Annual Report 2011

Proud of our values

Al Rajhi Bank مصرف الراجحي

www.alrajhibank.com.sa

In The Name of Allah
The Most Merciful, The Most Gracious

His Royal Highness

King Abdullah bin Abdulaziz Al Saud

Custodian of the Two Holy Mosques

His Royal Highness

Prince Naif bin Abdulaziz Al Saud

Crown Prince, Deputy Prime Minister & Minister of Interior

Introduction

Proud of our values

Al Rajhi Bank is a leading international Shariah compliant banking group with over 50 years of heritage. Our success is driven by the dedication and loyalty of our employees, customers and shareholders. The commitment to our values remains as solid as ever and is at the center of everything we do. This was demonstrated throughout different initiatives launched in 2011 and reflected in positive customer feedback.

Al Rajhi Bank values

- **Care for Society**
  Contributing towards a better tomorrow

- **Innovativeness**
  Nurturing imagination and fostering creativity for better results

- **Passion to Serve Our Customers**
  A strong commitment to anticipate and address customer needs beyond expectation

- **Solution Orientated**
  Helping our customers achieve their objectives

- **Meritocracy**
  Defining, differentiating and reinforcing excellence in people

- **Integrity & Transparency**
  Openness and highest standards of corporate & personal ethics, in all that we do

- **Modesty**
  Humility in thought and deed in everything we do

Contents

Care for society

"We would like to thank the Mouta Branch for its **cooperation** with Al Bir Al Khairiyah in Al Basr"

Our customer F. Al Helal

BOARD OF DIRECTORS

Board of Directors

Sulaiman bin Abdulaziz Al Rajhi	Chairman of the Board of Directors
Abdullah bin Sulaiman Al Rajhi	Managing Director & CEO
Abdullah bin Abdulaziz Al Rajhi	Board of Directors Member
Salah bin Ali Abal Khail	Board of Directors Member
Bader bin Mohammed Al Rajhi	Board of Directors Member - Representative of Manafea Holding Co.
Mohammed bin Abdullah Al Rajhi	Board of Directors Member
Sulaiman bin Saleh Al Rajhi	Board of Directors Member
Ali bin Ahmed Al Shidi	Board of Directors Member
Saeed bin Omar Al Issaee	Board of Directors Member
Mohammed bin Othman Al Bishr	Board of Directors Member
Abdulaziz bin Khaled Al Ghefaily	Board of Directors Member - Representative of General Organization for Social Insurance

- Al Sheikh Mohammed bin Abdulaziz Al Rajhi, membership ended on 13/11/2011
- Mr. Bader bin Mohammed Al Rajhi, membership began on 14/11/2011

Innovativeness

"I would like to thank Branch 139's employees for the **innovative way they handled my situation.** I'm honoured to be an Al Rajhi Customer"

Our customer A. Al Mohaimid

BOARD OF DIRECTORS REPORT

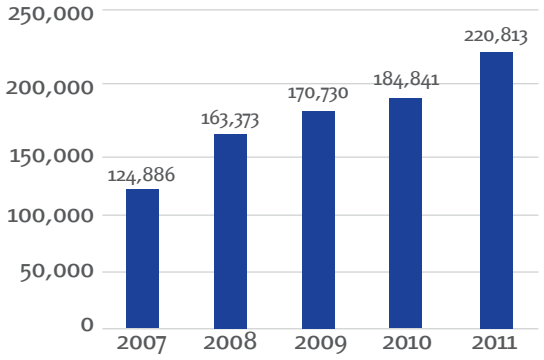
Board of Directors report

Distinguished Shareholders:

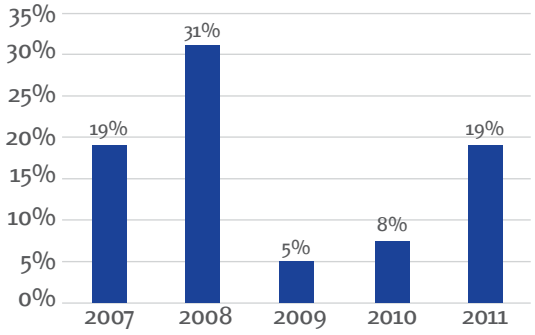
May peace be upon you,

The Board of Directors is pleased to share with you its annual report, which highlights the activities of the Bank for the fiscal year ended December 31, 2011. Despite the continuing global financial crisis, the Bank succeeded in achieving a noticeable growth in all its activities and in recording good results in line with local economic conditions. Economic indicators reflect the Kingdom of Saudi Arabia's positive growth, which demonstrates the significant expansion, stability and diversification of the national economic base. Moreover, the economic projections for the year 2012 point to continued growth in all the various economic sectors, including the banking sector.

Last year, the Bank completed its 24th year with a number of achievements to its name. It focused on developing banking services and providing financing products that meet the expectations of corporate and individual customers reinforcing the pioneering role played by the Bank in the banking services industry.



Total assets in SR millions



Assets growth

1. Financial results

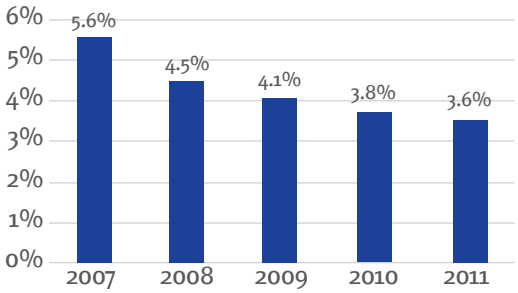
In 2011, the Bank recorded SR 7,378 million in net profit, compared to the SR 6,771 million of 2010, which is an increase of 9%. The financing net income and return on investment amounted to SR 9,070 million compared to SR 9,122 million in 2010, with a decrease of 0.6%. The revenue on banking services reached SR 2,298 million in contrast to SR 1,634 million, which shows an increase of 41%. Total operating income amounted to SR 12,502 million compared to 2010's SR 11,661 million, an increase of 7%.

The financing portfolio is characterized by its diversification in corporate and individual products. Its net asset reached SR 140 billion compared to the SR 120 billion of 2010, with a growth rate of 17%. Meanwhile, shareholders' equity increased to SR 33 billion compared to SR 30 billion with a rise of 10%. Total assets reached SR 221 billion compared to the SR 185 billion of 2010 by way of a 19% increase.

At the same time, customers' deposit balances went up to SR 173 billion compared to SR 143 billion showing an increase of 21%, which reflects customer trust in the Bank and also the noticeable growth of its market share in the banking sector.

The Bank achieved a 3.6% return on assets, while return on shareholders' equity amounted to 23.4%, and profit per share reached SR 4.92.

The Bank indicates that it applies the National Accountability Standards according to instructions from the Saudi Arabian Monetary Agency (SAMA).



Return on assets

1-1 Impact of Bank's major activities

The following analyzes the Bank's total assets and liabilities, operating income, expenses and net income for the two years ended on December 31, 2011 and 2010.

2011	(SR'000)				
	Retail	**Corporate**	**Treasury**	**Investment**	**Total**
Total assets	103,331,875	47,548,619	69,104,900	828,018	220,813,412
Total liabilities	135,608,235	45,570,953	4,927,886	1,885,281	187,992,355
Total income from operations	8,808,241	2,181,239	1,095,958	416,681	12,502,119
Total operating expenses	(3,864,991)	(922,621)	(102,194)	(234,045)	(5,123,851)
Net income	4,943,250	1,258,618	993,764	182,636	7,378,268

2010	(SR'000)				
	Retail	**Corporate**	**Treasury**	**Investment**	**Total**
Total assets	82,397,368	47,568,053	54,072,844	802,645	184,840,910
Total liabilities	106,730,123	42,679,043	2,993,084	2,120,871	154,523,121
Total income from operations	7,881,379	2,380,340	1,117,325	282,088	11,661,132
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

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

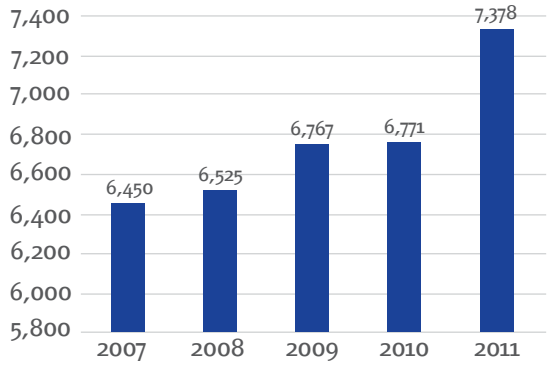
	2011	**2010**	**2009**	**2008**	**2007**
Total assets	220,813,412	184,840,910	170,729,729	163,373,224	124,886,482
Net investment	179,198,111	148,311,549	139,286,715	142,287,129	104,875,445
Total liabilities	187,992,355	154,523,121	141,988,845	136,341,425	101,280,370
Total equity	32,821,057	30,317,789	28,740,884	27,031,799	23,606,112
Deposits	173,429,465	143,064,037	122,861,840	118,741,042	92,756,136
Net profit	7,378,268	6,770,829	6,767,228	6,524,604	6,449,657
Share profit	4.92	4.51	4.51	4.35	4.30

1-2 Geographical analysis of revenues

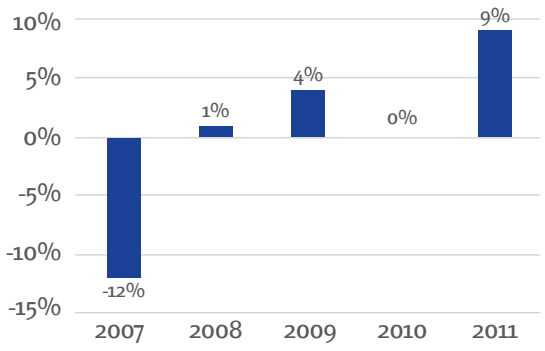
The Bank's net income is derived from both its local and international activities.

Inside KSA	**Outside KSA (Asia)**
7,425,567	(47,299)

There are no debts owed by the Bank upon request or otherwise.



Net income in SR millions



Net income growth

2. Subsidiary companies

The Bank owns several subsidiary companies that contribute to managing its activities and diversifying its revenues. The following table describes the percentage and the nature of the companies' ownership as per the year ended on December 31/12/2011:

	% Ownership		Type of activity	Country (place of operation)	Country (place of establishment)
	2011	2010	2011		
Al Rajhi Financial Services Company	99%	99%	Financial services	KSA	KSA
Al Rajhi Banking & Investment Corporation (Malaysia) BHD	100%	100%	Banking services	Malaysia	Malaysia
Al Rajhi Banking Investment Company (Kuwait)	100%	100%	Financial services	Kuwait	KSA
Al Rajhi Banking Investment Company (Jordan)	100%	100%	Banking services	Jordan	KSA
Al Rajhi Takaful Agency	99%	99%	Insurance services	KSA	KSA
Al Rajhi Development Company Ltd. (Riyadh)	100%	99%	Real estate	KSA	KSA

The Bank confirms that there are no shares and debt items issued for each subsidiary company.

3. Dividend distribution

After the deduction of all overhead expenses and other costs, the Bank distributes the specified annual net profits, arranges the necessary reserves to confront doubted debts, investment losses and urgent commitments for which the Board of Directors evaluates the risk level under the Bank's monitoring laws and regulations, and SAMA rules and instructions:

a- The due zakat amounts scheduled to be paid by shareholders are calculated and the company distributes them to designated parties.

b- The Bank transfers no less than 25% of what is left from the net profits to the following year after deducting the zakat of the regular reserves so that the mentioned reserves become equal – at least – to the paid capital.

c- It allocates no less than 5% of the paid capital to next year's transferred amount of profits after deducting the regular reserves and zakat. This is to be distributed to shareholders according to what the Board of Directors suggests and what the General Assembly approves. If the percentage left from the profits due to shareholders is insufficient to pay the above-mentioned percentage, the shareholders cannot claim to pay it during the next year(s) and the General Assembly cannot decide to distribute a bigger percentage of profit than the one suggested by the Board of Directors.

d- After allocating the amounts mentioned in items (a), (b) and (c) the rest will be used according to the suggestion of the Board of Directors and the decision of the General Assembly.

The profit shares are paid to shareholders in the time and place defined by the Board of Directors. The company has the right to withhold the due profit shares of any shareholder and to use them as payment in case the shareholder has debts and commitments yet to be made to the Bank.

After the deduction of all overhead expenses and other costs, the Bank distributes its net profits under article (41) provision of the Bank's main regulations and related laws. As a result of its outstanding performance and achievement in terms of net profits, this year - thanks to Allah - the Board recommends distributing its net profits as follows:

(SR'000)	
2011 profit	7,378,268
Profit from 2010	205,905
Interim dividend distribution during the second half of the year, at the rate of SR 1.25 per share	(1,875,000)
Proposed dividend distribution during the second half of the year, at the rate of SR 2 per share	(3,000,000)
Transfer to legal reserve	(1,844,567)
General reserve	000
Zakat accruals	(750,000)
Profit to be transferred to next year	**114,606**

4. Board of Directors

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

4-1 Classification of the Board of Directors

Name	Function(s)	Membership type	Membership in other joint stock companies
Sulaiman bin Abdulaziz Al Rajhi	Chairman of the Board of Directors	Non-Executive member	Yanbu Cement Companies, NADEC Agricultural Company
Abdullah bin Sulaiman Al Rajhi	Managing Director & CEO	Executive member	Al Rajhi Takaful Agency
Sulaiman bin Saleh Al Rajhi	Board of Directors Member	Non-Executive member	
Abdullah bin Abdulaziz Al Rajhi	Board of Directors Member	Non-Executive member	
Salah bin Ali Abal Khail	Board of Directors Member	Non-Executive member	
Bader bin Mohammed Al Rajhi	Board of Directors Member (representative of Manafea Holding Co.)	Independent member	
Mohammed bin Abdullah Al Rajhi	Board of Directors Member	Non-Executive member	Tabuk Agricultural Company
Ali bin Ahmed Al Shidi	Board of Directors Member	Independent member	
Saeed bin Omar Al Issaee	Board of Directors Member	Independent member	
Mohammed bin Othman Al Bishr	Board of Directors Member	Independent member	
Abdulaziz bin Khaled Al Ghefaily	Board of Directors Member (representative of General Organization for Social Insurance)	Non-Executive member	Savola Company

- There are no arrangements or agreements made under which any of the members of the Board of Directors or Senior Executives waived his salary or compensation to the Bank.
- There are no arrangements or agreements made under which any of the Bank's shareholders waived any of his profit rights.

4-2 Number of sessions & attendees

The Board of Directors held the following seven sessions during 2011:

No.	Date	No. of attendees	% attended	Absent members
1	19/01/2011	10	91%	Mohammed bin Abdulaziz Al Rajhi
2	07/03/2011	10	91%	Mohammed bin Abdulaziz Al Rajhi
3	15/05/2011	9	82%	Mohammed bin Abdulaziz Al Rajhi & Mohammed bin Abdullah Al Rajhi
4	27/07/2011	9	82%	Mohammed bin Abdulaziz Al Rajhi & Sulaiman bin Saleh Al Rajhi
5	17/10/2011	8	73%	Mohammed bin Adbulaziz Al Rajhi, Saeed bin Omar Al Issaee & Abdulaziz bin Khaled Al Ghefaily
6	19/11/2011	10	91%	Mohammed bin Abdullah Al Rajhi
7	27/12/2011	11	100%	-

Number of each member's attended sessions during 2011:

Name	Attended sessions
Sulaiman bin Abdulaziz Al Rajhi	7 sessions
Abdullah bin Sulaiman Al Rajhi	7 sessions
Sulaiman bin Saleh Al Rajhi	6 sessions
Abdullah bin Abdulaziz Al Rajhi	7 sessions
Salah bin Ali Abal Khail	7 sessions
Mohammed bin Abdulaziz Al Rajhi	-
Bader bin Mohammed Abdulaziz Al Rajhi	2 sessions
Mohammed bin Abdullah Al Rajhi	5 sessions
Ali bin Ahmed Al Shidi	7 sessions
Saeed bin Omar Al Issaee	6 sessions
Mohammed bin Othman Al Bishr	7 sessions
Abdulaziz bin Khaled Al Ghefaily	6 sessions

4-3 Committees of the Board of Directors

The Board of Directors executes its functions and missions through major committees formed by Board Members. The Audit Committee consists of 5 non-executive independent Board Members.

4-3-1 Executive Committee:

The Executive Committee, headed by the CEO, carries out all the functions and authorities the Bank entrusts it with, including: credit facility approvals; cancelation of debts and all losses that go beyond the competence of the Bank's High Credit Committee; the selling of real estate; and the approval of contracts that go beyond the authority of the Bank's working committees and CEO. It also studies all matters that require a Board recommendation or decision. The Committee held 7 sessions in 2011 and its members are:

Sulaiman bin Abdulaziz Al Rajhi (President), Abdullah bin Sulaiman Al Rajhi, Salah bin Ali Abal Khail, Sulaiman bin Saleh Al Rajhi, and Ahmed bin Saleh Al Khlaify (Secretary).

4-3-2 Remuneration & Rewards Committee:

This Committee is formed by 3 members: Salah bin Ali Abal Khail (President), Sulaiman bin Saleh Al Rajhi and Abdulaziz Al Ghefaily. It is in charge of functions assigned to it through executive by-laws. The Remuneration & Rewards Committee's main purposes include: to recommend the selection of Board Members or Committee members; to fill vacant positions according to the adopted policies and criteria; to conduct the annual review that defines the required needs of suitable membership skills; to review the Board's structure in order to define its strong and weak aspects, and submit recommendations accordingly; to set clear policies that determine salaries and remunerations for members and senior executives; and present an annual recommendation to the Board regarding the annual budget for the special remunerations and incentives of senior executives. This Committee held 5 sessions in 2011.

4-3-3 Audit Committee:

The Audit Committee plays a fundamental role in helping the Board of Directors meet its obligations by performing all supervision and governance matters related to financial audit, managing the internal review according to the Bank's possible risks, and review the competence, independence and performance of internal and external auditors. It also works on improving and developing supervision norms, and subsequently the protection of shareholders' equity through the following: the study of consolidated financial statements, accountability policies, internal supervision system, and making recommendations in this regard; also the supervision of the management of internal review, studying reports and verifying efficiency and independency, recommending to designate external auditors, studying their plans, defining their salaries, and deciding on their dismissal and the execution of tasks or other missions assigned to it.

The Audit Committee held 5 sessions in 2011, and its members consisted of: Sulaiman bin Saleh Al Rajhi (President), Sultan bin Mohammed Al Sultan, Ali bin Ahmed Al Shidi, Abdullah bin Ibrahim Al Sayyari, and Abdulrahman bin Saleh Al Fiz.

4-4 Ownership of Board Members & Senior Executives

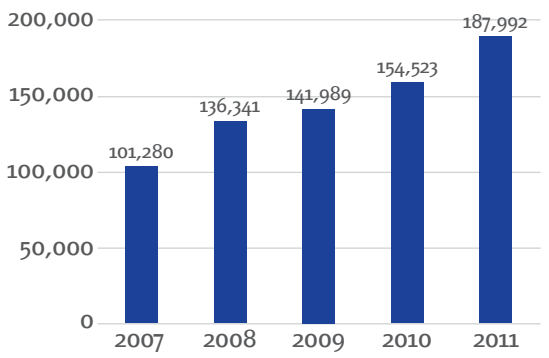
Changes in ownership percentages for Board Members and their families are defined as shares, Bank's debt items, or any of its subsidiary companies.

Table 4-4-1: Description for any interest of the Board Members and their families (wives & children) are defined as shares, Bank's debt items, or any of its subsidiary companies.

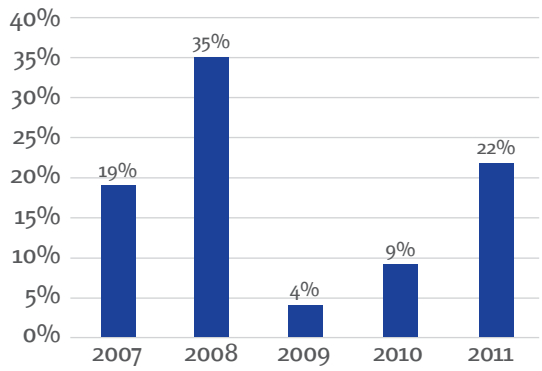
No.	Name	No. of shares at beginning of year	No. of shares at end of year	Net change	% of change
1	Sulaiman bin Abdulaziz Al Rajhi	324,880,431	301,780,074	-23,100,357	-7.11%
2	Abdullah bin Sulaiman Al Rajhi	30,165.983	30,165,283	-700	0%
3	Abdullah bin Abdulaziz Al Rajhi	89,903,020	90,230,427	327,407	0.36%
4	Salah bin Ali Abal Khail	1,260,000	1,260,000	0	0%
5	Mohammed bin Abdulaziz Al Rajhi	44,004	Membership ended 13/11/2011	0	0%
6	Mohammed bin Abdullah Al Rajhi	16,333	5,888	-10,445	-63.95%
7	Sulaiman bin Saleh Al Rajhi	54,141	34,141	-20,000	-36.94%
8	Ali bin Ahmed Al Shidi	278,111	298,111	20,000	7.19%
9	Saeed bin Omar Al Issaee	1,889,355	2,605,155	718,800	38.04%
10	Mohammed bin Othman Al Bishr	399,777	399,777	0	0%
11	Abdulaziz bin Khaled Al Ghefaily	0	0	0	0%
12	General Organization for Social Insurance	148,694,166	148,694,166	0	0%
13	Manafea Holding Co.	Membership date 14/11/2011	32,752,680	0	0%
14	Bader bin Mohammed Al Rajhi (representative of Manafea Holding Co.)	Membership date 14/11/2011	0	0	0%

Table 4-4-2: Description for any interest of Senior Executives and their families (wives & children) are defined as shares, Bank's debt items, or any of its subsidiary companies.

No.	Name	No. of shares beginning of year	No. of shares end of year	Net change	% of change
1	Saeed Mohammed Al Ghamdi	1,894	7,197	5,303	279.99%
2	Waleed Abdullah Al Moqbel	0	15,000	15,000	100%
3	Khaldoon Abdullah Al Fakhiri	0	1,125	1,125	100%
4	Abdullah Abdul Rahman Al Namlah	0	1,023	1,023	100%
5	Adnan Abdullah Al Olayan	663	2,576	1,913	288.54%
6	Damian Philip White	0	0	0	0%
7	Suliman Abdulaziz Azzabin	0	795	795	100%
8	Constantinos Constantinedos	1,704	Resignation date 23/12/2011		
9	Ahmed bin Saleh Al Khlaifi	0	1,250	1,250	100%



Total liabilities in SR millions



Liabilities growth

5. Remunerations & compensations

The Bank pays the expenses and remunerations of Board Members who attend the Board sessions, as well as that of the subsidiary committees under article 19 provision of the Bank Article of Association. It also pays salaries, remunerations and compensations to Senior Executives in accordance with their respective contracts and SAMA list of remunerations and compensations. The following is a detailed description of all expenses, remunerations and salaries paid to Board Members and the 7 Senior Executives of the Bank, including the CEO and the CFO.

Description	Executive Board Members	Non-Executive Board Members	Senior Executives (including CEO & CFO)
Salaries & remunerations	0	0	13,693,876
Allowances	42,000	240,000	3,089,157
Periodic bonuses	240,000	2,400,000	8,740,157
Incentive plans	0	0	1,380,618
Other remunerations or benefits paid on a monthly/annual basis	0	0	0
Total	**282,000**	**2,640,000**	**26,903,808**

6. Penalties & fines imposed on the Bank

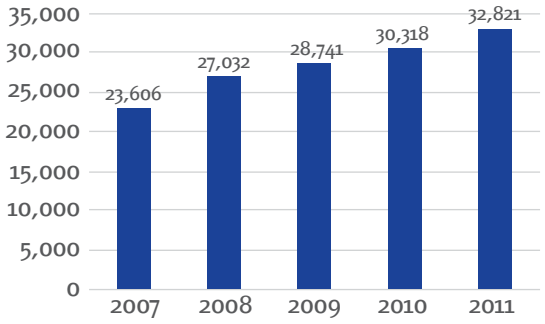
The Bank was not subjected to any significant penalty procedures or fines in the financial year 2011. Most, penalties imposed, if any, were related to operational processes and were successfully dealt with.

The following is the penalty statement imposed by the supervising authorities:

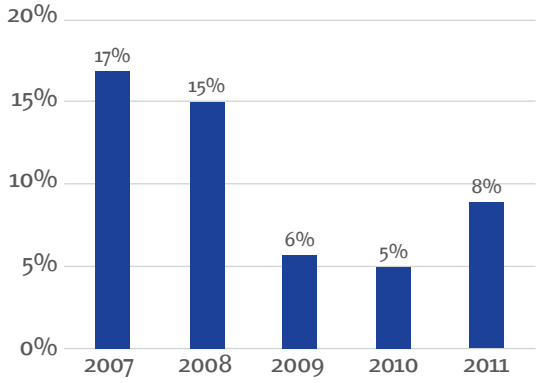
Supervising party	No. of fines	Total fines
Saudi Arabian Monetary Agency (SAMA)	14	1,813,000
Capital Market Authority CMA	1	50,000
Ministry of Municipal & Rural Affairs	2	1,505,400

7. Contracts with related parties

Contrary to information mentioned in Note 28 of the financial statements, the Board Members, CEO, Deputy CEO, CFO and any other related person under a contract in which the Bank is a party, have no other substantial interests.



Total owners' equity in SR millions



Owners' equity growth

8. Regulatory payments

The Bank's regulatory payments during the year 2010 consist of zakat due by shareholders, amounts paid to the general organization for social insurance represented by the employees' insurance, and taxes represented by deductible debts imposed on foreign investors.

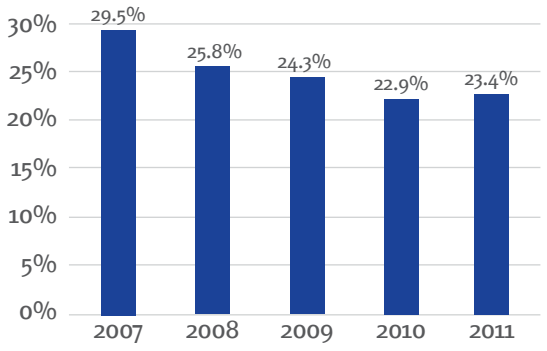
The following table explains the regulatory payments:

Party	(SR,000)
Zakat due from shareholders	750,000
General Organization for Social Insurance	152,982
Taxes/fees or any other due payments	5,209
Total	**908,191**

9. Employee benefits & plans

The employees' benefits and plans are paid during or at the end of their service and according to Saudi Labor Laws and Bank policies. The balance for the allocations of end of service reached SR 534 million at the end of 2011. The Bank also provides its employees with a number of benefits such as:

The program of granting Bank shares to benefit selected employees is one that is dedicated to the Bank's employees and its subsidiary local companies. It offers free shares to senior employees who the Fund's Board decides are to be retained due to their value as human assets. This action enhances long-term functional relationships and provides suitable incentives to recognize distinguished contributions.



Return on shareholders' equity

10. Accounting records

The Board of Directors assures the following:

- Accounting records have been correctly prepared.
- The internal supervision and control system has been properly prepared and efficiently executed.
- There are no doubts regarding the Bank's capability to carry on with its activities.

11. Annual audit results of the Internal Control System's effectiveness

The Bank's Internal Control System has been properly prepared and efficiently executed. It is subject to constant evaluations and improvement to allow for the identification of any gaps and meet the required level of effectiveness, key controls include:

- Existence of a series of policies and procedures, which are subject to regular updates and reviews to verify their sufficiency and adequacy.
- Most of the Bank's operations are executed automatically through a sophisticated electronic system, which minimizes errors and fraud opportunities.
- All work and major important decisions are supervised through committees created for this purpose and to protect the safety and quality of the Bank's assets.
- Existence of departments specialized in fields of audit, compliance control and risk management.
- Existence of the Audit Committee in order to contribute to reinforcing the independence of internal and external auditors. This Committee receives regular reports about the activities of the departments subject to auditing.
- Regular supervision of the efficiency and sufficiency of the Internal Control System based on an annual plan approved by the Audit Committee. Aspects of Internal Control are regularly supervised by the auditors and tested by SAMA.
- Great attention is paid to the Internal Control System's results and every indentified issue is taken into consideration in order to avoid repetition of mistakes.

12. Future risks

Despite the continuing global financial crisis and the subsequent international challenges it imposes on most industrial countries, top of which is the United States and Euro-zone countries, the Saudi economy is expected to continue witnessing positive growth. This is thanks to the financial policies that aim to increase government spending and the efforts deployed to contain inflation. Under the economic circumstances expected for 2012, particularly those that relate to increased government spending in vital sectors such as housing and infrastructure and contribute positively to the individual income average, the Bank has promising

growth chances due to its ability to capitalize on its strong local presence. Thus, the Bank will continue to focus on increasing its customer base by promoting both the Retail and Corporate Banking sectors, developing its international presence and offering products suitable to the needs of customers. The Bank is also working on enhancing its services by expanding communication channels with customers through branch networks, ATMs, call centers, e-services, etc.

Risks are part and parcel of the banking industry and hence the Bank's activities are exposed to several financial risks that require analysis, assessment and management of one or more types of these risks.

In this context, the Bank aims to balance its potential risks and returns, and minimize any possible negative results that might affect its financial performance. It sets policies, procedures and regulations related to risk management in the Bank in order to define and analyze these risks, then put the right control and supervision practice in place to minimize and review them. The Bank does this consistently to meet the challenges presented by market and product changes, and adopt the best banking practices. The Credit & Risk Management Department will continuously strive to manage the risks according to the policies adopted by the Board and define and assess the financial risks in collaboration with all the Bank's departments. This practice has been key to the Bank's ability to manage capital efficiently and provide strong shareholder returns.

13. The Corporate Governance Act

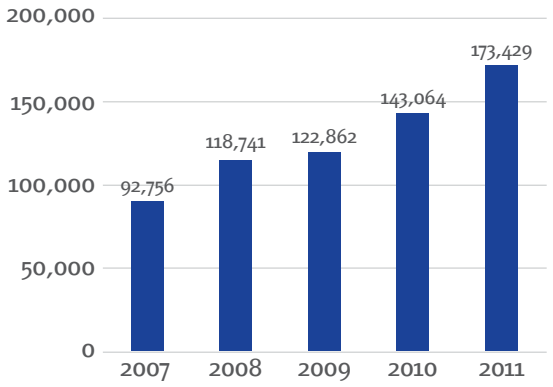
The Bank works under the terms, by-laws and guidelines of the Corporate Governance Act, which is issued by the Capital Market Authority. The Bank's Board has applied the Act's obligatory by-laws. In 2011, the Bank prepared its own Governance Act with respect to the requirements of the Governance Act issued by the Capital Market Authority. It is also preparing an independent policy related to conflict of interests and expects to adopt it before the end of the second quarter of the year 2012, under CMA decision no. 1-33-2011.

The Bank's management has applied most of the guidelines and by-laws in addition to SAMA requirements related to remunerations and compensations, as well as what is mentioned in the Saudi Corporate System. Through its policies and internal procedures, the Bank guarantees its commitment to disclose the vital information to stakeholders such as customers, shareholders, suppliers, employees and borrowers. In parallel, it has a policy of banking information and data disclosure in accordance with SAMA regulations, and it commits to abide by CMA disclosure requirements. It is worth mentioning that the Bank has a policy for Social Responsibility that is one of the main pillars of its current activities. It is an independent department, the "Social Service Department", is following up on the application of this policy within the Bank. The Department reports to the CEO and focuses on enhancing the Bank's social role.

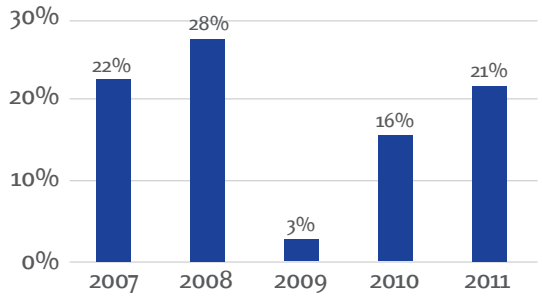
The Bank did not apply some of the by-laws and guidelines mentioned in the Act during 2011; however, it is preparing to do so. They are as follows:

1- Prepare a written policy that includes clear criteria for Board Membership and implement it. Also set written procedures in order to share the Bank's financial and legal aspects and activities with new members, as well as training them, if needed, on new legislative, regulatory, economic and other developments that contribute to their performance as members.

2- Adopt a unified policy related to authorizing privileges to the Board, which enables the definition of the Executive Department privileges, the decision making procedures, and authorization period, all the while considering that the Bank currently has several policies associated with the privileges given by the Board to the Executive Department Team. They are related to the application of HR, and risks and complaints strategies in a way that protects both the interests of the customers and that of the Bank.



Customer deposits in SR millions



Customer deposits growth

3- Develop the policy of defining mechanisms of compensation to those who have interests with the Bank in case their rights, approved by laws and regulations and protected by contracts, were violated. The policy also aims to clarify mechanisms of resolving complaints or disputes that might happen between the Bank and those with the interests.
4- Regarding the Accumulative Voting requirements, the Bank's main system decides on the right of normal vote according to the Saudi Corporate System. This is why it has yet to apply these requirements; it needs the exceptional General Assembly's approval because it is considered to be a change to the main system itself.
5- In addition, the main system does not mention the right for shareholders to get a portion of the Bank's corporate assets in case of liquidation, since everything related to their rights is governed by the special regulations related to corporations and their liquidity.
6- The Bank promises that consideration will be given to the obligation of all persons with legal capacity, and they will have the right to designate others to represent them and act on their behalf in the Board, and refuse voting for the selection of other members. These requirements were included in the Governance Act as a commitment to their fulfillment.
7- Finally, all the General Assembly items of the year 2011 contained enough information to enable shareholders to make their decisions, except for the item regarding agreement on the election of the new round of Board Members. This item did not include the candidates' profiles because most of the members were re-elected after getting SAMA approval, apart from only one new member. The Bank commits to providing the profile of any new candidate and presenting it to the General Assembly in the future.

14. Auditors

During the Constituent General Assembly of shareholders, dated 07/03/2011, Ernest & Young and Price Waterhouse Coopers have been re-designated as auditors of the Bank's accounts for the fiscal year 2011. The next Constituent General Assembly will -Allah willing- re-designate the current auditors or choose other ones for the fiscal year of 2012, based on a recommendation from the Audit Committee.

15. Conclusion

The Board of Directors is pleased to express their pride in the positive results achieved by the Bank in 2011. On this occasion, the Board wants to convey its appreciation to the Custodian of the Two Holy Mosques, King Abdullah bin Abdulaziz Al Saud, as well as the Crown Prince, Deputy Prime Minister and Minister of Interior, HRH Prince Naif bin Abdulaziz Al Saud, and our prudent Government.

The Board would also like to express its sincere appreciation to the Ministry of Finance, Ministry of Commerce & Industry, Saudi Arabian Monetary Agency (SAMA) and the Capital Market Authority (CMA) for their consistent cooperation and support in developing the banking sector, which manifests itself in the reinforcement of the national economy.

The Board Members present their gratitude to their eminence the Chairman, and the members of the Bank's Shariah Board for their efforts and contributions in the forms of advice, patience and explanations on all issues presented to them with regards to the banking and investment activities and services offered to the Bank's customers. The Board prays that Almighty Allah would most excellently reward them for their efforts.

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

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

Board of Directors

Passion to serve

"Al Mada Al Taweel Trading Company would like to officially thank the Customer Service Department for its employees' **dedication and hard work**"

Our customer A. Al Anzy

SUMMARY OF ACTIVITIES

Summary of activities

Shariah Group

Since its early inception, the Bank established an independent Shariah Board, formed and ratified by the Constituent General Assembly with the objective of ensuring that all Bank activities are subject to the approval of the Shariah Board. The Juristic Control Department is responsible for exercising the necessary controls and reports directly to the Shariah Board. During 2011, 43 meetings were held at which 30 decisions were agreed upon with 231 guidance notes issued.

The Secretariat Department is in charge of preparing subjects of discussion to be presented to the Shariah Board and is responsible for overall meeting administration. Over 280 research papers were produced in 2011, and the Department developed tools for juristic research using accounting applications software. In addition, work was conducted to find appropriate legal alternatives and innovative solutions for new products.

The Juristic Control Department is responsible for supervising the activities of the Bank in terms of verifying the implementation of the Shariah Board's decisions. In 2011, over 300 visits were made to branches, transfer centers, and trading rooms and training sessions were conducted for 340 new employees with 15 courses held.

The Department continues to work with Human Resources to develop distant learning projects addressing Islamic Banking Principles.

Retail Banking Group

The Retail Banking Group offers a wide spectrum of financing products and banking services to individual customers, including Current Accounts, Personal Finance, Home Finance and Car Finance products.

In 2011, the consumer assets business introduced the Personal Re-finance product. The product allows existing customers to re-finance their existing finance with payment flexibility at competitive market rates. The Retail Finance book continued to gain market share year on year, and strong fee performance driven by volumes and cross selling activities helped keep the quality of the loan book at acceptable levels.

The Retail business also witnessed strong growth in current account deposits, which helped maintain financing cost of funds at a reasonable rate.

Throughout 2011, the number of Affluent and Private Banking clients continued to rise, increasing Current Accounts by more than 30%. Enhancing the quality of services, and the use of technology and Management of Information Systems (MIS) was a major factor in our ability to satisfy the needs of the growing base of Private and Affluent customers.

The branch network expansion program progressed with 8 new branches opened, and 21 existing branches renovated and developed.

Tahweel Al Rajhi offers remittance and currency exchange services to a broad customer base. These services are available in over 150 remittance centers in KSA, with transfers available to over 50 destination countries. During 2011, 12 new dedicated centers were opened.

The Al Mubasher Retail Internet Banking service continued to grow with around 1 million active customers performing over 30 million transactions online. Al Rajhi SMS Banking service has shown an increase of 46% in memberships compared to 2010. The Bank also launched local applications for a popular smart phone and tablet computer.

Being the largest ATM provider in the Kingdom, the network has increased by more than 350 new ATMs installed in 2011. Al Rajhi Bank remains the biggest merchant acquirer in the Kingdom with a POS network exceeding 25,000 POS terminals.

Corporate Banking Group

The Corporate Banking Group (CBG) is responsible for delivering business solutions to corporate customers and financial institutions. 2011 focused on offering customers a diversified portfolio of Shariah compliant financial solutions with the development of innovative products and entry into new transaction areas. The corporate customer base continued to grow along with the acquisition of 234 new borrowing clients. This was achieved in parallel to a strong commitment towards customer service, and with the introduction of new security measures to safeguard the interests of customers.

In addition, prudent risk management approaches were adopted under the guidance of internal and external subject matter experts. This was done in order to ensure a diversified but balanced portfolio, improved credit quality, regulatory compliance, regular monitoring and strong controls to meet international standards and best practices.

The Group's product capabilities continue to develop, which resulted in the continued acquisition of new clients and an increase in the number of Cash Management and Trade Finance transactions.

In the area of Trade Finance, existing product documentations and processes were simplified to facilitate use. New Trade Finance products (Import Finance for Documentary Collections, Import Finance for Documentary Letters of Credit, Pre-shipment and Post-shipment Export Finance) were added to complete the overall Trade Finance supply chain cycle.

The number of Cash Management eCorporate customers successfully increased to 10,000 and total value of transactions via eCorporate reached SR 4 billion.

Improvements in the Group's electronic banking platforms have seen both client acquisition and number of transactions increase, with eTrade now responsible for more than 40% of transactions online.

The Financial Institutions (FI) Department developed a solid asset book in 2011. In addition, it participated in Islamic syndications with International FI for the first time.

In 2012, the Corporate Banking Group plans to continue developing innovative and customer driven Shariah compliant solutions for corporate and financial institution partners.

Treasury Group

The Treasury Group manages the liquidity requirements of the Bank by raising market funding where required, and through the prudent investment of the Bank's surplus cash. The Group develops and executes strategies to maximize yield on investments while preserving the Bank's capital and meeting all regulatory liquidity standards.

The key challenge in 2011 was the deployment of a significant volume of surplus cash, while navigating the increased credit risks in some developed western economies.

The Foreign Exchange Desk of the Treasury Department sources currencies for sale to both Retail and Corporate customers. The Foreign Exchange Team focused on maintaining the Bank's leading market position in Retail remittances through a combination of price leadership and dedicated service from the Tahweel branch operations.

The Treasury Cash Management Team continued to support the remittance and trade finance businesses, in addition to the Bank's own funding requirements. This was achieved by efficiently managing a growing network of correspondent bank accounts in over 40 different countries.

The Treasury Sales Team continued expanding its direct relationships with Corporate customers while building stronger links with the Corporate Banking network of Relationship Managers. The Team's aim is to provide reliable and valued customer service even as it extracts the best possible outcome for the Bank from each relationship.

Al Rajhi Capital

Al Rajhi Capital (ARC), the investment arm of Al Rajhi Bank, offers Brokerage, Asset Management and Investment Banking advisory services.

The Brokerage Division increased its overall market share by over 6%, maintaining its position as number 1 in 2011. The enhanced online platform has contributed to the steady improvement of the Al Rajhi Capital Internet market share (according to Tadawul figures). The platform is currently ranked at number 3 compared to number 5 in 2010.

During 2011, Brokerage continued to develop a number of investment centers in response to greater client demand for trading through e-channels; it also further enhanced its system capabilities to facilitate the trading of new products like Sukuk.

Al Rajhi Capital's Asset Management business holds a dominant position in the Kingdom of Saudi Arabia's asset management industry. It is one of the fastest growing asset management businesses, increasing its mutual funds Assets under Management (AuM) by 16%, while simultaneously gaining significant market share. ARC is now the 4th largest player in terms of mutual fund AuM, and it offers products and investment solutions across various risk-return levels.

Amid the challenging global economic environment and the resulting need for low volatility products, ARC successfully launched the Al Rajhi Multi Asset Conservative Fund in response to the growing demand of investors for relatively stable low risk products.

The performances of all in-house managed funds have been positive and generated an alpha index, outperforming the relevant benchmarks and consequently winning a number of awards in the fund industry.

The Investment Banking Division arranges funding for clients across the entire debt and equity spectrum, and provides financial advisory services for M&A activities. The successful closing of the Jabal Omar Development Company (JODC) rights issue of SR 2.58 billion was a key highlight of the year.

International Business Development Group

International expansion is an important milestone in the Bank's effort to diversify its operations geographically. It reflects the Bank's strategy and vision to capitalize on opportunities and gaps available overseas. To this end, the Bank is proud to have established international presence in Malaysia, Kuwait and Jordan.

Malaysia

Despite the challenging local banking environment, Al Rajhi Bank Malaysia reached its 3rd consecutive year of pre-tax profitability in 2011. With a network of 23 branches nationwide, Al Rajhi Bank Malaysia has acquired approximately 200,000 customers to date, and established itself as a pioneer of quality Islamic banking services. In fact, the efforts of the Malaysian team have been recognized with several external awards received, including: the 2011 Aon Hewitt Award for Top 10 Employers in Malaysia & Asia Pacific, and the 2011 Financial Insights Innovation Awards (FIIA) for the most innovative product (Sukuk Alim product).

Kuwait

Al Rajhi Bank Kuwait is the first Shariah compliant foreign bank to obtain a license to operate in Kuwait. Its main purpose is to serve Saudi companies operating in Kuwait, and Kuwaiti companies operating in Saudi Arabia. The operations include full-fledged Retail and Corporate services, with particular attention paid to exceptional customer service to the Affluent segment. Despite the tough competition, Al Rajhi Bank Kuwait has placed itself on strong footing, accepting accolades and associations from local and foreign financial institutions alike.

Jordan

Jordan is the most recent addition to the Bank's international presence with commercial operations commencing in early 2011. The emphasis has been on delivering a strong suite of product offerings, backed by superior service in the Jordanian banking sector. Al Rajhi Bank Jordan provides Retail and Corporate Banking services to over 5,000 customers via two branches, both located in Amman, and plans for a third branch are underway.

The Bank's successful venture into foreign markets is evidence of the strength of the Al Rajhi brand name. The Bank has always strived to provide innovative products and services delivered with integrity and honesty, and its Malaysian, Kuwaiti and Jordanian customers have reciprocated this gesture.

Building on its international expansion experience, the International Business Group is committed to ensuring that Al Rajhi Bank continues to reach out to even more customers, entities, as well as markets, in order to help it become a leading Shariah compliant bank.

Financial Group

The Financial Group governs all financial policies and sets the framework for compliance with International Financial Reporting Standards. The Group also provides the directives and guidelines issued by the regulators across all Al Rajhi Bank companies. In addition, it ensures governance and adoption, and oversees all Shariah policies, banking conventions and internal guidelines.

Major projects include a technology driven project to further enhance and modernize the capabilities of the Bank's current financial systems and to revamp the support infrastructure. This project is helping to bring world-leading innovative information systems that will facilitate the retrieval of information, absolute compliance, faster reporting, deeper insight and analysis.

To complement the Bank's strategic drive and long-term systems' implementation, the Group has shaped a 'transformation' program to create a proactive operating model that will ensure that our financial capabilities are amongst the best in the world.

Credit & Risk Management Group

The Bank's risk management strategy is based on a clear understanding of various risks, disciplined risk assessment and measurement procedures, and continuous monitoring and reporting. The Risk Management Committee, which reports to the Board of Directors, is responsible for setting up overall risk management frameworks, inclusive of policies and procedures, for the governance of the various risks originating during the course of various business activities.

The Credit & Risk Management Group has launched several major initiatives to ensure adoption of advanced approaches under the Basel II framework, and also to align them with the best risk management industry practices. The Bank has initiated a major project for compliance with the advanced approaches for credit risk measurement under the Basel II accord. The project includes validation, re-modification and recalibration of Corporate rating models and Retail scorecards.

The prime sources of market risk for the Bank are foreign exchange, liquidity and funding risks. The Market & Liquidity Risk Unit (MLRU) is responsible for ensuring the effective management of market and liquidity risk.

The primary sources for Operational Risks are people, process, system and external factors. The Operational Risk Unit is responsible for setting up the overall operational risk framework and developing various policies, procedures and tools for the effective management of operational risks across the Bank.

The Bank's capital management framework includes a comprehensive Internal Capital Adequacy Assessment Process (ICAAP), which is conducted annually to determine the adequate level of capitalization for the Bank given its current and projected risk profile.

Human Resources

The Human Resources Group is responsible for the management of human capital at Al Rajhi Bank, supporting over 7,500 employees. There is a healthy understanding of the role that our employees play in the Bank's overall success. Guided by Shariah principles, the Group's objective is to provide all employees with the opportunity to develop, grow and succeed as we create a

promising future for our employees and the Bank. In addition, the Group has a strong commitment to providing the best support to our employees through the automation of HR services.

As a leading iconic Saudi organization, the Bank is fully committed to a solid Saudization program as evidenced by a Saudization rate of 87% in 2011. This dedication was recognized and rewarded with the 2nd place Prince Naif Prize for Saudization. The Bank has one of the lowest overall employee turnover rates relative to other Saudi Banks. Our participation in local and international career exhibitions, as well as the launch of the i-Recruitment system via our main website, has enabled the Bank's recruitment of 1,270 new employees throughout 2011 in response to growth and expansion needs.

A major Career Development Project is in the pipelines and it will result in the introduction of career ladders and related training plans for Head Office employees during 2012. The launch of the interactive eLeaning system has facilitated the training of both mandatory and non-mandatory courses, enabling savings in both cost and time away from work.

International operations were supported by the implementation of the Performance Appraisal & Career Enhancement (PACE) system to help them execute a Balanced Score Card for 2012. The Bank continues to invest in the automation of HR services and processes with the aim of creating effortless data and process integrity.

Shared Services

The Shared Services Group is responsible for the following departments in the Bank: Information Technology, Call Center Management, Property Management & Security, Banking Operations and Cash Centers, Procurement, and the Bank's overall Disaster Recovery and Business Continuity programs.

The Information Technology (IT) Department continued to roll out the IT Infrastructure Library (ITIL) framework to support our IT operations. These efforts led to significant improvements in all our available systems while at the same time supporting record levels of transactions across all our customer channels. Performance improvements have been made throughout the year with record levels of transactions being posted to our customer accounts across all our systems, as well as supporting the business in both Kuwait and Jordan.

The Call Centre relentlessly supported the Bank's business and handled over 90 million calls while maintaining service levels well above industry norms.

The detailed design of a new production data and operations center to be built over the next 2 years was developed. This new data center is being prepared to meet the Bank's future needs of the next 15 to 20 years. The Municipality has approved the plans and the Bank is beginning the process of contracting for the work in 2012. In addition the team continued the program of building and renovating our branches and remittance centers.

The Banking Operations Team operates 17 cash centers, supporting the collection and disbursement of cash across the Kingdom. In 2011, we saw record levels of ATM cash withdrawals, peaking at SR 24 billion in April. In addition, we continue to support an ever-increasing level of new accounts being opened.

The Disaster Recovery & Business Continuity Department ran critical functions at our Disaster Recovery site in the event our Head Office location suffers a disaster. Internal communication was rolled out across the Bank, including training sessions with senior management.

Compliance Department

Our approach to promote compliance across the Bank has two dimensions; preventative and corrective. On the preventative dimension, the Group has launched several initiatives to promote the compliance culture within the Bank through updating a comprehensive electronic archive of all SAMA Regulations and Circulars, and through sending weekly awareness messages, in

addition to providing training sessions on compliance and anti-money laundering (by managers from Compliance and Anti-money Laundering Departments) for more than 700 new employees during their first week at the Bank.

In addition, a Bank-wide compliance program was launched using an automated interactive system to obtain and verify evidences of compliance. The program included regulations issued by many regulators such as SAMA, the Capital Market Authority, the Ministry of Labor and the Ministry of Commerce and Industry.

On the corrective dimension, whenever a violation was received from SAMA, workshops were organized in collaboration with the relevant departments to analyze the violation, provide recommendations, follow-up and execute corrective plans with progress updates provided to senior management.

Additional responsibilities included promoting the compliance culture outside the Bank by effectively participating in SAMA affiliated committees by heading the Anti-money Laundering Committee.

Anti-money Laundering Department

The Anti-money Laundering (AML) Department monitors the transactions of customers in order to prevent any illegal or suspicious banking activities with the aim of maintaining the strength and integrity of the Saudi economy and protecting the customers assets. It keeps abreast of all international developments related to AML in order to reflect that in its day to day operations.

The Department has also reviewed and updated its systems to help detect money laundering and terrorist financing activities.

A new employee guide was developed to clarify to all branches employees how they could deal with suspicious transactions and activities. The Department conducted a "self-assessment" test in all the branches and departments to ensure all the agreed upon systems and policies were complied with.

Since the Bank deals with different customer segments having varying associated risk levels, it developed an internal policy to apply strict due diligence procedures with politically exposed persons.

Marketing & Public Relations

The Marketing & Public Relations Department is responsible for supporting the Bank's overall business strategy and helping to build sustainable competitive advantage.

Over 20 research projects were implemented in the areas of brand health tracking, usage and attitude studies, and product development. The use of online research, which delivered cost effective and real findings in a timely manner, was another feature of the year 2011. Ongoing market intelligence allowed the Bank to track competitive offerings, both locally and internationally. In addition, the use of data mining was further developed to implement direct marketing campaigns for cross and up selling purposes.

Over 10 campaigns were launched, including: the new Personal Re-finance product; card usage campaigns that rewarded over 2,000 customers for using their Al Rajhi cards abroad, as well as 3 customers who won an apartment each. Different tools were developed to support our Home Finance products, including an educational guide, online calculators and a property search tool showcasing pre-approved properties online. Digital and social media were used to drive customer engagement, and several online initiatives were launched including: "Tell us your need"; "Ladies Painting Competition" and the "eGreeting cards" micro-site.

Internally, a values-based campaign was embarked upon in order to remind employees of our company values. The campaign made use of actual customer testimonials and stories to highlight how the implementation of our values has resulted in direct customer appreciation.
Externally, the international expansion efforts in Jordan and Kuwait were supported with a focus on maintaining brand

consistency across all touch points. This included the launch of the Bank's new web portal across KSA, Jordan and Kuwait. In terms of segmentation, the Ladies segment represents a growing opportunity and ongoing engagement, including quarterly newsletters showcasing the latest offers and areas of interest.

Corporate Social Responsibility

Corporate Social Responsibility (CSR) represents a framework within which we can shape the future responsibilities of the company for today and tomorrow. This approach has resulted in a series of initiatives targeted to both internal and external stakeholders. The development of a company-wide social care policy was a key deliverable and resulted in several external rewards and honors.

Several events in the area of social care awareness were organized: electricity conservation; water usage consideration campaigns; and paper recycling awareness. Sponsorship activities included supporting small enterprises for families and the establishment of special needs training programs.

Summer training schemes for high school students were also established along with cooperative training for educational institutions, which included training on career opportunities for women.

To support the positioning of the brand, a campaign was run throughout the month of Ramadan where relevant hadiths were communicated to our customers using print and digital media.

Solution orientated

"I appreciate the quick cooperation of Azizia Branch 331's employees who **solved my problem quickly**"

Our customer B. Al Saleh

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated financial statements

AL RAJHI BANKING & INVESTMENT CORPORATION
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2011 & 2010

(SR'000)

	Notes	2011	2010
ASSETS			
Cash & balances with Saudi Arabian Monetary Agency ("SAMA")	4	20,419,467	19,475,196
Due from banks & other financial institutions	5	14,599,787	11,117,539
Financing, net	6	140,395,619	120,064,667
Investments	7	38,802,492	28,246,882
Customer debit current accounts, net	8	375,941	312,062
Property & equipment, net	9	3,623,522	3,394,863
Other assets, net	10	2,596,584	2,229,701
Total assets		**220,813,412**	**184,840,910**
LIABILITIES & SHAREHOLDERS' EQUITY			
LIABILITIES			
Due to banks & other financial institutions	11	7,020,781	5,414,181
Customer deposits	12	173,429,465	143,064,037
Other liabilities	13	7,542,109	6,044,903
Total liabilities		**187,992,355**	**154,523,121**
SHAREHOLDERS' EQUITY			
Share capital	14	15,000,000	15,000,000
Statutory reserve	15	13,956,451	12,111,884
Retained earnings		114,606	205,905
Proposed gross dividends & zakat	22	3,750,000	3,000,000
Total shareholders' equity		**32,821,057**	**30,317,789**
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY		**220,813,412**	**184,840,910**

The accompanying Notes from 1 to 37 form an integral part of these consolidated financial statements.

AL RAJHI BANKING & INVESTMENT CORPORATION
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2011 & 2010

(SR'000)

	Notes	2011	2010
INCOME			
Gross financing & investments income		9,324,397	9,352,765
Income paid to customers on time investments		(254,454)	(230,348)
Net financing income	17	**9,069,943**	**9,122,417**
Fee from banking services, net	18	2,298,394	1,634,384
Exchange income, net		798,835	636,672
Other operating income	19	334,947	267,659
Total operating income		**12,502,119**	**11,661,132**
EXPENSES			
Salaries & employee related benefits	20	1,960,856	1,731,529
Rent & premises related expenses		174,007	154,686
Impairment charge for financing & other	6 - 2	1,645,142	1,908,818
Other general & administrative expenses		932,947	742,941
Depreciation & amortization		407,815	349,239
Board of Directors' remuneration	28	3,084	3,090
Total operating expenses		**5,123,851**	**4,890,303**
Net income		**7,378,268**	**6,770,829**
Comprehensive income		**-**	**-**
Net comprehensive income		**7,378,268**	**6,770,829**
Weighted average number of shares outstanding	14 & 21	1,500 million	1,500 million
EARNINGS PER SHARE (SR)	21	4.92	4.51

The accompanying Notes from 1 to 37 form an integral part of these consolidated financial statements.

AL RAJHI BANKING & INVESTMENT CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2011 & 2010

(SR'000)

	Notes	Share capital	Statutory reserve	General reserve	Retained earnings	Proposed gross dividends	Total
2011							
Balance at January 1, 2011		**15,000,000**	**12,111,884**	-	**205,905**	**3,000,000**	**30,317,789**
Dividends paid for prior year		-	-	-	-	(2,250,000)	(2,250,000)
Transfer to general reserve	15	-	-	-	-	-	-
Net comprehensive income		-	-	-	7,378,268	-	7,378,268
Transfer to statutory reserve		-	1,844,567	-	(1,844,567)	-	-
Interim dividends paid for the first half of the current year	22	-	-	-	(1,875,000)	-	(1,875,000)
Proposed gross dividends & zakat	15 & 22	-	-	-	(3,750,000)	3,750,000	-
Transfer to accrued zakat	22	-	-	-	-	(750,000)	(750,000)
Balance at December 31, 2010		**15,000,000**	**13,956,451**	-	**114,606**	**3,750,000**	**32,821,057**
2010							
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	22	-	-	-	(2,250,000)	-	(2,250,000)
Proposed gross dividends & zakat	15 & 22	-	-	-	(3,000,000)	3,000,000	-
Transfer to accrued zakat	22	-	-	(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**

The accompanying Notes from 1 to 37 form an integral part of these consolidated financial statements.

AL RAJHI BANKING & INVESTMENT CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 & 2010

(SR'000)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	**7,378,268**	**6,770,829**
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation & amortization	407,815	349,239
(Gain) loss on disposal of property & equipment	(6,444)	3,874
Impairment charge for financing & other	1,645,142	1,908,818
Net (increase) decrease in operating assets		
Statutory deposit with SAMA (Note 4)	(1,317,189)	(1,397,697)
Due from banks & other financial institutions	(4,711,939)	(1,006,783)
Financing	(21,925,999)	(9,825,826)
Investments held as FVIS	(659,262)	(400,618)
Customer debit current accounts	(83,879)	383,729
Other assets	(366,882)	228,145
Net increase (decrease) in operating liabilities		
Due to banks & other financial institutions	1,606,600	(687,892)
Customer deposits	30,365,428	20,202,197
Other liabilities	747,206	(7,673,953)
Net cash provided by operating activities	**13,078,865**	**8,854,062**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property & equipment	(643,196)	(572,948)
Investments recorded at amortized cost	(9,926,444)	(1,347,768)
Proceeds from disposal of property & equipment	13,166	7,129
Net cash used in investing activities	**(10,556,474)**	**(1,913,587)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(4,125,000)	(4,500,000)
Net cash used in financing activities	**(4,125,000)**	**(4,500,000)**
NET (DECREASE) INCREASE IN CASH & CASH EQUIVALENTS	**(1,602,609)**	**2,440,475**
Cash & cash equivalents at the beginning of year	**20,224,680**	**17,784,205**
CASH & CASH EQUIVALENTS AT END OF YEAR (Note 23)	**18,622,071**	**20,224,680**

The accompanying Notes from 1 to 37 form an integral part of these consolidated financial statements.

Meritocracy
Defining, differentiating and reinforcing excellence and talent in yourself and people.

In other words, you excel in your field and maintain excellence while increasing its value with achievements, performances and the provision of what your customers need. When you rise beyond their expectations, you proceed to your own success.

Meritocracy

"I've been a client of this Branch's Manager for 15 years, since he was a teller, and his **treatment of customers** has only gotten better"

Our customer A. Al Batirfy

NOTES OF CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

a) Incorporation & operation

Al Rajhi Banking & 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 496 branches, including the branches outside the Kingdom as at December 31, 2011 (2010: 487 branches) and 9,282 employees as at December 31, 2011 (2010: 8,527 employees). The Bank has established a number of wholly or substantially owned subsidiaries as set out below:

Subsidiaries	Shareholding %	
	2011	2010
Al Rajhi Company for Development Limited - Riyadh	100%	99%
Al Rajhi Corporation Limited - Malaysia	100%	100%
Al Rajhi Capital Company	99%	99%
Al Rajhi Bank - Kuwait	100%	100%
Al Rajhi Bank - Jordan	100%	-
Al Rajhi Takful Agency Company	99%	-

Al Rajhi Bank - Jordan and Al Rajhi Takful Agency Company were formed during the year ended December 31, 2011. All the above-mentioned subsidiaries were consolidated.

b) Shariah Authority

Since its inception and as a commitment to ensure its activities are always in compliance with Islamic Shariah legislation, the Bank established a Shariah Authority to which its activities are subject to approval and control. The Shariah Authority had reviewed several of the Bank's activities and issued the required decisions thereon.

2. BASIS OF PREPARATION

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 requirements of Banking Control Law and the provision of 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 & 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 & 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 are 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- Fair value of unquoted financial instruments

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. Models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical models use only observable market data, however areas such as credit risk (both own and counter party), volatilities and correlations require management to make estimates. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates, and default rate assumptions for asset-backed securities. Changes in assumptions about these factors could affect reported fair value of financial instruments.

3- 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, 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 preparation of these consolidated financial statements are consistent with those used in the consolidated financial statements for the year ended December 31, 2010, except for the adoption of the following amendments and revisions to existing standards mentioned below, which has had no financial impact on the consolidated financial statements of the Bank:

- IAS 24 Related Party Disclosures
- Amendments to IFRIC 14 IAS 19
- Improvements to IFRSs 2010 - IFRS 7 Financial Instruments Disclosures
- Improvements to IFRSs 2010 - IAS 1 Presentation of Financial Statements

a) Basis of the preparation of the consolidated financial statements

These consolidated financial statements include the accounts of Al Rajhi Bank and its subsidiaries (the "Group") 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 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. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. As of December 31, 2011 and 2010, 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 of the Kingdom of Saudi Arabia and is considered as a liability on the shareholders to be deducted from dividends. Zakat is computed based on equity or net income using the basis defined under the zakat regulations. 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.
Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.
Exchange differences arising on translation are taken directly to a separate component of equity (if material). On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement in 'Other operating expenses' or 'Other operating income'.
Realized and unrealized gains or losses on exchange are credited or charged to the consolidated statement of comprehensive income.
The monetary assets and liabilities of foreign subsidiaries are translated at the rates of exchange prevailing on the date of the consolidated statement of financial position. The statements of income of foreign subsidiaries are translated at the average exchange rates for the year.

e) Offsetting financial instruments

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 commissions are recognized when the service has been provided. Financing commitment fees that are likely to be drawn down are deferred and, together with the related direct cost, are recognized as an adjustment to the effective yield on the financing. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, 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 & investment

The Bank offers non-interest based products including Mutajara, installment sales, Murabaha and Istisna'a to its customers in compliance with Shariah rules.
The Bank classifies its principal financing and investment 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. These investments comprise of mutual funds, and other investments. Such investments are measured at fair value and any change in the fair value is charged to the consolidated statement of comprehensive income.

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.

h) Impairment of financial assets

An assessment is made at the date of each consolidated 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 & 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 & 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 & improvements	**Over the period of the lease**
Buildings	**33 years**
Leasehold building improvements	**3 years**
Equipment & 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 & cash equivalents

For the purposes of the consolidated statement of cash flows preparation, 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 comprehensive income

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

t) Investment management services

The Group provides investment management services to its customers, through its subsidiary which include management of cer-

tain mutual funds. Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and, accordingly, are not included in the Group's consolidated financial statements. The Group's share of these funds is included under FVIS investments. Fees earned are disclosed under consolidated statement of comprehensive income.

u) Bank's product definitions

The Bank provides its customers with banking products based on interest avoidance concept and in accordance with Shariah 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 & BALANCES WITH SAMA

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

(SR'000)

	2011	2010
Cash in hand	6,186,518	5,329,888
Statutory deposit	10,678,461	9,361,272
Current accounts	3,554,488	4,784,036
Total	**20,419,467**	**19,475,196**

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. The statutory deposit with SAMA is not available to finance the Bank's day-to-day operations and therefore are not part of cash and cash equivalents.

5. DUE FROM BANKS & OTHER FINANCIAL INSTITUTIONS

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

(SR'000)

	2011	2010
Current accounts	1,285,458	1,440,118
Mutajara	13,314,329	9,677,421
Total	**14,599,787**	**11,117,539**

The above due from banks and other financial institutions balance does not include any past due or impaired balances as of December 31, 2011 and 2010.

6. FINANCING, NET

6-1 Financing

a) Net financing as of December 31, comprise the following:

(SR'000)

	2011			2010
	Gross	Provision	Net	Net
Financing held at amortized cost				
Corporate Mutajara	31,441,547	(1,332,841)	30,108,706	29,614,767
Installment sale	99,662,914	(1,444,782)	98,218,132	76,959,797
Murabaha	12,289,833	(756,858)	11,532,975	12,326,844
Visa cards	556,400	(21,151)	535,249	686,362
Istisnaa	557	-	557	476,897
Total	**143,951,251**	**(3,555,632)**	**140,395,619**	**120,064,667**

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

(SR'000)

	2011						2010
Description	Corporate Mutajara	Installment Sale	Murabaha	Visa	Istisnaa	Total	Total
Inside the Kingdom	31,441,547	99,524,825	7,674,994	551,951	557	139,193,874	116,332,455
Outside the Kingdom	-	138,089	4,614,839	4,449	-	4,757,377	7,348,285
Total	**31,441,547**	**99,662,914**	**12,289,833**	**556,400**	**557**	**143,951,251**	**123,680,740**
Provision	(1,332,841)	(1,444,782)	(756,858)	(21,151)	-	(3,555,632)	(3,616,073)
Net	**30,108,706**	**98,218,132**	**11,532,975**	**535,249**	**557**	**140,395,619**	**120,064,667**

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

2011	(SR'000)			
Description	**Performing**	**Non-performing**	**Provision**	**Net**
Commercial	20,260,970	790,883	(710,377)	20,341,476
Industrial	10,525,218	-	-	10,525,218
Building & construction	14,336,863	967,550	(819,446)	14,484,967
Personal	84,968,642	637,521	(279,023)	85,327,140
Services	8,551,611	-	-	8,551,611
Agriculture & fishing	109,589	-	-	109,589
Other	2,802,404	-	-	2,802,404
Total	**141,555,297**	**2,395,954**	**(1,808,846)**	**142,142,405**
Additional portfolio provision			(1,746,786)	(1,746,786)
Balance			**(3,555,632)**	**140,395,619**

2010	(SR'000)			
Description	**Performing**	**Non-performing**	**Provision**	**Net**
Commercial	22,391,211	1,904,211	(802,984)	23,492,438
Industrial	7,974,369	-	-	7,974,369
Building & construction	12,151,974	41,438	(15,249)	12,178,163
Personal	65,060,527	716,521	(249,728)	65,527,320
Public (Government)	512,606	-	-	512,606
Services	9,809,206	-	-	9,809,206
Agriculture & fishing	1,674,734	-	-	1,674,734
Other	1,443,943	-	-	1,443,943
Total	**121,018,570**	**2,662,170**	**(1,067,961)**	**122,612,779**
Additional portfolio provision			(2,548,112)	(2,548,112)
Balance			**(3,616,073)**	**120,064,667**

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:

2011	(SR'000)		
	Retail	**Corporate**	**Total**
Corporate Mutajara	-	31,441,547	**31,441,547**
Installment sale	92,087,304	7,575,610	**99,662,914**
Murabaha	2,861,348	9,428,485	**12,289,833**
Visa	556,400	-	**556,400**
Istisnaa	-	557	**557**
Total	**95,505,052**	**48,446,199**	**143,951,251**
Less: Provision	(2,198,216)	(1,357,416)	**(3,555,632)**
Financing, net	**93,306,836**	**47,088,783**	**140,395,619**

2010	(SR'000)		
	Retail	**Corporate**	**Total**
Corporate Mutajara	-	31,157,077	**31,157,077**
Installment sale	71,260,471	7,028,572	**78,289,043**
Murabaha	3,054,799	10,015,048	**13,069,847**
Visa	687,876	-	**687,876**
Istisnaa	-	476,897	**476,897**
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**

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:

2011	(SR'000)					
	Neither past due nor impaired	Past due but not impaired	Impaired	Total	Provision	Net
Retail	93,815,890	446,047	1,243,115	**95,505,052**	**(2,198,216)**	**93,306,836**
Corporate	46,899,025	394,335	1,152,839	**48,446,199**	**(1,357,416)**	**47,088,783**
Total	**140,714,915**	**840,382**	**2,395,954**	**143,951,251**	**(3,555,632)**	**140,395,619**

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**

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

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

2011	(SR'000)		
	Retail	Corporate	Total
Standard	415,186	283,857	**699,043**
Special mention	30,861	110,478	**141,339**
Total	**446,047**	**394,335**	**840,382**

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**

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:

2011	(SR'000)		
	Retail	**Corporate**	**Total**
Age			
up to 30 days	243,983	244,117	**488,100**
31 - 60 days	171,203	39,740	**210,943**
61 - 90 days	30,861	110,478	**141,339**
Total	**446,047**	**394,335**	**840,382**
Fair value of collateral	-	**1,915,364**	**1,915,364**

2009	(SR'000)		
	Retail	**Corporate**	**Total**
Age			
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**

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:

2011	(SR'000)		
	Retail	**Corporate**	**Total**
Individually impaired financing	-	1,152,839	**1,152,839**
Fair value of collateral	-	1,302,217	**1,302,217**

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

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:

	2010	2009
Risk rating 1	-	-
Risk rating 2	-	-
Risk rating 3	10,437,056	9,283,000
Risk rating 4	44,980,424	36,062,000
Risk rating 5	57,459,210	47,563,000
Risk rating 6	20,850,663	20,066,000
Risk rating 7	6,987,562	7,255,434
Total	**140,714,915**	**120,229,434**

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 could 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:

2011	(SR'000)		
	Retail	**Corporate**	**Total**
Balance at the beginning of the year	2,049,188	1,566,885	**3,616,073**
Provided during the year *	970,045	645,002	**1,615,047**
Disposals (bad debts written off)	(821,017)	(854,471)	**(1,675,488)**
Balance at the end of the year	**2,198,216**	**1,357,416**	**3,555,632**

* The amount provided does not include SR 30,095 representing additions to investments provision.

2010	(SR'000)		
	Retail	**Corporate**	**Total**
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**

7. INVESTMENTS

Net investments comprise the following as of December 31:

(SR'000)		
	2011	**2010**
Investments held at amortized costs		
Murabaha with SAMA	35,524,923	25,598,479
Total investments held at amortized costs	**35,524,923**	**25,598,479**
Investments held as FVIS		
Sukuk	1,310,097	1,007,539
Equity investments	789,841	711,340
Mutual funds	482,975	400,537
Sundry	694,656	528,987
Total investments held as FVIS	**3,277,569**	**2,648,403**
Total investments	**38,802,492**	**28,246,882**

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 766 million as of December 31, 2011 (2010: SR 688 million).

Investments do not include balances that are past due or impaired as of December 31, 2011.

The following is an analysis of investments according to counter-parties:

(SR'000)

	2011	2010
Government & quasi-government	35,524,923	25,598,479
Companies	766,394	674,587
Banks & other financial institutions	23,447	36,753
Others	2,487,728	1,937,063
Total investments	**38,802,492**	**28,246,882**

8. CUSTOMER DEBIT CURRENT ACCOUNTS, NET

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

(SR'000)

	2011	2010
Customer debit current accounts (inside the Kingdom)	397,909	362,062
Less: provision	(21,968)	(50,000)
Customer debit current accounts, net	**375,941**	**312,062**

9. PROPERTY & EQUIPMENT, NET

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

(SR'000)

	Land	Buildings	Land & leasehold improvements	Equipment & furniture	Total 2011	Total 2010
COST						
At January 1	1,348,080	1,287,152	575,892	2,012,708	5,223,832	4,919,362
Additions	134,682	98,448	119,387	290,679	643,196	572,948
Disposals	(6,430)	(850)	-	(6,531)	(13,811)	(268,478)
At December 31	**1,476,332**	**1,384,750**	**695,279**	**2,296,856**	**5,853,217**	**5,223,832**
ACCUMULATED DEPRECIATION & AMORTIZATION						
At January 1	-	107,359	396,608	1,325,002	1,828,969	1,737,205
Charge for the year	-	35,957	119,426	252,432	407,815	349,239
Disposals	-	(850)	-	(6,239)	(7,089)	(257,475)
At December 31	**-**	**142,466**	**516,034**	**1,571,195**	**2,229,695**	**1,828,969**
NET BOOK VALUE						
At December 31, 2011	**1,476,332**	**1,242,284**	**179,245**	**725,661**	**3,623,522**	
At December 31, 2010	**1,348,080**	**1,179,793**	**179,284**	**687,706**		**3,394,863**

Buildings include works-in-progress amounting to SR 102 million as at December 31, 2011 (2010: SR 195 million).

10. OTHER ASSETS, NET

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

(SR'000)

	2011	2010
Cheques under collection	844,042	311,569
Advances to others	286,212	302,463
Other receivables	922,821	834,892
Prepaid expenses	209,694	167,344
Accrued income	201,193	118,911
Others	152,588	514,488
Total	**2,616,550**	**2,249,667**
Less: provision	(19,966)	(19,966)
Other assets, net	**2,596,584**	**2,229,701**

11. DUE TO BANKS & OTHER FINANCIAL INSTITUTIONS

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

(SR'000)

	2011	2010
Current accounts	4,565,842	3,273,606
Banks' time investments	2,454,939	2,140,575
Total	**7,020,781**	**5,414,181**

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

(SR'000)

	2011	2010
Inside the Kingdom	1,709,066	1,059,993
Outside the Kingdom	5,311,715	4,354,188
Total	**7,020,781**	**5,414,181**

12. CUSTOMER DEPOSITS

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

(SR'000)

	2011	2010
Saudi Riyals	168,647,170	139,069,069
Foreign currencies	4,782,295	3,994,968
Total	**173,429,465**	**143,064,037**

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

(SR'000)

	2011	2010
Demand deposits	164,817,558	130,902,994
Customer time investments	5,726,461	9,527,096
Other customer accounts	2,885,446	2,633,947
Total	**173,429,465**	**143,064,037**

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

13. OTHER LIABILITIES

Other liabilities comprise the following as of December 31:

(SR'000)		
	2011	**2010**
Accounts payable	4,435,985	3,417,895
Provision for employees' end of service benefits	533,594	477,301
Accrued expenses	415,949	268,193
Charities (see Note 30)	20,308	4,923
Other	2,136,273	1,876,591
Total	**7,542,109**	**6,044,903**

14. SHARE CAPITAL

The authorized, issued and fully paid share capital of the Bank as of December 31, 2011 and 2010 consists of 1,500 million shares of SR 10 each.

15. STATUTORY & 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 & CONTINGENCIES

a) Legal proceedings

As at December 31, 2011, 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, 2011, the Bank had capital commitments of SR 116.8 million (2010: SR 119.7 million) relating to contracts for computer software update and development and SR 103.4 million (2010: SR 46 million) relating to development and improvement of branches.

c) Credit related commitments & 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:

2011	(SR'000)				
	Less than 3 months	**From 3 to 12 months**	**From 1 to 5 years**	**Over 5 years**	**Total**
Letters of credit & acceptances	1,070,883	711,273	176,670	1,838,933	**3,797,759**
Letters of guarantee	31,964	785,075	3,579,411	1,483,519	**5,879,969**
Irrevocable commitments to extend credit	181,402	1,488,601	3,067,746	968,670	**5,706,419**
Total	**1,284,249**	**2,984,949**	**6,823,827**	**4,291,122**	**15,384,147**

2010	(SR'000)				
	Less than 3 months	**From 3 to 12 months**	**From 1 to 5 years**	**Over 5 years**	**Total**
Letters of credit & 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**

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

	(SR'000)	
	2011	**2010**
Corporate	9,282,221	13,624,861
Banks & other financial institutions	6,101,926	4,540,332
Total	**15,384,147**	**18,165,193**

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)		
	2011	**2010**
Less than 1 year	22,548	21,845
1 to 5 years	102,442	86,399
Over 5 years	40,740	35,459
Total	**165,730**	**143,703**

17. NET FINANCING & INVESTMENTS INCOME

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

(SR'000)		
	2011	**2010**
Financing		
Corporate Mutajara	1,317,524	1,619,716
Installment sale	6,942,975	6,714,292
Murabaha	660,758	691,929
Istisnaa	22,685	65,413
Investments & other		
Murabaha with SAMA	201,067	141,829
Murabaha with banks	136,412	100,945
Income from Sukuk	42,976	18,641
Gross financing & investment income	**9,324,397**	**9,352,765**
Income paid to customers on time investments	(254,454)	(230,348)
Net financing & investments income	**9,069,943**	**9,122,417**

18. FEE FROM BANKING SERVICES, NET

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

(SR'000)		
	2011	**2010**
Fee income		
Fees from payment service systems	469,312	387,903
Fees from share trading services	339,169	223,052
Fees from remittance business	311,470	273,646
Fees from credit cards	154,492	117,354
Mudaraba fee income	57,593	50,073
Other	1,611,807	1,076,404
Total fee income	**2,943,843**	**2,128,432**
Fee expenses		
Fees for payment service systems	(557,134)	(429,432)
Fees for share trading services	(88,315)	(64,616)
Total fee expense	**(645,449)**	**(494,048)**
Fee from banking services, net	**2,298,394**	**1,634,384**

19. OTHER OPERATING INCOME

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

(SR'000)		
	2011	**2010**
Recovery of written-off debts	169,462	155,231
Dividends income	33,288	22,100
Income from sale of other investments	27,168	12,364
Other income, net	105,029	77,964
Total	**334,947**	**267,659**

20. SALARIES & EMPLOYEES RELATED BENEFITS

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

2011	(SR'000)				
			Variable compensations		
	Number of employees	Fixed compensations	Cash	Shares	Total
Executives	28	36,881	11,339	-	**48,220**
Risk Department employees	253	64,393	1,791	-	**66,184**
Control Department employees	243	82,269	5,960	-	**88,229**
Other employees	8,758	1,341,785	189,337	-	**1,531,122**
External employees	979	111,102	30,515	-	**141,617**
Total	**10,261**	**1,636,430**	**238,942**	**-**	**1,875,372**
Accrued variable compensations in 2011	-	26,431	24,407	-	**50,838**
Other employees' bonuses	-	34,646	-	-	**34,646**
Gross total	**10,261**	**1,697,507**	**263,349**	**-**	**1,960,856**

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.

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

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

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 are related to the employee's rank. The variable compensation is related to the employees' performances 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 bonuses are paid to head office employees 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.

21. 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).

22. PAID & PROPOSED GROSS DIVIDENDS & ZAKAT

The Bank distributed dividends for the first half of 2011 amounting to SR 1,875,000 thousand (i.e. SR 1.25 per share). Also the Board proposed gross dividends for the second half of 2011 amounting to SR 3,750,000 thousand (2010: SR 3,000,000 thousand) of which SR 750,000 thousand (2010: SR 750,000 thousand) was deducted for zakat from the proposed gross dividends, resulting in a net dividend of SR 3.25 per share for 2011 (2010: SR 3 per share).

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

The Bank submitted the zakat assessment for the years from 2007 till 2010 and paid the zakat due accordingly. The DZIT did not yet issue the final zakat assessments for these years.

23. CASH & CASH EQUIVALENTS

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

(SR'000)		
	2011	**2010**
Cash	6,186,518	5,329,888
Due from banks (current accounts & Murabaha)	8,881,065	10,110,756
Balances with SAMA (current accounts)	3,554,488	4,784,036
Total	**18,622,071**	**20,224,680**

24. 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 business segments:

Retail segment	Includes individual customer deposits, credit facilities, customer debit current accounts (overdrafts), fees from banking services & remittance business.
Corporate segment	Incorporates deposits of VIP, corporate customer deposits, credit facilities, & debit current accounts (overdrafts).
Treasury segment	Incorporates treasury services, Murabaha with SAMA & international Mutajara portfolio.
Investment services & brokerage segments	Incorporates investments of individuals & corporate in mutual funds, local & international share trading services & 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 six subsidiaries as of December 31, 2011 (2010: four), as listed in Note 1-a, of which three operate outside the Kingdom of Saudi Arabia (2010: two).

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:

2011	(SR'000)				
	Retail segment	**Corporate segment**	**Treasury segment**	**Investment services & brokerage segment**	**Total**
Total assets	103,331,875	47,548,619	69,104,900	828,018	**220,813,412**
Capital expenditures	642,904	269	23	-	**643,196**
Total liabilities	135,608,235	45,570,953	4,927,886	1,885,281	**187,992,355**
Gross financing & investments income	6,692,759	2,100,240	507,423	23,975	**9,324,397**
Income paid to customers on time investments	(26,197)	(16,725)	(211,532)	-	**(254,454)**
Total operating income	8,808,241	2,181,239	1,095,958	416,681	**12,502,119**
Impairment charge for financing & other	(970,045)	(675,097)	-	-	**(1,645,142)**
Depreciation & amortization	(384,190)	(7,460)	(893)	(15,272)	**(407,815)**
Other operating expenses	(2,510,756)	(240,064)	(101,301)	(218,773)	**(3,070,894)**
Total operating expenses	(3,864,991)	(922,621)	(102,194)	(234,045)	**(5,123,851)**
Net income	**4,943,250**	**1,258,618**	**993,764**	**182,636**	**7,378,268**

2010	(SR'000)				
	Retail segment	**Corporate segment**	**Treasury segment**	**Investment services & brokerage segment**	**Total**
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 & investments income	6,525,109	2,461,220	343,994	22,442	**9,352,765**
Income paid to customers on time investments	(38,432)	(9,412)	(182,504)	-	**(230,348)**
Total operating income	7,881,379	2,380,340	1,117,325	282,088	**11,661,132**
Impairment charge for financing & other	(705,116)	(1,203,702)	-	-	**(1,908,818)**
Depreciation & 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**

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

2011	(SR'000)				
	Retail segment	**Corporate segment**	**Treasury segment**	**Investment services & brokerage segment**	**Total**
Consolidated balance sheet assets	96,583,128	45,599,820	51,990,891	-	**194,173,839**
Commitments & contingencies excluding irrevocable commitments to extend credit	6,098,578	3,579,150	-	-	**9,677,728**

2010	(SR'000)				
	Retail segment	**Corporate segment**	**Treasury segment**	**Investment services & brokerage segment**	**Total**
Consolidated balance sheet assets	72,274,068	47,174,521	39,732,833	559,728	**159,741,150**
Commitments & contingencies excluding irrevocable commitments to extend credit	2,792,759	7,889,348	315,217	-	**10,997,324**

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. The credit equivalent value of commitments and contingencies are included in credit exposure.

25. 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 & 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.

25-1 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 demand of customers. 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 counter-party level, the Bank considers the overall credit worthiness of the customer based on a proprietary risk methodology. This risk rating methodology utilizes a 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 counter-party 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 counter-party 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 counter-parties, holding collateral and limiting the size of the exposures according to the risk rating of the counter-party.

b. Risk limit control & 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 & Control Unit
- Remedial Unit
- Credit Policy Unit
- Retail Credit Unit

Setting approved credit limits makes the monitoring and management of credit risk associated with these financings. 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 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 & commercial properties
- Cash, shares, & 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 & 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 portfolios that are not significant individually.
- On the Corporate portfolio for financing where losses have been incurred but not yet identified, by using historical experience, judgement 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)

	2011	2010
On-balance sheet items		
Due from banks & other financial institutions	14,599,787	11,117,539
Financing, net		
Corporate	47,088,783	47,110,709
Retail	93,306,836	72,953,958
Customer debit current accounts, net	375,941	312,062
Other assets, net	2,596,584	2,229,701
Total on-balance sheet items	**157,967,931**	**133,723,969**
Off-balance sheet items		
Letters of credit & acceptances	3,797,759	4,633,730
Letters of guarantee	5,879,969	6,363,594
Irrevocable commitments to extend credit	5,706,419	7,167,869
Total off-balance sheet items	**15,384,147**	**18,165,193**
Maximum exposure to credit risk	**173,352,078**	**151,889,162**

The above table represents a worst-case scenario of credit risk exposure to the Bank at December 31, 2011 and 2010, 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.

25-2 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 deposits 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 as monitored by the Bank's Asset & Liabilities Committee (ALCO), includes:

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

Monitoring and reporting take the form of analyzing cash flows of items with both contractual and non-contractual maturities. The net cash flows are measured 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 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:

2011	(SR'000)					
	Less than 3 months	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**No fixed maturity**	**Total**
Assets						
Cash & balance with SAMA	9,741,006	-	-	-	10,678,461	**20,419,467**
Due from banks & other financial institutions	11,035,951	3,563,836	-	-	-	**14,599,787**
Financing, net	17,889,745	28,894,769	76,232,987	17,378,118	-	**140,395,619**
Investments	17,845,267	20,894,740	-	62,485	-	**38,802,492**
Customer debit current accounts, net	162,575	-	-	213,366	-	**375,941**
Property & equipment, net	-	-	-	-	3,623,522	**3,623,522**
Other assets, net	2,261,517	-	335,067	-	-	**2,596,584**
Total	**58,936,061**	**53,353,345**	**76,568,054**	**17,653,969**	**14,301,983**	**220,813,412**
Liabilities & Shareholders' equity						
Due to banks & other financial institutions	6,936,470	84,311	-	-	-	**7,020,781**
Customer deposits	173,429,465	-	-	-	-	**173,429,465**
Other liabilities	-	-	-	-	7,542,109	**7,542,109**
Shareholders' equity	-	-	-	-	32,821,057	**32,821,057**
Total	**180,365,935**	**84,311**	**-**	**-**	**40,363,166**	**220,813,412**

2010	(SR'000)					
	Less than 3 months	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**No fixed maturity**	**Total**
Assets						
Cash & balances with SAMA	10,113,924	-	-	-	9,361,272	**19,475,196**
Due from banks & 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	17,738,355	10,508,527	-	-	-	**28,246,882**
Customer debit current accounts, net	100,075	149,613	-	62,374	-	**312,062**
Property & equipment, net	-	-	-	-	3,394,863	**3,394,863**
Other assets, net	981,890	972,722	275,089	-	-	**2,229,701**
Total	**58,352,096**	**33,860,305**	**63,816,404**	**16,055,970**	**12,756,135**	**184,840,910**
Liabilities & shareholders' equity						
Due to banks & 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**

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 & other financial institutions	6,945,140	84,912	-	-	-	**7,030,052**
Customer deposits	173,646,252	-	-	-	-	**173,646,252**
Other liabilities	-	-	-	-	7,542,109	**7,542,109**
Total	**180,591,392**	**84,912**	**-**	**-**	**7,542,109**	**188,218,413**

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 & 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**

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

25-3 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 Shariah 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, 2011 and 2010, and the concentration of currency risks. Included in the table are the Bank's financial instruments at carrying amounts, categorized by currency:

2011										(SR'000)
	UAE DIRHAM	BANGLADESH TAKA	JAPANESE YEN	EURO	LEBANESE LIRA	MALAYSIAN RINGGIT	US DOLLAR	POUND STERLING	OTHER	TOTAL
ASSETS										
Cash & cash equivalent	16,937	101	67	44,434	179	54,654	187,324	17,341	91,550	**412,587**
Due from banks & other financial institutions	161,417	36,205	5,761	156,715	1,041	1,547,189	-	4,922	1,136,211	**3,049,461**
Financing, net	-	-	-	-	-	5,388,922	7,644,754	-	138,089	**13,171,765**
Investments	-	-	-	424	-	1,180,353	332,901	-	509,273	**2,022,951**
Customer debit current account, net	-	-	-	1,089	-	4,450	-	-	-	**5,539**
Other assets, net	-	-	-	-	-	185,015	69,722	-	53,250	**307,987**
Total assets	**178,354**	**36,306**	**5,828**	**202,662**	**1,220**	**8,360,583**	**8,234,701**	**22,263**	**1,928,373**	**18,970,290**
LIABILITIES										
Due to banks & other financial institutions	7,298	1,415	-	7,246	-	3,778,559	266,783	5,300	130,671	**4,197,272**
Customer deposits	10,224	-	3,578	174,132	11,569	2,417,704	1,686,263	9,491	469,334	**4,782,295**
Other liabilities	5,503	60,533	1,067	11,749	1,241	97,745	-	7,031	102,008	**286,877**
Total liabilities	**23,025**	**61,948**	**4,645**	**193,127**	**12,810**	**6,294,008**	**1,953,046**	**21,822**	**702,013**	**9,266,444**
Net	**155,329**	**(25,642)**	**1,183**	**9,535**	**(11,590)**	**2,066,575**	**6,281,655**	**441**	**1,226,360**	**9,703,846**

2010										(SR'000)
	UAE DIRHAM	BANGLADESH TAKA	JAPANESE YEN	EURO	LEBANESE LIRA	MALAYSIAN RINGGIT	US DOLLAR	POUND STERLING	OTHER	TOTAL
ASSETS										
Cash & cash equivalent	17,779	-	26	22,745	192	49,319	101,498	13,546	65,565	**270,670**
Due from banks & 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 & 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**

c. Price risk

The Bank has certain investments that are carried at fair value through the income statement and include investments in quoted mutual funds and others. 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 & 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.

26. 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:

2011	(SR'000)							
	Kingdom of Saudi Arabia	Other GCC & Middle East	Europe	North America	Latin America	South East Asia	Other Countries	Total
ASSETS								
Cash & balances with SAMA	20,360,676	4,021	652	-	-	54,118	-	**20,419,467**
Due from banks & other financial institutions	8,414,846	4,139,008	187,454	27,687	-	1,613,482	217,310	**14,599,787**
Financing, net	135,798,250	138,089	-	-	-	4,459,280	-	**140,395,619**
Investments	36,867,520	463,233	39,224	228,096	-	1,204,419	-	**38,802,492**
Total	**201,441,292**	**4,744,351**	**227,330**	**255,783**	**-**	**7,331,299**	**217,310**	**214,217,365**
LIABILITIES								
Due to banks & other financial institutions	1,709,066	1,020,287	17,780	435,081	-	3,792,056	46,511	**7,020,781**
Customer deposits	170,589,595	422,166	-	-	-	2,417,704	-	**173,429,465**
Total	**172,298,661**	**1,442,453**	**17,780**	**435,081**	**-**	**6,209,760**	**46,511**	**180,450,246**
Commitments & contingencies	**14,958,109**	**222,061**	**29,982**	**71,974**	**-**	**9,872**	**92,149**	**15,384,147**
CREDIT EXPOSURE (STATED AT CREDIT EQUIVALENT VALUE)	**9,251,690**	**222,061**	**29,982**	**71,974**	**-**	**9,872**	**92,149**	**9,677,728**

2010	(SR'000)							
	Kingdom of Saudi Arabia	Other GCC & Middle East	Europe	North America	Latin America	South East Asia	Other Countries	Total
ASSETS								
Cash & balances with SAMA	19,425,698	1,187	-	-	-	48,311	-	**19,475,196**
Due from banks & 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	26,798,019	693,037	24,345	163,768	-	567,713	-	**28,246,882**
Total	**162,669,043**	**6,870,276**	**805,723**	**302,034**	**937,500**	**6,940,031**	**379,677**	**178,904,284**
LIABILITIES								
Due to banks & 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 & 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**

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:

2011	(SR'000)		
	Non-performing	Provisions for financing losses	Net
Kingdom of Saudi Arabia	2,258,805	(1,699,701)	559,104
South East Asia	137,149	(109,145)	28,004
Total	**2,395,954**	**(1,808,846)**	**587,108**

2010	(SR'000)		
	Non-performing	Provisions for financing losses	Net
Kingdom of Saudi Arabia	2,416,464	(942,512)	1,473,952
South East Asia	245,706	(125,449)	120,257
Total	**2,662,170**	**(1,067,961)**	**1,594,209**

Refer to Note 6-c for performing financing.

27. FAIR VALUE OF FINANCIAL ASSETS & LIABILITIES

Determination of fair value & fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments:
Level 1: Quoted prices in active markets for the same instrument (i.e., without modification or repacking).
Level 2: Quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data.
Level 3: Valuation techniques for which any significant input is not based on observable market data.

Assets at fair values are as follows:

2011	(SR'000)			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at FVIS	1,225,850	-	2,051,719	**3,277,569**

2010	(SR'000)			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at FVIS	1,051,591	-	1,596,812	**2,648,403**

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 financial instruments within the financial position on-statement 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.

28. 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)

Related parties	Type of transaction	2011	2010
Members of the Board of Directors	Mutajara	2,250,598	2,087,694
	Contingent liabilities*	974,908	1,275,542
Companies & establishments guaranteed by Members of the Board of Directors	Mutajara	1,133,019	474,994
	Current accounts	-	34,657
	Contingent liabilities*	37,596	36,129
Mudaraba funds (Note 29)	Current accounts	185,845	15,919
	Mudaraba	8,166,509	10,058,135
	Investment in mutual funds	482,975	400,537
Major shareholders (above 5% equity share)	Mutajara	-	120,597
	Direct investment	-	114,338
	Current accounts	-	6,184
	Investment in mutual funds	13,731	14,103
	Other liabilities	15,666	13,523

* = off balance sheet items

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)

	2011	2010
Income from financing & other	120,703	121,382
Employees' salaries & benefits (air tickets)	10,543	10,395
Rent & premises related expenses	1,936	1,526
Board of Directors' remunerations	3,084	3,090

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)

	2011	2010
Short-term benefits	22,465	19,656
Provision for end of service benefits	1,256	1,324

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

29. MUDARABA FUNDS

Mudaraba funds as of December 31, comprise the following:

(SR'000)

	2011	2010
Customers' Mudaraba & investments	8,166,802	10,058,426
Current accounts, metals	5,642	5,678
Total	**8,172,444**	**10,064,104**

30. SPECIAL COMMISSIONS EXCLUDED FROM THE CONSOLIDATED STATEMENTS OF INCOME

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

(SR'000)

	2011	2010
Balance, beginning of year	4,923	78,206
Additions during the year	19,216	9,550
Payments during the year	(3,831)	(82,833)
Balance, end of year	**20,308**	**4,923**

31. 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 the 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 19,186,249 thousand at December 31, 2011 (2010 SR 17,079,111 thousand).

32. 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 the holding of the minimum level of regulatory capital and for the total regulatory capital to the risk-weighted asset to be maintained at 8%.

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, 2011 and 2010.

(SR'000)

	2011	2010
Credit risk weighted assets	146,884,726	127,166,653
Operational risk weighted assets	19,697,148	19,207,023
Market risk weighted assets	6,435,113	8,262,400
Total Pillar I - risk weighted assets	**173,016,987**	**154,636,076**
Tier I capital	25,443,337	23,546,960
Tier II capital	9,214,326	8,360,412
Total tier I & II capital	**34,657,663**	**31,907,372**
Capital adequacy ratio %		
Tier I ratio	14.71%	15.23%
Tier II ratio	20.03%	20.63%

33. COMPARATIVE FIGURES

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

34. EVENTS AFTER THE REPORTING DATE

The Bank's Board of Directors proposed, in its meeting dated January 17, 2012, a distribution of dividends to the shareholders for the second half of the current fiscal year in the amount of SR 3,000 million amounting to SR 2.00 per share net of zakat.
The Board's proposal is subject to the approval of the Extraordinary General Assembly in its next meeting.

35. ISSUED IFRS BUT NOT YET EFFECTIVE

The Bank has chosen not to adopt early the updates on standards mentioned below, which have been published and are mandatory for compliance for the Bank's fiscal years beginning January 1, 2012 and afterwards.

- Amendments on IAS (1) presentation of Financial Statements
- IFRS 9 - Financial Instruments
- IFRS 15 - Consolidated Financial Statements
- IRRS 13 - Fair Value Measurement

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.

36. APPROVAL OF THE BOARD OF DIRECTORS

The consolidated financial statements were approved by the Board of Directors on 23 Safar 1433H (corresponding to January 17, 2012).

37. 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 in the Bank's annual report, respectively, as required by the Saudi Arabian Monetary Agency. Such disclosures are not subject to audit by the external auditors of the Bank.

Integrity & transparency
Being open and honest while adhering to the highest standards of moral, corporate and ethical principles in every action.

In other words, you insist on doing the right thing in every situation, noting what your job entails and applying it courageously, honestly and fairly. It is a matter of taking responsibility for all your actions and decisions.

Integrity & Transparency

"I would like to thank Al Rajhi's employees for **being the most honest** I've ever dealt with. It was an honour"

Our customer M. Al Ansari

INDEPENDENT AUDITORS' REPORT

PRICEWATERHOUSECOOPERS

P.O. Box 8282
Riyadh 11482
Kingdom of Saudi Arabia

ERNST & YOUNG

P.O. Box 2732
Riyadh 11461
Kingdom of Saudi Arabia

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Al Rajhi Banking and Investment Corporation (the "Bank") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2011, 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 (36). We have not audited note (37), nor the information related to "Basel II-Pillar 3 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 ("SAMA"), International Financial Reporting Standards, the provisions of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's By-Laws. 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.

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 about whether these consolidated financial statements are free from material misstatement.

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

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appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

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

- present fairly, in all material respects, the financial position of the Group as at 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with Accounting Standards for Financial Institutions in the Kingdom of Saudi Arabia issued by the SAMA and with International Financial Reporting Standards; and

- comply with the requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia 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

Ernst & Young

Rashid S. Al Rashoud
Registration No. 366

19 Rabee, 1433H
(11 February, 2012)

Modesty
Being humble and applying humility to every thought and deed.

In other words, it is to always be tolerant and flexible when dealing with customers. You respond to and provide customers with what they need, while smoothly handling any difficulties and adverse opinions with an open mind.

Modesty

"As I was about to thank an employee for all his efforts, **he thanked me**"

Our customer A. Al Hameed

ANNUAL DISCLOSURE OF BASEL II REQUIREMENTS

Annual disclosure of Basel II requirements

TABLE 1: SCOPE OF APPLICATION

This document is a Basel II Pillar III disclosure of Al Rajhi Banking & Investment Corporation, Saudi Arabia.

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

I. Al Rajhi Capital Company
The Company was incorporated in 2007 in KSA as a wholly owned subsidiary of Al Rajhi Bank. The subsidiary engages in Mutual Fund Management, Brokerage and Corporate Finance.

II. Al Rajhi Company for Development, Riyadh
The Company was incorporated in 2000, for investments in land, building and real estate. It is 99% owned by Al Rajhi Bank.

III. Al Rajhi Banking & Investment Corporation BHD Malaysia
The Company was incorporated in 2006, providing Islamic banking services in Malaysia and is 100% owned by Al Rajhi Bank.

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

TABLE 2: CAPITAL STRUCTURE

Capital of Al Rajhi Bank consists of:

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

TABLE 3: CAPITAL ADEQUACY

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

The Bank aims to maximise shareholders' value through an optimal capital structure that protects the stakeholders' interests under extreme stress conditions, and provides sufficient capacity for growth whilst ensuring compliance with the regulatory requirements and meeting shareholders' expectations.

The objectives of capital management are threefold:
1. Ensure stability of the Bank by holding adequate capital to cover unexpected losses.
2. Promote the efficient use of capital by optimising risk adjusted return.
3. Enable efficient and effective allocation of capital across the business through prudent decision making and pro-active risk management.

The Bank measures the following types of capital:
I. Regulatory capital - Measure of capital needed to protect banks against insolvency. The regulator provides guidelines on how banks should measure regulatory capital and typically sets minimum standards for banks (e.g., 8% is set by SAMA). This approach is used for regulatory reporting in compliance with SAMA rules.

II. Accounting capital - Measures the equity capital as defined by accounting rules. This measure is the sum of paid-up capital, eligible reserves, interim profits and revaluation reserve.

III. Statutory/Legal capital - Measures the required capital for a bank to meet statutory requirements. The minimum statutory capital is set by the regulator and incorporates share capital and retained earnings.

GENERAL QUALITATIVE DISCLOSURE REQUIREMENTS

Structure & organisation of the relevant risk management function

The risk management function is divided into 4 key areas:

1. Corporate governance (policies, procedures & governance structure)

The risk management framework is integral to the operations and culture of Al Rajhi Bank. Risk is proactively managed within the Bank. However, the framework is flexible to incorporate new businesses the Bank may undertake. The framework is comprehensive and has been communicated from the Board of Directors down to the individual business lines. The Bank's business strategy is to achieve the objective of being a strong financial partner with insight and transparency in risk-taking. The risk governance framework supports this objective.

The risk governance structure comprises the following committees: Board of Directors (the Board), Executive Committee of the Board, Audit Committee of the Board, High Management Committee, Asset & Liability Management Committee (ALCO), Credit Committee, Remedial Management Committee, Risk Management Committee, and Compliance Committee.

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

a- Independence: A clear demarcation exists between Credit & Risk Management and the business divisions. All activities that commit the Bank either legally or financially to a position of risk require prior approval by authorised individuals or committees at the appropriate level from both Credit & Risk Management Group and the business.

b- Transparency: Credit & Risk Management structures, policies and procedures are transparent, and based on well-defined principles communicated across all levels.

c- Approval authority: Committee and individual approval authorities are delegated by the Board.

d- Dual signature: Risk taking commitments require the approval of at least two authorised individuals.

e- Accountability: Risk and reward from a transaction are attributed to the same business unit and form an integral part of the business performance measurement.

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

The Credit & Risk Management Group activities include the following:

- Evaluation and approval of risk limits/exposures within delegated authorities (or recommendation to higher approval authorities in case of large exposures), independent of the business.
- Development, communication, guidance and monitoring of adherence to comprehensive risk policies.
- In conjunction with the business units, recommendation of the Bank's risk appetite to the Board.
- Daily management of all other risk functions, including the control, monitoring and reporting of risk limits and exposures for internal control and regulatory compliance purposes.

2. Credit risk

Credit risk is the potential risk of loss of revenue and/or return of principal as a result of default or the inability of a borrower or counter-party to meet its contractual obligation.

The Bank addresses credit risk, which is its most substantial component of risk, through the following process:

a. Credit processes: Approval, disbursements, administration, classification, recoveries and write-offs are governed by the Bank's Credit Policy. This policy is reviewed by the Credit & Risk Management Group and approved by the Board.

b. Lending proposals: All credit proposals are independently reviewed by the Credit & Risk Management Group with authority to either approve within delegated limits, or recommend for approval to a higher approval authority.

c. Corporate lending accounts: Reviewed at a minimum on an annual basis.

Concentration of exposures to counter-parties, geographies and sectors are governed and monitored by guidelines and limits prescribed by the Credit Policy. Corporate borrowers are risk rated using an internal risk rating methodology to provide support for credit decisions.

3. Market & liquidity risk

Market risk is the risk of loss resulting from on and off balance sheet positions as a result of adverse movements in market prices. The management of market risk is achieved by the identification, measurement, monitoring, control, and reporting of all activities

that result from transactional exposures. Market risk in the Bank comprises profit rate risk, foreign exchange risk, equity price risk and commodity price risk.

a. Profit rate risk is the potential impact on the Bank's Net Income Margin caused by the changes in market rates of return. The Bank manages its profit rate risk by matching repricing of assets and liabilities. It measures profit rate risk by evaluating the potential impact of a 200bps movement in market rates.

b. Foreign exchange risk is the impact of adverse exchange rate movements on foreign currency exposures arising from customer transactions undertaken by the Bank. Foreign currency positions are marked-to-market on a daily basis, and are monitored against approved position limits. FX customer transactions are driven primarily by customer remittances and trade finance transactions. Total exposures are small relative to market volumes.

c. Equity price risk is the impact of adverse price movements in the price of equities on equity positions. The Bank has limited equity open positions. These positions are regularly marked-to-market.

d. Commodity price risk is the risk to earnings or capital that results from adverse price movements in the price of commodities. The Bank engages in commodity transactions to facilitate Shariah compliant customer transactions. It does not conduct proprietary trading in commodities and its exposure is not material.

Liquidity risk refers to the Bank's potential inability to pay its debts and obligations when due. This situation may arise because of failure to convert assets into cash, an inability to procure sufficient funds, or funds being raised at an exceptionally high cost that may adversely affect the Bank's income and capital position. Liquidity risk may result in the Bank's inability to unwind or offset underlying risk in its asset bases. This may force the Bank to sell its assets at a loss due to insufficient market liquidity.

The Bank considers the following three main liquidity risk types:

I. Term liquidity & call risk arises when there is a mismatch between incoming and outgoing cashflows. There may be unexpected delays in repayments to the Bank (term liquidity risk) or unexpectedly high payment outflows (call risk).

II. Structural liquidity risk refers to the cost of liquidity for the purpose of closing liquidity gaps if refinancing becomes more expensive due to a decline in the Bank's creditworthiness.

III. Market liquidity risk arises when a position cannot be sold within a desired time period or only at a discount. This is especially the case with securities in illiquid markets.

4. Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, human error, systems, and/or external events. The Operational Risk Management Unit (ORMU) within the Credit & Risk Management Group facilitates the management of operational risk in 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 Group Operational Risk Committee reports to the Risk Management Committee.

TABLE 4: CREDIT RISK - GENERAL DISCLOSURES FOR ALL BANKS

The following are disclosures relating to the credit risk management process in the Bank.

1. Definitions of past due & impaired

a. For accounting purposes: A financed asset is considered past due where a repayment is overdue for 90 days or less. If the repayment is overdue for more than 90 days the financed asset is considered as impaired.

b. For Basel II purposes financing assets are considered impaired when:

i. The Bank considers that the obligor is unlikely to pay its credit obligations in full, without recourse by the Bank to actions such as realising collateral (if held); or

ii. The obligor is past due more than 90 days on any material credit obligation to the Bank.

2. Description of approaches followed for specific & general allowances, & statistical methods

a. Positions in portfolios that are individually significant, i.e. corporate bank assets, are reviewed individually for impairment and any asset with specific impairment is provisioned, taking into account the potential future recoveries net of collateral.

b. Unimpaired individually significant assets are grouped together and a provision reserved, based on a study undertaken on the historical performance of the portfolio.

c. Portfolios that are not considered individually significant, i.e. retail bank assets, are provisioned based on a behavioural analysis of the underlying portfolio.

3. Discussion of the Bank's credit risk management policy

Credit risk is considered to be the most significant and pervasive risk for the Bank. The Bank takes on exposure to credit risk, which is the risk that the counter-party to a financial transaction will fail to discharge an obligation when due, causing the Bank to incur a financial loss, or adversely impacting the timing of its cashflow. Credit risk arises principally from financing (credit facilities provided to customers) and investments. In addition, there is credit risk in certain off-balance sheet financial instruments, including guarantees, letters of credit, acceptances and commitments to extend credit. Credit risk monitoring and control is performed by the Credit & Risk Management Group, which sets parameters and establishes thresholds around the Bank's financing activities.

The Bank's credit risk management process includes:

1. Credit risk measurement

The Bank structures financial products in accordance with Shariah law. These products are classified as either financing assets or investments in the Bank's consolidated balance sheet. In measuring credit risk of financed assets at a counter-party level, the Bank considers the overall credit worthiness of the customer based on a proprietary risk rating methodology. For corporate customers, the risk rating methodology utilises a 22-point scale, based on quantitative and qualitative factors with 19 performing categories. The outcome of the risk rating process is intended to reflect counter-party credit quality and assist in determining suitable pricing commensurate with the associated risk.

The risk rating process assists the Bank to identify any weakness in the portfolio quality and make appropriate provisions in cases where credit quality has deteriorated and where losses are likely to arise. The Bank evaluates corporate obligors that are past due, to make appropriate allowances against impaired assets. For the remaining corporate loan portfolio, the Bank applies a loss rate to determine an appropriate allowance. The loss rate is determined based on historical experience of credit losses.

The Bank employs retail credit scoring models using an application or behavioural score within a detailed credit program with well-defined parameters. The Bank relies on product-level quantitative and qualitative guidelines to monitor credit risk in its retail portfolio.

2. Risk limit control & mitigation policies

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

In order to ensure objectivity and accountability, and to reinforce ownership, the following units within the Bank assist in the credit control process:

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

The monitoring and management of credit risk associated with financing or investments are enforced by setting approved credit limits. The Bank manages limits and controls concentrations of credit risk to countries, industries and to individual customer or company groups.

Concentrations of credit risk arises when a number of customers are engaged in similar business activities, activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentration of credit risk indicates 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 portfolio to ensure there is no undue concentration of risk with individuals or groups of customers in specific geographical locations or economic sectors.

The Bank manages credit risk by placing limits on the level of risk acceptable in relation to individual customer, company groups, 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 of the ability of customers and potential customers to meet financial and contractual repayment obligations and by revising credit limits where appropriate.

3. Credit default/counter-party risk

The Bank quantifies its credit default risk as part of Pillar I using the standardised approach. In this method, risk weights are defined for certain types of credit exposures primarily on the basis of external rating provided by rating agencies for obligors with no internal rating. The default risk is then quantified into the resulting capital requirement. Any additional capital required under Pillar II is calculated using proprietary developed internal models.

In calculating capital requirements, credit risk mitigation techniques are used to control credit risk. These include, but not limited to, financial collateral such as cash and shares, certain forms of physical collateral such as real estate and financial guarantees.

Under the guidelines of SAMA for the standardised approach, the Bank categorises exposure for capital treatment as follows:

a. Sovereigns: SAMA requires that banks operating in Saudi Arabia with exposures to other sovereigns (meeting the guidance criteria prescribed by Basel II) use the preferential risk weight assigned to the sovereign by the relevant national supervisory authority.
b. Claims on banks and securities firms use the preferential risk weighting prescribed under the Basel II guidelines.
c. Claims on Multilateral Development Banks, claims on corporate entities, claims included in the regulatory non-mortgage retail portfolios, claims secured by residential mortgages, claims secured by commercial real estate, past due loans, and off-balance sheet items are treated as per SAMA guidelines on Basel II.

TABLE 5: STANDARDISED APPROACH & SUPERVISORY RISK WEIGHTS IN THE IRB APPROACHES

The Bank uses External Credit Assessment Institutions (ECAIs) ratings to supplement its own internal credit ratings. It maps the ECAIs ratings to the standardised risk weights for corporate entities, banks, Public Sector Entities (PSEs), & sovereign as per Basel II guidelines.

In computing capital requirements, certain types of facility exposures are assessed primarily on the basis of external rating provided by rating agencies.

The following ECAIs ratings are used by the Bank:

- S&P
- Moody's
- Fitch

TABLE 6: CREDIT RISK - DISCLOSURES FOR PORTFOLIOS SUBJECT TO IRB APPROACHES

NOT APPLICABLE

TABLE 7: CREDIT RISK MITIGATION - DISCLOSURES FOR STANDARDISED & IRB APPROACHES

Risk management and mitigation of credit risk is core to the way the Bank operates, and the way it does business. Listed below are key ways the Bank manages and mitigates credit risk:

a. Limit setting: The Bank sets limits in its Credit Policy to protect its capital. These include controlling credit facilities granted to companies based on their capital and reserves, business model, cashflow and industry. The maximum exposure limit for an individual obligor is capped at a given percentage of the Bank's economic capital and the rating of the obligor. The policy includes additional limits on tenure and sector concentration.

b. Tangible collateral & guarantees: Collateral requirements are determined by loan product based on acceptable collaterals such as cash, shares, real-estate, other pledges, and third party guarantees. There are guidelines for collateral valuation and instances where the Bank seeks additional collateral.

c. Credit approval authorities: Individual and committee approval limits are defined based on obligor risk rating, size of exposure and nature of facility.
d. Credit evaluation process: A clear credit evaluation process is in place to ensure that a consistent and robust method is followed.

e. Measuring the quality of credit: Various models for both retail and corporate portfolio have been developed for determining obligor risk rating. The models were developed using Al Rajhi Bank specific quantitative and qualitative factors to ascertain a risk rating.

f. Legal documentation: Appropriate legal documentation is duly executed to ensure that the Bank has recourse to protect itself in case of default. There are different variations of such legal documents depending on the product, facility type and credit quality of the customer.

TABLE 8: GENERAL DISCLOSURE FOR EXPOSURE RELATED TO COUNTER-PARTY CREDIT RISK

NOT APPLICABLE

TABLE 9: SECURITISATION - DISCLOSURE FOR STANDARDISED & IRB APPOACHES

NOT APPLICABLE

TABLE 10: MARKET RISK - DISCLOSURE FOR BANKS USING THE STANDARDISED APPROACHES

The Bank is exposed to market risks, the risk that the fair value of future cashflows of a financial instrument will fluctuate due to changes in market prices. Market risk arises on profit rate based products, foreign currency, mutual funds and commodities. All are exposed to general and specific market movements and changes in the level of volatility of market rates or prices. The Bank uses the standardised model to compute the capital requirement for market risk. Market risk components applicable to Al Rajhi Bank are profit rate risk, foreign exchange risk, equity risk and commodity risk.

1. Foreign currency risk
The Bank is exposed to the effects of fluctuations in foreign currency exchange rates on its foreign currency positions, which result from operations. The Board sets limits on the level of exposure by currency and at aggregate level, which are measured and monitored daily. A substantial portion of the net foreign currency exposure to the Bank is in United States Dollars (USD), where the Saudi Riyal is pegged to the USD. The other currency exposures are not considered material and as a result the Bank is not exposed to major foreign currency risks.

2. Profit rate risk
Please see Table 14 for a detailed explanation of profit rate risk.

3. Equity/asset price risk
Please see Table 13 for a detailed explanation of equity/asset price risk.

4. Commodity risk
Commodity risk refers to the risk of loss arising from adverse movements in commodity prices. The commodity portfolio is re-valued on a regular basis to capture the changes in market value due to changing economic conditions.

As an Islamic bank, the Bank buys and sells commodities to facilitate customer transactions to ensure compliance with Shariah Board rulings. The Bank does not conduct proprietary trading in commodities for its own profit. Its exposure to commodity price volatility is usually intraday and limited to a short time period. This risk is not considered material for the Bank.

TABLE 11: MARKET RISK - DISCLOSURES FOR BANKS USING THE INTERNAL MODELS APPROACH (IMA) FOR TRADING PORTFOLIOS

NOT APPLICABLE

TABLE 12: OPERATIONAL RISK

Operational risk overview
Al Rajhi Bank has adopted the standardised approach for calculating capital adequacy covering operational risk and defines operational risk as the risk of loss resulting from inadequate or failed internal processes, human error systems and from external events. This definition includes legal risk, but excludes strategic and reputational risk.

Sources of risk
Operational risk for the Bank arises from various areas including:

a. Internal fraud: An act intended to defraud, misappropriate property or circumvent regulations, the law or company policy, excluding diversity/discrimination events, which involves at least one internal party.

b. External fraud: An act intended to defraud, misappropriate property or circumvent the law by a third party.

c. Employment practices & workplace safety: An act inconsistent with employment, health & safety standards and agreements (e.g. payment of personal injury claims, or from diversity/discrimination events)

d. Clients, products & business practices: A failure to meet a professional obligation to specific clients (including fiduciary and suitability requirements) either unintentionally or through negligence, or from the nature or design of a product.

e. Damage to physical assets: The loss or damage to physical assets from a natural disaster or other events.

f. Business disruption & system failures: Loss due to disruption of business or system failures.

g. Execution, delivery & process management: Failed transaction processing or process management from relationships with trade counter-parties and vendors.

The Bank uses the standardised approach to calculate the minimum regulatory capital for operational risk.

TABLE 13: EQUITIES - DISCLOSURES FOR BANKING BOOK POSITIONS

Al Rajhi Bank has adopted the standardised approach for calculating capital adequacy for its equity position.

The Bank has equity exposure in the form of mutual funds and limited direct share investments. The mutual funds exposures arise when the Bank issues new seeded funds that are administered by asset managers in Al Rajhi Capital. While the Bank markets these funds to customers, it holds the seed capital on its books. These equities are considered long-term investments and Shariah compliant. The Bank is exposed to volatility in the price of the mutual funds it has on its books.

The direct share investments are held for an unspecified period of time. They may be sold in response to liquidity needs, or significant changes to equity prices. The Bank does not actively trade these investments.

The Bank's investments in mutual funds and direct shares are regularly marked-to-market and are not material.

TABLE 14: PROFIT RATE RISK IN THE BANKING BOOK

Profit rate risk predominately resides in the Bank's assets rather than its liabilities. This is due to the nature of the Bank's balance sheet structure.

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

ii) Assets: The Bank charges different profit rates according to the maturity of loans and risk characteristics of the customer segment being financed. Profit rates applied to customer financing are based on market rates. There are different profit rates and re-pricing terms for the Bank's assets. Since the market rate (e.g. SAIBOR for SR, LIBOR for USD) is used as a benchmark for the profit rate, a drop in profit rate can result in reduction in future earnings.

The following describes each sub-type of profit rate risk:

a. Re-pricing risk: This arises from maturity mismatch between the assets portfolio and the liabilities that fund them. The risk is that the Bank may experience reduction in future earnings when profit rates decrease. This is due to the composition of the book, which is made up of mostly non-profit bearing current account liabilities and fixed rate assets. In other words, the Bank is an asset-sensitive bank that benefits from a rise in rates and is disadvantaged by a fall in rates because the amount of re-pricing assets is larger than the re-pricing liabilities. This is the key type of profit rate risk that impacts Al Rajhi Bank.

b. Yield curve risk: This risk occurs in cases where there are non-parallel shifts in the yield curve between the short, medium and the long ends of the term structure resulting in a steepening, flattening or inverse yield curve. This risk primarily impacts the revaluation of assets such as fixed income securities. The Bank's exposure to this risk is not material.

c. Basis risk: Basis risk is related to the imperfect correlation between different yield curves on which a bank prices its assets and liabilities. This risk is not material because the Bank's assets and liabilities are primarily dependent on SAIBOR rates.

d. Optionality risk: It arises when a customer of an institution has the right but not the obligation to influence the timing and magnitude of the cashflows of an asset, liability or off-balance sheet instrument. This risk is limited in the Bank since most liabilities are non-profit bearing current accounts and not impacted by fluctuations of profit rates. In addition, assets have contractually fixed maturity. In cases of early repayment, the contracts often require payment of owed profits for the full tenure of the loan.

Measurement approach

The Bank uses the Earnings-at-Risk (EaR) approach to measure the overall sensitivity to profit rate risk. The EaR perspective considers how changes in profit rate will affect a bank's reported earnings. This methodology focuses on the risk to earnings in the near term, typically the next 1year. Fluctuations in profit rates generally have the greatest impact on reported earnings through changes in a bank's net financing income (that is, financing income less income paid on time investments and Murabaha financing expense). It assesses the effect of 200bps parallel drop in market rates on expected run-off rate of assets at different tenors to determine possible decline in earnings.