



THE SAUDI INVESTMENT BANK
(A Saudi joint stock company)

CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS' REPORT

December 31, 2012 and 2011

THE SAUDI INVESTMENT BANK
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As of December 31, 2012 and 2011

	Notes	2012 SAR'000	2011 SAR'000
ASSETS			
Cash and balances with SAMA	4	7,335,643	8,853,171
Due from banks and other financial institutions	5	3,831,774	4,036,817
Investments, net	6	10,911,961	8,893,062
Loans and advances, net	7	34,050,692	27,114,093
Investments in associates	8	965,902	894,672
Property and equipment, net	9	866,896	907,317
Other assets	10	1,103,782	1,246,450
Total assets		59,066,650	51,945,582
LIABILITIES AND EQUITY			
Liabilities			
Due to banks and other financial institutions	12	6,269,045	4,224,172
Customer deposits	13	40,413,571	36,770,492
Other liabilities	14	1,005,208	893,622
Term loans	15	2,000,000	1,500,000
Total liabilities		49,687,824	43,388,286
Equity			
Share capital	16	5,500,000	5,500,000
Statutory reserve	17	2,931,000	2,703,000
Other reserves		(38,992)	(272,767)
Retained earnings		597,979	330,542
Proposed dividends	25	416,600	324,500
Employee stock option shares	36	(27,761)	(27,979)
Total equity		9,378,826	8,557,296
Total liabilities and equity		59,066,650	51,945,582

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

THE SAUDI INVESTMENT BANK
CONSOLIDATED INCOME STATEMENT

For the years ended December 31, 2012 and 2011

	Notes	2012 SAR'000	2011 SAR'000
Special commission income	19	1,590,816	1,549,073
Special commission expense	19	348,883	322,617
Net special commission income		1,241,933	1,226,456
Fee income from banking services, net	20	315,107	310,823
Exchange income, net		37,391	31,147
Dividend income	21	16,281	15,295
Gains on non-trading investments, net	22	20,872	12,243
Gain on sale of property and other income		90,018	19,916
Total operating income		1,721,602	1,615,880
Salaries and employee-related expenses	23	361,831	372,151
Rent and premises-related expenses		82,289	73,051
Depreciation and amortization	9	70,041	64,860
Other general and administrative expenses		117,921	114,114
Impairment charge for credit losses, net	7(b)	255,000	288,000
Impairment charge for non-trading investments, net	6(f)	69,000	85,000
Total operating expenses		956,082	997,176
Income from operating activities		765,520	618,704
Share in earnings of associates	8	146,517	93,073
Net income for the year		912,037	711,777
Income attributable to non controlling interests	1	-	4,171
Net income for the year attributable to equity holders of the Bank		912,037	707,606
Basic and diluted earnings per share, attributable to equity holders of the Bank (expressed in SAR per share)	24	1.66	1.29

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

THE SAUDI INVESTMENT BANK

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the years ended December 31, 2012 and 2011

	<u>Note</u>	<u>2012</u> <u>SAR'000</u>	<u>2011</u> <u>SAR'000</u>
Net income for the year		<u>912,037</u>	<u>711,777</u>
Other comprehensive income / (loss)			
Available for sale investments:			
- Net change in fair value		255,363	(239,198)
- Fair value gain transferred to consolidated income statement on disposal		(20,872)	(12,243)
Share of other comprehensive loss of associates		<u>(716)</u>	<u>(1,906)</u>
Total other comprehensive income / (loss) for the year		<u>233,775</u>	<u>(253,347)</u>
Total comprehensive income for the year		<u>1,145,812</u>	<u>458,430</u>
Attributable to:			
Equity holders of the Bank		1,145,812	454,259
Non controlling interests	1	<u>-</u>	<u>4,171</u>
Total comprehensive income for the year		<u>1,145,812</u>	<u>458,430</u>

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

THE SAUDI INVESTMENT BANK

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the years ended December 31, 2012 and 2011

2012 (SAR'000)								
	Notes	Share capital	Statutory reserve	Other reserves	Retained earnings	Proposed dividends	Employee stock option shares	Total equity
Balance at the beginning of the year		5,500,000	2,703,000	(272,767)	330,542	324,500	(27,979)	8,557,296
Total comprehensive income for the year		-	-	233,775	912,037	-	-	1,145,812
Dividends paid	25	-	-	-	-	(324,500)	-	(324,500)
Proposed dividends	25	-	-	-	(416,600)	416,600	-	-
Employee stock option shares allocated		-	-	-	-	-	(21,294)	(21,294)
Employee stock option shares vested		-	-	-	-	-	21,512	21,512
Transfer to statutory reserve	17	-	228,000	-	(228,000)	-	-	-
Balance at the end of the year		<u>5,500,000</u>	<u>2,931,000</u>	<u>(38,992)</u>	<u>597,979</u>	<u>416,600</u>	<u>(27,761)</u>	<u>9,378,826</u>

2011 (SAR'000)										
Equity attributable to equity holders of the Bank										
		Share capital	Statutory reserve	Other reserves	Retained earnings	Proposed dividends	Employee stock option shares	Total	Non controlling interests	Total equity
	Notes									
Balance at the beginning of the year		4,500,000	2,526,000	(19,420)	1,124,436	-	(27,751)	8,103,265	38,109	8,141,374
Total comprehensive income for the year		-	-	(253,347)	707,606	-	-	454,259	4,171	458,430
Bonus shares issued	24	1,000,000	-	-	(1,000,000)	-	-	-	-	-
Proposed dividends	25	-	-	-	(324,500)	324,500	-	-	-	-
Employee stock option shares allocated		-	-	-	-	-	(16,661)	(16,661)	-	(16,661)
Employee stock option shares vested		-	-	-	-	-	16,433	16,433	-	16,433
Payment to non controlling interests	1	-	-	-	-	-	-	-	(42,280)	(42,280)
Transfer to statutory reserve	17	-	177,000	-	(177,000)	-	-	-	-	-
Balance at the end of the year		5,500,000	2,703,000	(272,767)	330,542	324,500	(27,979)	8,557,296	-	8,557,296

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

THE SAUDI INVESTMENT BANK
CONSOLIDATED STATEMENT OF CASH FLOWS
For the years ended December 31, 2012 and 2011

	Notes	2012 SAR'000	2011 SAR'000
OPERATING ACTIVITIES			
Net income for the year		912,037	711,777
Adjustments to reconcile net income to net cash used in operating activities:			
Accretion of discount on non-trading investments, net		(15,564)	(8,922)
Gain on non-trading investments, net	22	(20,872)	(12,243)
Gain on sale of property		(86,600)	(18,248)
Depreciation and amortization	9	70,041	64,860
Impairment charge for credit losses, net	7(b)	255,000	288,000
Impairment charge for non-trading investments, net	6(f)	69,000	85,000
Share in earnings of associates	8	(146,517)	(93,073)
		1,036,525	1,017,151
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA		(305,623)	(420,728)
Due from banks and other financial institutions maturing after ninety days from acquisition date		(374,638)	(525,362)
Loans and advances		(7,191,599)	3,518,956
Other assets		104,903	(939)
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		2,044,873	(671,841)
Customer deposits		3,643,079	(444,650)
Other liabilities		111,804	154,690
Net cash (used in) / from operating activities		(930,676)	2,627,277
INVESTING ACTIVITIES			
Proceeds from sale of and matured non-trading investments		3,751,517	3,518,360
Purchase of non-trading investments		(5,568,489)	(4,666,692)
Dividends received from associates	8	74,571	61,244
Purchase of property and equipment	9	(29,731)	(61,808)
Proceeds from sale of property		124,476	22,594
Net cash used in investing activities		(1,647,656)	(1,126,302)
FINANCING ACTIVITIES			
Term loan proceeds		1,000,000	1,000,000
Repayment of term loan		(500,000)	-
Dividends paid		(324,500)	-
Payment to non controlling interests	1	-	(42,280)
Net cash from financing activities		175,500	957,720
(Decrease) / Increase in cash and cash equivalents		(2,402,832)	2,458,695

Continued..

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

THE SAUDI INVESTMENT BANK

CONSOLIDATED STATEMENT OF CASH FLOWS - continued

For the years ended December 31, 2012 and 2011

	<u>Notes</u>	<u>2012</u> <u>SAR'000</u>	<u>2011</u> <u>SAR'000</u>
Cash and cash equivalents			
(Decrease) / Increase in cash and cash equivalents		(2,402,832)	2,458,695
Cash and cash equivalents at the beginning of the year		10,903,211	8,444,516
Cash and cash equivalents at the end of the year	26	8,500,379	10,903,211
Supplemental special commission information			
Special commission received during the year		1,590,959	1,626,667
Special commission paid during the year		314,870	302,224
Supplemental non-cash information			
Property and equipment transfer		-	162,517
Other assets acquired in settlement of loans	7(d)	-	80,850
Total other comprehensive income / (loss) for the year		233,775	(253,347)
Employee stock option shares, net of allocation and vesting		218	(228)
Bonus shares issued	24	-	1,000,000
Proposed dividends	25	416,600	324,500

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

THE SAUDI INVESTMENT BANK

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2012 and 2011

1. General

The Saudi Investment Bank (the Bank), a Saudi Joint Stock Company, was formed pursuant to Royal Decree No. M/31 dated 25 Jumada II 1396H, corresponding to June 23, 1976 in the Kingdom of Saudi Arabia. The Bank operates under Commercial Registration No. 1010011570 dated 25 Rabie Awwal 1397H, corresponding to March 16, 1977 through its 48 branches (2011: 48 branches) in the Kingdom of Saudi Arabia. The address of the Bank's Head Office is as follows:

The Saudi Investment Bank
Head Office
P. O. Box 3533
Riyadh 11481, Kingdom of Saudi Arabia

The objective of the Bank is to provide a full range of banking 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.

The consolidated financial statements include the financial statements of the Bank and the following subsidiaries: (collectively referred to as the "Group").

- a) "Alistithmar for Financial Securities and Brokerage Company", a limited liability company, registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010235995 issued on 8 Rajab 1428H (corresponding to July 22, 2007), and is 100% owned by the Bank after the Bank acquired the prior 1% ownership of the representative Saudi Shareholder in 2012;
- b) "SAIB BNP Paribas Asset Management Company", a limited liability company, registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010240312 issued on 4 Thu Al Qada 1428H (corresponding to November 14, 2007), and is 55% owned by the Bank with the remaining 45% by Saudi and Foreign shareholders (in liquidation – see paragraph below for further details); and
- c) "Saudi Investment Real Estate Company", a limited liability company, registered in the Kingdom of Saudi Arabia under commercial registration No. 1010268297 issued on 29 Jumada Awal 1430H (corresponding to May 25, 2009) and is owned 99% by the Bank with the remaining 1% owned by a representative Saudi Shareholder. The company has not commenced any significant operations.

On September 25, 2011, The Capital Market Authority ("CMA") approved a request submitted by Alistithmar for Financial Services and Brokerage Company (Alistithmar) to acquire the net assets of SAIB BNP Paribas Asset Management Company (AMCO). The CMA also approved Alistithmar's request to amend Alistithmar's business profile to include all licensed activities (Dealing, Managing, Arranging, Advising, and Custody). The Business Transfer Agreement between Alistithmar and the AMCO shareholders was completed in December 2011 and the net assets were acquired by Alistithmar on December 31, 2011 for approximately SAR 104.7 million. The estimated fair value of the net assets acquired was approximately SAR 92.8 million.

2. Basis of preparation

a) Statement of compliance

These 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) issued by the International Accounting Standards Board (IASB). The Bank also prepares its consolidated financial statements to comply with the requirements of the Banking Control Law, the provisions of the 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 basis except for the following items in the consolidated statement of financial position.

- a) Assets and liabilities held for trading are measured at fair value;

THE SAUDI INVESTMENT BANK

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2012 and 2011

2. Basis of preparation – continued

- b) Financial instruments designated as fair value through the consolidated income statement are measured at fair value;
- c) Available for sale investments are measured at fair value;
- d) Recognized financial assets and financial liabilities designated as hedged items in qualifying fair value hedge relationships are adjusted for changes in fair value attributable to the risk being hedged; and
- e) Liabilities for cash-settled share-based payment arrangements are measured at fair value.

During the years ended December 31, 2012 and 2011, the Group had no assets or liabilities which were held as trading, except for certain derivative financial instruments, and had no financial instruments that were designated as fair value through the consolidated income statement.

c) Functional and presentation currency

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

d) Critical accounting judgements, estimates and assumptions

The preparation of the consolidated 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 advice and expectations of future events that are believed to be reasonable under the circumstances. Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

(i) Impairment for credit losses on loans and advances

The Bank reviews its loan portfolios to assess specific and collective impairment at each reporting date. In determining whether an impairment loss should be recorded, the Bank makes judgements as to whether there is any observable data indicating an impairment trigger and followed by 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 future 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. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. Models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable market data. However, areas such as credit risk (both own and counter party), and volatilities and correlations require management to make estimates. The judgements include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates, and default rate assumptions for asset backed securities. Changes in assumptions about these factors could affect reported fair values of financial instruments.

THE SAUDI INVESTMENT BANK

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2012 and 2011

2. Basis of preparation – continued

(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

In accordance with the guidance of IAS 39, the Bank classifies 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.

e) Going concern

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

3. Summary of significant accounting policies

The significant accounting policies adopted in the preparation of these consolidated financial statements are set out below. Except for the change in accounting policies as detailed in note 3 (a) below, the accounting policies adopted in the preparation of these consolidated financial statements are consistent with those used in the previous year.

a) Change in accounting policies

The accounting policies adopted are consistent with those of the annual financial statements for the year ended December 31, 2011, as described in the annual financial statements for the year ended December 31, 2011, except for the adoption of the amendment to "IFRS 7 – Financial instruments disclosures - transfers of financial assets" as detailed below which has had no significant impact on the consolidated financial statements of the Group.

The amendment to IFRS 7 is effective from July 1, 2011 and requires additional disclosures with respect to risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount, and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's consolidated statement of financial position. Disclosures are also required to enable a user to understand the amount of any associated liabilities and the relationship between financial assets and associated liabilities.

THE SAUDI INVESTMENT BANK

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2012 and 2011

3. Summary of significant accounting policies – continued

b) Basis of consolidation

These consolidated financial statements comprise the financial statements of The Saudi Investment Bank and its subsidiaries, Alistithmar for Financial Securities and Brokerage Company, SAIB BNP Paribas Asset Management Company, and Saudi Investment Real Estate Company. The financial statements of the subsidiaries are prepared for the same reporting year as that of the Bank, using consistent accounting policies. Changes are made to the accounting policies of the subsidiaries when necessary to align with the accounting policies of the Group.

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

The consolidated financial statements have been prepared using uniform accounting policies and valuation methods for like transactions and other events in similar circumstances.

Non-controlling interests represent the portion of net income / (loss) and net assets not owned, directly or indirectly, by the Bank in SAIB BNP Paribas Asset Management Company and are presented separately in the consolidated income statement and within equity in the consolidated statement of financial position, separately from the Bank's shareholders' equity. Any losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Acquisitions of non-controlling interests are accounted for using the Bank extension method, whereby, the difference between the consideration and the fair value of the share of the net assets acquired is recognised as goodwill. The Group elects on a transaction-by-transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognised amount of the identifiable net assets, at the acquisition date.

The Group manages assets held in investment entities on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the Group controls the entity.

Material inter-group balances and any material income and expenses arising from inter-group transactions, are eliminated in preparing these consolidated financial statements.

c) Investments in associates

Investments in associates are initially recognised at cost and subsequently accounted for under the equity method of accounting. Associates are enterprises in which the Bank generally holds approximately 20% to 50% of the voting power or over which it has significant influence and which is neither a subsidiary nor a joint venture.

Investments in associates are carried in the consolidated statement of financial position at cost, plus post-acquisition changes in the Bank's share of the net assets of the associates, less any impairment. Share in earnings of associates include the changes in the Bank's share of the net assets of the associates.

3. Summary of significant accounting policies – continued

d) Settlement date accounting

All regular-way purchases and sales of financial assets are recognized and derecognized on the settlement date, i.e. the date the asset is delivered to the counterparty. When settlement date accounting is applied, the Bank accounts for any change in fair value between the trade date and the settlement date in the same way as it accounts for the acquired asset. Regular-way purchases or sales, are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

e) Derivative financial instruments and hedge accounting

Derivative financial instruments, including foreign exchange contracts, commission rate futures, forward rate agreements, currency and commission rate swaps, currency and commission rate 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 the consolidated income statement and disclosed in trading income. Derivatives held for trading also include those derivatives which do not qualify for hedge accounting including embedded derivatives.

(ii) Embedded derivatives

Derivatives embedded in other financial instruments are treated as separate derivatives and are recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at estimated net fair value with changes in fair value recognised in the consolidated income statement.

(iii) Hedge accounting

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

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 assets or liabilities in the case of portfolio hedging), 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 are either attributable to a particular risk associated with a recognised asset or liability or to a highly probable forecasted transaction that will affect the reported net gain or loss.

In order to qualify for hedge accounting, the hedge should be expected to be highly effective, i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item, and should be reliably measurable. At inception of the hedge, the risk management objective and strategy are documented including the identification of the hedging instrument, the related hedged item, the nature of the 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.

3. Summary of significant accounting policies – continued

iii (a) Fair Value Hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognized asset or liability or a firm commitment that could affect the consolidated income statement, any gain or loss from re-measuring the hedging instruments to fair value is recognised immediately in the consolidated income statement together with the change in the fair value of the hedged item attributable to the hedged risk.

For hedged items measured at amortised cost, where the fair value hedge of a 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 interest rate method. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated income statement.

iii (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 the consolidated 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 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 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.

When the hedging instrument is expired or sold, terminated or exercised, or no longer qualifies for hedge accounting, or the transaction is no longer expected to occur or the Bank revokes the designation, 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 transaction is no longer expected to occur, the net cumulative gain or loss recognised in other comprehensive income is transferred to the consolidated statement of income.

f) Foreign currencies

Transactions in foreign currencies are translated into Saudi Arabian Riyals at the exchange rates prevailing at transaction dates. Monetary assets and liabilities at year-end, denominated in foreign currencies, are translated into Saudi Arabian Riyals at the exchange rates prevailing at the consolidated statement of financial position date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year. All differences arising on non-trading activities are taken to other non operating income in the consolidated income statement, with the exception of differences of foreign currency borrowings that provide an effective hedge against a net investment in foreign entity. 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 the retranslation of available for sale equity instruments. 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 other comprehensive income depending on the underlying financial asset.

3. Summary of significant accounting policies – continued

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of 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.

g) Offsetting financial instruments

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

h) Revenue / expense recognition

Special commission income and expense - Special commission income and expense for all special commission-bearing financial instruments, are recognised in the consolidated income statement on the effective yield basis. The effective yield is the rate that 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 interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The carrying amount of a 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 rate applied to the new carrying amount.

The calculation of the effective yield takes into account all contractual terms of the financial instruments (prepayment, options etc.) and includes all fees and points paid or 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 a financial asset or liability.

Exchange income / Loss - Exchange income/loss is recognised when earned/incurred.

Fee income from Banking services that are not an integral component of the effective yield calculation on a financial asset or liability are generally recognised on an accrual basis when the related service is provided. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportionate basis. Fees received on asset management, custody services and other similar services that are provided over an extended period of time, are recognized over the period when the service is being provided. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period. Other fees and commission expense relate mainly to transaction and service fees, and are recognised as expenses as the services are received.

Dividend income - Dividend income is recognised when the right to receive payment is established.

Net trading income - Results arising from trading activities include all gains and losses from changes in fair value and related special commission income or expense and dividends for financial assets and financial liabilities held for trading and foreign exchange differences. This includes any ineffectiveness recorded in hedging transactions.

THE SAUDI INVESTMENT BANK

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2012 and 2011

3. Summary of significant accounting policies – continued

i) Repurchase agreements and reverse repurchase agreements

Underlying assets sold with a simultaneous commitment to repurchase at a specified future date (repurchase agreements) continue to be recognized in the consolidated statement of financial position and are measured in accordance with related accounting policies for investments held as available for sale. The counter-party liability for amounts received under these agreements is included in "Due to banks and other financial institutions" or "Customer deposits", as appropriate. The difference between the sale and repurchase price is treated as special commission expense and accrued over the life of the repurchase agreement on an effective yield basis.

Underlying assets purchased with a corresponding commitment to resell at a specified future date (reverse repurchase agreements) are not recognised in the consolidated statement of financial position, as the Bank does not obtain control over the underlying assets. Amounts paid under these agreements are included in "Cash and balances with SAMA". The difference between the purchase and resale price 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 recorded at fair value, including any incremental direct transaction cost. Premiums are amortized and discounts are 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 consolidated statement of financial position 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. 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 initial recognition, subsequent transfers between the various classes of investments are permissible only if certain conditions are met. The subsequent period-end reporting values for each class of investment are determined on the basis as set out in the following paragraphs.

(i) Available for sale

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 in other comprehensive income. On de-recognition, any cumulative gain or loss previously recognized in other comprehensive income is included in the consolidated income statement.

THE SAUDI INVESTMENT BANK

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2012 and 2011

3. Summary of significant accounting policies – continued

Special commission income is recognised in the consolidated income statement on an effective yield basis. Dividend income is recognised in the consolidated income statement when the right to receive payment is established. Foreign exchange gains or losses on available for sale debt security investments are recognised in the consolidated income statement.

A security held as available for sale may be reclassified to “other investments held at amortized cost” if it otherwise would have met the definition of “other investments held at amortized cost” and if the Group has the intention and ability to hold that financial asset for the foreseeable future or until maturity.

(ii) Held to maturity

Investments having fixed or determinable payments and a fixed maturity and for which the Bank has a 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.

However, sales or reclassifications in any of the following circumstances would not impact the Group’s ability to use this classification:

- Sales or reclassifications that are so close to maturity that the changes in market rate of commission would not have a significant effect on the fair value;
- Sales or reclassifications after the Group has collected substantially all of the assets original principal; and
- Sales or reclassifications attributable to non-recurring isolated events beyond the Group’s control that could not have been reasonably anticipated.

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 recognized when cash is advanced to borrowers. They are derecognized 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 acquisition charges associated with the loans and advances.

Loans and advances originated or acquired by the Bank that are not quoted in an active market and for which fair value has not been hedged, are stated at amortized cost less any amount written off and allowance for credit losses.

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 may be impaired at the reporting date. 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 amount.

3. Summary of significant accounting policies – continued

When a financial asset is uncollectible, it is written off against the related provision for impairment either directly by a charge to the consolidated income statement or through a provision for impairment 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 recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the consolidated income statement and included in the relevant impairment charges.

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

(i) Impairment of financial assets held at amortized cost

A financial asset or group of financial assets are classified as impaired when there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset or group of financial assets and where a loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

A specific provision for credit losses due to impairment of a loan or any other financial asset held at amortized 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.

In addition to specific provisions for credit losses, provisions for collective impairment are made on a portfolio basis. The collective impairment provisions are estimated based on various factors including credit ratings allocated to a borrower or group of borrowers, the experience the Bank has had in dealing with a borrower or group of borrowers and available historical default information. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions.

For financial assets at amortised cost, the carrying amount of the asset is adjusted either directly or through the use of an allowance account and the amount of the adjustment is included in the consolidated income statement.

(ii) Impairment of available for sale financial assets

For debt instruments classified as available for sale, the Bank assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized 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 a credit event occurring after the impairment loss was recognized in the consolidated income statement, the impairment loss is reversed and recognised in the consolidated income statement.

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For the years ended December 31, 2012 and 2011

3. Summary of significant accounting policies – continued

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 the consolidated income statement as long as the asset continues to be recognized i.e. any increase in fair value after impairment has been recorded can only be recognized in other comprehensive income. On derecognition, any cumulative gain or loss previously recognized in other comprehensive income is included in the consolidated income statement.

m) Impairment of non-financial assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating units (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining an asset's fair value less costs to sell, an appropriate valuation model is used. These model calculations are corroborated by valuation multiples, or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indications exist, the Bank estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversals are recognised in the consolidated income statement.

Impairment losses relating to goodwill are not reversed in future periods.

n) Other real estate

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

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 recognized together with any gain/ loss on disposal in the consolidated income statement.

o) Property and equipment

Property and equipment is 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	20 years
Leasehold improvements	Over the lease period or 5 years, whichever is shorter
Furniture, equipment and vehicles	4 to 5 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 amounts. These are included in the consolidated income statement.

THE SAUDI INVESTMENT BANK

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2012 and 2011

3. Summary of significant accounting policies – continued

p) Financial liabilities

All money market deposits, customer deposits, term loans, and other debt securities in issue are initially recognized at fair value less transaction costs.

Subsequently all commission-bearing financial liabilities other than those where fair values have been hedged are measured at amortised cost. Amortized cost is calculated by taking into account any discount or premium. Premiums are amortized 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 resulting gain or loss is recognized in the consolidated income statement. For financial liabilities carried at amortized cost, any gain or loss is recognized in the consolidated income statement when derecognized.

q) Financial guarantees

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

r) Provisions

Provisions are recognized 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.

s) Accounting for leases

Leases entered into by the Bank as a lessee, are all 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 recognized as an expense in the period in which termination takes place.

t) Cash and cash equivalents

For the purpose of the statement of cash flows, "cash and cash equivalents" are defined as those amounts included in cash and balances with SAMA excluding statutory deposits, and due from banks and other financial institutions with a maturity of ninety days or less from the date of acquisition.

u) 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 derecognized, when the contractual rights to receive the cash flows from the financial asset expires.

THE SAUDI INVESTMENT BANK

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2012 and 2011

3. Summary of significant accounting policies – continued

In instances where the Bank is assessed to have transferred a financial asset, the asset is derecognized 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 derecognized only if the Bank has not retained control of the financial asset. The Bank recognizes separately as assets or liabilities any rights and obligations created or retained in the process.

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

v) Zakat and income taxes

Zakat and income taxes are considered as liabilities of the Saudi and foreign shareholders, respectively. Zakat is computed on the Saudi shareholders' share of equity or net income using the basis defined under the Zakat regulations. Income taxes are computed on the foreign shareholders share of adjusted net income for the year under the income tax regulations.

Zakat and income tax are not charged to the Bank's consolidated income statement and are deducted from dividends paid to the shareholders, or reimbursed by the shareholders.

w) Employees' incentive plans

The Bank offers to its eligible employees ("Employees") equity shares in the Bank under an Employee Stock Grant Plan ("the Plan"). This Plan has been approved by SAMA. Under the terms of the plan, employees are granted shares which vest over a four-year period. The cost of the Plan is measured by the value of the shares on the date purchased and recognised over the period in which the service condition is fulfilled using an appropriate valuation model, and ending on the vesting date. Employee share option shares are recorded by the Bank at cost and are presented as a deduction from the equity as adjusted for any transaction costs, dividends and gains or losses on sales of such shares. The Bank has entered into a custody agreement with an independent third party to administer the Plan on behalf of its employees. Under the provisions of the agreement, the Bank, at no point, becomes the legal owner of the underlying shares.

In addition, the Bank grants to its eligible employees other types of security and savings plans that are based on mutual contributions by the Bank and the employees. These contributions are paid to the participating employees at the respective maturity date of each plan.

x) Asset management services

The Bank offers asset management services to its customers, through a subsidiary, which include management of certain investment funds in consultation with professional investment advisors. The Bank's share of these funds is included in available for sale investments and fees earned are included in fees from banking services, net.

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.

THE SAUDI INVESTMENT BANK

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2012 and 2011

3. Summary of significant accounting policies – continued

y) Non-interest based banking products

In addition to conventional banking, the Bank offers to its customers certain non-interest based banking products, which are approved by its Shariah Board.

High level definitions of non-interest based products include:

(i) Murabaha - an agreement whereby the Bank sells to a customer a commodity or an asset, which the Bank has purchased and acquired based on a promise received from the customer to buy. The selling price comprises the cost plus an agreed profit margin.

(ii) Istisna'a - an agreement between the Bank and a customer whereby the Bank sells to the customer a developed asset according to agreed upon specifications, for an agreed upon price.

(iii) Ijarah - an agreement whereby the Bank, acting as a lessor, purchases or constructs an asset for lease according to the customer request (lessee), based on his promise to lease the asset for an agreed rent and specific period that could end by transferring the ownership of the leased asset to the lessee.

All non-special interest based banking products are accounted for in conformity with the accounting policies described in these consolidated financial statements.

4. Cash and balances with SAMA

Cash and balances with SAMA are summarized as follows:

	2012 SAR'000	2011 SAR'000
Cash in hand	615,605	472,756
Statutory deposit	1,767,038	1,461,415
Reverse repurchase agreements	4,953,000	6,919,000
Total	7,335,643	8,853,171

In accordance with the Banking Control Law and regulations issued by SAMA, the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its demand, savings, time and other deposits, calculated at the end of each month. The statutory deposits with SAMA are 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

Due from banks and other financial institutions are summarized as follows:

	2012 SAR'000	2011 SAR'000
Current accounts	133,379	89,114
Money market placements	3,698,395	3,947,703
Total	3,831,774	4,036,817

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2012 and 2011

6. Investments, net

a) Investment securities are classified as follows:

i) Available for sale

	2012 (SAR'000)			2011 (SAR'000)		
	Domestic	International	Total	Domestic	International	Total
Fixed rate securities	821,381	4,956,263	5,777,644	1,258,373	2,002,744	3,261,117
Floating rate securities	1,061,657	2,574,162	3,635,819	1,474,173	2,628,364	4,102,537
Equities	443,576	8,629	452,205	462,324	8,628	470,952
Mutual funds	214,365	24,838	239,203	163,832	22,211	186,043
Allowance for impairment	-	(112,600)	(112,600)	-	(109,000)	(109,000)
Available for sale, net	<u>2,540,979</u>	<u>7,451,292</u>	<u>9,992,271</u>	<u>3,358,702</u>	<u>4,552,947</u>	<u>7,911,649</u>

ii) Held to maturity

	2012 (SAR'000)			2011 (SAR'000)		
	Domestic	International	Total	Domestic	International	Total
Fixed rate securities	50,000	405,090	455,090	50,000	409,413	459,413
Floating rate securities	650,000	-	650,000	650,000	-	650,000
Allowance for impairment	-	(185,400)	(185,400)	-	(128,000)	(128,000)
Held to maturity, net	<u>700,000</u>	<u>219,690</u>	<u>919,690</u>	<u>700,000</u>	<u>281,413</u>	<u>981,413</u>

iii) Investments, net

	2012 (SAR'000)			2011 (SAR'000)		
	Domestic	International	Total	Domestic	International	Total
Fixed rate securities	871,381	5,361,353	6,232,734	1,308,373	2,412,157	3,720,530
Floating rate securities	1,711,657	2,574,162	4,285,819	2,124,173	2,628,364	4,752,537
Equities	443,576	8,629	452,205	462,324	8,628	470,952
Mutual funds	214,365	24,838	239,203	163,832	22,211	186,043
Allowance for impairment	-	(298,000)	(298,000)	-	(237,000)	(237,000)
			10,911,96			
Investments, net	<u>3,240,979</u>	<u>7,670,982</u>	<u>1</u>	<u>4,058,702</u>	<u>4,834,360</u>	<u>8,893,062</u>

The available for sale domestic fixed rate securities and available for sale floating rate securities include no receivable securitization agreements (2011: SAR 16 million) entered into by the Bank. Upon initial recognition, these items were designated as available for sale. Their fair values are determined using an appropriate pricing model.

Investments include SAR 4,344 million (2011: SAR 3,590 million), which have been pledged under repurchase agreements with other banks. The market value of such investments is SAR 4,486 million (2011: SAR 3,522 million).

THE SAUDI INVESTMENT BANK

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2012 and 2011

6. Investments, net – continued

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

i) Available for sale

	2012 (SAR'000)			2011 (SAR'000)		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Fixed rate securities	5,224,652	552,992	5,777,644	2,102,734	1,158,383	3,261,117
Floating rate securities	2,315,726	1,320,093	3,635,819	3,421,866	680,671	4,102,537
Equities	441,076	11,129	452,205	459,824	11,128	470,952
Mutual funds	239,203	-	239,203	186,043	-	186,043
Allowance for impairment	(18,875)	(93,725)	(112,600)	(109,000)	-	(109,000)
Available for sale, net	<u>8,201,782</u>	<u>1,790,489</u>	<u>9,992,271</u>	<u>6,061,467</u>	<u>1,850,182</u>	<u>7,911,649</u>

ii) Held to maturity

	2012 (SAR'000)			2011 (SAR'000)		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Fixed rate securities	198,889	256,201	455,090	253,231	206,182	459,413
Floating rate securities	650,000	-	650,000	650,000	-	650,000
Allowance for impairment	-	(185,400)	(185,400)	-	(128,000)	(128,000)
Held to maturity, net	<u>848,889</u>	<u>70,801</u>	<u>919,690</u>	<u>903,231</u>	<u>78,182</u>	<u>981,413</u>

iii) Investments, net

	2012 (SAR'000)			2011 (SAR'000)		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Fixed rate securities	5,423,541	809,193	6,232,734	2,355,965	1,364,565	3,720,530
Floating rate securities	2,965,726	1,320,093	4,285,819	4,071,866	680,671	4,752,537
Equities	441,076	11,129	452,205	459,824	11,128	470,952
Mutual funds	239,203	-	239,203	186,043	-	186,043
Allowance for impairment	(18,875)	(279,125)	(298,000)	(109,000)	(128,000)	(237,000)
Investments, net	<u>9,050,671</u>	<u>1,861,290</u>	<u>10,911,961</u>	<u>6,964,698</u>	<u>1,928,364</u>	<u>8,893,062</u>

The unquoted securities above are principally comprised of Saudi Government Development Bonds (SGDBs) and certain Saudi Corporate Bonds. Equities reported under available for sale investments include unquoted shares of SAR 11.1 million (2011: SAR 11.1 million) that are carried at cost, as their fair value cannot be reliably measured.

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For the years ended December 31, 2012 and 2011

6. Investments, net – continued

c) The analysis of unrealized gains and losses and fair values of held to maturity investments is as follows:

	2012 (SAR'000)				2011 (SAR'000)			
	Carrying Value	Gross Unrealized gains	Gross Unrealized losses	Fair Value	Carrying Value	Gross Unrealized gains	Gross Unrealized losses	Fair Value
Fixed rate securities	269,690	18,556	18,642	269,604	331,413	21,790	76,949	276,254
Floating rate securities	650,000	325	-	650,325	650,000	14,625	-	664,625
Total	<u>919,690</u>	<u>18,881</u>	<u>18,642</u>	<u>919,929</u>	<u>981,413</u>	<u>36,415</u>	<u>76,949</u>	<u>940,879</u>

d) The analysis of investments, net by counterparty is as follows:

	2012 SAR'000	2011 SAR'000
Government and quasi-Government	1,376,045	1,998,377
Corporate	6,063,568	2,942,222
Banks and other financial institutions	3,472,348	3,952,463
Total	<u>10,911,961</u>	<u>8,893,062</u>

e) The credit risk exposure of investments is as follows:

	2012 SAR'000	2011 SAR'000
Investment grade	9,239,270	7,485,491
Non investment grade	276,476	144,077
Unrated	1,396,215	1,263,494
Total	<u>10,911,961</u>	<u>8,893,062</u>

f) The movement of allowance for impairment on investments is as follows:

	2012 SAR'000	2011 SAR'000
Balance at the beginning of the year	237,000	160,000
Provided during the year	69,000	85,000
Amounts written - off during the year	(8,000)	(8,000)
Balance at the end of the year	<u>298,000</u>	<u>237,000</u>

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For the years ended December 31, 2012 and 2011

7. Loans and advances, net

a) Loans and advances, net held at amortized cost are comprised of the following:

	2012 (SAR'000)				
	Overdraft	Consumer	Commercial	Others	Total
Performing loans and advances	3,881,863	6,178,170	24,300,368	56,433	34,416,834
Non performing loans and advances	410,707	39,639	-	-	450,346
Total loans and advances	4,292,570	6,217,809	24,300,368	56,433	34,867,180
Allowance for credit losses	(352,288)	(72,562)	(391,638)	-	(816,488)
Loans and advances, net	3,940,282	6,145,247	23,908,730	56,433	34,050,692

	2011 (SAR'000)				
	Overdraft	Consumer	Commercial	Others	Total
Performing loans and advances	2,749,566	5,392,887	19,391,476	23,548	27,557,477
Non performing loans and advances	1,769,355	32,861	-	-	1,802,216
Total loans and advances	4,518,921	5,425,748	19,391,476	23,548	29,359,693
Allowance for credit losses	(1,526,308)	(58,335)	(660,957)	-	(2,245,600)
Loans and advances, net	2,992,613	5,367,413	18,730,519	23,548	27,114,093

Loans and advances above include non-interest based banking products in respect of Murabaha agreements, Istisna'a and Ijarah which are stated at amortized cost of SAR 15,146 million (2011: SAR 11,491 million).

b) The movement in the allowance for credit losses is as follows:

	2012 (SAR'000)			
	Overdraft	Consumer	Commercial	Total
Balance at the beginning of the year	1,526,308	58,335	660,957	2,245,600
Provided / (reversed) during the year	233,711	44,696	(23,407)	255,000
Bad debts written off	(1,407,731)	(37,755)	(245,912)	(1,691,398)
Recoveries of amounts previously written off	-	7,286	-	7,286
Balance at the end of the year	352,288	72,562	391,638	816,488

	2011 (SAR'000)			
	Overdraft	Consumer	Commercial	Total
Balance at the beginning of the year	1,538,174	43,065	396,245	1,977,484
Provided / (reversed) during the year	(11,866)	35,154	264,712	288,000
Bad debts written off	-	(26,363)	-	(26,363)
Recoveries of amounts previously written off	-	6,479	-	6,479
Balance at the end of the year	1,526,308	58,335	660,957	2,245,600

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For the years ended December 31, 2012 and 2011

7. Loans and advances, net – continued

c) The credit quality of loans and advances is summarized as follows:

(i) Neither past due nor impaired loans and advances:

	2012 SAR'000	2011 SAR'000
Excellent	649,054	453,209
Strong	12,112,855	9,436,502
Average	8,996,429	5,167,973
Acceptable	5,363,146	5,478,069
Marginal	693,624	1,016,835
Watch	44,015	56,419
Unrated	6,113,006	5,340,444
Total	33,972,129	26,949,451

The loans and advances that are neither past due nor impaired are described as follows:

Excellent - leader in a stable industry. Better than peers' financials and cash flow. Access to financial markets under normal market conditions.

Strong - strong market and financial position with a history of successful performance but certain exceptions exist. Financial fundamentals are still better than industry benchmarks. The entity would have access to financial markets under normal conditions.

Average - moderate degree of stability with industry or company specific risk factors. Financial fundamentals are sound within industry benchmarks. Access to financial markets is limited and the entity is susceptible to cyclical changes.

Acceptable - minor weaknesses in industry or company specific risk factors. Some financial fundamentals are inferior to industry benchmarks. Alternative financing could be available but this might be limited to private and institutional sources only.

Marginal - unfavorable industry or company specific risk factors exist. Operating performance and financials are marginal. Alternative sources of finance are unlikely. No new business can be contemplated with this category.

Watch - unfavorable industry or company specific risk factors exist. Risk of non-payment is high. Financial fundamentals are well below industry benchmarks and alternative sources of finance are extremely limited.

Unrated – unrated loans and advances consists of consumer loans with no past due balances.

(ii) Past due but not impaired loans and advances:

	2012 (SAR'000)		
	Overdraft and commercial	Consumer	Total
From 1 day to 30 days	173,184	12,216	185,400
From 31 days to 90 days	9,807	11,232	21,039
From 91 days to 180 days	29,215	36,827	66,042
More than 180 days	169,413	2,811	172,224
Total	381,619	63,086	444,705

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7. Loans and advances, net – continued

	2011 (SAR'000)		
	Overdraft and commercial	Consumer	Total
From 1 day to 30 days	694	13,474	14,168
From 31 days to 90 days	3,481	5,983	9,464
From 91 days to 180 days	2,756	13,562	16,318
More than 180 days	548,778	19,298	568,076
Total	555,709	52,317	608,026

- (iii) The economic sector risk concentrations for loans and advances and allowance for credit losses are as follows:

	2012 (SAR'000)		
	Performing	Non performing	Loans and advances, net
Government and quasi-Government	374,484	-	370,739
Banks and other financial services	1,314,467	-	1,301,322
Agriculture and fishing	20,417	-	20,213
Manufacturing	4,332,764	31,216	4,265,952
Mining and quarrying	496,890	-	491,921
Building and construction	2,859,837	250	2,831,062
Commerce	10,772,057	2,918	10,661,709
Transportation and communication	51,481	-	50,966
Services	1,503,846	11,871	1,473,317
Consumer loans	6,178,170	39,639	6,145,247
Other	6,512,421	364,452	6,438,244
Total	34,416,834	450,346	34,050,692

	2011 (SAR'000)		
	Performing	Non performing	Loans and advances, net
Government and quasi-Government	86,922	-	86,053
Banks and other financial services	1,361,174	-	1,347,562
Manufacturing	2,348,882	31,216	2,321,832
Mining and quarrying	260,573	-	257,967
Building and construction	1,721,833	250	1,704,598
Commerce	7,502,298	1,642,230	7,232,526
Electricity, water, gas and health services	200,424	-	198,420
Transportation and communication	59,473	-	58,878
Services	3,309,976	18,894	3,266,200
Consumer loans	5,392,887	32,861	5,367,413
Other	5,313,035	76,765	5,272,644
Total	27,557,477	1,802,216	27,114,093

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For the years ended December 31, 2012 and 2011

7. Loans and advances, net – continued

d) Repossessed assets previously held as collateral is summarized as follows:

In 2011, the Bank acquired a parcel of land for approximately SAR 80.9 million in settlement of a credit exposure.

8) Investments in associates

Investments in associates represent the Bank's share of investments in entities where the Bank has significant influence. These investments are accounted for using the equity method of accounting.

(i) Investments in associates include the Bank's ownership interest in associated companies in the Kingdom of Saudi Arabia, as follows:

	<u>2012</u>	<u>2011</u>
Amex (Saudi Arabia) Limited ("AMEX")	50%	50%
Saudi Orix Leasing Company ("ORIX")	38%	38%
Amlak International for Finance and Real Estate Development Co. ("AMLAK")	32%	29%
Mediterranean & Gulf Insurance & Reinsurance Co. – KSA ("MEDGULF")	19%	19%

The Bank also has a 20% interest in Naeem Investment Company which has no operations.

(ii) The movement of investments in associates is summarized as follows:

	<u>2012</u> <u>SAR'000</u>	<u>2011</u> <u>SAR'000</u>
Balance at beginning of the year	894,672	864,749
Share of income and loss, net	146,517	93,073
Dividends	(74,571)	(61,244)
Share of other comprehensive loss	(716)	(1,906)
Balance at end of the year	<u>965,902</u>	<u>894,672</u>

The shares of Medgulf are traded on the Saudi Stock exchange. As of December 31, 2012, the market value of the Bank's 19% investment in Medgulf is approximately SAR 428.6 million (2011: 425.6 million).

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For the years ended December 31, 2012 and 2011

8. Investment in associates - continued

(iii) The Bank's share of the associates' financial statements is summarized below:

	2012 (SAR'000)			
	MEDGULF	AMEX	ORIX	AMLAK
Total assets	218,661	151,827	622,650	435,942
Total liabilities	15,296	77,406	440,628	132,707
Total equity	203,365	74,421	182,022	303,235
Total income	18,175	139,233	69,093	30,973
Total expenses	596	87,083	33,549	14,944

	2011 (SAR'000)			
	MEDGULF	AMEX	ORIX	AMLAK
Total assets	211,888	117,594	471,580	293,409
Total liabilities	9,764	59,700	314,929	44,978
Total equity	202,124	57,894	156,651	248,431
Total income	30,818	117,459	57,732	20,189
Total expenses	542	77,876	27,593	18,307

9. Property and equipment, net

Property and equipment, net is summarized as follows:

	2012 and 2011 (SAR'000)				
	Land and buildings	Leasehold improvements	Furniture, equipment and vehicles	Total 2012	Total 2011
<u>Cost</u>					
Balance at beginning of the year	918,028	49,415	351,130	1,318,573	1,094,794
Additions	171	4,595	24,965	29,731	228,850
Disposals	-	-	(3,001)	(3,001)	(5,071)
Balance at end of the year	918,199	54,010	373,094	1,345,303	1,318,573
<u>Accumulated depreciation</u>					
Balance at beginning of the year	108,013	36,594	266,649	411,256	346,942
Charge for the year	33,717	4,608	31,716	70,041	64,860
Disposals	-	-	(2,890)	(2,890)	(546)
Balance at end of the year	141,730	41,202	295,475	478,407	411,256
<u>Net book value</u>					
As of December 31, 2012	776,469	12,808	77,619	866,896	
As of December 31, 2011	810,015	12,821	84,481		907,317

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10. Other assets

Other assets are summarized as follows:

	2012 SAR'000	2011 SAR'000
Accrued special commission receivable:		
- Loans and advances	326,925	359,634
- Investments	78,301	39,913
- Banks and other financial institutions	3,327	3,213
Total accrued special commission receivable	408,553	402,760
Positive fair value of derivatives (note 11)	79,695	137,301
Zakat and income tax due from shareholders (note 25)	110,188	110,910
Other real estate	152,836	178,121
Customer receivables	129,124	232,696
Property and equipment pending completion	78,243	56,843
All other assets	145,143	127,819
Total	1,103,782	1,246,450

11. Derivatives

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

a) Swaps

Swaps are commitments to exchange one set of cash flows for another. For commission rate swaps, counterparties generally exchange fixed and floating rate commission payments in a single currency without exchanging principal. For cross-currency commission rate 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 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 commission rate contracts that call for a cash settlement for the difference between a contracted 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.

The derivative financial instruments utilized are either held for trading or held for hedging purposes as described below:

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2012 and 2011

11. Derivatives – continued

a) 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 favorable movements in prices, rates or indices. Arbitrage involves identifying, with the expectation of profiting from price differentials, between markets or products.

b) Held for hedging purposes

The Bank has adopted a comprehensive system for the measurement and management of risk. The risk management process involves managing the Bank's exposure to fluctuations in currency and commission rate risks to acceptable levels as determined by the Board of Directors and 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 routinely monitored and hedging strategies are used to ensure positions are maintained within the established limits. The Board of Directors has established the level of commission rate risk by setting limits on commission rate gaps for stipulated periods. Asset and liability commission rate gaps are reviewed on a periodic basis and hedging strategies are periodically used to reduce 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 commission rate risks. This is generally achieved by hedging specific transactions.

The Bank uses forward foreign exchange contracts to hedge against specifically identified currency risks. In addition, the Bank uses commission rate swaps to hedge against the commission rate risk arising from specifically identified fixed commission-rate exposures.

The tables below summarize the positive and negative fair values of derivative financial instruments, together with the 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 necessarily 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.

The Bank has a put option arising from an existing master agreement entered into by the Bank relating to an associated company. The terms of the agreement give the Bank a put option that is exercisable from 2013 onwards for the remaining term of the agreement. The put option grants the Bank the right to receive a payment in exchange for its shares one year after the option, based on pre-determined formulas included in the agreement. As of December 31, 2012, the estimated fair value of this option is approximately SAR 14 million and has not been included in the table below.

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For the years ended December 31, 2012 and 2011

11. Derivatives – continued

c) Derivative financial instruments are summarized as follows:

	Notional amounts by term to maturity							
	2012 (SAR'000)							
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading:								
Forward foreign exchange contracts	7,617	1,250	1,979,794	1,761,672	218,122	-	-	1,290,452
Foreign exchange options	2,542	2,274	513,002	417,920	75,029	20,003	50	216,737
Commission rates swaps	28,138	42,668	730,000	-	-	730,000	-	648,796
Held as fair value hedges:								
Commission rate swaps	41,398	96,156	2,546,093	-	-	2,452,328	93,765	2,262,869
Total	79,695	142,348	5,768,889	2,179,592	293,151	3,202,331	93,815	4,418,854

	Notional amounts by term to maturity							
	2011 (SAR'000)							
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading:								
Forward foreign exchange contracts	13,822	1,612	1,229,741	865,479	364,195	17	50	1,103,672
Foreign exchange options	7,784	5,205	291,552	194,368	97,184	-	-	116,946
Commission rates swaps	19,241	24,637	160,000	-	-	160,000	-	93,808
Held as fair value hedges:								
Commission rate swaps	96,454	127,946	2,489,640	-	-	2,009,608	480,032	1,253,188
Total	137,301	159,400	4,170,933	1,059,847	461,379	2,169,625	480,082	2,567,614

The losses on hedging instruments for fair value hedges were SAR 21.8 million (2011: losses of SAR 38.3 million). The gains on hedged items attributable to hedged risk were SAR 51.6 million (2011: gains of SAR 30.0 million).

The net negative fair value of all derivatives is approximately SAR 62.7 million (2011: SAR negative 22.1 million).

Approximately 95% (2011: 85%) of the positive fair value of the Bank's derivatives are entered into with financial institutions, and less than 76% (2011: 76%) of the positive fair value contracts are with any single counterparty at the consolidated statement of financial position date. Derivative activities are mainly carried out under the Bank's treasury segment.

12. Due to banks and other financial institutions

Due to banks and other financial institutions is summarized as follows:

	2012 SAR'000	2011 SAR'000
Current accounts	49,607	34,244
Repurchase agreements	4,066,459	3,037,420
Money market deposits	2,152,979	1,152,508
Total	6,269,045	4,224,172

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13. Customer deposits

Customer deposits are summarized as follows:

	2012 SAR'000	2011 SAR'000
Demand	9,517,589	7,394,013
Savings	558,128	929,547
Time	29,868,401	24,221,198
Other	469,453	4,225,734
Total	40,413,571	36,770,492

Time deposits include deposits against sale of securities of SAR Nil million (2011: SAR 400 million) with agreements to repurchase the same at fixed future dates. Other customer deposits include SAR 273 million (2011: SAR 247 million) of margins held for irrevocable commitments.

The above amounts include foreign currency deposits (equivalent to Saudi Riyals) as follows:

	2012 SAR'000	2011 SAR'000
Demand	379,528	263,871
Savings	104,382	64,498
Time	6,835,356	3,241,058
Other	86,996	2,125,115
Total	7,406,262	5,694,542

14. Other liabilities

Other liabilities are summarized as follows:

	2012 SAR'000	2011 SAR'000
Accrued special commission payable		
– Banks and other financial institutions	5,822	9,347
– Customer deposits	125,077	90,224
Total accrued special commission payable	130,899	99,571
Negative fair value of derivatives (note 11)	142,348	159,400
End of service and other employee - related benefits	340,497	299,556
Accrued expenses and other reserves	184,678	221,272
Deferred special commission and fee income	148,556	48,192
All other liabilities	58,230	65,631
Total	1,005,208	893,622

15. Term loans

On April 7, 2009, the Bank entered into a three-year term loan facility agreement for an amount of SAR 500 million for general corporate purposes. The facility was repaid in April 2012.

On May 30, 2011, the Bank entered into a five-year medium term loan facility agreement for an amount of SAR 1 billion for general corporate purposes. The facility has been fully utilized and is repayable in May 2016. On June 24, 2012, the Bank entered into a five-year medium term loan facility agreement for an amount of SAR 1 billion for general corporate purposes. The facility has been fully utilized and is repayable in September 2017.

The term loans bear commission at variable rates. The Bank has an option to effect early repayment of the term loans subject to the terms and conditions of the related agreements. The agreements above include covenants which require maintenance of certain financial ratios and other requirements, with which the Bank is in compliance as of December 31, 2012.

THE SAUDI INVESTMENT BANK

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16. Share capital

The authorized, issued and fully paid share capital of the Bank consists of 550 million shares of SAR 10 each. The ownership of the Bank's share capital is as follows:

	2012		2011	
	SAR'000	%	SAR'000	%
Saudi shareholders	4,950,000	90.0	4,950,000	90.0
Foreign shareholders:				
J.P. Morgan International Finance Limited	412,500	7.5	412,500	7.5
Mizuho Corporate Bank Limited	137,500	2.5	137,500	2.5
	<u>5,500,000</u>	<u>100.0</u>	<u>5,500,000</u>	<u>100.0</u>

17. Statutory reserve

In accordance with Saudi Arabian Banking Control Law and the Articles of Association of the Bank, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid up capital of the Bank. Accordingly, SAR 228 million has been transferred from 2012 net income (2011: SAR 177 million). The statutory reserve is not available for distribution.

18. Commitments and contingencies

a) Legal proceedings

As of December 31, 2012 there were routine legal proceedings outstanding against the Bank. No provision has been made in most cases as professional legal advice indicates that it is not probable that any significant loss will arise. However, a provision has been made for certain specific cases where management foresees the possibility of an adverse outcome.

b) Capital commitments

As of December 31, 2012, the Bank had capital commitments of SAR 1.6 million (2011: SAR 11.3 million) in respect of construction for new branches and expansion of its head office.

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.

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18. Commitments and contingencies - continued

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.

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

	2012 (SAR'000)				Total
	Within 3 months	3-12 months	1-5 years	Over 5 years	
Letters of credit	1,043,538	236,670	304,856	-	1,585,064
Letters of guarantee	1,523,001	2,381,142	1,623,587	1,831	5,529,561
Acceptances	325,714	68,589	3,452	-	397,755
Irrevocable commitments to extend credit	-	-	-	282,682	282,682
Total	<u>2,892,253</u>	<u>2,686,401</u>	<u>1,931,895</u>	<u>284,513</u>	<u>7,795,062</u>

	2011 (SAR'000)				Total
	Within 3 months	3-12 months	1-5 years	Over 5 years	
Letters of credit	1,055,960	420,931	8,965	-	1,485,856
Letters of guarantee	741,683	2,126,123	1,487,124	2,939	4,357,869
Acceptances	312,733	181,300	1,478	-	495,511
Irrevocable commitments to extend credit	-	360	63,277	46,802	110,439
Total	<u>2,110,376</u>	<u>2,728,714</u>	<u>1,560,844</u>	<u>49,741</u>	<u>6,449,675</u>

The outstanding unused portion of commitments as of December 31, 2012 which can be revoked unilaterally at any time by the Bank, amounts to SAR 17,158 million (2011: SAR 13,549 million).

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

	2012 SAR'000	2011 SAR'000
Government and quasi-Government	4,601,680	3,589,240
Corporate	2,913,305	2,674,755
Banks and other financial institutions	193,437	107,350
Other	86,640	78,330
Total	<u>7,795,062</u>	<u>6,449,675</u>

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18. Commitments and contingencies – continued

d) Assets pledged

Securities pledged under repurchase agreements with other banks include corporate, Bank and non-government bonds.

Assets pledged as collateral with other financial institutions for security are as follows:

	2012 (SAR'000)		2011 (SAR'000)	
	Related		Related	
	Assets	Liabilities	Assets	Liabilities
Available for sale investments	4,137,377	3,861,443	3,383,620	2,837,039
Held to maturity investments	206,124	205,016	206,000	200,381
Total	4,343,501	4,066,459	3,589,620	3,037,420

The pledged assets presented in the above table are those financial assets that may be repledged or resold by counter parties to whom they have been transferred. These transactions are conducted under terms that are usual and customary to standard securities borrowing and lending activities, as well as requirements determined by exchanges on which the Bank acts as an intermediary.

e) Operating lease commitments

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

	2012 SAR'000	2011 SAR'000
Less than 1 year	27,349	25,293
1 to 5 years	74,386	64,943
Over 5 years	18,906	18,927
Total	120,641	109,163

19. Special commission income and expense

Special commission income and expense is summarized as follows:

	2012 SAR'000	2011 SAR'000
Special commission income:		
Available for sale investments	215,701	150,075
Held to maturity investments	31,057	38,000
Total investments	246,758	188,075
Loans and advances	1,282,257	1,326,686
Due from banks and other financial institutions	61,801	34,312
Total	1,590,816	1,549,073
Special commission expense:		
Customer deposits	276,538	252,145
Due to banks and other financial institutions	46,266	53,452
Term loans	26,079	17,020
Total	348,883	322,617

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20. Fee income from banking services, net

Fee income from banking services, net is summarized as follows:

	2012 SAR'000	2011 SAR'000
Fee income:		
- Share trading and fund management	94,499	78,291
- Trade finance	73,586	64,617
- Corporate and retail finance	128,356	134,975
- Other banking services	40,358	47,732
Total fee income	<u>336,799</u>	<u>325,615</u>
Fee expense:		
- Custodial services	21,247	14,336
- Other banking services	445	456
Total fee expense	<u>21,692</u>	<u>14,792</u>
Fee income from banking services, net	<u><u>315,107</u></u>	<u><u>310,823</u></u>

21. Dividend income

Dividend income is summarized as follows:

	2012 SAR'000	2011 SAR'000
Dividends received from available for sale investments	<u><u>16,281</u></u>	<u><u>15,295</u></u>

22. Gains on non-trading investments, net

Gains on non-trading investments, net are summarized as follows:

	2012 SAR'000	2011 SAR'000
Gains	20,624	16,992
Impairment recoveries	8,000	8,000
Losses	<u>(7,752)</u>	<u>(12,749)</u>
	<u><u>20,872</u></u>	<u><u>12,243</u></u>

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23. Compensation and related governance and practices

As required by SAMA, the following table summarizes the Bank's employee categories defined in accordance with SAMA's rules on compensation practices. It includes the total amounts of fixed and variable compensation paid to employees, and the forms of such payments, and also includes the variable and other compensation accrued, and other employee benefits and related expenses incurred during the years ended December 31, 2012 and 2011.

<u>Category</u>	<u>Number of Employees</u>	2012 (SAR'000)			
		<u>Fixed Compensation</u>	<u>Variable Compensation</u>		
			<u>Cash</u>	<u>Shares</u>	<u>Total</u>
Senior executives requiring SAMA no objection	15	31,080	9,545	2,470	12,015
Employees engaged in risk taking activities	92	38,999	6,663	1,566	8,229
Employees engaged in control functions	151	32,218	6,289	1,062	7,351
Other employees	906	142,477	20,840	3,189	24,029
Outsourced employees	89	10,398	1,729	129	1,858
Totals	1,253	255,172	45,066	8,416	53,482

Variable and other compensation accrued	63,588
Other employee benefits and related expenses	43,071
Total salaries and employee related expenses	361,831

<u>Category</u>	<u>Number of Employees</u>	2011 (SAR'000)			
		<u>Fixed Compensation</u>	<u>Variable Compensation</u>		
			<u>Cash</u>	<u>Shares</u>	<u>Total</u>
Senior executives requiring SAMA no objection	16	29,903	9,653	1,955	11,608
Employees engaged in risk taking activities	77	32,320	7,265	957	8,222
Employees engaged in control functions	130	28,349	7,851	697	8,548
Other employees	775	123,113	28,758	1,885	30,643
Outsourced employees	73	7,937	2,232	67	2,299
Totals	1,071	221,622	55,759	5,561	61,320

Variable and other compensation accrued	61,687
Other employee benefits and related expenses	88,842
Total salaries and employee related expenses	372,151

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For the years ended December 31, 2012 and 2011

23. Compensation and related governance and practices - continued

The Board of Directors of the Bank has established a Nomination and Remuneration Committee (the Committee) which is comprised of four board members. The Committee is primarily responsible for recommending appointments to membership of the Board of Directors and key executives of the Bank in compliance with the Bank's Corporate Governance Guidelines, completing annual reviews for the requirements of suitable skills and independence for membership of the Bank's Board of Directors, reviewing the structure of the Board of Directors, establishing policies for the compensation and remuneration of members of the Board of Directors, and overseeing the Bank's employee compensation system's design.

The Committee is also responsible to recommend to the Board of Directors the approval of the Bank's Compensation Policy and any amendments thereto, to ensure the Bank's remuneration policies are in compliance with SAMA guidelines on compensation, to periodically review the Bank's remuneration and compensation policy, to evaluate practices by which compensation is paid, and to determine the performance bonuses for the Bank's employees based on the risk adjusted profit of the Bank.

The Bank's Remuneration and Compensation Policy is designed to attract, retain and motivate high potential employees. Employees participate in various variable pay arrangements. Discretionary variable pay as well as fixed pay reviews are dependent on the achievement of objectives. The Balanced Scorecard concept is used and objectives have typically been categorized into four segments including financial, customer, process, and people.

Financial and non-financial metrics are then used to measure performance against the objectives, which include profitability, expense control, customer satisfaction, employee development, lending guidelines, internal controls, and procedures. Effective risk management is also emphasized to maintain a strong and secure operating platform. A Risk Appetite Policy has been established and compliance thereto is key to all remuneration decisions including variable pay arrangements.

In addition to the above, the Bank's employees are encouraged to participate in employee share savings and incentive schemes. Certain employees are also covered under a Key Employee Stock Option Grant Plan.

The Bank's subsidiaries have adopted a similar approach to remuneration and compensation practices as described above, including policies within a framework of prudent risk management.

The total amount of compensation paid to key management for the year ended December 31, 2012 was SAR 43.1 million (2011: SAR 41.5 million). The post employment benefits accrued or paid to key management for the year ended December 31, 2012 was SAR 5.8 million (2011: SAR 2.6 million).

24. Basic and diluted earnings per share

Basic and diluted earnings per share for the years ended December 31, 2012 and 2011 is calculated by dividing the net income for the year attributable to the equity holders of the Bank by 550.0 million shares (see Note 16).

During 2010, the Board of Directors proposed a bonus share issue of 100,000,000 shares of SAR 10 per share, or one bonus share for each four and one-half shares outstanding. The Bonus share issue was approved at the shareholders' extraordinary general assembly meeting held on Rabi'II 21, 1432H (corresponding to March 26, 2011). Accordingly, the total number of issued and outstanding shares increased in 2011 to 550,000,000.

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25. Proposed dividends, zakat and income tax

In 2012, The Board of Directors proposed a dividend of SAR 385 million equal to SAR 0.70 per share, net of Zakat to be withheld from the Saudi Shareholders totalling SAR 31.6 million. The proposed dividend will be presented for approval in an ordinary general assembly meeting expected to be convened in 2013.

In 2011, the Board of Directors proposed a gross dividend for the year amounting to SAR 324.5 million. The dividend was equal to SAR 0.50 per share (SAR 275.0 million), plus the Zakat to be withheld from the Saudi shareholders, amounting to SAR 0.10 per share (SAR 49.5 million). The proposed dividend was approved by the Bank's shareholders in an ordinary general assembly meeting held on Rabi'II 25, 1433 (corresponding to March 18, 2012). The net dividends were paid to the Banks shareholders thereafter.

Any future cash dividends to the Saudi and non-Saudi shareholders will be paid after deducting zakat and any unreimbursed income tax, as follows:

a) Saudi shareholders:

Zakat attributable to the Saudi Shareholders for the years 2006 through 2011 amounts to approximately SAR 79.0 million. Estimated Zakat attributable to Saudi shareholders for 2012 is approximately SAR 18.4 million. The total Zakat attributable to Saudi shareholders through 2012 totaling approximately SAR 97.4 million which will be deducted from their share of future dividends. The cumulative Zakat from 2006 through 2012 amounts to approximately SAR 0.20 per share.

b) Foreign shareholders:

Estimated Income Tax attributable to the non-Saudi shareholders for 2012 is approximately SAR 16.3 million. There is no unreimbursed income tax for the years prior to 2012.

The Bank has received assessments for additional Zakat, Income tax, and withholding tax totaling approximately SAR 16.7 million relating to the Bank's 2003 through 2008 Zakat, Income tax, and withholding tax filings. The Bank has filed an appeal for these assessments.

The Bank has received assessments for additional Zakat totalling approximately SAR 185 million relating to the Bank's 2011 and 2010 Zakat filings. The assessments are primarily due to the disallowance of certain long-term investments from the Zakat base of the Bank. The Bank, in consultation with its Zakat advisors, has filed an appeal with the Department of Zakat and Income Tax, and is awaiting a response. The Bank, along with other Saudi Banks, has formally raised this issue with the Bank's regulator for a satisfactory resolution to this Saudi Banking Industry issue. At the current time, a reasonable estimation of the ultimate additional Zakat liability, if any, cannot be reliably determined.

26. Cash and cash equivalents

Cash and cash equivalents included in the statement of cash flows is comprised of the following:

	2012 SAR'000	2011 SAR'000
Cash and balances with SAMA excluding statutory deposit (note 4)	5,568,605	7,391,756
Due from banks and other financial institutions maturing within ninety days from the date of acquisition	2,931,774	3,511,455
Total	8,500,379	10,903,211

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27. Business segments

Operating segments are identified on the basis of internal reports about components of the Bank that are regularly reviewed by the Bank's Board of Directors in its function as the Chief Decision Maker in order to allocate resources to the segments and to assess their performance.

Transactions between the operating segments are on normal commercial terms and conditions. The revenue from external parties reported to the Board is measured in a manner consistent with that in the consolidated income statement. There are no material items of income or expense between the operating segments. Segment assets and liabilities are comprised of operating assets and liabilities.

The Bank's primary business is conducted in the Kingdom of Saudi Arabia. The Bank's reportable segments are as follows:

Retail banking

Loans, deposits, and other credit products for individuals and small to medium-sized businesses.

Corporate banking

Loans, deposits and other credit products for corporate and institutional customers.

Treasury

Money market, investments, and other treasury services.

Asset management and brokerage

Dealing, managing, advising and custody of securities services.

Commission is charged to operating segments based on Funds Transfer Price rates. All of the segment revenue is from external customers.

- a) The segment information provided to the Bank's Board of Directors which includes the reportable segments for the Bank's total assets and liabilities of December 31, 2012 and 2011, its total operating income, total operating expenses, and net income for the years then ended, are as follows:

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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27. Business segments – continued

	2012 (SAR'000)				
	Retail Banking	Corporate Banking	Treasury	Asset Manage- ment and Brokerage	Total
Total assets	14,932,160	22,204,027	21,361,786	568,677	59,066,650
Total liabilities	14,073,387	5,233,452	30,360,817	20,168	49,687,824
Net special commission income	550,098	399,583	278,185	14,067	1,241,933
Fee income from banking services, net	126,587	115,070	18	73,432	315,107
Other operating income	11,021	105,936	46,238	1,367	164,562
Total operating income	687,706	620,589	324,441	88,866	1,721,602
Operating expenses before impairment charges	380,775	109,726	63,250	78,331	632,082
Impairment charge for credit losses, net	54,461	200,539	-	-	255,000
Impairment charge for non trading investments, net	-	-	69,000	-	69,000
Total operating expenses	435,236	310,265	132,250	78,331	956,082
Share in earnings from associates	-	-	146,517	-	146,517
Net income for the year	252,470	310,324	338,708	10,535	912,037
	2011 (SAR'000)				
	Retail Banking	Corporate Banking	Treasury	Asset Manage- ment and Brokerage	Total
Total assets	13,241,687	16,767,748	21,366,572	569,575	51,945,582
Total liabilities	14,641,590	3,202,052	25,517,746	26,898	43,388,286
Net special commission income	504,860	483,133	221,827	16,636	1,226,456
Fee income from banking services, net	122,643	116,822	1,384	69,974	310,823
Other operating income	18,558	3,712	55,212	1,119	78,601
Total operating income	646,061	603,667	278,423	87,729	1,615,880
Operating expenses before impairment charges	385,086	101,385	67,832	69,873	624,176
Impairment charge for credit losses, net	38,406	249,594	-	-	288,000
Impairment charge for non trading investments, net	-	-	85,000	-	85,000
Total operating expenses	423,492	350,979	152,832	69,873	997,176
Share in earnings from associates	-	-	93,073	-	93,073
Net income for the year	222,569	252,688	218,664	17,856	711,777

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2012 and 2011

27. Business segments – continued

b) The Bank's credit exposure by business segment is as follows:

	2012 (SAR'000)				
	Retail Banking	Corporate Banking	Treasury	Asset Management and Brokerage	Total
Statement of consolidated financial position assets	11,922,454	21,672,334	15,633,970	531,571	49,760,329
Commitments and contingencies	2,092,765	1,300,437	86,346	-	3,479,548
Derivatives	-	-	126,360	-	126,360
	2011 (SAR'000)				
	Retail Banking	Corporate Banking	Treasury	Asset Management and Brokerage	Total
Statement of consolidated financial position assets	10,196,683	15,867,980	14,291,369	582,612	40,938,644
Commitments and contingencies	1,689,792	1,232,364	49,460	-	2,971,616
Derivatives	-	-	112,833	-	112,833

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

28. Credit risk

The Bank manages exposure to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities. There is also credit risk in off-statement of consolidated financial position financial instruments, such as loan commitments.

The Bank assesses the probability of default of counterparties using internal rating tools. The Bank also uses the external ratings of major rating agencies, where available.

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 routinely monitored. 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 fulfill 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.

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28. Credit risk – continued

The Bank seeks to manage its credit risk exposure through diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or business. It also takes security when appropriate. The Bank also seeks additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products, and emerging best practices.

The debt securities included in the investment portfolio are mainly corporate and sovereign risk. Analysis of investments by counter-party 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 18. The information on the Bank's credit exposure by business segment is given in Note 27. The information on credit risk exposure and their relative risk weights is also provided in Note 34.

The Bank uses a credit classification system as a tool to assist in managing the quality of credit risk within the lending portfolio. It maintains classification grades that differentiate between performing and impaired portfolios and allocates portfolio provisions and specific provisions respectively. The Bank determines each individual borrower's grade based on specific objective and subjective financial and business assessments criteria covering debt service, profitability, liquidity, capital structure, industry, management quality, and company standing. The Bank conducts a quality classification exercise over all of its existing borrowers and the results of this exercise are validated by the independent Risk Management Unit established within the Bank for that purpose.

29. Geographical concentration

- a) The distribution by geographical region for major assets, liabilities, commitments and contingencies and credit exposures is as follows:

	2012 (SAR'000)						
	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	South East Asia	Other Countries	Total
ASSETS							
Cash and balances with SAMA	7,309,269	492	7,179	18,703	-	-	7,335,643
Due from banks and other							
financial institutions	2,762,638	266,266	692,872	109,091	837	70	3,831,774
Investments, net	3,877,438	3,877,180	1,305,646	1,503,522	-	348,175	10,911,961
Loans and advances, net	34,050,692	-	-	-	-	-	34,050,692
Investments in associates	965,902	-	-	-	-	-	965,902
Total	<u>48,965,939</u>	<u>4,143,938</u>	<u>2,005,697</u>	<u>1,631,316</u>	<u>837</u>	<u>348,245</u>	<u>57,095,972</u>
Commitments and contingencies	<u>6,699,283</u>	<u>118,704</u>	<u>287,518</u>	<u>309,649</u>	<u>379,580</u>	<u>328</u>	<u>7,795,062</u>
Maximum credit exposure (stated at credit equivalent amounts)							
Commitments and contingencies	<u>2,993,492</u>	<u>24,129</u>	<u>106,684</u>	<u>267,863</u>	<u>87,316</u>	<u>64</u>	<u>3,479,548</u>
Derivatives	<u>27,074</u>	<u>23,492</u>	<u>75,794</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>126,360</u>

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29. Geographical concentration - continued

	2011 (SAR'000)						Total
	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	South East Asia	Other Countries	
ASSETS							
Cash and balances with SAMA	8,832,685	178	6,327	13,981	-	-	8,853,171
Due from banks and other financial institutions	1,735,070	1,243,091	1,017,261	36,469	4,557	369	4,036,817
Investments, net	4,215,768	2,194,570	1,154,037	1,200,843	-	127,844	8,893,062
Loans and advances, net	27,114,093	-	-	-	-	-	27,114,093
Investments in associates	894,672	-	-	-	-	-	894,672
Total	42,792,288	3,437,839	2,177,625	1,251,293	4,557	128,213	49,791,815
Commitments and contingencies	5,068,122	367,667	358,015	421,178	227,957	6,736	6,449,675
Maximum credit exposure (stated at credit equivalent amounts)							
Commitments and contingencies	2,360,750	81,745	91,978	390,204	45,591	1,348	2,971,616
Derivatives	24,633	13,443	74,757	-	-	-	112,833

Credit equivalent amounts reflect the amounts that result from translating the Bank's off-statement of consolidated financial position liabilities into the risk equivalent of loans, using credit conversion factors prescribed by SAMA. The credit conversion factor is intended to capture the potential credit risk related to the exercise of that commitment.

- b) The distribution by geographical concentration of non-performing loans and advances and allowance for credit losses as of December 31, 2012 and 2011 are entirely in the Kingdom of Saudi Arabia.

30. 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 commission rates, foreign exchange rates, and equity prices. The Bank classifies exposures to market risk into either trading or banking-book.

a) Market risk-trading book

The Board has set limits for the acceptable level of risks in managing the trading book. The Bank currently has trading book exposures in foreign exchange contracts and commission rate swaps.

b) Market risk – banking book

Market risk on the banking book mainly arises from commission rate risk, liquidity risk, currency risk and equity price risk.

(i) Commission rate risk

Commission rate risk arises from the possibility that the changes in commission rates will affect either the fair values or the future cash flows of the financial instruments and obligations. The Board has established commission rate gap limits for stipulated periods. The Bank monitors positions and can use hedging strategies to ensure maintenance of positions within the established gap limits.

The following table depicts the sensitivity to a reasonable possible change in commission rates, with other variables held constant, on the Bank's consolidated income statement or equity.

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30. Market risk - continued

The sensitivity of net special commission income is the effect of the assumed changes in commission rates on the net commission income for one year, based on the floating rate non-trading financial assets and financial liabilities held as of December 31, 2012 and 2011, 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 of December 31, 2012 and 2011 for the effect of assumed changes in commission rates. The sensitivity of equity is analyzed by maturity of the asset or swap. All of the banking book exposures are monitored and analyzed by currency and relevant sensitivities and are disclosed in SAR thousands.

Benchmark	Increase (decrease) in basis	2012 SAR'000	2012 Sensitivity of Equity (SAR'000)				Total
		Sensitivity of net special commission income	6 months or less	6 to 12 months	1 to 5 years	Over 5 years	
SAR	+28/-22	+45,104/-35,439	-	+420/-330	-	-	+420/-330
USD	+29/-21	+14,238/-10,311	-	-	+10,311/-7,467	+5,562/-4,028	+15,873/-11,495
EUR	+92/-97	+682/-719	-	+470/-496	-	-	+470/-496
Currency	Increase (decrease) in basis	2011 SAR'000	2011 Sensitivity of Equity (SAR'000)				Total
		Sensitivity of net special commission income	6 months or less	6 to 12 months	1 to 5 years	Over 5 years	
SAR	+5/-5	+7,285/-7,285	-	-	+129/-129	-	+129/-129
USD	+10/-10	+5,465/-5,465	+27/-27	+42/-42	+1,631/-1,631	+579/-579	+2,279/-2,279
EUR	+15/-15	+575/-575	-	-	+75/-75	-	+75/-75

Commission rate sensitivity of assets, liabilities and off - balance sheet items is summarized below.

The Bank manages exposure to the effects of various risks associated with fluctuations in prevailing levels of market commission rates on its financial position and cash flows.

The Board sets limits on the level of mismatch of commission rate re-pricing that may be undertaken, which is monitored by the treasury department.

The Bank is exposed to commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet 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 commission rate risk management strategies.

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

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30. Market risk - continued

	2012 (SAR'000)					Total
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	
Assets						
Cash and balances with SAMA	4,953,000	-	-	-	2,382,643	7,335,643
Due from banks and other financial institutions	2,931,774	900,000	-	-	-	3,831,774
Investments, net	3,804,419	609,105	3,555,664	2,217,903	724,870	10,911,961
Loans and advances, net	19,786,866	9,411,377	4,798,527	53,922	-	34,050,692
Investments in associates	-	-	-	-	965,902	965,902
Property and equipment, net	-	-	-	-	866,896	866,896
Other assets	-	-	-	-	1,103,782	1,103,782
Total	<u>31,476,059</u>	<u>10,920,482</u>	<u>8,354,191</u>	<u>2,271,825</u>	<u>6,044,093</u>	<u>59,066,650</u>
Liabilities and equity						
Due to banks and other financial institutions	6,219,438	49,607	-	-	-	6,269,045
Customer deposits	24,210,355	5,995,896	493,770	-	9,713,550	40,413,571
Other liabilities	-	-	-	-	1,005,208	1,005,208
Term loans	2,000,000	-	-	-	-	2,000,000
Equity	-	-	-	-	9,378,826	9,378,826
Total	<u>32,429,793</u>	<u>6,045,503</u>	<u>493,770</u>	<u>-</u>	<u>20,097,584</u>	<u>59,066,650</u>
Commission rate sensitivity-On balance sheet	(953,734)	4,874,979	7,860,421	2,271,825	(14,053,491)	-
Commission rate sensitivity-Off balance sheet	<u>3,046,094</u>	<u>-</u>	<u>(2,952,329)</u>	<u>(93,765)</u>	<u>-</u>	<u>-</u>
Total commission rate sensitivity gap	<u>2,092,360</u>	<u>4,874,979</u>	<u>4,908,092</u>	<u>2,178,060</u>	<u>(14,053,491)</u>	<u>-</u>
Cumulative commission rate sensitivity gap	<u>2,092,360</u>	<u>6,967,339</u>	<u>11,875,431</u>	<u>14,053,491</u>	<u>-</u>	<u>-</u>

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For the years ended December 31, 2012 and 2011

30. Market risk - continued

	2011 (SAR'000)					Total
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	
Assets						
Cash and balances with SAMA	6,919,000	-	-	-	1,934,171	8,853,171
Due from banks and other financial institutions	3,511,455	525,362	-	-	-	4,036,817
Investments, net	5,364,586	245,988	1,989,342	579,348	713,798	8,893,062
Loans and advances, net	15,660,417	6,916,724	4,490,730	46,222	-	27,114,093
Investments in associates	-	-	-	-	894,672	894,672
Property and equipment, net	-	-	-	-	907,317	907,317
Other assets	-	-	-	-	1,246,450	1,246,450
Total assets	31,455,458	7,688,074	6,480,072	625,570	5,696,408	51,945,582
Liabilities and equity						
Due to banks and other financial institutions	4,189,928	34,244	-	-	-	4,224,172
Customer deposits	22,919,180	4,276,245	1,513,902	-	8,061,165	36,770,492
Other liabilities	-	-	-	-	893,622	893,622
Term loans	1,500,000	-	-	-	-	1,500,000
Equity	-	-	-	-	8,557,296	8,557,296
Total liabilities and equity	28,609,108	4,310,489	1,513,902	-	17,512,083	51,945,582
Commission rate sensitivity-On balance sheet	2,846,350	3,377,585	4,966,170	625,570	(11,815,675)	-
Commission rate sensitivity-Off balance sheet	1,897,100	(1,677,100)	(220,000)	-	-	-
Total commission rate sensitivity gap	4,743,450	1,700,485	4,746,170	625,570	(11,815,675)	-
Cumulative commission rate sensitivity gap	4,743,450	6,443,935	11,190,105	11,815,675	-	-

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

(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 of December 31, 2012 and 2011 on its banking book assets and liabilities and forecasted cash flows. The analysis calculates the effect of reasonable possible movement of the currency rate against SAR based on historical movements, with all other variables held constant, on the consolidated income statement (due to the fair value of the currency sensitive banking book 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 the consolidated income or equity, whereas a negative effect shows a potential net reduction in consolidated income or equity.

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30. Market risk - continued

Currency Exposures as of December 31, 2012	Change in Currency rate in %	Effect on Net Income (SAR'000)	Effect on Equity (SAR'000)
USD	+0.03/-0.03	+1,351/-1,351	+1,642/-1,642
EUR	+12.22/-12.22	+10,267/-10,267	+6,243/-6,243
GBP	+8.74/-8.74	-	-
Currency Exposures as of December 31, 2011	Change in Currency rate in %	Effect on Net Income (SAR'000)	Effect on Equity (SAR'000)
USD	-	-	-
EUR	+0.17/-0.17	+709/-709	+86/-86
GBP	-	-	-

(iii) Currency position

The Bank manages exposure to the 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 both overnight and intra-day positions, which are monitored daily. At the end of the year, the Bank had the following significant net exposures denominated in foreign currencies:

	2012 SAR '000 Long/(short)	2011 SAR '000 Long/(short)
US Dollar	(512,266)	(1,023,014)
Euro	92	32,002
Pound sterling	1,025	258
Japanese yen	(336)	824
U.A.E Dirham	483	952
Others	4,827	5,904

(iv) Equity price risk

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

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

	as of December 31, 2012		as of December 31, 2011	
	Change	Effect in	Change	Effect in
<u>Market Indices</u>	<u>in equity price %</u>	<u>SAR'000</u>	<u>in equity price %</u>	<u>SAR'000</u>
TADAWUL	+24.61/-24.61	+108,548/-108,548	+3.07/-3.07	+14,042/-14,042
NASDAQ	+10.55/-10.55	+2,620/-2,620	+1.8/-1.8	+338/-338
Unquoted	+5.00/-5.00	+556/-556	+5/-5	+556/-556

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31. Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. 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 a healthy 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 The Asset Liability Management Committee. Daily reports cover the liquidity position of the Bank. A summary report, including any exceptions and remedial action taken, is submitted regularly to The Asset Liability Management Committee.

In accordance with Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% (2011: 7%) of total demand deposits and 4% (2011: 4%) of saving and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of no less than 20% of its deposit liabilities, in the form of cash and balances with SAMA, 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 against Saudi Government Development Bonds up to 75% of the nominal value of bonds held.

a) Expected contractual maturity profile of assets and liabilities.

The tables below summarize the contractual maturity profile of the Bank's assets and liabilities as of December 31, 2012 and 2011. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the consolidated statement of financial position date to the contractual maturity date, and do not take into account 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 for both contractual and non-contractual positions.

	2012 (SAR'000)					Total
	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	
Assets						
Cash and balances with SAMA	4,953,000	-	-	-	2,382,643	7,335,643
Due from banks and other financial institutions	2,798,395	1,033,379	-	-	-	3,831,774
Investments, net	99,201	522,604	6,602,339	2,962,974	724,843	10,911,961
Loans and advances, net	13,018,903	9,604,586	8,676,256	2,750,947	-	34,050,692
Investments in associates	-	-	-	-	965,902	965,902
Property and equipment, net	-	-	-	-	866,896	866,896
Other assets	446,153	657,629	-	-	-	1,103,782
Total	21,315,652	11,818,198	15,278,595	5,713,921	4,940,284	59,066,650
Liabilities and equity						
Due to banks and other financial institutions	6,219,438	49,607	-	-	-	6,269,045
Customer deposits	23,652,227	5,995,896	493,770	-	10,271,678	40,413,571
Other liabilities	209,486	795,722	-	-	-	1,005,208
Term loans	-	-	2,000,000	-	-	2,000,000
Equity	-	-	-	-	9,378,826	9,378,826
Total liabilities and equity	30,081,151	6,841,225	2,493,770	-	19,650,504	59,066,650
Derivatives, commitments and contingencies	5,071,844	2,979,552	5,134,227	378,328	-	13,563,951

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31. Liquidity risk – continued

	2011 (SAR'000)					Total
	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	
Assets						
Cash and balances with SAMA	6,919,000	-	-	-	1,934,171	8,853,171
Due from banks and other financial institutions	3,422,341	614,476	-	-	-	4,036,817
Investments, net	1,013,902	1,203,926	4,834,955	1,126,481	713,798	8,893,062
Loans and advances, net	9,785,362	8,239,872	8,377,604	711,255	-	27,114,093
Investment in associates	-	-	-	-	894,672	894,672
Property and equipment, net	-	-	-	-	907,317	907,317
Other assets	450,353	796,097	-	-	-	1,246,450
Total assets	21,590,958	10,854,371	13,212,559	1,837,736	4,449,958	51,945,582
Liabilities and equity						
Due to banks and other financial institutions	4,189,928	34,244	-	-	-	4,224,172
Customer deposits	21,989,633	4,276,245	1,513,902	-	8,990,712	36,770,492
Other liabilities	175,473	718,149	-	-	-	893,622
Term loans	-	500,000	1,000,000	-	-	1,500,000
Equity	-	-	-	-	8,557,296	8,557,296
Total liabilities and equity	26,355,034	5,528,638	2,513,902	-	17,548,008	51,945,582
Derivatives, commitments and contingencies	3,170,222	3,190,094	3,730,469	529,823	-	10,620,608

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 disclosed in note 18c (i) of the consolidated financial statements.

b) Analysis of financial liabilities by remaining contractual maturities

The tables below summarize the maturity profile of the Bank's financial liabilities as of December 31, 2012 and 2011 based on contractual undiscounted repayment obligations. As special commission payments up to contractual maturity are included in the table, the totals do not match with the consolidated statement of financial position. The contractual maturities of liabilities have been determined based on the remaining period at the consolidated statement of financial position 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 that the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

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31. Liquidity risk – continued

The undiscounted maturity profile of financial liabilities is as follows:

	2012 (SAR'000)					Total
	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	
Non derivatives liabilities	29,871,665	6,045,503	2,493,770	-	10,271,678	48,682,616
Derivatives	2,179,592	293,151	3,202,331	93,815	-	5,768,889
Total	32,051,257	6,338,654	5,696,101	93,815	10,271,678	54,451,505

	2011 (SAR'000)					Total
	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	
Non derivatives liabilities	26,179,561	4,810,489	2,513,902	-	8,990,712	42,494,664
Derivatives	1,059,847	461,379	2,169,625	480,082	-	4,170,933
Total	27,239,408	5,271,868	4,683,527	480,082	8,990,712	46,665,597

32. Fair values of financial assets and liabilities

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

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

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

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

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32. Fair values of financial assets and liabilities - continued

The following table shows an analysis of financial assets and liabilities recorded at fair value as at December 31, 2012 and 2011 by level of the fair value hierarchy.

	2012 (SAR '000)			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Derivative financial instruments	-	79,695	-	79,695
Financial investments available for sale	8,108,057	1,420,083	464,131	9,992,271
Total	8,108,057	1,499,778	464,131	10,071,966
Financial liabilities:				
Derivative financial instruments	-	142,348	-	142,348
Total	-	142,348	-	142,348
2011 (SAR '000)				
	Level 1	Level 2	Level 3	Total
Financial assets:				
Derivative financial instruments	-	137,301	-	137,301
Financial investments available for sale	5,142,272	1,583,712	1,185,665	7,911,649
Total	5,142,272	1,721,013	1,185,665	8,048,950
Financial liabilities:				
Derivative financial instruments	-	159,400	-	159,400
Total	-	159,400	-	159,400

The decline of SAR 721.5 million in Level 3 financial investments available for sale in 2012 is primarily due to maturities of investments net of investment purchases.

The fair values of financial instruments that are not included in the consolidated statement of financial position are not significantly different from the carrying values included in the consolidated financial statements. The fair values of loans and advances, held to maturity investments, commission bearing customers' deposits, term loans, and due from and due to banks which are carried at amortized cost, are not significantly different from the carrying values included in the consolidated financial statements, since the current market commission rates for similar financial instruments are not significantly different from the contracted rates, and for the short duration of due from and due to banks.

The estimated fair values of held-to-maturity investments are based on quoted market prices when available or pricing models in the case of certain fixed rate bonds. The fair values of these investments are disclosed in Note 6 (c).

The fair values of derivatives and other off-balance sheet financial instruments are based on quoted market prices when available or by using appropriate valuation models. The total amount of the changes in fair value recognized in the consolidated income statement, which was estimated using valuation models, is SAR 29.9 million (2011: SAR 12.4 million).

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

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33. Related party transactions

In the ordinary course of its activities, the Bank transacts business with related parties. Related party transactions are governed by limits set by the Banking Control Law and the regulations issued by SAMA.

- a) The balances as of December 31, 2012 and 2011, resulting from such transactions included in the consolidated financial statements are as follows:

	2012 SAR'000	2011 SAR'000
Foreign shareholders:		
Due from banks and other financial institutions	415,956	269,133
Due to banks and other financial institutions	538	324
Commitments and contingencies	1,861,564	426,151
Associates:		
Loans and advances, net	194,000	-
Customer deposits	381,265	181,368
Commitments and contingencies	596,651	216,709
Directors, key management personnel, other major Saudi shareholders and their affiliates:		
Investments	-	16,151
Loans and advances, net	1,386,248	1,720,254
Due to banks and other financial institutions	668,777	500,000
Customer deposits	5,618,914	6,077,658
Term loan	1,000,000	-
Commitments and contingencies	2,661,620	3,516,330
Bank's mutual funds and employees' post-employment benefit plan:		
Investments	125,033	76,508
Customer deposits	22,721	3,791

Other major Saudi shareholders represent shareholdings (excluding the foreign shareholders) of 5% or more of the Bank's issued share capital.

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

- b) Income and expense pertaining to transactions with related parties included in the consolidated financial statements are as follows:

	2012 SAR'000	2011 SAR'000
Special commission income	82,234	211,078
Special commission expense	45,085	82,331
Fees from banking services, net	30,864	33,005
Board of Directors and other Board Committee member remuneration	2,897	3,069

The total amount of compensation charged or paid to key management personnel during the year is included in Note 23.

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34. Capital adequacy

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

Capital adequacy and the use of regulatory capital are monitored by the Bank's management. SAMA requires the Bank to hold a minimum level of regulatory capital and maintain a ratio of total regulatory capital to risk-weighted assets (RWA) at or above the requirement of 8%.

The Bank monitors the adequacy of its capital using ratios established by SAMA. These ratios measure capital adequacy by comparing the Bank's eligible capital with its consolidated statement of financial position assets, commitments, and notional amount of derivatives, at a weighted amount to reflect their relative risk.

	2012 SAR'000	2011 SAR'000
Credit Risk RWA	47,661,656	38,572,080
Operational Risk RWA	3,081,431	2,913,004
Market Risk RWA	283,449	1,021,386
Total Pillar- I RWA	51,026,536	42,506,470
Tier I Capital	8,877,054	8,091,138
Tier II Capital	112,819	34,815
Total Tier I & II Capital	8,989,873	8,125,953
Capital Adequacy Ratio %		
Tier I Ratio	17.40%	19.04%
Tier I + Tier II Ratio	17.62%	19.12%

35. Asset management and brokerage services

The Bank offers investment services to its customers, through a subsidiary, which include management of investment funds in consultation with professional investment advisors, with assets under management totalling approximately SAR 3,963 million (2011: SAR 4,171 million). This includes funds managed under Shariah approved portfolios amounting to approximately SAR 1,110 million (2011: SAR 1,189 million).

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36. Employee stock options

The Group has share-based payment plans outstanding at the end of the year. Significant features of the Plans are as follows:

Grant dates: January 1, 2008, 2009, 2010, 2011 and 2012

Maturity dates: Between 2010 and 2015

Vesting period: 4 years per plan

Vesting conditions: participating employees to remain in service

Method of settlement: Shares

Cost to participating employees: SAR 4.09 to SAR 5.00 per share.

The stock options outstanding as of December 31, 2012 and 2011 have a weighted average contractual life of between one and four years.

The stock options are granted only under a service condition with no market condition.

In 2012, the Bank vested 50% of the shares granted in January 2010, 25% of the shares granted in January 2009 and 25% of the shares granted in January 2008 equivalent to 590,997 shares, for a total estimated cost of SR 8.4 million.

In 2011, the Bank vested 50% of the shares granted in January 2009 and 25% of the shares granted in January 2008 equivalent to 369,374 shares, for a total estimated cost of SAR 5.6 million.

37. Issued IFRS but not yet effective

The Group has chosen not to early adopt the following standards, which are effective for the Bank's 2013 financial reporting year:

- | | | | | |
|---|---|--------------|---|---|
| • | IAS 1 | Amendments | - | Presentation of items of other comprehensive income |
| • | IFRS 10 | | - | Consolidated financial statements |
| • | IFRS 11 | | - | Joint Arrangements |
| • | IFRS 12 | | - | Disclosure of interests in other entities |
| • | IFRS 13 | | - | Fair value measurement |
| • | IAS 19 | Revised 2011 | - | Employee benefits |
| • | IAS 27 | Revised 2011 | - | Separate financial statements |
| • | IAS 28 | Revised 2011 | - | Associates and joint ventures |
| • | IFRS 7 | Amendments | - | Disclosure on offsetting financial assets and liabilities |
| • | Amendments to the basis for conclusions on IAS 1, 16, 32, and 34 (Annual improvements 2011) | | | |

In addition to the above, the Group has chosen not to early adopt IFRS 9 (2010) – Financial instruments, and the amendment to IAS 32 - Financial instruments: Presentation on offsetting financial assets and financial liabilities, which will not be effective until January 1, 2015 and January 1, 2014, respectively.

The Group is currently assessing the implication of the above standards and amendments on the Group and the timing of adoption.

38. Comparative figures

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

39. Board of Director's approval

The consolidated financial statements were approved by the Board of Directors on 9th Rabi Al Awal 1434H corresponding to January 21, 2013.

40. Basel II Pillar 3 disclosures (unaudited)

Under Basel II pillar 3, certain quantitative and qualitative disclosures are required, and these disclosures will be made available on the Bank's website www.saib.com.sa as required by the Saudi Arabian Monetary Agency. Such disclosures are not subject to review nor audit by the external auditors.