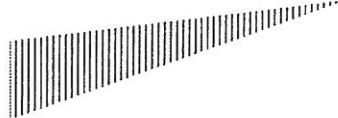


AL RAJHI BANKING AND INVESTMENT CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
TOGETHER WITH AUDITORS' REPORT

PRICEWATERHOUSECOOPERS 

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ONLY



ERNST & YOUNG

P.O. Box 2732
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Kingdom of Saudi Arabia

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

INDEPENDENT AUDITORS' REPORT

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

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

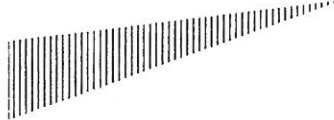
Management Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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



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

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

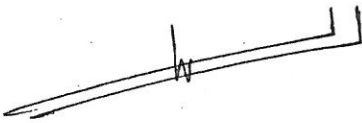
Opinion

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

- present fairly, in all material respects, the consolidated financial position of the Bank and its subsidiaries as at 31 December 2009, and of their financial performance and their cash flows for the year then ended in accordance with Accounting Standards for Financial Institutions issued by the Saudi Arabian Monetary Agency and with International Financial Reporting Standards; and
- comply, in all material respects, with the requirements of the Regulations for Companies, the Banking Control Law and the Bank's Articles of Association and By-Laws in so far as they affect the preparation and presentation of the consolidated financial statements.

Ernst & Young

PricewaterhouseCoopers Al Juraid



Fahad M. Al-Toaimi
Registration No. 354



Walid I. Shukri
Registration No. 329

January 30, 2010
(15 Safar, 1431H)



AL RAJHI BANKING AND INVESTMENT CORPORATION
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2009 AND 2008
(SR '000)

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

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

AL RAJHI BANKING AND INVESTMENT CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(SR '000)

	Notes	2009	2008
INCOME:			
Gross financing income		9,802,325	9,423,272
Income paid to customers on time investments		(529,816)	(819,453)
Income paid on syndicated murabaha financing from banks		(40,447)	(107,156)
Net financing income	19	9,232,062	8,496,663
Investments income (expense)		121,970	(2,222)
Fees from banking services, net	20	1,390,980	1,241,267
Exchange income, net		582,322	483,459
Other operating income	21	177,958	356,100
Total operating income		11,505,292	10,575,267
EXPENSES:			
Salaries and employee related benefits		1,718,725	1,648,657
Rent and premises related expenses		144,438	136,830
Impairment charge for financing and other	7-2	1,760,727	1,227,423
Other general and administrative expenses		788,584	651,277
Depreciation and amortization		322,619	383,401
Board of directors' remuneration	29	2,971	3,075
Total operating expenses		4,738,064	4,050,663
Net income		6,767,228	6,524,604
Comprehensive income		-	-
NET COMPREHENSIVE INCOME		6,767,228	6,524,604
Weighted average number of shares outstanding	16 & 22	1,500 million	1,500 million
EARNINGS PER SHARE (IN SR)	22	4.51	4.35

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

AL RAJHI BANKING AND INVESTMENT CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(SR '000)

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

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

AL RAJHI BANKING AND INVESTMENT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(SR '000)

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

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

AL RAJHI BANKING AND INVESTMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

1. GENERAL

a) Incorporation and operations

Al Rajhi banking and investment corporation, a Saudi Joint Stock Company, (the "Bank"), was formed and licensed pursuant to Royal Decree No. M/59 dated 3 Dhul Qadah 1407H (corresponding to June 29, 1987) and in accordance with Article 6 of the Council of Ministers' Resolution No.245, dated 26 Shawal 1407H (corresponding to June 23, 1987).

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

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

The objectives of the Bank are to carry out banking and investment activities in accordance with its Articles of Association and By-Laws, the Banking Control Law and the Council of Ministers' Resolution referred to above. The Bank is engaged in banking and investment activities for its own account and on behalf of others inside and outside the Kingdom of Saudi Arabia through 477 branches including the branches outside the kingdom as at 31 December 2009 (2008: 456 branches) and 8,307 employees as at December 31, 2009 (2008: 8,299 employees). The Bank has established a number of wholly or substantially owned subsidiaries as set out below:

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

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

b) Shari'a Authority

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

Shari'a Authority had reviewed several of the Bank's activities and issued the required decisions thereon.

2. BASIS OF PRESENTATION

a) Statement of compliance

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

b) Basis of measurement

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

c) Functional and presentation currency

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

d) Critical accounting judgments, estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgments in the process of applying the Bank's accounting policies. Such estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. Significant areas where management has used estimates, assumptions or exercised judgements is as follows:

1. Impairment for credit losses on financing

The Bank reviews its financing portfolios to assess specific and collective impairment on a quarterly basis. In determining whether an impairment loss should be recorded, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group. Management uses estimates based on historical loss experience for financing with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its cash flows. The methodology and assumptions used for estimating both the amount and the timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

2. Going concern

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in preparing these consolidated financial statements are set out below. The accounting policies used in the preparation of these consolidated financial statements are consistent with those of the prior year except for adoption of IFRS 8. Operating Segments and amendments to existing standards, as mentioned below:

- IFRS 8 "Operating Segments", which supersedes IAS 14 "Segment Reporting" and requires disclosure of information about the Bank's operating segments;
- Amendments and revisions to IAS 1 "Presentation of Financial Statements";
- Amendments to IFRS 7, "Financial instruments: Disclosures" - The amendment requires enhanced disclosures about fair value measurements and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy.

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

a) Basis of the preparation of the consolidated financial statements

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

Subsidiaries are all entities over which the Bank has the power to govern the financial and operating policies, so as to obtain benefits from its activities, generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are consolidated from the date on which control is transferred to the Bank and cease to be consolidated from the date on which the control is transferred from the Bank. The results of subsidiaries acquired or disposed of during the year, if any, are included in the consolidated income statement from the date of the acquisition or up to the date of disposal, as appropriate.

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

b) Zakat

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

c) Trade date

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

d) Foreign currencies

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

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

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

e) Offsetting of financial assets and liabilities

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

f) Revenue recognition

- Income from mutajara, murabaha, musharaka installment sale and istisnaa financing, is recognized based on effective yield basis on the outstanding balances.
- Fees and commission are recognized when the service has been provided. Financing commitment fees that are likely to be drawn down are deferred and, together with the related direct cost, are recognized as an adjustment to the effective yield on the financing. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportionate basis. Fee received on asset management, wealth management, financial planning, custody services and other similar services that

are provided over an extended period of time, are recognized over the period when the service is being provided. When a financing commitment is not expected to result in the draw-down of a financing, financing commitment fees are recognised on a straight-line basis over the commitment period.

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

g) Financing and investments

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

The Bank classifies its principal financing and investments as follows:

- i. Held at amortized cost - such financing which meets the definition of loans and receivable under IAS 39, are measured at amortized cost, and comprise mutajara, installment sale, istisnaa and Murabaha accounts balances.
- ii. Held as FVIS – Investments in this category are classified as either investment held for trading or those designated as FVIS on initial recognition. Such investments are measured at fair value, and comprise land, real estate, mutual funds, and other investments.

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

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

h) Impairment of financial assets

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

Specific provisions are evaluated individually. Considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions. In addition to the specific provisions described above, the Bank also makes collective impairment provisions, which are evaluated on a group basis

and are created for losses, where there is objective evidence that unidentified losses exist at the reporting date. The amount of the provision is estimated based on the historical default patterns of the investment and financing counter-parties as well as their credit ratings, taking into account the current economic climate.

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

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

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

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

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

i) De-recognition of financial assets and liabilities

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

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

j) Customer debit current accounts

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

k) Property and equipment

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

Leasehold land improvements	over the period of the lease
Buildings	33 years
Leasehold building improvements	3 years
Equipment and furniture	3 to 10 years.

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

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

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

l) Customer deposits

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

m) 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.

n) Accounting for leases

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

o) Cash and cash equivalents

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

p) Special commission excluded from the consolidated statement of income

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

q) Mudaraba funds

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

r) Investment management services

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

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

4. CASH

Cash as of December 31 comprise the following:

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

5. BALANCES WITH SAMA

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

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

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

6. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Due from banks and other financial institutions as of December 31, comprise current accounts as follows:

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

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

7. FINANCING, NET

7-1 Financing

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

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

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

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

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

Description	(SR'000)			Net
	Performing	Non-Performing	Provision	
2009				
Banks and other financial institutions	13,081,203	-	-	13,081,203
Commerce	25,159,225	2,738,419	(1,171,763)	26,725,881
Industry	10,904,170	-	-	10,904,170
Public (Government)	24,241,526	-	-	24,241,526
Services	4,990,253	-	-	4,990,253
Agriculture and fishing	1,664,214	-	-	1,664,214
Building and construction	8,754,008	12,032	(151)	8,765,889
Personal	58,523,482	1,115,930	(1,015,676)	58,623,736
Other	1,714,791	-	-	1,714,791
Total	149,032,872	3,866,381	(2,187,590)	150,711,663
Additional portfolio provision			(2,004,658)	(2,004,658)
Balance			(4,192,248)	148,707,005
2008				
Description	Performing	Non-Performing	Provision	Net
Banks and other financial institutions	7,673,886	-	-	7,673,886
Commerce	34,982,230	1,422,670	(453,811)	35,951,089
Industry	5,536,800	-	-	5,536,800
Public (Government)	25,053,646	9,420	(8,933)	25,054,133
Services	3,392,360	-	-	3,392,360
Agriculture and fishing	1,772,022	-	-	1,772,022
Building and construction	8,133,026	24,954	(16,827)	8,141,153
Personal	53,341,937	1,309,438	(952,409)	53,698,966
Other	1,974,664	-	-	1,974,664
Total	141,860,571	2,766,482	(1,431,980)	143,195,073
Additional portfolio provision			(2,518,350)	(2,518,350)
Balance			(3,950,330)	140,676,723

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

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

2008

(SR'000)

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

- e) The table below summarizes financing balances 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: -

2009

(SR'000)

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

2008

(SR'000)

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

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

Neither past due nor impaired and past due but not impaired comprise the total performing financing.

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

	(SR'000)			
	Retail	Corporate	Treasury	Total
2009				
Standard	106,300	363,072	-	469,372
Special mention	7,139	186,006	-	193,145
Total	113,439	549,078	-	662,517
2008				
Standard	28,137	64,884	-	93,021
Special mention	6,194	6,510	-	12,704
Total	34,331	71,394	-	105,725

Financing under the standard category 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 31 December:

Age	(SR'000)			
	Retail	Corporate	Treasury	Total
2009				
up to 30 days	58,787	173,885	-	232,672
30 -60 days	47,513	189,187	-	236,700
60-90 days	7,139	186,006	-	193,145
Total	113,439	549,078	-	662,517
Fair value of collateral	-	240,390	-	240,390
2008				
up to 30 days	19,722	58,480	-	78,202
30 -60 days	8,415	6,404	-	14,819
60-90 days	6,194	6,510	-	12,704
Total	34,331	71,394	-	105,725
Fair value of collateral	-	37,464	-	37,464

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

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

	(SR'000)			
	Retail	Corporate	Treasury	Total
<u>2009</u>				
Individually impaired financing	-	2,750,451	-	2,750,451
Fair value of collateral	-	429,844	-	429,844
<u>2008</u>				
Individually impaired financing	-	937,799	-	937,799
Fair value of collateral	-	93,310	-	93,310

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

- i) The tables below depict the quality of neither past due nor impaired

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

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

Risk Rating 1

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

Risk Rating 2

Excellent - Obligors of the highest quality, presently and prospectively. Virtually no risk in lending to this class. Cash flows reflect exceptionally large and stable margins of protection. Projected cash flows including anticipated credit extensions indicate strong

liquidity levels and debt service coverage. Balance Sheet parameters are strong, with excellent asset quality in terms of value and liquidity.

Risk Rating 3

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

Risk Rating 4

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

Risk Rating 5

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

Risk Rating 6

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

Risk Rating 7

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

7 – 2 Impairment charge for financing:

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

<u>2009</u>	<u>(SR'000)</u>			
	<u>Retail</u>	<u>Corporate</u>	<u>Treasury</u>	<u>Total</u>
Balance at the beginning of the year	2,766,411	1,183,919	-	3,950,330
Provided during the year	707,166	1,000,753	-	1,707,919
Disposals (bad debts written off)	(1,294,976)	(171,025)	-	(1,466,001)
Balance at the end of the year	2,178,601	2,013,647	-	4,192,248

2008

	(SR'000)			
	Retail	Corporate	Treasury	Total
Balance at the beginning of the year	3,026,447	900,472	100,759	4,027,678
Provided during the year	736,884	493,216	-	1,230,100
Recoveries of amounts previously provided	-	-	(100,759)	(100,759)
Disposals (bad debts written off)	(996,920)	(209,769)	-	(1,206,689)
Balance at the end of the year	2,766,411	1,183,919	-	3,950,330

8. INVESTMENTS

FVIS investments comprise the following as of December 31:

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

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

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

9. CUSTOMER DEBIT CURRENT ACCOUNTS, NET

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

	(SR'000)	
	2009	2008
Customer debit current accounts (inside the kingdom)	741,023	914,228
Less: provision	(45,232)	-
Customer debit current accounts, net	695,791	914,228

10. PROPERTY AND EQUIPMENT, NET

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

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

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

11. OTHER ASSETS, NET

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

	(SR'000)	
	2009	2008
Accrued income on Mutajara financing	663,500	1,252,692
Accrued income on Murabaha financing	92,351	85,853
Accrued income on other investments	103,122	134,556
Advances to others	280,980	361,282
Cheques under collection	153,491	573,740
Prepaid expenses	198,887	153,334
Other receivables	202,540	394,064
Others	887,062	231,510
Total	2,581,933	3,187,031
Less: provision	(19,966)	(77,118)
Other assets, net	2,561,967	3,109,913

12. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

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

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

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

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

13. SYNDICATED MURABAHA FINANCING FROM BANKS

Syndicated Murabaha financing from banks represents facilities in the amount of USD 500 million (SR 1,875 million) for three years obtained from a consortium of banks. The accrued profit together with the principal amount according to the facility agreement was paid during May 2009.

14. CUSTOMER DEPOSITS

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

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

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

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

15. OTHER LIABILITIES

Other liabilities comprise the following as of December 31:

	(SR'000)	
	2009	2008
Due to SAMA	7,518,000	3,041,000
Accounts payable	2,880,621	2,418,625
Provision for employees' end of service benefits	557,558	474,822
Charities (see Note 31)	78,206	64,810
Other	1,990,547	1,824,496
Total	13,024,932	7,823,753

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

16. SHARE CAPITAL

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

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

17. STATUTORY AND GENERAL RESERVES

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

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

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

18. COMMITMENTS AND CONTINGENCIES

a) Legal proceedings

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

b) Capital commitments

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

c) Credit related commitments and contingencies

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

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

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

Commitments to extend credit represent unused portions of authorization to extended credit, principally in the form of financing, guarantees and letters of credit. With respect to credit risk relating to commitments to extend unused credit, the Bank is potentially exposed to a loss in an amount which is equal to the total unused commitments. The likely amount of loss, which cannot be reasonably estimated, is expected to be considerably less than the total unused commitments, since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of these commitments could expire or terminate without being funded.

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

		(SR '000)				
		Less than 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
2009						
Letters of credit and acceptances		2,387,295	546,455	245,767	1,684,565	4,864,082
Letters of guarantee		4,353,113	1,194,322	1,895,828	111,901	7,555,164
Irrevocable commitments to extend credit		437,387	678,145	6,380,553	4,081,861	11,577,946
Total		7,177,795	2,418,922	8,522,148	5,878,327	23,997,192
2008						
		Less than 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Letters of credit and acceptances		1,890,553	1,235,811	373,271	1,098,107	4,597,742
Letters of guarantee		414,633	4,149,105	3,162,881	278,221	8,004,840
Irrevocable commitments to extend credit		2,255,712	3,429,890	2,746,027	1,062,280	9,493,909
Total		4,560,898	8,814,806	6,282,179	2,438,608	22,096,491

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

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

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

d) **Operating lease commitments**

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

	(SR'000)	
	2009	2008
Less than one year	11,028	19,825
One year to five years	98,597	76,070
Over five years	26,077	33,798
Total	135,702	129,693

19. NET FINANCING INCOME

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

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

20. FEES FROM BANKING SERVICES, NET

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

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

21. OTHER OPERATING INCOME

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

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

22. EARNINGS PER SHARE

Earnings per share are calculated by dividing the net income for the year by the weighted average number of shares outstanding during the year.

23. PAID AND PROPOSED GROSS DIVIDENDS AND ZAKAT

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

The zakat assessments for the years through 1997 have been finalized with the Department of Zakat and Income Tax (“DZIT”). The DZIT issued assessments for the years 1998 through 2006, which were appealed by the Bank. Adequate provisions have been made for the above mentioned years.

24. CASH AND CASH EQUIVALENTS

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

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

25. SEGMENTAL INFORMATION

The Bank has adopted IFRS 8 Operating Segments with effect from January 1, 2009, IFRS 8 requires operating segments to be identified 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. Following the adoption of IFRS 8, the identification of the Bank’s reportable segments has not changed.

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

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

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

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

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:

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

2008

(SR'000)

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

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

2009

(SR'000)

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

2008

(SR'000)

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

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

26. FINANCIAL RISK MANAGEMENT

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

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

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

26-1 Credit risk

Credit Risk is considered to be the most significant and pervasive risk for the Bank. The Bank takes on exposure to credit risk, which is the risk that the counter-party to a financial transaction will fail to discharge an obligation causing the Bank to incur a financial loss. Credit risk arises principally from financing (credit facilities provided to customers) and from cash and deposits held with other banks. Further, there is credit risk in certain off-balance sheet financial instruments, including guarantees, 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 customer demand. These products are all classified as financing assets in the Bank's consolidated statement of financial position. In measuring credit risk of financing at a counterparty level, the Bank considers the overall credit worthiness of the customer based on a proprietary risk methodology. This risk rating methodology utilizes a 22 point scale based on quantitative and qualitative factors with 19 (rated 1 to 7-) performing categories and three non performing categories (rated 8-10). The risk rating process is intended to advise the various independent approval authorities of the inherent risks associated with the counterparty and assist in determining suitable pricing commensurate with the associated risk.

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

Settlement Risk

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

b. Risk limit control and mitigation policies

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

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

- Corporate Credit Unit,
- Credit Administration Monitoring and Control Unit,
- Remedial Unit,
- Credit Policy Unit,
- Retail Credit Unit

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

Concentrations of credit risks arise when a number of customers are engaged in similar business activities, activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risks indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

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

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

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

Some other specific control and mitigation measures are outlined below.

b-1) Collateral

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

- Mortgages over residential and commercial properties.
- Cash, shares, and general assets for customer
- Shares for Murabaha (collateralized share trading) transactions

b-2) Collateralized Credit - related commitments

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

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

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

c. Impairment and provisioning policies

Impairment provisions are recognized for financial reporting purposes only for losses that have been incurred at the statement of financial position date based on objective evidence of impairment, and management judgment.

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

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

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

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

Collectively assessed impairment allowances are provided for:

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

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

The above table represents a worse case scenario of credit risk exposure to the Bank at December 31, 2009 and 2008, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the consolidated statement of financial position.

26-2 Liquidity risks

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

Liquidity risk management process

The Bank's liquidity management process is as monitored by the Bank's Asset and Liabilities Committee (ALCO), includes:

- Day-to-day funding, managed by Treasury to ensure that requirements can be met and this includes replenishment of funds as they mature or are invested;
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements;

- Managing the concentration and profile of debt maturities;
- Maintain diversified funding sources;
- Liquidity management and asset and liability mis-matching.

Monitoring and reporting take the form of analyzing cash flows of items with both contractual and non-contractual maturities. The net cash flows are measured and ensured that they are within acceptable 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 and precious metals, balances with SAMA and due from banks. Further, in accordance with the Banking Control Law and Regulations issued by SAMA, the Bank maintains a statutory deposit equal to a sum not less than 7% of total customer deposits, and 4% of total other customer accounts. In addition to the statutory deposit, the Bank maintains a liquid reserve of not less than 20% of the deposit liabilities, in the form of cash, gold or assets which can be converted into cash within a period not exceeding 30 days. Also, the Bank has the ability to raise additional funds through special financing arrangements with SAMA including deferred sales transactions.

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

2009

(SR'000)

	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash	3,449,155	-	-	-	-	3,449,155
Statutory deposit with SAMA	2,695,148	1,242,318	-	4,026,399	-	7,963,865
Due from banks and other financial institutions	1,281,444	-	-	-	-	1,281,444
Financing, net	43,017,904	37,538,722	54,873,596	13,276,783	-	148,707,005
Investments	2,667,980	220,365	-	-	-	2,888,345
Customer debit current accounts, net	591,422	20,874	83,495	-	-	695,791
Property and equipment, net	-	-	-	-	3,182,157	3,182,157
Other assets, net	301,338	992,860	69,726	1,198,043	-	2,561,967
Total	54,004,391	40,015,139	55,026,817	18,501,225	3,182,157	170,729,729
Liabilities and Shareholders' equity						
Due to banks and other financial institutions	2,113,327	3,988,746	-	-	-	6,102,073
Customer deposits	107,004,245	-	-	13,528,775	-	120,533,020
Other customer accounts	2,328,820	-	-	-	-	2,328,820
Other liabilities	10,559,000	-	-	-	2,465,932	13,024,932
Shareholders' equity	-	-	-	-	28,740,884	28,740,884
Total	122,005,392	3,988,746	-	13,528,775	31,206,816	170,729,729

2008

(SR'000)

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

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

2009

(SR'000)

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

2008

(SR'000)

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

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

26-3 Market risks

The Bank is exposed to market risks, which is 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 Finance and reported to ALCO on a monthly basis. ALCO deliberates on the risks taken and ensure that they are appropriate.

a. Market risks - speculative operations

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

b. Market risks - banking operations

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

- Profit rate risk

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

- Foreign currency risks

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

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

The Bank has performed a sensitivity analysis for the reasonably possible changes in foreign exchange rates, other than US Dollars, using 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, 2009 and 2008 and the concentration of currency risks. Included in the table are the Bank's financial instruments at carrying amounts, categorized by currency:

(SR'000)

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

(SR'000)

	BANGLADESH		EURO	MALAYSIAN		POUND		TOTAL		
	UAE DIRHAM	TAKA		JAPANESE YEN	LEBANESE LIRA	RINGGIT	US DOLLAR		STERLING	OTHER
ASSETS										
Cash and cash equivalent	14,156	-	8	40,046	176	29,428	132,374	4,892	89,673	310,753
Due from banks and other financial institutions	237,041	45,670	167,681	70,909	8,657	316,439	1,775,507	7,953	-	2,629,857
Financing, net	-	-	-	523,944	-	4,630,187	3,157,044	-	241,928	8,553,103
Investments	2,781	-	5,259	315,520	-	628,827	1,665,829	5,568	-	2,623,784
Customer debit current account, net	-	-	-	-	-	-	688	54,034	-	54,722
Other assets, net	(1,336)	-	(199)	284	-	121,120	42,009	-	110,447	272,325
Total Assets	252,642	45,670	172,749	950,703	8,833	5,726,001	6,773,451	72,447	442,048	14,444,544
LIABILITIES										
Due to banks and other financial institutions	50,513	-	-	27,681	-	1,879,109	1,500,249	2,742	113,191	3,573,485
Syndicate murabaha financing from banks	-	-	-	-	-	-	1,875,000	-	-	1,875,000
Customer deposits	165	-	1,090	386,498	12,195	2,969,385	1,640,993	6,358	4,815	5,021,499
Other customer accounts	7,975	-	186,189	568,535	-	-	1,233,989	5,731	119,441	2,121,860
Other liabilities	4,222	73,980	909	6,610	60,296	63,084	119,678	3,990	79,967	412,736
Total liabilities	62,875	73,980	188,188	989,324	72,491	4,911,578	6,369,909	18,821	317,414	13,004,580
Net	189,767	(28,310)	(15,439)	(38,621)	(63,658)	814,423	403,542	53,626	124,634	1,439,964

c. Price risk

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

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

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

27. GEOGRAPHICAL CONCENTRATION

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

2009

(SR '000)

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

2008

(SR '000)

	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other Countries	Total
Assets								
Cash and balances with SAMA	11,273,256	-	-	-	-	28,773	-	11,302,029
Due from banks and other financing institutions	2,500	525,363	97,369	1,556,498	-	447,897	262,138	2,891,765
Financing, net	103,662,882	32,382,029	-	-	-	4,631,812	-	140,676,723
Investments	567,125	733,912	17,071	117,869	-	174,429	-	1,610,406
Total	115,505,763	33,641,304	114,440	1,674,367	-	5,282,911	262,138	156,480,923
Liabilities								
Due to banks and other financing institutions	2,217,936	2,783,009	109,764	1,245,290	-	1,502,737	42,894	7,901,630
Syndicated murabaha financing from banks	-	1,875,000	-	-	-	-	-	1,875,000
Customer deposits	113,641,658	-	-	-	-	2,969,385	-	116,611,043
Total	115,859,594	4,658,009	109,764	1,245,290	-	4,472,122	42,894	126,387,673
Commitments and contingencies	15,852,123	768,436	51,230	1,128,341	968,814	987,019	2,340,528	22,096,491
Credit exposure (stated at credit equivalent value)	7,297,481	768,436	50,617	1,128,341	31,314	985,865	2,340,528	12,602,582

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:

2009

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

2008

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

Refer to Note 7-c for performing financing.

28. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Determination of fair value and fair value hierarchy

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

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

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

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

Assets at fair values are as follows:

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.

	(SR'000)			
	Level 1	Level 2	Level 3	Total
<u>Financial assets</u>				
Financial assets at FVIS	928,985	-	1,959,360	2,888,345
Total				

The fair values of on-statement of financial position financial instruments, are not significantly different from the carrying values included in the consolidated financial statements. The fair values of financing due from and due to banks which are carried at amortized cost, are not significantly different from the carrying values included in the financial statements, since the current market commission rates for similar financial instruments are not significantly different from the contracted rates, and for the short duration of due from and due to banks.

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

29. RELATED PARTY TRANSACTIONS

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

(SR'000)

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

* = off balance sheet

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

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

The amounts of 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)	
	2009	2008
Short-term benefits	22,603	27,346
Provision for end of service benefits	1,317	1,209

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

30. MUDARABA FUNDS

Mudaraba funds as of December 31, comprise the following:

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

31. SPECIAL COMMISSIONS EXCLUDED FROM THE CONSOLIDATED STATEMENTS OF INCOME

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

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

32. INVESTMENT MANAGEMENT SERVICES

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

33. CAPITAL ADEQUACY

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

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

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

	<u>2009</u>	<u>SR'000</u>	<u>2008</u>
Credit Risk weighted Assets	129,319,360		117,273,012
Operational risk weighted assets	17,946,355		17,932,387
Market risk weighted assets	11,699,738		1,576,300
Total Pillar I – risk weighted assets	<u>158,965,453</u>		<u>136,781,699</u>
Tier I – capital	21,973,656		20,468,640
Tier II capital	<u>8,701,577</u>		<u>9,506,962</u>
Total tier I & II capital	<u>30,675,233</u>		<u>29,975,602</u>
Capital Adequacy Ratio %			
Tier I ratio	<u>13.82%</u>		<u>14.60%</u>
Tier II ratio	<u>19.30%</u>		<u>21.39%</u>

34. COMPARATIVE FIGURES

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

35. POST FINANCIAL POSITION EVENTS

The Bank's board of directors proposed, in its meeting dated January 18, 2010, a distribution of dividends to the shareholders for the second half of the current fiscal year in the amount of SR 2.250 million. Amounting to SR 1.50 per share net of zakat.

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

36. ISSUED IFRS BUT NOT YET EFFECTIVE

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

37. APPROVAL OF THE BOARD OF DIRECTORS

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

38. BASEL II PILLAR 3 DISCLOSURES (UNAUDITED)

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