.). In addition, rules have been developed for how various types of tangible collateral should be valued, how often the value of the tangible collateral should be re-valued and when the Bank would need to ask for additional collateral.
3. **Credit Approval Authorities:** Different authorities and limits have been defined for individuals or approval committees across the Bank and are dependent on the rating and size of the limit recommended.
4. **Credit Evaluation Process:** A clear credit evaluation process has been designed for the Bank to ensure that a consistent and robust method is followed.
5. **Measuring the Quality of Credit:** There are various models for both the retail and corporate portfolios, which ascertain a risk rating on the client.

These models take into consideration both quantitative and qualitative factors to ascertain a risk rating. These rating models have been developed using Al Rajhi specific data where applicable.

6. Legal Documentation: Appropriate legal documentation is executed to ensure that the Bank has recourse to protect itself in case of default on a loan. There are different variations depending on the product, type, and credit quality of the customer.

Table (8)

General Disclosure for Exposure Related to Counterparty Credit Risk

NOT APPLICABLE

Table (9)

Securitization: Disclosure for Standardized and IRB Approaches

NOT APPLICABLE

Table (10)

Market Risk: Disclosure for Banks Using the Standardized Approaches

Market Risk:

The Bank is exposed to market risks, which is that fair value of future cash flows of a financial instrument that 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. The Bank uses the Standardized Model to calculate the capital for market risk.

Foreign Currency Risk:

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

A substantial portion of the net foreign currency exposure to the Bank is in US Dollars, where the Saudi Riyal is pegged to the US Dollar. The other currency exposures are not considered significant to the Bank's foreign currency risks and as a result the Bank is not exposed to major foreign currency risks.

Market risk components are profit rate risk, foreign exchange risk, equity risk and commodity risk

a) Profit Rate Risk

Profit rate risk arises more in the Bank's assets than its liabilities in the current structure of its balance sheet. If the Bank increases the profit bearing liabilities, especially to corporate clients, the risk structure would change.

Profit rate risk refers to the potential impact on the Bank's net income margin or market value of equity caused by the unexpected changes in rate of returns.

The Bank manages the profit rate risk by incorporating ALCO values and forecasted asset and liability run off rates into the Profit Rate Risk Model.

There is a core assumption for the Profit Rate Risk Model that a 200 basis point shift in profit rates is the largest shock that can be experienced in the near term. While recent market activity has resulted in increasingly higher one-off shifts in profit rates, none have come close to 200 bps.

b) Equity/Asset Risk

Equity risk is the impact of adverse price movements in the price of equities on equity positions. Equity open positions are marked to market against prevailing market prices on a regular basis.

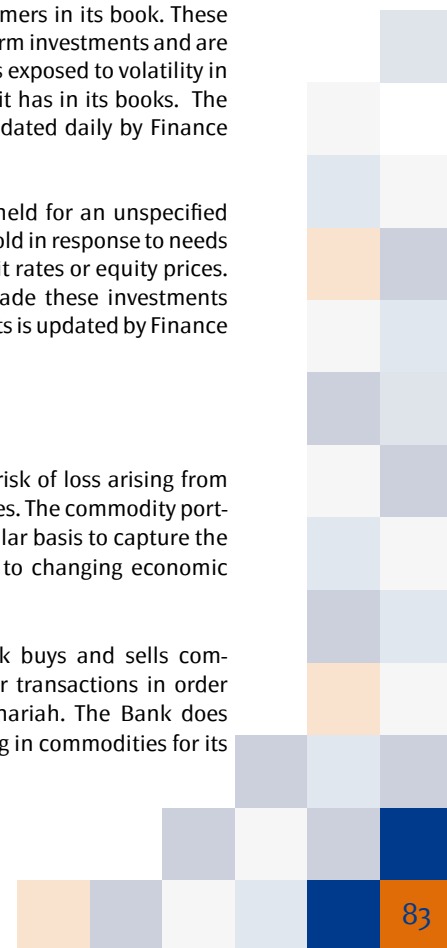
The Bank has exposure to equities in the form of mutual funds (SR 244 million) and direct share investments (SR 974 million). The mutual fund exposure arises when the Bank issues new funds that are administered by an external asset manager. External asset managers typically require the Bank to commit that it will gather a certain number of mutual funds (e.g., SR 100 million). While the Bank is selling the funds to a customer, it holds the difference between the committed amount and the amount sold to customers in its book. These equities are considered long term investments and are Shariah compliant. The Bank is exposed to volatility in the price of the mutual funds it has in its books. The value of the investments is updated daily by Finance and is not considered material.

Direct share investments are held for an unspecified period of time, which may be sold in response to needs for liquidity or changes in profit rates or equity prices. The Bank does not actively trade these investments and the value of the investments is updated by Finance and is not considered material.

c) Commodity Risk

Commodity Risk refers to the risk of loss arising from movements in commodity prices. The commodity portfolio will be revalued on a regular basis to capture the changes in market value due to changing economic conditions.

As an Islamic bank, the Bank buys and sells commodities to facilitate customer transactions in order to ensure compliance with Shariah. The Bank does not conduct proprietary trading in commodities for its



own profit. The Bank's exposure to a commodity pricing volatility is usually limited to 1-2 hours.

Table (11)

Market Risk: Disclosures for Banks Using the Internal Models Approach (IMA) for Trading Portfolios

NOT APPLICABLE

Table (12)

Operational Risk

Operational Risk Overview

Al Rajhi Bank has adopted the Standardized Approach for calculating capital adequacy covering operational risk and defines operational risk as: the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk.

Sources of Risk

Operational risk, for the Bank, arises from various different, areas including:

- Internal fraud: An act of a type intended to defraud, misappropriate property or circumvent regulations, the law or company policy, excluding diversity/discrimination events, which involve at least one internal party.
- External fraud: An act of a type intended to defraud, misappropriate property or circumvent the law through a third party.
- Employment practices and workplace safety: An act inconsistent with employment, health or safety laws and agreements (e.g., payment of personal injury claims, or from diversity/discrimination events).
- Clients, products, and business practices: A failure to meet a professional obligation to specific clients (including fiduciary and suitability requirements) either unintentionally, through negligence, or due to the nature or design of a product.
- Damage to physical assets: The loss or damage to physical assets from a natural disaster or other events.
- Business disruption and system failures: Disruption of business or system failures.
- Execution, delivery, and process management: Failed transaction processing or process management, from relations with trade counter parties and vendors.

The Bank currently uses the Standardized Approach to calculate the minimum regulatory capital for operational risk.

Table (13)

Equities: Disclosures for Banking Books Positions

Al Rajhi Bank has adopted the Standardized Approach for calculating capital adequacy covering the Bank's equity asset position. Equity investments are classified as "Available for Sale" (direct share investments) or as "Investments in Mutual Funds".

"Available for Sale" investments are those intended to be held for an unspecified period of time, which may be sold in response to a need for liquidity or changes in profit rates, exchange rates or equity prices.

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

Equity investments classified under Available for Sale investments, whose fair value cannot be reliably measured, are carried at cost.

An investment in mutual funds arises when the Bank issues new funds that are administered by an external asset manager. External asset managers typically require the Bank to commit that it will gather a certain number of mutual funds (e.g., SR 100 million). While the Bank is selling the funds to a customer, it holds the difference between the committed amount and the amount sold to customers in its books. These equities are considered long term investments and are Shariah compliant. The Bank is exposed to volatility in the price of the mutual funds it has in its books. The value of the investments is updated daily by Finance and is not considered material.

Table (14)

Profit Rate Risk in Banking Books

Profit rate risk arises more in the Bank's assets than its liabilities in the current structure of its balance sheet. If the Bank increases the profit bearing liabilities especially to the corporate clients, the risk structure would change.

Liabilities: The majority of the Bank's customer deposits are in non-profit bearing current accounts. Changes to the profit rate have no bearing on these accounts. However, the Bank has a smaller number of corporate deposits and retail term deposits that are rate sensitive.

Assets: The Bank charges different profit rates according to the maturity of transfers (longer term transfers usually require a higher profit rate). To determine the profit rate, the Bank uses a current market rate (e.g., SAIBOR) as a proxy to determine what to charge given market conditions.

Find below a description of each of the sources for each subtype of profit rate risk:

Re-pricing Risk: Most of the risks that are experienced by the Bank are in lost earnings, when profit rates decrease. This is due to the composition of the books, which are made up of mostly non-profit bearing current account liabilities and fixed rate assets. In other words, the Bank is an asset-sensitive Bank that benefits from a rise in rates and is disadvantaged by a fall in rates because the amount of re-pricing assets is larger than the re-pricing liabilities. A profit rate decrease has an inverse effect on the investments of the Bank's fixed rate assets (increase) versus earnings (decrease) since the assets still hold a higher profit rate compared to the decreased market rate.

Assets: There are different profit rates and re-pricing terms for the Bank's assets. Since the market rate (SAIBOR for SR, LIBOR for US\$) is used as a benchmark for the profit rate, a drop in profit rate can result in lost earnings.

Basis Risk: Because most of the Bank's assets and liabilities are dependent on the SAIBOR rate and not on other rates, the risk is low. For US\$ assets and liabilities, the rate is based on LIBOR, and any loans are squared off with liabilities that closely match both the amount and tenure.; this minimizes any basis risk.

Profit Rate Risk: This is a risk that exists in two areas – profit re-pricing and yield curve shifts. Re-pricing risk

lies in the fluctuations in profit rates that have differing impacts on Bank assets, while yield curve risk is posed by the change in portfolio values caused by un-anticipated shifts in the slope and shape curves. They include:

- a) Displaced commercial risk occurs when the Bank is required to pay a return greater than the income it generates on any underlying asset. This is captured when the Bank experiences a change in rates (rate re-pricing), which drives the difference in the variable and fixed payments. The Bank currently has a minimal number of variably priced assets and liabilities
- b) Rate of return risk occurs when profit rates change (profit re-pricing) and there is a mismatch between the return of assets and liabilities

Approach:

For measuring overall sensitivity in the banking book, the Bank measures the Profit at Risk, also referred to as Earnings-at-Risk (EAR) approach. The EAR perspective considers how changes in profit rate will affect a bank's reported earnings. This methodology focuses on the risk to earnings in the near term, typically the next one or two years. Fluctuations in profit rates generally have the greatest impact on reported earnings through changes in a bank's net financing income (that is, financing income, less income paid on time investments and Murabaha financing expense). It uses 200 basis point change as a stress test. The approach of measurement is as follows (but not limited to):

- Estimate expected run-off rate of assets at different tenors (i.e., determine tenor versus maturity matrix); and
- Assess expected change in yield curve, given short term change of 200 basis points.

