



Decoding the Future...

my bank... riyad bank | [riyadbank.com](http://riyadbank.com) | 800 124 2020

بنك الرياض  
riyad bank

[riyadbank.com](http://riyadbank.com)

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ







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



HRH Crown Prince  
Naif Bin Abdul Aziz Al Saud  
Deputy Premier  
and Minister of the Interior

"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 .....	5	Community Service .....	46	Summary Of Pillar 3 Qualitative	
Board of Directors .....	9	Riyad Capital .....	47	Disclosures .....	137
The Chairman's Statement .....	10	Economic and Financial Outlook 2012 .....	49	Executive Management .....	145
Members of the Board .....	13	Introduction .....	50	Head Office, Regional and Overseas	
Report of the Board of Directors .....	14	Oil Markets.....	51	Offices .....	147
Achievements 2010 .....	37	The Gulf Region.....	53		
Retail Banking .....	38	The Saudi Economy .....	54		
Islamic Banking.....	38	Financial Markets .....	56		
Private Banking & Golden Service .....	38	Macroeconomic Performance in 2011 and			
Overseas Banking .....	39	Outlook for 2012.....	57		
Corporate Banking .....	39	Financial Statements 2011 .....	59		
Treasury .....	40	Auditors' Report .....	60		
Risk Management .....	41	Balance Sheet .....	61		
Credit Rating .....	43	Statement of Income .....	62		
Information Technology .....	43	Statement of Changes in Shareholders'			
IT Governance .....	44	Equity .....	64		
Quality Control .....	44	Statement of Cash Flows .....	65		
Human Resources .....	45	Notes.....	66		
Marketing & Communications .....	45				

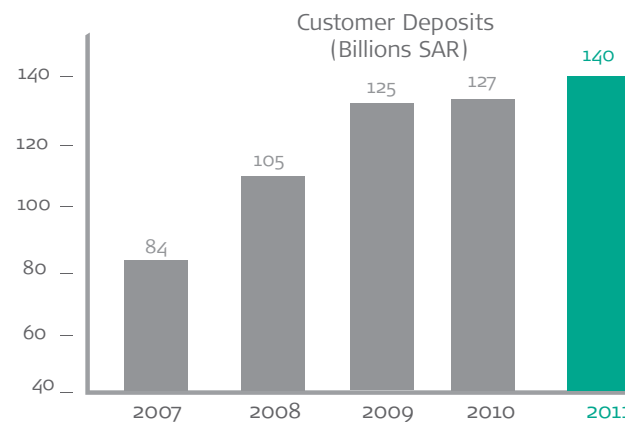
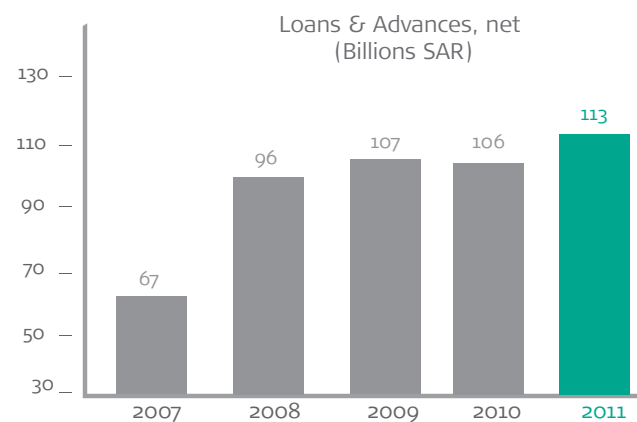
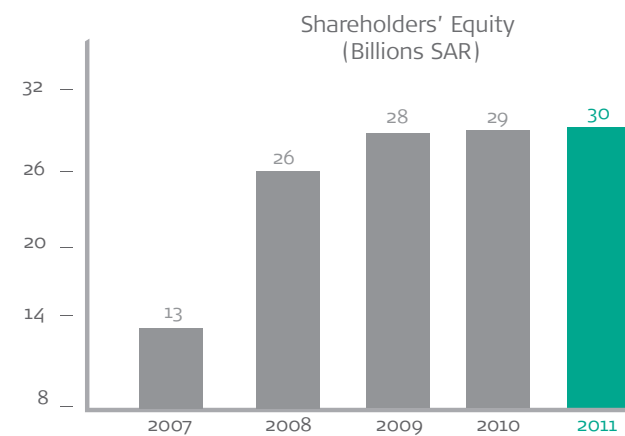
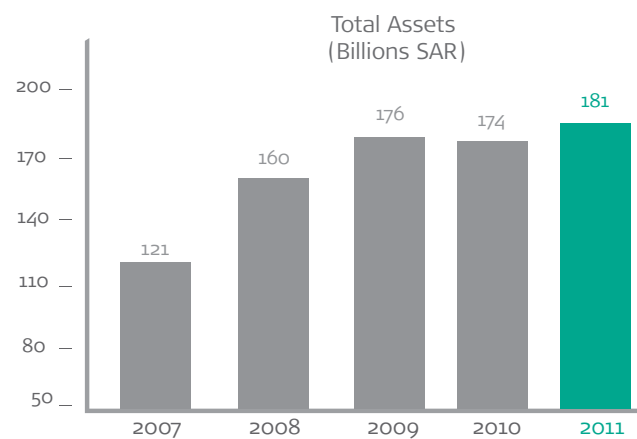


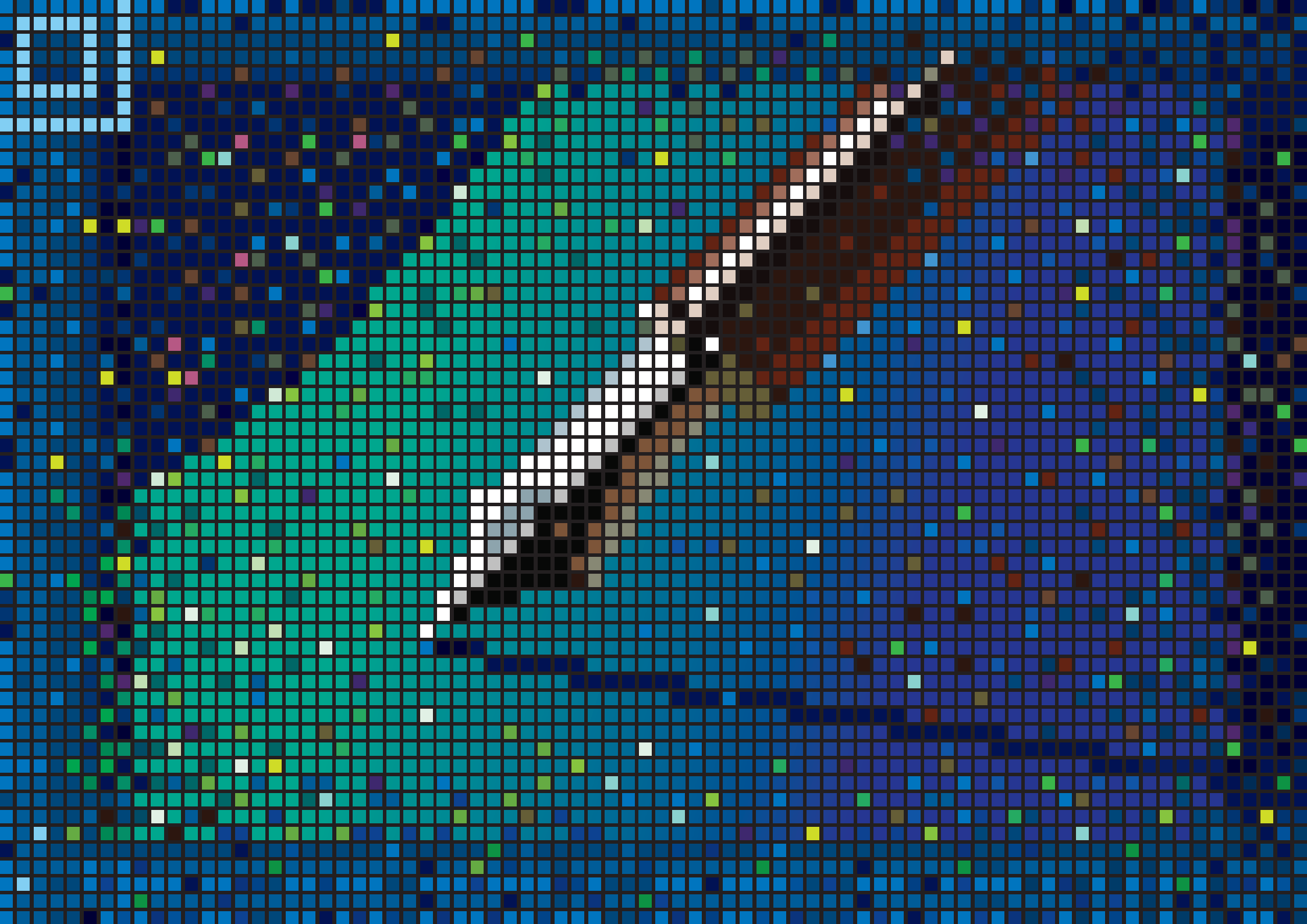
## FINANCIAL HIGHLIGHTS

## Financial Highlights

SAR' Millions Financial Highlights	2011	2010	2009	2008	2007
Total Assets	180,887	173,556	176,399	159,653	121,350
Loans & Advances, net	112,973	106,035	106,515	96,430	67,340
Investments, net	36,616	33,822	32,308	40,329	27,742
Customer Deposits	139,823	126,945	125,278	105,056	84,331
Shareholders' Equity	30,158	29,233	28,235	25,690	13,187
Net Income	3,149	2,825	3,030	2,639	3,011
Earnings Per Share (SAR)	2.10	1.88	2.02	2.03	2.93
Return on Average Assets	1.78%	1.61%	1.79%	1.89%	2.94%
Return on Equity	10.44%	9.66%	10.73%	10.27%	22.84%

## Financial Highlights







BOARD OF DIRECTORS

## The Chairman's Statement

The repercussions of the global financial crisis and its negative impact on the global economy continued in 2011. The world faced a number of crises and challenges, including the aggravation of the financial turmoil in Greece, its spreading to the euro area in Spain, Portugal, Iceland, Ireland, and its transformation from an issue of troubled sovereign debt to a problem threatening many financial and banking institutions in Europe.

This has led the credit rating agencies to down grade the credit ratings of some countries and some European and American banks, in a move that could complicate efforts to resolve the debt crisis which began more than two years ago. The Middle East also witnessed political unrest and turmoil that has spread in some Arab countries and have had negative effects on their economies.

Although the year 2011 is considered to be one of the most difficult years economically on a global scale, the Saudi economy was able to withstand the negative effects of the global financial crisis, thanks to the conservative fiscal, monetary and banking policy of the Ministry of Finance and the Saudi Arabian Monetary Agency, and their active response and engagement with economic changes and developments. This was also helped by the sound financial position of the Saudi banks, and their ability to deal with risks, and maintain high levels of financial solvency.

As a pillar of the Saudi Banking sector, Riyadh Bank has been able during the year 2011 to achieve positive results which has enriched its march forward. The Bank has continued to adopt policies that contribute to enhancing the quality of its services, and achieve rewarding returns for its shareholders.

The Bank's commitment to its prudent banking strategy, and its focus on enhancing the soundness of its financial position led to the attainment of high credit ratings, and in buttressing the confidence of international rating agencies and their stable outlook of the bank's performance and promising future.

Thanks to this strategy, the Bank was able to enhance its competitive capabilities and increase its market share. Riyadh Bank's strategic and important decision to increase its capital in 2008 also had a great impact on supporting and strengthening its financial position, enabling it to expand in the fields of lending, investment and other activities, and to maintain high levels of liquidity, capital adequacy and other important financial ratios. Most of the Saudi banks have followed the example of Riyadh Bank, by increasing their capital to be able to meet increasing market demands.

Furthermore, Riyadh Bank has achieved, through its Retail Banking Division outstanding growth in the lending activity, and enhanced its market share. At the same time, the Bank continued to be a leader in the Personal Finance area, where personal loans grew by 12%, exceeding the average rate of overall growth in the domestic market, which amounted to 9%.

In 2011, the Bank kept on moving forward to promote its activities in the field of mortgage financing, achieving a growth rate of 11%. The growth also included credit cards, by launching innovative products and increasing its customer base. This has led MasterCard International Company to classify the Bank as the fastest growing bank in issuing Gold and Classic cards in the Kingdom of Saudi Arabia, as well as, Visa Gold and Classic cards.

In line with its efforts in expanding the scope of its services and diversifying sources of income, the Bank has taken steps to launch its "Riyadh Bank Remittance" service, which is planned to begin its activities in the middle of 2012. The Bank also maintained its advanced position in Electronic Banking, where it was always the first bank to enhance the efficiency of its electronic channels which allow customers to execute their banking transactions with maximum flexibility, security and efficiency.

In the field of Corporate Banking, Riyadh Bank has taken the initiative in offering a wide range of commercial banking products, targeting companies and small and medium enterprises, through programs that aim to improve performance quality, and also through creating an integrated service environment. The Bank was able to maintain its prestigious position as one of the best banks in financing Trade activities in the Kingdom, and supporting enterprise owners by appropriate financing solutions, thanks to the efficiency of its programs, and the soundness of its lending portfolio.

In this connection, the "Kafalah" program for financing small and medium enterprises confirmed that Riyadh Bank still ranks first among banking institutions supporting the program's projects, which reflects the Bank's recognition of the importance of this program in serving the national economy and achieving sustainable development.

Based on the Bank's twin strategy of enhancing performance and promoting "customer service" it has continued its quest to improve performance and quality, as it kept on exerting more efforts to create banking and investment products and services that meet the growing needs of customers and emphasize the Bank's leading role in the Banking Industry. In parallel, the Bank continued to emphasize the enhancement of staff performance and raise service standards.

## Board of Directors

Riyad Bank has made long strides in Saudization and the training of young Saudi officers and adopting several initiatives that emphasize the Bank's trust and confidence in the capabilities of the male and female nationals. Current figures reflect the size of the achievement made by the Bank in this field and in providing promising career opportunities for citizens who constitute 93% of all Bank employees and 100% of senior leadership positions in the Bank. This is in addition to the care demonstrated by the Bank towards Saudi women, and the resources dedicated to them so they can prove their abilities in performing complex banking functions. Saudi women comprise 20% of the Bank's staff.

In the community service field, Riyad Bank continued its vital role in contributing to the development and evolvement of society and its institutions, through a wide network of ambitious cultural and social programs. In addition to offering cash donations to support some of the associations and charities, the Bank has focused on supporting many of the cultural, health and educational programs implemented in all parts of the country.

The Bank's positive results and continuous achievements are based on the trust it has acquired from customers and shareholders and on its staff's loyalty. All these factors together motivate us toward more work and dedication to meet our aspirations of progress and prosperity making Riyad Bank the first banking and investment choice and a permanent landmark of excellence and leadership.

In September 2011, Riyad Bank's family lost a member who is dear to our hearts, our brother Fahad Abdulrahman Al-Huwaimel, a member of the Board of Directors, may God have mercy on him. He provided valuable service to the Bank since joining the Board in October 1995. He was an example of generosity, dedication and loyalty and gave a lot to the Bank with utmost professionalism and efficiency.

I am also pleased to welcome Mr. Nader Ibrahim Al-Wehibi, who represents the General Organization for Social Insurance, who has recently joined the Board of Directors and will undoubtedly enrich the Bank's journey with his knowledge and efforts.

Best Regards,  
Rashed Abdulaziz Al-Rashed  
Chairman of the Board of Directors

## Board of Directors



Nader Ibrahim Al-Wehibi  
Board Director

Mohammed Abdulaziz  
Al-Afaleq  
Board Director

Abdullah Mohammed  
Al-Issa  
Board Director

Dr. Abdulaziz Saleh  
Al-Jarbou  
Board Director

Dr. Khaled Hamza Nahas  
Board Director

Rashed Abdulaziz  
Al-Rashed  
Chairman of the Board  
of Directors

Abdulrahman Hassan  
Sharbatly  
Board Director

Abdullah Ibrahim  
Al-Ayadhi  
Board Director

Dr. Faris Abdullah  
Abaalkhail  
Board Director

Waleed Abdulrahman  
Al-Eisa  
Board Director

#### The Executive Committee

Rashed Abdulaziz Al-Rashed (Chairman)  
Abdullah Ibrahim Al-Ayadhi  
Dr. Faris Abdullah Abaalkhail  
Mohammed Abdulaziz Al-Afaleq  
Waleed Abdulrahman Al-Eisa

#### The Audit Committee

Dr. Khaled Hamza Nahas (Chairman)  
Abdullah Mohammed Al-Issa  
Dr. Ibrahim Al Ali Al-Khudair \*  
Dr. Abdullah Hasan Al-Abdulqader \*

#### The Nominations & Compensations Committee

Abdullah Ibrahim Al-Ayadhi (Chairman)  
Dr. Faris Abdullah Abaalkhail  
Mohammed Abdulaziz Al-Afaleq  
Nader Ibrahim Al-Wehibi  
Waleed Abdulrahman Al-Eisa

#### The Strategic Planning Group

Rashed Abdulaziz Al-Rashed (Chairman)  
Dr. Khaled Hamza Nahas  
Abdulrahman Hassan Sharbatly  
Dr. Abdulaziz Saleh Al-Jarbou  
Abdullah Mohammed Al-Issa

\* Non-Board Members

## Report of the Board of Directors

The Board of Directors is pleased to present its annual report concerning the performance and achievements of Riyadh Bank and its subsidiaries, along with the financial statements for the year 2011. The report provides information about the Bank's activities, major achievements, strategies, and financial results. It also provides information about the Board of Directors and its committees, as well as other information deemed necessary for the user of this report.

### Main Activities:

Riyadh Bank provides a wide range of banking and investment services for its own account and on behalf of its customers inside and outside the Kingdom. The Bank provides a full-fledged banking and financial services for retail and corporate customers. It also finances all types of trade and industrial projects through a large network which consists of 248 branches in the Kingdom, in addition to the London Branch, the Houston Agency in the United States and a Representative Office in Singapore. The Bank also provides, through Riyadh Capital, various services of asset management, brokerage and a wide scope of mutual funds and investment services.

The Income Statement, in the Financial Statements, provides presentation of income as per the Bank's main activities with Notes 20, 21 and 22. In addition, the results of the operations of each division within the Bank are shown in Note 26 in the Financial Statements as of 31<sup>st</sup> of December 2011. Moreover, a description of the current and potential future 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 2011, 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.

### Retail Services:

Regarding Retail Banking services, during the year 2011, the Bank focused on enhancing the Bank's position in the market through developing its products and services, and launching new others. These efforts together contributed to enhancing the Bank's competitive position in the market.

In the credit cards field, Riyadh Bank launched in 2011 various credit card products, including the Credit Shield Program and the Qest Installment Program. In addition, the Bank issued the new Titanium card. MasterCard worldwide chose Riyadh Bank as the fastest-growing bank in issuing Golden and Classic cards in the Kingdom.

The Bank also increased its market share in personal loans and continued to provide mortgage financing. During 2011, the Bank also added 11 new Golden Service Centers across the Kingdom. Currently, the total number of Golden Service Centers is 65.

One of the main goals of Riyadh Bank is to provide the best services to customers and meet their expectation. For this purpose, the "Quality Control Unit" was restructured to enhance direct interaction with customers on the services they received at the branches, ATM's and other channels. Almost six thousand customers were randomly contacted during the year to get immediate feedback about their experience and satisfaction level regarding their recent transactions.

### Corporate Banking Services:

The Corporate Banking Division at Riyadh Bank provides a comprehensive set of commercial banking products and specialized services to corporate and institutions and small and medium enterprises within the Kingdom. It also provides services to Saudi customers in overseas markets such as London, Houston and Singapore.

The Bank invests in its staff, products and systems to enable it to provide solutions based on customers' varied and evolving needs, domestically and internationally. The Bank continues to finance several major projects in various economic sectors inside the Kingdom and within the Gulf Cooperation Council (GCC) countries through the Corporate Finance Department. The Bank maintained its leading role as one of the largest banks in trade finance in the Kingdom by providing its corporate customers with specialized banking solutions.

Riyadh Bank recognizes the importance of the small and medium enterprises in the Saudi economy, which has been reflected by the results of the "Kafalah" program as Riyadh Bank maintained its lead in funding those projects. In this regard, the Bank launched a new initiative to expedite the credit applications process so as to meet customers' needs in this sector.

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

The Corporate Banking Division has continued to be the biggest contributing division in income and asset growth. The Bank achieved a notable increase in the cross sale of cash management and treasury products across the corporate portfolio.

## Board of Directors

Additionally, the Division contributed in supporting several economic sectors including telecommunications, mining and mineral development, crude oil refining, petrochemicals and others.

The Bank also maintained its strategy of investing in IT. The Corporate Banking Division launched a new state of the art cash management product, "Riyad Online – Corporate". The Division also upgraded "Riyad Trade Finance System", an electronic banking solution for trade finance.

In line with the Bank's strategies, the Treasury Department focused on maximizing revenue from fee-based income. In order to achieve this goal, the Department increased its customer base by 25%, and established during the year a new department that provided several innovative non-traditional treasury solutions to meet customer requirements of hedging against the risks of interest rates, foreign exchange rates and prices of commodities.

The Balance Sheet Management Unit, which works under the direct supervision of the Asset and Liability Committee, has laid the foundation for improved profitability, liquidity, risk management and developing guidelines for managing foreign exchange rate risks at the Bank, the implementation of which will continue to be a major priority of the Unit for 2012.

The Bank has been keen to provide a full range of Shari'a compliant investment and finance products. To increase the awareness in these products, the Bank organized many seminars and workshops for retail and corporate banking customers. The number of the Islamic Branches has increased to 117. The Bank's strategy in this regard focuses on understanding customers' needs, and providing successful banking solutions as per the best banking practices approved by the Bank's Shari'a Committee.

Riyad Bank also provides its service overseas to facilitate the business for the corporate customers that include domestic companies who conduct business abroad and international companies that have business activities in the Kingdom. The Bank fulfills this role through an overseas banking network represented by the London Branch, the Houston Agency and the Representative Office in Singapore. This network allows the Bank to shape its services to meet different needs of its customers. Furthermore, the Bank provides advisory services related to investment and business inside the Kingdom of Saudi Arabia, to enhance trade in the Kingdom and investment interests abroad.

The London Branch plays an active role in supporting the rapid growth of commercial activities carried out by the leading European multinational companies with the Kingdom. This role ranges from providing letters of guarantee and opening letters of credit, as well as assisting in financing the business of those multinational companies in Saudi Arabia. Additionally,



the London Branch provides its domestic customers and their foreign affiliated companies with the needed banking services to support their investments in the manufacturing sector 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 attracting investments to the region. The Agency helps, U.S. and multinational companies to perform their commercial activities in the Kingdom of Saudi Arabia, especially in the fields of energy, engineering, construction and aviation.

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

### IT and IT Governance:

The Bank continued to invest and enhance its leadership in the field of infrastructure and information technology systems. In this regard, the Bank added various systems upgrades to enhance its services and make it more accessible. Thus, the Bank accomplished launching the e-Corp system that facilitates the direct interaction between the Bank and its corporate customers. This system allows corporate customers to carry out their

transactions automatically in a faster and safer manner; and also providing the needed reports on a continuous basis.

The Bank also continued to enhance its use of the Data Warehouse System in all business areas. This in turn contributed to the ability of the Bank to make better use of information in achieving sales plans and increasing market share. The Bank also upgraded its automated tools and systems by another automation set related to the Payment Department, Retail Banking and Risk Management Departments. These tools contribute to the speed of data processing and its protection.

Additionally, IT Governance's Configuration & Release Management Department, managed a smooth implementation of large number of updates and enhancements for the systems applied in Riyad Bank. This has been achieved, in cooperation with the User Acceptance Testing Department which in turn conducts high quality test scenarios to ensure the smooth rollout of applications upgrade.

Furthermore, Information Technology Governance (ITG) exerted significant efforts in automating several security processes, whereas it implemented several security systems in order to enhance the security of the Bank's Information Technology Infrastructure. A major initiative named (Trusteer) was launched to safeguard customers accessing the Riyad Online site, which is the first of its kind in the Kingdom.

IT Governance also made Riyadh Bank compliant with the Payment Card Industry (PCI) security standards. This is considered a big achievement for the Bank to be compliant with such global banking standards.

#### Credit Rating:

Despite the volatility in the banks' financial positions worldwide and the risks that global banks encountered, in a way which affected the strength of their financial positions, and made some rating agencies to change their evaluation criteria, Riyadh Bank has maintained its credit rating consistently and continuously, preserving its (A+) rating by the Standard & Poor's Rating Agency for long-term liabilities, and an (A-) rating for short-term liabilities, the highest rating available. The Fitch Rating Agency also maintained the (A+) rating for long-term liabilities and the (F1) rating for short-term liabilities, the highest rating available. Capital Intelligence Rating Agency has also maintained the Bank (AA) rating for long-term liabilities and (A+) for short-term liabilities, the highest rating available. All the rating agencies have agreed on keeping their positive stable outlook for the Bank, which reflects the strength and durability of Riyadh Bank's financial position.

#### Borrowing by the Bank:

None.

#### Strategies and Objectives:

Riyadh Bank's strategy aims at increasing the Bank's assets by focusing on core banking activities whilst maintaining quality of assets and acquiring the largest possible share of the targeted market segments in order to provide rewarding returns to its shareholders, through continuous improvement of products and services and risk management excellence.

Riyadh Bank's strategy aims at focusing on the local market, enhancing its assets through targeting core banking activities while maintaining asset's quality and capital base soundness. In addition, the Bank's strategy aims at achieving the best attainable return to the shareholders through continuous development of products and services offered. The Bank also places emphasis on retail banking, domestic businesses of large corporates and emerging companies with special focus on transactional services, such as trade finance, cash management and payroll services. The Bank intends to maintain its leading position in the large syndicated loans, by capitalizing on its customers' relationships, expertise and excellent capabilities in underwriting.

In 2011, the Bank has taken various steps aimed at further enhancing and boosting performance, by undertaking key strategic projects to optimize efficiency

and cost rationalization. The Bank has continued with its successful Performance Transformation Program, a pioneering program which seeks to improve previous successes and achievements, increase the productivity of sales and service activities in business sectors, develop performance standards in order to reach the highest level of banking practice, by focusing on increasing sales revenues from alternative distribution and sales channels; as well as to enhance the customer service sector capabilities and efficiency.

### Community Service:

The concept of social responsibility in Riyad Bank is based on the principle of social solidarity called for by our holy religion. It is also consistent with our commitment to the global concept of social responsibility which is defined as the obligation of the business owners to contribute to sustainable development, by working with the local community to improve the living standards of people while serving the economy and development at the same time.

The Bank continued its social responsibility during the year 2011, which was represented by supporting and adopting a number of programs and charitable activities in many areas signifecatnly, the following fields:

In the education and cultural field, the Bank contributed in developing various programs to serve the domestic educational and cultural facets, such as its support to the

Open Day of Employment and Career Day in a number of Saudi universities, it sponsored a ceremony honoring students at Aflaj province and the small enterprise forum. In addition Riyad Bank sponsored the Enrichment Program Forum hosted by the Education Department in Hai'l, and the workshop for financial models.

In the health awareness field, the Bank considers "Knowledge" is the best medicine to prevent health risks, thus the Bank sponsored various health awareness campaigns. It also provided a number of medical supplies to those in need. Among the most prominent support and sponsorship projects in the health field during the year 2011 was the participation in the national diabetes week. Additionally, supporting the Natural Breastfeeding Campaign and raising awareness about breast cancer.

With regards to community affairs, the Bank has sponsored several entertainment and sports festivals, including the Sports Festival of the city of Yanbu, the third Culture Festival at Unaizah, and the twenty-ninth marathon and the Mathematics Olympiad at King Fahad University for Petroleum and Minerals.

In the field of environment protection, Riyad Bank has sponsored a number of wildlife preservation awareness campaigns. It also contributed in sponsoring several global awareness days and weeks, through its various electronic channels and participation in the ceremonies held by various health, academic and charitable organizations.

## Board of Directors

Riyad Bank is keen to contribute to sustainable development through selecting some social programs in the area of social solidarity which has long term benefits such as supporting the families of deceased Riyad Bank employees and the "Yadawi" project which support handmade items made by women with special needs. The Bank also sponsored the Organ Donation Campaign, the "You Are The Foundation" campaign, and acquired an honorary membership in the "Zahra" Association for the early detection of breast cancer.

### Subsidiaries: Riyad Capital:

Riyad Capital is a wholly owned subsidiary of Riyad Bank, licensed by the Capital Market Authority to deal as a principal, an agent, an underwriter for arranging, advising and custody services.

Riyad Capital has created and developed several investment products that cater for the needs of different segments of investors. The Assets Management Department has expanded its activities in Private Portfolio Management for high net-worth investors, corporations and public institutions, and has provided companies with savings plans for their employees.

As a result of its continuous efforts, Riyad Capital's mutual funds continued to rank among the best performing funds

in the Saudi market. Consequently, and according to the Capital Market Authority data, Riyad Capital was able to maintain its strong mutual funds market share and to increase its shares in the Saudi equity funds as well as the international equity funds.

Riyad Capital undertook a number of initiatives with the aim of expanding and diversifying the company's business and investment spectrum. The company succeeded in launching the "Riyad Real Estate Fund – Burj Rafal" project, which provides the clients with the opportunity to diversify their investment portfolios in the local market beyond conventional equities and debt instruments. At the same time, the company continued to expand its portfolio management services to high-net worth investors, corporations and public institutions.

In the field of corporate investment banking, Riyad Capital has a team of highly experienced staff who provide the Company's customers with a full range of investment banking activities, including managing public and private offerings, in addition to advisory services in the field of mergers and acquisitions, and structured finance.

As for brokerage services, Riyad Capital managed to increase its market share through various trading activities, especially through enhancing online trading capabilities and improving overall customer service. The Company, in 2011, introduced mobile-phone trading service, as well

as, Tadawul-Extra service, which caters for the needs of high-net worth clients. The company continues to invest in upgrading its brokerage services through a number of strategic initiatives, with more emphasis on electronic channels.

#### AJIL Financial Services Company:

Riyad Bank contributed 35% towards the formation of the AJIL Financial Services Company, together with the Mitsubishi Company and other local companies. AJIL has been launched as a leasing finance company, and is registered as a joint-stock company, subject to regulations of the Saudi Arabian Monetary Agency (SAMA). The company finances capital assets across different economic sectors in the Kingdom, and it has significantly increased its capital to meet its operational requirements.

#### 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 providing 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.

#### Al-Alamiya Cooperative Insurance Company:

The Bank established Al-Alamiya Cooperative Insurance Company, as a listed company in the Saudi stock market (Tadawul), in conjunction with Royal Sun Alliance - Middle East, based in Bahrain, subject to Saudi Arabian Monetary Agency regulations, with operations in Saudi Arabia. Riyad Bank owns approximately 30% of the company on both direct and indirect basis. The direct ownership of the Bank is 19.92%, whereas the Bank owns 21.42% of Royal Sun Alliance (Middle East). The relationship between Riyad Bank and Royal Sun Alliance (UK) dates back to more than thirty years. Al-Alamiya Cooperative Insurance Company has issued about 30% of its shares for public, and the company is listed in Saudi Stock Market (Tadawul).

#### Riyad Company for Insurance Agency:

The Riyad Company for Insurance Agency is a limited liability company wholly owned by Riyad Bank, and registered in Saudi Arabia. The purpose of this subsidiary is to engage in insurance agency business in the Kingdom of Saudi Arabia. The head office is located in Riyadh. The company is expected to commence operation soon.

### Summary of the Bank's Operation Results for the Past 5 Years:

SAR' Millions	2011	2010	2009	2008	2007
<b>Assets</b>					
Cash & Balances with Banks & SAMA	23,708	27,867	32,124	17,335	20,747
Loans & Advances, net	112,973	106,035	106,515	96,430	67,340
Investments, net	36,616	33,822	32,308	40,329	27,742
Property, Equipment & other Real estate	2,588	2,294	2,236	2,144	1,965
Other assets	5,002	3,538	3,216	3,415	3,556
Total assets	180,887	173,556	176,399	159,653	121,350
<b>Liabilities</b>					
Balances with Banks	6,242	10,637	16,163	21,213	17,798
Customer Deposits	139,823	126,945	125,278	105,056	84,331
Other liabilities	4,664	6,741	6,723	7,694	6,034
Shareholder's Equity	30,158	29,233	28,235	25,690	13,187
SAR' Millions	2011	2010	2009	2008	2007
Total Operating Income	6,321	5,980	5,960	5,248	5,181
Total Operating Expenses	3,172	3,156	2,930	2,610	2,170
Net Income	3,149	2,825	3,030	2,639	3,011
Earnings Per Share (SAR)	2.10	1.88	2.02	2.03	2.93

### Financial Results:

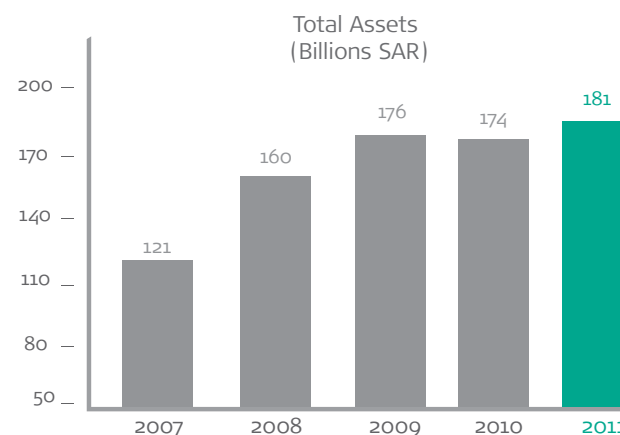
In 2011, the Bank achieved a net profit of SAR 3,149 million, against SAR 2,825 million over the previous year, (an increase of 11.5%). Net profit reached SAR 778 million in the fourth quarter. Total operating income amounted to SAR 6,321 million for the year 2011, against SAR 5,980 million for 2010, with an increase of 5.7%.

As of 31<sup>st</sup> of December 2011, total assets were SAR 180,887 million, against SAR 173,556 million for the previous year, with an increase of 4.2%. Loans and Advances totaled SAR 112,973 million, against SAR 106,035 million for the previous year, with an increase of 6.5%. On the other hand, Investments reached SAR 36,616 million, against SAR 33,822 million, with an increase of 8.3%. Customer deposits have continued growing, stabilizing at SAR 139,823 million, against to SAR 126,945 million for the previous year, with an increase of 10.1%.

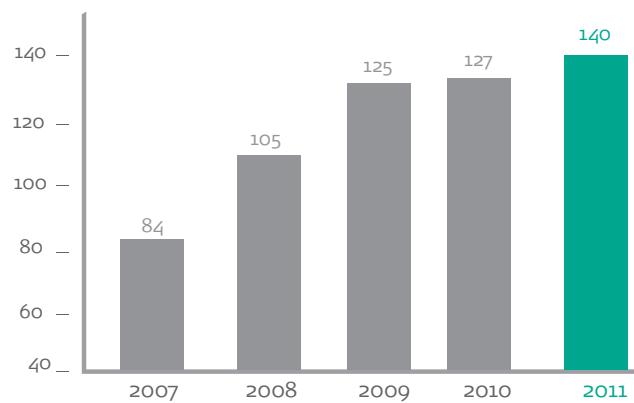
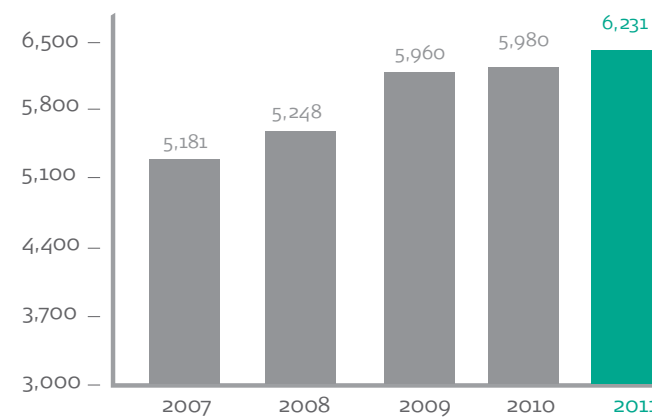
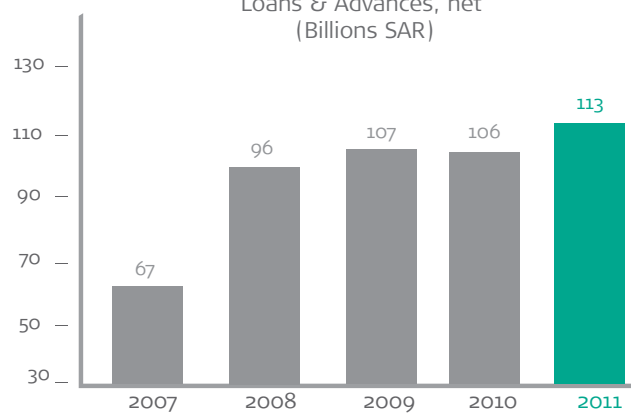
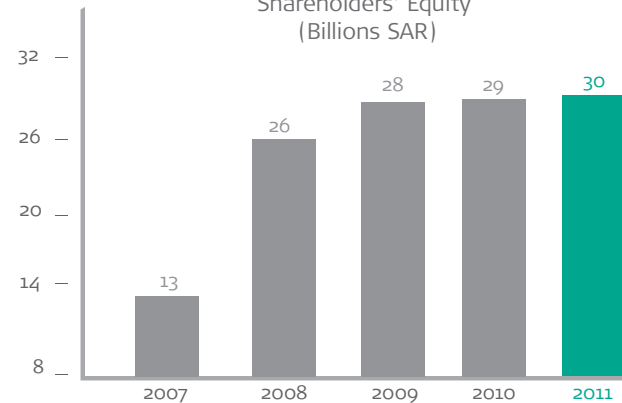
The financial results of the Bank indicate that its core banking activities have achieved continuous growth, as the Bank's assets rose by a good percentage, in addition to the Bank's success in increasing its market share of customer deposits. The earnings per share for the current year was SAR 2.10, against SAR 1.88 for the previous year. Increase in special commission income, higher fee income from banking services, higher exchange income and sustained operating expenses were the contributing factors for this growth.

The main banking activities, represented by the lending portfolio, achieved healthy stability in spite of economic and financial fluctuations during the fiscal year 2011. The Bank also accomplished growth in the investment portfolio, in light of the relative improvement in local and global markets.

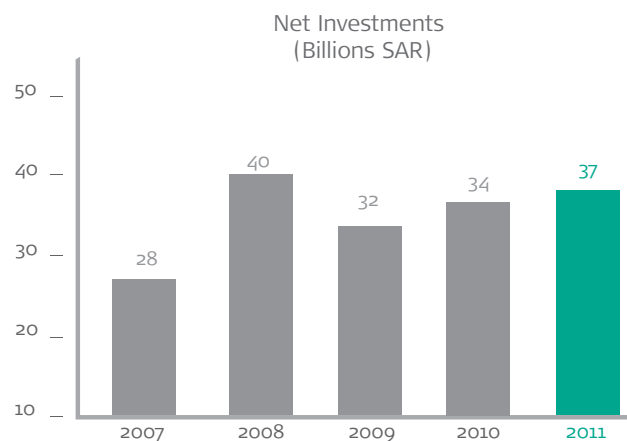
In spite of the changes and challenges faced by the banking sector, the Bank continues to adhere to the strategies practiced by the Board of Directors to attain beneficial returns to investors and shareholders, through focusing on core banking activities and the stability of assets, while maintaining the good quality and sustaining the level of assets.



## Board of Directors

Customer Deposits  
(Billions SAR)Total Operating Income  
(Millions SAR)Loans & Advances, net  
(Billions SAR)Shareholders' Equity  
(Billions SAR)





### Bank's Gross Income by Geography:

Total income from domestic operations for the year ended 31<sup>st</sup> of December 2011, reached SAR 9,165 million, while it reached SAR 965 million from international operations. The following table shows the geographical analysis of the distribution of the Bank's income:

(Million SAR)

Year	Domestic operations			International Operations	Total **
	Western Region	Central Region *	Eastern Region		
2011	1,248	5,966	986	965	9,165

\*The amount allocated for the Central Region includes income from investments related to the Investment and Treasury Division, which totaled SAR 4,139 million. This income is not related to any specific geographic sector domestically. It also includes inseparable revenues related to other regions.

\*\*The above mentioned total income is in the gross term. In calculating the net amount, each income item is handled according to its category in the financial statements.

### Geographical Analysis of the Total Revenues of the Bank's International Operation:

(Million SAR)

Year	International Operations					Total
	GCC & Middle East	Europe	North & Latin America	South East Asia	Other regions	
2011	178	407	302	38	40	965

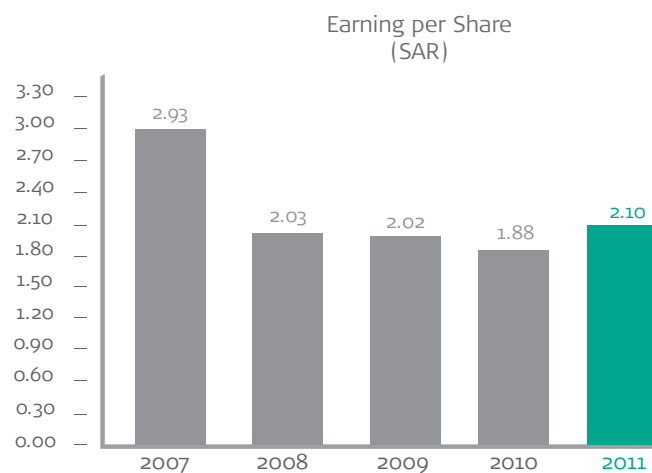
### Appropriation of Earnings:

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

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

## Board of Directors

The Board of Directors recommended the appropriation of earnings as follows:



	(SAR' 000)
Retained Earnings at the beginning of the year	610,504
Net income for the year 2011	3,149,353
Total	3,759,857
Appropriation as follows:	-
Zakat as per the Shari'a	150,000
Cash dividends distributed to shareholders for the first half of 2011	825,000
Cash dividends proposed for distribution to shareholders for the second half of 2011	1,125,000
Transfer to statutory reserve	787,339
Retained earnings at the end of the 2011	872,518

For the first half of the year, in July 2011, the Bank distributed an amount of 55 Halalas per share. The remaining portion of the dividends proposed for the second half of the year 2011, amounting to 75 Halalas per share, will be distributed after the approval of the General Assembly thus bringing total dividends for the year 2011 to SAR 1,950 million, or SAR 1.30 per share.

### Riyad Bank's Board of Directors:

The Bank is managed by a Board of Directors consisting of ten members who are elected by the Annual General Assembly once every three years, and may be re-elected for similar periods at the end of their membership. The Board of Directors, in its current term, includes seven independent members and three non-executive members, in accordance to the definitions contained in Article II of the Corporate Governance Guidelines, issued by the Capital Market Authority (CMA). The current members of the Board of Directors were elected in October 2010. During the year 2011, the Board held nine meetings, attendance rate reached 100%, taking into account those who were present on behalf of others, with an attendance rate of 94% originally.

Riyad Bank's Board Members	1 <sup>st</sup> meeting	2 <sup>nd</sup> meeting	3 <sup>rd</sup> meeting	4 <sup>th</sup> meeting	5 <sup>th</sup> meeting	6 <sup>th</sup> meeting	7 <sup>th</sup> meeting	8 <sup>th</sup> meeting	9 <sup>th</sup> meeting	Total
Rashed A. Al-Rashed (independent)	✓	✓	✓	✓	✓	✓	✓	✓	✓	9
Dr. Khaled H. Nahhas (independent)	✓	✓	✓	✓	✓	✓	✓	✓	✓	9
Abdulrahman H. Sharbatly (non-executive)	✓	✓	By proxy	✓	✓	✓	By proxy	✓	By proxy	6
Dr. Abdulaziz S. Al-Jarbou (independent)	✓	✓	✓	✓	✓	✓	✓	✓	✓	9
Abdullah I. Al-Ayadhi (non-executive)	✓	✓	✓	✓	✓	✓	✓	✓	✓	9
Abdullah M. Al-Issa (independent)	✓	✓	✓	✓	✓	✓	✓	✓	✓	9
Dr. Faris A. Abaalkhail (independent)	✓	✓	✓	✓	✓	✓	✓	✓	✓	9
Mohammed A. Al-Afaleq (independent)	✓	✓	✓	✓	✓	✓	✓	✓	✓	9
Nader I. Al -Wehibi * (non-executive)	-	-	-	-	-	-	**	By proxy	✓	1
Waleed A. Al-Eisa (independent)	✓	✓	✓	✓	✓	✓	✓	✓	✓	9
Fahad A. Al-Huwaimel * (non-executive)	✓	✓	✓	✓	✓	By proxy	**	-	-	5

\* The membership of Mr. Fahad A. Al-Huwaimel was expired due to his death. Mr. Nader I. Al -Wehibi replaced him as a member of the Board.

\*\* During that meeting, the Board of Directors adopted the nomination of Mr. Nader I. Al -Wehibi as a replacement of Mr. Fahad A. Al-Huwaimel.

## Board of Directors

Riyad Bank's Board of Directors carries out its duties through its main committees consisting of the Board's members, with the exception of the Audit Committee, which includes in addition to two Board members three 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 fifteen meetings during the year 2011, with attendance at 100%.

### The Audit Committee:

The Audit Committee is responsible for the regulatory supervision over the financial reports, compliance with all relevant laws and regulations, as well as, monitoring the effectiveness and efficiency of the internal control system and risk management. The Committee held six meetings during the year 2011, with 100% attendance. The Bank's Audit Committee consists of five members, three of whom are external and non-Board members; Dr. Ibrahim Al-Ali Al-Khudair, Dr. Abdullah Hasan Al-Abdulqader and Dr. Ahmed Ali Bayazeed (whose membership ended on 16/10/2011, following his resignation from the Committee due to other engagements), and the Bank is in the process of nominating a replacement.



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 Nomination & Compensation Committee:

The Nomination and Compensation Committee supervises the design and implementation of the compensation system on behalf of the Board of Directors, setting up compensation policy and presenting it to the Board of Directors for approval. It is also responsible for reviewing and evaluating the adequacy and effectiveness of the compensation policy periodically to ensure achieving the goals of this policy and submitting recommendations to the Board of Directors to update or modify the policy. Moreover, the Committee evaluates the compensation payment methods, presents recommendations to the Board of Directors regarding the level and structure of salaries, including the benefits and compensation allocated to Senior Executives at the Bank, in addition to reviewing the remuneration policy and abiding by the rules set by the Saudi Arabian Monetary Agency (SAMA).

The Committee also recommends to the Board of Directors the nomination of new members to the Board, in accordance with the adopted policies and standards, and ensures that all members fulfill the regulatory requirements for the Board membership, in line with the Banking Control Regulations, the Capital Market Authority (CMA) and Corporate law. The Committee held seven meetings during the year 2011, with 100% attendance.

### The Strategic Planning Group:

The Strategic Planning Group oversees the Bank's strategies and evaluates steps taken to achieve the objectives set by those strategies. The Group also supervises major projects initiated by the Bank and reviews the Bank's financial and operational performance in accordance with the strategic goals. In 2011, the Group held a total of five meetings, with 100% attendance.

The following table illustrates Riyadh Bank's Board of Directors members, the committees emanating from it, membership in these committees, as well as, attendance percentage of each member, in person or by proxy. The total number of meetings was 249 and the total percentage of attendance was 100%. The table also lists the other companies that include Board members from Riyadh Bank, in their board of directors.

## Board of Directors

Riyad Bank Directors and Committees			
Member's Name	Membership in other committees	Attendance %	Names of other Joint Stock Companies participating in Board's membership
Rashed A. Al-Rashed	Chairman of the Executive Committee & Chairman of the Strategic Planning Group	100%	Saudi Arabian Investment Co. (Saudi Sanabil)
Dr. Khaled H. Nahas	Chairman of the Audit Committee & Member of the Strategic Planning Group	100%	National Water Co. Saudi Arabian Investment Company (Saudi Sanabil)
Abdulrahman H. Sharbatly	Member of the Strategic Planning Group	100%	Saudi Arabian Refineries Co. (SARCO) Golden Pyramids Plaza Co. (GPPL) - Cairo
Dr. Abdulaziz S. Al-Jarbou	Member of the Strategic Planning Group	100%	Saudi Paper Manufacturing Co. (Waraq) Amiantit Co. Gulf Chemicals and Industrial Oils Co. General Lighting Co.
Abdullah I. Al-Ayadi*	Chairman of the Nomination & Compensation Committee & Member of the Executive Committee	100%	Saudi Arabian Railways (SAR) Saudi Company for Technological Development & Investment
Abdullah M. Al-Issa	Member of the Audit Committee & Member of the Strategic Planning Group	100%	Arabian Cement Co. Saudi Basic Industries Corporation (SABIC) Saudi Hotels & Resorts Co. National Medical Care Company
Dr. Faris A. Abaalkhail	Member of the Executive Committee & Member of the Nomination & Compensation Committee	100%	Fawaz Abdulaziz Al Hokair & Co.
Fahad A. Al-Huwaimel **	Chairman of the Nomination & Compensation Committee & Member of the Executive Committee	100%	Saudi Ceramic Co.
Mohammed A. Al-Afaleq	Member of the Executive Committee & Member of the Nomination & Compensation Committee	100%	None
Nader I. Al -Wehibi*	Member of the Nomination & Compensation Committee	100%	National Medical Care Company
Waleed A. Al-Eisa *	Member of the Executive Committee & Member of the Nomination & Compensation Committee	100%	Taawuniya Insurance Company

\* Members representing the Public Investment Fund and the General Organization for Social Insurance, consecutively.

\*\* The membership of Mr. Fahad Abdul Rahman Al-Huwaimel ended on 30/09/2011 due to his death (May his soul rest in peace), and replaced by Mr. Nader Ibrahim Al-Wehibi as a Board Member on 12/11/2011

Riyad Bank Directors and committees			
Name	Membership in other committees	Attendance %	Names of other Joint Stock Companies participating in Board's membership
Dr. Ibrahim Al-Ali Al-Khudair	Member of the Audit Committee (non-Board Member)	100 %	National Gas & Industrialization Co.
Dr. Ahmad Ali Bayazeed*	Member of the Audit Committee (non-Board Member)	100%	None
Dr. Abdullah Hasan Al-Abdulqader	Member of the Audit Committee (non-Board Member)	100%	Gulf International Bank (Bahrain) Saudi Company for Technological Development & Investment

\* The membership of Dr. Ahmed Ali Bayazeed ended on 16/10/2011, following his resignation from the Committee due to the other engagements. His resignation was accepted on 27/11/2011, after completion of the statutory requirements.

## Directors and Senior Executive Remuneration:

(SAR '000)

Members of the Board		Senior Executives *
Salaries	-	15,444
Allowances	729	3,668
Annual and Periodic Remunerations	3,600	7,396
Incentive Plans	-	422
Other Compensations or Benefits	102	1,076
End of Service Remuneration	-	2,706

\* This Includes remuneration of The Chief Executive and Financial Controller.

## Board of Directors

Changes in Major Shareholdings:

The two following tables include a description of any interest related to that members of the Board of Directors and Senior Executives, including their spouses and minor children, in the stocks or credit instruments of the company or any of its subsidiaries, in accordance with the provisions of Article 30 (section B) of the Registration and Listing Regulations, as well as, any amendment they have been subject to, during the year:

Major shareholders Non Board Members and Senior Executives, including their spouses and minor children							
Name	Beginning of the year			End of the year			
	No. of shares	Credit instruments	Ownership (%)	No. of shares	Credit instruments	Net change	Ownership (%)
Public Investment Fund	326,304,000	-	21.7536%	326,304,000	-	-	21.7536%
General Organization for Social Insurance	324,378,600	-	21.6252%	324,378,600	-	-	21.6252%
Mohamad Ibrahim Mohamad Al-Issa	130,000,000	-	8.6667%	130,000,000	-	-	8.6667%
Al Nahla Trading and Construction Co.	130,211,953	-	8.6808%	139,677,339	-	9,465,386	9.3118%
Saudi Arabian Monetary Agency	97,974,000	-	6.5316%	97,974,000	-	-	6.5316%

\*To the nearest 4 decimals

Chairman, Board Members and Senior Executives, including their spouses and minor children							
Name	Beginning of the year			End of the year			
	No. of shares	Credit instruments	Ownership (%)	No. of shares	Credit instruments	Net change	Ownership (%)
Rashed A. Al-Rashed	14,859,314	-	0.9906%	14,859,314	-	-	0.9906%
Dr. Khaled H. Nahas	2,400	-	0.0002%	2,400	-	-	0.0002%
Abdulrahman H. Sharbatly	137,810,928	-	9.1874%	146,425,747	-	8,614,819	9.7617%
Dr. Abdulaziz S. Al-Jarbou	1,600	-	0.0001%	1,600	-	-	0.0001%
Abdullah I. Al-Ayadhi	11,000	-	0.0007%	11,000	-	-	0.0007%
Abdullah M. Al-Issa	1,425,000	-	0.0950%	1,425,000	-	-	0.0950%
Dr. Faris A. Abaalkhail	1,176,300	-	0.0784%	1,235,300	-	59,000	0.0824%
Mohammed A. Al-Afaleq	32,500	-	0.0022%	33,500	-	1,000	0.0022%
Nader I. Al -Wehibi	-	-	-	-	-	-	-
Waleed Abdulrahman Al-Eisa	-	-	-	-	-	-	-
Talal I. Al-Qudaibi	33,432	-	0.0022%	33,432	-	-	0.0022%
Saeed S. Al-Saiirri	61,000	-	0.0041%	61,000	-	-	0.0041%

\*To the nearest 4 decimals

Accrued Regulatory Payments:

There are no regulatory payments that the Bank due for payment for the year 2011, except as provided by the statement below:

(SAR '000)

Name	2011	2010
Zakat- Department of Zakat and Income Tax	150,000	71,000
Taxes payable by the Bank on behalf of non-resident bodies (as per contract provision)	7,798	16,570
Taxes payable by the Bank's overseas branches to official bodies overseas	5,625	8,928

### Penalties, Sanctions and Preventive Provisions:

No restrictions are imposed on the Bank by the Capital Market Authority or any other supervisory, regulatory or judicial body. Violations and fines paid by the Bank in conducting its operational activities amounted to SAR 2,479 thousand, which is mostly related to ATM operations activities and other operational fines.

### Applicable Accounting Standards:

The Bank prepares its financial statements which are audited by The external auditor's, in accordance with the general framework adopted by Saudi Arabian Monetary Agency (SAMA). The Bank implements the accounting standards issued by SAMA that pertain to financial institutions, it also applies the International Financial Reporting Standards (IFRS). The Bank also prepares its financial statements. In compliance with the Banking Control Law and the regulations for the Companies in the Kingdom.

Based on the Board of Directors' role and responsibilities in protecting/safeguarding the Bank's assets and the customers' deposits, and according to information available to the Board, it confirms the following:

- There is no contract in which the Bank is a party and that is or was of substantial interest to any of the Chairman and members of the Board of Directors, or to the Chief Executive Officer or his Deputy for financial affairs, or to any person having a direct relationship with any of them, except for what is stated in note No. 32, attached to the financial statements, with respect to transaction with related parties.
- Accounting records have been properly prepared.
- There is no doubt about the Bank's ability to continue to carry on its activities.

With regard to the Internal Control System, taking into account the nature of any internal control system, as described below, the Board confirms that the Internal Control System is well-founded and is being implemented effectively, and that the Bank has a regular mechanism for the design of internal control systems related to its operations, and putting them into practice. The essential elements of the Internal Control System applicable to the Bank comprise of a specification of the authorities and responsibilities, of which financial authorities for different administrative/management levels, including the Board of Directors and the Executive Management, in addition to ensuring the segregation of duties and responsibilities in order to achieve an effective control.

The Board of Directors, through its Audit Committee, has access to Internal Audit Reports and findings of the various internal control systems' evaluation, as well as, risk management and other reports on a regular periodic basis, so as to provide an ongoing assessment of the internal control system and its effectiveness. In addition to this, the Internal Audit Department follows up its recommendations regularly, and files reports to the Audit Committee on what has been achieved. No significant observation affecting the fairness of financial statements have emerged/arisen. This comes within the Board of Directors' objectives to obtain reasonable assurance about a safe design and an effective implementation of the internal control system, noting that any internal control system, no matter how soundly designed and effectively implemented, cannot provide absolute assurance.



### Saudi Corporate Governance Regulations:

The Bank applies the provisions stated in the Corporate Governance Regulations in the Kingdom of Saudi Arabia, issued by the Capital Market Authority, except what has been disclosed in Form 8 about the extent of compliance with the Corporate Governance Regulations, which can be summarized as follows:

Article VI - Voting rights - The Bank did not adopt cumulative voting until its final adoption by the regulatory bodies, and according to what Saudi Arabian Monetary Agency may enact.

Article X - Basic functions of the Board of Directors, section (d) - Policies and procedures have been documented and are being observed in light of SAMA proposals on the Corporate Governance Regulations for banks operating in Saudi Arabia, prior to approval of the General Assembly.

Article XIV - Audit Committee - The General Assembly of Riyadh Bank's shareholders has previously approved the formation of the Audit Committee (as stated in the rules and guidelines set by Saudi Arabian Monetary Agency to regulate audit committees in Saudi banks), in a meeting it held on 21/12/1417 A.H corresponding to 28/04/1997 A.D. The Bank has reviewed and re-drafted the rules of selecting the Audit Committee members, setting the duration of their membership as well as the Committee's mode of operation (modus operandi) within the Audit Committee's charter project, in order to meet the requirements of the Corporate Governance Regulations issued by the Capital Market Authority, and the updated guidelines issued later by Saudi Arabian Monetary Agency, and work is underway

to complete it and submit it to the relevant bodies prior to the General Assembly's approval.

Article XV - Nomination and Compensation Committee - The Committee has been formed and the Board of Directors has approved its roles and responsibilities, and will be submitted to the General Assembly for approval.

In general, the Bank has pioneered the application of various aspects of the governance requirements and is keen to abide by all regulations and keep up with what emanates from them. Riyadh Bank is also in the process of completing a number of related policies and procedures.

### Human Resources:

The Bank's Board of Directors continues to focus on the human element as the most influential factor in the banking system's success. This interest is materialized through developing short and long-term strategies aiming at attracting new graduates from universities or specialized institutes, and to train them for the appropriate jobs at the Bank, in addition to attracting staff with the relevant expertise. The Board of Directors also endeavors to develop ambitious programs in order to enhance the capabilities of staff and provide them with the necessary support to enable them to perform their current and future planned jobs.

The Human Resources Division continuously seeks to support business in all divisions and departments at the Bank, in order to meet the objectives of their strategic initiatives, as well as, supporting the Leadership Development Program, which continues to prepare new leaders to assume senior positions.

## Board of Directors

The Bank continued to provide job opportunities for Saudi nationals, and received an excellent rating in accordance with the "Nitaqat" national program, in addition to getting the highest score in Saudization, where a 100% of the female staff are all Saudi nationals, accounting for 20% of the total workforce at the Bank, needless to mention that the Executive Management is totally comprised of Saudi nationals.

And again this year, the Human Resources Division carried out an intensive training program, in order to provide more than 8,298 training opportunities both inside the Kingdom and abroad. The Bank also provided its talented staff with special opportunities through the Riyadh Bank Training Program, as well as continuing to enhance skills within the branches through the Competency Development Program.

The Bank's management endeavors to urge and motivate the Bank's employees, in order to enhance their self-confidence and loyalty to the Bank, and also to ensure their operating stability and career development through supporting incentive programs designed for the staff, such as the Incentive and Bonus Scheme and the Saving Investment Program. The financial statement notes state details about these programs, and the below chart contains a list of balances for these programs, as well as, the movement in each of them during the year 2011:

(SAR '000)

	Staff incentive programs		
	Investment saving		
	Staff's share	Bank's share	Total
Balance at the beginning of the year	36,543	13,149	49,692
Provided during 2011	9,269	3,362	12,631
Charged during 2011	(7,832)	(3,023)	(10,855)
Balance at the end of the year	37,980	13,488	51,468

### External Auditors:

The Annual General Assembly Meeting of the Bank's Shareholders held on March 14, 2011, approved the appointment of Messrs. Deloitte & Touche (Bakr Abulkhair & Co.) and KPMG (Al Fozan & Al Sadhan) as joint external auditors for the fiscal year ending on December 31, 2011. 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 on December 31, 2012, after reviewing the recommendations of the Audit Committee and the Board of Directors in this respect.

### Acknowledgment:

We would like to take this opportunity to express our deepest gratitude and appreciation to the Custodian of the Two Holy Mosques, King Abdullah Bin Abdulaziz Al Saud (May Allah protect him), HRH Crown Prince Naif Bin Abdulaziz Al Saud, the Deputy Prime Minister and Minister of Interior (May Allah protect him), as well as the government. We especially thank the Ministry of Finance, the Saudi Arabian Monetary Agency and the Capital Market Authority, for their continued support and encouragement they are extending 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 30, 2012 - Rabi Al Awal 7, 1433 H.



# ACHIEVEMENTS 2011

## ACHIEVEMENTS 2011

## Retail Banking Services:

In 2011, the Retail Banking Services has strived to offer a range of innovative products and services, in order to provide excellent banking services that meet all the customers' needs and evolving requirements.

In the credit cards field, the Bank introduced the Credit Shield Program. It is a protection characteristic added to the credit card, to meet any unforeseen event. The credit coverage may reach a ceiling of SAR 300,000, the highest in the Kingdom.

In the same year, the Bank launched the Qest Installment Program for credit cards, a new feature available on all Riyadh Bank credit cards, which gives the cardholder the option of paying back high value purchased items in easy and equal monthly installments over 3 time plans of 3, 6 & 12 months, and at the lowest profit margin available in the market.

The Bank also launched the new Titanium Master Card (conventional and Islamic Cards), with its unique design available in two colors: black (for men) and red (for ladies).

Additionally, MasterCard worldwide chose Riyadh Bank as the fastest-growing bank in issuing Gold and Classic cards in the Kingdom. Riyadh Bank also ranked first with regard to the issuance of Visa Gold cards in Saudi Arabia, and the issuance of Visa Classic cards (based on the Visa report for the first quarter of 2011).



Titanium Credit Cards

The Bank also continued to provide products for personal and mortgage financing, at the same time maintaining a good position in the market through offering promotional campaigns, leading to a significant growth in the Bank's lending portfolio.

Also in 2011, the Bank arranged to introduce the new "Remittance Transfer Project" planned to be launched in May 2012.

## Islamic Banking:

The Islamic Banking Department continued to improve its broad range of investment and finance products through a clear methodology approved by the Bank's Shari'a Committee.

The number of Islamic banking branches has been raised to 117, so as to cater for our customers' needs. The department also contributed to launching the "Tahawot" product, a treasury hedging product compliant with the principles of Shari'a.

Moreover, The Islamic Banking Department held 16 training sessions for the Retail Banking Division, in addition to a workshop for Corporate Banking.

## Private Banking and Golden Service:

Riyadh Bank has continued to provide the best new and sophisticated services to Private Banking and Golden Service customers, which led to the

expansion of our Private Banking and Golden Service client base by 17% as compared to the last year number.

Eleven new Golden Service Centers were opened around the Kingdom where the total number of Golden Service Centers reached sixty five. A new Private Banking center was opened in Al-Khobar reaching a total of four centers in all regions.

### Overseas Banking:

Through an overseas banking network represented by our branch / offices in London, the Houston Agency, and the Singapore Representative Office, Riyadh Bank provides banking products abroad, serving the corporate customer base, and allowing the Bank to provide its customers with tailored services to meet their various needs. In addition, 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.

The London Branch plays an active role in supporting the rapid growth of commercial activities carried out by the leading European multinational companies in 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 customers in the Kingdom and their affiliated companies in order

to support their European investments in industry and other sectors.

Riyadh Bank is considered the only window for Saudi banks in the Americas, where the Houston Agency plays an important role in attracting investments in the region, as well as, helping U.S. and multinational companies to support their commercial activities in the Kingdom of Saudi Arabia, especially in the fields of power, electricity, engineering, construction and aviation.

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

### Corporate Banking Division:

The Corporate Banking Division at Riyadh Bank continues to provide a wide range of commercial banking products and specialized services to corporates and small and medium enterprises, where the division played a major role in income and assets growth.

Additionally, the division also focused its efforts on a number of important strategic initiatives related to customer services, where the Bank increased the number of customer service specialists, and continued to develop and improve products to expand the corporate service branches network.



Golden Service

## ACHIEVEMENTS 2011



Riyad Online Corporate

The Bank has kept its leading role in financing and supporting a number of major projects in various economic fields, as it participated in financing the first integrated aluminum project in the Middle East, a metallurgy 3-phase project to develop a bauxite mine, at a cost of more than SAR 40 billion, where the Bank served as a financial advisor, in addition to its contribution to the financing of this giant project.

Riyad Bank is also proud to be the financial consultant for the joint venture "Sadarah" between the Saudi Aramco and Dow Chemical, one of the largest petrochemical projects in the region, estimated to cost about SAR 75 billion, and which will contribute to the development, evolution and diversification of this industry in the Kingdom.

Riyad Bank also continues to be one of the largest Trade Finance banks in the Kingdom providing a range of specialist banking solutions for our corporate customers.

Riyad Bank recognizes the importance of the small and medium enterprises in the Saudi economy, which has reflected on the results of the "Kafalah" program as Riyad Bank maintained its lead in funding those projects. This will continue in 2012, to support the domestic economy.

Moreover, the Bank continued to invest in the IT field, which led to the launching of "RiyadOnline-

Corporate", where customers can follow up and execute their banking operations around the clock.

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

### Treasury Division:

In line with the Bank's strategy, the Treasury Division has focused in 2011 on increasing its fee-based income.

To achieve this objective, Treasury increased its customer base during the year by over 25%, and set up a new Structured Products Unit. During the year, the Structured Products Unit team provided innovative and customized solutions to meet clients' specific needs for hedging, interest rates and foreign exchange risk exposures.

The Balance Sheet Management Unit, which works under the direct supervision of the Asset and Liability Committee, has laid the foundation for improved profitability, liquidity, risk management and developing guidelines for managing foreign exchange rate risks at the Bank, the implementation of which will continue to be a major priority of the unit for 2012.



## Risk Management:

The Bank has an independent Credit Risk function, as well as, Market Risk and Operations Risk functions. The activities and responsibilities of these functions are governed by risk frameworks and policies that are approved by the Board of Directors. Periodic reports are submitted to the Board and its Committees on Asset Quality, Market Value at Risk, Liquidity Risk, and Net Interest Income at Risk.

The Bank continues to maintain and improve its Risk Governance structure to ensure strict separation between the Business Units that transact business with customers and Risk Assessment Units responsible for independent assessment and control, as well as, for measuring, monitoring and reporting risk and capital management.

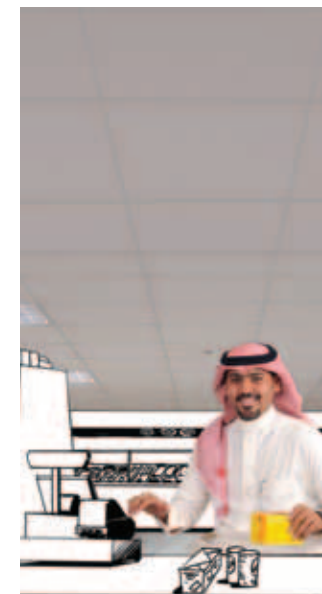
The Credit Risk Management Framework, within which the Bank operates, consists of principles, structures, tools and activities required for managing credit risk at all levels in the Bank. The purpose of this framework is to support the Bank's efforts to enhance the Bank's assets quality, whilst observing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

The Bank utilizes sophisticated credit software systems to ensure full life cycle management of credit applications, limits management, and 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.

In accordance with the Saudi Arabian Monetary Agency (SAMA) regulations, the Bank is in full compliance with all Basel II Accord, capital adequacy calculation according to the Standardized Approach for Credit Risk Management. The Bank is now actively working towards the implementation of the Basel II Internal Rating Based (IRB) Approach to assess the capital required to cover Credit Risks. In this regard, the Bank has further strengthened its Credit Rating Systems in order to comply with Basel II IRB standards. Riyadh Bank is considered to be at an advanced stage towards the implementation of this standard, following the success in developing internal credit rating systems by segmenting customers into groups according to their economic sectors, with the scrutiny necessary to test the compatibility of these systems with the requirements of Basel II (Internal Rating Based Approach).

The Financial Risk Management, which is part of RMD, assumes the responsibility for measuring and monitoring market risks, and Asset/Liability risks, within the Board approved Risk framework and limits. Periodic reports are prepared and submitted to the relevant stakeholders at the Bank .



SME

## ACHIEVEMENTS 2011



4 in 1 campaign

The primary Market Risk measure used within Riyadh Bank is the Value at Risk (VaR) methodology, which incorporates the volatility of relevant market prices and the correlation of their movements. In addition, the Bank has implemented a number of standards and other advanced methods to enhance its analytical capabilities in managing financial risks.

During 2011, the Bank has deployed state of the art system in the measurement of Market Risk with an integrated approach in the measurement of risks associated with market, Asset & Liability Management, liquidity and interest rates. Market Risk reports summarizing Bank's Market Risk exposures against agreed limits, and Liquidity position are regularly reported to the Board of Directors and its Committees and Asset and Liability Committee (ALCO).

Riyad Bank is well placed to adopt the more advanced approaches of Basel II. The Bank has also undertaken measures towards implementing the new Basel III standards with respect to financial risk management.

As for the Operational Risk Management Department, also part of the Risk Management Division at Riyadh Bank, it continues its strategy in implementing the best practice operational risk standards across the Bank, and has implemented and further enhanced its operational risk control in managing and mitigating operational risk through further enhancement and improvement in its operational

risk detection capability. This is facilitated by greater fraud prevention, control and mitigation, enhanced coverage and monitoring through regular operational risk examinations and investigations combined with anti-money laundering control. One of the factors that has contributed in further enhancing the Bank's ability to assess and manage operational risks is the implementation of SAS Operational Risk system.

The Bank is presently reporting on capital adequacy in relation with operational risks using the Standardized Approach under the Basel II requirements, and is gradually preparing itself to meet the Advanced Measurement Approach (AMA) model for Operational Risks. This is facilitated by gradually developing the Bank's operational risk analytics platform and further fine tuning the Bank's operational risk practices, in line with the Basel II accord principles and guidelines. This will allow the Bank to calculate its capital requirements using the Value at Risk (VaR) methodology for Operational Risk.

The Compliance Department, which is directly reporting to the Chairman of the Board of Directors, provides its regular reports to the Audit Committee of the Board of Directors. It aims to ensure that Riyadh Bank meets all the compliance and governance related regulations and requirements through enhancing the compliance culture at all levels in the Bank by conducting multiple awareness and training sessions.

### Credit Rating:

Riyad Bank has succeeded in maintaining its credit rating consistently and continuously, preserving its (A+) rating by the Standard & Poor's Rating Agency for long-term liabilities, and (A-) rating for short-term liabilities - the highest rating available. The Fitch Rating Agency also maintained the (A+) rating for long-term liabilities and (F1) rating for short-term liabilities. Capital Intelligence Rating Agency has awarded the Bank (AA) rating for long-term liabilities and (A+) for short-term liabilities, the highest rating available. All the rating agencies have kept their positive stable outlook for Bank, which reflects the strength and durability of Riyad Bank's financial position.

### Information Technology Division:

The Information Technology Division continued during the year 2011 to develop and upgrade the quality of services provided in accordance with a deliberate plan to enhance operational quality, accuracy and speed of processing transactions.

The Solution Support Department successfully delivered all required changes and modifications on most of the Bank's systems, with no major impact on operating systems to enable certification of PCI compliance.

The Department has also updated RiyadOnline site which enables customers to access this channel through

all the leading browsers (Internet Explorer, Firefox, Google Chrome, and Safari).

In the year 2011, the Production Services Department upgraded the Mainframe hardware and software, in order to improve operational capacity and improve the efficiency of operating systems.

Additionally, the Department applied Recovery Point solution for data safety, which enhanced the ability to maintain data integrity, multiple data sync points, and create good storage space.

In 2011, The Program Management Office within the Division developed a new approach in monitoring the completion of projects related to IT and ensure that those projects are well-balanced in terms of size, risk, and realization of their business objectives.

The department also provides more effective management of project resources and provides a more focused methodology that considers the Bank's capacity to undertake, and absorb change resulting from Projects implementation.

In the same year, the Program Management Office was able to launch a range of initiatives to reduce operating expenses and improve the efficiency of services provided to all divisions and departments of the Bank.



Credit Card offer

## ACHIEVEMENTS 2011



Bank Awards

Finally, the Combined Help Centre applied an advanced system allowing users to directly select the service they need from a pre-approved list, the users participation in the Request Fulfillment Process is encouraged by creating the service request themselves. The realized benefits are: reduces time in logging the reported requests, and contributes to a time and cost-effective way of communication by selecting from a pre-approved list of requests.

### IT Governance Department:

IT Governance, ensures all systems or changes that occur comply with the existing infrastructure guidelines and requirements of the Bank before implementation.

As part of its role to ensure Business Continuity, ITG conducted Business Impact Analysis workshops, and also held periodic contingency tests to ascertain that the Bank's systems will continue to be up and running when an unforeseen event occurs.

Additionally, IT Governance's Configuration & Release Management function managed the seamless rollout of many updates and enhancements to the Bank's production systems (ATMs, Tellers applications, Back office Systems), in cooperation with the User Acceptance Testing Department, which in turn conducts high quality test scenarios to ensure the smooth rollout of applications upgrade.

Furthermore, IT Governance exerted significant efforts in automating several security processes and implemented several security systems in order to enhance the security of the Bank's Information Technology Infrastructure. A major initiative (Trusteer) was launched to safeguard customers accessing the RiyadhOnline site, which is the first of its kind in the Kingdom.

### Quality Control Department:

In 2011, the Quality Control Department went through a complete restructuring process to make "quality" more focused on the customer.

The new structure of the Quality Control Department comprises of five units. In year 2011, the Quality Control Department has successfully delivered ten external researches, five internal researches and released fifty reports.

The Department also successfully initiated an exercise aiming to receive first-hand feedback from customers regarding their service experience at branches and ATMs. Almost six thousand customers were contacted during the year to get immediate feedback about their experience and satisfaction level regarding their recent transactions.

### Human Resources Division:

The Human Resources Division continues to support all divisions across the Bank to deliver on its objectives and strategic initiatives for the year 2011.

The Leadership Development Program continues to provide capable senior staff to new senior positions, as well as, providing talented project managers to the Performance Transformation Program.

The Division has maintained its focus on the development of administrative leadership at the Bank, and has improved its performance measurement and management. The Bank takes pride in its excellence in Saudization, where the overall percentage reached 93%. All female staff is 100% Saudi national, and they make up 20% of the total workforce at the Bank, needless to mention that the executive management team is totally comprised of Saudi nationals.

The Bank also continued to motivate and train staff by providing training opportunities which aim to raise professional performance, through providing more than 8,298 training opportunities both inside the Kingdom and abroad. It is worth noting that the Bank was continuously supplied with talented staff via its training program; "Riyad Bank Program". The Division has also continued to enhance skills within the branches through the "Competency Development Program".

### Marketing and Communications Division:

In 2011, the Marketing and Communications Division strived to methodically support the Bank's objectives through launching innovative marketing campaigns, by analyzing the current market and utilizing customers' analytical data. These approaches have helped raise the Bank's overall market share.

The year 2011 has witnessed productive activities at the Marketing and Communications Division, which enhanced the communication with existing and expected customers by launching creative marketing campaigns in several key areas such as: credit cards, mortgage finance, personal loans, auto leasing, and many of other campaigns.

To implement these campaigns effectively and efficiently, media strategies have been improved and modified, and thus the Bank's presence is more visible in the media, as well as, focusing on electronic marketing, making Riyadh Bank the first bank in the Kingdom to access the various social networking sites "social media".

In terms of brand awareness and share of voice, Riyadh Bank maintains a leading position among Saudi banks (top 3 tier) due to the impact of advertising campaigns, and the positive image among the public.



Trustee Service



## ACHIEVEMENTS 2011



Local Competencies  
Qualifications

### Community Service:

Riyad Bank is keen to expand the spectrum of its social and charitable contributions to the fullest extent. The Bank's contribution in social work is an important part of its basic principles, which expresses its concern and responsibility towards the community. The Bank's social contribution covers various activities: the health, academic and educational sectors, as well as, sports and entertainment, along with the usual support for charitable organizations.

Among the most prominent support and sponsorship projects in the health field during the year 2011: participating in national diabetes week, in collaboration with the Directorate General of Health Affairs in the Riyadh region, visiting the Academy of Autism and giving gifts to children on the occasion of the International Autism Awareness Day, as well as, providing needy families with steam inhalers for treating and reducing chronic Asthma bouts, in cooperation with the "Ensan" charity for orphans.

Also in 2011, the Community Service Department sponsored the Reem circuit race, and its income proceeds were donated to The Heritage Art's Group and "Alnahda" charity. Moreover, the Bank organized Ramadan Nights within its branches at the Central, Western and Eastern regions, to sponsor the "Yadawi" heritage fashion items and handicrafts, as well as, to support handmade items made by women with special needs.

The Bank also sponsored the annual "Summer Club", hosted by Alshabab, for the fifth consecutive year, to help youth with special needs in spending useful and enjoyable time, by providing educational entertainment programs and activities.

The Bank sponsored the Book Award since it started four years ago, in cooperation with the Riyadh Literature Club. This award aims to honor creative writers, in various Literary and cultural fields. The Bank also sponsored the Summer Heritage in the education department in Al-Baha and Ha'il.

Furthermore, the Bank organized a financial engineering workshop at Prince Sultan University. The Bank also sponsored the "We All Are Responsible" educational program at Education Department in Jeddah, as well as, sponsoring National Heritage and Cultural Festival "Al-Janadriyah 26<sup>th</sup>", and Unaizah third Cultural Festival.

The strategic partnership between the Bank and Princess Nora University, aimed to support training activities conducted at the University in 2011, which has benefited a large number of interested ladies (more than 2,200 women) of all walks of life, free of charge, as all expenses were covered by the Bank. This opportunity allowed them to attend 38 training courses and lectures, topics which varied between different social, cultural, health and environmental awareness fields, as well as, the fine arts.

In the field of sports and entertainment, the Bank provided gifts for the Down Syndrome Children Association (DSCA) on the occasion of National Day. The Bank also sponsored the International Children Championship for jumping competition at the Yanbu industrial city, the Yanbu Sports Festival, as well as sponsoring the Ras Al-Dhokhla Festival, and the Al-Taif Annual Festival.

### Riyad Capital:

Riyad Capital is a wholly owned subsidiary of Riyad Bank, licensed by the Capital Market Authority to deal (as a principal, an agent, an underwriter) for arranging, advising and custody.

Riyad Capital undertook a number of initiatives with the aim of expanding the company's business and improving performance. The Assets Management Department continued investing in its research and fund management capabilities by hiring additional resources and investing in state-of-the-art systems. This is apart from the successful launch of Rafal Real Estate Fund – Burj Rafal which provided company's clients with the opportunity to diversify their investment portfolio in the local market.

The Assets Management Department continued at the same time to expand its Portfolio Management services to High-Net Worth Investors, Corporations and Public Institutions.

Riyad Capital during the year maintained its leading rank among the best performing funds managers in the Saudi market. Consequently, it was able to grow its market share in both local equity and international equity funds which are the largest among companies operating in this field in the Saudi market.

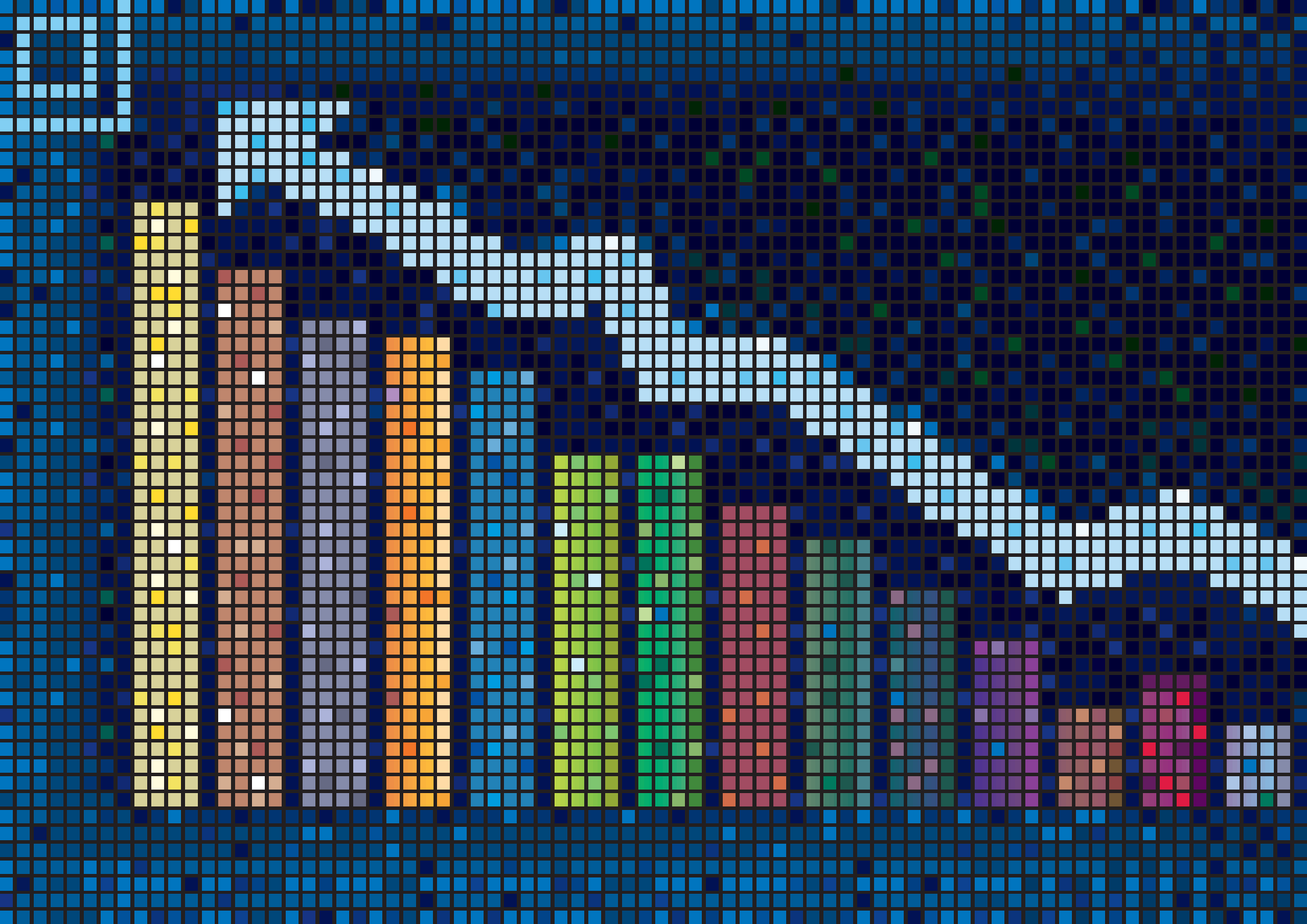
With regard to Corporate Investment Banking, Riyad Capital takes pride in its highly experienced staff who provide the company's customers with a full range of investment banking activities, such as managing public and private offerings, in addition to advisory services in the field of mergers and acquisitions, and structured finance. In 2011, Riyad Capital successfully closed SAR 1.8 billion Mudaraba Sukuk offering for the Saudi International Petrochemicals Company (Sipchem), and also played the role of co-underwriter of the Saudi Integrated Telecom Company (SITC) IPO. The investment banking team is currently working on several important equity and debt transactions for other Saudi companies.

As for Brokerage Services, Riyad Capital managed to grow its market share through further enhancement of its online trading capabilities and improving overall customer service. The company introduced in 2011 mobile-phone trading capabilities, as well as, the Riyad Tadawul-Extra service, which caters for the needs of high-net worth clients.

The company continues to invest in upgrading its brokerage services through a number of strategic initiatives, with more emphasis on electronic channels.



Book Award





The background of the slide is a dark blue grid. In the top-left and bottom-left corners, there are small, faint, light blue squares. In the top-right and bottom-right corners, there are larger, more prominent, light blue squares that form a grid pattern.

# ECONOMIC AND FINANCIAL OUTLOOK FOR 2012

## Introduction

During the year of 2011, the world faced serious shocks that added to the unresolved structural fragilities in the international economy. Japan was struck by the devastating Great East Japan earthquake and tsunami. At the same time, the U.S. economy caught up with the limited tools to shift the baton of growth from the public to private demand. This situation imposed a negative outlook on the capacity of the economy to absorb additional borrowing to finance the increasing Federal budget deficit. The policy makers in the US are facing the trade off between adopting the necessary austerity measures to reshape the country's fiscal stance and continuing using the government resources to handover the economy to the path of high growth and vigorous job creation.

However, the actual threat that has been facing the global economy through 2011 is the intensifying and wide-spreading financial problems in the euro area, through the adverse feedback loop between troubled sovereign periphery and financial institutions in many countries in Europe, a situation that may lead to credit crisis in 2012. Actually, concerns are currently mounting about the institutional integrity of the eurozone, which extended uncertainty beyond countries and regions to the stability of the global financial and economic order.

A statement of the meaning "the situation in the area has proven to be intractable and the process of conducting the needed reforms is more complicated than expected" has been repeatedly heard from top World organizations and leaders. The International Monetary Fund (IMF) in its September World Economic Outlook (WEO) warned that "the crisis in the euro area runs beyond the control of policymakers". The Organization for Economic Cooperation and Development (OECD) stated in its latest report that the euro crisis remained "a key risk to the world economy." The Managing Director of the IMF warned that the global economy faces the prospect of "economic retraction, rising protectionism, isolation and probably what happened in

the 1930s". She explicitly stated that "There is no economy in the world, whether low-income countries, emerging markets, middle-income countries or super-advanced economies that will be immune to the crisis that we see not only unfolding but escalating", and she added "It is not a crisis that will be resolved by one group of countries taking action. It is going to be hopefully resolved by all countries, all regions, and all categories of countries actually taking action".

Emerging and developing economies performed broadly well, with considerable variation across regions. Growth in developing Asia weakened modestly in response to uncertainties related to demand from advanced economies, high prices of commodities and tightening policies adopted to curb domestic inflation levels from escalating. On the other hand, surging commodity prices had favorable impact on the recovery in East Europe and the growth in most of the countries of Latin America and the GCC countries. In general, the growth in the emerging economies was fairly solid but the outlook has become more uncertain again.

Prospects for 2012 seem to be not optimistic. The OECD's concluded that economic activity across OECD countries is at its weakest since 2009. All major economies point to a slowdown in economic activity, but with some variation in the strength of the slowdown across countries. The IMF in its September WEO stated that the global economy is in a dangerous new phase. Global activity has weakened and becoming more uneven, confidence has fallen sharply recently and downside risks are growing.

Despite the above setting, the IMF latest report shows that the global economy grew by 4 percent in 2011 and projected to grow by the same rate in 2012, this is 0.5 percentage points less than initially projected. Real GDP in advanced economies expanded at a weak pace of 1.6 percent in 2011, and projected to grow at a rate of 1.9 percent in 2012, as the temporary forces that have held back economic activity in these countries through much of the second half of 2011 will gradually moderate. Even this pace of growth is assumed to prevail under the conditions that world

policy makers will be able to contain the European crisis, also the US policy makers will find a judicious balance between supporting of the economy and medium-term fiscal consolidation. Moreover, the monetary policy in the industrial economies continue to be accommodating for extended period, with no escalation in volatility in financial markets, or further weakness in the housing market. Given the above scenario, emerging and developing economies will expand by 6.1 percent in 2012 down from a rate of growth of 6.4 percent in 2011, assuming that capacity constraints and policy tightening that took place in 2011 will be removed.

Downside risks for above estimations are considerably high. Violation to any of the above conditions would have severe repercussion for the global growth and financial markets that still fragile. The euro area and the US could fall back in recession. On the other hand, commodity prices, global trade, and capital flows would considerably drop, dragging down growth in emerging and developing economies.

The current circumstances require policies in all countries to be more proactive. However, efforts should be focusing to reverse the structural imbalances between domestic versus external demand and private versus public demand. In advanced economies, private demand must take over from public demand, while focusing on the same time on shifting toward external demand. In emerging economies that enjoy ample external surpluses, domestic demand must hand over from external demand. Achieving such targets requires ensuring the continuation of free trade and resisting protectionism through supporting the role of the WTO.

However, the immediate kind of policy response that is required from the European leaders is to break the adverse feedback loop between troubled sovereigns and financial institutions, and to find the right balance between fiscal consolidation and structural reform in the economies of the periphery.

In US and Japan, the policy response should also seek the balance between implementing fiscal consolidation plans to put public debt on sustainable path and keep implementing policies to sustain recovery.

### Oil Markets

Following the uncertainty surrounded the global economy throughout 2011, oil prices rose noticeably with market fundamentals appeared to be the main driver for the direction of prices throughout the year. The supply and demand for oil have been impacted by many events that participated to the upward pressure on oil prices. In one hand, prices were pushed up strongly because of supply uncertainties related to the situation in some of the Middle Eastern countries, especially in Libya. Oil prices were also supported by some encouraging economic activities from the United States, which came stronger-than-projected as oil prices have closely tracked macroeconomic expectations and financial market performance over the year. On the other hand, oil prices were impacted negatively, from the demand side, by uncertainty over the global economic recovery, particularly with respect to the contagious effect of Europe's debt crisis. It also suppressed by the credit tightening procedures adopted by China to curb inflation. Additionally, the massive earthquake and tsunami that struck Japan in March 11, which resulted in closing many refineries and other industrial facilities, hit hard crude oil demand in the world's third largest oil consumer.

On the supply side, the decision by the International Energy Administration (IEA) in June to release 60 million barrels of crude oil from strategic stocks at a rate of 2 million bbl/d for the following 30 days singled out for putting a cap on any upward price moves during a certain period of 2011. Additionally, the expectation of the return of Libyan crude production to the markets marginally put pressures on prices during the last quarter of the year. WTI prices and Brent crude are estimated to average at \$94.5/bbl and \$111.27/bbl respectively in 2011. For 2012, EIA expects WTI price to average \$98/bbl.

The WTI started the year 2011 at \$91.59/bbl, \$0.21 higher than its closing price for 2010. Prices touched a year high at \$113.39 on 29<sup>th</sup> April, due to the loss of Libyan crudes from the markets and improving refining margins in U.S. crude markets. It reached as low as \$75.4 a barrel on 4<sup>th</sup> October, on worries that Europe's debt crisis will slow global growth and demand for crude oil. Brent crude, from its side, started the year at \$95.82/bbl passing its closing price for 2010 by \$2.59. It plunged to its lowest level during the year to \$93.52/bbl at the beginning of the year on 4<sup>th</sup> January, and touched a record of \$126.64 /bbl on 2<sup>nd</sup> May 2011.

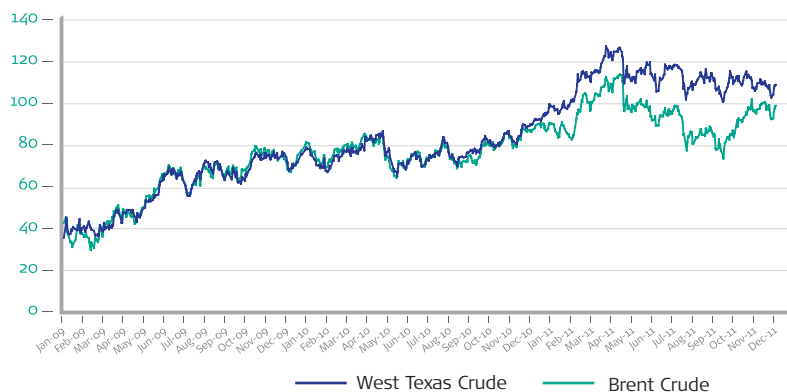
Global economy continued to be the most important driver of oil consumption growth. Both EIA (The Energy Information Administration) and IEA (the International Energy Agency) have lowered their estimates for oil consumption in 2011 as growth estimates for the global economy were revised down, with unsteady economic backdrop and weaker Q4 data, particularly for OECD Europe. However, despite the downgrade, the world consumption of crude oil and liquid fuels grew from its record high level of 87.1 million bbl/d in 2010 to 88.4 million bbl/d in 2011. The growth in global oil consumption was driven by emerging markets outside of the Organization for Economic Cooperation and Development (OECD), mainly China, India, and the Middle East countries. Oil demand from China, that witnessed a GDP growth of 9.5% in 2011, rose 7 percent during the year to 9.83 million bbl/d. In India, where the economy grew by 7.8 percent in 2011, oil demand increased 3.77 percent to 3.3 million bbl/d. Oil demand in the Middle Eastern countries, that grew by a rate exceeded 4 percent in 2011, oil consumption rose 3.2 percent to 7.59 million bbl/d.

On the other hand, in the OECD countries which expanded by as low as 1.6 percent, oil consumption decreased 0.9 percent from 46.1 million bbl/d in 2010 to 45.68 million bbl/d in 2011. For 2012, world oil consumption is expected to continue growing by 1.57 million bb/d, to 89.52 million bb/d, despite the uncertainties surrounding the global economy, however, the increase in oil demand would mainly come from the non-OECD economies.

On the supply side, world oil supply increased by 0.8 percent during 2011 or 0.7 million bbl/d to 87.77 million bbl/d, and it is expected to rise to 89.42 million bbl/d in 2012. OPEC crude oil production is likely to remain unchanged, after having grown by 0.7 million bbl/d in 2010. On their extraordinary meeting in December, OPEC agreed to leave its production targets unchanged at 30.0 million bbl/d in 2012 in light of the current economic conditions and demand uncertainties. This decision came despite the projection of increasing world oil demand during 2012; however, this rise is expected to be partially offset by a projected increase in non-OPEC supply.

According to EIA, non-OPEC oil production has expanded slightly by 0.4 million bbl/d in 2011 to average 52.16 million bbl/d, and is expected to grow by 1.2 million bbl/d in 2012 to average of 53.3 million bbl/d. The largest source of expected growth in non-OPEC liquids production over the forecast is the United States, where production grew by 340 thousand bbl/d in 2011 and it is expected to increase by 240 thousand bbl/d in 2012 because of strong growth in on-shore tight oil production. In contrast, EIA projects that Russian and Mexican annual average production will decrease by 170 thousand bbl/d and 60 thousand bbl/d, respectively, between 2011 and 2012.

## Development of Oil Prices in 2011



## The Gulf Region

The strength of the recent economic recovery in the Gulf States is largely underpinned by the strong rebound in oil prices through out the year and increasing production to substitute for the short of supply erupted by the political situation in some of the Middle Eastern countries. In addition, activities in the non-oil sector have also been spurred by broadly stimulatory macroeconomic policies adopted by most of the government in the region to improve the standard of living for the population. Governments in the region are seizing the opportunity presented by high oil prices to move toward sustainable and more diversified economies, through adopting large scale spending and investment programs, especially in infrastructure and manufacturing. So, over the medium term, fiscal policy in the GCC countries is expected to stay expansionary, boosting domestic demand in the region. Monetary policy also is expected to remain accommodative aiming at facilitating the access of private sector to the source of credit, as long as inflation levels stayed at its current moderate levels.

Accordingly, the GDP in current price is exceeding \$1,350 billion in 2011, and it is expected to exceed \$1,400 billion in 2012. The real GDP in the GCC countries grew by around 6.7 percent in 2011 and it is expected to grow by 4.1 percent in 2012. Weighted average yearly inflation rate for the 6 countries remained around 4.2 percent during the year 2011 and it is expected to remain roughly at the same rate in 2012. The overall current account surplus for the GCC countries has reached around \$300 billion or 22 percent of the total GDP of the region in 2011; however, it is expected to decline to around \$235 billion or 16.5 percent of the GDP in 2012 due to the stabilization of oil prices and oil production.

Although the economic outlook in the region is closely linked to global developments but it seems brighter than the rest of the world. The major downside risk of this view is the deterioration in the commodities prices that will impact the region that depends on oil exports. At this stage, the global economy faces many challenges and we can not neglect the probability of the euro area falling into a new recession cycle that may dampen oil prices. This would certainly affect the region's export earnings, fiscal and external balances, and eventually growth. An immediate challenge for policymakers, especially in UAE, is reviving the financial intermediation process, where credit growth has been sluggish due to weak balance sheets for both the banking sector and the non-financial corporate sector in the Country, in the period aftermath the global financial crisis and Dubai debt complications.

Financial markets in the region posted mostly negative results for 2011. Doha and Saudi markets posted the lowest losses. Bahrain Stock Exchange recorded the highest losses as it ended the year around 19 percent lower. UAE and Kuwait markets ended the year down by more than 15 percent.

## The Saudi Economy

The Saudi economy posted noticeable growth of 6.8 percent in 2011, with the non-oil GDP growing by 7.8 percent, leading the overall GDP in real terms to increase to SR 935.1 billion. The solid growth rates in 2011 showed that the Saudi economy could successfully continue to grow despite the weakness and instability that hit many industrial economies during the year. 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 2012 rating, Saudi Arabia ranked 12 among 183 economies in the Ease of Doing Business Ranking of the International Finance Corporation (IFC). The Kingdom also ranked as the thirteenth largest recipient of FDI in the world in 2010. Saudi Arabia attracted \$28.1 billion, or 6.5 percent of the GDP as new FDI 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, Standard & Poor's Ratings Services affirmed Saudi Arabia's Sovereign Rating at 'AA-' with a "Stable" outlook, while revised its Banking Industry Country Risk Assessment (BICRA) on Saudi Arabia to group '2' from group '3'. A BICRA is scored on a scale from 1 to 10, ranging from the lowest-risk banking systems (group '1') to the highest-risk (group '10'). Other countries in BICRA group '2' include Australia, France, Germany, Norway, Singapore, and Sweden. In the same context, Standard & Poor's Ratings Services assigned "low risk" in "economic imbalances" pointing to the strong government balance sheet as a key factor for this rating, and noting that high oil prices support the government's policies of modernizing infrastructure, promoting economic diversification, and supporting private sector growth and improving the country's long-term competitiveness and economic strength.

Beside the hike in oil prices, several domestic factors contributed to the solid growth in Saudi economy in 2011; of which, the significant increases in government spending over the previous three years and the strength of the Saudi financial sector. During the year 2011 (1432H-1433H), actual expenditures reached SR 804 billion, exceeding the initial 2011 budget allocation by SR 224 billion or 39%. Part of this addition in expenditure is attributed to the initiatives by His Majesty, the Custodian of the Two Holy Mosques, King Abdullah bin Abdul Aziz in the first quarter of the year that included expenditure programs with a total cost of SR 485 billion, announced in two royal decrees. These initiatives came through multiple measures geared toward supporting citizens and the economic inclusiveness of the population. The first episode of measures of a value of SR 135 billion were announced in February, while the second set of measures, announced in March, were estimated at SR 350 billion. These measures were significant in size as they amounted to 22.4% of 2011 GDP and 47% of the \$275.3 billion in oil export revenues accrued during the year of 2011.

Around 60 percent of the total cost of these measures was directed to ease the housing sector. Some SR 250 billion, were taken from the SR 306 billion surpluses in the government budget in 2011 and deposited in SAMA to fund building 500,000 housing units. That is in addition to injecting a fresh capital of SR 40 billion in the Real Estate Development Fund, to increase the maximum facilities provided by the Fund from SR 300,000 to SR 500,000 based on the Royal order.

The additional measures include, two months bonus for all civil servants, students (in public universities and part of the 106,000 studying abroad under King Abdullah's scholarship program), as well as all armed forces personnel (active and retired). Among endeavors to fight unemployment, the King ordered to create 60,000 new security jobs within the Ministry of Interior, 500 new jobs in the Ministry of Trade and Industry, and other 300 jobs for ISFR (Islamic Scientific and Fatwa Research). Also, the King structured unemployment benefits of SR 2,000 for those seeking jobs in the public and private sector, and set the minimum wage for public sector employees at SR 3,000 instead of the previous minimum wage SR 2,185, including the 15% cost of living allowance. The Royal order also included the creation of a national body to fight corruption and for all government projects to be checked by the anti-corruption body in order to control public corruption and higher penalties for merchants who engage in price manipulation. Other measures included additional spending on medical facilities (SR 16 billion), building religious police facilities (SR 200 million), refurbishing and building mosques (SR 500 million), increasing the maximum loan facilities of the Private Hospitals Financing Program (from SR 50 million to SR 200 million), establishing new branches for Islamic Scientific and Fatwa Research ISFR (SR 200 million), supporting the Offices of Islamic promotion and guidance (SR 300 million), and (SR 200 million) to support the Islamic associations and Quran reciting houses.

Continuing on the same pace, Saudi Arabia unveiled another expansionary budget for 2012 (1433H-1434H), with government expenditure showing an annual increase of 19 percent to reach SR 690 billion. The 2012 budget allocates SR 265 billion or 39 percent of the total expenditures as new projects and proceeding in new phases of existing projects. The main allocations include SR 168.6 billion for education and manpower training, SR 86.5 billion for health services and social development, SR 57.5 billion for water, agriculture and infrastructure services, SR 35.2 billion for transport and communications, and SR 29.2 billion for municipalities. This is in addition to the generous allocations for the specialized credit institutions.

### Financial Markets

During the year of 2011, 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 2011 at 0.77 percent to average 0.69 percent, 6 basis points less than its average in 2010 at 0.75 percent. The 12-month SIBOR ended the year at 1.03 percent to average 0.96 percent through the year, around 7 basis points less than its average in 2010. The rates were continued to be in the favor of Riyal deposits all over the year. The average spread of the 3-month SIBOR over the 3-month LIBOR was 35 basis points. Inflation rate, on the other hand, averaged at 4.9 percent in 2011, down from 5.4 percent in 2010; the decrease mainly resulted as growth rates of rents and food prices slowed compared to their growth rates in 2010.

Concerning liquidity, the latest available data from SAMA show that broad money supply (M3), reached a record of SR 1223.6 billion at the end of December 2011 and that is 13.3 percent above its level at the end of December 2010. Total deposits grew by around 21.1 percent with a growth rate in demand deposits approaching 21 percent.

Total lending from commercial banks continued to pick up consistently starting the first month of 2011. By the end December, total loans extended to the private sector by Saudi banks increased by 11 percent reaching SR 824.8 billion compared to SR 743.1 billion at the end December 2010. As a result, the loan to deposit ratio decreased to almost 77.8 percent in December 2011 down from 78.8 percent in December 2010.

The Saudi stock market (TADAWUL) gathered strength and ended the year at 6,420 points compared to 6,620 points at the end of 2010, less by 200 points or 3.0 percent. The index (TASI) reached as high as 6,795 points on 17th of January, the highest close level for the index during the year. The P/E ratio decreased to 11.7 at the end of 2011 down from 15.3 at the end of 2010, and the market capitalization as a percent of GDP declined to 56 percent in 2011 compared to 78.4 percent at the end of 2010. 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 2011 and Outlook for 2012

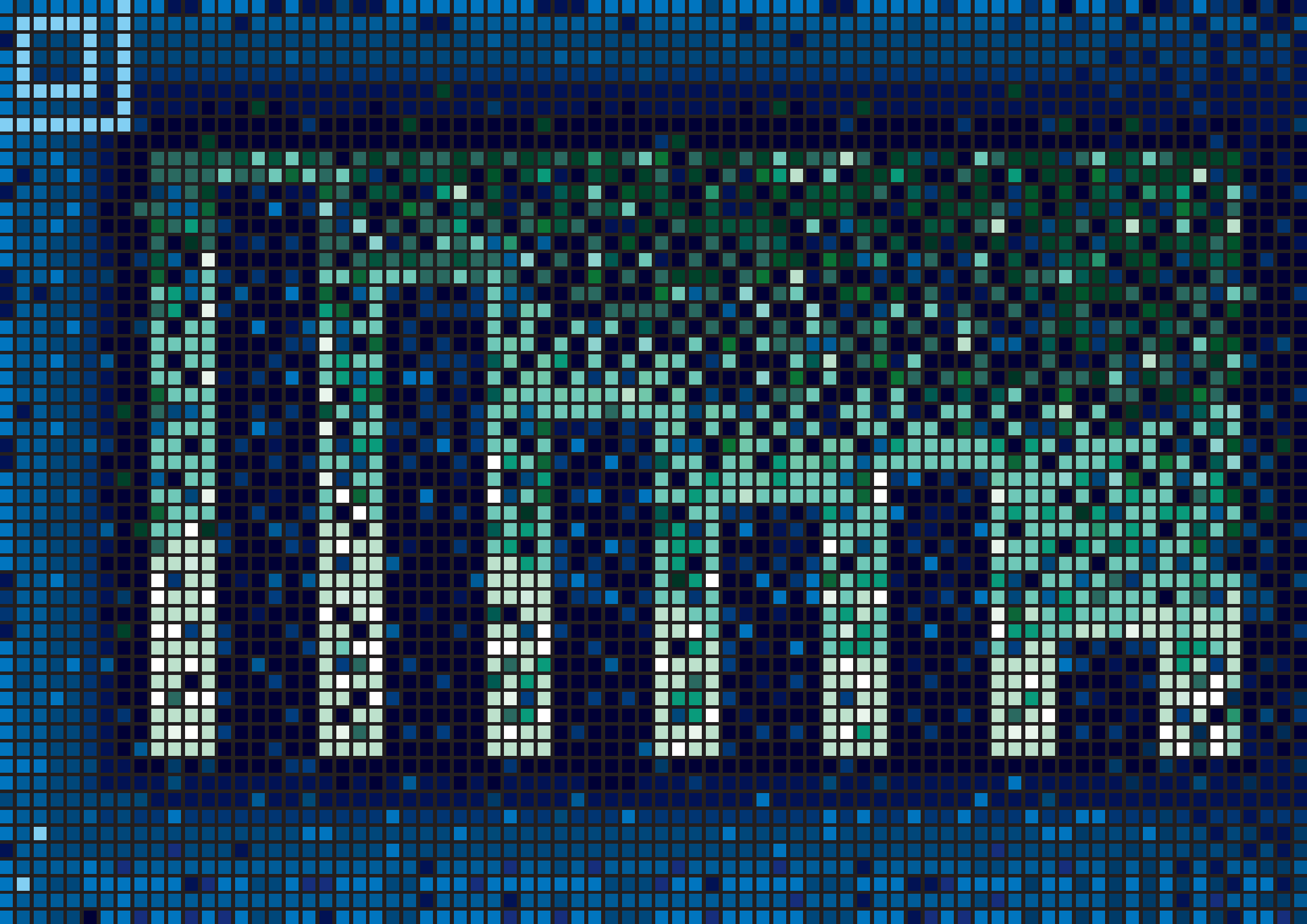
Preliminary estimates show that the GDP at current market prices increased in 2011 by 28 percent to reach SR 2,163 billion. In real terms, the GDP grew by 6.8 percent compared to a growth rate of 4.1 percent in 2010. The growth came as a result of the growth in oil sector by 4.3 percent and the growth of the non-oil sector by 7.8 percent. Within the non-oil sector, the private sector expanded by 8.3 percent and the government sector increased by 6.7 percent. The growth in the private sector came as a result of the growth in all economic sectors; manufacturing went up by 12.3 percent, construction sector grew by 11.6 percent; while transport and communication increased by 10.1 percent.

Concerning the external sector, the total value of exports of goods and services increased in 2011 by 35.7 percent to reach SR 1,332.7 billion. The exports of goods increased by 36.7 percent to reach SR 1,287.4 billion; within the goods exports, non-oil exports increased by 13.9 percent to SR 153.2 billion. On the other hand, imports of goods and services increased by 1.4 percent to SR 662.7 billion with imports of goods rising by 2.6 percent to SR 411.4 billion. As a result, in 2011, the trade balance registered a surplus of SR 875.6 billion or 40.4 percent of the GDP, while the current account achieved a surplus of SR 598 billion or 27.6 percent of the GDP.

Regarding the government budget, total revenues in 2011 reached SR 1,110 billion while total expenditure increased to SR 804 billion. As a result, in 2011, the government budget achieved a surplus of SR 306 billion or 14.1 percent of the GDP. In line with the budget achievement, the government debt decreased to 6.3 percent of the GDP, down from 10.2 percent in 2010.

In 2012, Saudi oil prices are expected to average \$90/bbl, and Saudi oil production is expected to decline to 8.8 million bbl/day. With these assumptions, oil sector is expected to deteriorate by 3.1 percent in 2012, while the non-oil sector is expected to grow by 5.9 percent. Government sector is expected to continue to grow at the rate of 6.7 percent, while the private sector is expected to grow by 5.5 percent. Accordingly, the overall GDP is expected to grow by 3.3 percent in 2012. The nominal GDP in 2012 is expected to reach SR 2,360 billion. Inflation rate is expected to stay around 5.0 percent in 2012 and unemployment rate (among Saudis) is expected to decline to 8 percent with the new measures to boost employments.

Based on the above oil prices and production in 2012, the current account is expected to register a surplus of SR 351 billion or 14.9 percent of the GDP. The fiscal figures, on the other hand, are expected to again deviate from the conservative budget figures. Accordingly, we expected the budget to record a surplus of SR 96 billion in 2012 or 4.1 percent of GDP.



# FINANCIAL STATEMENTS 2011

## 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 at December 31, 2011, and the consolidated income statement, 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 38. We have not audited note 39, 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 By-Laws. In addition, management is responsible for such internal controls as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements.

The procedures selected depend on the auditors' 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 auditors consider 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 financial position of the Group as at December 31, 2011, and its financial performance and its cash flows for the year then ended in accordance with Accounting Standards for Financial Institutions in the Kingdom of Saudi Arabia issued by 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 By-Laws in so far as they affect the preparation and presentation of the consolidated financial statements.

Deloitte & Touche  
Bakr Abulkhair & Co.  
P.O.Box 213  
Riyadh 11411  
Kingdom of Saudi Arabia



Bakr A. Abulkhair  
Certified Public Accountant  
Registration No. 101



KPMG Al Fozan & Al Sadhan  
P.O.Box 92876  
Riyadh 11663  
Kingdom of Saudi Arabia



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



Rabi Al Awal 7, 1433 H  
January 30, 2012

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at December 31, 2011 and 2010

SAR'ooo	Notes	2011	2010
<b>ASSETS</b>			
Cash and balances with SAMA	4	17,623,477	23,178,560
Due from banks and other financial institutions	5	6,085,023	4,688,754
Investments, net	6	36,616,170	33,822,441
Loans and advances, net	7	112,972,764	106,034,740
Investment in associates	8	339,954	-
Other real estate		440,896	431,578
Property and equipment, net	9	1,806,833	1,862,855
Other assets	10	5,002,273	3,537,502
<b>Total assets</b>		<b>180,887,390</b>	<b>173,556,430</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Liabilities</b>			
Due to banks and other financial institutions	12	6,241,948	10,636,551
Customer deposits	13	139,822,500	126,945,459
Debt securities in issue	14	-	1,873,723
Other liabilities	15	4,664,587	4,867,479
<b>Total liabilities</b>		<b>150,729,035</b>	<b>144,323,212</b>
<b>Shareholders' equity</b>			
Share capital	16	15,000,000	15,000,000
Statutory reserve	17	12,475,088	11,687,749
Other reserves	18	535,749	813,965
Retained earnings		872,518	610,504
Proposed dividends	24	1,275,000	1,121,000
<b>Total shareholders' equity</b>		<b>30,158,355</b>	<b>29,233,218</b>
<b>Total liabilities and shareholders' equity</b>		<b>180,887,390</b>	<b>173,556,430</b>

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

## CONSOLIDATED INCOME STATEMENT for the years ended December 31, 2011 and 2010

SAR'ooo	Notes	2011	2010
Special commission income	20	4,915,363	4,872,527
Special commission expense	20	718,329	730,740
<b>Net special commission income</b>		<b>4,197,034</b>	<b>4,141,787</b>
Fee and commission income, net	21	1,589,174	1,418,202
Exchange income, net		278,607	231,445
Trading losses, net		(4,330)	(5,972)
Gains on Available for sale investments, net		149,193	129,849
Other operating income		111,544	65,141
<b>Total operating income</b>		<b>6,321,222</b>	<b>5,980,452</b>
Salaries and employee-related expenses	22	1,285,910	1,124,228
Rent and premises-related expenses		250,829	254,382
Depreciation of property and equipment		286,222	277,812
Other general and administrative expenses		667,262	641,020
Impairment charge for credit losses, net		661,712	935,074
Impairment charge for investments, net		-	(85,000)
Other operating expenses		19,934	8,309
<b>Total operating expenses</b>		<b>3,171,869</b>	<b>3,155,825</b>
<b>Net income for the year</b>		<b>3,149,353</b>	<b>2,824,627</b>
Basic and diluted earnings per share (in SAR)	23	2.10	1.88

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME for the years ended December 31, 2011 and 2010

SAR'ooo	2011	2010
Net income for the year	3,149,353	2,824,627
Other comprehensive income:		
- Available for sale investments		
Net changes in fair value (note 18)	(50,573)	487,550
Net changes in fair value transferred to consolidated income statement (note 18)	(174,014)	(222,004)
	(224,587)	265,546
- Cash flow hedges		
Effective portion of net changes in fair value (note 18)	(53,467)	(58,821)
Net changes in fair value transferred to consolidated income statement (note 18)	(162)	1,422
	(53,629)	(57,399)
Other comprehensive income for the year	(278,216)	208,147
Total comprehensive income for the year	2,871,137	3,032,774

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

for the years ended December 31, 2011 and 2010

2011	Notes	Other reserves						Total
		Share capital	Statutory reserve	Available for sale investments	Cash flow hedges	Retained earnings	Proposed dividend	
SAR'ooo								
Balance at the beginning of the year		15,000,000	11,687,749	751,238	62,727	610,504	1,121,000	29,233,218
Total comprehensive income		-	-	(224,587)	(53,629)	3,149,353	-	2,871,137
Final dividends paid - 2010	24	-	-	-	-	-	(1,121,000)	(1,121,000)
Interim dividends paid -2011	24	-	-	-	-	(825,000)	-	(825,000)
Transfer to statutory reserve	17	-	787,339	-	-	(787,339)	-	-
2011 final proposed dividends	24	-	-	-	-	(1,275,000)	1,275,000	-
Balance at the end of the year		15,000,000	12,475,088	526,651	9,098	872,518	1,275,000	30,158,355

2010	Notes	Other reserves						Total
		Share capital	Statutory reserve	Available for sale investments	Cash flow hedges	Retained earnings	Proposed dividend	
SAR'000								
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	17	-	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

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.



## CONSOLIDATED STATEMENT OF CASH FLOWS for the years ended December 31, 2011 and 2010

SAR'ooo	Notes	2011	2010
<b>OPERATING ACTIVITIES</b>			
Net income for the year		3,149,353	2,824,627
Adjustments to reconcile net income for the year to net cash from (used in) from operating activities:			
(Accretion of discounts) on non-trading investments, net and debt securities in issue, net		(51,216)	(89,542)
(Gains) on Available for sale investments, net		(149,193)	(129,849)
Depreciation of property and equipment		286,222	277,812
Impairment charge for investments, net		-	(85,000)
Impairment charge for credit losses, net		661,712	935,074
		3,896,878	3,733,122
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA	4	(826,152)	(44,647)
Due from banks and other financial institutions maturing after three months from date of acquisition		(1,368,302)	2,692,865
Loans and advances		(7,599,736)	(455,201)
Other real estate		(9,318)	(24,446)
Other assets		(1,464,771)	(321,988)
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		(4,394,603)	(5,526,461)
Customer deposits		12,877,041	1,667,353
Other liabilities		(222,762)	42,436
Net cash from operating activities		888,275	1,763,033
<b>INVESTING ACTIVITIES</b>			
Proceeds from sales and maturities of non-trading investments		36,506,721	27,050,935
Purchase of non-trading investments		(39,716,884)	(28,052,441)
Purchase of property and equipment, net		(230,200)	(310,510)
Net cash (used in) investing activities		(3,440,363)	(1,312,016)
<b>FINANCING ACTIVITIES</b>			
Repayment of debt securities in issue	14	(1,875,050)	-
Dividend and zakat paid		(1,926,130)	(2,059,250)
Net cash (used in) financing activities		(3,801,180)	(2,059,250)
Net (decrease)/ increase in cash and cash equivalents		(6,353,268)	(1,608,233)
Cash and cash equivalents at beginning of the year		20,837,007	22,445,240
Cash and cash equivalents at end of the year	25	14,483,739	20,837,007
Special commission received during the year		4,903,050	4,957,968
Special commission paid during the year		733,174	804,138
<b>Supplemental non-cash information</b>			
Net changes in fair value and transfer to consolidated income statement		(278,216)	208,147

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

## 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 248 branches (2010: 241 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:

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the years ended December 31, 2011 and 2010

### (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 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 out 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 2010, except for the adoption of following amendments and revisions to existing standards mentioned below which has had no financial impact on the consolidated financial statements of the Group:

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### a) Change in accounting policies (Continued)

(i) IAS 24 Related Party Disclosures (revised 2009) - The revised IAS 24 Related Party Disclosures amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities.

(ii) Amendments to IFRS 7 – Financial Instruments: Disclosures Transfers of Financial Assets - These amendments introduce new disclosure requirements about transfers of financial assets, including disclosures for:

- Financial assets that are not derecognized in their entirety; and
- Financial assets that are derecognized in their entirety but for which the entity retains continuing involvement.

(iii) Improvements to IFRSs 2010 – IFRS 7 Financial Instruments: Disclosures – The amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to enable users to evaluate an entity's exposure to risks arising from financial instruments. In addition, the IASB amended and removed existing disclosure requirements.

(iv) Improvements to IFRSs 2010 – IAS 1 Presentation of Financial Statements - IAS 1 is amended to clarify that disaggregation of changes in each component of equity arising from transactions recognized in other comprehensive income also is required to be presented, but is permitted to be presented either in the statement of changes in equity or in the notes.

(v) Improvements to IFRSs 2010 – IFRIC 13 Customer Loyalty Programmes – The amendments clarify that the fair value of award credits takes into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits.

(vi) Other amendments resulting from the improvements to the IFRSs that did not have any material impact on the accounting policies, financial position and performance of the Group include IFRS 3, IAS 27 and IAS 32.

#### b) Basis of consolidation

The consolidated financial statements comprise the financial statements of Riyadh Bank and its subsidiaries; Riyadh 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, 2011 and 2010, 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.

The Bank is a party to special purpose entities (SPEs), primarily for the purpose of facilitation of certain Shariah compliant financing arrangements.

#### 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) Investments in associates

Investment in associates are initially recognized at cost and subsequently accounted for under the equity method of accounting. An associate is an entity in which the Bank holds 20% to 50% of the voting power and over which it has significant influence and which is neither a subsidiary nor a joint venture. Investment in associates are carried in the statement of financial position at cost, plus post-acquisition changes in the Bank's share of net assets of the associate, less any impairment in the value of individual investments. Distribution received from the investee reduces the carrying amount of the investment.

#### e) 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:

##### (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

The Group designates certain derivatives as hedging instruments in qualifying hedging relationships. 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.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### e) Derivative financial instruments and hedge accounting (continued)

##### (ii) Hedge accounting (continued)

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 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.

#### f) 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.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

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.

#### g) Offsetting financial instruments

Financial assets and liabilities are offset and reported net in the consolidated statement of financial position when the entity currently has 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.

#### h) 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 (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.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### h) Revenue recognition (continued)

##### (i) Special commission income and expenses (continued)

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.

#### i) 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 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.

#### j) 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 judgement 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 non-derivative financial instruments and include equity and debt securities that are either designated as AFS or not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss. Available for sale investments are those equity and debt securities intended to be held for an unspecified period of 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.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### j) Investments (continued)

##### (iv) Held to maturity

Investments having fixed or determinable payments and fixed maturity and that the Bank has the positive intention and ability to hold to maturity 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.

#### k) 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.

#### l) 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 carried at amortized cost 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.

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.

It may also include instances where Bank considers that the obligor is unlikely to pay its credit obligations to the Bank, in full, without recourse by the Bank to actions such as realizing the security, if held.

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. 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 or 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.

#### (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.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### l) Impairment of financial assets (continued)

##### (ii) Impairment of Available for sale financial assets (continued)

On derecognition, any cumulative gain or loss previously recognised in shareholders' equity is included in the consolidated income statement for the year.

#### m) 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.

#### n) 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:

Buildings	33 years
Improvements and decoration of premises	over the lower of the lease period 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.

#### o) 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.

#### p) 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.

#### q) 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.

#### r) 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.

#### s) 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.

#### t) 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.

#### u) 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.

#### v) 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.

#### w) 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.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### x) 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.

### 4. CASH AND BALANCES WITH SAMA

SAR'ooo	2011	2010
Cash in hand and other balances	3,831,890	2,562,125
Statutory deposit	6,963,587	6,137,435
Reverse repos with SAMA	6,828,000	14,479,000
<b>Total</b>	<b>17,623,477</b>	<b>23,178,560</b>

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 are not part of cash and cash equivalents.

### 5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

SAR'ooo	2011	2010
Current accounts	102,290	83,354
Money market placements	5,982,733	4,605,400
<b>Total</b>	<b>6,085,023</b>	<b>4,688,754</b>

## 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, 2011 was SAR 3,625 million (December 31, 2010: SAR 3,553 million).

Had the reclassification not occurred, the consolidated income statement for the year ended December 31, 2011, would have included unrealised fair value gain on such reclassified investments amounting to SAR 80.3 million (31 December 2010: unrealised fair value gain SAR 292.1 million).

#### (ii) Available for sale

SAR'ooo	Domestic		International		Total	
	2011	2010	2011	2010	2011	2010
Fixed rate securities	39,746	40,545	9,913,341	8,997,997	9,953,087	9,038,542
Floating rate securities	-	-	1,842,492	1,764,956	1,842,492	1,764,956
Mutual funds	244,218	138,598	1,980,174	2,268,717	2,224,392	2,407,315
Equities	1,134,158	947,760	55,606	129,846	1,189,764	1,077,606
Available for sale, net	1,418,122	1,126,903	13,791,613	13,161,516	15,209,735	14,288,419

International investments above includes investment portfolios of SAR 11.3 billion ( 2010: SAR 11.3 billion) which are externally managed.

#### (iii) Other investments held at amortised cost

SAR'ooo	Domestic		International		Total	
	2011	2010	2011	2010	2011	2010
Fixed rate securities	8,242,077	13,321,266	1,828,973	1,297,242	10,071,050	14,618,508
Floating rate securities	4,287,644	3,859,396	38,930	38,643	4,326,574	3,898,039
Other investments held at amortised cost	12,529,721	17,180,662	1,867,903	1,335,885	14,397,624	18,516,547

## 6. INVESTMENTS, NET (continued)

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

(iv) Held to maturity

SAR'ooo	Domestic		International		Total	
	2011	2010	2011	2010	2011	2010
Fixed rate securities	216,974	404,722	6,791,837	612,753	7,008,811	1,017,475
Held to maturity	216,974	404,722	6,791,837	612,753	7,008,811	1,017,475
Investments, net	14,164,817	18,712,287	22,451,353	15,110,154	36,616,170	33,822,441

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

SAR'ooo	2011			2010		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Fixed rate securities	11,823,426	15,209,522	27,032,948	10,328,159	14,346,366	24,674,525
Floating rate securities	4,555,347	1,613,719	6,169,066	3,863,651	1,799,344	5,662,995
Equities	1,053,375	176,841	1,230,216	637,826	480,352	1,118,178
Mutual funds	2,224,392	-	2,224,392	2,407,315	-	2,407,315
Allowance for impairment	-	(40,452)	(40,452)	-	(40,572)	(40,572)
Investments, net	19,656,540	16,959,630	36,616,170	17,236,951	16,585,490	33,822,441



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 amortised cost

SAR'ooo	Carrying value	2011 Gross unrealised gain	Gross unrealised loss	Fair value	Carrying value	2010 Gross unrealised gain	Gross unrealised loss	Fair value
Fixed rate securities	10,071,050	107,752	(7,450)	10,171,352	14,618,508	77,984	(4,927)	14,691,565
Floating rate securities	4,326,574	90,122	-	4,416,696	3,898,039	50,180	-	3,948,219
<b>Total</b>	<b>14,397,624</b>	<b>197,874</b>	<b>(7,450)</b>	<b>14,588,048</b>	<b>18,516,547</b>	<b>128,164</b>	<b>(4,927)</b>	<b>18,639,784</b>

(ii) Held to maturity

SAR'ooo	Carrying value	2011 Gross unrealised gain	Gross unrealised loss	Fair value	Carrying value	2010 Gross unrealised gain	Gross unrealised loss	Fair value
Fixed rate securities	7,008,811	23,301	-	7,032,112	1,017,475	23,746	-	1,041,221

d) Credit quality of investments

SAR'ooo	Fixed rate securities	2011 Floating rate securities	Others	Total	Fixed rate securities	2010 Floating rate securities	Others	Total
AAA	1,295,564	1,583,697	-	2,879,261	3,372,997	1,486,239	-	4,859,236
AA- to AA+	12,523,252	1,810,178	-	14,333,430	14,873,897	2,042,358	-	16,916,255
A- to A+	8,403,392	1,756,857	-	10,160,249	3,734,750	1,584,441	-	5,319,191
Lower than A-	3,515,966	441,544	-	3,957,510	2,297,230	505,782	-	2,803,012
Unrated	1,294,774	576,790	3,414,156	5,285,720	395,651	44,175	3,484,921	3,924,747
<b>Total</b>	<b>27,032,948</b>	<b>6,169,066</b>	<b>3,414,156</b>	<b>36,616,170</b>	<b>24,674,525</b>	<b>5,662,995</b>	<b>3,484,921</b>	<b>33,822,441</b>

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

## 6. INVESTMENTS, NET (continued)

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

SAR'ooo	2011	2010
Government and quasi Government	15,456,747	20,028,755
Corporate	8,222,385	7,515,232
Banks and other financial institutions	12,937,038	6,278,454
<b>Total</b>	<b>36,616,170</b>	<b>33,822,441</b>

Investments include SAR 2,044 million ( 2010: SAR 4,216 million), which have been pledged under repurchase agreements with customers (note 19 d). The market value of such investments is SAR 2,116 million ( 2010: SAR 4,369 million).

f) Movements of allowance for impairment on available for sale equity investments:

SAR'ooo	2011	2010
Balance at beginning of the year	40,572	40,854
Other movements during the year	(120)	(282)
<b>Balance at end of the year</b>	<b>40,452</b>	<b>40,572</b>

## 7. LOANS AND ADVANCES, NET

### a) Loans and advances held at amortised cost

These comprise the following:

2011 SAR'ooo	Overdrafts	Credit cards	Consumer loans	Commercial loans	Others	Total
Performing loans and advances, gross	7,001,831	745,616	25,549,643	79,011,785	783,210	113,092,085
Non-performing loans and advances, net	48,672	-	-	1,758,372	72,179	1,879,223
Total Loans and advances	7,050,503	745,616	25,549,643	80,770,157	855,389	114,971,308
Allowance for impairment	(29,071)	-	-	(834,485)	(62,639)	(926,195)
Total	7,021,432	745,616	25,549,643	79,935,672	792,750	114,045,113
Portfolio provision	-	-	-	-	-	(1,072,349)
Loans and advances held at amortised cost, net						112,972,764

2010 SAR'ooo	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 amortised cost, net						106,034,740

Loans and advances, net, include Islamic products of SR 52,569 million (2010: 47,377 million).

## 7. LOANS AND ADVANCES, NET (continued)

b) Movements in allowance for impairment are as follows:

2011 SAR'ooo	Credit cards	Allowance for Impairment		Total	Portfolio Provision	Total
		Consumer loans	Commercial loans *			
Balance at beginning of the year	-	-	1,216,004	1,216,004	1,072,349	2,288,353
Provided during the year	87,456	338,677	586,055	1,012,188	-	1,012,188
Bad debts written off	(87,456)	(338,677)	(703,544)	(1,129,677)	-	(1,129,677)
Recoveries of previously provided amounts	-	-	(142,578)	(142,578)	-	(142,578)
Other movements	-	-	(29,742)	(29,742)	-	(29,742)
Balance at end of the year	-	-	926,195	926,195	1,072,349	1,998,544

2010 SAR'ooo	Credit cards	Allowance for Impairment		Total	Portfolio Provision	Total
		Consumer loans	Commercial loans *			
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

\* Including overdrafts and other loans

c) Credit Quality of Loans and Advances  
(i) Neither past due nor impaired

2011				
SAR'ooo	Credit cards	Consumer loans	Commercial loans*	Total
Standard category	646,658	24,409,415	86,047,353	111,103,426
Special Mention category	-	-	642,751	642,751
<b>Total</b>	<b>646,658</b>	<b>24,409,415</b>	<b>86,690,104</b>	<b>111,746,177</b>

2010				
SAR'ooo	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
<b>Total</b>	<b>717,749</b>	<b>19,206,995</b>	<b>84,899,563</b>	<b>104,824,307</b>

Above includes past due but not impaired loans with upto 30 days ageing amounting to SAR 3,389 million as at Dec 31, 2011 (2010: SAR 2,457 million).

Standard category: A credit with very strong 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 borrowers' financial condition.

Standard Category as at Dec 31, 2011 includes Commercial loans\* of Very Strong Quality SAR 27,280 million (2010: SAR 32,654 million), Good Quality SAR 49,302 million (2010: SAR 42,691 million) and Satisfactory Quality SAR 9,465 million (2010: SAR 9,463 million).

\* Including overdrafts and other loans

## 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)

2011				
SAR'ooo	Credit cards	Consumer loans	Commercial loans*	Total
From 31 - 90 days	57,969	710,735	23,962	792,666
From 91 - 180 days	40,989	429,493	15,691	486,173
More than 180 days	-	-	67,069	67,069
<b>Total</b>	<b>98,958</b>	<b>1,140,228</b>	<b>106,722</b>	<b>1,345,908</b>

2010				
SAR'ooo	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
<b>Total</b>	<b>129,680</b>	<b>1,298,076</b>	<b>257,545</b>	<b>1,685,301</b>

\* Including overdrafts and other loans

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

2011 SAR'ooo	Performing	Non performing, net	Allowance for impairment	Loans and advances, net
Government and quasi Government	6,697	-	-	6,697
Banks and other financial institutions	7,281,019	-	-	7,281,019
Agriculture and fishing	1,172,464	-	-	1,172,464
Manufacturing	15,692,470	272,989	(157,732)	15,807,727
Mining and quarrying	1,941,254	-	-	1,941,254
Electricity, water, gas and health	2,350,869	-	-	2,350,869
Building and construction	10,201,366	171,703	(139,151)	10,233,918
Commerce	36,263,713	1,348,241	(588,761)	37,023,193
Transportation and communication	7,436,146	1,808	(964)	7,436,990
Services	2,890,228	20,189	(11,315)	2,899,102
Consumer loans and credit cards	26,295,259	-	-	26,295,259
Other	1,560,600	64,293	(28,272)	1,596,621
<b>Total</b>	<b>113,092,085</b>	<b>1,879,223</b>	<b>(926,195)</b>	<b>114,045,113</b>
Portfolio provision				(1,072,349)
<b>Loans and advances, net</b>				<b>112,972,764</b>

## 7. LOANS AND ADVANCES, NET (continued)

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

2010 SAR'ooo	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	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
<b>Total</b>	<b>106,509,608</b>	<b>1,813,485</b>	<b>(1,216,004)</b>	<b>107,107,089</b>
<b>Portfolio provision</b>				<b>(1,072,349)</b>
<b>Loans and advances, net</b>				<b>106,034,740</b>

## e) Collateral

The Bank in the ordinary course of lending activities hold 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.



## 8. INVESTMENT IN ASSOCIATES

Investment in associates represents the Bank's share of investment in entities where the Bank has significant influence. These investment are accounted for, using the equity method of accounting. In prior years, these investments were measured at fair value and classified as available for sale investments. The impact of the change is not material on the overall consolidated financial statements.

Investment in associates represents 35% (2010: 35%) share ownership in Ajil Financial Services Company incorporated in Kingdom of Saudi Arabia, 21.4% (2010: 21.4%) share in ownership in Royal and Sun Alliance Insurance (Middle East) Limited E.C., incorporated in Bahrain and 19.9% (2010 :19.9%) share ownership and Board representation in Al-Alamiya for Cooperative Insurance Company incorporated in Kingdom of Saudi Arabia.

## 9. PROPERTY AND EQUIPMENT, NET

SAR'ooo	Land and buildings	Improvements and decoration of premises	Furniture, fixtures and equipment	Computer hardware, software programs and automation Projects	Motor vehicles	Total 2011	Total 2010
<u>Cost</u>							
Balance at beginning of the year	1,311,169	644,210	336,843	1,707,377	2,369	4,001,968	3,693,947
Additions	23,473	42,552	27,932	135,782	461	230,200	310,510
Disposals	-	(2,634)	(6,570)	(5,798)	-	(15,002)	(2,489)
Balance at end of the year	1,334,642	684,128	358,205	1,837,361	2,830	4,217,166	4,001,968
<u>Accumulated depreciation and amortisation</u>							
Balance at beginning of the year	392,239	436,305	242,915	1,065,334	2,320	2,139,113	1,863,790
Charge for the year	24,789	76,240	29,984	154,712	497	286,222	277,812
Disposals	-	(2,634)	(6,570)	(5,798)	-	(15,002)	(2,489)
Balance at end of the year	417,028	509,911	266,329	1,214,248	2,817	2,410,333	2,139,113
<u>Net book value</u>							
As at December 31, 2011	917,614	174,217	91,876	623,113	13	1,806,833	
As at December 31, 2010	918,930	207,905	93,928	642,043	49		1,862,855

Land and buildings and improvements and decoration of premises include work in progress as at December 31, 2011 amounting to SAR 40.6 million (2010: SAR 104.6 million); and SAR 2.3 million (2010: SAR 1.9 million), respectively.

## 10. OTHER ASSESTS

SAR'ooo	2011	2010
Accrued special commission receivable		
- banks and other financial institutions	7,040	7,234
- investments	224,246	162,010
- loans and advances	315,136	347,399
- other	45,520	62,986
Total accrued special commission receivable	591,942	579,629
Accounts receivable	165,307	55,455
Positive fair value of derivatives (note 11)	2,958,870	2,674,320
Other	1,286,154	228,098
Total	5,002,273	3,537,502

## 11. 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.

### 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 pre-determined 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.

## 11. DERIVATIVES (continued)

### 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.

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:

2011 SAR'ooo	Within 1 year	1-3 years	3-5 years
Cash inflows (assets)	4,735	449	-
Cash outflows (liabilities)	-	-	-
Net cash inflow	4,735	449	-

2010 SAR'ooo	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	-

## 11. DERIVATIVES (continued)

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.

2011 SAR'000	Notional amounts by term to maturity						
	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3-12 months	years 1-5	Monthly average
<b>Held for trading:</b>							
Special commission rate swaps	2,544	(1,690)	1,360,162	382,637	715,018	262,507	2,743,068
Forward foreign exchange contracts	2,886,658	(89,222)	93,510,641	50,958,421	42,552,220	-	85,809,075
Currency options	27,978	(27,331)	15,805,052	9,564,344	5,339,084	901,624	13,465,451
Commodity options	17,301	(17,301)	80,160	80,160	-	-	119,431
<b>Held as fair value hedges:</b>							
Special commission rate swaps	-	(3,871)	500,000	-	500,000	-	2,261,740
<b>Held as cash flow hedges:</b>							
Special commission rate swaps	24,389	-	1,098,000	-	998,000	100,000	1,455,252
<b>Total</b>	<b>2,958,870</b>	<b>(139,415)</b>	<b>112,354,015</b>	<b>60,985,562</b>	<b>50,104,322</b>	<b>1,264,131</b>	<b>105,854,017</b>

2010 SAR'ooo	Notional amounts by term to maturity						
	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3-12 months	years 1-5	Monthly average
<b>Held for trading:</b>							
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
Commodity options	-	-	-	-	-	-	-
<b>Held as fair value hedges:</b>							
Special commission rate swaps	-	(9,766)	2,661,795	322,000	1,839,795	500,000	3,149,663
<b>Held as cash flow hedges:</b>							
Special commission rate swaps	79,065	(1,209)	1,929,011	96,000	735,011	1,098,000	2,199,855
<b>Total</b>	<b>2,674,320</b>	<b>(683,185)</b>	<b>69,813,855</b>	<b>49,116,424</b>	<b>18,682,820</b>	<b>2,014,611</b>	<b>69,604,715</b>

## 11. DERIVATIVES (continued)

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

2011	Fair value	Hedge inception value	Risk	Hedging instrument	Positive fair value	Negative fair value
SAR'000						

### Description of hedged items

Floating rate notes	1,098,000	1,098,000	Cash flow	Special commission rate swaps	24,389	-
Fixed special commission rate loans	506,809	500,000	Fair value	Special commission rate swaps	-	(3,871)

2010	Fair value	Hedge inception value	Risk	Hedging instrument	Positive fair value	Negative fair value
SAR'000						

### 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)

The net gains on the hedging instruments for fair value hedge is SAR 5.90 million (2010: net gain of SAR 1.91 million). The net losses on the hedged item attributable to the hedged risk is SAR 14.34 million (2010: net loss of SAR 22.94 million).



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

SAR'ooo	2011	2010
Balance at beginning of the year	62,727	120,126
Gains/losses from changes in fair value recognised directly in equity	(53,467)	(58,821)
Losses/gains removed from equity and included in net special commission income	(162)	1,422
Balance at end of the year	9,098	62,727

## 12. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

SAR'ooo	2011	2010
Current accounts	722,268	527,820
Money market deposits	5,519,680	10,108,731
Total	6,241,948	10,636,551

Money market deposits include deposits against sales of fixed rate bonds of SAR 1,438 million (2010: SAR 4,136 million) with agreement to repurchase the same at fixed future dates.

## 13. CUSTOMER DEPOSITS

SAR'ooo	2011	2010
Demand	58,123,709	47,939,992
Saving	305,148	285,581
Time	75,615,429	70,081,869
Other	5,778,214	8,638,017
<b>Total</b>	<b>139,822,500</b>	<b>126,945,459</b>

Time deposits include deposits against sales of bonds of SAR 180 million (2010: SAR nil ) with agreement to repurchase the same at fixed future dates. Other customers' deposits include SAR 2,140 million (2010: SAR 1,917 million) of margins held for irrevocable commitments. Time deposits include non-interest based deposits of SAR 29,006 million (2010: SAR 26,241 million).

The above include foreign currency deposits as follows:

SAR'ooo	2011	2010
Demand	2,683,930	1,533,515
Saving	141	141
Time	21,176,343	18,037,118
Other	384,369	187,874
<b>Total</b>	<b>24,244,783</b>	<b>19,758,648</b>

#### 14. BEBT SECURITIES IN ISSUE

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

#### 15. OTHER LIABILITIES

SAR'ooo	2011	2010
Accrued special commission payable		
– banks and other financial institutions	2,479	7,849
– customer deposits	215,999	223,421
– debt securities in issue	-	2,053
<b>Total accrued special commission payable</b>	<b>218,478</b>	<b>233,323</b>
Accounts payable	1,115,204	787,348
Negative fair value of derivatives (note 11)	139,415	683,185
Other*	3,191,490	3,163,623
<b>Total</b>	<b>4,664,587</b>	<b>4,867,479</b>

\*Includes items in transit which are cleared in the normal course of business

## 16. SHARE CAPITAL

The authorised, issued and fully-paid share capital of the Bank consist of 1,500 million shares of SAR 10 each (2010: 1,500 million shares of SAR 10 each).

## 17. STATUTRY 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 787.3 million has been transferred from 2011 net income (2010: SAR 706.2 million). The statutory reserve is not currently available for distribution.

## 18. OTHER RESERVES

2011 SAR'ooo	Cash flow hedges	Available for sale	Total
Balance at beginning of the year	62,727	751,238	813,965
Net change in fair value	(53,467)	(50,573)	(104,040)
Transfer to consolidated income statement	(162)	(174,014)	(174,176)
Net movement during the year	(53,629)	(224,587)	(278,216)
Balance at end of the year	9,098	526,651	535,749

2010 SAR'ooo	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 income statement	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

## 19. COMMITMENTS AND CONTINGENCIES

### a) Legal proceedings

As at December 31, 2011 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, 2011 the Bank had capital commitments of SAR 102.4 million (2010: SAR 178.7 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.

## 19. COMMITMENTS AND CONTINGENCIES (continued)

## c) Credit related commitments and contingencies (continued)

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

2011 SAR'ooo	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	9,680,109	5,105,796	762,713	-	15,548,618
Letters of guarantee	11,534,965	26,480,516	17,260,918	141,800	55,418,199
Acceptances	2,080,936	231,326	38,489	-	2,350,751
Irrevocable commitments to extend credit	1,024,688	539,339	4,434,290	3,227,620	9,225,937
<b>Total</b>	<b>24,320,698</b>	<b>32,356,977</b>	<b>22,496,410</b>	<b>3,369,420</b>	<b>82,543,505</b>

2010 SAR'ooo	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
<b>Total</b>	<b>11,488,242</b>	<b>12,935,107</b>	<b>36,766,620</b>	<b>12,028,858</b>	<b>73,218,827</b>

The outstanding unused portion of non firm commitments as at December 31,2011 which can be revoked unilaterally at any time by the Bank, amounts to SAR 68,638 million (2010: SAR 65,301 million).

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

SAR'ooo	2011	2010
Government and quasi government	1,125,000	1,125,000
Corporate	61,239,859	56,498,211
Banks and other financial institutions	20,178,646	15,595,616
<b>Total</b>	<b>82,543,505</b>	<b>73,218,827</b>

d) **Assets pledged**

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

SAR'ooo	2011		2010	
	Assets	Related liabilities	Assets	Related liabilities
Other investments held at amortised cost and available for sale (note 6,12 and 13)	2,043,860	1,617,991	4,216,499	4,135,748

e) **Operating lease commitments**

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

SAR'ooo	2011	2010
Less than 1 year	14,887	22,400
1 to 5 years	34,969	40,338
Over 5 years	19,484	20,882
<b>Total</b>	<b>69,340</b>	<b>83,620</b>

## 20. SPECIAL COMMISSION INCOME AND EXPENSE

SAR'ooo		2011	2010
Special commission income			
Investments	- Available for sale	362,843	328,004
	- Other investments held at amortised cost	211,105	196,293
	- Held to maturity	91,663	41,004
		665,611	565,301
Due from banks and other financial institutions		78,973	101,512
Loans and advances		4,170,779	4,205,714
Total		4,915,363	4,872,527

SAR'ooo		2011	2010
Special commission expense			
Due to banks and other financial institutions		130,799	94,817
Customer deposits		582,610	623,374
Debt securities in issue		4,920	12,549
Total		718,329	730,740



## 21. FEE AND COMMISSION INCOME, NET

SAR'ooo	2011	2010
Fee and commission income:		
- Share brokerage and fund management	298,183	245,137
- Trade finance and corporate finance and advisory	1,147,384	1,038,509
- Other banking services	506,352	431,693
Total fee and commission income	1,951,919	1,715,339
Fee and commission expense:		
- Banking cards and share brokerage	283,713	230,260
- Other banking services	79,032	66,877
Total fee and commission expense	362,745	297,137
Fee and commission income, net	1,589,174	1,418,202

## 22. STAFF COMPENSATION

The following table summarizes the Bank's employee categories defined in accordance with SAMA's rules on compensation practices and includes the total amounts of fixed and variable compensation paid to employees during the year ended Dec 31, 2011, and the forms of such payments.

Categories	Number of Employees	Fixed compensation	Variable compensation	Total compensation
			SAR'ooo	
Senior executives requiring SAMA no objections	22	26,470	8,032	34,502
Employees engaged in risk taking activities	285	70,916	13,965	84,881
Employees engaged in control functions	475	87,505	7,645	95,150
Outsourced employees	166	11,016	-	11,016
Others	4,308	539,681	72,035	611,716
<b>Total</b>	<b>5,256</b>	<b>735,588</b>	<b>101,677</b>	<b>837,265</b>
Variable Compensation accrued in 2011 and other employee related benefits*		550,322		
Total Salaries and employee-related expenses as per consolidated statement of income		1,285,910		

\*Other employee benefits include; Insurance, Gosi, Relocation Expenses, Recruitment Expenses, Training and Development and Other Employee benefits.

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 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.

### 23. EARNINGS PER SHARE

Basic and diluted earnings per share for the years ended December 31, 2011 and 2010 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 (2010: SAR 1,950 million), resulting in a net dividend to the shareholders of SAR 1.30 per share (2010: SAR 1.30 per share). The gross dividends for 2011 include interim net dividends of SAR 825 million paid for the first half of 2011 (2010: SAR 900 million). Final dividends, net of zakat of SAR 1,125 million have been proposed for 2011 (2010: SAR 1,050 million).

Zakat for the year amounted to approximately SAR 150 million (2010: SAR 71 million).

The Bank has filed its Zakat returns for the years up to and including the financial year 2010 with the Department of Zakat and Income Tax (the "DZIT"). During 2011, the Bank has received Zakat assessments from the DZIT in respect of the years 2008 and 2009 raising an additional Zakat liability. The basis for this additional liability is being contested by all the Banks in Saudi Arabia.

The Bank has formally contested these assessments and is awaiting a response from DZIT. The management believes that the ultimate outcome of the appeals filed and actions taken by the Bank in conjunction with other banks in the Kingdom of Saudi Arabia cannot be determined reliably at this stage.

### 25. CASH AND CASH EQUIVALENTS

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

SAR'ooo	2011	2010
Cash and balances with SAMA excluding statutory deposit (note 4)	10,659,890	17,041,125
Due from banks and other financial institutions maturing within three months from the date of acquisition	3,823,849	3,795,882
<b>Total</b>	<b>14,483,739</b>	<b>20,837,007</b>

## 26. OPERATING SEGMENTS

The Bank determines and presents operating segments based on the information that is provided internally to the chief operating decision maker in order to allocate resources to the segments and to assess its performance. 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, a representative office and an agency. However, the total assets, liabilities, commitments and results of operations of this branch, representative office and agency are not material to the Group's overall consolidated financial statements and as a result have not been separately disclosed. 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.

### 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.

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:

2011	Retail	Investment banking and brokerage	Corporate	Treasury and investment	Other	Total
SAR'ooo						
Total assets	26,678,641	1,579	87,441,546	64,811,268	1,954,356	180,887,390
Total liabilities	44,693,376	50,743	95,219,691	7,614,786	3,150,439	150,729,035
Net special commission income	1,557,531	15,808	1,862,644	(112,207)	873,258	4,197,034
Total operating income	1,930,206	296,875	2,879,297	309,929	904,915	6,321,222
Fee and commission income, net	370,614	283,070	948,298	(12,808)	-	1,589,174
Total operating expenses	1,217,409	132,517	615,222	29,924	1,176,797	3,171,869
Depreciation and amortization	139,219	-	3,583	372	143,048	286,222
Capital expenditure	59,096	-	2,604	159	168,341	230,200
Impairment charge for credit losses, net	248,558	-	413,154	-	-	661,712
Impairment charge for investments, net	-	-	-	-	-	-
Net income (loss)	712,797	164,358	2,264,075	280,005	(271,882)	3,149,353
2010	Retail	Investment banking and brokerage	Corporate	Treasury and investment	Other	Total
SAR'ooo						
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
Net special commission income	1,313,212	938	1,576,441	491,726	759,470	4,141,787
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

## 26. OPERATING SEGMENTS (continued)

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

2011 SAR'ooo	Retail	Corporate	Treasury and investment	Total
Consolidated statement of financial position assets	26,664,872	88,191,409	59,853,456	174,709,737
Commitments and contingencies	-	37,782,543	-	37,782,543
Derivatives	-	-	2,233,444	2,233,444

2010 SAR'ooo	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

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.

## 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 applicable. 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 recurrently, 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 11 and for commitments and contingencies in note 19. 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.

## 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:

2011 SAR'ooo	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other countries	Total
<b>Assets</b>								
Cash and balances with SAMA	17,623,468	-	9	-	-	-	-	17,623,477
Due from banks and other financial institutions	638,526	861,837	3,759,538	696,225	-	88,617	40,280	6,085,023
Investments, net and investment in associates	14,409,394	2,007,276	9,533,992	10,149,642	6,487	390,103	459,230	36,956,124
Loans and advances, net	106,647,687	5,147,379	883,590	248,525	-	-	45,583	112,972,764
<b>Total</b>	<b>139,319,075</b>	<b>8,016,492</b>	<b>14,177,129</b>	<b>11,094,392</b>	<b>6,487</b>	<b>478,720</b>	<b>545,093</b>	<b>173,637,388</b>
<b>Liabilities</b>								
Due to banks and other financial institutions	791,993	1,661,244	1,378,220	1,848,827	-	-	561,664	6,241,948
Customer deposits	137,853,509	1,521,166	447,825	-	-	-	-	139,822,500
Debt securities in issue	-	-	-	-	-	-	-	-
<b>Total</b>	<b>138,645,502</b>	<b>3,182,410</b>	<b>1,826,045</b>	<b>1,848,827</b>	<b>-</b>	<b>-</b>	<b>561,664</b>	<b>146,064,448</b>
<b>Commitments and contingencies</b>	<b>66,438,456</b>	<b>1,177,367</b>	<b>7,969,373</b>	<b>6,942,086</b>	<b>-</b>	<b>15,844</b>	<b>379</b>	<b>82,543,505</b>
<b>Maximum credit exposure (stated at credit equivalent amounts)</b>								
<b>Derivatives</b>	<b>737,475</b>	<b>336,142</b>	<b>1,046,864</b>	<b>112,919</b>	<b>-</b>	<b>-</b>	<b>44</b>	<b>2,233,444</b>
<b>Commitments and contingencies</b>	<b>30,484,008</b>	<b>306,964</b>	<b>3,512,417</b>	<b>3,471,043</b>	<b>-</b>	<b>7,922</b>	<b>189</b>	<b>37,782,543</b>



2010 SAR'ooo	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other countries	Total
<b>Assets</b>								
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
<b>Total</b>	<b>144,704,724</b>	<b>5,213,153</b>	<b>6,195,597</b>	<b>10,818,421</b>	<b>19,325</b>	<b>169,312</b>	<b>603,963</b>	<b>167,724,495</b>
<b>Liabilities</b>								
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
<b>Total</b>	<b>127,175,122</b>	<b>3,708,785</b>	<b>5,900,683</b>	<b>2,061,264</b>	<b>-</b>	<b>-</b>	<b>609,879</b>	<b>139,455,733</b>
<b>Commitments and contingencies</b>	<b>48,705,174</b>	<b>608,842</b>	<b>9,068,632</b>	<b>9,476,739</b>	<b>1,522</b>	<b>276,880</b>	<b>5,081,038</b>	<b>73,218,827</b>
<b>Maximum credit exposure (stated at credit equivalent amounts)</b>								
<b>Derivatives</b>	<b>545,658</b>	<b>170,549</b>	<b>511,914</b>	<b>102,129</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,330,250</b>
<b>Commitments and contingencies</b>	<b>22,853,330</b>	<b>275,929</b>	<b>4,516,084</b>	<b>4,738,071</b>	<b>761</b>	<b>112,731</b>	<b>1,782,374</b>	<b>34,279,280</b>

## 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:

SAR'ooo	Non-performing loans and advances, net		Allowance for credit losses	
	2011	2010	2011	2010
Kingdom of Saudi Arabia	1,879,223	1,813,485	(926,195)	(1,216,004)
<b>Total</b>	<b>1,879,223</b>	<b>1,813,485</b>	<b>(926,195)</b>	<b>(1,216,004)</b>

## 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.

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, 2011 and 2010 using a 1 day holding period at 99% confidence interval is as under. All the figures are in million SAR:

2011	Foreign exchange rate risk	Special commission rate risk	Equity price risk	Overall risk
VaR as at December 31, 2011	1.75	3.20	-	4.04
Average VaR for 2011	1.89	2.52	-	3.29
Maximum VaR for 2011	3.04	10.81	-	11.12
Minimum VaR for 2011	1.17	0.44	-	1.51

2010	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

## 29. MARKET RISK (continued)

### 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, 2011 & 2010, 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, 2011 & 2010 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.

2011	Increase in basis	Sensitivity of special commission income	Sensitivity of equity				Total
Currency			6 months or less	1 year or less	1-5 years	Over 5 years	
SAR	+100	113.18	-	-	-	-	-
USD	+100	(55.06)	2.48	2.40	26.38	215.88	247.14
EUR	+100	69.97	0.22	0.40	7.06	2.97	10.65
GBP	+100	0.20	0.07	-	0.98	1.22	2.27
JPY	+100	5.96	0.07	-	-	-	0.07
Others	+100	(1.16)	0.02	0.09	1.76	1.85	3.72

2011	Decrease in basis	Sensitivity of special commission income	Sensitivity of equity				Total
Currency			6 months or less	1 year or less	1-5 years	Over 5 years	
SAR	-100	(172.45)	-	-	-	-	-
USD	-100	4.25	(2.48)	(2.40)	(26.38)	(215.88)	(247.14)
EUR	-100	(68.93)	(0.22)	(0.40)	(7.06)	(2.97)	(10.65)
GBP	-100	0.37	(0.07)	-	(0.98)	(1.22)	(2.27)
JPY	-100	(3.32)	(0.07)	-	-	-	(0.07)
Others	-100	(2.31)	(0.02)	(0.09)	(1.76)	(1.85)	(3.72)

## 29. MARKET RISK (continued)

## b) Market Risk - Banking Book (continued)

## (i) Special commission rate risk (continued)

2010 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

2010 Currency	Decrease 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	
		(104.10)	-	-	-	-	-
		28.53	(2.51)	(0.96)	(28.53)	(185.82)	(217.82)
SAR	-100	(5.74)	(0.46)	(0.49)	(7.29)	(9.93)	(18.17)
USD	-100	2.24	(0.03)	(0.21)	(0.93)	(1.88)	(3.05)
EUR	-100	(11.00)	-	-	-	-	-
GBP	-100	(5.47)	(0.04)	(0.18)	(2.07)	-	(2.29)
JPY							
Others							

### 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.

## 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.

2011 SAR'ooo	Within 3 months	3-12 months	1-5 years	Over 5 years	Non special commission bearing	Total
<b>Assets</b>						
Cash and balances with SAMA	6,828,000	-	-	-	10,795,477	17,623,477
Due from banks and other financial institutions	5,861,053	153,752	-	-	70,218	6,085,023
Investments, net and investment in associates	13,328,479	8,689,078	5,828,297	5,356,160	3,754,110	36,956,124
Loans and advances, net	46,952,349	23,244,022	33,941,642	8,834,751	-	112,972,764
Other real estate	-	-	-	-	440,896	440,896
Property and equipment, net	-	-	-	-	1,806,833	1,806,833
Other assets	-	-	-	-	5,002,273	5,002,273
<b>Total assets</b>	<b>72,969,881</b>	<b>32,086,852</b>	<b>39,769,939</b>	<b>14,190,911</b>	<b>21,869,807</b>	<b>180,887,390</b>
<b>Liabilities and shareholders' equity</b>						
Due to banks and other financial institutions	5,514,930	4,750	-	-	722,268	6,241,948
Customer deposits	47,400,097	29,837,931	-	-	62,584,472	139,822,500
Other liabilities	-	-	-	-	4,664,587	4,664,587
Shareholders' equity	-	-	-	-	30,158,355	30,158,355
<b>Total liabilities and shareholders' equity</b>	<b>52,915,027</b>	<b>29,842,681</b>	<b>-</b>	<b>-</b>	<b>98,129,682</b>	<b>180,887,390</b>
Special commission rate sensitivity -On statement of financial position gap	20,054,854	2,244,171	39,769,939	14,190,911	(76,259,875)	
Special commission rate sensitivity -Off statement of financial position gap	(553,001)	453,001	100,000	-	-	
<b>Total special commission rate sensitivity gap</b>	<b>19,501,853</b>	<b>2,697,172</b>	<b>39,869,939</b>	<b>14,190,911</b>	<b>(76,259,875)</b>	
<b>Cumulative special commission rate sensitivity gap</b>	<b>19,501,853</b>	<b>22,199,025</b>	<b>62,068,964</b>	<b>76,259,875</b>	<b>-</b>	



2010 SAR'ooo	Within 3 months	3-12 months	1-5 years	Over 5 years	Non special commission bearing	Total
<b>Assets</b>						
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
<b>Total assets</b>	<b>73,066,704</b>	<b>31,257,080</b>	<b>41,500,674</b>	<b>9,637,779</b>	<b>18,094,193</b>	<b>173,556,430</b>
<b>Liabilities and shareholders' equity</b>						
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
Debt securities in issue	1,873,723	-	-	-	-	1,873,723
Other liabilities	-	-	-	-	4,867,479	4,867,479
Shareholders' equity	-	-	-	-	29,233,218	29,233,218
<b>Total liabilities and shareholders' equity</b>	<b>60,989,755</b>	<b>22,268,645</b>	<b>-</b>	<b>-</b>	<b>90,298,030</b>	<b>173,556,430</b>
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	-	-	
<b>Total special commission rate sensitivity gap</b>	<b>13,378,698</b>	<b>7,133,685</b>	<b>42,053,675</b>	<b>9,637,779</b>	<b>(72,203,837)</b>	
<b>Cumulative special commission rate sensitivity gap</b>	<b>13,378,698</b>	<b>20,512,383</b>	<b>62,566,058</b>	<b>72,203,837</b>	<b>-</b>	

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.

## 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, 2011 & 2010 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, 2011	Change in currency rate in %	Effect on net income
USD	+ 1	6.28
EUR	+ 1	1.49
GBP	+ 1	0.09
JPY	+ 1	0.13
Others	+ 1	0.15

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

**(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'ooo	2011	2010
	Long (short)	Long (short)
US Dollar	2,124,911	1,263,249
Japanese	115,919	51,702
Euro	(27,352)	(27,724)
Pound	40,988	13,507
Other	78,349	(20,211)

**(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, 2011		December 31, 2010	
	Change in equity indices %	Effect in SAR millions	Change in equity indices %	Effect in SAR millions
Tadawal	+ 5	50.65	+ 5	27.64
	+ 10	101.30	+ 10	55.27
	- 5	(50.65)	- 5	(27.64)
	- 10	(101.30)	- 10	(55.27)

### 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 the Bank. 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% (2010: 7%) of total demand deposits and 4% (2010: 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 up to 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 2011 and 2010 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:

2011 SAR'ooo	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
<b>Financial liabilities</b>					
Due to banks and other financial institutions	6,241,061	4,758	-	-	6,245,819
Customer deposits	110,341,522	29,191,239	723,293	5,145	140,261,199
Derivative financial instruments(gross contractual amounts payable)	6,278	7,984	4,463	-	18,725
<b>Total undiscounted financial liabilities</b>	<b>116,588,861</b>	<b>29,203,981</b>	<b>727,756</b>	<b>5,145</b>	<b>146,525,743</b>

2010 SAR'ooo	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
<b>Financial liabilities</b>					
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
<b>Total undiscounted financial liabilities</b>	<b>114,263,754</b>	<b>24,988,329</b>	<b>639,648</b>	<b>6,065</b>	<b>139,897,796</b>

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.

### 30. LIQUIDITY RISK (continued)

The maturity profile of the Bank's assets and liabilities is as follows:

2011 SAR'ooo	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
<b>Assets</b>						
Cash and balances with SAMA	10,659,891	-	-	-	6,963,586	17,623,477
Due from banks and other financial institutions	5,931,271	153,752	-	-	-	6,085,023
Investments, net and investment in associates	9,450,160	10,170,904	7,807,473	5,773,477	3,754,110	36,956,124
Loans and advances, net	38,608,394	19,643,165	39,367,470	15,353,735	-	112,972,764
Other real estate	-	-	-	-	440,896	440,896
Property and equipment, net	-	-	-	-	1,806,833	1,806,833
Other assets	3,550,814	-	-	-	1,451,459	5,002,273
<b>Total assets</b>	<b>68,200,530</b>	<b>29,967,821</b>	<b>47,174,943</b>	<b>21,127,212</b>	<b>14,416,884</b>	<b>180,887,390</b>
<b>Liabilities and shareholders' equity</b>						
Due to banks and other financial institutions	6,237,198	4,750	-	-	-	6,241,948
Customer deposits	109,984,569	29,116,356	716,430	5,145	-	139,822,500
Other liabilities	357,893	-	-	-	4,306,694	4,664,587
Shareholders' equity	-	-	-	-	30,158,355	30,158,355
<b>Total liabilities and shareholders' equity</b>	<b>116,579,660</b>	<b>29,121,106</b>	<b>716,430</b>	<b>5,145</b>	<b>34,465,049</b>	<b>180,887,390</b>

2010 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
<b>Assets</b>						
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
<b>Total assets</b>	<b>66,402,842</b>	<b>28,570,313</b>	<b>50,396,163</b>	<b>15,986,770</b>	<b>12,200,342</b>	<b>173,556,430</b>
<b>Liabilities and shareholders' equity</b>						
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
Debt securities in issue	-	1,873,723	-	-	-	1,873,723
Other liabilities	916,508	-	-	-	3,950,971	4,867,479
Shareholders' equity	-	-	-	-	29,233,218	29,233,218
<b>Total liabilities and shareholders' equity</b>	<b>114,829,172</b>	<b>24,914,909</b>	<b>622,095</b>	<b>6,065</b>	<b>33,184,189</b>	<b>173,556,430</b>

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 19 c) (i) of the financial statements.

### 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 market price: financial instruments with quoted prices for identical instruments in active markets.

Level 2: valuation technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

Level 3: valuation technique with significant unobservable inputs: financial instruments valued using valuation techniques where one or more significant inputs are unobservable. Valuations are based on Net Asset Value (NAV) per unit/share as per the as per statement provided by custodian for managed funds or the latest available audited financial statements for entities other than managed funds.

#### Fair value and fair value hierarchy

2011	Level 1	Level 2	Level 3	Total
SAR'ooo				
<b>Financial assets</b>				
Derivative financial instruments	-	2,958,870	-	2,958,870
Financial investments available for sale	12,482,326	978,828	1,748,581	15,209,735
<b>Financial Liabilities</b>				
Derivative financial instruments	-	139,415	-	139,415
2010	Level 1	Level 2	Level 3	Total
SAR'ooo				
<b>Financial assets</b>				
Derivative financial instruments	-	2,674,320	-	2,674,320
Financial investments available for sale	11,022,232	965,398	2,300,789	14,288,419
<b>Financial Liabilities</b>				
Derivative financial instruments	-	683,185	-	683,185

There were no transfer in/out between the fair value hierarchy levels.



Although the Bank believes that its estimates of fair value of Level 3 securities are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. Level 3 consists of local and international unquoted equity securities. Bank uses net assets valuation method based on most recent available audited financial statements to fair value these investments. Other methodology that could be used to value the securities is discount cash flow model based on expected dividend yield for which no data is available. Therefore potential impact of using reasonably possible alternative assumptions for the valuation techniques is not quantified.

SAR'ooo	2011	2010
<b>Reconciliation of movement in Level 3</b>		
Opening balance	2,300,789	1,983,968
Total gains or losses		
- recognised in consolidated income statement	(387)	(1,191)
- recognised in other comprehensive income	(94,330)	164,183
Purchases	-	163,176
Redemption	(139,831)	(9,347)
Classified as associates (refer note 8)	(317,660)	-
<b>Closing balance</b>	<b>1,748,581</b>	<b>2,300,789</b>

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.

### 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'ooo	2011	2010
<b>a) Directors, key management personnel, other major shareholders' and their affiliates:</b>		
Loans and advances	5,057,884	5,149,513
Customer deposits	23,443,098	25,616,748
Derivatives asset(at fair value)	1,494,532	1,367,828
Commitments and contingencies (irrevocable)	3,333,428	3,294,073
Executive end of service	35,651	26,576

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.

SAR'ooo	2011	2010
b) Bank's mutual funds:		
Customers' deposits	1,607,473	2,360,469

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

SAR'ooo	2011	2010
Special commission income	140,974	112,419
Special commission expense	227,053	367,765
Fees from banking services, net	208,066	186,962
Directors and committees remuneration and expenses	4,431	4,425
Executive remuneration and bonus	28,007	21,426
Executive end of service	2,700	2,273
Other expenses	5,248	5,248

### 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.

### 33. CAPITAL ADEQUACY (continued)

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

(unaudited) SAR'ooo	2011		2010	
	Capital	Ratio %	Capital	Ratio %
Top consolidated level				
Tier 1 capital	26,835,624	14.8%	26,248,816	16.0%
Total regulatory capital (Tier 1 + Tier 2)	30,883,950	17.1%	29,986,016	18.3%

SAR'ooo	2011	2010
Risk weighted assets		
Credit risk weighted assets	167,886,678	152,213,239
Operational risk weighted assets	10,791,225	10,212,100
Market risk weighted assets	2,374,267	1,360,097
Total Pillar 1 Risk Weighted Assets	181,052,170	163,785,436

### 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 a monthly 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 are charged to the Bank's consolidated income statement.

### 35. INVESTMENT MANAGEMENT SERVICES

The Bank offers investment management services to its customers, which include management of certain investment funds with assets totaling of SAR 18.9 billion (2010: SAR 21.0 billion).

The Bank's assets under management include non-interest based funds amounting to SAR 5.3 billion (2010: SAR 5.9 billion).

### 36. ISSUED IFRS BUT NOT YET EFFECTIVE

The Bank has chosen not to early adopt the following new/revised standards issued by IASB and is currently assessing their impact:

(i) IAS 27 Separate Financial Statements (2011): revised version of IAS 27 applicable from 1 January 2013 now only deals with the requirements for separate financial statements, which have been carried over largely unamended from IAS 27 Consolidated and Separate Financial Statements. Requirements for consolidated financial statements are now contained in IFRS 10 Consolidated Financial Statements.

(ii) IAS 28 Investments in Associates and Joint Ventures (2011): revised version of IAS 28 applicable from 1 January 2013. The majority of these revisions result from the incorporation of joint ventures into IAS 28 (2011) and the fundamental approach to accounting for equity accounted investments has not changed.

### 36. ISSUED IFRS BUT NOT YET EFFECTIVE (continued)

(iii) IFRS 9 Financial instruments (2010): revised version of IFRS 9 applicable from 1 January 2015. This incorporates revised requirements for the classification and measurement of financial liabilities and carries over the existing derecognition requirements from IAS 39 Financial Instruments: Recognition and Measurement.

(iv) IFRS 10 Consolidated financial statements: IFRS 10 replaces the requirements previously contained in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation - Special Purpose Entities and is applicable from 1 January 2013. The Standard introduces a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e. whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in 'special purpose entities').

(v) IFRS 11 Joint arrangements: IFRS 11 replaces IAS 31 Interests in Joint Ventures and is applicable from 1 January 2013. Requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and then account for those rights and obligations in accordance with that type of joint arrangement.

(vi) IFRS 12 Disclosure of Interests in Other Entities: Requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows and is applicable from 1 January 2013.

(vii) IFRS 13 Fair value measurements: Replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard and is applicable from 1 January 2013. The IFRS defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value and is applicable from 1 January 2013.

The Bank has chosen not to early adopt the following amendments to existing IAS/IFRS issued by IASB and is currently assessing their impact:

- i) Amendments to IAS 1 Presentation of financial statements: amends IAS 1 to revise the way other comprehensive income is presented and is applicable from 1 January 2013.
- ii) Amendments to IFRS 7 Financial Instruments: Disclosure: Amends the disclosure requirements in IFRS 7 to require information about all recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32 and also require disclosure of information about recognised financial instruments subject to enforceable master netting arrangements and agreements even if they are not set off under IAS 32 and is applicable from 1 January 2013.
- iii) Amendments to IAS 32 Financial instruments presentation: Amends IAS 32 to clarify certain aspects relating to requirements on offsetting and is applicable from 1 January 2014.

### 37. COMPARATIVE FIGURES

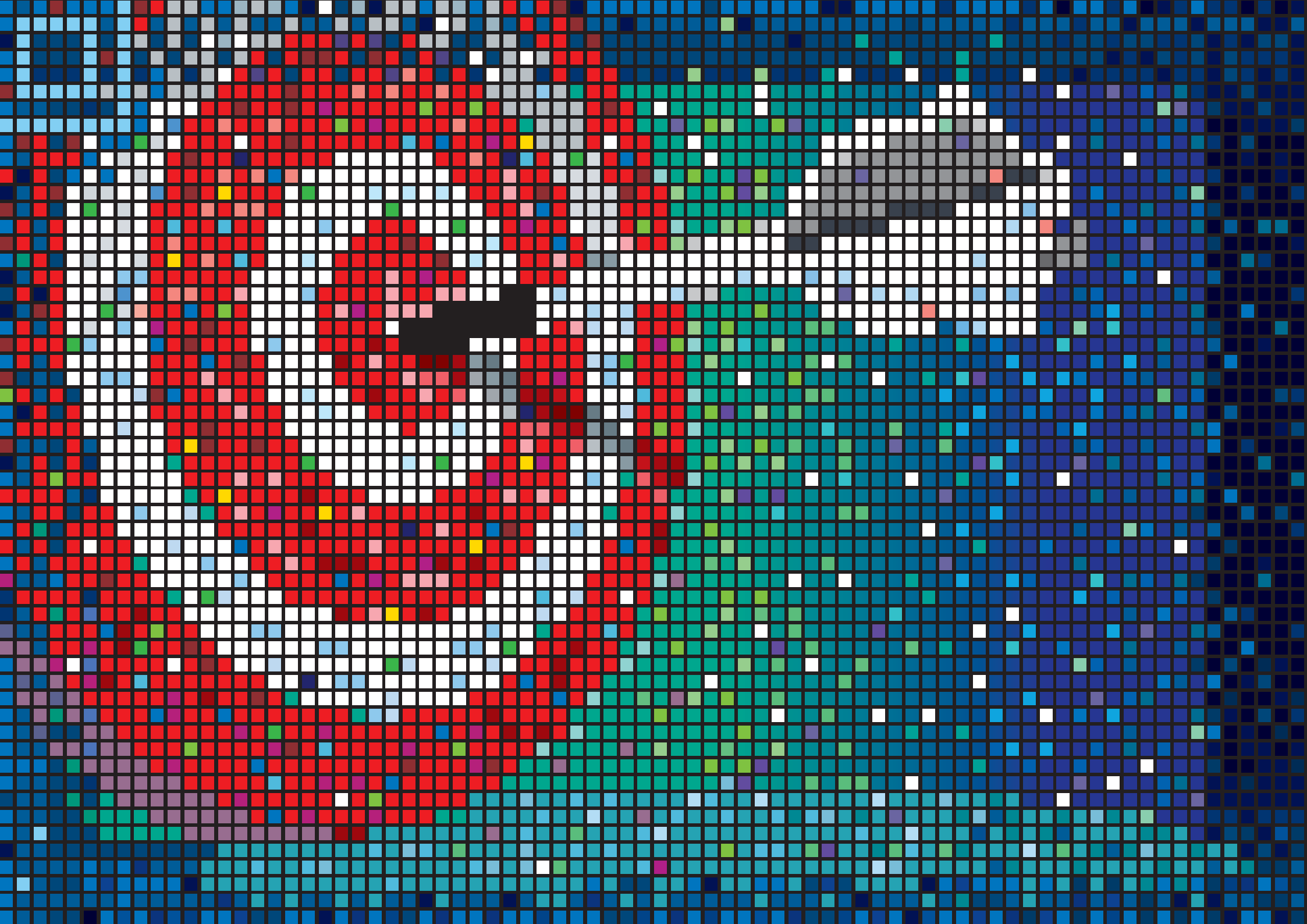
Other than reclassifications required by adoption of the revised IAS 39 (amendments), certain prior year figures have been reclassified to conform with current year presentation.

### 38. BOARD OF DIRECTORS' APPROVAL

The consolidated financial statements were approved by the Board of Directors on 7 Rabi I 1433H (corresponding to 30 January 2012).

### 39. 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](http://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.





## SUMMARY OF PILLAR 3 QUALITATIVE DISCLOSURES

## Summary Of Pillar 3 Qualitative Disclosures

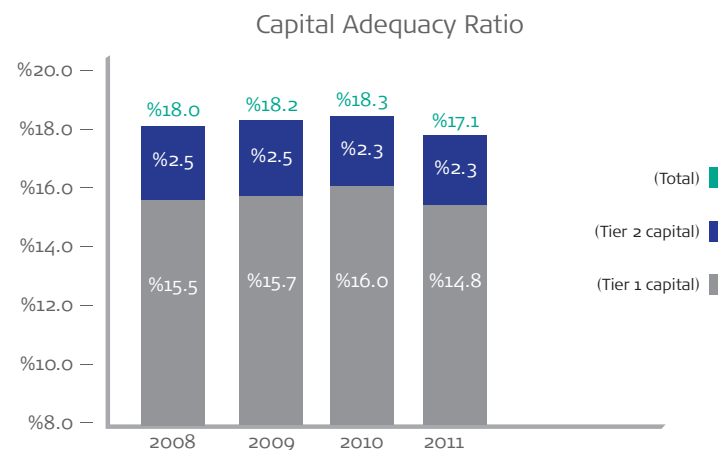
These risk and capital disclosures are consistent with the requirements of the Saudi Arabian Monetary Agency (SAMA) and the Basel II Accord capital adequacy requirements commonly referred to as Pillar 3 Disclosure requirements. This is a summarized version of the full Pillar 3 disclosure document, which 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 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 it submits a forward looking 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 including; Settlement risk, IT risk, Strategic risk, etc.

Under the Pillar 2 Supervisory Review Process (SRP) the Bank's capital position is the total of Pillar 1 and

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.

## Summary Of Pillar 3 Qualitative Disclosures

The Risk Management function at Riyadh Bank is headed by the Chief Risk Officer (CRO) and includes overseeing and management of all aspects of Bank's risk planning, risk modeling, risk measurement and risk methodology development, and implementation of the capital adequacy rules required by SAMA and Basel Committee. The Credit Risk management mandate is exercised through Credit Policy Division, covering all aspects of credit risk, and Risk Management Division that covers Financial and Operational risks.

The Compliance function, including regulatory compliance, is separately performed by the Bank's Compliance Department reporting directly to the Bank's Chairman.

Set out below is a commentary on the major risks and how the Bank manages each risk type:

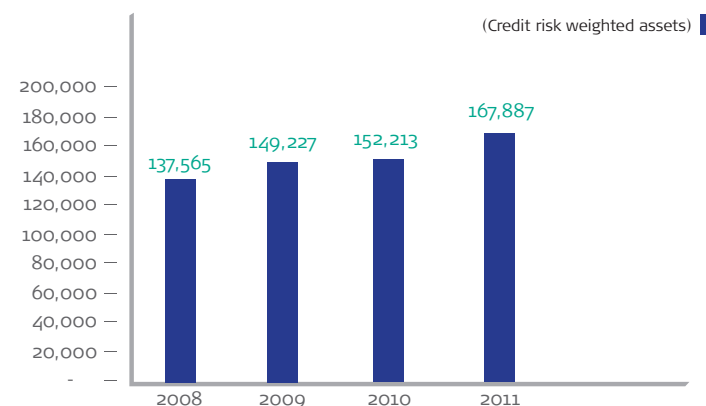
Credit Risk:

## 1- Credit Risk

The Board of Directors has approved a Credit Risk Management (CRM) Framework document. The CRM Framework consists of principles, structures, tools and activities required for managing credit risk at all levels in the Bank.

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, industry and sector credit concentrations.

Credit risk weighted assets - Millions SAR



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.

### Summary Of Pillar 3 Qualitative Disclosures

Credit Policy division 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 Executive 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 personal loans, residential 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.

## Summary Of Pillar 3 Qualitative Disclosures

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.

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.

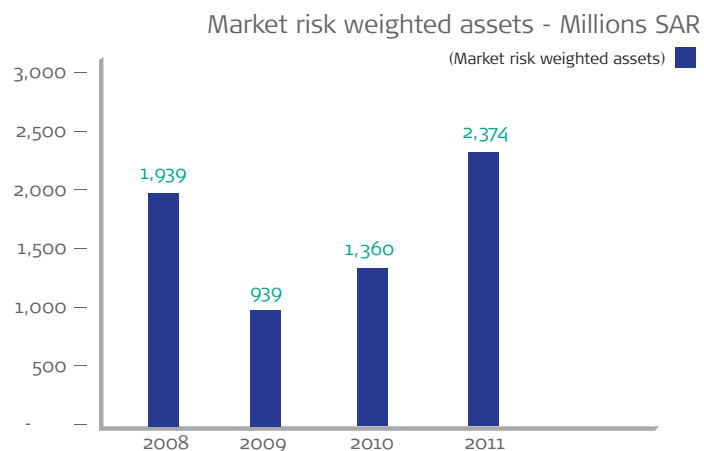
Loans are considered to be in default if the Obligor is past due by more than 90 days, on any material portion of its credit obligations to the Bank (or the banking group of which it is a part).

Provisions are calculated after a review by the Business areas, Credit Policy Division, 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.

## Summary Of Pillar 3 Qualitative Disclosures

## 2- Market Risk

Market risks are the risks related to fluctuations in the Value at Risk (V@R), 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.

## 3- 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.

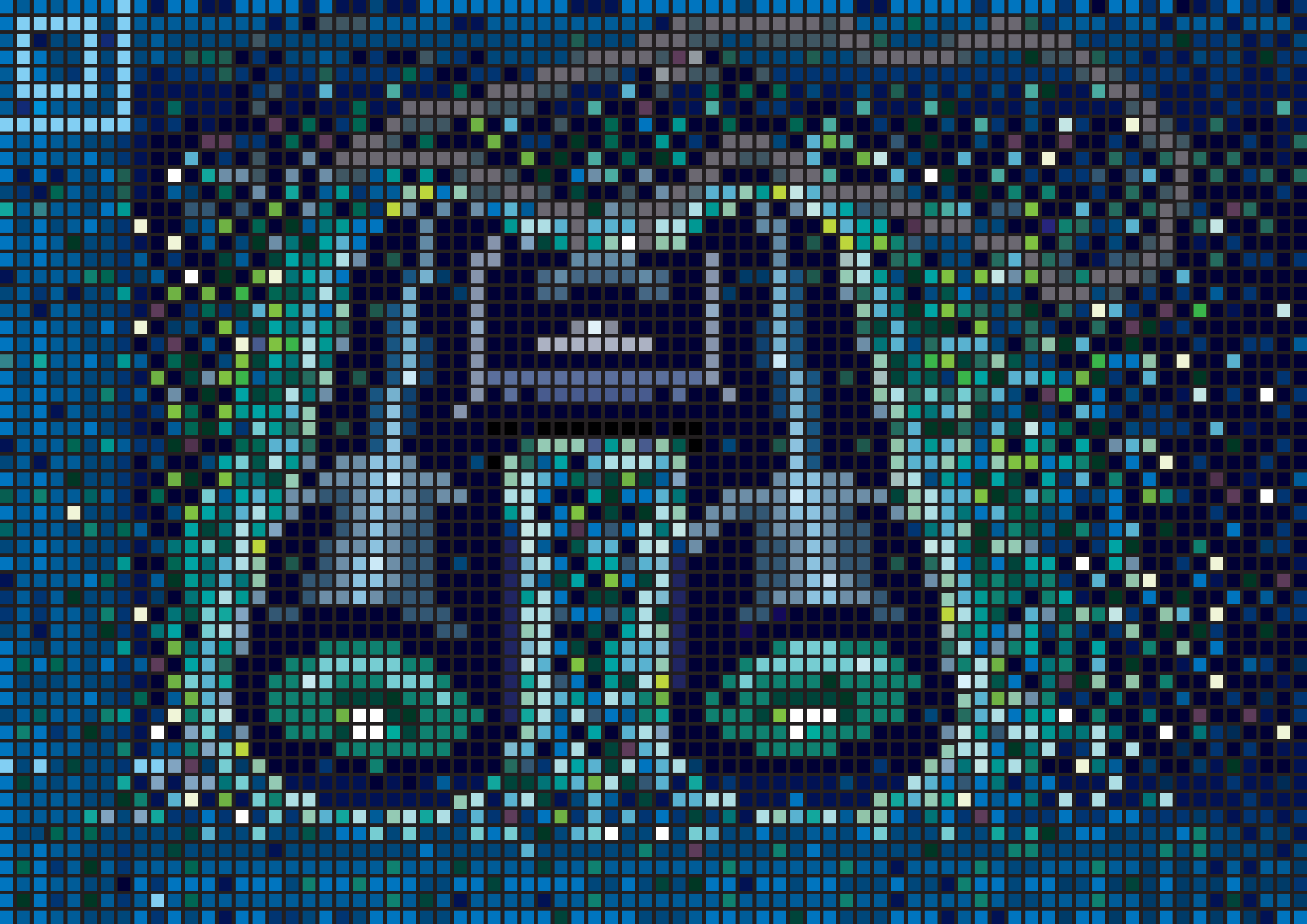
The Bank has developed proactive risk mitigation strategies supported by risk management frameworks, policies and procedures aimed at detecting and controlling risks before they become a threat. A centralized Operational Risk Management Department monitors and manages all operational risk impacts on Riyad Bank and reports to the Operational Risk Management & Compliance Committee (ORMCC) which is chaired by the CEO.

In addition, the Operational Risk practice is also supported by important functions including Fraud Prevention and Anti Money Laundering functional units that assist the Bank in safeguarding it against potential and known fraud and money laundering related events.



#### 4- Other Risks

The Bank follows integrated strategies to manage, monitor and control other risks such as liquidity risk, IT risk, strategic risk, credit concentration risk, interest rate risk in the banking book, macroeconomic and business cycle risk, settlement risk, etc.. Such strategies concentrate on the mitigation of any potential adverse consequences of these risks, and Bank allocates adequate capital to these risk types.





# EXECUTIVE MANAGEMENT

## Executive Management

## Executive Management



Talal I. Al-Qudaibi

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



Adel A. Bin Al-Sheikh

Executive Vice President  
Branches



Saeed S. Al-Siairri

Executive Vice President  
Operations



Ahmed Y. Al-Tayeb

Executive Vice President  
Risk Managment



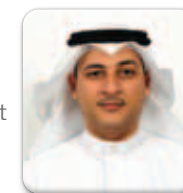
Ossama A. Bukhari

Executive Vice President  
Credit Policy



Adnan S. Al-Joyan

Executive Vice President  
Human Resources



Riyadh O. Al-Zahrani

Executive Vice President  
Operations



Mohamad A. Al-Rabeah

Executive Vice President  
Marketing



Majid A. Al-Gwaiz

Executive Vice President  
Corporate Banking Services



Abdulrahman M. Al-Odan

Executive Vice President  
Information Technology

## Head Office, Regional and Overseas Offices

### Head Office

King Abdul Aziz Road, P.O. Box 22622, Riyadh 11416, Kingdom Of Saudi Arabia

Telephone: (01) 401-3030, Fax: (01) 404-2707, Telex: 407490,

website: [www.riyadbank.com](http://www.riyadbank.com)

### Regional Offices

#### Central Region

King Faisal Road  
P.O. Box 229, Riyadh 11411  
Tel: (01) 411-3333  
Fax: (01) 411-2962

#### Eastern Region

King Saud Street  
P.O. Box 274, Dammam 31411  
Tel: (03) 833-5733  
Fax: (03) 833-6253

#### Western Region

King Fahad Street(steen)  
P.O. Box 9324, Jeddah 21413  
Tel: (02) 651-3333  
Fax: (02) 651-2866

### Overseas Offices

#### London

Riyad Bank London Branch  
Riyad Bank House  
B17 Curzon Street  
London W1J 5HX  
Tel: (20) 783-09000  
Fax: (20) 749-31668  
Swift: RIBLGB2L

#### Houston

Riyad Bank Houston Agency  
440 Louisiana, Suite 1050  
Houston, Texas 77002, U.S.A  
Tel: (713) 331-2001  
Fax Operations dept:  
(713) 331-2043  
Fax Credits/Marketing:  
(713) 331-2045

#### Singapore

Riyad Bank  
Representative Office  
3 Phillip Street  
12-03-Royal Group Blindage  
Singapore 048693  
Tel: (65) 653-64492  
Fax: (65) 653-64493

### Regional Managers

#### Yaser A. Al Babten

Regional Manager,  
Central region

#### Ibrahim Fayez Al Chehri

Regional Manager,  
Eastern Region

#### Hani A. Abul Naja

Regional Manager,  
Western region



[riyadbank.com](http://riyadbank.com)

بنك الرياض  
riyad bank