Annual Report 2010

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بسم الله الرحمن الرحيم

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HRH Prince
Naif Bin Abdul Aziz Al Saud
Second Deputy Prime Minister
and Minister of the Interior

King Abdullah Bin Abdul Aziz Al Saud
The Custodian of the
Two Holy Mosques

HRH Crown Prince
Sultan Bin Abdul Aziz Al Saud
Deputy Premier and Minister
of Defense and Aviation
and Inspector General

"We will be the leading Saudi Bank,
first in quality, first in value, first in caring
for our customers and responding to
their needs by continuously improving
our services while enhancing our
Shareholders' value."

Contents

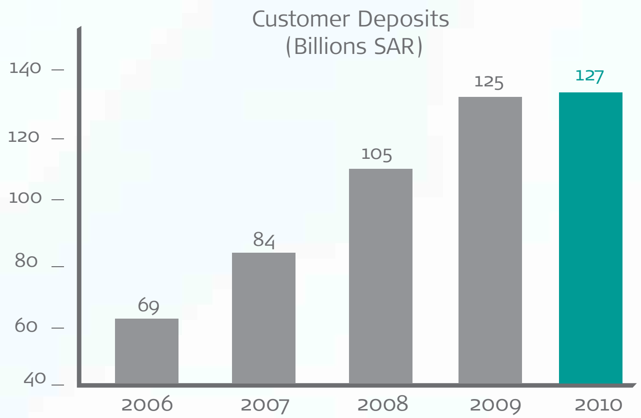
Financial Highlights

SAR' Millions Financial Highlights	2010	2009	2008	2007	2006
Total Assets	173,556	176,399	159,653	121,351	94,016
Loans & Advances, net	106,035	106,515	96,430	67,340	52,183
Investments, net	33,822	32,308	40,329	27,742	27,502
Customer Deposits	126,945	125,278	105,056	84,331	69,192
Shareholders' Equity	29,233	28,235	25,690	13,187	11,992
Net Income	2,825	3,030	2,639	3,011	2,909
Earnings Per Share (SAR)	1.88	2.02	2.03	2.93	2.83
Return on Average Assets	1.61%	1.79%	1.89%	2.94%	3.20%
Return on Equity	9.66%	10.73%	10.27%	22.84%	24.25%


Total Assets
(Billions SAR)
200
170
140
110
80
50
94
121
160
176
174
2006
2007
2008
2009
2010


Shareholders' Equity
(Billions SAR)
32
26
20
14
8
12
13
26
28
29
2006
2007
2008
2009
2010


Loans & Advances, net
(Billions SAR)
130
110
90
70
50
30
52
67
96
107
106
2006
2007
2008
2009
2010


Customer Deposits
(Billions SAR)
140
120
100
80
60
40
69
84
105
125
127
2006
2007
2008
2009
2010

Board of Directors


Customers' Segments
بنك الرياض
riyad bank

The Chairman's Statement

An era cannot be abbreviated in moments! Neither can achievements be expressed in limited paragraphs! How can efforts be appreciated in a few words? Those questions were trying to find their answers in the realm of thoughts and reflections.

The language of banking is numbers. Although, we are proud of the quantitative achievements made amid the tough global environment; but that we are most proud of is what lies behind those numbers: the exemplary efforts exerted by Riyad Bank's dedicated staff to achieve the Bank's ambitious objectives in progressive and steady steps.

Undoubtedly, the numbers fall short of our ambitions, but that is not a reflection on the excellent efforts, dedication and loyalty of the Bank's staff.

The Board of Directors continues to raise the performance bar as it aims to further enhance the quality of services offered to the Bank's customers and, concurrently, to ensure good returns to its shareholders. As an affirmation of this, the dividends distributed to the shareholders over the last three years amounted to six thousand million Saudi riyals, which is a reflection of the Board's strategy to allocate to them the largest share possible of the yield made on their investments.

Over the last few years, we have witnessed a number of important events that have impacted the finance and business industries globally, at varying degrees. The banking industry in Saudi Arabia was not excluded from those events, though it was not affected as much as other markets and institutions in the world in general and in the region in particular.

Despite the banking industry having cumulatively achieved lower profits this year than in 2009, the Bank's performance in its core activity, which is lending, continued to show maturity and consistency, mitigating the impact of the low interest rate environment on net interest margins and thus enabling the Bank to maintain its gross operating profit levels.

We are proud that Riyad Bank, three years ago, at a critical moment of its long journey, and consistent with the general maturity in the domestic capital market, proposed the option of increasing the capital to its shareholders, who voted strongly for this approach. As a result, the Bank achieved the largest capital increase in the Saudi market. This has enhanced the Bank's financial position enabling it to continue to grow while maintaining capital adequacy requirements.

The capital increase strategy was based on the following two main principles:

Preservation and Growth: Preserving the achievements made by the Bank in the past, while enhancing its competitive capacity by strengthening the level and nature of the Bank's financial position, and growing its assets and liabilities.

The Bank has managed, in a short period of time, to employ the funds raised in its most important and profitable assets, i.e., loans, while not compromising its strong risk management framework. This has led to a major growth in the Bank's lending portfolio, and has made the Bank one of the leading lending institutions-increasing its market share.

The key indicators in this respect are the Bank's success in maintaining its excellent credit ratings for short and long-term commitments, and also the positive assessment regarding the Bank's stable outlook made by the international rating agencies, reflecting the Bank's financial soundness.

Riyad Bank is moving forward confidently to achieve further accomplishments in developing its core banking services, creating new and quality products and services to meet customers' needs, and strengthening its leading role in the banking sector.

The Bank is executing its strategy based on plans and well structured programs aiming at continuous development and closely adhering to the principle that "customer comes first".

It has been implementing its Performance Transformation Program since late 2009, in order to raise the level of operational efficiency and enhance business support. The program is performing as planned.

The Bank will continue to focus on a number of key strategic initiatives related to customer services, in order to provide them with state-of-the-art banking services, and expanding our branch network as well. We have invested heavily in its infrastructure to support its growth, and we expect this investment to yield full benefits in the medium term.

The Bank is committed to adopting strong corporate governance principles, and conducts its business activities with high levels of transparency, disclosure and integrity towards society, shareholders, customers and staff.

In the area of social responsibility, the Bank adopts goals aiming at sustainable community development. In addition to its donations to numerous charity organizations, the Bank has sponsored many cultural, health, educational and humanitarian programs.

In October 2010, our colleague, Dr. Abdullah Al-Hudaithi, decided not to seek nomination to the Board of Directors' new 3-year term, which started during that month. On behalf of the Board of Directors, and all of the Bank's staff, I would like to thank Dr. Abdullah for his outstanding services and valuable contributions made during his tenure as a Board member.

I would also like to welcome Mr. Waleed Abdulrahman Al-Issa, who represents The Public Pension Agency, as a new member of the Board of Directors. I wish him success in serving Riyad Bank, its customers and shareholders.

As the Board's previous term came to an end, so did that of its Audit Committee. I would like to note the outstanding services of the two outgoing external members, Dr. Sulaiman Abdulaziz Al-Towaijri and Dr. Sulaiman Abdullah Al-Sakran who contributed positively in strengthening the audit function in the Bank.

At the start of the Board's new term, the Audit Committee was re-constituted with Dr. Ibrahim Al Ali Al-Khudair, Dr. Ahmed Ali Bayazeed and Dr. Abdullah Hasan Al-Abdulqader joining the Committee as external members. They all possess outstanding academic and professional qualifications and experience which will surely enhance the function of the Committee, and demonstrate the Board of Directors' commitment in implementing the best international accounting and governance standards.

On behalf of the Board of Directors, I would like to express our pride and appreciation of what the Bank's dedicated staff have accomplished and to each of them goes our thanks and gratitude.

We highly value our shareholders' and customers' trust that guide us all to realize our ultimate goal and objective: to provide modern banking services to our customers, and generate consistent returns to our shareholders.

Best regards,
Rashed Abdulaziz Al-Rashed

Board of Directors

Rashed Abdulaziz Al-Rashed
Chairman

Dr. Khaled Hamza Nahas
Board Director

Abdulrahman Hassan Sharbatly
Board Director

Dr. Abdulaziz Saleh Al-Jarbou
Board Director

Abdullah Ibrahim Al-Ayadhi
Board Director

Abdullah Mohammed Al-Issa
Board Director

Dr. Faris Abdullah AbaalKhail
Board Director

Fahad Abdulrahman Al-Huwaimel
Board Director

Mohammed Abdulaziz Al-Afaleq
Board Director

Waleed Abdulrahman Al-Issa
Board Director

Executive Committee

Rashed Abdulaziz Al-Rashed (Chairman)
Abdullah Ibrahim Al-Ayadhi
Dr. Faris A. Abaalkhail
Fahad Abdulrahman Al-Huwaimel
Mohammed Abdulaziz Al-Afaleq

Audit Committee

Dr. Khaled H. Nahas (Chairman)
Abdullah M. Al-Issa
Dr. Ibrahim Al Ali Al-Khudair *
Dr. Ahmed Ali Bayazeed *
Dr. Abdullah Hasan Al-Abdulqader *

Nomination & Compensation Committee

Fahad A. Al-Huwaimel (Chairman)
Abdullah Ibrahim Al-Ayadhi
Dr. Faris A. Abaalkhail
Mohammed Abdulaziz Al-Afaleq
Waleed Abdulrahman Al-Issa

Strategic Planning Group

Rashed Abdulaziz Al-Rashed (Chairman)
Dr. Khaled H. Nahas
Abdulrahman H. Sharbatly
Dr. Abdulaziz S. Al-Jarbou
Abdullah M. Al-Issa

* Independent Members from the Board of Directors

Report of the Board of Directors

The Board of Directors is pleased to present this annual report of the performance, achievements, and financial statements for the year 2010 for Riyad Bank and its subsidiaries. This report provides information about the Bank's activities, major achievements, strategy, financial results, the Board of Directors and its various committees, as well as other important information deemed necessary for the user of this report.

Main Activities:

The main activity of the Bank is to provide a full portfolio of banking and investment services for its customers and for its own account, both in the Kingdom of Saudi Arabia and abroad, by offering a comprehensive range of banking and related services for retail and corporate customers as well as financing all types of trade and industrial projects and activities.

Additionally, the Bank provides through Riyad Capital a varied range of asset management and brokerage services based on the needs of the customer and respective capital markets, as well as providing a wide range of mutual funds and investment services.

The Financial Statements list revenues according to the Bank's main activities, including Notes 19, 20, 21 and 22. Results for the Bank's activities and sectors are listed in Note 26 which accompanies the Financial Statements as of 31st of December 2010. A description of the actual and potential risks faced by the Bank is included in Notes 27, 28, 29 and 30. These Notes are deemed as a complementary part of the Board of Directors' Report.

Main Achievements:

The Bank ended the year 2010 achieving its objectives to further improve its main banking services by offering products and services tailored to customers' needs in order to strengthen its leading position across many banking activities. The Bank's achievements through its various divisions are varied and the following report will focus on the key accomplishments.

In the Retail Banking sector, the improved banking products and services, in addition to the introduction of new products and services, all contributed to supporting the Bank's market status and market share.

In the e-Banking services sector, Riyad Banks' electronic channels are known to provide specialized advanced services at all times, thus attracting many customers, and leading to a remarkable increase in the number of the Bank's service users in the corporate sector. This contributed in enhancing the Bank's pioneering position in electronic dealings.

Moreover in 2010, the Bank maintained its lead in the ATM network, as the number of our multi-functional ATM's exceeded 2,576 machines, distributed in carefully selected strategic locations. The Bank also upgraded all the existing ATMs, to accept every smart card available.

In continuation of the smart card project for the ATM Card, which was executed in 2009, all the branches have been developed for the ATM smart card instant issuing system. This contributed in enhancing the security and protection level for the customers' cards, and had a positive impact on customer service levels and swiftness.

In order to protect customers, the Bank has also applied new authentication regulations when using Riyad Bank electronic channels, to achieve higher protection levels for customers.

Additionally, e-mail & SMS notification services were developed to inform our customers of every transaction made on their ATM card, whether inside the Kingdom or abroad, with transaction details.

The Bank has recently released Deposit Cards for the Promising Businesses' segment.

The Deposit card enables business owners to deposit cash at any Riyad Bank deposit ATMs, allowing business owners to execute their deposit operations at all times.

The Bank also offers a wide range of Promising Business Solutions, through our toll-free number (be it credit card issuing, deactivating ATM cards, activating and deactivating credit cards, account information, or electronic service inquiry).

The Corporate Banking Division has continued to be the biggest contributing division in income and asset growth. Moreover, the Bank continued to focus on a number of successful strategic initiatives, amongst which; increasing the number of corporate customer service agents; product development and enhancements; and striving to expand the corporate service branches network.

The Bank's lending portfolio continues to remain robust and continues to finance and support a number of major projects in various economic fields, as well as servicing the Bank's large and loyal corporate customer base through dedicated Relationship Managers who are available to cater to customers' banking needs.

Riyad Bank recognizes the growing importance that the SME sector plays in the Saudi economy. The results of the "Kafalah" program has demonstrated that Riyad Bank is still the leader in funding those projects. This is considered to be one of the greatest achievements in the corporate banking department, and it also asserts the Bank's supporting role in the domestic economy.

The Financial Institutions Department continued to play a major role through effective communications with the Bank's correspondent banking network, careful risk assessment of business opportunities and close monitoring of global market developments.

The department has contributed to the Bank's overall profitability by continuing to develop mutually beneficial relationships with financial institutions worldwide.

This large network of correspondents is used by Riyad Bank to facilitate international business for its retail, corporate and institutional clients at competitive rates with emphasis on quality of service. Financial Institutions Department also manages banking relations with all non-banking financial institutions such as investment services, insurance, Ijarah financing and other financial services.

The Bank strives, through its foreign network (and is represented by our offices in London, the Houston Agency, and the Singapore Representative Office), to provide banking products abroad to service the corporate customer base, and to present our customers with tailored services to meet their various needs. In addition to this, the Bank provides International Corporate Advisory services on investment and conducting business in the Kingdom of Saudi Arabia. This leads to enhanced trade in the Kingdom and investment interests abroad.

Our London Branch plays an active role in supporting the ever-rising growth in the trade activities of the major European multi-national companies with the Kingdom. This support ranges from providing bonding/guarantees and stand-by L/Cs as well as assisting in the provision of financing for their Saudi business.

In addition to this, the London Branch also provides tailored banking services to the Bank's Saudi customers and their affiliated companies in regards to their European investments in industrial and other sectors and other areas.

Riyad Bank is considered to be the only window for Saudi banks in the Americas, where the Houston Agency plays an important role in supporting Saudi investments in the region, as well as helping U.S and Multi-National Companies to provide commercial activities in the Kingdom of Saudi Arabia, especially in the fields of power, electricity, engineering, construction and aviation.

Riyad Bank is also present in the Far East where its Singapore Representative Office in Asia, helps Riyad Bank customers to take advantage of investment opportunities in Asia, and develop the relations with correspondents and Asian corporations who have business activities in Saudi Arabia.

Credit Rating for the Bank:

Riyad Bank has succeeded in preserving its credit rating. It has maintained an (A+) rating by the Standard & Poor's Rating Agency for long-term liability, and an (A-) for short-term liability - the highest rating available. The Fitch international rating agency also maintained the (A+) rating for long-term liabilities and 'F1' credit ratings for short-term ones. Moreover, Capital Intelligence Agency has awarded the Bank (AA) for long-term liabilities and (A+) for short-term ones - the highest rating available. The agencies agreed not to change their positive ratings as a result of their prospects for a stable future, which reflects the Bank's firm financial position.

Borrowings by the Bank:

In April 2006, the Bank issued USD 500 Million (SAR 1,875 million) in five year term notes as a first tranche of the notes issuance program, totaling USD 1,600 million. This enhanced the Bank's ability to fund assets through a diversified range of sources. Details of these Bonds are included in the 'Notes to the Financial Statements'.

Strategies and Objective:

Riyad Bank's strategic drive is to increase Bank assets by focusing on core banking activities to achieve the largest share of its target markets (whilst maintaining the quality of assets and capital strength), and to provide maximum returns to its shareholders, through continuous development of products and services and risk management excellence.

Based on Riyad Bank's continuous strategic direction aimed at improvement and boosting performance, the Bank has continued with the Performance Transformation Program to further increase its success and achievements and to exceed the expectations of both customers and shareholders, whilst maintaining the position it deserves as the pioneer in the banking sector. To reach this objective, the program focuses on increasing the productivity of sales and service activities at branches; development of performance standards to reach the highest level of banking practice by focusing on increasing sales revenues from alternative distribution/sales channels; and enhancing the customer service department's capabilities and efficiency.

This is supported by the ongoing implementation of the database and information program, allowing the utilization of available information relative to the customers' needs and desires, so that we are better informed to provide the required products and services to the customer, thereby improving customer satisfaction.

Community Service:

In 2010, Riyad Bank pursued its commitment and responsibility towards society, through the support and adoption of a number of charity programs and activities.

In 2010 the Bank organized an awareness campaign regarding the importance of organ donation, with a logo derived from the Holy Quran: "And if anyone saved a life, it would be as if he saved the life of all mankind ''Surah AL-Maidah, [verse 32]." This campaign intended to support the concept of organ donation, shows the real extent of the problems faced by the patients, and attempts to save many dangerously ill individuals. The financial contribution targeted a hundred patients, as a way of consolidating the importance of cooperation among individuals in charity and piety, and of reviving the soul through organ donation.

The Commuity Service Department has supported, the "Women Stand" campaign released by the Zahra Breast Cancer Association for early breast cancer detection, held at the Ministry of Culture and Education's sport stadium in the city of Jeddah.

The Bank also concentrated on caring for individuals with special needs, and purchased cars specially designed for handicapped people in order to alleviate their transport difficulties, as there are no means of transport intended for the disabled. In addition to this, the Bank offered to the Kafeef Organization a number of wrist watches specially designed for the blind, during the organization's celebration for the Global White Cane Day.

The Bank has made great efforts in a number of community service domains across the Kingdom. As we are proud of offering sophisticated banking services to all segments of society, we are also proud of our participation in various educational and medical programs. Riyad Bank endeavors to support and sponsor projects and events related to culture, education, and development of all levels of society.

Subsidiaries:

Riyad Capital:

Riyad Capital is a wholly owned subsidiary of Riyad Bank, established in Saudi Arabia and authorized by Capital Market Authority in Saudi Arabia to provide asset management, wealth management, brokerage and corporate finance services. Riyad Capital has created and developed several investment products that cater to different levels of investors. The Assets Management Department expanded its Private Portfolio Management for High-Net Worth Investors, Corporations and Public Establishments and has encouraged companies to delve into Employee Savings Plans. As a result of its continuous efforts, Riyad Capital was able to maintain its Mutual Funds Market share according to the Capital Market Authority, and also increased its shares in the Saudi Equity Fund and the International Equity Fund. In addition to this, Riyad Capital continued to generate quality revenue from most of its investment funds, which led to rating it amongst the best performing funds in the Saudi market.

In line with Riyad Capital's goal of expanding its investment channels in order to cater for investors' needs, Riyad Capital had established two local funds in the beginning of 2010: "the Al Emar Fund" and "the Riyad Small and Medium Cap Fund ". It also established in October 2010 "the Riyad Real Estate Fund – Burj Rafal ". The establishment of these new funds is part of Riyad Capital's plan to increase the number of investment opportunities available for its customers in the Saudi market and diversify their investments.

With regard to corporate investment banking, Riyad Capital has highly experienced and skilled staff, which allows it to provide excellent services to customers, such as managing all the phases of public and private underwriting procedures, in addition to providing financial advisory services, including structured funding products.

In 2010, Riyad Capital signed and managed a large number of deals, which consolidated its competitive status and position amongst the major companies in the Saudi market, and it is expected that these clear advances will lead to more achievements in the near future.

AJIL Financial Services Company

Riyad Bank contributed 35% towards the formation of AJIL Company for Financial Services together with the Mitsubishi Company and other local financial companies. AJIL has been launched as a general finance company and is registered as a joint-stock company, subject to regulations of the Saudi Arabian Monetary Agency. The company finances capital assets across various economic sectors in the Kingdom.

Ithraa Al Riyad Real Estate Company:

Ithraa Al Riyad Real Estate Company is a limited liability company wholly owned by Riyad Bank, and registered in Saudi Arabia. This subsidiary is responsible for managing asset services for real estate owners and others. It also has the right to buy and sell real estate and similar assets in pursuit of the funding purposes for which it was established. The company started its activities effective 9 February 2009 and as such, the Bank commenced consolidation of its financial records from that date.

Al-Alamiya Cooperative Insurance Company:

The Bank established the Al-Alamiya Cooperative Insurance Company, subject to Saudi Arabian Monetary Agency regulations for public offerings, in conjunction with Royal Sun Alliance (RSA), Middle East based in Bahrain, with operations in Saudi Arabia. Riyad Bank owns approximately 30% of the company on both a direct and indirect basis; whereby percentage of direct ownership is 19.92% as well as ownership of 21.42% of RSA (Middle East). The relationship between Riyad Bank and Royal Sun Alliance (UK) dates back more than thirty years. In the near term, Al-Alamiya Cooperative Insurance Company intends to issue about 30% of its shares for Initial Public Offering.

Financial Highlights for 5 Years

SAR' Millions	2010	2009	2008	2007	2006
Total Assets	173,556	176,399	159,653	121,351	94,016
Loans & Advances, net	106,035	106,515	96,430	67,340	52,183
Investments, net	33,822	32,308	40,329	27,742	27,502
Customer Deposits	126,945	125,278	105,056	84,331	69,192
Shareholders' Equity	29,233	28,235	25,690	13,187	11,992
Total Operating Income	5,980	5,960	5,248	5,181	4,886
Total Operating Expenses	3,156	2,930	2,610	2,170	1,978
Net Income	2,825	3,030	2,639	3,011	2,909
Earnings Per Share (SAR)	1.88	2.02	2.03	2.93	2.83

Financial Results:

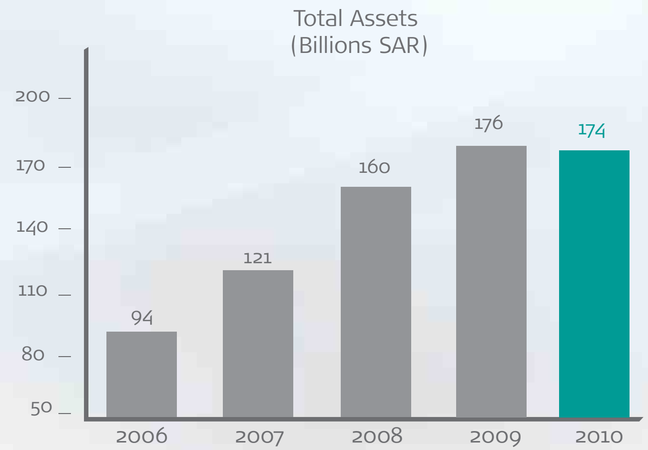
In 2010, the Bank's net income reached SAR 2,825 million, a 6.8% decrease from last year's SAR 3,030 million. Despite the drop in commission fees since 2009, the bank was able to maintain the net commission's consistency, which contributed in preserving the gross operating profit.

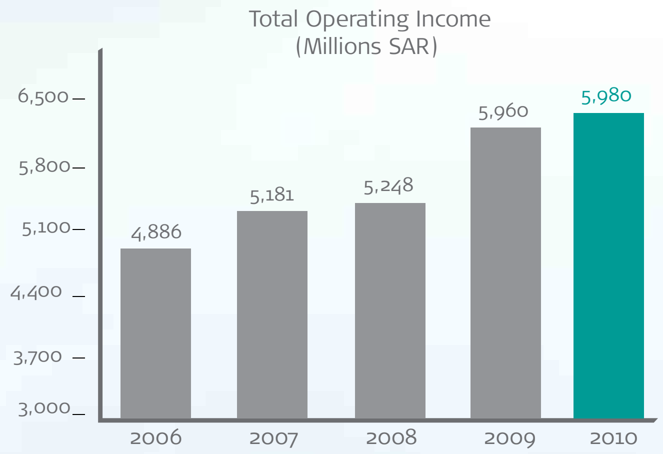
By the 31st of December 2010, assets amounted to SAR 173,556 million against SAR 176,399 million the previous year, a decrease of 1.6%. As for Loans & Advances, by 31st of December 2010, these reached SAR 106,035 million against SAR 106,515 million for the previous year, decreasing slightly by 0.5%. On the other hand, Investments amounted to SAR 33,822 million, in comparison with SAR 32,308 million, increasing by 4.7%. Customers' Deposits, by 31st of December 2010, reached SAR 126,945 million, against SAR 125,278 million the previous year, an increase of 1.3%.

The main financial activities, represented by the lending portfolio, achieved good stability, despite economic and financial fluctuations during 2010 .

The Bank also improved its investment portfolio in light of the relative growth in local and global markets.

In spite of the challenges and changes faced in the banking sector, the Bank continues to adhere to the strategies practiced by the Board of Directors to attain beneficial returns to investors including the focus on main banking activities and growing its assets while maintaining the quality and solidity of these assets.




Total Operating Income
(Millions SAR)
6,500
5,800
5,100
4,400
3,700
3,000
4,886
5,181
5,248
5,960
5,980
2006
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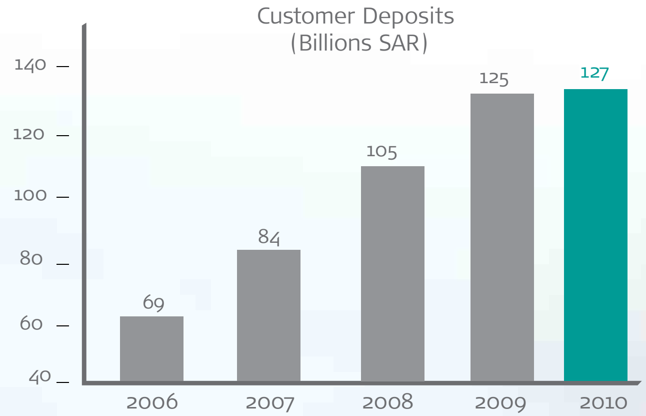
2010


Customer Deposits
(Billions SAR)
140
120
100
80
60
40
69
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2006
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2010


Shareholders' Equity
(Billions SAR)
32
26
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2006
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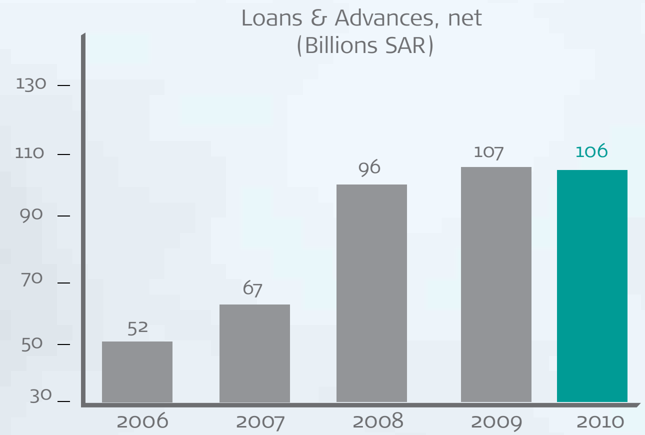
Loans & Advances, net
(Billions SAR)
130
110
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2006
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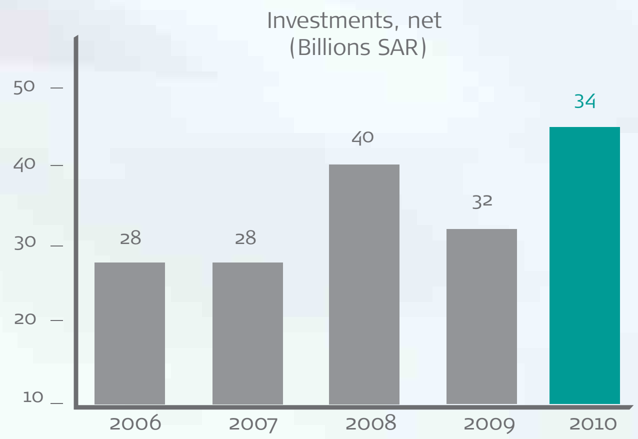
2010



Bank's Gross Income by Geography:

The total income for the year ended 31st of December 2010 was SAR 5,402 million from domestic operations (SAR 7,023 million in 2009), and SAR 2,465 million from international operations (SAR 2,628 million in 2009). The table below shows the geographical distribution of the Bank's income.

Year	Particulars	Domestic operations			International Operations	Total **
		Western Region	Central Region *	Eastern Region		
2010	Total income	1,238	3,189	975	2,465	7,867
2009	Total income	1,370	4,553	1,100	2,628	9,651

*The amount allocated for the Central Region includes revenues from central investments related to the Investment and Treasury Divisions and is not related to any specific geographical sector domestically. It also includes inseparable revenues related to other regions.

**The above mentioned Total earnings are gross amounts, and every revenue item is handled according to its category in the financial statements, in order to get the net amount which shows a slight increase in 2010

Appropriation of Earnings:

The Bank follows the relevant and applicable rules and regulations and observes the following policies in distributing dividends to its shareholders:

a) Transfer 25% of the net profit to statutory reserve. Such transfers may discontinue when the total statutory reserve is equal to the paid-up capital.

b) Distribute a specified percentage among shareholders, each in proportion to its share holdings, upon the recommendation of the Board of Directors and approval of the Annual General Assembly Meeting.

c) The Bank's strategic direction determines the distribution of interim and annual dividends. The dividends proposed for the second half of the year are included in the shareholders' equity, until the Annual General Assembly Meeting approves the Board of Directors' recommendation.

For the first half of the year, in July 2010, the Bank distributed an amount of 60 Halalas per share. The remaining portion of the dividends proposed for the second half of the year 2010, amounting to 70 Halalas per share, will be distributed after the approval of the General Assembly thus bringing total dividends for the year 2010 to SAR 1,950 million, or SAR 1.30 per share.

The Board recommended the appropriation of earnings as follows:

	(SAR' 000)
Retained earnings for the year 2009	513,034
Net income for the year 2010	2,824,627
Total	3,337,661
Appropriations as follows:	-
Zakat	71,000
Cash dividends paid to shareholders for the first half of 2010	900,000
Cash dividends recommended for distribution to shareholders for the second half of 2010	1,050,000
Transfer to statutory reserve	706,157
Retained earnings at the end of the year 2010	610,504

Riyad Bank's Board of Directors:

A Board of Directors consisting of 10 members, elected by the Annual General Assembly Meeting every 3 years, manages the Bank. Members may be re-elected for similar periods at the end of their memberships. The Board of Directors, in its current cycle, comprises 7 independent non-executive members and 3 non-independent, non-executive members, in accordance to the definitions contained in Article Two of the Saudi Corporate Governance Guidelines, issued by the Capital Market Authority (CMA) in Saudi Arabia. The current members of the Board of Directors were elected in October 2010 and, during the whole year, the board held 8 meetings, with attendance at 100%.

Riyad Bank Board of Directors carries out its duties through its main Committees consisting of Board members, except for the Audit Committee, which includes 3 external non-Board members. Below are the main roles undertaken by the main Board Committees:

The Executive Committee:

The Executive Committee exercises its credit, banking, financial and administrative authorities, as set by the Board of Directors. The Committee held 17 meetings during the year 2010 with attendance at 100%.

The Audit Committee:

The Audit Committee exercises a supervisory oversight role on the process relating to financial reports, compliance with all relevant laws and regulations, the effectiveness and efficiency of the internal control system and Risk Management. The Committee held 4 meetings during the year 2010. The Bank's Audit Committee is composed of 5 members, 3 of whom are external and non-Board members; namely, Dr. Ibrahim Al-Ali Al-Khadair, Dr. Ahmed Ali Bayazeed, and Dr. Abdullah Hasan Al-Abdulqader.

Dr. Ibrahim Al Ali Al-Khudair
External Member of Audit Committee

Dr. Ahmed Ali Bayazeed
External Member of Audit Committee

Dr. Abdullah Hasan Al-Abdulqader
External Member of Audit Committee

The Human Resources Committee:

The Human Resources Committee is in charge of reviewing the periodic reports prepared by the executive management of the Bank on human resources to ensure that the Bank's objectives of improving productivity and complying with relevant work standards and code of conduct are achieved. The Human Resources Committee also monitors recruitment and annual expenditure related issues, and reviews compensation policies to ensure they are in line with the guidelines set by the Board.

The Committee also undertakes any other human resources-related tasks assigned to the Committee by the Board. The Human Resources Committee held 2 meetings during the year 2010 where attendance reached to 100%. On the 01/8/2010 the Committee was replaced by the Nomination & Compensation Committee.

Nomination & Compensation Committee:

The Nomination & Compensation Committee that is affiliated to the Board of Directors was established on the 01/8/2010 as a replacement to the Human Resources Committee. Thus the Committee was granted all the authorities of the Human Resources Committee in addition to the authorities sanctioned by the Saudi Arabian Monetary Agency (SAMA). Following the Committee's restructuring in 2010, it held one session, with attendance at 100%.

The Committee supervises the design and implementation of the remuneration system on behalf of the Board of Directors, setting up the remuneration policy and presenting it to the Board of Directors for approval, reviewing the periodical evaluation of the adequacy and effectiveness of the remuneration policy, in order to ensure achieving the goals that were set for it. The Committee then presents its recommendations to the Board for updating or amending. The Committee also evaluates the remuneration discharging methods, presents recommendations to the Board of Directors regarding the level and structure of the wage framework, plus the advantages and remunerations allocated to the most prominent executive employees in the Bank, in addition to reviewing the remuneration policy and abiding by the rules of the Saudi Arabian Monetary Agency (SAMA).

The Committee recommends the Board of Directors on the nomination of its members according to the adopted policies and standards, and ensures that all the members fulfil the regulatory requirements for joining the Board of Directors in line with Bank Control Regulations, the Capital Market Authority (CMA) and corporate law.

Strategic Planning Group:

The Strategic Planning Group oversees the Bank's strategies, evaluates steps taken to achieve the Bank's objectives, supervises major projects initiated by the Bank, and reviews the Bank's financial and operational performance vis-à-vis set strategic goals. The Group held 7 meetings during 2010, where attendance reached to 100%.

This table shows Directors and Committees, their membership and attendance percentage to Board and Committees' meetings, with a total of 233 meetings and total of 99.5% attendance The table also shows name of joint stock companies involving Riyad Bank Board's members.

Riyad Bank Directors and committees			
Member's Name	Membership in other committees	Attendance %	Name of other joint Stock, Companies participating in Board's Membership
Rashed A. Al-Rashed (independent non-executive)	Chairman of the Executive Committee & Chairman of the Strategic Planning Group	100%	Saudi Arabian Investment Co. (Saudi Sanabil)*
Dr. Khaled H. Nahas (independent non-executive)	Chairman of the Audit Committee & Member of the Strategic Planning Group	100%	National Water Co. Saudi Arabian Investment Co. (Saudi Sanabil)*
Abdul-Rahman Hassan Sharbatly non-independent non-) (executive	Member of the Strategic Planning Group	100%	Saudi Arabia Refineries Co. (SARCO) Golden Pyramids Plaza Co.(GPPL) – Cairo*
Dr. Abdulaziz S. Al-Jarbou (independent non-executive)	Member of the Strategic Planning Group	100%	Industrialization and Energy Services Co. (TAQA) Ma'aden Co The Saudi Company for Paper Saudi Arabia Amiantit*
Dr. Abdullah I. Al-Hudaithi ***	Member of the Executive Committee	100%	None
Abdullah I. Al-Ayadhi** non-independent non-) (executive	Member of the Executive Committee Member of the Nomination & Compensation Committee	100%	Saudi Railways Organization (SRO)*
Abdullah M. Al-Issa (independent non-executive)	Member of the Audit Committee & Member of the Strategic Planning Group	100%	Arabian Cement Co. Saudi Basic Industries Corporation (SABIC) Saudi Hotels and Resorts Company National Medical Care Co. (NMC)*
Dr. Faris A. Abaalkhail (independent non-executive)	Member of the Executive Committee Member of the Nomination & Compensation Committee	100%	None
Fahad A. Al-Howaimel** non-independent non-) (executive	Chairman of the Nomination & Compensation Committee Member of the Executive Committee	100%	Saudi Ceramics
Mohammed A. Al-Afaleq (independent non-executive)	Member of the Executive Committee Member of the Nomination & Compensation Committee	100%	None
Waleed Abdulrahman Al-Issa** (independent non-executive)	Member of the Nomination & Compensation Committee	100%	Cooperative Insurance Company

* unlisted companies
** members representing the Public Investment Fund and the General Organization for Social Insurance, consecutively.
*** Dr. Abdullah I. Al-Hudaithi's membership ended by the end of the previous term of the Board of Directors on the 30th October 2010, while Mr. Waleed Abdulrahman Al-Issa's membership started on the 31st October 2010.

Riyad Bank Directors and committees			
Member's Name	Membership in other committees	Attendance %	Name of other joint Stock, Companies participating in Board's Membership
Dr. Sulaiman Abdullah Al-Sakran*	Audit Committee Member (non-Board member)	75 %	
Dr. Sulaiman Abdulaziz Al-Towajri*	Audit Committee Member (non-Board member)	100%	
Dr. Ibrahim Al Ali Al-Khudair**	Audit Committee Member (non-Board member)	-	National Gas & Industrialization Company
Dr. Ahmed Ali Bayazeed**	Audit Committee Member (non-Board member)	-	
Dr. Abdullah Hasan Al-Abdulqader**	Audit Committee Member (non-Board member)	-	

* members of the Audit Committee whose membership ended by the end of the previous term of the Board of Directors on the 30st October 2010
** new members of the Audit Committee who were designated with the start of the new term of the Board of Directors on the 31st October 2010

Directors and Senior Executives Remuneration

(SAR '000)

	Members of the Board	Senior Executives*
Salaries	-	11,039
Allowances	711	1,938
Annual and Periodic Remunerations	3,600	7,260
Incentive Plans	-	363
Other Compensations or Benefits	114	826
End of Service Remuneration	-	2,273

*This includes Directors, Chief Executive's and Financial Controller remunerations.

Changes in Major Shareholdings:

The two following tables include a description of any interest related to the members of the Board of Directors and Senior Executives, including their wives and minor children, in the stocks or credit instruments of the company or any of its subsidiaries, as per Article 30 (Paragraph B) of the Listing Rules:

Major shareholders Non Board members and Senior Executives including their wives & minor children

Name	beginning of the year		End of Year		Net change	Ownership (%) end of the year
	No. of shares	Credit instruments	No. of shares	Credit instruments		
Public Investment Fund	326,304,000	-	326,304,000	-	-	21.8%
General Organization for Social Insurance	324,378,600	-	324,378,600	-	-	21.6%
Mohamad I. Al-Issa	148,500,000	-	130,000,000	-	-18,500,000	8.7%
Al-Nahla Co. for Trading and Construction	138,709,416	-	130,211,953	-	-8,497,463	8.7%
Saudi Arabian Monetary Agency	97,974,000	-	97,974,000	-	-	6.5%

Chairman & Board Members Senior Executives including their wives & minor children

Name	beginning of the year		End of Year		Net change	Ownership (%) end of the year
	No. of shares	Credit instruments	No. of shares	Credit instruments		
Rashed A. Al-Rashed	14,859,809	-	14,859,314	-	-495	0.9906%
Dr. Khaled H. Nahas	2,400	-	2,400	-	-	0.0002%
Abdulrahman H. Sharbatly	143,937,496	-	137,810,928	-	-6,126,568	9.1874%
Dr. Abdulaziz S. Al-Jarbou	1,600	-	1,600	-	-	0.0001%
Dr. Abdullah I. Al-Hudaithi	446,028	-	446,028	-	-	0.0297%
Abdullah I. Al-Ayadhi	9,000	-	11,000	-	2,000	0.0007%
Abdullah M. Al-Issa	1,425,000	-	1,425,000	-	-	0.0950%
Dr. Faris A. Abaalkhail	1,036,500	-	1,176,300	-	139,800	0.0784%
Mohammed A. Al-Afaleq	32,500	-	32,500	-	-	0.0022%
Waleed Abdulrahman Al-Issa	-	-	-	-	-	-
Talal I. Al-Qudaibi	33,432	-	33,432	-	-	0.0022%
Saeed S. Al-Saiairri	61,000	-	61,000	-	-	0.0041%
Abdulkarim H. Al-Faraj	6,000	-	6,000	-	-	0.0004%

Accrued Regulatory Payments:

(SAR '000)

	2010	2009
Zakat	71,000	85,000
Taxes payable by the Bank on behalf of nonresident bodies (as per contract provision)	16,570	7,519
Taxes payable by the Bank overseas branches to official bodies overseas	8,928	5,514

Penalties, Sanctions and Preventive Provisions:

During the financial year 2010 the Bank has not incurred any significant penalty or sanction that should be disclosed.

Applicable Accounting Standards:

The Bank prepares its financial statements, which are audited and examined by the external auditors, in accordance with the framework enacted by the Saudi Arabian Monetary Agency (SAMA). The financial statements are prepared in accordance with Accounting Standards for Financial Institutions promulgated by SAMA and International Financial Reporting Standards (IFRS). The Bank also prepares its financial statements in compliance with the Banking Control Law and the Regulations for Companies in the Kingdom of Saudi Arabia.

In line with its role and responsibility towards the safeguarding and protection of the Bank's assets and customers' deposits, the Board of Directors confirms, to the best of its knowledge, that:

- There are no contracts entered into by the Bank in which the Chairman of the Board, Board members, Chief Executive Officer, Senior Executive Vice President of Finance, or any party related to any of them has or had a significant interest, except as stated in Note 32 attached to financial statements regarding transactions with related parties.
- The Bank's financial records are properly prepared and maintained.
- There are no matters of significance affecting the going concern aspect of the Bank activities.

As regards the internal control system, the Board confirms that the Bank has a well-established mechanism to ensure proper design and implementation of the Bank's business-related internal control system.

The main elements of the internal control systems applied by the Bank include the definition of responsibilities, financial authorities and responsibilities for all managerial levels, including the Board of Directors and Executive Management, and the segregation of duties and responsibilities to ensure control effectiveness. The Board's Audit Committee reviews Internal Audit reports, Risk Management reports and other reports on a regular basis, thus providing an ongoing assessment of the internal control systems and their effectiveness. This properly serves the Board's objective to obtain reasonable assurance over the soundness of the design and effective implementation of said internal control systems; considering that no internal control system – no matter how well it is designed and implemented – can provide absolute assurance.

Saudi Corporate Governance Regulations:

The Bank has implemented the rules set out in the Corporate Governance document issued by the Capital Market Authority, except what has been disclosed in Form 8 with regard to abiding by the corporate arbitration articles, which we summarize as follows:

Article 5 - shareholder's rights related to the general assembly meetings - Item (T) has been implemented by the Bank and procedures are being completed to enable shareholder's access to the general assembly meeting minutes.

Article 6 - voting rights - the Bank did not adopt cumulative voting.

Article 13 - Board of Directors' Committees and their independence– Item (B) the Committees' lists have been completed and are currently being approved.

Article 15 - Nomination & Compensation Committee - the Committee was formed and the Board of Directors' approved its roles and responsibilities.

In general, the Bank has pioneered implementing the various aspects of the regulatory authorities' requirements and it endeavors to follow all regulatory authority regulations and remain informed on updates to them, additionally, the Bank continues completing many related policies and procedures.

Human Resources:

The Board of Directors gives utmost care and attention to human resources, which represents the most important factor in the success of banking operations. This has been manifested in the creation of new short and long term plans and strategies aimed at attracting fresh Saudi university and other institutions graduates and preparing them to work in relevant banking positions. Furthermore, these plans focus on employing appropriate subject matter experts. The Board of Directors is also keen to provide ambitious programs to train, develop and support the Bank's staff to meet their current and planned works.

In 2010, Human Resources were able to meet the various divisions' growing demands for staff through attracting a number of qualified employees in order to achieve the Bank's goals and objectives. The Division was keen on choosing the best employees who recently graduated from recognized universities for the banking, managerial and executive positions, thus it recruited 620 new employees.

The Human Resources Division recognizes the importance of working women's role in the Kingdom and recruited 202 female employees during the year. As a result, the female employees' percentage amounted to 19% of the total staff, all of whom are Saudi women.

As part of the Bank's strategy to support Saudization through recruitment, the Bank has maintained its leadership position in the percent of Saudization in the banking sector. Saudi nationals account for 100% of senior management positions in the Bank, 100% of the ladies' sections, and 93% of the Bank's total staff.

In addition, the Bank provided over 9,202 training opportunities in 2010, both inside the Kingdom and abroad. These training opportunities were accomplished in affiliation with the most prestigious well known training institutions.

The Bank's management inspires and motivates staff to boost their self-confidence and sense of belonging and ensures their work stability and promotion through supporting motivational programs such as incentives and bonus schemes, a Staff Saving Investment Plan and the Riyad Bank Share Participation Plan. Details of these programs are included in the Notes to the Financial Statements. The following are the balances and movements of the Staff Incentive Programs during 2010.

External Auditors:

The Annual General Assembly Meeting of the Bank's Shareholders held on 2nd March 2010 approved the appointment of Messrs. Deloitte & Touche Bakr Abulkhair & Co, and KPMG Al-Fozan & Al-Sadhan as joint auditors for the fiscal year ending 31st of December 2010. The General Assembly will decide in its upcoming meeting whether to reappoint the current auditors or replace them and define their fees for reviewing the Bank's financial statements for the fiscal year ending 31st December 2011, after reviewing the recommendations of the Audit Committee and the Board of Directors in this respect.

(SAR '000)

	Staff incentive programs		
	Investment saving		
	Patricipation Plan	Riyad Bank Share Participation Plan	Total
Balance at the beginning of the year	34,408	12,427	46,835
Provided during 2010	9,291	3,321	12,612
Charged during 2010	(7,156)	(2,599)	(9,755)
Balance at the end of the year	36,543	13,149	49,692

Acknowledgements:

We would like to take this opportunity to extend our profound thanks and gratitude to the Custodian of the Two Holy Mosques, King Abdullah bin Abdulaziz Al Saud (May Allah protect him), HRH Crown Prince Sultan bin Abdulaziz Al Saud (May Allah protect him), Deputy Prime Minister and Minister of Defense and Aviation and Inspector General, HRH Prince Naif bin Abdulaziz Al Saud (May Allah protect him), Second Deputy Prime Minister and Minister of Interior, and the Government. Much is owed to the Ministry of Finance, the Saudi Arabian Monetary Agency and the Capital Market Authority for their continued assistance and support to the banking and financial institutions sector.

We are also pleased to record our thanks to all our shareholders, customers and correspondents for their valued support and confidence which motivates us to exert more effort and dedication. We also extend our thanks and appreciation to the Bank's staff for their commendable and sincere efforts and hard work towards the development, improved performance and the achievement of the Bank's goals and objectives.

Board of Directors

Riyadh - January 24, 2011 – Safar 20, 1432 H.

Achievements 2010

Retail Banking:

In 2010, Retail Banking offered consumers a wide range of creative products and services that were tailored to satisfy their evolving needs.

Hassad Credit Card Loyalty Program

The Bank continued to provide security and peace of mind to customers using credit and prepaid cards, through the smart chip (EMV). This feature, which is made up of an embedded microchip, requires a security code for POS machines and online purchase transactions. This requires that a unique code for each operation needs to be entered to authenticate the card holder's identity.

Building on the smart card system for the Automated Teller Machines (ATMs) project, which was executed in 2009, all of the branches have been equipped with the smart card instant issuing system, and this contributed in enhancing the security and protection level for customers' cards.

The Bank has also continued the HASSAD loyalty rewards program for credit cards, which grants the customer points for using the card in purchasing operations, free of charge. Through this program, the customer can accumulate points and redeem them for rewards [products or services] from any of the program's partners, who represent a selection of the best trademarks and international brands.

In 2010, the Bank supplied a number of banking solutions for Promising Businesses; current accounts, ATM smart cards, deposit cards, banking business cards, points of sale machines and electronic channels.

The Bank also provided a unique offer on mortgage loans, which enabled the bank to maintain its lead in the Saudi market.

With regard to the Auto Leasing products in 2010, Riyad Bank continued to support the "Ijarah with the Promise of Ownership" program, by opening new showrooms all over the Kingdom.

Riyad Bank electronic channels are recognised to provide specialized advanced services at all times, thus attracting many customers, and leading to a significant increase in the number of the Bank's service users in the corporate sector. This contributed to enhancing the Bank's pioneering position in electronic banking.

In 2010, the Bank has also kept its lead in the ATMs network, as the number of multi-functional ATM's exceeded 2,576 machines, distributed in strategic &

carefully selected locations. The Bank also upgraded all the existing ATMs, to accept every smart card available.

Ladies Banking:

Ladies Banking has witnessed a significant increase in 2010. While there were only 43 ladies sections in 2009, now this number reached 66, of which 60 are attached to branches, one is a full ladies branch, one is a Golden Services section and 4 are Private Banking sections.

Islamic Banking:

The Islamic Banking department is continually implementing services and developing Shari'a based banking products, using methods approved by the Islamic Banking Shari'a committee.

Consequently, the number of Islamic banking branches was increased to 115 to meet our customers' needs.

All Islamic banking products, procedures and related brochures were reviewed and updated, plus a number of public clients' meetings were held with members of the Shari'a committee, and 300 employees were trained in Islamic banking.

Private Banking & Golden Service:

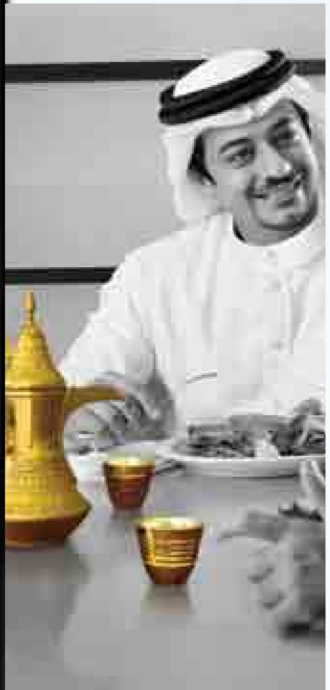
Riyad Bank continues to provide new and improved services to its clients, as the Private Banking and Golden Service Relationship Managers' continued to add more uniqueness to the highly refined treatment they provide their clients, in order to take the utmost care of their elite customers' needs.

This spurred the Bank in 2010, to increase the number of Private Banking and Golden Service branches, leading to the establishment of 3 Private Banking centers, and 18 Golden Service branches in some of the major areas and cities in the Kingdom. As a result of this expansion, the number of customers increased by 35 % in 2010.

Overseas Banking:

Through its foreign network represented by our offices in London, the Houston Agency, and the Singapore Representative Office, Riyad Bank provides banking products abroad, which serve the corporate customer base, and allow us to present our customers with tailored services to meet their various needs. In addition to this, the Bank provides advice on investment and business in the Kingdom of Saudi Arabia. This leads to enhanced trade in the Kingdom and investment interests abroad.

Ladies Sections , relating to Retail and Golden Services Branches, reached 66 sections by the end of the year



Golden Services

Our London Branch plays an active role in supporting the ever-rising growth in the trade activities of the major European multi-national companies with the Kingdom. This support ranges from providing letters of guarantee and stand-by L/Cs as well as assisting in the provision of financing for their business in Saudi Arabia. In addition to this, the London Branch also provides tailored banking services to the Bank's Saudi customers and their affiliated companies to support their European investments in industrial and other sectors.

Riyad Bank is considered the only window for Saudi banks in the Americas, where the Houston Agency plays an important role in supporting investments in the region, as well as helping U.S. and Multi-National Companies to provide commercial activities in the Kingdom of Saudi Arabia, especially in the fields of power, electricity, engineering, construction and aviation.

Riyad Bank is also present in the Far East where its Singapore Representative Office in Asia helps Riyad Bank customers to take advantage of investment opportunities in Asia, and to develop the relations with correspondents and to Asian corporations who have business activities in Saudi Arabia.

Corporate Banking:

The Corporate Banking Division has continued its position in contributing to the Bank's income and assets growth. The Bank continued to focus on a number of successful strategic initiatives, amongst which; increasing the number of corporate customer service agents; product development and enhancements; and expanding the corporate service branches network.

The Bank's lending portfolio continues to remain robust and keeps on financing and supporting a number of major projects in various economic fields, as well as servicing the Bank's large corporate customer base through qualified Relationship Managers who are dedicated to satisfying the customers' banking needs.

Riyad Bank recognizes the growing importance that the SME sector plays in the Saudi economy. The results of the "Kafalah" program showed that Riyad Bank is still the leader in funding those projects. This is considered to be one of the most important achievements of the Corporate Banking Department, and it also asserts the Bank's supporting role in national economy.

Correspondent Banking / Financial Institutions:

The Financial Institutions Department continued playing a major role through effective communications with the Bank's correspondent banking network, careful risk assessment of business opportunities and close monitoring of the global market developments.

The Department has contributed to the Bank's overall profitability by continually developing mutually beneficial relationships with financial institutions worldwide. This large network of correspondents is used by Riyad Bank to facilitate international business for its retail, corporate and institutional clients at competitive rates with emphasis on quality of service. Financial Institutions Department also manages banking relations with all non banking financial institutions such as investment services, insurance, Ijarah financing and other financial services.

Treasury:

In line with the Bank's strategy to increase fee based income, Treasury increased its customer base during 2010 over 30% to meet our customers' needs through a wide range of Treasury products. The newly implemented Treasury system and the addition of new experienced staff has well positioned Treasury in the market not only to provide standard products but also to present customized and structured hedging solutions to meet client specific needs and requirements.

In 2010, a new unit was established within the Treasury Division, called the Balance Sheet Management Unit (BSM), supervised by the Asset and Liability Committee. The BSM unit is responsible for the strategic management of the bank wide balance sheet.

Risk Management:

The Risk Management Division is responsible for reviewing, monitoring and reporting the Bank's credit risk, market risk, operational risk and regulatory compliance risk, and for providing regular reports to the Board and its Audit Committee. In addition, the Division provides periodic updates and reports to various executive management committees entrusted with managing different types of risks, including the Operational Risk Management and Compliance Committee, and the Asset and Liability Committee. The Division is responsible for ensuring that Riyad Bank manages all risk types in accordance with regulatory requirements from the Saudi Arabian Monetary Agency (SAMA), Capital Market Authority (CMA), and regulatory bodies in other countries where the Bank operates. The Division also monitors the Bank's activities to ensure the risks are managed within the approved policies.

New Branches

The Triple Offer (Personal Loans)

Financial Risk Management (FRM) monitors the Bank's Market, Asset and Liability (ALM) and Liquidity risks. At the end of 2010, the Department launched a risk management software system Kamakura Risk Manager (KRM). It is a fully integrated market risk, interest rate risk, limit management, and liquidity risk management system.

The Operational Risk Management Department, as part of its major responsibility for managing and mitigating operational risk in the Bank, has been actively involved in implementing a range of key initiatives including the enhancement of its anti money laundering (AML) capabilities and dedicated Fraud Control.

The Bank is presently reporting its operational risk capital requirements using the standardized approach under Basel II, and is preparing to adopt the Advanced Measurement Approach (AMA) for Operational Risk. The operational risk loss data reporting is being established which will allow the Bank to collect operational loss data and prepare the Bank to calculate its capital requirements using the Value at Risk (VaR) methodology for Operational Risk.

The Compliance Unit ensures that Riyad Bank meets all the compliance and governance related requirements. This has not only helped Riyad Bank in building sound regulatory relations and establishing compliance culture at the enterprise level but has also contributed in raising the awareness level of our staff through multiple training sessions.

Credit Quality:

The Credit Risk Management Framework consists of principles, structures, tools and activities required for managing credit risk at all levels in the Bank. The purpose of this framework is to support the Bank's efforts to enhance the Bank's assets and improve their quality, whilst observing the rules and regulations set by the regulatory authorities.

The Bank utilizes sophisticated credit administration and limit management software systems to ensure full life cycle management of credit applications, limits management, financial and non-financial collateral management.

In addition, the Bank uses internationally recognized credit rating systems to assess the viability of corporate credit applications and produce their credit rating. The Bank also uses advanced retail credit systems provided by international vendors to maintain and improve the credit evaluation data base, which the Bank uses to generate behavioral models to manage retail credit exposures.

During 2010, the Bank has continued to enhance these credit risk management systems with the objective of reaching the highest levels of efficiency in automating credit requests and fund disbursement process flow in order to be able to manage the credit exposures in an automated and timely manner.

In accordance with Saudi Arabian Monetary Agency (SAMA) directives, the Bank is in full compliance with all BASEL II requirements for the Standardized Approach for Credit Risk management. The Bank is now actively progressing towards the implementation of the BASEL II Internal Rating Based (IRB) Approach to reach a capital sufficient to cover Credit Risks. In this regard, the IRB Project Preparation Phase has been completed and the Bank has started to structure its Credit Rating Systems to be compliant with BASEL II IRB standards. Furthermore, the Bank will start preparing the necessary data and further reinforcing Credit Risk governance in accordance with BASEL II requirements and as per the best banking practices.

Credit Rating:

Riyad Bank has succeeded in maintaining its credit rating, preserving its (A+) rating by the Standard & Poor's Rating Agency for long-term liability, and an (A-) for short-term liability - the highest rating available. The Fitch rating agency also maintained the (A+) rating for long-term liabilities and (F1) credit ratings for short-term ones. Capital Intelligence Agency has awarded the Bank (AA-) for long-term liabilities and (A+) for short-term ones, the highest rating available. All the rating agencies have kept their positive stable outlook for the Bank given the financial soundness.

Operations and IT:

In 2010, the Information Technology Division continued to find advanced technical solutions for Retail and Corporate Departments to improve the level of services offered. The most important achievements were developing the Siebel system, which services Retail Banking by managing campaign sales and telemarketing channels, in addition to what was developed for Corporate Banking in establishing and managing loans, and allowing the customer service center

The Strongest Offer (Credit Cards)


International Awards for the Bank

within the Division to better use the automated information to respond to the customers' requests more efficiently.

The Division also developed a system for servicing corporate banking customers with online banking features, allowing them to manage their accounts, in addition to managing payrolls services and dividends payments automatically, safely and on time.

The Division has also proceeded with improving the existing trade finance systems, providing the customers with services of high quality and efficiency. In addition to this, the department supported the Treasury sales system, which was developed in line with the best operating requirements to serve the Bank's customers in the best way possible. In this respect, the Bank is continuing to update the Treasury operation systems for more functional features and better performance.

The Information Technology Division, aiming to support and update services to a higher level, has concentrated on providing great technical facilities to the Business Intelligence Competency Center (BICC) within the Bank, allowing it to utilize the available information about customers' needs, so that it would be able to provide the required products and services. This center constitutes the major link between the Bank's "Data Warehouse", and the business division requirements for managing customers' dealings and services. In addition to this, the Bank has invested in infrastructure, thus improving operations efficiency and effectiveness, which allowed the Bank to maintain its leading position in high performance, and automating services generally, and electronic channels specifically.

The Information Technology Division has contributed in supporting expansion plans for the Bank in 2010, as it experienced a wide growth in the service network through branches, ATMs and other service channels. In 2010, the Information Technology Division has also studied and executed new technical solutions, and implemented various initiatives, in order to raise the service level and reduce costs. The Division has also developed a program for the credit card and loan repayment due to other banks through SADAD system, and has issued credit cards and loans for customers, without shifting their accounts to Riyad Bank.

The Division has also been upgrading and installing systems within the Banks infrastructure in order to provide the best possible services to all the other divisions and departments, according to a well-designed plan that aims to improve service quality and perform operations efficiently and effectively.

Information Technology Governance:

In 2010, the Information Technology Governance (ITG) Department has adopted many initiatives, reviewed all the banking systems and ensured customer information safety and secrecy.

In addition, ITG supported the IT requirements of the Bank through various services especially in the IT architecture, and quality testing by leveraging the current processes and IT systems to improve on the delivery quality without any business impact.

In coordination with the Risk Management Division, ITG adopted all Saudi Arabian Monetary Agency's regulations and requirements, with regard to the Credit Card Industry Data Security Standard.

Quality Control:

In 2010, the Quality Control Department has implemented a number of development projects and plans, mainly the 6 Sigma program, which was a major leap in the fast execution of mortgage funding procedures, account opening, claim processing etc...

The Customer Care Unit continues to meet the Bank's customers' needs, by receiving their observations and complaints, through all channels to settle their complaints in a timely and satisfying manner. Reports are raised monthly to the executive management, as per Saudi Arabian Monetary Agency's regulations.

The Continuous Development Unit has also contributed in providing a number of initiatives, in order to improve service quality and fast execution in favor of the Bank's customers. The Unit also supported the Performance Transformation Program (PTP) in 2010, by designing effective work processes, documentation and reporting.

Human Resources:

Human Resource Division was able to meet the various divisions' growing demands for staff through attracting a number of qualified national employees in order to achieve the Bank's goals and objectives. The Division continued to support students who have recently graduated from prominent universities, by qualifying and training them continuously.

In keeping with the Bank's commitment to the staff development and training, the Bank has continued to motivate and train its staff through the provision of training opportunities that aim to enhance their performance level and professionalism, by keeping them up to date and well trained in various fields.

National Qualified Staff

Mortgage Loans

In this respect, the Bank has provided over 9,202 training opportunities in 2010, both inside the Kingdom and abroad. These training opportunities were accomplished in affiliation with the most prestigious well known training institutions.

Also in line with the Bank's strategy, the Bank has updated and developed a number of employee benefits and incentives in 2010.

Marketing and Communications:

The Marketing and Communications Department played a pivotal role in the exemplary success accomplished by Riyad Bank in year 2010. The Department continued its methodical analysis of the present and future market situation before launching any marketing communication campaign.

The coordination with the Market Research Department was vital in attaining data and information related to market conditions to target suitable customer segments with various social and age characteristics, with services and products suitable for their aspirations and needs. The campaigns were supported by research to identify the best and most advanced media channels to reach the customer through direct marketing, in addition to enhancing the Bank's image in the minds of the public. Furthermore, the Bank endeavored to acquire new customers while emphasizing increase in sales and cross-selling to existing customers, reaching the desired objective of profitable growth.

The Bank launched several marketing communication campaigns in all major areas such as new branches, Credit Cards, Mortgage Loans, Personal Finance, Auto Leasing and many others. These campaigns had positive feedback and excellent results.

The Department contributed in sales initiatives by granting awards to the best performance sales teams. In addition, the Department carried out a process of controlling information distribution by classifying and channeling them to assigned people. It also initiated improvement on the Intranet. It played an active role in developing and executing community service programs. The Department has also issued more than 356 press releases during the year.

Community Service:

Riyad Bank's contribution to social work is an important part of its values and principles. The Community Service Department supports many programs carried out by charities, social, health and educational organizations, plus other programs that benefit society, as part of the Bank's commitment towards society.

In 2010, the Bank organized an awareness campaign regarding the importance of organ donation, with a logo derived from the Holy Quran: "And if anyone saved a life, it would be as if he saved the life of all mankind.''Surah AL-Maidah, [verse 32]. This campaign aimed to promote the concept of organ donation, show the real extent of the problems facing the patients, and try to save the lives of fatally ill individuals. The financial contribution targeted a hundred patients, as a way of consolidating the importance of cooperation among individuals in charity and piety, and of saving lives through organ donation.

The Community Service Department has supported, for the third year in a row, the "Women Stand" campaign organized by the Zahra Breast Cancer Association for early breast cancer detection. The campaign aims to raise the necessary awareness regarding the dangers of breast cancer, the mechanism of dealing with it, and protection methods, in line with the Bank's belief in being socially responsible for women's health education. The Bank also shared caring for individuals with special needs, and bought 3 cars specially designed for handicapped people, in order to alleviate their commuting problems.

In addition to this, the Bank strived to consolidate the idea of voluntary services in society, through voluntary campaigns, in which Riyad Bank employees participated to help victims of the floods that hit the Jeddah Province on the 25th of November 2009, by allocating food and medical supplies to those victims.

The Community Service Department did not ignore the importance of the environment in our precious country, and last year witnessed a number of participations in this context, like the Jeddah beach and Red Seabed cleaning campaign, with the help of the "Buzzard Flock" for Aviation and Areal Sports team". The campaign was received positively by the Bank's employees and the Jeddah beach visitors, who volunteered with the team in the cleaning process. Moreover, the Bank supported the scout members in Sadeer area, in cleaning tourist areas.

The Bank also contributes to the cultural field, as it granted, for the third year in a row, an award called "The Book of The Year Award", for publications related to Saudi culture, and specialized in literature, art and human science, with the help of the Literature Club in Riyadh. Through this award, Riyad Bank aims to give a new incentive to creative writers, in various scientific and educational fields. In 2010, the Bank granted this award to his Excellency Sheikh Mohamed Bin Nasser Al-Aboodi, for his book "The Dictionary of the

Organ Donation Campaign


Burj Rafal - Riyad Real Estate Fund

Arabic Roots of Colloquial Expressions, or What Centuries Did to the Arabic Language."

Riyad Capital:

Riyad Capital is a subsidiary of Riyad Bank, licensed by the Capital Market Authority to provide Dealing (as Principal, Agent and Underwriter), Arranging, Advising and Custody.

In 2010, the Asset Management Department introduced several investment products to meet the needs of its wide customer base, and expanded its Discretionary Portfolio Management services, which targets high net worth and institutional clients, and assisted several companies in developing saving programs for their employees. As a result, Riyad Capital was able to preserve its substantial share of the asset management market in Saudi Arabia, as per the Capital Market Authority's published data, and this includes increasing its leading market share in both the local and international equity funds. The company was also able to continue to generate high returns on its managed funds and investment portfolios and was rated amongst the best performing and diversified fund managers in Saudi Arabia.

In addition to winning new "Employee Savings Program" management for some companies, Riyad Capital introduced in 2010 two local funds: "Al Emaar" and "Riyad Small and Medium Cap". In October 2010, it established another fund; "Riyad Real Estate Fund – Burij Rafal" which was successfully placed in early 2011. Such new funds offerings is part of Riyad Capital's ongoing strategy to create new and promising local investment opportunities to meet clients' investment needs in light the economic prosperity witnessed in the Kingdom.

With respect to Investment Banking, Riyad Capital accomplished many important achievements in 2010 which placed its Corporate Investment Banking as one of the leading players in Saudi Arabia. Amongst such achievements, the company acted as Underwriter and Lead Flotation Manager of the Solidarity Saudi Takaful Company's IPO, Underwriter of Abdullah Abdulmuhsin Al-Khodary and Sons Company IPO, Joint Bookrunner and Lead Manager of Gulf International Bank's SR

3.5 billion bond offering, in addition to various other financial advisory mandates.

With respect to new investment banking mandates, in 2010 Riyad Capital signed agreements to provide Financial Advisory and Private Placement services for a petro-chemicals company; Financial Advisory, Flotation Management and Underwriting services for the IPO of National Medical Care Company; Joint Bookrunner and Lead Manager for the Saudi International Company for Petro-chemicals (Sipchem).

In 2010, Riyad Capital also invested in further development of its specialized technical and management personnel and sought to expand its experienced and qualified human resources. In addition, the company continued to carryout its business activities in a highly competent, professional and ethical manner, while investing in strengthening its Management Information Systems to help meet the company's short-term and long-term strategic objectives.

Qualified staff &
specialized administrators

Economic and Financial Outlook for 2011

Introduction

During 2010, the world economy witnessed a two-speed recovery pattern. The recovery was weak and incomplete in advanced economies. It was fueled by two unsustainable factors; inventory accumulation and fiscal stimulus. It was also creditless and jobless. Creditless because banks were reluctant to lend and the non-banking sector was not keen to expand its borrowings or even raise funds through fragile financial markets. Creditless recovery displayed weak economic growth with inability to create jobs and reduce unemployment. Economic recovery that is not funded by bank credits is concentrated in economic activities driven by large companies that can access funds provided by financial markets. This means depriving small and medium enterprises (which accounts for more than 70% of production and employment in developed economies) of funding and expansion.

Additionally, throughout 2010, the household sector was going into a correction process to improve saving habits in order to cut its debt burden. The combination of inefficient financial intermediation and low consumption demand has led to a slow recovery that was hardly strong enough to reduce the jobless rate.

Emerging economies, on the other hand, were more flexible than most of the industrial economies. Most emerging economies have been able to return to their export patterns and high growth rates though global international trade has not fully recovered. The recovery in those countries was fuelled by foreign demand (exports) rather than domestic demand. Although the growth in the emerging economies was not enough to lift the overall global demand and growth, it was strong enough to attract capital inflows that caused the currencies for those economies to appreciate and the prices of commodities and assets to increase. This situation led many countries in Asia and South America to tighten monetary policy measures, on worries concerning risks of over-appreciation in currencies and overheating in domestic economies.

Another factor contributing to weak recovery in 2010 is the early austerity measures adopted by some governments in Europe. Large budget and current account deficits and heavy debt burden forced some European governments, under the need for bailout plans, to go through early austerity measures. The measures were aimed at curbing domestic demand and shifting toward exports. But with weak demand from industrial countries and not fully-recovered international trade, such measures resulted in a direct negative impact on growth and tax revenues, and hence, minimum improvement in budget deficits.

Prospects for more consolidated and balanced recovery in 2011 seem to be less likely. The situation in 2010 may be extended until the end of 2011. Industrial countries will continue to recover in a very sluggish way, while emerging markets economies will grow in a fast manner as in 2010.

Despite the above setting, the latest IMF reports show that the global economy grew by 5% in 2010 and is projected to grow by 4.2% in 2011. Growth is pushed by the strong growth in the emerging and developing economies that expanded by 7.1% in 2010, and expected to grow by 6.5% in 2011. Growth in advanced economies was 2.7% in 2010, and is expected to slow down to 2.5% in 2011. The US economy, the largest economy in the world, was projected to grow by 2.8% in 2010 and to slightly accelerate to 3.0% in 2011.

The current circumstances require policies in all countries to be more proactive to reach the required rebalancing internally and externally. Most advanced economies and a few emerging economies still face major adjustments, including the need to strengthen household balance sheets, stabilize, and later on decrease high public debt, and fix financial sectors. Moreover, in advanced economies monetary policy should stay highly supportive and should be the first line of defense against any larger-than-expected weakening of activity as fiscal support decreases.

On the policy front, many of the industrial countries including USA, Japan and UK have adopted new programs of bond buying strategies to keep the monetary policy proactive in reviving economic weakness or to counter any negative impact of fiscal austerity. On the other hand, the two-speed recovery of the global economy has led to a large inflow of funds from the low-growing industrial economies to the high-growing emerging economies. To curb inflation and to avoid any expected asset bubble which may result from this large influx of funds, China increased the interest rates and reserve requirement ratios after the Chinese economy this growth increased to 10.3% in 2010.

The Gulf Region

The strength of the recent economic recovery in the Gulf States is largely underpinned by the rebound in oil prices from their trough in 2009, and improving external demand which has boosted oil receipts. In addition, the sizable and rapid fiscal policy responses taken by the governments in the region to cushion the impact of the global meltdown have played a substantial role in supporting the non-oil sector in these economies. Government investment programs, especially in infrastructure, have boosted domestic demand in the region and are expected to do so in the near term.

Moreover, given subdued inflation pressures, monetary policy is expected to be used as a countercyclical tool, if feasible, especially where the business cycle in the dollar-pegging countries is currently identical to the one in the United States.

Accordingly, the GDP in current prices is reaching $993.4 billion in 2010, and it will increase to $1,100.2 billion in 2011. The GCC countries are expected to grow by 4.7% in 2010 and to additionally accelerate to 6.2% in 2011. Weighted average yearly inflation rate for the 6 countries remained around 4% during the year 2010 and it is expected to increase slightly to 4.2% in 2011. The overall current account surplus for the GCC countries has reached $101.3 billion or 10.2% of the total GDP of the region in 2010, and it is expected to continue increasing in 2011 to $123.6 billion, or 11.2% of the region's GDP.

The economic outlook in the region is closely linked to global developments, primarily through the impact of global economic activity on oil prices. A slower-than-expected recovery in advanced economies could dampen oil prices. This would affect the region's export earnings, fiscal and external balances, and eventually growth. An immediate challenge for policymakers in the region is to revive the financial intermediation process, especially in UAE, where credit growth has been sluggish in the aftermath of the crisis due to weak balance sheets both for the banking sector and the non-financial corporate sector.

Financial markets in the region posted mixed results for 2010. Doha, Saudi and Muscat markets ended the year up, while UAE, Bahrain, and Kuwait markets ended the year down. Dubai Financial Market incurred the largest losses through the year as it ended 2010 down by 9.6%.

Oil Markets

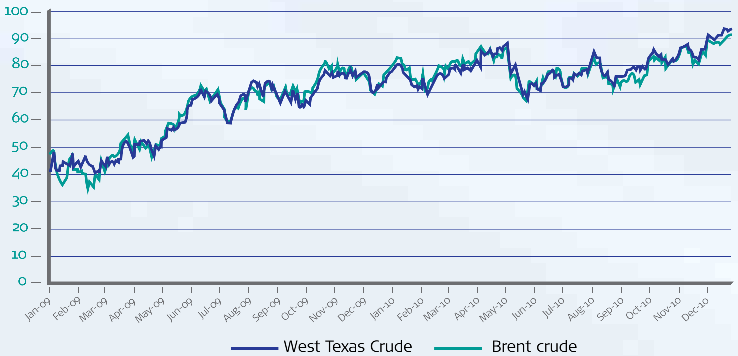
World oil prices rose noticeably throughout 2010 to average $79.48/bbl compared with their average in 2009 at $61.7/bbl, after ending the year at levels analysts considered unachievable during the first half of the year. Stronger-than-projected global activity combined with an increase in Chinese and Indian oil demand triggered the benchmark crude oil prices to this average in 2010, as oil prices have closely tracked macroeconomic expectations and financial market activity over the year. Uncertainty over the global economic recovery, particularly with respect to Europe's debt crisis and the tightening of credit by China put some pressure on oil prices. Additionally, the relatively high global inventory cover was singled out for putting a cap on any sustained upward price moves during certain periods of the year, especially with the information showing that OECD oil inventories are on track to reach their highest level since 1998.

The WTI started the year 2010 with $81.52/bbl, $2.13 higher than its closing price for 2009. Prices touched a year low of $64.78 a barrel on May 25th, on worries that Europe's debt crisis will slow global growth and demand for crude oil. It reached as high as $91.48 on December 28th, despite strengthening in the US Dollar, on some positive signs in the USA and global economy. Expectation of higher oil demand and unusually cold weather in both Europe and the Northeast USA contributed to the noticeable increase in oil prices in December. Brent crude, started the year with $79.05/bbl passing its closing price for 2009 by $1.14. It plunged to its lowest level during the year to $67.18/bbl on May 25th, and touched a record of $93.63/bbl on December 23rd 2010. For 2011, main forecasts show that WTI prices are expected to average $93/bbl, while Brent crude prices are expected to hover around $90/bbl.

During the last few years, the global economy has become the most important driver of oil consumption growth. EIA, the Energy Information Administration and IEA, the International Energy Agency elevated their estimates for oil consumption in 2010, based on stronger global economic data. World oil consumption rose to 86.6 million bbl/d in 2010, as the global recovery progressed, and that is 2.27 million bbl/d higher than its level in 2009. Countries outside of the Organization for Economic Cooperation and Development (OECD), especially China, the Middle East countries, and Brazil, represented most of the growth in world oil consumption. Oil demand from China, where the GDP grew 10.3% in 2010, rose 8.8% during the year to 9.05 million bbl/d. In Middle East countries, which grew 3.9% in 2010, oil consumption rose 4% to 7.25 million bbl/d, while in Brazil, which witnessed a growth of 7.5% in 2010, oil demand increased 4.8% to 2.61 million bbl/d. On the other hand, in the OECD countries which were estimated to expand by 2.6%, oil consumption slightly increased from 45.42 million bbl/d in 2009 to 45.92 million bbl/d in 2010. Generally speaking, world oil consumption is expected to continue growing during 2011 by 1.4 million bbl/d, to 88.05 million bbl/d despite persisting significant downside risk from fears that the world economic recovery could stall.

On the supply side, world oil supply increased by 2.4% during 2010 or 2 million bbl/d to 86.4 million bbl/d, and is expected to jump to 87.73 million bbl/d in 2011. At their extraordinary meeting in December, OPEC agreed to leave production targets unchanged at 29.0 million bbl/d in 2011. This decision came as a result of expectation of lower demand growth, challenging risks of the fragile global economic recovery, adverse effect of possible currency conflicts, and fears of a second banking crisis in Europe, all of which would negatively impact oil demand. However, this target may be revisited should the global economic conditions become more sustainable.

Non-OPEC oil production has expanded by 1.13 million bbl/d in 2010, the highest growth level since 2002, to average 52.26 million bbl/d. North America has the highest growth among all non-OPEC regions in 2010, followed by the former Soviet Union countries and Latin America. For 2011, the non-OPEC oil production (including other liquids) is forecast to grow by 0.41 million bbl/d to average 52.67 million bbl/d, with total OECD oil production is foreseen to average 19.81 million bbl/d, a drop of 0.08 million bbl/d compared to the levels in the previous year.



Source: EIA, the Energy Information Administration

The Saudi Economy:

After it avoided recession in 2009, the Saudi economy posted noticeable growth of 3.8% in 2010, with the non-oil GDP growing by 4.4%, leading the overall GDP in real terms to increase to SR 868.9 billion. The solid growth rates in 2010 showed that the Saudi economy could successfully weather the worst of the global crisis within a short time and relatively at a little cost. Such flexibility and ability to cushion the impact of global shocks combined with the overall friendly business environment made Saudi Arabia one of the most desirable countries in receiving long term foreign direct investments (FDI). In 2010 rating, Saudi Arabia ranked 11 among 183 economies in the Ease of Doing Business Ranking of the International Finance Corporation (IFC). The Kingdom also ranked as the eighth largest recipient of FDI in the world in 2009, moving up six places from 2008's rank. In 2009, Saudi Arabia attracted $35.5 billion or 9.5% of the GDP as new FDI inflows compared to 8.0% in 2008, which made it the largest recipient of FDI inflows in the G-20 Group relative to the size of the economy.

In addition to the above, Fitch Ratings has affirmed Saudi Arabia's Sovereign Rating at 'AA-'with a "Stable" outlook, pointing to the strong government balance sheet as a key factor to the positive rating. Moody's Investor

Services upgraded Saudi Arabia's foreign and local currency government ratings to "Aa3" from "A1", and the country ceiling for foreign currency bank deposits to "Aa3" from "A1" with "stable" outlook. Moody's tied the rating upgrades to the continued strength in the public sector finances and the success of the government's infrastructure program in improving the country's long-term competitiveness and economic strength.

Several factors contributed to the solid growth in Saudi economy in 2010 including the significant increases in government spending over the previous two years and the strength of the Saudi financial sector. After adopting record budgets in 2009 and 2010, Saudi Arabia unveiled another expansionary budget for 2011, with government expenditure showing an annual increase of 7.4% to reach SR 580 billion. The 2011 budget allocates SR 256 billion or 44.3% of the total expenditures as new projects and proceeding in new phases of existing projects. The main allocations include the allocation of SR 150 billion for education and manpower training, SR 68.7 billion for health services and social development, SR 50.8 billion for water, agriculture and infrastructure services, SR 25.2 billion for transport and communications, and SR 24.5 billion for municipalities. This is in addition to the generous allocations for the specialized credit institutions.

Also, in line with the government spending, the Government in 2010 released the Ninth Development Plan that provides an integrated framework for development until 2014. The plan confirms the continuation of the developmental approach adopted by the Kingdom throughout the past years. The total expenditure of the Ninth Development Plan amounts SR 1,444.6 billion, which is 67.2% more than the allocations in the Eighth Development Plan. The Plan mainly focuses on continuing efforts to improve the standard of living and quality of life for citizens; developing national manpower and increasing employment; distributing development initiatives to all regions equally; proceeding in the objective of diversifying the economy; updating regulations and legislations and adopting further institutional and administrative reforms.

In terms of the Economic objectives, during the life cycle of the Plan (2010-2014), the Government aims at realizing an average annual GDP growth rate of 5.2% at constant prices. This would result in an increase in the average per capita GDP at constant prices from SR 46.2 thousand in 2009 to SR 53.2 thousand in 2014.

Financial Markets

During 2010, SAMA continued to implement a balanced monetary policy that aimed at providing sufficient liquidity and achieving financial and price stability by keeping up with domestic and international economic developments. As a result, money markets in Saudi Arabia continued to have an adequate liquidity that enabled the economy to continue its robust growth pace, at favorable conditions of relatively low interest rates and moderate inflation rate.

The 3-month SIBOR ended the year 2010 at 0.75% to average 0.73% for the year, 7 basis points less than its average in 2009. The 12-month SIBOR ended the year 1.048% to average 1.03% through the year, almost 40 basis points less than its average in 2009. The rates continued to be in the favor of Riyal deposits throughout the year. The average spread of the 3-month SIBOR over the 3-month LIBOR was 39 basis points. Inflation rate, on the other hand, increased in 2010 to 5.4% up from 5.1% in 2009; the increase mainly resulted from higher food prices and rents.

Concerning liquidity, the latest available data shows that the broad money supply (M3), reached a record of SR 1080.4 billion at the end of December 2010 which is 5.0% above its level at the end of December 2009. Total deposits grew by almost 4.7% with a growth rate in demand deposits exceeded 22%.

Total lending from commercial banks continued to pick up consistently starting in January 2010. By the end of the year, total loans extended to the private sector by Saudi banks increased by 5.7% reaching SR 775.8 billion compared to SR 734.2 billion at the end 2009. As a result, the loan to deposit ratio slightly increased to 78.8% in December 2010 up from 78.1% in December 2009.

The Saudi stock market (TADAWUL) gathered strength and ended the year up with an outstanding performance at 6,620 points compared to 6,121 points at the end of 2009, gaining 499 points or 8.15%. The index (TASI) exceeded the 6900 points level reaching 6,929 points on 26^{th} of April, the highest close level for the index during the year. The P/E ratio decreased to 15.3 during 2010, back from its historical average of 19 in the fourth quarter of 2009 and up from a value of less than 11 in December 2008. However, the market currently is very attractive as it is expected for the market capitalization and trading values (as a percent of GDP) to return to their high historical averages.

Macroeconomic Performance in 2010 and Outlook for 2011

Preliminary estimates show that the GDP at current market prices increased in 2010 by 16.6% to reach SR 1630 billion. In real terms, the GDP grew by 3.8% compared to a growth rate of 0.16% in 2009. The growth came as a result of the growth in oil sector by 2.08% and the growth of the non-oil sector by 4.4% . Within the non-oil sector, the private sector expanded by 3.7% and the government sector increased by 5.9%. The growth in the private sector came as a result of the growth in all economic sectors; construction sector grew by 3.7%, utilities (electricity, gas and water) went up by 5.97%, while transport and communication increased by 5.57%.

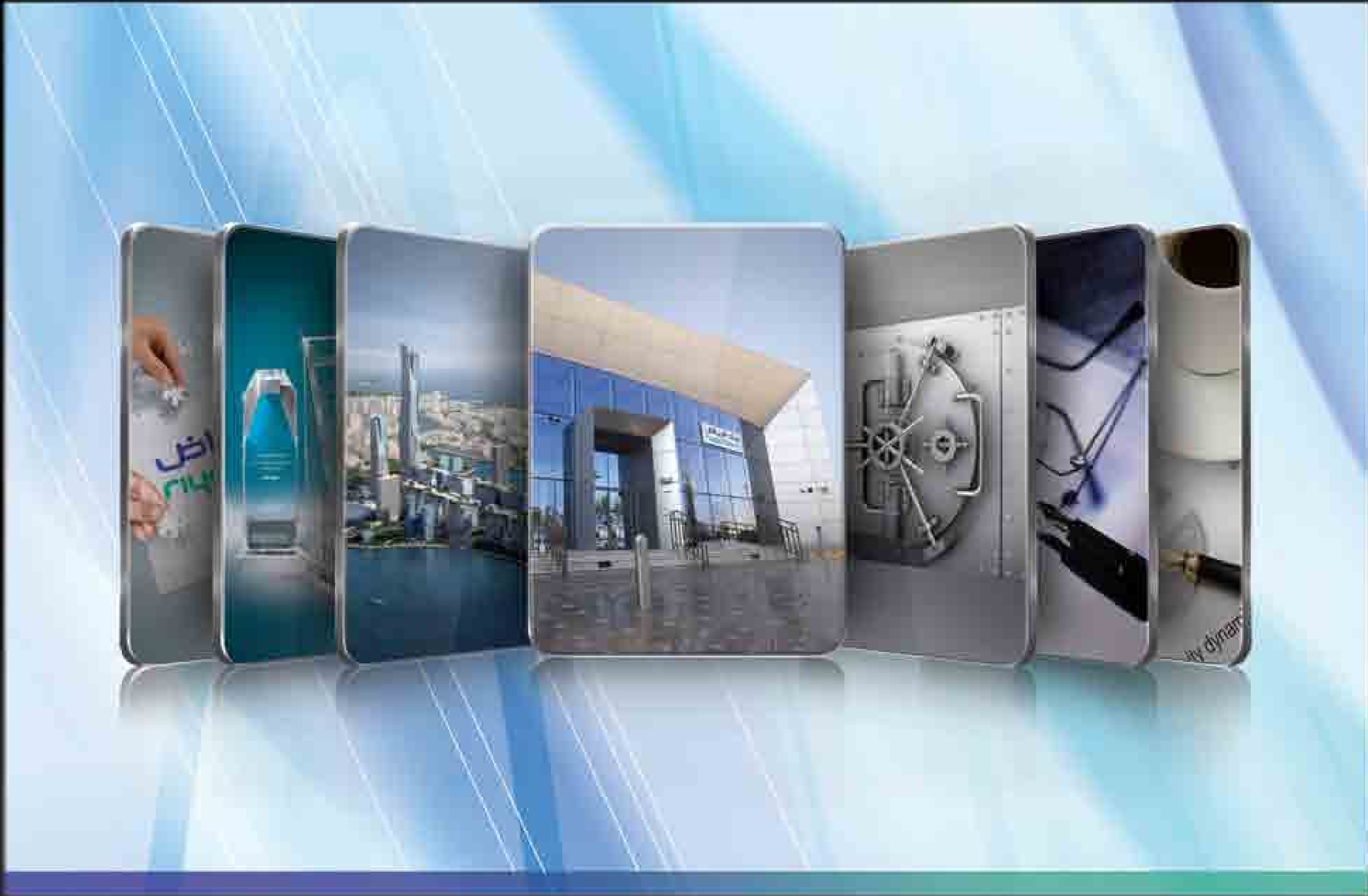
Concerning the external sector, the total value of exports of goods and services increased in 2010 by 22.2% to reach SR 925 billion. The exports of goods increased by 22.9% to reach SR 886.8 billion; within the good exports, non-oil exports increased by 13.7% to SR 124.7 billion. On the other hand, imports of goods and services decreased by 4.1% to SR 602 billion with imports of goods declining by 1.3% to SR 353.6 billion. As a result, in 2010, the trade balance registered a surplus of SR 533.2 billion or 32.7% of the GDP, while the current account achieved a surplus of SR 260.9 billion or 16% of the GDP.

Regarding the government budget, total revenues in 2010 reached SR 734 billion while total expenditure increased to SR 626.5 billion. As a result, in 2010, the government budget achieved a surplus of SR 108.5 billion or 6.7% of the GDP. In line with the budget achievement, the government debt decreased to 10.2% of the GDP, down from 16% in 2009.

In 2011, Saudi oil prices are expected to average $88/bbl, and Saudi oil production is expected to increase to 8.6 million bbl/d. With these assumptions, oil sector is expected to grow by 3.5% in 2011, while the non-oil sector is expected to grow by 4.9%. Government sector is expected to continue to grow at the rate of 5.0%, while the private sector is expected to grow by 4.8%. Accordingly, the overall GDP is expected to grow by 4.6% in 2011. The nominal GDP in 2011 is expected to reach SR 1790 billion. Inflation rate is expected to stay around 5.3% in 2011 and unemployment rate (among Saudis) is expected to stay around 10.5% with no major changes.

Based on the above oil prices and production in 2011, the current account is expected to register a surplus of SR 118.1 billion or 6.7% of the GDP. The fiscal figures, on the other hand, are expected to again deviate from the conservative budget figures. Accordingly, we expect the budget to record a surplus in 2011 despite the general belief that the total expenditure may exceed the budgeted figures by more than 15%. In effect, public debt is forecasted to decline to below 10% of the GDP in 2011.

Financial Statements 2010



INDEPENDENT AUDITORS' REPORT

To the Shareholders of Riyad Bank
(a Saudi Joint Stock Company)

We have audited the accompanying consolidated financial statements of Riyad Bank (the "Bank") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as of December 31, 2010, the consolidated income statement, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes from 1 to 39. We have not audited note 40, nor the information related to "Basel II Pillar 3 disclosures" cross referenced therein, which is not required to be within the scope of our audit.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Accounting Standards for Financial Institutions issued by the Saudi Arabian Monetary Agency ("SAMA"), International Financial Reporting Standards, the provisions of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's Articles of Association. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of consolidated financial statement 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 these consolidated financial statments are free from material misstatement.

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

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

Opinion

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

- present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2010, and its financial performance and its cash flows for the year then ended in accordance with Accounting Standards for Financial Institutions issued by SAMA and with International Financial Reporting Standards; and
- comply with the requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's Articles of Association in so far as they affect the preparation and presentation of the consolidated financial statements.

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Abdullah H. Al Fozan
Certified Public Accountant
Registration No. 348

Safar 20, 1432H
January 24, 2011

CONSOLIDATED STATEMENT OF FINANCIAL POSITION As at December 31, 2010 and 2009

SAR'000	Notes	2010	2009
ASSETS			
Cash and balances with SAMA	4	23,178,560	23,419,303
Due from banks and other financial institutions	5	4,688,754	8,704,462
Investments, net	6	33,822,441	32,308,077
Loans and advances, net	7	106,034,740	106,514,613
Other real estate		431,578	407,132
Property and equipment, net	8	1,862,855	1,830,157
Other assets	9	3,537,502	3,215,514
Total assets		173,556,430	176,399,258
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks and other financial institutions	11	10,636,551	16,163,012
Customer deposits	12	126,945,459	125,278,106
Debt securities in issue	13	1,873,723	1,873,403
Other liabilities	14	4,867,479	4,849,293
Total liabilities		144,323,212	148,163,814
Shareholders' equity			
Share capital	15	15,000,000	15,000,000
Statutory reserve	16	11,687,749	10,981,592
Other reserves	17	813,965	605,818
Retained earnings		610,504	513,034
Proposed dividends	24	1,121,000	1,135,000
Total shareholders' equity		29,233,218	28,235,444
Total liabilities and shareholders' equity		173,556,430	176,399,258

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT for the years ended December 31, 2010 and 2009

SAR'000	Notes	2010	2009
Special commission income	19	4,872,527	5,814,294
Special commission expense	19	730,740	1,467,108
Net special commission income		4,141,787	4,347,186
Fee and commission income, net	20	1,418,202	1,222,513
Exchange income, net		231,445	165,850
Trading losses, net		(5,972)	(5,971)
Gains/(losses) on Available for sale investments, net		129,849	(18,650)
Other operating income	21	65,141	249,181
Total operating income		5,980,452	5,960,109
Salaries and employee-related expenses		1,124,228	1,118,172
Rent and premises-related expenses		254,382	226,915
Depreciation		277,812	262,248
Other general and administrative expenses		641,020	578,402
Impairment charge for credit losses, net		935,074	618,539
Impairment charge for investments, net		(85,000)	117,843
Other operating expenses	22	8,309	7,505
Total operating expenses		3,155,825	2,929,624
Net income for the year		2,824,627	3,030,485
Basic and diluted earnings per share (in SAR)	23	1.88	2.02

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME for the years ended December 31, 2010 and 2009

SAR'000	2010	2009
Net income for the year	2,824,627	3,030,485
Other comprehensive income:		
-Available for sale investments		
Net changes in fair value (note 17)	487,550	1,420,457
Net changes in fair value transferred to consolidated statement of income (note 17)	(222,004)	118,635
	265,546	1,539,092
-Cash flow hedges		
Net changes in fair value (note 17)	(58,821)	15,377
Net changes in fair value transferred to consolidated statement of income (note 17)	1,422	(8,961)
	(57,399)	6,416
Other comprehensive income for the year	208,147	1,545,508
Total comprehensive income for the year	3,032,774	4,575,993

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

for the years ended December 31, 2010 and 2009

2010 SAR'000	Notes	Share capital	Statutory reserve	Available for sale investments	Cash flow hedges	Retained earnings	Proposed dividend	Total
Balance at the beginning of the year		15,000,000	10,981,592	485,692	120,126	513,034	1,135,000	28,235,444
Total comprehensive income		-	-	265,546	(57,399)	2,824,627	-	3,032,774
Final dividends paid-2009	24	-	-	-	-	-	(1,135,000)	(1,135,000)
Interim dividends paid-2010	24	-	-	-	-	(900,000)	-	(900,000)
Transfer to statutory reserve	16	-	706,157	-	-	(706,157)	-	-
2010 final proposed dividends	24	-	-	-	-	(1,121,000)	1,121,000	-
Balance at the end of the year		15,000,000	11,687,749	751,238	62,727	610,504	1,121,000	29,233,218

2009 SAR'000	Notes	Share capital	Statutory reserve	Available for sale investments	Cash flow hedges	Retained earnings	Proposed dividend	Total
Balance at the beginning of the year		15,000,000	10,223,971	(1,053,400)	113,710	275,170	1,131,000	25,690,451
Total comprehensive income		-	-	1,539,092	6,416	3,030,485	-	4,575,993
Final dividends paid-2008	24	-	-	-	-	-	(1,131,000)	(1,131,000)
Interim dividends paid-2009	24	-	-	-	-	(900,000)	-	(900,000)
Transfer to statutory reserve	16	-	757,621	-	-	(757,621)	-	-
2009 final proposed dividends	24	-	-	-	-	(1,135,000)	1,135,000	-
Balance at the end of the year		15,000,000	10,981,592	485,692	120,126	513,034	1,135,000	28,235,444

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS for the years ended December 31, 2010 and 2009

SAR'000	Notes	2010	2009
OPERATING ACTIVITIES			
Net income for the year		2,824,627	3,030,485
Adjustments to reconcile net income to net cash from operating activities:			
(Accretion of discounts) on non-trading investments, net and debt securities in issue, net		(89,542)	(350,109)
(Gains)/ losses on non-trading investments, net		(129,849)	18,650
Depreciation		277,812	262,248
Impairment charge for investments, net		(85,000)	117,843
Impairment charge for credit losses, net		935,074	618,539
		3,733,122	3,697,656
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA		(44,647)	(1,364,192)
Due from banks and other financial institutions maturing after three months from the date of acquisition		2,692,865	(655,633)
Loans and advances	4	(455,201)	(10,703,306)
Other real estate		(24,446)	106,442
Other assets		(321,988)	199,149
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		(5,526,461)	(5,050,182)
Customer deposits		1,667,353	20,222,560
Other liabilities		42,436	(986,516)
Net cash from operating activities		1,763,033	5,465,978
INVESTING ACTIVITIES			
Proceeds from sales and maturities of non-trading investments		27,050,935	27,978,785
Purchase of non-trading investments		(28,052,441)	(18,199,213)
Purchase of property and equipment, net		(310,510)	(462,099)
Net cash (used in) from investing activities		(1,312,016)	9,317,473
FINANCING ACTIVITIES			
Dividend and zakat paid		(2,059,250)	(2,014,593)
Net cash (used in) financing activities		(2,059,250)	(2,014,593)
Net (decrease)/ increase in cash and cash equivalents		(1,608,233)	12,768,858
Cash and cash equivalents at beginning of the year		22,445,240	9,676,382
Cash and cash equivalents at end of the year		20,837,007	22,445,240
Special commission received during the year	25	4,957,968	6,399,401
Special commission paid during the year		804,138	1,955,645
Supplemental non-cash information			
Net changes in fair value and transfer to consolidated income statement		208,147	1,545,508

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

1. GENERAL

Riyad Bank (The "Bank") is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia, formed pursuant to the Royal Decree and the Council of Ministers' Resolution No. 91 dated 1 Jumad Al-Awal 1377H (corresponding to November 23, 1957G). The Bank operates under commercial registration No. 1010001054 dated 25 Rabi Al-Thani 1377H (corresponding to November 18, 1957G) through its 241 branches (2009: 216 branches) in the Kingdom of Saudi Arabia, a branch in London-United Kingdom, an agency in Houston-United States, and a representative office in Singapore. The Bank's Head Office is located at the following address:

Riyad Bank
P.O. Box 22622
Riyadh 11416
Kingdom of Saudi Arabia

The objective of the Bank is to provide a full range of banking and investment services. The Bank also provides to its customers Islamic (non-interest based) banking products which are approved and supervised by an independent Shariah Board established by the Bank.

2. BASIS OF PREPARATION

a) Statement of compliance

The consolidated financial statements are prepared in accordance with the Accounting Standards for Financial Institutions promulgated by the Saudi Arabian Monetary Agency (SAMA) and International Financial Reporting Standards (IFRS). The Bank also prepares its consolidated financial statements to comply with the Banking Control Law, the provisions of Regulations for 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 except for the measurement at fair value of derivatives and Available for Sale financial assets. In addition, financial assets or liabilities that are hedged in a fair value hedging relationship, and otherwise carried at cost, are carried at fair value to the extent of the risk being hedged. The consolidated financial statements are prepared on the going concern basis.

c) Functional and presentation currency

These consolidated financial statements are presented in Saudi Arabian Riyals (SAR), which is the Bank's functional currency. Except as indicated, financial information presented in SAR has been rounded off to the nearest thousand Saudi Arabian Riyals.

d) Critical accounting judgements, estimates and assumptions

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

(i) Impairment for credit losses on loans & advances

The Bank reviews its loan 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

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 loans 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.

(ii) Fair value of unquoted financial instruments

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques, which are validated and periodically reviewed independently, to ensure that outputs reflect actual data and comparative market prices. To the extent practical, valuation techniques use only observable market data; however areas such as credit risk, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

(iii) Impairment of Available for sale equity investments

The Bank exercises judgement in considering impairment on the Available for sale equity investments. This includes determination of a significant or prolonged decline in the fair value below its cost. In making this judgement, the Bank evaluates among other factors, the normal volatility in share price. In addition, the Bank considers impairment to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology and operational and financing cash flows.

(iv) Classification of held-to-maturity investments

The Bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these consolidated financial statements are set below.

a) Change in accounting policies

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2009 except for the adoption of amendments to the existing standards, as mentioned below.

(i) IAS 27 Consolidated and Separate Financial Statements (amended 2008). The amendments deal primarily with the accounting for changes in ownership interests in subsidiaries after control is obtained, the accounting for the loss of control of subsidiaries, and the allocation of profit or loss to controlling and non-controlling interests in a subsidiary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Change in accounting policies (continued)

(ii) IAS 39 (amendment), "Financial instruments - Recognition and measurement – Eligible hedged items". The amendment was issued in July 2008. These amendments to IAS 39 clarify how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations.

(iii) Improvements to IFRSs 2009 – amendments to applicable and relevant standards and interpretations.

b) Basis of consolidation

The consolidated financial statements comprise the financial statements of Riyad Bank and its subsidiaries; Riyad Capital and Ithra Al-Riyad Real Estate Company (collectively referred to as "the Group"). The financial statements of the subsidiaries are prepared for the same reporting year as that of the Bank, using consistent accounting policies.

Subsidiaries are all entities controlled by the Bank. Control exists when the Bank has the power to govern the financial and operating policies, so as to obtain benefits from its activities, generally accompanying an ownership interest 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.

Non-controlling interests represent the portion of net income and net assets attributable to interests, which are not owned, directly or indirectly, by the Bank in its subsidiaries. As at December 31, 2010 and 2009, non-controlling interests are less than 1% of the Bank's subsidiaries' net assets and is owned by representative shareholders and hence, they are not presented separately in the consolidated income statement.

Balances between the Bank and its subsidiaries, and any income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

c) Settlement date accounting

All regular way purchases and sales of financial assets are recognized and derecognized on the settlement date. The Bank accounts for any change in fair value between the trade and the reporting date in the same way as it accounts for the acquired assets. Regular way purchases or sales are purchases or sales of financial instruments that require delivery of assets within the time frame generally established by regulation or convention in the market place.

d) Derivative financial instruments and hedge accounting

Derivative financial instruments, including foreign exchange contracts, special commission rate swaps and currency options (both written and purchased), are measured at fair value. All derivatives are carried at their fair value as assets where the fair value is positive and as liabilities where the fair value is negative. Fair values are obtained by reference to quoted market prices, discounted cash flow models and pricing models, as appropriate. The treatment of changes in their fair value depends on their classification into the following categories:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

(i) Derivatives held for trading

Any changes in the fair value of derivatives that are held for trading purposes are taken directly to consolidated income statement and disclosed in trading income/ loss. Derivatives held for trading also include those derivatives which do not qualify for hedge accounting described below.

(ii) Hedge accounting

For the purpose of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the reported net gain or loss; and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability, or to a highly probable forecasted transaction that will affect the reported net gain or loss.

In order to qualify for hedge accounting, the hedge should be expected to be highly effective, i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item, and should be reliably measurable. At the inception of the hedge, the risk management objective and strategy is documented, including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Bank will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

a) Fair value hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect income statement, any gain or loss from re-measuring the hedging instruments to fair value is recognised immediately in the consolidated income statement. The related portion of the hedged item is adjusted against the carrying amount of the hedged item and recognised in the consolidated income statement. For hedged items measured at amortised cost, where the fair value hedge of a special commission bearing financial instrument ceases to meet the criteria for hedge accounting or is sold, exercised or terminated, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the effective yield basis. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated income statement.

b) Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of a variability of cash flows attributable to a particular risk associated with a recognised asset or a liability or a highly probable forecasted transaction that could affect income statement, the portion of the gain or loss on the hedging instrument that is determined to be an effective portion is recognised directly in other comprehensive income and the ineffective portion, if any, is immediately recognised in the consolidated income statement. For cash flow hedges affecting future transactions, the gains or

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Derivative financial instruments and hedge accounting (continued)

(ii) Hedge accounting (continued)

b) Cash flow hedges (continued)

losses recognised in other reserves, are transferred to the consolidated income statement in the same period in which the hedged transaction affects the consolidated income statement. Where the hedged forecasted transaction results in the recognition of a non- financial asset or a non-financial liability, then at the time such asset or liability is recognised the associated gains or losses that had previously been recognised directly in other comprehensive income are included in the initial measurement of the acquisition cost or other carrying amount of such asset or liability.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting, or the forecast transaction is no longer expected to occur or the Bank revokes the designation. At that point of time, any cumulative gain or loss on the cash flow hedging instrument that was recognised in other comprehensive income is retained until the forecasted transaction occurs. Where the hedged forecasted transaction is no longer expected to occur, the net cumulative gain or loss recognised in other comprehensive income is transferred to the consolidated income statement for the period.

e) Foreign currencies

Transactions in foreign currencies are translated into Saudi Arabian Riyals at exchange rates prevailing on the transaction dates. Monetary assets and liabilities at the year-end, denominated in foreign currencies, are translated into Saudi Arabian Riyals at the exchange rates prevailing at the reporting date. Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement, except for differences arising on re-translation of Available for sale equity instruments except, when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges. Translation gains or losses on non-monetary items carried at fair value are included as part of the fair value adjustment either in the consolidated income statement or in equity, depending on the underlying financial asset.

The monetary assets and liabilities of overseas branch are translated at the rate of exchange ruling at the reporting date. The income and expenses of overseas branch are translated at the average exchange rates for the year. Exchange differences arising on monetary items that form part of net investment in a foreign operation, if significant are included as a separate component of equity. These differences are transferred to consolidated income statement at the time of disposal of foreign operations. All insignificant differences are included in the consolidated income statement.

f) Offsetting financial instruments

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

g) Revenue recognition

(i) Special commission income and expenses

Special commission income and expense for all special commission bearing financial instruments, except for those classified as held for trading or designated at fair value through income statement

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

(FVIS), are recognised in the consolidated income statement using the effective yield basis. The effective yield is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective special commission rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective special commission rate and the change in carrying amount is recorded as special commission income or expense.

If the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, special commission income continues to be recognised using the original effective yield applied to the new carrying amount.

The calculation of the effective yield includes all fees and points paid or received, transaction costs, and discounts or premiums that are an integral part of the effective special commission rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of financial asset or liability.

(ii) Fee and commission income

Fees and commissions are recognised when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred and, together with the related direct cost, are recognised as an adjustment to the effective yield on the loan. Portfolio and other management advisory and service fees are recognised 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 recognised over the period when the service is being provided.

(iii) Others

Dividend income is recognised when the right to receive payment is established. Exchange income/ loss is recognised when earned/ incurred. Results arising from trading activities include gains and losses from changes in fair value and related special commission income or expense for financial assets and financial liabilities held for trading.

h) Sale and repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the consolidated statement of financial position and are measured in accordance with related accounting policies for investments held as FVIS, Available for sale, held to maturity and other investments held at amortised cost. The counterparty liability for amounts received under these agreements is included in "Due to banks and other financial institutions" or "Customers' deposits", as appropriate. The difference between sale and repurchase prices is treated as special commission expense and is accrued over the life of the repo agreement on an effective special commission rate basis. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos), are not recognised

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Sale and repurchase agreements (continued)

in the consolidated statement of financial position, as the Bank does not obtain control over the assets.

Amounts paid under these agreements are included in "Cash and balances with SAMA" or "Due from banks and other financial institutions" as appropriate. The difference between purchase and resale prices is treated as special commission income and accrued over the life of the reverse repo agreement on an effective yield basis.

i) Investments

All investment securities are initially recognised at fair value, including incremental direct transaction cost except for investments held as Fair Value through Income Statement (FVIS) and are subsequently accounted for depending on their classification as either held to maturity, FVIS, Available for sale or other investments held at amortised cost. Premiums are amortised and discounts accreted using the effective yield basis and are taken to special commission income.

For securities traded in organized financial markets, fair value is determined by reference to exchange quoted market bid prices at the close of business on the reporting date. Fair value of managed assets and investments in mutual funds are determined by reference to declared net asset values.

For securities where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the expected cash flows of the security. Where the fair values cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models if possible. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

Following recognition, subsequent transfers between the various classes of investments are not ordinarily permissible except in accordance with amendments in IAS 39 (refer note 6). The subsequent period-end reporting values for each class of investment are determined on the basis as set out in the following paragraphs:

(i) Held as FVIS

Investments in this category are classified at initial recognition as either investment held for trading or those upon initial recognition designated as FVIS. Investments classified as trading are acquired principally for the purpose of selling or repurchasing in short term. After initial recognition, investments at FVIS are measured at fair value and any change in the fair value is recognised in the consolidated income statement for the period in which it arises. Transaction costs, if any, are not added to the fair value measurement at initial recognition of FVIS investments. Special commission income and dividend income on investment securities held as FVIS are reflected as trading income.

(ii) Available for sale

Available for sale investments are those equity and debt securities intended to be held for an unspecified period of

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

time, which may be sold in response to needs for liquidity or changes in special commission rates, exchange rates or equity prices. Investments, which are classified as "Available for sale", are subsequently measured at fair value. For an Available for sale investment where the fair value has not been hedged, any gain or loss arising from a change in its fair value is recognised directly in other comprehensive income. On derecognition, any cumulative gain or loss previously recognised in other comprehensive income is included in the consolidated income statement.

(iii) Other investments held at amortised cost

Investment securities with fixed or determinable payments that are not quoted in an active market are classified as "Other investments held at amortised cost". Such investments whose fair values have not been hedged are stated at amortised cost using effective yield basis, less provision for impairment. Any gain or loss is recognised in the consolidated income statement when the investment is derecognised or impaired.

(iv) Held to maturity

Investments having fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity other than those that meet the definition of "Other investments held at amortised cost" are classified as held to maturity. Held to maturity investments are subsequently measured at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any discount or premium on acquisition using an effective yield basis. Any gain or loss on such investments is recognised in the consolidated income statement when the investment is derecognised or impaired.

Investments classified as held to maturity cannot ordinarily be sold or reclassified without impacting the Bank's ability to use this classification and cannot be designated as a hedged item with respect to commission rate or prepayment risk, reflecting the longer-term nature of these investments.

j) Loans and advances

Loans and advances are non-derivative financial assets originated or acquired by the Bank with fixed or determinable payments. Loans and advances are recognised when cash is advanced to borrowers. They are derecognised when either borrowers repay their obligations, or the loans are sold or written off, or substantially all the risks and rewards of ownership are transferred.

All loans and advances are initially measured at fair value, including directly attributable transaction costs associated with the loans and advances. Loans and advances originated or acquired by the Bank that are not quoted in an active market, are stated at amortised cost. For presentation purposes, allowance for credit losses is deducted from loans and advances.

k) Impairment of financial assets

An assessment is made at each reporting date to determine whether there is objective evidence that a financial asset or group of financial assets not held as FVIS may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognised for changes in its carrying amounts. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after initial recognition of asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Impairment of financial assets (continued)

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the group on the terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of active market for a security or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers.

When a financial asset is uncollectible, it is written off against the related provision for impairment either directly by a charge to consolidated income statement or through impairment allowance account. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted, and the amount of the loss has been determined.

Once a financial asset has been written down to its estimated recoverable amount, special commission income is thereafter recognised based on the rate of special commission that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

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 recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the consolidated income statement in impairment charge for credit losses.

Loans whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. Restructuring policies and practices are based on indicators or criteria, which indicate that payment will most likely continue. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective yield rate. Consumer loans are charged off when they become 180 days past due.

(i) Impairment of financial assets held at amortised cost

In case of financial instruments held at amortised cost and held to maturity, the Bank assesses individually whether there is objective evidence of impairment based on same criteria as explained above.

A specific provision for credit losses due to impairment of a loan or any other financial asset held at amortised cost is established if there is objective evidence that the Bank will not be able to collect all amounts due. The amount of the specific provision is the difference between the carrying amount and the estimated recoverable amount. The estimated recoverable amount is the present value of expected cash flows, including amounts estimated to be recoverable from guarantees and collateral, discounted based on the original effective yield rate. The Bank also considers evidence of impairment at a collective assets level. The collective provision is based upon deterioration in the internal grading or external credit ratings, allocated to the borrower or group of borrowers, the current economic climate in which the borrowers operate and the experience and historical default patterns that are embedded in the components of the credit portfolio.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

(ii) Impairment of Available for sale financial assets

In the case of debt instruments classified as Available for sale, the Bank assesses individually whether there is objective evidence of impairment based on the same criteria as explained above. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to credit event occurring after the impairment loss was recognised in the consolidated income statement, the impairment loss is reversed through the consolidated income statement.

For equity investments held as Available for sale, a significant or prolonged decline in fair value below its cost represents objective evidence of impairment. The impairment loss cannot be reversed through consolidated income statement as long as the asset continues to be recognised i.e. any increase in fair value after impairment has been recorded can only be recognised in equity. On derecognition, any cumulative gain or loss previously recognised in shareholders' equity is included in the consolidated income statement for the year.

l) Other real estate

The Bank, in the ordinary course of business, acquires certain real estate against settlement of due loans and advances. Such real estate are considered as assets held for sale and are initially stated at the lower of net realizable value of due loans and advances or the current fair value of the related properties, less any costs to sell, if material. Rental income from other real estate is recognised in the consolidated income statement. No depreciation is charged on such real estate.

Subsequent to initial recognition, any subsequent write down to fair value, less costs to sell, are charged to the consolidated income statement. Any subsequent gain in the fair value less costs to sell of these assets to the extent this does not exceed the cumulative write down is recognised as income together with any gain/ loss on disposal.

m) Property and equipment

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Property and equipment (continued)

Buildings	33 years
Improvements and decoration of premises	over the lower of the leaseperiod or 5 years
Furniture, fixtures and equipment	5 to 20 years
Computer hardware	5 years
Software programs and automation projects	3 to 5 years
Motor vehicles	4 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in consolidated income statement.

n) Financial liabilities

All money market deposits, customer deposits and debt securities in issue are initially recognised at fair value less transaction costs. Subsequently, all special commission-bearing financial liabilities other than those held at FVIS or where fair values have been hedged are measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium. Premiums are amortised and discounts accreted on an effective yield basis to maturity and taken to special commission expense.

Financial liabilities in an effective fair value hedge relationship are adjusted for fair value changes to the extent of the risk being hedged. The resultant gain or loss is recognised in the consolidated income statement. For financial liabilities carried at amortised cost, any gain or loss is recognised in the consolidated income statement when derecognised.

o) Guarantee contracts

In ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value in other liabilities, being the value of the premium received. Subsequent to the initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligations arising as a result of guarantees. Any increase in the liability relating to the financial guarantee is taken to the consolidated income statement in 'impairment charge for credit losses'. The premium received is recognised in the consolidated income statement in 'fee income from banking services, net' on a straight line basis over the life of the guarantee.

p) Provisions

Provisions are recognised when a reliable estimate can be made by the Bank for a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation.

q) Accounting for leases

Leases entered into by the Group as a lessee, are operating leases. Payments made under operating leases are charged to the consolidated income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

r) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents are defined as those amounts included in cash, balances with SAMA excluding statutory deposits, and due from banks and other financial institutions maturing within three months from the date of acquisition.

s) Derecognition of financial instruments

A financial asset (or a part of a financial asset, or a part of a group of similar financial assets) is derecognised, when the contractual rights to receive the cash flows from the financial asset expires.

In instances where the Bank is assessed to have transferred a financial asset, the asset is derecognised if the Bank has transferred substantially all the risks and rewards of ownership. Where the Bank has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognised only if the Bank has not retained control of the financial asset. The Bank recognises separately as assets or liabilities any rights and obligations created or retained in the process.

A financial liability (or a part of a financial liability) can only be derecognised when it is extinguished, that is when the obligation specified in the contract is either discharged, cancelled or expires.

t) End of service benefits

Benefits payable to the employees of the Bank at the end of their services are accrued in accordance with the guidelines set by the Saudi Arabian Labor Regulations and are included in other liabilities in the consolidated statement of financial position.

u) Zakat

Under Saudi Arabian Zakat and Income Tax Laws, Zakat is the liabilities of shareholders. Zakat is computed on the shareholders' equity or net income using the basis defined under the Zakat regulations. Zakat is not charged to the Group's consolidated income statement as they are deducted from the dividends paid to the shareholders.

v) Investment management services

The Group offers investment services to its customers, which include management of certain investment funds. Fees earned are disclosed under related party transactions. Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly, are not included in the consolidated financial statements.

w) Non-interest based banking products

In addition, to the conventional banking, the Bank offers its customers certain non-interest based banking products, which are approved by its Shariah Board. These products include Murabaha, Tawaraq, Istisna'a and Ijara. These banking products are accounted for using IFRS and are in conformity with the accounting policies described in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

4. CASH AND BALANCES WITH SAMA

SAR'000	2010	2009
Cash in hand and other balances	2,562,125	2,099,621
Statutory deposit	6,137,435	6,092,788
Reverse repos with SAMA	14,479,000	15,226,894
Total	23,178,560	23,419,303

In accordance with the Banking Control Law and regulations issued by the Saudi Arabian Monetary Agency (SAMA), the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its demand, savings, time and other deposits, calculated at the end of each month. The statutory deposit with SAMA is not available to finance the Bank's day-to-day operations and therefore is not part of cash and cash equivalents.

5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

SAR'000	2010	2009
Current accounts	83,354	80,455
Money market placements	4,605,400	8,624,007
Total	4,688,754	8,704,462

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

6. INVESTMENTS, NET

a) Investment securities are classified as follows:

(i) Held as FVIS

On September 1, 2008, the Group reclassified investments held in trading portfolio reported under its investments at fair value through income statement ("FVIS") category to the Available for sale category.

The carrying and fair value of these reclassified investments as at December 31, 2010 was SAR 3,553 million (December 31, 2009: SAR 3,278 million).

Had the reclassification not occurred, the consolidated income statement for the year ended December 31, 2010, would have included fair value gain on such reclassified investments amounting to SAR 292.1 million (31 December 2009: unrealised fair value gain SAR 576.1 million).

(ii) Available for sale

	Domestic		International		Total	
SAR'000	2010	2009	2010	2009	2010	2009
Fixed rate securities	40,545	15,159	8,997,997	8,455,293	9,038,542	8,470,452
Floating rate securities	-	-	1,764,956	1,522,852	1,764,956	1,522,852
Mutual funds	138,598	137,737	2,268,717	2,046,188	2,407,315	2,183,925
Equities	947,760	732,398	129,846	109,059	1,077,606	841,457
Available for sale, net	1,126,903	885,294	13,161,516	12,133,392	14,288,419	13,018,686

International investments above includes investment portfolios of SAR 11.3 billion (2009: SAR 9.8 billion) which are externally managed.

(iii) Other investments held at amortised cost

	Domestic		International		Total	
SAR'000	2010	2009	2010	2009	2010	2009
Fixed rate securities	13,321,266	9,838,124	1,297,242	857,345	14,618,508	10,695,469
Floating rate securities	3,859,396	6,305,151	38,643	275,811	3,898,039	6,580,962
Other investments held at amortised cost	17,180,662	16,143,275	1,335,885	1,133,156	18,516,547	17,276,431

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

6. INVESTMENTS, NET (continued)

a) Investment securities are classified as follows: (continued)

(iv) Held to maturity

SAR'000	Domestic 2010	Domestic 2009	International 2010	International 2009	Total 2010	Total 2009
Fixed rate securities	404,722	442,801	612,753	1,570,159	1,017,475	2,012,960
Held to maturity	404,722	442,801	612,753	1,570,159	1,017,475	2,012,960
Investments, net	18,712,287	17,471,370	15,110,154	14,836,707	33,822,441	32,308,077

b) The analysis of the composition of investments is as follows:

SAR'000	2010 Quoted	2010 Unquoted	2010 Total	2009 Quoted	2009 Unquoted	2009 Total
Fixed rate securities	10,328,159	14,346,366	24,674,525	7,691,474	13,487,407	21,178,881
Floating rate securities	3,863,651	1,799,344	5,662,995	3,083,863	5,019,951	8,103,814
Equities	637,826	480,352	1,118,178	549,066	333,245	882,311
Mutual funds	2,407,315	-	2,407,315	2,183,925	-	2,183,925
Allowance for impairment	-	(40,572)	(40,572)	-	(40,854)	(40,854)
Investments, net	17,236,951	16,585,490	33,822,441	13,508,328	18,799,749	32,308,077

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

c) The analysis of unrealised gains and losses and the fair values of other investments held at amortised cost, and held to maturity investments, is as follows:

(i) Other investments held at amortized cost

SAR'000	2010 Carrying value	2010 Gross unrealized gain	2010 Gross unrealized loss	2010 Fair value	2009 Carrying value	2009 Gross unrealized gain	2009 Gross unrealized loss	2009 Fair value
Fixed rate securities	14,618,508	77,984	(4,927)	14,691,565	10,695,469	28,009	-	10,723,478
Floating rate securities	3,898,039	50,180	-	3,948,219	6,580,962	8,040	(48,006)	6,540,996
Total	18,516,547	128,164	(4,927)	18,639,784	17,276,431	36,049	(48,006)	17,264,474

(ii) Held to maturity

SAR'000	2010 Carrying value	2010 Gross unrealized gain	2010 Gross unrealized loss	2010 Fair value	2009 Carrying value	2009 Gross unrealized gain	2009 Gross unrealized loss	2009 Fair value
Fixed rate securities	1,017,475	23,746	-	1,041,221	2,012,960	25,953	-	2,038,913

d) Credit quality of investments

SAR'000	2010 Fixed rate securities	2010 Floating rate securities	2010 Others	2010 Total	2009 Fixed rate securities	2009 Floating rate securities	2009 Others	2009 Total
AAA	3,372,997	1,486,239	-	4,859,236	2,963,540	1,152,794	-	4,116,334
AA-to AA+	14,873,897	2,042,358	-	16,916,255	11,854,160	5,417,353	-	17,271,513
A- to A+	3,734,750	1,584,441	-	5,319,191	3,565,296	1,315,412	-	4,880,708
Lower than A-	2,297,230	505,782	-	2,803,012	2,557,647	143,103	-	2,700,750
Unrated	395,651	44,175	3,484,921	3,924,747	238,238	75,152	3,025,382	3,338,772
Total	24,674,525	5,662,995	3,484,921	33,822,441	21,178,881	8,103,814	3,025,382	32,308,077

Lower than A- comprise mainly of bonds rated BBB and BB. The unrated category mainly comprises of mutual funds and equities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

6. INVESTMENTS, NET (continued)

e) The analysis of investments by counter-party is as follows:

SAR '000	2010	2009
Government and quasi Government	20,028,755	19,436,296
Corporate	7,515,232	6,881,102
Banks and other financial institutions	6,278,454	5,990,679
Total	33,822,441	32,308,077

Investments include SAR 4,216 million (2009: SAR 2,828 million), which have been pledged under repurchase agreements with customers (note 18 d). The market value of such investments is SAR 4,369 million (2009: SAR 2,920 million).

f) Movements of allowance for impairment on investments:

SAR '000	2010	2009
Balance at beginning of the year	40,854	99,871
Amounts recovered/ transferred during the year	(282)	(59,017)
Balance at end of the year	40,572	40,854

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

7. LOANS AND ADVANCES, NET

a) Loans and advances held at amortized cost

These comprise the following:

2010 SAR'000	Overdrafts	Credit cards	Consumer loans	Commercial loans	Others	Total
Performing loans and advances, gross	5,358,633	847,429	20,505,072	79,475,447	323,027	106,509,608
Non-performing loans and advances, net	100,131	-	-	1,641,331	72,023	1,813,485
Total Loans and advances	5,458,764	847,429	20,505,072	81,116,778	395,050	108,323,093
Allowance for impairment	(67,797)	-	-	(1,100,321)	(47,886)	(1,216,004)
Total	5,390,967	847,429	20,505,072	80,016,457	347,164	107,107,089
Portfolio provision	-	-	-	-	-	(1,072,349)
Loans and advances held at amortized cost, net						106,034,740

2009 SAR'000	Overdrafts	Credit cards	Consumer loans	Commercial loans	Others	Total
Performing loans and advances, gross	5,895,843	896,004	17,374,959	82,222,814	637,389	107,027,009
Non-performing loans and advances, net	78,293	-	-	1,143,447	31,812	1,253,552
Total Loans and advances	5,974,136	896,004	17,374,959	83,366,261	669,201	108,280,561
Allowance for impairment	(42,022)	-	-	(628,390)	(23,187)	(693,599)
Total	5,932,114	896,004	17,374,959	82,737,871	646,014	107,586,962
Portfolio provision	-	-	-	-	-	(1,072,349)
Loans and advances held at amortized cost, net						106,514,613

Loans and advances above include non-commission based Islamic banking products of SAR 45,301 million (2009: SAR 44,672 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

7. LOANS AND ADVANCES, NET (continued)

b) Movements in allowance for impairment are as follows:

2010 SAR'000	Allowances for Impairment Credit cards	Consumer loans	Commercial loans*	Total	Portfolio Provision	Total
Balance at beginning of the year	-	-	693,599	693,599	1,072,349	1,765,948
Provided during the year	71,003	350,272	780,764	1,202,039	-	1,202,039
Bad debts written off	(71,003)	(350,272)	(135,318)	(556,593)	-	(556,593)
Recoveries of previously provided amounts	-	-	(74,605)	(74,605)	-	(74,605)
Other movements	-	-	(48,436)	(48,436)	-	(48,436)
Balance at end of the year	-	-	1,216,004	1,216,004	1,072,349	2,288,353

2009 SAR'000	Allowances for Impairment Credit cards	Consumer loans	Commercial loans*	Total	Portfolio Provision	Total
Balance at beginning of the year	-	-	602,829	602,829	1,072,349	1,675,178
Provided during the year	101,417	330,204	485,395	917,016	-	917,016
Bad debts written off	(101,417)	(330,204)	(228,581)	(660,202)	-	(660,202)
Recoveries of previously provided amounts	-	-	(119,145)	(119,145)	-	(119,145)
Other movements	-	-	(46,899)	(46,899)	-	(46,899)
Balance at end of the year	-	-	693,599	693,599	1,072,349	1,765,948

* Including overdraft and other loans

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

c) Credit Quality of Loans and Advances

(i) Neither past due nor impaired

2010 SAR'000	Credit cards	Consumer loans	Commercial loans*	Total
Standard Category	717,749	19,206,995	84,808,499	104,733,243
Special Mention Category	-	-	91,064	91,064
Total	717,749	19,206,995	84,899,563	104,824,307

2009 SAR'000	Credit cards	Consumer loans	Commercial loans*	Total
Standard Category	749,412	16,618,623	86,404,098	103,772,133
Special Mention Category	-	-	144,333	144,333
Total	749,412	16,618,623	86,548,431	103,916,466

Above includes past due but not impaired loans with up to 30 days ageing amounting to SAR 2,457 million as at December 31,2010 (2009: SAR 3,526 million).

Standard category: A credit with good to satisfactory credit quality and repayment ability, where regular monitoring is carried out.

Special Mention category: A credit that requires close monitoring by management due to deterioration in the borrower's financial condition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

7. LOANS AND ADVANCES, NET (continued)

c) Credit Quality of Loans and Advances (continued)

(ii) Ageing of loans and advances (Past due but not impaired)

2010 SAR'000	Credit cards	Consumer loans	Commercial loans*	Total
From 31 -90 days	72,995	810,740	101,332	985,067
From 91 - 180 days	56,685	487,336	138,272	682,293
More than 180 days	-	-	17,941	17,941
Total	129,680	1,298,076	257,545	1,685,301

2009 SAR'000	Credit cards	Consumer loans	Commercial loans*	Total
From 31 -90 days	88,028	491,158	631,091	1,210,277
From 91 - 180 days	58,564	265,178	344,310	668,052
More than 180 days	-	-	1,232,214	1,232,214
Total	146,592	756,336	2,207,615	3,110,543

* Including overdraft and other loans

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

(d) Economic Sector risk concentration for the loans and advances and allowance for impairment are as follows:

2010 SAR'000	Performing	Non performing, net	Allowance for impairment	Loans and advances, net
Government and quasi Government	20,090	-	-	20,090
Banks and other financial institutions	4,664,535	-	-	4,664,535
Agriculture and fishing	1,079,112	9,293	8,559	1,079,846
Manufacturing	15,365,186	268,864	133,968	15,500,082
Mining and quarrying	1,902,403	-	-	1,902,403
Electricity, water, gas and health services	2,437,559	-	-	2,437,559
Building and construction	10,037,939	119,460	123,370	10,034,029
Commerce	37,002,582	1,344,468	918,894	37,428,156
Transportation and communication	7,766,495	-	-	7,766,495
Services	2,849,061	19,920	18,784	2,850,197
Consumer loans and credit cards	21,352,501	-	-	21,352,501
Other	2,032,145	51,480	12,429	2,071,196
Total	106,509,608	1,813,485	1,216,004	107,107,089
Portfolio provision				(1,072,349)
Loans and advances, net				106,034,740

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

7. LOANS AND ADVANCES, NET (continued)

d) Economic sector risk concentration for the loans and advances and allowance for impairment are as follows (continued)

2009 SAR'000	Performing	Non performing, net	Allowance for impairment	Loans and advances, net
Government and quasi Government	1,218,726	-	-	1,218,726
Banks and other financial institutions	3,846,294	-	-	3,846,294
Agriculture and fishing	1,167,079	20,623	10,455	1,177,247
Manufacturing	15,518,903	85,133	23,467	15,580,569
Mining and quarrying	2,605,164	-	-	2,605,164
Electricity, water, gas and health services	1,800,820	-	-	1,800,820
Building and construction	8,862,477	182,109	105,235	8,939,351
Commerce	38,279,210	895,572	528,748	38,646,034
Transportation and communication	9,820,346	460	116	9,820,690
Services	3,620,452	13,793	9,703	3,624,542
Consumer loans and credit cards	18,270,963	-	-	18,270,963
Other	2,016,575	55,862	15,875	2,056,562
Total	107,027,009	1,253,552	693,599	107,586,962
Portfolio provision				(1,072,349)
Loans and advances, net				106,514,613

e) Collateral

The Bank in the ordinary course of lending activities holds collaterals as security to mitigate credit risk in the loans and advances. These collaterals mostly include time and demand and other cash deposits, financial guarantees, local and international equities, real estate and other fixed assets. The collaterals are held mainly against commercial and consumer loans and are managed against relevant exposures at their net realizable values. Management monitors the market value of the collateral and requests additional collateral in accordance with the underlying agreement when deemed necessary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

8. PROPERTY AND EQUIPMENT, NET

SAR' 000	Land and buildings	Improvements and decoration of premises	Furniture, fixtures and equipment	Computer hardware, software programs and automation projects	Motor vehicles	Total 2010	Total 2009
Cost							
Balance at beginning of the year	1,240,327	564,281	281,929	1,605,041	2,369	3,693,947	3,236,843
Additions	70,842	81,616	55,595	102,457	-	310,510	462,235
Disposals	-	(1,687)	(681)	(121)	-	(2,489)	(5,131)
Balance at end of the year	1,311,169	644,210	336,843	1,707,377	2,369	4,001,968	3,693,947
Accumulated depreciation							
Balance at beginning of the year	367,778	350,503	213,776	929,458	2,275	1,863,790	1,606,537
Charge for the year	24,461	87,489	29,820	135,997	45	277,812	262,248
Disposals	-	(1,687)	(681)	(121)	-	(2,489)	(4,995)
Balance at end of the year	392,239	436,305	242,915	1,065,334	2,320	2,139,113	1,863,790
Net book value							
As at December 31, 2010	918,930	207,905	93,928	642,043	49	1,862,855	
As at December 31, 2009	872,549	213,778	68,153	675,583	94		1,830,157

Land and buildings; and improvements and decoration of premises include work in progress as at December 31, 2010 amounting to SAR 104.6 million (2009: SAR 276.3 million); and SAR 1.9 million (2009: SAR 16.8 million), respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

9. OTHER ASSETS

SAR'000	2010	2009
Accrued special commission receivable		
- banks and other financial institutions	7,234	27,218
- investments	162,010	167,937
- loans and advances	347,399	391,976
- other	62,986	77,939
Total accrued special commission receivable	579,629	665,070
Accounts receivable	55,455	66,768
Positive fair value of derivatives (note 10)	2,674,320	1,817,240
Other	228,098	666,436
Total	3,537,502	3,215,514

10. DERIVATIVES

In the ordinary course of business, the Bank utilizes the following derivative financial instruments for both trading and hedging purposes:

a) Swaps

Swaps are commitments to exchange one set of cash flows for another. For special commission rate swaps, counterparties generally exchange fixed and floating special commission rate payments in a single currency without exchanging principal. For currency swaps, principal, fixed and floating commission payments are exchanged in different currencies.

b) Forwards and futures

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specified price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. Foreign currency and special commission rate futures are transacted in standardized amounts on regulated exchanges and changes in futures contract values are settled daily.

c) Forward rate agreements

Forward rate agreements are individually negotiated special commission rate contracts that call for a cash settlement for the difference between a contracted special commission rate and the market rate on a specified future date, on a notional principal for an agreed period of time.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

d) Options

Options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, to either buy or sell at a fixed future date or at any time during a specified period, a specified amount of a currency, commodity or financial instrument at a predetermined price.

Held for trading purposes

Most of the Bank's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers and banks in order, inter alia, to enable them to transfer, modify or reduce current and future risks. Positioning involves managing market risk positions with the expectation of profiting from favourable movements in prices, rates or indices. Arbitrage involves identifying pricing anomalies in different markets and products, with the expectation of profiting from price differentials between markets or products.

Held for hedging purposes

The Bank adopted a comprehensive system for the measurement and management of risk. Part of the risk management process involves managing the Bank's exposure to fluctuations in foreign exchange rates and special commission rates to reduce its exposure to currency and special commission rate risks to acceptable levels as determined by the Board of Directors within the guidelines issued by SAMA. The Board of Directors has established levels of currency risk by setting limits on counterparty and currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits. The Board of Directors have also established the level of special commission rate risk by setting limits on special commission rate gaps for stipulated periods. Asset and liability special commission rate gaps are reviewed on a periodic basis and hedging strategies are used to reduce special commission rate gap within the established limits.

As part of its asset and liability management, the Bank uses derivatives for hedging purposes in order to adjust its own exposure to currency and special commission rate risks. This is generally achieved by hedging specific transactions as well as strategic hedging against overall consolidated statement of financial position exposures. Strategic hedging, other than portfolio hedges for special commission rate risks, does not qualify for special hedge accounting and the related derivatives are accounted for as held for trading.

Fair value hedges

The Bank uses special commission rate swaps to hedge against the special commission rate risk arising from specifically identified fixed special commission rate exposures.

Cash flow hedges

The Bank is exposed to variability in future special commission cash flows on non-trading assets and liabilities which bear special commission rate at a variable rate. The Bank uses special commission rate swaps as cash flow hedges of these special commission rate risks.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

10. DERIVATIVES (continued)

Held for hedging purposes (continued)

Below is the schedule indicating as at 31 December, the periods when the cash flows arising from the hedged item are expected to occur and when they are expected to affect profit or loss:

2010 SAR'000	Within 1 year	1-3 years	3-5 years
Cash inflows (assets)	12,866	6,624	-
Cash outflows (liabilities)	(711)	-	-
Net cash inflow	12,155	6,624	-

2009 SAR'000	Within 1 year	1-3 years	3-5 years
Cash inflows (assets)	15,369	18,863	420
Cash outflows (liabilities)	(2,214)	(704)	-
Net cash inflow	13,155	18,159	420

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

The table below shows the positive and negative fair values of derivative financial instruments held, together with their notional amounts, analyzed by the term to maturity and monthly average. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the year end, do not reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Bank's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor market risk.

2010 SAR'000	Positive fair value	Negative fair value	National amount total	National amounts by term to maturity: Within 3 months	3-12 months	1-5 years	Monthly average
Held for trading:							
Special Commission rate swaps	3,201	(3,256)	854,455	439,444	-	415,011	1,390,964
Forward foreign exchange contracts	2,241,307	(317,957)	63,149,908	47,399,105	15,750,803	-	61,919,694
Currency options	350,747	(350,997)	1,218,686	859,875	357,211	1,600	944,539
Held as fair value hedges:							
Special Commission rate swaps	-	(9,766)	2,661,795	322,000	1,839,795	500,000	3,149,663
Held as cash flow hedges:							
Special Commission rate swaps	79,065	(1,209)	1,929,011	96,000	735,011	1,098,000	2,199,855
Total	2,674,320	(683,185)	69,813,855	49,116,424	18,682,820	2,014,611	69,604,715

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

10. DERIVATIVES (continued)

2009 SAR'000	Positive fair value	Negative fair value	Notional amount total	Notional amounts by term to maturity: Within 3 months	3-12 months	1-5 years	Monthly average
Held for trading:							
Special Commission rate swaps	3,976	(3,780)	1,187,680	988,890	11,252	187,538	1,333,755
Forward foreign exchange contracts	1,665,124	(243,843)	52,694,695	37,292,726	15,401,969	-	56,373,792
Currency options	8,422	(8,422)	162,662	8,236	81,286	73,140	2,233,845
Held as fair value hedges:							
Special Commission rate swaps	917	(12,593)	2,508,083	-	1,290,068	1,218,015	2,389,293
Held as cash flow hedges:							
Special Commission rate swaps	138,801	(2,124)	2,459,075	-	530,000	1,929,075	2,309,022
Total	1,817,240	(270,762)	59,012,195	38,289,852	17,314,575	3,407,768	64,639,707

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

The table below shows a summary of hedged items, the nature of the risk being hedged, the hedging instrument and its fair value:

2010 SAR '000	Fair value	Hedge inception value	Risk	Hedging instrument	Positive fair value	Negative fair value
Description of hedged items						
Floating rate notes (including debt securities in issue)	1,929,011	1,929,011	Cash flow	Special Commission rate swaps	79,065	(1,209)
Fixed special commission rate loans	1,247,226	1,226,081	Fair value	Special Commission rate swaps	-	(9,766)

2009 SAR '000	Fair value	Hedge inception value	Risk	Hedging instrument	Positive fair value	Negative fair value
Description of hedged items						
Floating rate notes (including debt securities in issue)	2,459,075	2,459,075	Cash flow	Special Commission rate swaps	138,801	(2,124)
Fixed special commission rate loans	2,564,529	2,521,331	Fair value	Special Commission rate swaps	917	(12,593)

The net gains on the hedging instruments for fair value hedge is SAR 1.91 million (2009: net gain of SAR 12.7 million). The net losses on the hedged item attributable to the hedged risk is SAR 22.94 million (2009: net loss of SAR 2.7 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

10. DERIVATIVES (continued)

Reconciliation of movements in the other reserve of cash flow hedges:

SAR'000	2010	2009
Balance at beginning of the year	120,126	113,710
Gains/ losses from changes in fair value recognised directly in equity	(58,821)	15,377
Losses/ gains removed from equity and included in net special commission income	1,422	(8,961)
Balance at end of the year	62,727	120,126

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

11. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

SAR'000	2010	2009
Current accounts	527,820	1,076,280
Money market deposits	10,108,731	15,086,732
Total	10,636,551	16,163,012

Money market deposits include deposits against sales of fixed rate bonds of SAR 4,136 million (2009: SAR 2,363 million) with agreement to repurchase the same at fixed future dates.

12. CUSTOMER DEPOSITS

SAR'000	2010	2009
Demand	47,939,992	40,451,465
Saving	285,581	265,353
Time	70,081,869	77,994,199
Other	8,638,017	6,567,089
Total	126,945,459	125,278,106

Other include regular deposits in transit.

Time deposits include deposits against sales of fixed rate bonds of SAR nil (2009: SAR 210 million) with agreement to repurchase the same at fixed future dates. Time deposits also include non-interest based deposits of SAR 26,241 million (2009: SAR 27,062 million). Other customers' deposits include SAR 1,917 million (2009: SAR 2,581 million) of margins held for irrevocable commitments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

12. CUSTOMER DEPOSITS (continued)

The above customer deposits include foreign currency deposits as follows:

SAR'000	2010	2009
Demand	1,533,515	2,487,341
Saving	141	153
Time	18,037,118	21,113,411
Other	187,874	123,806
Total	19,758,648	23,724,711

13. DEBT SECURITIES IN ISSUE

During April 2006, the Bank issued USD 500 million (SAR 1,875 million) Floating Euro Medium Term Note (EMTN), maturing April 26, 2011, as the first tranche of the Notes issuance programme amounting to USD 1,600 million.

14. OTHER LIABILITIES

SAR'000		2010	2009
Accrued special commission payable	– banks and other financial institutions	7,849	10,294
	– customer deposits	223,421	294,395
	– debt securities in issue	2,053	2,032
Total accrued special commission payable		233,323	306,721
Accounts payable		787,348	1,023,794
Negative fair value of derivatives (note 10)		683,185	270,762
Other		3,163,623	3,248,016
Total		4,867,479	4,849,293

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

15. SHARE CAPITAL

The authorised, issued and fully-paid share capital of the Bank consist of 1,500 million shares of SAR 10 each (2009: 1 ,500 million shares of SAR 10 each).

16. STATUTORY RESERVE

In accordance with Saudi Arabian Banking Control Law and the Articles of Association of the Bank, a minimum of 25% of the annual net income is required to be transferred to the statutory reserve until this reserve equals the paid up capital of the Bank. Accordingly, SAR 706.2 million has been transferred from 2010 net income (2009: SAR 757.6 million). The statutory reserve is not currently available for distribution.

17. OTHER RESERVES

2010 SAR'000	Cash flow hedges	Available for sale	Total
Balance at beginning of the year	120,126	485,692	605,818
Net change in fair value	(58,821)	487,550	428,729
Transfer to consolidated statement of income	1,422	(222,004)	(220,582)
Net movement during the year	(57,399)	265,546	208,147
Balance at end of the year	62,727	751,238	813,965

2009 SAR'000	Cash flow hedges	Available for sale	Total
Balance at beginning of the year	113,710	(1,053,400)	(939,690)
Net change in fair value	15,377	1,420,457	1,435,834
Transfer to consolidated statement of income	(8,961)	118,635	109,674
Net movement during the year	6,416	1,539,092	1,545,508
Balance at end of the year	120,126	485,692	605,818

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

18. COMMITMENTS AND CONTINGENCIES

a) Legal proceedings

As at December 31, 2010 there were legal proceedings of a routine nature outstanding against the Bank. No provision has been made as management and in-house legal adviser believes that it is unlikely that any significant loss will arise.

b) Capital commitments

As at December 31, 2010 the Bank had capital commitments of SAR 178.7 million (2009: SAR 214.8 million). This includes computer hardware, software, automation projects, construction and equipment purchases.

c) Credit related commitments and contingencies

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantee and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans and advances. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. Documentary 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 generally collateralized by the underlying shipments of goods to which they relate, and therefore have significantly less risk.

Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most acceptances to be presented before being reimbursed by the customers.

Commitments to extend credit represent the unused portion of authorizations to extend credit, principally in the form of loans and advances, guarantees and letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss, which cannot readily be quantified, is expected to be considerably less than the total unused commitment as 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

(i) The contractual maturity structure for the Bank's commitments and contingencies are as follows:

2010 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	2,645,169	2,879,268	2,785,106	2,977,566	11,287,109
Letters of guarantee	7,220,465	6,353,124	29,851,224	7,764,490	51,189,303
Acceptances	1,327,310	567,093	27,022	190,574	2,111,999
Irrevocable commitments to extend credit	295,298	3,135,622	4,103,268	1,096,228	8,630,416
Total	11,488,242	12,935,107	36,766,620	12,028,858	73,218,827

2009 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	1,070,109	4,874,700	1,929,297	2,592,111	10,466,217
Letters of guarantee	2,779,937	10,495,766	28,678,318	2,787,569	44,741,590
Acceptances	1,084,267	478,000	19,523	145,047	1,726,837
Irrevocable commitments to extend credit	204,695	1,149,325	3,232,939	997,886	5,584,845
Total	5,139,008	16,997,791	33,860,077	6,522,613	62,519,489

The outstanding unused portion of non firm commitments as at December 31,2010 which can be revoked unilaterally at any time by the Bank, amounts to SAR 65,301 million (2009: SAR 60,067 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

18. COMMITMENTS AND CONTINGENCIES (continued)

c) Credit related commitments and contingencies (continued)

(ii) The analysis of commitments and contingencies by counterparty is as follows:

SAR'000	2010	2009
Government and quasi government	1,125,000	900,180
Corporate	56,498,211	47,949,567
Banks and other financial institutions	15,595,616	13,669,742
Total	73,218,827	62,519,489

d) Assets pledged

Assets pledged as collateral with other financial institutions and customers are as follows:

	2010		2009	
SAR'000	Assets	Related liabilities	Assets	Related liabilities
Other investments held at amortized cost and available for sale (note 6, 11 and 12)	4,216,499	4,135,748	2,828,491	2,573,020

e) Operating lease commitments

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

SAR'000	2010	2009
Less than 1 year	22,400	21,068
1 to 5 years	40,338	41,974
Over 5 years	20,882	20,977
Total	83,620	84,019

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

19. SPECIAL COMMISSION INCOME AND EXPENSE

SAR'000		2010	2009
Special commission income			
Investments	- Available for sale	328,004	385,658
	- Other investments held at amortized cost	196,293	515,922
	- Held to maturity	41,004	53,342
		565,301	954,922
Due from banks and other financial institutions		101,512	202,171
Loans and advances		4,205,714	4,657,201
Total		4,872,527	5,814,294

Special Commission income accrued on impaired loans and advances recognised in special commission income during the year, is SAR 48.4 million (2009: SAR 46.9 million).

SAR'000	2010	2009
Special commission expense		
Due to banks and other financial institutions	94,817	181,181
Customer deposits	623,374	1,261,339
Debt securities in issue	12,549	24,588
Total	730,740	1,467,108

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

20. FEE AND COMMISSION INCOME, NET

SAR'000	2010	2009
Fee and commission income:		
- Share brokerage and fund management	245,137	271,446
- Trade finance and corporate finance and advisory	1,038,509	868,396
- Other banking services	431,693	345,566
Total fee and commission income	1,715,339	1,485,408
Fee and commission expense:		
- Banking cards and share brokerage	230,260	212,828
- Other banking services	66,877	50,067
Total fee and commission expense	297,137	262,895
Fee and commission income, net	1,418,202	1,222,513

21. OTHER OPERATING INCOME

SAR'000	2010	2009
Gains on disposal of property and equipment	4	65
Realised and unrealised revaluation gains on other real estate	2,387	178,275
Other	62,750	70,841
Total	65,141	249,181

During 2009, the Bank sold lands with a book value of approximately SAR 112.8 million. The sold properties were initially acquired in settlement of certain loans and advances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

22. OTHER OPERATING EXPENSES

SAR'000	2010	2009
Loss on disposal of property and equipment	21	39
Other	8,288	7,466
Total	8,309	7,505

23. EARNINGS PER SHARE

Basic and diluted earnings per share for the years ended December 31, 2010 and 2009 is calculated by dividing the net income for the year by the weighted average number of ordinary shares outstanding at end of the year.

24. PROPOSED GROSS DIVIDEND AND ZAKAT

The net cash dividend after deduction of zakat reached SAR 1,950 million (2009: SAR 1,950 million), resulting in a net dividend to the shareholders of SAR 1.30 per share (2009: SAR 1.30 per share). The gross dividends for 2010 include interim net dividends of SAR 900 million paid for the first half of 2010 (2009: SAR 900 million). Final dividends, net of zakat of SAR 1,050 million have been proposed for 2010 (2009: SAR 1,050 million).

Zakat for the year amounted to approximately SAR 71 million (2009: SAR 85 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

25. CASH AND CASH EQUIVALENTS

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

SAR'000	2010	2009
Cash and balances with SAMA excluding statutory deposit (note 4)	17,041,125	17,326,515
Due from banks and other financial institutions maturing within three months from the date of acquisition	3,795,882	5,118,725
Total	20,837,007	22,445,240

26. OPERATING SEGMENTS

The operating segments are managed separately based on the Group's management and internal reporting structure. The Group's primary business is conducted in Saudi Arabia with one international branch. However, the total assets, liabilities, commitments and results of operations of this branch are not material to the Group's overall consolidated financial statements and as a result have not been separately disclosed. Transactions between the operating segments are on normal commercial terms. Funds are ordinarily reallocated between segments resulting in funding cost transfers. There are no other material items of income or expense between the operating segments.

The Group's reportable segments under IFRS 8 are as follows:

Retail
Deposit, credit and investment products for individuals and small to medium sized businesses.

Investment banking and brokerage
Investment management services and asset management activities related to dealing, managing, arranging, advising and custody of securities.

Corporate
Principally handling corporate customers' current accounts, deposits and providing loans, overdrafts and other credit facilities and derivative products.

Treasury and investments
Principally providing money market trading and treasury services as well as the management of the Bank's investment portfolios.

Other
Includes income on capital and unallocated costs pertaining to head office, finance division, human resources, technology services and other support departments and unallocated assets and liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

a) The Group's total assets and liabilities as at December 31, its total operating income and expense and its net income, for the years then ended by operating segments, are as follows:

2010 SAR'000	Retail	Investment banking and brokerage	Corporate	Treasury and investment	Other	Total
Total assets	21,877,126	1,205	86,364,273	64,319,946	993,880	173,556,430
Total liabilities	40,919,794	41,370	87,774,172	14,129,081	1,458,795	144,323,212
Total operating income	1,655,675	229,477	2,448,964	851,315	795,021	5,980,452
Fee and commission income, net	364,783	233,905	830,365	(10,851)	-	1,418,202
Total operating expenses	1,203,849	131,285	783,795	(47,926)	1,084,822	3,155,825
Depreciation and amortization	110,362	-	4,001	687	162,762	277,812
Capital expenditure	82,516	-	1,981	181	225,832	310,510
Impairment charge for credit losses, net	295,345	-	639,729	-	-	935,074
Impairment charge for investments, net	-	-	-	(85,000)	-	(85,000)
Net income / (loss)	451,826	98,192	1,665,169	899,241	(289,801)	2,824,627

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

26. OPERATING SEGMENTS (continued)

2009 SAR'000	Retail	Investment banking and brokerage	Corporate	Treasury and investment	Other	Total
Total assets	18,789,698	1,273	89,797,956	66,688,056	1,122,275	176,399,258
Total liabilities	32,802,468	31,443	94,341,932	19,589,045	1,398,926	148,163,814
Total operating income	1,665,667	238,506	2,518,724	134,458	1,402,754	5,960,109
Fee and commission income, net	205,035	240,691	783,041	(6,254)	-	1,222,513
Total operating expenses	1,131,152	119,226	463,027	155,720	1,060,499	2,929,624
Depreciation and amortization	104,780	-	3,503	522	153,443	262,248
Capital expenditure	109,895	-	1,923	204	350,213	462,235
Impairment charge for credit losses, net	283,184	-	335,355	-	-	618,539
Impairment charge for investments, net	-	-	-	117,843	-	117,843
Net income / (loss)	534,515	119,280	2,055,697	(21,262)	342,255	3,030,485

b) The Group's credit exposure by operating segment is as follows:

2010 SAR'000	Retail	Corporate	Treasury and investment	Total
Consolidated statement of financial position assets	21,570,963	86,329,044	37,718,277	145,618,284
Commitments and contingencies	-	34,279,280	-	34,279,280
Derivatives	-	-	1,330,250	1,330,250

2009 SAR'000	Retail	Corporate	Treasury and investment	Total
Consolidated statement of financial position assets	18,475,842	89,760,211	40,363,448	148,599,501
Commitments and contingencies	-	28,983,297	-	28,983,297
Derivatives	-	-	1,129,395	1,129,395

Credit exposure comprises the carrying value of consolidated statement of financial position assets excluding, cash, property and equipment, other real estate and other assets. The credit equivalent value of commitments, contingencies and derivatives are included in credit exposure.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

27. CREDIT RISK

Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities. There is also credit risk in off- balance sheet financial instruments, such as loan commitments. The Bank uses internal credit rating tools to assess credit standing of its counterparties and assigns credit ratings accordingly. Also the Bank uses the external ratings, of the major rating agency, where available. A potential credit loss might arise due to lack of proper credit analysis of the borrower's credit worthiness, inability to service the debt, lack of appropriate documentation etc.

The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Bank's risk management policies are designed to identify and to set appropriate risk limits and to monitor the risks and adherence to limits. Actual exposures against limits are monitored daily. In addition to monitoring credit limits, the Bank manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposure. In certain cases, the Bank may also close out transactions or assign them to other counterparties to mitigate credit risk.

The Bank's credit risk for derivatives, represents the potential cost to replace the derivative contracts if counterparties fail to fulfil their obligation, and to control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or 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 risk 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 lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or business. It also takes security when appropriate. The Bank also seeks additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses. The Bank regularly reviews its risk management policies and systems to reflect changes in markets products and emerging best practice.

The debt securities included in the investment portfolio are mainly sovereign risk. Analysis of investments by counterparty is provided in note 6. For details of the composition of loans and advances refer to note 7. Information on credit risk relating to derivative instruments is provided in note 10 and for commitments and contingencies in note 18.The information on Banks maximum credit exposure by business segment is given in note 26. The information on maximum credit risk exposure and their relative risk weights is also provided in note 33.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

28. CONCENTRATION OF RISKS OF FINANCIAL ASSETS WITH CREDIT RISK EXPOSURE AND FINANCIAL LIABILITIES

a) The distribution by geographical region for major categories of assets, liabilities, commitments and contingencies and credit exposure are as follows:

2010 SAR'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	23,178,548	-	11	1	-	-	-	23,178,560
Due from banks and other financial institutions	419,582	916,981	3,049,177	267,482	-	14,875	20,657	4,688,754
Investments, net	18,712,287	1,266,535	2,827,165	10,311,055	19,325	154,437	531,637	33,822,441
Loans and advances, net	102,394,307	3,029,637	319,244	239,883	-	-	51,669	106,034,740
Total	144,704,724	5,213,153	6,195,597	10,818,421	19,325	169,312	603,963	167,724,495
Liabilities								
Due to banks and other financial institutions	1,114,274	3,661,217	3,189,923	2,061,258	-	-	609,879	10,636,551
Customer deposits	126,060,848	47,568	837,037	6	-	-	-	126,945,459
Debt securities in issue	-	-	1,873,723	-	-	-	-	1,873,723
Total	127,175,122	3,708,785	5,900,683	2,061,264	-	-	609,879	139,455,733
Commitments and contingencies	48,705,174	608,842	9,068,632	9,476,739	1,522	276,880	5,081,038	73,218,827
Maximum credit exposure (stated at credit equivalent amounts)								
Derivatives	545,658	170,549	511,914	102,129	-	-	-	1,330,250
Commitments and contingencies	22,853,330	275,929	4,516,084	4,738,071	761	112,731	1,782,374	34,279,280

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

2009 SAR'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	23,419,297	-	5	1	-	-	-	23,419,303
Due from banks and other financial institutions	1,994,679	585,256	4,985,439	976,277	11,695	81,886	69,230	8,704,462
Investments, net	17,471,370	954,060	4,046,469	9,029,953	10,501	329,320	466,404	32,308,077
Loans and advances, net	102,543,267	3,319,867	345,159	191,795	-	56,261	58,264	106,514,613
Total	145,428,613	4,859,183	9,377,072	10,198,026	22,196	467,467	593,898	170,946,455
Liabilities								
Due to banks and other financial institutions	1,135,778	7,764,993	6,058,702	887,084	-	-	316,455	16,163,012
Customer deposits	124,662,690	46,838	568,572	6	-	-	-	125,278,106
Debt securities in issue	-	-	1,873,403	-	-	-	-	1,873,403
Total	125,798,468	7,811,831	8,500,677	887,090	-	-	316,455	143,314,521
Commitments and contingencies	38,197,579	1,103,806	9,253,571	7,688,798	1,427,375	651,719	4,196,641	62,519,489
Maximum credit exposure (stated at credit equivalent amounts)								
Derivatives	436,619	94,699	531,640	56,128	-	10,309	-	1,129,395
Commitments and contingencies	18,039,920	522,259	4,608,245	3,839,946	286,102	325,425	1,361,400	28,983,297

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

28. CONCENTRATION OF RISKS OF FINANCIAL ASSETS WITH CREDIT RISK EXPOSURE AND FINANCIAL LIABILITIES (continued)

b) The distributions by geographical concentration of non-performing loans and advances and specific allowance for credit losses, which is entirely attributable to Saudi Arabia is as follows:

	Non-performing loans and advances, net		Allowance for credit losses	
SAR'000	2010	2009	2010	2009
Kingdom of Saudi Arabia	1,813,485	1,253,552	1,216,004	693,599
Total	1,813,485	1,253,552	1,216,004	693,599

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

29. MARKET RISK

Market Risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate due to changes in market variables such as special commission rates, foreign exchange rates, commodity and equity prices. The Bank classifies exposures to market risk into either trading or non-trading/ banking-book. The market risk for the trading book is managed and monitored using a VaR methodology. Market risk for the non-trading book is managed and monitored using a combination of VaR, stress testing and sensitivity analysis.

a) Market Risk - Trading Book

The Bank has set limits (exposure based limits) for the acceptable level of risks in managing the trading book. In order to manage the market risk in trading book, the Bank periodically applies a VaR methodology to assess the market risk positions held and also to estimate the potential economic loss based on a set of assumptions and changes in market conditions.

A VaR methodology estimates the potential negative change in market value of a portfolio at a given confidence level and over a specified time horizon. The Bank uses variance-covariance approach for calculating VaR for trading book based on historical data (of 1 year). VaR models are usually designed to measure the market risk in a normal market environment and therefore the use of VaR has limitations because it is based on historical correlations and volatilities in market prices and assumes that the future movements will follow a statistical distribution.

The Bank calculates VaR on the basis of the following:

1. 1 day holding period at 95% confidence interval for internal reporting.
2. 10 days holding period at 99% confidence interval for regulatory capital computation (under IMA approach of Basel II Accord that the Bank plans to adopt in near future).
3. 1 day holding period at 99% confidence interval for internal reporting and for disclosure purposes.

This means that the VaR that the Bank measures is an estimate (using a confidence level of 95% and 99% of the potential loss) that is not expected to be exceeded if the current market positions were to be held unchanged for one day or 10 days. The use of 99% confidence level depicts that within a 1-day horizon, losses exceeding VaR figure should occur, on average, not more than once every hundred days.

The VaR represents the risk of portfolios at the close of a business day, and it does not account for any losses that may occur beyond the defined confidence interval. The actual trading results however, may differ from the VaR calculations and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

29. MARKET RISK (continued)

a) Market Risk - Trading Book (continued)

To overcome the VaR limitations mentioned above, the Bank also carries out stress tests of both non-trading and trading portfolios to simulate conditions outside normal confidence intervals using six stress scenarios for the entire Bank. The potential losses occurring under stress test conditions are reported regularly to the Bank's Asset Liability Committee (ALCO) for their review.

The Bank's VaR related information for the year ended December 31, 2010 and 2009 using a 1 day holding period at 99% confidence interval is as under. All the figures are in million SAR:

2010 SAR' Million	Foreign exchange rate risk	Special commission rate risk	Equity price risk	Overall risk
VaR as at December 31, 2010	1.40	2.48	-	3.07
Average VaR for 2010	0.98	1.92	-	2.29
Maximum VaR for 2010	3.25	5.48	-	5.39
Minimum VaR for 2010	0.51	0.45	-	0.83

2009 SAR' Million	Foreign exchange rate risk	Special commission rate risk	Equity price risk	Overall risk
VaR as at December 31, 2009	6.41	2.20	-	6.28
Average VaR for 2009	15.39	2.10	-	15.43
Maximum VaR for 2009	62.24	6.83	-	62.25
Minimum VaR for 2009	1.39	0.48	-	1.57

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

b) Market Risk - Banking Book

i) Special commission rate risk

Special commission rate risk arises from the possibility that the changes in special commission rates will affect either the fair values or the future cash flows of the financial instruments. The Bank has established Net special commission Income at Risk and Market Value at Risk (MVaR) limits that are monitored by ALCO. There are gap limits to accommodate Forward FX and Money Market for all currencies. The Bank monitors positions daily and uses hedging strategies to ensure maintenance of positions within the established gap limits.

The following table depicts the sensitivity to a reasonable possible change in special commission rates, with other variables held constant, on the Bank's consolidated income statement or equity. The sensitivity of the income is the effect of the assumed changes in special commission rates on the net special commission income for one year, on the non-trading financial assets and financial liabilities held as at December 31, 2010 & 2009, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing the fixed rate Available for sale financial assets, including the effect of any associated hedges as at December 31, 2010 & 2009 for the effect of assumed changes in special commission rates. The sensitivity of equity is analyzed by maturity of the asset or swap. All the banking book exposures are monitored and analyzed in currency concentrations and relevant sensitivities are disclosed in SAR million.

2010 SAR' Million Currency	Increase in basis	Sensitivity of special commission income	Sensitivity of equity				Total
			6 months or less	1 year or less	1-5 years	Over 5 years	
SAR	+ 100	153.76	-	-	-	-	-
USD	+ 100	(104.10)	2.51	0.96	28.53	185.82	217.82
EUR	+ 100	6.00	0.46	0.49	7.29	9.93	18.17
GBP	+ 100	(3.56)	0.03	0.21	0.93	1.88	3.05
JPY	+ 100	19.23	-	-	-	-	-
Others	+ 100	5.01	0.04	0.18	2.07	-	2.29

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

29. MARKET RISK (continued)

b) Market Risk - Banking Book (continued)

i) Special commission rate risk (continued)

2010 SAR' Million Currency	Increase in basis	Sensitivity of special commission income	Sensitivity of equity				Total
			6 months or less	1 year or less	1-5 years	Over 5 years	
SAR	- 100	(164.43)	-	-	-	-	-
USD	- 100	28.81	(2.51)	(0.96)	(28.53)	(185.82)	(217.82)
EUR	- 100	(5.74)	(0.46)	(0.49)	(7.29)	(9.93)	(18.17)
GBP	- 100	2.24	(0.03)	(0.21)	(0.93)	(1.88)	(3.05)
JPY	- 100	(11.00)	-	-	-	-	-
Others	- 100	(5.47)	(0.04)	(0.18)	(2.07)	-	(2.29)

2009 SAR' Million Currency	Increase in basis	Increase in basis	Sensitivity of equity				Total
			6 months or less	1 year or less	1-5 years	Over 5 years	
SAR	+ 100	218.96	-	-	-	-	-
USD	+ 100	(117.26)	1.12	1.51	20.40	121.14	144.17
EUR	+ 100	(23.88)	0.27	0.52	5.20	10.56	16.55
GBP	+ 100	(6.12)	-	-	0.27	3.59	3.86
JPY	+ 100	16.75	-	-	-	-	-
Others	+ 100	2.08	0.05	0.05	1.10	0.48	1.68

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

2009 SAR' Million Currency	Increase in basis	Sensitivity of special commission income	Sensitivity of equity				Total
			6 months or less	1 year or less	1-5 years	Over 5 years	
SAR	- 100	(199.38)	-	-	-	-	-
USD	- 100	74.38	(1.12)	(1.51)	(20.40)	(121.14)	(144.17)
EUR	- 100	19.87	(0.27)	(0.52)	(5.20)	(10.56)	(16.55)
GBP	- 100	9.91	-	-	(0.27)	(3.59)	(3.86)
JPY	- 100	(12.72)	-	-	-	-	-
Others	- 100	(3.97)	(0.05)	(0.05)	(1.10)	(0.48)	(1.68)

Special Commission sensitivity of assets, liabilities and off statement of financial position items

The Bank manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market special commission rates on its financial position and cash flows. The Bank is exposed to special commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off statement of financial position instruments that mature or re-price in a given period. The Bank manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

29. MARKET RISK (continued)

b) Market Risk - Banking Book (continued)

i) Special commission rate risk (continued)

The table below summarizes the Bank's exposure to special commission rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or the maturity dates.

2010 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Non special commission bearing	Total
Assets						
Cash and balances with SAMA	14,479,000	-	-	-	8,699,560	23,178,560
Due from banks and other financial institutions	3,734,726	876,251	-	-	77,777	4,688,754
Investments, net	12,387,326	7,038,301	6,373,542	4,538,351	3,484,921	33,822,441
Loans and advances, net	42,465,652	23,342,528	35,127,132	5,099,428	-	106,034,740
Other real estate	-	-	-	-	431,578	431,578
Property and equipment, net	-	-	-	-	1,862,855	1,862,855
Other assets	-	-	-	-	3,537,502	3,537,502
Total assets	73,066,704	31,257,080	41,500,674	9,637,779	18,094,193	173,556,430
Liabilities and shareholders' equity						
Due to banks and other financial institutions	9,751,133	357,598	-	-	527,820	10,636,551
Customer deposits	49,364,899	21,911,047	-	-	55,669,513	126,945,459
Other liabilities	1,873,723	-	-	-	-	1,873,723
Debt securities in issue	-	-	-	-	4,867,479	4,867,479
Shareholders' equity	-	-	-	-	29,233,218	29,233,218
Total liabilities and shareholders' equity	60,989,755	22,268,645	-	-	90,298,030	173,556,430
Special commission rate sensitivity -On statement of financial position gap	12,076,949	8,988,435	41,500,674	9,637,779	(72,203,837)	
Special commission rate sensitivity -Off statement of financial position gap	1,301,749	(1,854,750)	553,001	-	-	
Total special commission rate sensitivity gap	13,378,698	7,133,685	42,053,675	9,637,779	(72,203,837)	
Cumulative special commission rate sensitivity gap	13,378,698	20,512,383	62,566,058	72,203,837	-	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

2009 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Non special commission bearing	Total
Assets						
Cash and balances with SAMA	15,226,894	-	-	-	8,192,409	23,419,303
Due from banks and other financial institutions	7,870,104	760,974	-	-	73,384	8,704,462
Investments, net	12,927,791	7,545,858	5,432,333	3,376,713	3,025,382	32,308,077
Loans and advances, net	48,989,810	24,531,453	25,979,649	7,013,701	-	106,514,613
Other real estate	-	-	-	-	407,132	407,132
Property and equipment, net	-	-	-	-	1,830,157	1,830,157
Other assets	-	-	-	-	3,215,514	3,215,514
Total assets	85,014,599	32,838,285	31,411,982	10,390,414	16,743,978	176,399,258
Liabilities and shareholders' equity						
Due to banks and other financial institutions	14,610,233	476,499	-	-	1,076,280	16,163,012
Customer deposits	55,128,379	24,062,714	-	-	46,087,013	125,278,106
Debt securities in issue	1,873,403	-	-	-	-	1,873,403
Other liabilities	-	-	-	-	4,849,293	4,849,293
Shareholders' equity	-	-	-	-	28,235,444	28,235,444
Total liabilities and shareholders' equity	71,612,015	24,539,213	-	-	80,248,030	176,399,258
Special commission rate sensitivity -On statement of financial position gap	13,402,584	8,299,072	31,411,982	10,390,414	(63,504,052)	
Special commission rate sensitivity -Off statement of financial position gap	783,999	(750,000)	(33,999)	-	-	
Total special commission rate sensitivity gap	14,186,583	7,549,072	31,377,983	10,390,414	(63,504,052)	
Cumulative special commission rate sensitivity gap	14,186,583	21,735,655	53,113,638	63,504,052	-	

The off statement of financial position gap represents the net notional amounts of derivative financial instruments, which are used to manage the commission rate risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

29. MARKET RISK (continued)

b) Market Risk - Banking Book (continued)

ii) Currency risk

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Board has set limits on positions by currencies, which are monitored daily, and hedging strategies are also used to ensure that positions are maintained within the limits.

The table below shows the currencies to which the Bank has a significant exposure as at December 31, 2010 & 2009 on its non-trading monetary assets and liabilities and forecasted cash flows. The analysis calculates the effect of reasonable possible movement of the currency rate against SAR, with all other variables held constant, on the consolidated income statement (due to the fair value of the currency sensitive non-trading monetary assets and liabilities) and equity (due to change in fair value of currency swaps and forward foreign exchange contracts used as cash flow hedges). A positive effect shows a potential increase in consolidated income statement or equity; whereas a negative effect shows a potential net reduction in consolidated income statement or equity.

Currency Exposures As at December 31, 2010	Change in Currency Rate in %	Effect on net income in SAR millions
USD	+1	6.14
EUR	+1	0.32
GBP	+1	0.18
JPY	+1	0.10
Others	+1	0.24

Currency Exposures As at December 31, 2009	Change in Currency Rate in %	Effect on net income in SAR millions
USD	+1	4.89
EUR	+1	0.24
GBP	+1	0.06
JPY	+1	0.14
Others	+1	0.10

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

iii) Foreign currency risk

The Bank manages exposure to effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for overnight positions, which are monitored daily. At the end of the year, the Bank had the following significant net exposures denominated in foreign currencies:

SAR'000	2010 Long (short)	2009 Long (short)
US Dollar	1,263,249	777,983
Japanese Yen	51,702	55,174
Euro	(27,724)	39,285
Pound	13,507	27,443
Other	(20,211)	13,622

iv) Banking Book -Equity Price risk

Equity risk refers to the risk of decrease in fair values of equities in the Bank's non-trading investment portfolio as a result of reasonable possible changes in levels of equity indices and the value of individual stocks.

The effect on the Bank's equity investments held as Available for sale due to reasonable possible change in equity indices, with all other variables held constant, is as follows:

Market Indices	December 31, 2010		December 31, 2009	
	Change in equity Indices %	Effect in SAR millions	Change in equity Indices %	Effect in SAR millions
Tadawal	+5	27.64	+5	25.94
	+10	55.27	+10	51.88
	-5	(27.64)	-5	(25.94)
	-10	(55.27)	-10	(51.88)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

30. LIQUIDITY RISK

Liquidity risk is the risk that the Bank will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately. To mitigate this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining an appropriate balance of cash, cash equivalents and readily marketable securities.

Management monitors the maturity profile to ensure that adequate liquidity is maintained. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of both the Bank and the foreign branch. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

In accordance with Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% (2009: 7%) of total demand deposits and 4% (2009: 4%) of saving and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of not less than 20% of its deposit liabilities, in the form of cash, gold, Saudi Government Development Bonds or assets which can be converted into cash within a period not exceeding 30 days. The Bank has the ability to raise additional funds through repo facilities with SAMA upto 75 % of the nominal value of bonds held by the Bank.

The table below summarizes the maturity profile of the Bank's financial liabilities at 31 December 2010 and 2009 based on contractual undiscounted repayment obligations. As special commission payments up to contractual maturity are included in the table, totals do not match with the statement of financial position. The contractual maturities of liabilities have been determined based on the remaining period at the reporting date to the contractual maturity date and do not take into account the effective expected maturities. The Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not affect the expected cash flows indicated by the Bank's deposit retention history. The undiscounted maturity profile of the liabilities is as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

2010 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Financial liabilities					
Due to banks and other financial institutions	10,289,929	357,907	-	-	10,647,836
Customer deposits	103,957,418	22,733,762	622,095	6,065	127,319,340
Debt securities in issue	4,828	1,874,539	-	-	1,879,367
Derivative financial instruments(gross contractual amounts payable)	11,579	22,121	17,553	-	51,253
Total undiscounted financial liabilities	114,263,754	24,988,329	639,648	6,065	139,897,796

2009 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Financial liabilities					
Due to banks and other financial institutions	15,704,107	476,847	-	-	16,180,954
Customer deposits	99,433,252	24,779,834	1,550,888	6,086	125,770,060
Debt securities in issue	3,345	8,215	1,878,466	-	1,890,026
Derivative financial instruments(gross contractual amounts payable)	15,965	49,737	33,972	-	99,674
Total undiscounted financial liabilities	115,156,669	25,314,633	3,463,326	6,086	143,940,714

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

30. LIQUIDITY RISK (continued)

The table below summarises the maturity profile of the Bank's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date and do not take account of the effective maturities as indicated by the Bank's deposit retention history. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.The maturity profile of the Bank's assets and liabilities is as follows:

2010 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	17,041,125	-	-	-	6,137,435	23,178,560
Due from banks and other financial institutions	3,812,503	876,251	-	-	-	4,688,754
Investments, net	9,181,653	6,551,301	9,919,213	4,685,353	3,484,921	33,822,441
Loans and advances, net	33,113,612	21,142,761	40,476,950	11,301,417	-	106,034,740
Other real estate	-	-	-	-	431,578	431,578
Property and equipment, net	-	-	-	-	1,862,855	1,862,855
Other assets	3,253,949	-	-	-	283,553	3,537,502
Total assets	66,402,842	28,570,313	50,396,163	15,986,770	12,200,342	173,556,430
Liabilities and shareholders' equity						
Due to banks and other financial institutions	10,278,953	357,598	-	-	-	10,636,551
Customer deposits	103,633,711	22,683,588	622,095	6,065	-	126,945,459
Other liabilities	-	1,873,723	-	-	-	1,873,723
Debt securities in issue	916,508	-	-	-	3,950,971	4,867,479
Shareholders' equity	-	-	-	-	29,233,218	29,233,218
Total liabilities and shareholders' equity	114,829,172	24,914,909	622,095	6,065	33,184,189	173,556,430

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

2009 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	17,326,515	-	-	-	6,092,788	23,419,303
Due from banks and other financial institutions	7,943,490	760,972	-	-	-	8,704,462
Investments, net	7,481,995	9,744,858	8,532,114	3,523,728	3,025,382	32,308,077
Loans and advances, net	41,657,369	24,881,257	27,983,437	11,992,550	-	106,514,613
Other real estate	-	-	-	-	407,132	407,132
Property and equipment, net	-	-	-	-	1,830,157	1,830,157
Other assets	2,482,310	-	-	-	733,204	3,215,514
Total assets	76,891,679	35,387,087	36,515,551	15,516,278	12,088,663	176,399,258
Liabilities and shareholders' equity						
Due to banks and other financial institutions	15,686,513	476,499	-	-	-	16,163,012
Customer deposits	99,011,998	24,710,220	1,549,802	6,086	-	125,278,106
Other liabilities	-	-	1,873,403	-	-	1,873,403
Debt securities in issue	577,483	-	-	-	4,271,810	4,849,293
Shareholders' equity	-	-	-	-	28,235,444	28,235,444
Total liabilities and shareholders' equity	115,275,994	25,186,719	3,423,205	6,086	32,507,254	176,399,258

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, balances with SAMA, items in the course of collection; loans and advances to banks; and loans and advances to customers. The cumulative maturities of commitments and contingencies is given in note 18 (c) (i) of the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

31. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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.

Fair value and fair value hierarchy

2010 SAR'000	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments	-	2,674,320	-	2,674,320
Financial investments available for sale	11,022,232	2,786,567	479,620	14,288,419
Financial Liabilities				
Derivative financial instruments	-	683,185	-	683,185

2009 SAR'000	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments	-	1,817,240	-	1,817,240
Financial investments available for sale	8,866,208	3,820,248	332,230	13,018,686
Financial Liabilities				
Derivative financial instruments	-	270,762	-	270,762

The Bank uses the Net Asset Valuation method to fair-value the above Level 3 fair value hierarchy investments. The net asset values of these are derived from the latest available audited financial statements of the investees. Insufficient data is available to permit other valuation methods to be used, and therefore the potential impact of using alternative assumptions for the valuations cannot be determined.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

SAR'000	2010	2009
Reconciliation of movement in Level 3		
Opening balance	332,230	257,878
Total gains or losses		
- recognised in consolidated income statement	(891)	382
- recognised in other comprehensive income	16,512	34,130
Purchases	131,769	39,840
Closing balance	479,620	332,230

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

The fair values of on-statement of financial position financial instruments, except for other investments held at amortised costs and held-to-maturity investments which are carried at amortised cost, are not significantly different from the carrying values included in the financial statements. The fair values of loans and advances, special commission bearing customers' deposits, debts securities in issue, due from and due to banks which are carried at amortised cost, are not significantly different from the carrying values included in the financial statements, since the current market special 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 estimated fair values of held-to-maturity investments and other investments held at amortised cost are based on quoted market prices when available or pricing models when used in the case of certain fixed rate bonds (respectively). The fair values of these investments are disclosed in note 6.

The fair values of derivatives are based on the quoted market prices when available or by using the appropriate valuation technique.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

32. RELATED PARTY TRANSACTIONS

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

SAR'000	2010	2009
a) Directors, key management personnel, other major shareholders' and their affiliates:		
Loans and advances	4,036,428	5,192,993
Customer deposits	24,082,591	24,273,121
Derivatives (at fair value)	974,856	670,570
Commitments and contingencies (irrevocable)	1,826,001	2,440,179
Executive end of service	26,576	25,112

Key management personnel are those persons, including a non-executive director, having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly.

Other major shareholders represent shareholdings of 5% or more of the Bank's issued share capital.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

b) Bank's mutual funds

SAR'000	2010	2009
Customer's deposits	2,360,469	3,837,139

c) Income and expenses pertaining to transactions with related parties included in the financial statements are as follows:

SAR'000	2010	2009
Special commission income	101,379	199,797
Special commission expense	366,310	716,140
Fees from banking services, net	157,894	135,313
Directors and commitees remuneration and expenses	4,425	4,543
Executive remuneration and bonus	21,426	23,656
Executive end of service	2,273	1,397
Other expenses	5,198	5,198

33. CAPITAL ADEQUACY

The Group's objectives when managing capital, are, to comply with the capital requirements set by SAMA; to safeguard the Group'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 Group's management. SAMA requires to hold the minimum level of the regulatory capital of and maintain a ratio of total regulatory capital to the risk-weighted asset at or above the agreed minimum of 8%.

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group›s capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by the Saudi Arabian Monetary Agency in supervising the Banks in the Kingdom.

Pursuant to SAMA guidelines regarding implementation of Basel II, Pillar 3 disclosures effective 1 January 2008, the following disclosures have been made.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

33. CAPITAL ADEQUACY (continued)

SAR'000	2010		2009	
	Capital	Ratio %	Capital	Ratio %
Top consolidated level				
Tier 1 capital	26,248,816	16.0%	25,111,069	15.7%
Total regulatory capital (Tier 1 + Tier 2)	29,986,016	18.3%	29,120,011	18.2%

SAR'000	2010	2009
Risk weighted assets		
Credit risk weighted assets	152,213,239	149,227,902
Operational risk weighted assets	10,212,100	9,640,338
Market risk weighted assets	1,360,097	939,074
Total Pillar 1 Risk Weighted Assets	163,785,436	159,807,314

34. STAFF INVESTMENT SAVINGS PLANS

The Bank operates a Staff Savings Investment Plan. Under the terms of the Staff Savings Investment Plan, participating employees of the Bank make monthly contributions by way of a deduction from their salary subject to a maximum of 15 % of their basic salaries. The Bank also contributes on amonthly basis a pre-determined percentage (subject to a maximum of 6 %) of the basic salary of an employee based on the varying service periods.

The proceeds are invested in the Bank's existing range of mutual funds for the benefit of the employees.

The costs of the above plans were charged to the Bank's consolidated income statement over the term of the plans.

35. STAFF COMPENSATION

Categories 2010	Number of employees	Fixed compensation	Variable compensation	Total compensation
Senior executives requiring SAMA no objections	18	21,451	7,244	28,695
Employees engaged in risk taking activities	400	89,867	16,918	106,785
Employees engaged in control functions	225	42,994	3,914	46,908
Outsourced employees	178	12,855	-	12,855
Others	4,681	569,937	67,807	637,744
Total	5,502	737,104	95,883	832,987

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2010 and 2009

Compensation policy is based on the job profile requirement, market practices, nature and level of involvement in risk taking process. It applies to the Bank's senior management and all employees and aims to link individual performance to the Bank's overall achievements and soundness. Compensation includes fixed and variable components. Salary revision, performance bonus and other performance linked incentives are decided based on the performance evaluation process outcome as well as the Bank's financial performance and strategic goals.

The Board of Directors has the ultimate responsibility to approve and oversee the Bank's compensation policy. The Nomination and Compensation Committee, made up of five non executive Directors is in charge of overseeing the compensation system design and effectiveness on behalf of the Board of Directors as well as preparing the Bank's compensation policy and undertaking its periodic assessment and update to ensure achievement of the system objectives and reinforce the Bank's risk management framework. Fixed compensation comprises of salaries and wages and other benefits and allowances. The variable compensation includes sales incentives, product related rewards and performance related payments.

36. INVESTMENT MANAGEMENT SERVICES

The Bank offers investment management services to its customers, which include management of certain investment funds with assets totaling of SAR 21.0 billion (2009: SAR 19.9 billion).
The Bank's assets under management include non-interest based funds amounting to SAR 5.9 billion (2009: SAR 6.9 billion).

37. ISSUED IFRS BUT NOT YET EFFECTIVE

The Bank has chosen not to early adopt IFRS 9, "Financial Instruments", part of which has been issued, and is mandatory for compliance for the Bank's fiscal year beginning January 1, 2013. The Bank is currently assessing the implication of the standard on the Group and the timing of its adoption.

The Bank has also chosen not to early adopt revised IAS 24 Related Party and Improvements to IFRSs 2010 – amendments to applicable and relevant standards and interpretations, which are applicable for annual periods beginning on or after 1 January 2011 and early adoption is permitted.

38. COMPARATIVE FIGURES

Other than reclassifications required by adoption of the revised IAS 39 (amendments), certain prior year figures have been reclassified to conform with current year presentation.

39. BOARD OF DIRECTORS' APPROVAL

The consolidated financial statements were approved by the Board of Directors on 20 Safar 1432H (corresponding to January 24, 2011).

40. BASEL II PILLAR 3 DISCLOSURES

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.riyadbank.com and the annual report, respectively, as required by the Saudi Arabian Monetary Agency. Such disclosures are not subject to review or audit by the external auditors.

Pillar 3 Qualitative Disclosures


dynamics

Pillar 3 Qualitative Disclosures

These risk and capital disclosures are consistent with the requirements of the Saudi Arabian Monetary Agency ("SAMA") and the Basel II Accord capital adequacy requirements commonly referred to as Pillar 3 Disclosure requirements. This is a summarized version of the full Pillar 3 disclosure document, which is available on our website at "www.Riyadbank.com".

In accordance with SAMA requirements, the Basel II Accord Capital Adequacy Regulations are applicable to Riyad Bank on a consolidated basis, comprising of Riyad Bank and its wholly owned subsidiary Riyad Capital.

Riyad Bank provides SAMA with quarterly capital adequacy reports which detail its current capital adequacy position, and on annual basis submits an Internal Capital Adequacy Assessment Plan (ICAAP). Riyad Bank provides adequate capital, represented by its total Equity, for core banking risks (Credit, Market and Operational Risk) in accordance with Pillar 1 of the Basel II accord and provides additional capital for other risks under Pillar 2 provisions; Settlement risk, IT risk, and strategic risk. The minimum capital position is the total of Pillar 1 plus Pillar 2 Capital requirements, plus any additional capital requirements determined by the regulator.

Frameworks, policies, authorities, procedures and other control activities constitute the Bank control culture and determine its adequacy and effectiveness. Senior Management Committees in the Bank include the Operational Risk Management & Compliance Committee and the Asset and Liability Committee. These committees oversee market, liquidity, operational and strategic business risk and compliance risk. The Board Audit Committee receives and reviews regular reports on risk and controls across the Bank.

Riyad Bank has a centralized Risk Management Division responsible for overseeing and managing all aspects of Riyad Bank's risk planning, risk modeling, risk measurement and risk methodology development, and implementation of the capital adequacy rules required by SAMA and Basel II.

Here below is a brief on the major risks and how the Bank manages each risk type:

Credit Risk:

The Board of Directors approved a Credit Risk Management (CRM) Framework document. The CRM Framework and credit risk governance structure are designed to provide comprehensive controls and continuing management of credit risk inherent in the Bank's business activities. The Board is directly involved in risk appetite determination, policy development, approval of large credits and continuing review of existing credit exposures, review of status and trends in credit quality, and industry and sector credit concentrations.

The Bank's Credit Committees are responsible for reviewing and approving credit exposures within risk-limits, criteria required for loan documentation and methods of follow-up and supervision. The main Credit Committee is chaired by the Chief Executive Officer of the Bank.

Credit Policy is responsible for managing and controlling credit risk throughout the Bank, and is independent from the business units.

Internal Audit regularly submits its reports to the Board Audit Committee on loan reviews. External Auditors carry out their reviews and submit their reports to the Board Audit committee and to the Board of Directors.

The Investment Committee, chaired by the Chairman of the Board, oversees the investment portfolio in accordance with Board approved asset allocation and investment guidelines and mandates.

The Investment Committee sets out the policy framework and investment asset allocation. Portfolio Managers' performance is reviewed by the Investment Department and independent consultants.

Riyad Bank's credit exposure can be classified in two broad risk categories: Retail Credit Risk and Non-retail Credit Risk. Retail Credit Risk is the risk of non-payment of credit facilities offered to retail banking customers. This typically covers risks associated with consumer loans, mortgage loans, credit cards, and other products offered to individuals. Retail Banking risk acceptance is primarily based on the application of fixed criteria using well defined scoring methodologies (Scoring system). Portfolio provisions are based on the Bank's provisioning policy. In case of non-payment for 180 days from due date, the loan is charged off.

Non-retail lending includes corporate facilities/loans, inter-bank loans, loans to government entities, small and medium sized enterprise loans, trade finance, structured and project finance, leasing, syndicated loans, corporate guarantees, and corporate overdrafts.

The Off-shore credit risk is controlled within the country risk limits which are approved by the Board of Directors.

The Bank has a specialized unit which is concerned with credit risk management of financial institutions.

Corporate credit risk is managed by ensuring timely risk identification, quantification, calibration, monitoring, and credit exposure reporting in line with our credit risk appetite, corporate strategy, and our portfolio and sector strategy. Concentration policy and limits exist for single customer exposure, industry concentration, and segment exposure. Credit to related parties is covered by collateral as per regulatory requirements. Risk is monitored on a facility basis, total exposure basis, and portfolio basis.

The Bank applies a borrower rating assessment using an externally built credit rating system, which is then mapped to an Obligor Risk Rating based on financial and business analysis criteria. An internal rating is assigned based on a range of definitions and criteria given for each rating grade, taking into account the facility, collateral offered and other factors. Rating changes are approved by the Credit Rating Committee and / or Credit Rating Review Committee. The Internal Audit department monitors the ratings and their amendments.

The Bank uses Standard & Poor's, Fitch, Moody's, and Capital Intelligence as External Credit Assessment Institutions for ratings of Sovereigns, Central Banks, Banks, Securities Firms and Corporate exposures.

Collateral is never the principal rationale for lending decision but is viewed as an alternative source of repayment in the event that a business fails or enters into bankruptcy. Policy guidelines control collateral acceptance, valuation, enforceability, marketability and liquidity.

Loans are considered to be in default if past due by more than 90 days.

Provisions are calculated after a review by business areas, Risk Management, Finance Division, Executive Management, Internal Audit and the Audit Committee, and are reviewed quarterly by the Bank's joint auditors. Provisions consist of portfolio and specific provisions. Specific provisions are created for non-retail loans classified as non-performing based on individual review on a periodical basis of credit exposures less expected recoverable amounts. Portfolio provisions are calculated to cover corporate, consumer and credit card performing exposures and apply a range of provision ratios which reflect the impairment on each portfolio category.

Market Risk

Market risks are the risks related to fluctuations in the (Value at Risk: VaR) fair value or future cash flows of the financial instruments incurred as a result of various changes in the market elements such as special commission rates, foreign exchange rates/foreign currency exposure, or equity price.

The Bank monitors positions daily and uses hedging strategies to ensure maintenance of positions within the established gap limits set and approved by the Board.

The Bank manages exposure to effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency.

To mitigate liquidity risk, the Bank has diversified funding sources and retains an appropriate balance of cash, cash equivalents and readily marketable securities as liquid assets.

Operational Risk

Riyad Bank's operational risk strategy is to ensure that the Bank is safeguarded against major operational risks while ensuring that losses incurred as a result of operational risk are minimized. The Bank has developed proactive risk mitigation strategies supported by risk management frameworks, policies and procedures aimed at detecting and controlling risks before they become a threat. A centralized Operational Risk Management unit monitors and manages the impact of operational risk upon Riyad Bank and reports to the Operational Risk Management & Compliance Committee which is chaired by the CEO.

Other Risks

The Bank follows integrated strategies to manage, monitor and control other risks such as liquidity risk, IT risk, and strategic risk. Such strategies concentrate on the mitigation of any potential adverse consequences of these risks, and Bank allocates adequate capital to face these risk types.

Executive Management

Executive Management

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President & Chief Executive Officer

Suliman A. Al-Gwaiz

Deputy Chief Executive Officer

Abdulaziz S. Al-Furaih

Senior Executive Vice President

Thalib A. Al-Shamrani

Executive Vice President
Chief Risk Officer
Risk Management

Abdulmajeed A. Al-Mubarak

Executive Vice President
Corporate Banking

Abdulaziz S. Al-Malki

Executive Vice President
Treasury & Investment

Abdulkarim H. Al-Faraj

Executive Vice President
Information Technology

Saeed S. Al-Siairri

Executive Vice President
Operations

Adel A. Bin Al-Sheikh

Executive Vice President
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Regional Manager,
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Hani A. Abul Naja
Regional Manager,
Western region