

AL RAJHI BANKING AND INVESTMENT CORPORATION

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
TOGETHER WITH AUDITORS' REPORT**



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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 2010, 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

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 2010, 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.

PricewaterhouseCoopers



Mohammed A. Al Obaidi
Registration No. 367



February 2, 2011
(29 Safar, 1432H)

Ernst & Young



Fahad M. Al-Toaimi
Registration No. 354



AL RAJHI BANKING AND INVESTMENT CORPORATION

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT DECEMBER 31, 2010 AND 2009
(SR '000)**

	<u>Notes</u>	<u>2010</u>	<u>2009</u>
ASSETS			
Cash and balances with Saudi Arabian Monetary Agency ("SAMA")	4	19,475,196	11,413,020
Due from banks and other financial institutions	5	11,117,539	14,334,760
Financing, net	6	120,064,667	112,147,659
Investments	7	28,887,442	27,139,056
Customer debit current accounts, net	8	312,062	695,791
Property and equipment, net	9	3,394,863	3,182,157
Other assets, net	10	1,589,141	1,817,286
TOTAL ASSETS		<u>184,840,910</u>	<u>170,729,729</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Due to banks and other financial institutions	11	5,414,181	6,102,073
Customer deposits	12	143,064,037	122,861,840
Other liabilities	13	6,044,903	13,024,932
TOTAL LIABILITIES		<u>154,523,121</u>	<u>141,988,845</u>
SHAREHOLDERS' EQUITY			
Share capital	14	15,000,000	15,000,000
Statutory reserve	15	12,111,884	10,419,177
Retained earnings		205,905	744,248
Proposed gross dividends	23	3,000,000	2,577,459
Total shareholders' equity		<u>30,317,789</u>	<u>28,740,884</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>184,840,910</u>	<u>170,729,729</u>

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 YEARS ENDED DECEMBER 31, 2010 AND 2009
(SR '000)**

	<u>Notes</u>	<u>2010</u>	<u>2009</u>
INCOME:			
Gross financing income		9,091,350	8,959,963
Income paid to customers on time investments		(230,348)	(529,816)
Income paid on syndicated murabaha financing from banks		<u>-</u>	<u>(40,447)</u>
Net financing income	17	8,861,002	8,389,700
Investments income	18	250,031	964,332
Fees from banking services, net	19	1,634,384	1,427,305
Exchange income, net		636,672	582,322
Other operating income	20	<u>279,043</u>	<u>141,633</u>
Total operating income		<u>11,661,132</u>	<u>11,505,292</u>
EXPENSES:			
Salaries and employee related benefits	21	1,731,529	1,718,725
Rent and premises related expenses		154,686	144,438
Impairment charge for financing	6-2	1,908,818	1,760,727
Other general and administrative expenses		742,941	788,584
Depreciation and amortization		349,239	322,619
Board of directors' remuneration	29	<u>3,090</u>	<u>2,971</u>
Total operating expenses		<u>4,890,303</u>	<u>4,738,064</u>
Net income		6,770,829	6,767,228
Comprehensive income		<u>-</u>	<u>-</u>
NET COMPREHENSIVE INCOME		<u>6,770,829</u>	<u>6,767,228</u>
Weighted average number of shares outstanding	14 & 22	<u>1,500 million</u>	<u>1,500 million</u>
EARNINGS PER SHARE (IN SR)	22	<u>4.51</u>	<u>4.51</u>

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 ENDED DECEMBER 31, 2010 AND 2009
(SR '000)**

	<u>Notes</u>	<u>Share capital</u>	<u>Statutory reserve</u>	<u>General reserve</u>	<u>Retained earnings</u>	<u>Proposed gross dividends</u>	<u>Total</u>
<u>2010</u>							
Balance at January 1, 2010		15,000,000	10,419,177	-	744,248	2,577,459	28,740,884
Dividends paid for prior year		-	-	-	-	(2,250,000)	(2,250,000)
Transfer to general reserve	15	-	-	366,465	(366,465)	-	-
Net comprehensive income		-	-	-	6,770,829	-	6,770,829
Transfer to statutory reserve		-	1,692,707	-	(1,692,707)	-	-
Interim dividends paid for the first half of the current year	23	-	-	-	(2,250,000)	-	(2,250,000)
Proposed gross dividends	15&23	-	-	-	(3,000,000)	3,000,000	-
Transfer to accrued zakat	23	-	-	(366,465)	-	(327,459)	(693,924)
Balance at December 31, 2010		15,000,000	12,111,884	-	205,905	3,000,000	30,317,789
<u>2009</u>							
Balance at 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	15	-	-	-	-	-	-
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	15&23	-	-	-	(2,577,459)	2,577,459	-
Transfer to accrued zakat	23	-	-	-	-	(558,143)	(558,143)
Balance at December 31, 2009		15,000,000	10,419,177	-	744,248	2,577,459	28,740,884

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 ENDED DECEMBER 31, 2010 AND 2009
(SR '000)**

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	6,770,829	6,767,228
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	349,239	322,619
Loss (gain) on sale of property and equipment	3,874	(17,872)
Impairment charge for financing	1,908,818	1,760,727
Net (increase) decrease in operating assets:		
Statutory deposit with SAMA (Note 4)	(1,397,697)	(291,772)
Due from banks and other financial institutions	(1,006,783)	-
Financing	(9,825,826)	(5,115,897)
Investments	(1,748,386)	(162,222)
Customer debit current accounts	383,729	200,961
Other assets	228,145	(57,906)
Net increase (decrease) in operating liabilities:		
Due to banks and other financial institutions	(687,892)	(1,799,557)
Customer deposits	20,202,197	4,120,798
Other liabilities	(7,673,953)	4,643,036
Net cash provided by operating activities	<u>7,506,294</u>	<u>10,370,143</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(572,948)	(905,880)
Proceeds from disposal of property and equipment	7,129	287,136
Net cash used in investing activities	<u>(565,819)</u>	<u>(618,744)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Syndicated murabaha financing from banks	-	(1,875,000)
Dividends paid	(4,500,000)	(4,500,000)
Net cash used in financing activities	<u>(4,500,000)</u>	<u>(6,375,000)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,440,475	3,376,399
Cash and cash equivalents at the beginning of year	<u>17,784,205</u>	<u>14,407,806</u>
CASH AND CASH EQUIVALENTS AT THE END OF YEAR (Note 24)	<u><u>20,224,680</u></u>	<u><u>17,784,205</u></u>

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

AL RAJHI BANKING AND INVESTMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

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 487 branches including the branches outside the kingdom as at December 31, 2010 (2009: 477 branches) and 8,527 employees as at December 31, 2010 (2009: 8,307 employees). The Bank has established a number of wholly or substantially owned subsidiaries as set out below:

SUBSIDIARIES	Shareholding %	
	2010	2009
Al Rajhi Company for Development Limited - Riyadh	99%	99%
Al Rajhi Corporation Limited-Malaysia	100%	100%
Al Rajhi Capital Company	99%	99%
Al Rajhi Bank - Kuwait	100%	-

Al Rajhi Bank - Kuwait was formed during 2010. All the above-mentioned subsidiaries were consolidated.

b) Shari’a Authority

As a commitment from the Bank for its activities to be in compliance with Islamic Shari’a legislations, the Bank has, since inception, established a Shari’a Authority to ascertain that the Bank’s activities are subject to its approval and control. The Shari’a 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 as modified for the 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.

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 has used estimates, assumptions or exercised judgements is as follows:

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 clients 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.

a) Basis of the preparation of the consolidated 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 statement of comprehensive 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 of December 31, 2010 and 2009 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 as a liability on the shareholders to be deducted from dividends. In case of 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 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 rates of exchange prevailing at the date of the consolidated statement of financial position. The statements of income of foreign subsidiaries are translated at the average exchange rates for the year.

e) Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and are 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, investments held at amortized costs, installment sale, istisnaa financing and visa services is recognized based on effective yield basis on the outstanding balances.
- Fees and commission 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 the financing. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportionate basis. Fee received on asset management, wealth management, financial planning, custody services and other similar services that are provided over an extended period of time, are recognized over the period when the service is being provided. 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 earned / incurred.

g) Financing and investments

The Bank offers non-interest based products including mutajara, installment sales, murabaha and istisna'a to its customers in compliance with Shari'a rules.

The Bank classifies its principal financing and investments as follows:

- i. Held at amortized cost - such financing and certain investments which meets the definition of loans and receivable under IAS 39, are measured at amortized cost, and comprise mutajara, installment sale, istisnaa, Murabaha and visa operations accounts balances.
- ii. Held as FVIS - Investments in this category are classified as either investment 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 less any amounts written off, and provision 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 at the date of each statement of financial position 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 the asset's carrying amount. The carrying amount of the financial assets held at amortized cost, is adjusted either directly or through the use of 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 essentially based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions. In addition to the specific provisions described above, the 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 the value of collateral.

When 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 in 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 derecognized when the contractual rights to the cash flows from the financial asset expire or if the Bank has not retained control on the financial asset.

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

j) Customer debit current accounts

All non-commission 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:

Leasehold land improvements	over the period of the lease
Buildings	33 years
Leasehold 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 amount. These are included in 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) Guarantees

In the ordinary course of business the Bank gives guarantees which include letters of credit, letters of guarantee and acceptances. Initially, the received margins are recognized as liabilities and included in customers' deposits in the consolidated financial statements. The Bank's obligation towards each guarantee is measured through the higher of amortized margin or best estimate for the required payments to meet the financial commitments resulted from the guarantees. Any increase in the financial commitments related to the guarantees is recognized in the consolidated statement of comprehensive income.

n) Provisions

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

o) 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 straight-line basis over the period of the lease. Leases entered into by the Bank as a lessor are all operating leases.

p) 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 on acquisition.

q) Special commission excluded from the consolidated statement of income

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

r) Provisions for employees' end of service benefits

The provision for employees' end of service benefits is calculated through actuarial basis according to the regulations of Saudi labor law and local regulatory requirements.

s) Mudaraba funds

The Bank carries out mudaraba transactions on behalf of its customers, and are treated by the Bank as being 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.

t) Investment management services

The Bank provides investment management services to its customers, through its subsidiary which include 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.

u) Collaterals against financing

The Bank in the ordinary course of business and through the financing activities holds collaterals as securities to mitigate credit risks. Such collaterals include mortgages on commercial and personal real estates, cash, shares, general customers assets and shares murabaha deals (shares murabaha covered by collateral). Those collaterals are held primarily against commercial and real estate credit facilities and are managed against the relevant balances of their net reliable values.

v) Bank's products definition

The Bank provides its customers with banking products based on interest avoidance concept and in accordance with Shari'a regulations. The following is a description of some of the financing products:

Mutajara Financing:

It is financing agreement whereby the Bank purchases a commodity or an asset and sell it to the client based on a purchase promise from the client with a deferred price higher than the cash price, accordingly the client becomes debtor to the Bank with the sale amount and for the period agreed on in the contract.

Installment Sales Financing:

It is financing agreement whereby the Bank purchases a commodity or an asset and sell it to the client based on a purchase promise from the client with a deferred price higher than the cash price, accordingly the client becomes debtor to the Bank with the sale amount to be paid through installments as agreed in the contract.

Istisnaa Financing:

It is a financing agreement whereby the Bank manufactures a commodity with certain specifications according to the client's request. The client become debtor to the Bank with the manufacturing price of which includes cost plus profit.

Murabaha Financing:

It is a financing agreement whereby the Bank purchases a commodity or asset and sell it to the client with a price representing the purchase price plus a profit known and agreed by the client which means that he should be aware of the cost and profit separately.

4. CASH AND BALANCES WITH SAMA

Cash and balances with SAMA as of December 31 comprise the following:

	<u>(SR'000)</u>	
	<u>2010</u>	<u>2009</u>
Cash on hand	5,329,888	3,449,155
Statutory deposit	9,361,272	7,963,575
Current accounts	4,784,036	290
Total	<u>19,475,196</u>	<u>11,413,020</u>

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, customers' time investment and other customers' account calculated at the end of each Gregorian month.

5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Due from banks and other financial institutions as of December 31, comprise the following:

	<u>(SR'000)</u>	
	<u>2010</u>	<u>2009</u>
Current accounts	1,440,118	1,281,444
Mutajara	9,677,421	13,053,316
Total	<u>11,117,539</u>	<u>14,334,760</u>

The above due from banks and other financial institutions balance does not include any past due or impaired balances as of December 31, 2010.

6. FINANCING, NET

6 - 1 Financing

a) Financing as of December 31, comprise the following:

	(SR'000)			2009 Net
	2010			
	Gross	Provision	Net	
<u>Held at amortized cost</u>				
Corporate Mutajara	31,157,077	(1,542,310)	29,614,767	32,257,917
Installment sale	78,289,043	(1,329,246)	76,959,797	65,845,312
Istisnaa	476,897	-	476,897	901,282
Murabaha	13,069,847	(743,003)	12,326,844	12,584,945
Visa cards	687,876	(1,514)	686,362	558,203
Total	<u>123,680,740</u>	<u>(3,616,073)</u>	<u>120,064,667</u>	<u>112,147,659</u>

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

Description	(SR'000)						2009 Total
	2010						
	Corporate Mutajara	Installment sale	Istisnaa	Murabaha	Visa	Total	
Inside the Kingdom	30,657,088	78,289,043	476,897	6,221,551	687,876	116,332,455	110,308,781
Outside the Kingdom	499,989	-	-	6,848,296	-	7,348,285	6,031,126
Total	31,157,077	78,289,043	476,897	13,069,847	687,876	123,680,740	116,339,907
Provision	(1,542,310)	(1,329,246)	-	(743,003)	(1,514)	(3,616,073)	(4,192,248)
Net	<u>29,614,767</u>	<u>76,959,797</u>	<u>476,897</u>	<u>12,326,844</u>	<u>686,362</u>	<u>120,064,667</u>	<u>112,147,659</u>

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

Description	(SR'000)			
	Performing	Non- Performing	Provision	Net
Commercial	22,391,211	1,904,211	(802,984)	23,492,438
Industrial	7,974,369	-	-	7,974,369
Public (Government)	512,606	-	-	512,606
Services	9,809,206	-	-	9,809,206
Agriculture and fishing	1,674,734	-	-	1,674,734
Building and construction	12,151,974	41,438	(15,249)	12,178,163
Personal	65,060,527	716,521	(249,728)	65,527,320
Other	1,443,943	-	-	1,443,943
Total	<u>121,018,570</u>	<u>2,662,170</u>	<u>(1,067,961)</u>	<u>122,612,779</u>
Additional portfolio provision			(2,548,112)	(2,548,112)
Balance			<u>(3,616,073)</u>	<u>120,064,667</u>

Description	(SR'000)			Net
	Performing	Non-Performing	Provision	
Commercial	25,831,149	2,738,419	(1,171,763)	27,397,805
Industrial	10,904,170	-	-	10,904,170
Public (Government)	15,989	-	-	15,989
Services	4,990,253	-	-	4,990,253
Agriculture and fishing	1,664,214	-	-	1,664,214
Building and construction	8,814,820	12,032	(151)	8,826,701
Personal	58,538,140	1,115,930	(1,015,676)	58,638,394
Other	1,714,791	-	-	1,714,791
Total	112,473,526	3,866,381	(2,187,590)	114,152,317
Additional portfolio provision			(2,004,658)	(2,004,658)
Balance			(4,192,248)	112,147,659

- d) The table below depicts the categories of financing as shown in the statement of financial position as per main business segments at December 31:

	(SR'000)		
	Retail	Corporate	Total
Corporate Mutajara	-	31,157,077	31,157,077
Installment sale	71,260,471	7,028,572	78,289,043
Istisnaa	-	476,897	476,897
Murabaha	3,054,799	10,015,048	13,069,847
Visa	687,876	-	687,876
Total	75,003,146	48,677,594	123,680,740
Less: Provision	(2,049,188)	(1,566,885)	(3,616,073)
Financing, net	72,953,958	47,110,709	120,064,667

	(SR'000)		
	Retail	Corporate	Total
Corporate Mutajara	-	34,246,989	34,246,989
Installment sale	61,517,480	5,848,447	67,365,927
Istisnaa	-	901,282	901,282
Murabaha	2,217,083	11,043,257	13,260,340
Visa	565,369	-	565,369
Total	64,299,932	52,039,975	116,339,907
Less: Provision	(2,178,601)	(2,013,647)	(4,192,248)
Financing, net	62,121,331	50,026,328	112,147,659

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

	2010					
	(SR'000)					
	Neither past due nor impaired	Past due but not impaired	Impaired	Total	Provision	Net
Retail	73,602,616	145,098	1,255,432	75,003,146	(2,049,188)	72,953,958
Corporate	46,626,818	644,038	1,406,738	48,677,594	(1,566,885)	47,110,709
Total	120,229,434	789,136	2,662,170	123,680,740	(3,616,073)	120,064,667

	2009					
	(SR'000)					
	Neither past due nor impaired	Past due but not impaired	Impaired	Total	Provision	Net
Retail	63,070,563	113,439	1,115,930	64,299,932	(2,178,601)	62,121,331
Corporate	48,740,446	549,078	2,750,451	52,039,975	(2,013,647)	50,026,328
Total	111,811,009	662,517	3,866,381	116,339,907	(4,192,248)	112,147,659

Financing past due for less than 90 days are not treated as impaired, unless other available information provides 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 at December 31:

	2010		
	(SR'000)		
	Retail	Corporate	Total
Standard	130,741	640,911	771,652
Special mention	14,357	3,127	17,484
Total	145,098	644,038	789,136

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

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

The special mention category includes financing that are also performing, current and up to date in terms of principal and profit payments. However, they require close management attention as they 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 set out the aging of financing past due but not impaired as of December 31:

<u>2010</u> Age	(SR'000)		
	Retail	Corporate	Total
up to 30 days	111,050	492,272	603,322
31-60 days	19,691	148,639	168,330
61-90 days	14,357	3,127	17,484
Total	145,098	644,038	789,136
Fair value of collateral	-	491,351	491,351

<u>2009</u> Age	(SR'000)		
	Retail	Corporate	Total
up to 30 days	58,787	173,885	232,672
31-60 days	47,513	189,187	236,700
61-90 days	7,139	186,006	193,145
Total	113,439	549,078	662,517
Fair value of collateral	-	240,390	240,390

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 at December 31:

<u>2010</u>	(SR'000)		
	Retail	Corporate	Total
Individually impaired financing	-	1,406,738	1,406,738
Fair value of collateral	-	582,250	582,250

<u>2009</u>	(SR'000)		
	Retail	Corporate	Total
Individually impaired financing	-	2,750,451	2,750,451
Fair value of collateral	-	492,844	492,844

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

	(SR'000)	
	2010	2009
Risk Rating 1	-	-
Risk Rating 2	-	-
Risk Rating 3	9,283,000	10,202,708
Risk Rating 4	36,062,000	27,314,174
Risk Rating 5	47,563,000	51,158,744
Risk Rating 6	20,066,000	15,287,185
Risk Rating 7	7,255,434	7,848,198
Total	120,229,434	111,811,009

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 with a 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.

6 - 2 Impairment charge for financing:

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

<u>2010</u>	<u>(SR'000)</u>		
	<u>Retail</u>	<u>Corporate</u>	<u>Total</u>
Balance at the beginning of the year	2,178,601	2,013,647	4,192,248
Provided during the year	705,116	1,203,702	1,908,818
Disposals (bad debts written off)	(834,529)	(1,650,464)	(2,484,993)
Balance at the end of the year	2,049,188	1,566,885	3,616,073

<u>2009</u>	<u>(SR'000)</u>		
	<u>Retail</u>	<u>Corporate</u>	<u>Total</u>
Balance at the beginning of the year	2,766,411	1,183,919	3,950,330
Provided during the year	707,166	1,053,561	1,760,727
Disposals (bad debts written off)	(1,294,976)	(223,833)	(1,518,809)
Balance at the end of the year	2,178,601	2,013,647	4,192,248

7. INVESTMENTS

Investments comprise the following as of December 31:

	<u>(SR'000)</u>	
	<u>2010</u>	<u>2009</u>
<u>Investments held at amortized costs</u>		
Murabaha with SAMA	<u>25,598,479</u>	<u>24,250,711</u>
Total investments held at amortized costs	<u>25,598,479</u>	<u>24,250,711</u>
<u>FVIS investments</u>		
Investments in land, real estate, vehicles and others	<u>1,169,547</u>	<u>1,187,262</u>
Investment in sukuk	<u>1,007,539</u>	<u>703,531</u>
Equity investments	<u>651,054</u>	<u>685,040</u>
Investments in mutual funds	<u>400,537</u>	<u>243,945</u>
Total FVIS investments	<u>3,228,677</u>	<u>2,819,778</u>
<u>Available for sales investments</u>		
Equity shares	<u>60,286</u>	<u>68,567</u>
Total available for sales investments	<u>60,286</u>	<u>68,567</u>
Total investments	<u>28,887,442</u>	<u>27,139,056</u>

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.

Equity investments include traded investments amounting to SR 688 million as of December 31, 2010 (2009: SR 730 million).

Investments do not include balances that are past due or impaired as of December 31, 2010.

The following is analysis of investment according to counterparties:

	(SR'000)	
	2010	2009
Government and qausi government	25,598,479	24,250,711
Companies	674,587	708,607
Banks and other financial institutions	36,753	45,000
Others	2,577,623	2,134,738
Total investments	28,887,442	27,139,056

8. CUSTOMER DEBIT CURRENT ACCOUNTS, NET

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

	(SR'000)	
	2010	2009
Customer debit current accounts (inside the kingdom)	362,062	741,023
Less: provision	(50,000)	(45,232)
Customer debit current accounts, net	312,062	695,791

9. PROPERTY AND EQUIPMENT, NET

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

	(SR'000)					
	Land	Buildings	Land & leasehold improvements	Equipment and furniture	Total 2010	Total 2009
<u>COST</u>						
At January 1	1,271,853	1,125,436	518,772	2,003,301	4,919,362	4,663,343
Additions	78,330	163,386	57,120	274,112	572,948	905,880
Disposals	(2,103)	(1,670)	-	(264,705)	(268,478)	(649,861)
At December 31	1,348,080	1,287,152	575,892	2,012,708	5,223,832	4,919,362
<u>ACCUMULATED DEPRECIATION & AMORTIZATION</u>						
At January 1	-	80,474	284,897	1,371,834	1,737,205	1,795,183
Charge for the year	-	27,688	111,711	209,840	349,239	322,619
Disposals	-	(803)	-	(256,672)	(257,475)	(380,597)
At December 31	-	107,359	396,608	1,325,002	1,828,969	1,737,205
<u>NET BOOK VALUE</u>						
At December 31, 2010	1,348,080	1,179,793	179,284	687,706	3,394,863	
At December 31, 2009	1,271,853	1,044,962	233,875	631,467		3,182,157

Buildings include work-in-progress amounting to SR 195 million as at December 31, 2010 (2009: SR 387 million).

10. OTHER ASSETS, NET

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

	(SR'000)	
	2010	2009
Advances to others	302,463	280,980
Cheques under collection	311,569	153,491
Prepaid expenses	167,344	198,887
Other receivables	194,332	202,540
Accrued income	118,911	114,292
Others	514,488	887,062
Total	1,609,107	1,837,252
Less: provision	(19,966)	(19,966)
Other assets, net	1,589,141	1,817,286

11. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

Due to banks and other financial institutions comprise the following as of December 31:

	(SR'000)	
	2010	2009
Current accounts	3,273,606	2,113,327
Banks' time investments	2,140,575	3,988,746
Total	5,414,181	6,102,073

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

	(SR'000)	
	2010	2009
Inside the Kingdom	1,059,993	3,649,873
Outside the Kingdom	4,354,188	2,452,200
Total	5,414,181	6,102,073

12. CUSTOMER DEPOSITS

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

	(SR'000)	
	2010	2009
Saudi Riyals	139,069,069	117,867,514
Foreign currencies	3,994,968	4,994,326
Total	143,064,037	122,861,840

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

	(SR'000)	
	<u>2010</u>	<u>2009</u>
Demand deposits	130,902,994	107,004,245
Customer time investments	9,527,096	13,528,775
Other customer accounts	2,633,947	2,328,820
Total	<u>143,064,037</u>	<u>122,861,840</u>

The balance of the other customer accounts includes margins on letters of credit and guarantees, checks under clearance and transfers.

13. OTHER LIABILITIES

Other liabilities comprise the following as of December 31:

	(SR'000)	
	<u>2010</u>	<u>2009</u>
Due to SAMA	-	7,518,000
Accounts payable	3,417,895	2,880,621
Provision for employees' end of service benefits	477,301	557,558
Charities (see Note 31)	4,923	78,206
Other	2,144,784	1,990,547
Total	<u>6,044,903</u>	<u>13,024,932</u>

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

14. SHARE CAPITAL

The authorized, issued and fully paid share capital of the Bank as of December 31, 2010 and 2009 consists of 1,500 million shares of SR 10 each.

15. STATUTORY AND GENERAL RESERVES

The Banking Control Law in Saudi Arabia and the By-Laws 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 general reserve for general banking risks, zakat and others, if any.

At the General Assembly meeting held on 13 Rabie Awal 1431H (corresponding to February 27, 2010), the shareholders approved to transfer SR 366.5 million from the retained earnings to the general reserve. The Bank has utilized this amount to meet zakat commitment.

16. COMMITMENTS AND CONTINGENCIES

a) Legal proceedings

As at December 31, 2010, 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 at December 31, 2010, the Bank had capital commitments of SR 119.7 million (2009: SR 82.9 million) relating to contracts for computer software update and development and SR 46 million (SR 74 million) relating to development and improvement of branches.

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 which is equal to the total unused commitments. The likely amount of loss, which cannot be reasonably estimated, is expected to be considerably less than the total unused commitments, since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of these commitments could expire or terminate without being funded.

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

	(SR '000)				
	Less than 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
2010					
Letters of credit and acceptances	3,978,724	609,319	45,687	-	4,633,730
Letters of guarantee	4,326,727	979,001	967,392	90,474	6,363,594
Irrevocable commitments to extend credit	1,424,075	1,502,051	2,162,094	2,079,649	7,167,869
Total	9,729,526	3,090,371	3,175,173	2,170,123	18,165,193
2009					
	(SR '000)				
	Less than 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Letters of credit and acceptances	2,387,295	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

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

	(SR'000)	
	<u>2010</u>	<u>2009</u>
Corporate	13,624,861	8,450,877
Banks and other financial institutions	4,540,332	15,546,315
Total	<u>18,165,193</u>	<u>23,997,192</u>

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)	
	<u>2010</u>	<u>2009</u>
Less than one year	21,845	11,028
One year to five years	86,399	98,597
Over five years	35,459	26,077
Total	<u>143,703</u>	<u>135,702</u>

17. NET FINANCING INCOME

Net financing income for the years ended December 31, comprises the following:

	(SR'000)	
	<u>2010</u>	<u>2009</u>
Corporate Mutajara	1,619,716	2,002,859
Installment sale	6,714,292	6,266,509
Istisnaa	65,413	108,141
Murabaha	691,929	582,454
Gross financing income	<u>9,091,350</u>	<u>8,959,963</u>
Income paid to customers on time investments	(230,348)	(529,816)
Income paid on syndicated murabaha financing from banks	-	(40,447)
Net financing income	<u>8,861,002</u>	<u>8,389,700</u>

18. INVESTMENT INCOME

Investment income for the years ended December 31 comprise the following:

	(SR'000)	
	2010	2009
Investment held of amortized cost		
Income from murabaha with SAMA	141,829	780,543
Income from murabaha with Bank	100,945	61,819
Total income from investment held at amortized	242,774	842,362
FVIS investment		
Income from Sukuk	18,641	22,806
Change in investment's fair value	(24,664)	99,164
Total (loss) income from FVIS investment	(6,023)	121,970
Available for sale investments		
Impairment of investment	(8,820)	-
Dividends	22,100	-
Total income from available for sale investment	13,280	-
Total investment income	250,031	964,332

19. FEES FROM BANKING SERVICES, NET

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

	(SR'000)	
	2010	2009
Fee income		
Fees from share trading services	223,052	319,745
Fees from payment service systems	387,903	320,413
Fees from remittance business	273,646	250,378
Fees from credit cards	117,354	155,174
Mudaraba fee income	50,073	36,325
Other	1,076,404	827,797
Total fee income	2,128,432	1,909,832
Fee expense		
Fees for share trading services	(64,616)	(108,577)
Fees for payment service systems	(429,432)	(373,950)
Total fee expense	(494,048)	(482,527)
Fees from banking services, net	1,634,384	1,427,305

20. OTHER OPERATING INCOME

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

	(SR'000)	
	<u>2010</u>	<u>2009</u>
Income from sale of vehicles	12,364	13,167
Recovery of written-off debts	155,231	24,690
Other income, net	111,448	103,776
Total fees income	<u>279,043</u>	<u>141,633</u>

21. SALARIES AND EMPLOYEES RELATED BENEFITS

The following tables provide an analysis of the salaries and employee related benefits for the years ended December 31:

<u>2010</u>	Number of employees	<u>Compensations</u>		Total	<u>Form of payments</u>	
		Fixed	Variable		Cash	In kind
Executives	34	40,215	18,134	58,349	✓	
Monitoring, compliance, legal department and risk management employees	263	65,518	5,494	71,012	✓	
Other employees	8,230	1,332,778	140,051	1,472,829	✓	
External employees	1,051	129,339	-	129,339	✓	
	9,578	1,567,850	163,679	1,731,529	✓	
<u>2009</u>						
Executives	12	20,889	9,665	30,554	✓	
Monitoring, compliance, legal department and risk management employees	233	60,213	4,677	64,890	✓	
Other employees	8,062	1,371,870	135,639	1,507,509	✓	
External employees	904	115,772	-	115,772	✓	
Total	9,211	1,568,744	149,981	1,718,725	✓	

As the Kingdom of Saudi Arabia is part of the G-20, instructions were given to all financial institutions in the Kingdom to comply with the standards and principles of Basel II and the financial stability board.

And as SAMA is the regulatory for the financial institutions in Saudi Arabia, it issued regulations on compensations and bonus in accordance with the standards and principles of Basel II and the financial stability board.

In light of SAMA instructions related to the compensations and bonuses, the Bank issued compensation and bonuses policies which was implemented after the Board of Directors approval.

The scope of this policy is extended to include the bank and its subsidiary companies (local and international) that are operating in the financial sector. Accordingly it includes all official employees, permanent and temporary contracted employees and service providers (contribution in risk position if SAMA allows the use of external resources).

For consistency with other banking institutions in the Kingdom of Saudi Arabia, the bank has used a combination of fixed and variable compensation to attract and maintain talents. The fixed compensation is assessed on a yearly basic by comparing it to other local banks in the Kingdom of Saudi Arabia including the basic salaries, allowance and benefits which is related to the employee's ranks.

The variable compensation is related to the employees performance and their compatibility to achieve the agreed on objectives. It includes incentives, performance bonus and other. Incentives are mainly paid to branches employees whereby the performance payment are paid to head office employee and others who are not qualified for incentives.

These bonuses and compensation should be approved by the board of directors as a percentage of the bank's income.

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 (Note 14).

23. PAID AND PROPOSED GROSS DIVIDENDS AND ZAKAT

The Bank distributed dividends for the first half of 2010 amounting to SR 2,250,000 thousand (i.e. SR 1.50 per share). Also the Board proposed gross dividends for the second half of 2010 amounting to SR 3,000,000 thousand (2009: SR 2,577,459 thousand) of which SR 750,000 thousand (2009: SR 327,459 thousand) was deducted for zakat from the proposed gross dividends, resulting in a net dividend of SR 3 per share for 2010 (2009: SR 2.75 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.

The Bank submitted the zakat assessment for the years from 2007 till 2009 and paid the zakat due accordingly. The DZIT did not yet issue the final zakat assessments for these years.

24. CASH AND CASH EQUIVALENTS

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

	(SR'000)	
	2010	2009
Cash	5,329,888	3,449,155
Due from banks (current accounts and murabaha)	10,110,756	14,334,760
Balances with SAMA (current accounts)	4,784,036	290
Total	<u>20,224,680</u>	<u>17,784,205</u>

25. SEGMENTAL INFORMATION

The Bank identifies operating segments on the basis of internal reports about 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 to assess its performance.

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

Retail segment:	Includes individual customer deposits, credit facilities, customer debit current accounts (overdrafts), fees from banking services and remittance business.
Corporate segment:	Incorporates deposits of VIP, corporate customer deposits, credit facilities, and debit current accounts (overdrafts).
Treasury segment:	Incorporates treasury services, murabaha with SAMA and international mutajara portfolio.
Investment services and Brokerage segments:	Incorporates investments of individuals and corporate in mutual funds, local and international share trading services and investment portfolios.

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

The Bank carries out its activities principally in the Kingdom of Saudi Arabia, and has four subsidiaries as of December 31, 2010 (2009: three), as listed in Note 1-a, of which two operates outside the Kingdom of Saudi Arabia (2009: One).

The total assets, liabilities, commitments, contingencies and results of 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 ended December 31, for each segment are as follows:

	(SR'000)				Total
	Retail segment	Corporate segment	Treasury segment	Investment services and Brokerage segment	
Total assets	82,397,368	47,568,053	54,072,844	802,645	184,840,910
Capital expenditures	571,630	-	1,318	-	572,948
Total liabilities	106,730,123	42,679,043	2,993,084	2,120,871	154,523,121
Gross financing & investment income	6,525,109	2,449,836	343,994	22,442	9,341,381
Income paid to customers on time investments	(38,432)	(9,412)	(182,504)	-	(230,348)
Income paid on syndicated murabaha financing from banks	-	-	-	-	-
Total operating income	7,881,379	2,380,340	1,117,325	282,088	11,661,132
Impairment charge for financing and other, net	(705,116)	(1,203,702)	-	-	(1,908,818)
Depreciation and amortization	(328,154)	(6,515)	(687)	(13,883)	(349,239)
Other operating expenses	(2,150,094)	(212,218)	(75,798)	(194,136)	(2,632,246)
Total operating expenses	(3,183,364)	(1,422,435)	(76,485)	(208,019)	(4,890,303)
Net income	4,698,015	957,905	1,040,840	74,069	6,770,829

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 & investment income	6,048,622	2,842,664	840,353	192,656	9,924,295
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	7,153,842	2,167,224	1,721,536	462,690	11,505,292
Impairment charge for financing and other, net	(707,166)	(1,053,561)	-	-	(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	(3,007,312)	(1,269,168)	(237,421)	(224,163)	(4,738,064)
Net income	4,146,530	898,056	1,484,115	238,527	6,767,228

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

2010

(SR'000)

	Retail segment	Corporate segment	Treasury segment	Investment services and Brokerage segment	Total
Consolidated balance sheet assets	72,914,628	47,174,521	39,732,833	559,728	160,381,710
Commitments and contingencies excluding irrevocable commitments to extend credit	2,792,759	7,889,348	315,217	-	10,997,324

2009

(SR'000)

	Retail segment	Corporate segment	Treasury segment	Investment services and Brokerage segment	Total
Consolidated balance sheet assets	62,676,278	50,899,268	40,469,295	272,425	154,317,266
Commitments and contingencies excluding irrevocable commitments to extend credit	7,856,286	4,562,960	-	-	12,419,246

Credit risks comprise the carrying value of the consolidated statement of financial position, except for cash and balances with SAMA, property and equipment and other assets.

26. FINANCIAL RISK MANAGEMENT

The Bank's activities expose 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 practice.

Risk management is performed by the Credit and Risk Management Group ("CRMG") under policies approved by the Board of Directors. The CRMG identifies and evaluates financial risks in close co-operation with the 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 that the counter-party 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 relating to purchase and sale of foreign currencies, 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 the customers demand. These products are all classified as financing assets in the Bank's consolidated statement of financial position. In measuring

credit risk of financing at a counterparty level, the Bank considers the overall credit worthiness of the customer based on a proprietary risk methodology. This risk rating methodology utilizes a 10 point scale based on quantitative and qualitative factors with seven performing categories (rated 1 to 7) 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 counterparty and assist in determining suitable pricing commensurate with the associated risk.

This process also enables the Bank to detect any weakness in the 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 financings. 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 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. While these exposures are short in duration but they can be significant. The risk is mitigated by dealing with highly rated counterparties, holding collateral and limiting the size of the exposures 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.

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 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. 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 financing to ensure there is no undue concentration of risks with 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 regular analysis on 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 for customer
- Shares for 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 as required. Guarantees and standby letters of credit carry the same credit risk as 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 statement of financial position 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 the value of collateral.

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

	(SR'000)	
	2010	2009
On-balance sheet items:		
Due from banks and other financial institutions	11,117,539	14,334,760
Financing, net		
- Corporate	47,110,709	50,026,328
- Retail	72,953,958	62,121,331
Customer debit current accounts, net	312,062	695,791
Other assets, net	1,589,141	1,817,286
Total on-balance sheet items	133,083,409	128,995,496
Off-balance sheet items:		
Letters of credit and acceptances	4,633,730	4,864,082
Letters of guarantee	6,363,594	7,555,164
Irrevocable commitments to extend credit	7,167,869	11,577,946
Total off-balance sheet items	18,165,193	23,997,192
Maximum exposure to credit risk	151,248,602	152,992,688

The above table represents a worst case scenario of credit risk exposure to the Bank at December 31, 2010 and 2009, 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 that the Bank will be unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and financing parties and fulfill financing commitments. Liquidity risk can be caused by market disruptions or by credit downgrades, which may cause certain sources of funding to become unavailable immediately. Diverse funding sources available to the 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 is 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;
- Maintain 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 and ensured 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 contingent liabilities such as standby letters of credit and guarantees may have 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 financial position date to the contractual maturity date.

Management monitors the maturity profile to ensure that adequate liquidity is maintained. Assets available to meet all of the liabilities and to cover outstanding financing commitments include cash, balances with SAMA and due 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 total other customer accounts. 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 follows:

2010	(SR'000)					Total
	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	No fixed maturity	
Assets						
Cash and balance with SAMA	13,241,041	1,650,217	2,750,363	1,833,575	-	19,475,196
Due from banks and other financial institutions	11,117,539	-	-	-	-	11,117,539
Financing, net	18,300,313	22,229,443	63,541,315	15,993,596	-	120,064,667
Investments	18,378,915	10,508,527	-	-	-	28,887,442
Customer debit current accounts, net	100,075	149,613	-	62,374	-	312,062
Property and equipment, net	-	-	-	-	3,394,863	3,394,863
Other assets, net	341,330	972,722	275,089	-	-	1,589,141
Total	61,479,213	35,510,522	66,566,767	17,889,545	3,394,863	184,840,910
Liabilities and Shareholders' equity						
Due to banks and other financial institutions	5,414,181	-	-	-	-	5,414,181
Customer deposits	131,322,236	9,064,659	-	2,677,142	-	143,064,037
Other liabilities	-	-	-	-	6,044,903	6,044,903
Shareholders' equity	-	-	-	-	30,317,789	30,317,789
Total	136,736,417	9,064,659	-	2,677,142	36,362,692	184,840,910

2009

	(SR'000)					
	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	6,144,303	1,242,318	-	4,026,399	-	11,413,020
Due from banks and other financial institutions	14,334,760	-	-	-	-	14,334,760
Financing, net	30,709,269	13,288,011	54,873,596	13,276,783	-	112,147,659
Investments	2,667,980	24,471,076	-	-	-	27,139,056
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	248,179	69,726	1,198,043	-	1,817,286
Total	54,749,072	39,270,458	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	109,333,065	-	-	13,528,775	-	122,861,840
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	31,206,816	170,729,729

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

2010

	(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	5,425,897	-	-	-	-	5,425,897
Customer deposits	131,358,236	9,067,659	-	2,678,492	-	143,104,387
Other liabilities	-	-	-	-	6,044,903	6,044,903
Total	136,784,133	9,067,659	-	2,678,492	6,044,903	154,575,187

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	109,333,065	-	-	13,603,168	-	122,936,233
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

The cumulative maturities of commitments & contingencies are given in note 16-C-1 of the financial statements.

26-3 Market risks

The Bank is exposed to market risks, which is the risk that the 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 Treasury / Credit & Risk department and reported to ALCO on a monthly basis. ALCO deliberates on the risks taken and ensure 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 Sharia guidelines which does 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 the risk that the 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 the 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 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 intraday 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 historical average 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 at December 31, 2010 and 2009 and the concentration of currency risks. Included in the table are the Bank's financial instruments at carrying amounts, categorized by currency:

2010

	(SR'000)									
	UAE DIRHAM	BANGLADESH TAKA	JAPANESE YEN	EURO	LEBANESE LIRA	MALAYSIAN RINGGIT	US DOLLAR	POUND STERLING	OTHER	TOTAL
ASSETS										
Cash and cash equivalent	17,779	-	26	22,745	192	49,319	101,498	13,546	65,565	270,670
Due from banks and other financial institutions	96,603	99,002	140,331	198,407	477	1,554,705	1,534,148	5,419	907,230	4,536,322
Financing, net	-	-	-	-	-	4,914,348	6,840,211	-	-	11,754,559
Investments	-	-	-	513	-	1,561,840	902,883	-	461,014	2,926,250
Customer debit current account, net	102	-	-	1,375	-	-	375	291	-	2,143
Other assets, net	-	-	-	62	-	283,901	63,708	-	15,972	363,643
Total Assets	114,484	99,002	140,357	223,102	669	8,364,113	9,442,823	19,256	1,449,781	19,853,587
LIABILITIES										
Due to banks and other financial institutions	-	-	-	729	-	2,960,776	1,168,444	2,832	198,138	4,330,919
Customer deposits	6,061	-	138,570	180,648	11,922	2,914,271	682,332	15,546	45,618	3,994,968
Other liabilities	3,672	74,700	1,009	7,288	1,327	272,240	(115,874)	6,112	408,359	658,833
Total Liabilities	9,733	74,700	139,579	188,665	13,249	6,147,287	1,734,902	24,490	652,115	8,984,720
Net	104,751	24,302	778	34,437	(12,580)	2,216,826	7,707,921	(5,234)	797,666	10,868,867

2009

	(SR'000)									
	UAE DIRHAM	BANGLADESH TAKA	JAPANESE YEN	EURO	LEBANESE LIRA	MALAYSIAN RINGGIT	US DOLLAR	POUND STERLING	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	11,874	-	4,742	247,722	12,011	3,701,881	1,000,006	9,296	6,794	4,994,326
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

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

2010	(SR'000)							Total
	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other Countries	
Assets								
Cash and balances with SAMA	19,425,698	1,187	-	-	-	48,311	-	19,475,196
Due from banks and other financial institutions	3,420,097	5,176,063	593,778	138,266	-	1,409,658	379,677	11,117,539
Financing, net	113,025,229	999,989	187,600	-	937,500	4,914,349	-	120,064,667
Investments	27,438,579	693,037	24,345	163,768	-	567,713	-	28,887,442
Total	163,309,603	6,870,276	805,723	302,034	937,500	6,940,031	379,677	179,544,844
Liabilities								
Due to banks and other financial institutions	1,059,993	1,430,344	19,091	13,775	-	2,871,692	19,286	5,414,181
Customer deposits	139,756,491	13,949	-	-	-	3,293,597	-	143,064,037
Total	140,816,484	1,444,293	19,091	13,775	-	6,165,289	19,286	148,478,218
Commitments and contingencies	13,042,613	585,232	1,621,882	192,710	21,217	395,559	2,305,980	18,165,193
Credit exposure (stated at credit equivalent value)	5,874,744	585,232	1,621,882	192,710	21,217	395,559	2,305,980	10,997,324
Commitments and contingencies								

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 financial institutions	7,431,130	2,606,803	2,050,880	165,741	-	2,076,223	3,983	14,334,760
Financing, net	106,238,961	645,732	1,125,124	-	-	4,137,842	-	112,147,659
Investments	26,097,357	724,437	23,039	193,157	-	101,066	-	27,139,056
Total	151,146,285	3,976,972	3,199,043	358,898	-	6,349,314	3,983	165,034,495
Liabilities								
Due to banks and other financial institutions	3,649,873	577,310	18,252	60,921	-	1,787,655	8,062	6,102,073
Customer deposits	119,160,019	-	-	-	-	3,701,821	-	122,861,840
Total	122,809,892	577,310	18,252	60,921	-	5,489,476	8,062	128,963,913
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

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

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

2010

	(SR'000)		
	Non-performing	Provisions for financing losses	Net non- performing financing
Kingdom of Saudi Arabia	2,416,464	(942,512)	1,473,952
South East of Asia	245,706	(125,449)	120,257
Europe	-	-	-
North America	-	-	-
Total	2,662,170	(1,067,961)	1,594,209

2009

	(SR'000)		
	Non-performing	Provisions for financing losses	Net non- performing financing
Kingdom of Saudi Arabia	3,866,381	(2,187,590)	1,678,791
South East of Asia	-	-	-
Europe	-	-	-
North America	-	-	-
Total	3,866,381	(2,187,590)	1,678,791

Refer to Note 6-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: and

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

Assets at fair values are as follows:

2010	(SR'000)			
	Level 1	Level 2	Level 3	Total
<u>Financial assets</u>				
Financial assets at FVIS	1,051,591	-	2,177,086	3,228,677
<hr/>				
2009	(SR'000)			
	Level 1	Level 2	Level 3	Total
<u>Financial assets</u>				
Financial assets at FVIS	928,985	-	1,890,793	2,819,778

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.

The fair values of on-statement of financial position financial instruments, are not significantly different from the carrying values included in the consolidated financial statements. The fair values of financing due from and due 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 of due from and due to banks.

The value obtained from the relevant valuation model may differ, with the transaction price of a financial instrument. The difference between the transaction price and the model value commonly referred to as 'day one profit and loss' 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 reversal of deferred day one profits and losses.

29. RELATED PARTY TRANSACTIONS

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

	(SR'000)	
	2010	2009
Related parties		
Members of the Board of Directors		
Mutajara	2,087,694	3,073,303
Current accounts	-	285,581
Contingent liabilities*	1,275,542	1,459,451
Companies and establishments guaranteed by members of the Board of Directors		
Mutajara	474,994	485,175
Current accounts	34,657	-
Contingent liabilities*	36,129	9,560
Mudaraba funds (Note 31)		
Current account	15,919	6,706
Mudaraba	6,248,472	4,025,270
Investment in mutual funds	400,537	243,945
Major shareholders (above 5% equity share)		
Mutajara	120,597	120,597
Direct investment	114,388	1,515,469
Current accounts	6,184	17,447
Investment in mutual funds	14,103	70,926
Other liabilities	13,523	12,928

* = off balance sheet

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

	(SR'000)	
	2010	2009
Income from financing	121,382	124,690
Employees' salaries and benefits (air tickets)	10,395	13,175
Rent and premises related expenses	1,526	1,526
Board of Directors' remunerations	3,090	2,971

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

	(SR'000)	
	2010	2009
Short-term benefits	19,656	22,603
Provision for end of service benefits	1,324	1,317

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 31, comprise the following:

	(SR'000)	
	<u>2010</u>	<u>2009</u>
Customers' investments	17,079,401	8,673,643
Current accounts, metals	5,678	10,902
Total	<u>17,085,079</u>	<u>8,684,545</u>

31. SPECIAL COMMISSIONS EXCLUDED FROM THE CONSOLIDATED STATEMENTS OF INCOME

The following represents the movements in charities account, which is included in other liabilities (see Note 13):

	(SR'000)	
	<u>2010</u>	<u>2009</u>
Balance, beginning of the year	78,206	64,810
Additions during the year	9,550	18,912
Payments during the year	(82,833)	(5,516)
Balance, end of the year	<u>4,923</u>	<u>78,206</u>

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 statement of financial position 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 6,248,472 thousand at December 31, 2010 (2009 SR 4,025,270 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 of and maintain a ratio is 8% of total regulatory capital to the 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, to reflect their relative risk as of December 31, 2010 and 2009.

	(SR'000)	
	<u>2010</u>	<u>2009</u>
Credit Risk weighted Assets	127,166,653	129,319,360
Operational risk weighted assets	19,207,023	17,946,355
Market risk weighted assets	8,262,400	11,699,738
Total Pillar I - risk weighted assets	<u>154,636,076</u>	<u>158,965,453</u>
Tier I - capital	23,546,960	21,973,656
Tier II capital	8,360,412	8,701,577
Total tier I & II capital	<u>31,907,372</u>	<u>30,675,233</u>
Capital Adequacy Ratio %		
Tier I ratio	<u>15.23%</u>	<u>13.82%</u>
Tier II ratio	<u>20.63%</u>	<u>19.30%</u>

34. COMPARATIVE FIGURES

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

35. POST FINANCIAL POSITION EVENTS

The Bank's board of directors proposed, in its meeting dated January 19, 2011, a distribution of dividends to the shareholders for the second half of the current fiscal year in the amount of SR 2.250 million. Amounting 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 not to early adopt the updates on standards mentioned below which have been published and are mandatory for compliance for the Bank's fiscal year beginning January 1, 2011 and afterwards.

- IAS 24 - disclosure on related parties
- Amendments on IFRS and IAS 19
- IFRS 9 - Financial Instruments
- IAS 32 - Presentation of Financial Instruments

The adoption of the above standards and amendments above will not result in any material change on the consolidated financial statements other than IFRS 9. The Bank is still evaluating the implications of IFRS 9 on the Bank's financial statements.

37. APPROVAL OF THE BOARD OF DIRECTORS

The consolidated financial statements were approved by the Board of Directors on 15 Safar 1432H (corresponding to January 19, 2011).

38. BASEL II PILLAR 3 DISCLOSURES (UNAUDITED)

[Under Basel II pillar 3, certain quantitative and qualitative disclosures are required, and these disclosures will be made available on the Bank's website www.alrajhibank.com.sa and the annual report, respectively, as required by the Saudi Arabian Monetary Agency.]
