SAMBA FINANCIAL GROUP

CONSOLIDATED FINANCIAL STATEMENTS
AND AUDITORS' REPORT FOR THE
YEAR ENDED DECEMBER 31, 2011

ERNST & YOUNG PRICEWATERHOUSECOOPERS

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF SAMBA FINANCIAL GROUP
(a Saudi Joint Stock Company)

We have audited the accompanying consolidated financial statements of Samba Financial Group (the "Bank") and its subsidiaries (collectively referred to as "the Group"), which comprise the statement of consolidated financial position as at December 31, 2011, the statements of consolidated income, consolidated comprehensive income, consolidated changes in equity and consolidated cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes from 1 to 39. We have not audited note 34(b), nor the information related to "Basel II Pillar 3 disclosures" cross referenced therein, which is not required to be within the scope of our audit.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Accounting Standards for Financial Institutions issued by the Saudi Arabian Monetary Agency ("SAMA"), International Financial Reporting Standards, the provisions of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's Articles of Association. In addition, management is responsible for such internal controls as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

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

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

- comply with the requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's Articles of Association in so far as they affect the preparation and presentation of the consolidated financial statements.

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January 31, 2012
(8 Rabi Al Awwal 1433 H)

برايس وترهاوس كوبرز
محاسبون قانونيون
ترخيص رقم ٢٥
PRICEWATERHOUSECOOPERS
CERTIFIED PUBLIC ACCOUNTANTS
LICENSE NO. 25

STATEMENTS OF CONSOLIDATED FINANCIAL POSITION
As at December 31, 2011 and 2010

	Notes	2011 SAR'000	2010 SAR'000
ASSETS			
Cash and balances with Central Banks	3	33,508,745	32,580,918
Due from banks and other financial institutions	4	2,731,799	2,490,689
Investments, net	5	60,174,512	64,882,724
Investment in associate	5	209	219
Loans and advances, net	6, 33	89,111,429	80,250,825
Property and equipment, net	7	1,169,432	970,245
Other assets	8	6,077,764	6,240,220
Total Assets		**192,773,890**	**187,415,840**
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks and other financial institutions	10	20,628,293	19,800,635
Customer deposits	11, 33	137,256,864	133,462,964
Other liabilities	12	6,631,371	6,674,635
Debt securities issued	13	-	1,874,720
Total Liabilities		**164,516,528**	**161,812,954**
EQUITY			
Equity attributable to equity holders of the Bank			
Share capital	14	9,000,000	9,000,000
Statutory reserve	15	9,000,000	9,000,000
General reserve	15	130,000	130,000
Other reserves		(726,665)	(491,385)
Retained earnings		11,051,460	8,327,508
Proposed dividend	25	831,000	731,889
Treasury stocks		(1,155,892)	(1,268,330)
Total equity attributable to equity holders of the Bank		**28,129,903**	**25,429,682**
Non-controlling interest		127,459	173,204
Total Equity		**28,257,362**	**25,602,886**
Total Liabilities and Equity		**192,773,890**	**187,415,840**

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

STATEMENTS OF CONSOLIDATED INCOME
For the years ended December 31, 2011 and 2010

	Notes	2011 SAR'000	2010 SAR'000
Special commission income	18	4,854,527	5,194,654
Special commission expense	18	478,869	658,193
Special commission income, net		**4,375,658**	**4,536,461**
Fees and commission income, net	19	1,398,705	1,257,937
Exchange income, net		309,308	313,906
(Loss) / income from investments held at FVIS, net		(6,343)	104,865
Trading (loss) / income, net	20	(124,580)	47,596
Gains on non-trading investments, net	21	486,257	537,335
Other operating income	22	123,362	102,400
Total operating income		**6,562,367**	**6,900,500**
Salaries and employee related expenses	23	1,227,512	1,209,712
Rent and premises related expenses		217,555	217,677
Depreciation	7	134,546	135,387
Other general and administrative expenses		376,493	346,826
Provision for credit losses, net of recoveries	6	301,412	558,792
Total operating expenses		**2,257,518**	**2,468,394**
Net income		**4,304,849**	**4,432,106**
Attributable to non-controlling interest		(1,580)	3,017
Net income attributable to Equity holders of the Bank		**4,303,269**	**4,435,123**
Basic and diluted earnings per share for the year (SAR)	24	**4.78**	**4.93**

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STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME
For the years ended December 31, 2011 and 2010

	Note	2011 SAR'000	2010 SAR'000
Net Income		4,304,849	4,432,106
Other comprehensive income:			
Exchange differences on translation of foreign operations		(19,074)	(18,376)
Available for sale financial assets:			
- Change in fair values	16	426,085	1,342,228
- Transfers to statements of consolidated income	16	(434,300)	(513,620)
Cash flow hedges			
- Change in fair values	16	(572,411)	(324,341)
- Transfers to statements of consolidated income	16	317,095	311,691
Total comprehensive income for the year		**4,022,244**	**5,229,688**
Attributable to:			
Equity holders of the Bank		4,067,989	5,248,053
Non-controlling interest		(45,745)	(18,365)
Total		**4,022,244**	**5,229,688**

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

STATEMENTS OF CONSOLIDATED CHANGES IN EQUITY
For the years ended December 31, 2011 and 2010

		Attributable to equity holders of the Bank											
					Other reserves								
2011	**Notes**	**Share capital**	**Statutory reserve**	**General reserve**	**Exchange translation reserve**	**AFS financial assets**	**Cash flow hedges**	**Retained earnings**	**Proposed dividend**	**Treasury stocks**	**Total**	**Non-controlling interest**	**Total equity**
		SAR'000	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**
Balance at the beginning of the year		**9,000,000**	**9,000,000**	**130,000**	**(98,407)**	**(680,511)**	**287,533**	**8,327,508**	**731,889**	**(1,268,330)**	**25,429,682**	**173,204**	**25,602,886**
Transfer to statutory reserve	**15**	-	-	-	-	-	-	-	-	-	-	-	-
Net changes in treasury stock		-	-	-	-	-	-	27,683	-	112,438	**140,121**	-	**140,121**
Dividend paid for 2011(interim) and 2010(final)	**25**	-	-	-	-	-	-	(776,000)	(731,889)	-	**(1,507,889)**	-	**(1,507,889)**
Proposed final dividend 2011	**25**	-	-	-	-	-	-	(831,000)	831,000	-	**-**	-	**-**
Total comprehensive income for the year		-	-	-	(15,093)	35,129	(255,316)	4,303,269	-	-	**4,067,989**	**(45,745)**	**4,022,244**
Balance at the end of the year		**9,000,000**	**9,000,000**	**130,000**	**(113,500)**	**(645,382)**	**32,217**	**11,051,460**	**831,000**	**(1,155,892)**	**28,129,903**	**127,459**	**28,257,362**
2010													
Balance at the beginning of the year		**9,000,000**	**8,249,054**	**130,000**	**(89,411)**	**(1,515,087)**	**300,183**	**6,213,843**	**731,889**	**(710,393)**	**22,310,078**	**191,569**	**22,501,647**
Transfer to statutory reserve	**15**	-	750,946	-	-	-	-	(750,946)	-	-	-	-	-
Net changes in treasury stock		-	-	-	-	-	-	36,027	-	(557,937)	**(521,910)**	-	**(521,910)**
Dividend paid for 2010(interim) and 2009(final)	**25**	-	-	-	-	-	-	(874,650)	(731,889)	-	**(1,606,539)**	-	**(1,606,539)**
Proposed final dividend 2010	**25**	-	-	-	-	-	-	(731,889)	731,889	-	**-**	-	**-**
Total comprehensive income for the year		-	-	-	(8,996)	834,576	(12,650)	4,435,123	-	-	**5,248,053**	**(18,365)**	**5,229,688**
Balance at the end of the year		**9,000,000**	**9,000,000**	**130,000**	**(98,407)**	**(680,511)**	**287,533**	**8,327,508**	**731,889**	**(1,268,330)**	**25,429,682**	**173,204**	**25,602,886**

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

STATEMENTS OF CONSOLIDATED CASH FLOWS
For the years ended December 31, 2011 and 2010

	Notes	2011 SAR'000	2010 SAR'000
OPERATING ACTIVITIES			
Net income attributable to equity holders of the Bank		**4,303,269**	**4,435,123**
Adjustments to reconcile net income to net cash from operating activities:			
Accretion of discount and amortization of premium on non-trading investments, net		76,617	116,643
Accretion of discount on debt securities issued		-	840
Income from investments held at FVIS, net		6,343	(104,865)
Gain on non-trading investments, net	21	(486,257)	(537,335)
Depreciation	7	134,546	135,387
Gains on disposal of property and equipment, net	22	(3,311)	(1,212)
Provision for credit losses, net of recoveries		301,412	558,792
Net (increase) / decrease in operating assets:			
Statutory deposits with Central Banks	3	(748,231)	239,785
Due from banks and other financial institutions maturing after ninety days		(1,172,673)	1,783,682
Investments held for trading		(176,407)	51,715
Loans and advances		(9,162,016)	3,336,906
Other assets		162,456	(86,180)
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		827,658	12,481,416
Customer deposits		3,793,900	(13,665,798)
Other liabilities		(403,553)	13,186
Net cash (used in) / from operating activities		**(2,546,247)**	**8,758,085**
INVESTING ACTIVITIES			
Proceeds from sale of and matured non-trading investments		54,117,315	39,301,286
Purchase of non-trading investments		(48,794,261)	(47,900,631)
Purchase of property and equipment, net		(359,678)	(213,432)
Proceeds from sale of property and equipment		25,810	3,527
Net cash from / (used in) investing activities		**4,989,186**	**(8,809,250)**
FINANCING ACTIVITIES			
Repayment of debt securities issued		(1,874,720)	-
Dividends paid		(1,460,306)	(1,678,503)
Treasury stocks, net		140,121	(521,910)
Net cash used in financing activities		**(3,194,905)**	**(2,200,413)**
Decrease in cash and cash equivalents		(751,966)	(2,251,578)
Cash and cash equivalents at the beginning of the year	26	27,259,113	29,510,691
Cash and cash equivalents at the end of the year	26	**26,507,147**	**27,259,113**
Special commission received during the year		4,858,640	5,430,910
Special commission paid during the year		633,068	722,997
Supplemental non-cash information: Net changes in fair value and transfers to Statements of Consolidated Income		**(263,531)**	**815,958**

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

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

1. General

Samba Financial Group (the Bank), a joint stock company incorporated in the Kingdom of Saudi Arabia, was formed pursuant to Royal Decree No. M/3 dated 26 Rabie Al-Awal 1400H (February 12, 1980). The Bank commenced business on 29 Shaa'ban 1400H (July 12, 1980) when it took over the operations of Citibank in the Kingdom of Saudi Arabia. The Bank operates under commercial registration no. 1010035319 dated 6 Safar 1401H (December 13, 1980) through its 69 branches (2010: 68 branches) in the Kingdom of Saudi Arabia and three overseas branches (2010: three branches). The Bank employed 3,057 full time direct staff at the year end (2010: 3,135). The Bank is listed on the Saudi Arabian stock exchange and its head office is located at King Abdul Aziz Road, P.O. Box 833, Riyadh 11421, Kingdom of Saudi Arabia.

The objective of the Bank is to provide a full range of banking and related services. The Bank also provides its customers Shariah approved Islamic banking products.

The consolidated financial statements include financial statements of the Bank and its following subsidiaries, herein after collectively referred to as "the Group":

Samba Capital and Investment Management Company (Samba Capital)

In accordance with the securities business regulations issued by the Capital Market Authority (CMA), the Bank has established a wholly owned subsidiary, Samba Capital and Investment Management Company formed as a limited liability company under commercial registration number 1010237159 issued in Riyadh dated 6 Shaa'ban 1428H (August 19, 2007), to manage the Bank's investment services and asset management activities related to dealing, arranging, managing, advising and custody businesses. The company is licensed by the CMA and has commenced its business effective January 19, 2008.

Samba Bank Limited, Pakistan (SBL)

A majority owned subsidiary incorporated as a banking company in Pakistan and engaged in commercial banking and related services, and is listed on all stock exchanges in Pakistan. In May 2010, the ownership of the Bank was increased to 80.68% from 68.42% through participation in a right shares issue by SBL.

Co-Invest Offshore Capital Limited (COCL)

A wholly owned company incorporated under the laws of Cayman Islands for the purpose of managing certain overseas investments, through an entity controlled by COCL.

Samba Real Estate Company

A wholly owned subsidiary incorporated in Saudi Arabia under commercial registration no. 1010234757 issued in Riyadh dated 9 Jumada II, 1428H (June 24, 2007). The company has been formed as limited liability company with the approval of SAMA and is engaged in managing real estate projects on behalf of Samba Real Estate Fund, a fund under management by Samba Capital, and the Bank.

2. Summary of significant accounting policies

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

2.1 Basis of preparation

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

The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of derivatives, available for sale and FVIS financial assets and liabilities. In addition, as explained fully in the related notes, financial assets and liabilities that are hedged under a fair value hedging relationship are carried at fair value to the extent of the risk being hedged.

Under article 37 of the Bank's Articles of Association, the Gregorian calendar is observed for reporting the consolidated financial statements.

These consolidated financial statements are expressed in Saudi Arabian Riyals (SAR) and are rounded off to the nearest thousands.

2.2 Consolidation

These consolidated financial statements include the financial position and results of Samba Financial Group and its subsidiary companies. The financial statements of subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies except for Co-Invest Offshore Capital Limited (COCL) whose financial statements are made up to the previous quarter end for consolidation purposes to meet the group reporting timetable. However any material changes during the interim period are adjusted for the purposes of consolidation. In addition, wherever necessary, adjustments have been made to the financial statements of the subsidiaries to align with the Bank's financial statements.

Significant inter-group balances and transactions are eliminated upon consolidation.

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 statements of consolidated income from the date of acquisition or up to the date of disposal, as appropriate.

Non-controlling interest represents the portion of net income or loss and net assets not owned, directly or indirectly, by the Bank in subsidiaries and are presented in the statements of consolidated income and within equity in the statements of consolidated financial positions separately from the equity holders of the Bank.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Bank. The cost of acquisition is measured at the fair value of the consideration given at the date of exchange. The acquired identifiable assets, liabilities and contingent liabilities are measured at their fair value at the date of acquisition. The excess of the cost of acquisition over the fair value of the Bank's share of identifiable net assets acquired is recorded as intangible asset – goodwill.

2.3 Critical accounting judgments and estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates, assumptions and judgements that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Such estimates, assumptions and judgements 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:

(a) Impairment for credit losses on loans and advances

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

(b) 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 including models are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

(c) Impairment of available for sale equity investments

The Group exercises judgement to consider impairment on its 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, management evaluates among other factors, the normal volatility in share price. In addition, management considers impairment to be appropriate when there is evidence of deterioration in the financial position of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

2.4 Settlement date accounting

All regular way purchases and sales of financial instruments are recognized and derecognized on the settlement date. Regular way purchases or sales are purchases or sales of financial instruments that require delivery of assets within the time frame generally established by regulation or convention in the market place. For financial instruments held at fair value, the Group accounts for any change in fair values between the trade date and the reporting date.

2.5 Derivative financial instruments and hedge accounting

Derivative financial instruments are measured at fair value and their fair values are included in other assets, if positive, or in other liabilities, if negative. Fair values are generally obtained by reference to quoted market prices, discounted cash flow models and other pricing models, as appropriate.

Derivative financial instruments are designated as held for trading unless they are part of an effective hedging relationship. Any changes in the fair values of derivatives that are held for trading purposes are taken directly to the statement of consolidated income.

Hedge accounting

Hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognized asset or liability; and (b) cash flow hedges which hedge exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability.

In order to qualify for hedge accounting, the hedge is required to be highly effective at inception i.e. the changes in the fair value or the cash flows of the hedging instrument should effectively offset corresponding changes in the hedged instrument, and should be reliably measurable. At the inception of the hedge, the risk management objective and strategy is documented including the identification of the hedging instrument, the related hedged item, the nature of the risk being hedged, and how the Group 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. Hedge accounting is discontinued when the designation is revoked, the hedging instrument is expired or sold, terminated or exercised, or no longer qualifies for hedge accounting.

In relation to fair value hedges that meet the criteria for hedge accounting, any gain or loss from re-measuring the hedging instruments to change in fair value is recognized immediately in the statement of consolidated income. The corresponding change in fair value of the hedged item is adjusted against the carrying amount and is recognized in the statement of consolidated income. Where the fair value hedge of a special commission bearing financial instrument ceases to meet the criteria for hedge accounting, the adjustment to the carrying value resulting from fair value changes is amortized to the statement of consolidated income over the remaining life of the hedged item.

In relation to cash flow hedges that meet the criteria for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized initially in other reserves under equity and the ineffective portion, if any, is recognized in the statement of consolidated income. Gains or losses recognized initially in other reserves are transferred to the statement of consolidated income in the period in which the hedged item impacts the statement of consolidated income.

2.6 Foreign currencies

The consolidated financial statements are denominated and presented in Saudi Arabian Riyals, which is also the functional currency of the Bank. Transactions in foreign currencies are translated into Saudi Arabian Riyals at exchange rates prevailing at transaction dates. Monetary assets and liabilities denominated in foreign currencies at the year end are translated into Saudi Arabian Riyals at the exchange rates prevailing at the reporting date.

The monetary assets and liabilities of overseas branches and subsidiaries are translated at the rate of exchange prevailing at the date of statement of consolidated financial position. The statements of income of overseas branches and subsidiaries are translated at the average exchange rates for the year. On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to equity.

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

2.7 Offsetting

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

2.8 Revenue recognition

Special commission income and expense including the fees which are considered an integral part of the effective yield of a financial instrument, are recognized in the statement of consolidated income using the effective yield method, and include premiums amortized and discounts accreted during the year. Fee from banking services are recognized on an accrual basis when the service has been provided. Commitment fees for loans that are likely to be drawn down are deferred and, together with the related direct cost, are recognized as an adjustment to the effective yield on the loan when it is drawn down. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportionate basis. Fee received on asset management, wealth management, financial planning, custody services and other similar services that are provided over an extended period of time, are recognized rateably over the period when the service is being provided. Dividend income is recognized when declared and right to receive is ascertained.

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

Exchange income is recognized as and when it arises. For presentation purposes, “Exchange income, net” includes exchange related gains and losses from derivative financial instruments and translated foreign currency assets and liabilities.

2.9 Sale and repurchase agreements

Securities sold with a commitment to repurchase at a specified future date (repos), continue to be recognized in the statement of consolidated financial position and are measured in accordance with related accounting policies for trading, FVIS, available for sale and other investments at amortized cost. The counterparty 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 the repurchase price is treated as special commission expense and is recognized over the life of the repo agreement on an effective yield basis.

Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos), are not recognized in the statement of consolidated financial position, as the Group does not obtain control over the assets. Amounts paid under these agreements are included in cash and balances with Central Banks, due from banks and other financial institutions or loans and advances, as appropriate. The difference between the purchase and the resale price is treated as special commission income and is recognized over the life of the reverse repo agreement on an effective yield basis.

2.10 Investments

All investment securities are initially recognized at fair value and except for investments held at FVIS, include the acquisition costs associated with the investment. Transaction costs if any, are not added to fair value measurement at initial recognition of investments held at FVIS. Premiums are amortized and discounts are accreted using the effective yield method and are taken statement of consolidated income.

For securities that are traded in organized financial markets, fair value is determined by reference to the prevailing quoted market bid prices at the close of business on the 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 future cash flows or the underlying net asset base of the security.

Following initial recognition of investment securities, subsequent transfers between the various classes of investment are not ordinarily permissible. The year end reporting values for each class of investments are determined as follows:

a) Held at fair value through income statement (FVIS)

Investments in this category are classified as either held for trading or those designated as FVIS on initial recognition. Investments classified as trading are acquired principally for the purpose of selling or repurchasing in short term. An investment may be designated as FVIS by the management if it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as "an accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on different bases; or a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Group's key management personnel.

After initial recognition, investments are measured at fair value and gains and losses arising from any change in the fair value are recognized in the statement of consolidated income for the period in which it arises.

b) Available for sale

Investments that are classified as available for sale are subsequently measured at fair value. For available for sale investments where fair value has not been hedged, any gain or loss arising from a change in the fair value is recognized directly through the statement of consolidated comprehensive income in fair value reserves under equity until the investment is derecognized or considered impaired, at which time the cumulative gain or loss previously recognized in equity is included in the statement of consolidated income for the period.

Any gain or loss arising from a change in the fair value of available for sale investments that are part of an effective hedging relationship is recognized directly in the statement of consolidated income to the extent of the changes in fair value being hedged.

c) Other Investments held at amortized cost

Investments with fixed or determinable payments that are not quoted in an active market, other than those purchased with the intent to be sold immediately or in the short term and are not classified as available for sale, are classified as other investments held at amortized cost. Such investments where fair value has not been hedged are stated at amortized cost, less provision for any impairment. Any gain or loss is recognized in the statement of consolidated income when the investment is derecognized or impaired.

d) Held to maturity

Investments having fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity other than those that meet the definition of FVIS, available for sale and other investments held at amortized cost are classified as held to maturity. Held to maturity investments are subsequently measured at amortized cost, less provision for impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition on an effective yield method.

Any gain or loss on such investments is recognized in the statement of consolidated income when the investment is derecognized or impaired.

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

2.11 Loans and advances

Loans and advances are non-derivative financial assets having fixed or determinable payments that are not quoted in an active market.

All loans and advances are initially measured at fair value including acquisition charges associated with the loans and advances, if any. Following the initial recognition, subsequent transfers between the various classes of loans and advances is not ordinarily permissible.

Loans and advances that are not quoted in an active market and for which fair value has not been hedged are stated at amortized cost. For loans and advances which are hedged, the related portion of the hedged fair value is adjusted against the carrying amount.

For presentation purposes, provision for credit losses is netted from loans and advances.

2.12 Impairment of financial assets

An assessment is made at each period end date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. Objective evidence of impairment may include indications that the borrower is experiencing significant financial difficulty, default or delinquency in special commission or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in economic conditions that correlate with defaults. If such evidence exists, the estimated recoverable amount of that asset is determined and an impairment loss, based on the net present value of future anticipated cash flows, is recognized for changes in its carrying amounts.

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

Once a financial asset has been written down to its estimated recoverable amount, special commission income is thereafter recognized 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, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the statement of consolidated income.

Renegotiation activity is designed to manage customer relationships, maximise collection opportunities and, if possible, avoid foreclosure or repossession. Such activity may involve extending the payment arrangements and/or the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

(a) Impairment of financial assets held at amortized cost

A financial asset is classified as impaired when there is an objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event(s) 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 Group 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 future cash flows, including amounts estimated to be recoverable from guarantees and collateral, discounted based on the original effective special commission rate.

In addition to specific provision for credit losses, a provision for collective impairment is made on a portfolio basis for credit losses where there is an objective evidence that unidentified losses exist at the reporting date. This provision is estimated based on various factors including credit ratings allocated to a borrower or group of borrowers, the current economic conditions, the experience the Group 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 statement of consolidated income.

(b) Impairment of financial assets held as available for sale

For financial assets held as available for sale at fair value, where a loss has been recognised directly under equity, the cumulative net loss recognised in equity is transferred to the statement of consolidated income when the asset is considered to be impaired.

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 statement of consolidated income as long as the asset continues to be recognised i.e. any increase in fair value after impairment can only be recognised in equity. On de-recognition, any cumulative gain or loss previously recognised in equity is included in the statement of consolidated income for the period.

2.13 Other real estate owned

The Group, in the ordinary course of business, acquires certain real estate against settlement of loans and advances. Such real estate are considered as assets held for sale and are initially recorded at the lower of the net realizable value of related loans and advances or the current fair value of the related real estate, less any cost to sell.

Subsequent to the initial recognition, these other real estate owned are periodically revalued and are carried at lower of their carrying values or the related net realizable value. Rental income, realized gains or losses on disposal and unrealized losses on revaluation are credited or charged to the statement of consolidated income.

2.14 Property and equipment

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

Buildings	33 years
Leasehold premises	Period of lease
Leasehold improvements	Over the lease period or 10 years, whichever is the shorter
Furniture, equipment and vehicles	Up to 7 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Gains and losses on disposals of property and equipment are included in the statement of consolidated income.

2.15 Intangible assets - goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the Bank's share of identifiable assets, liabilities and contingent liabilities of the acquired subsidiary at the date of acquisition. Goodwill is stated at cost less any accumulated impairment losses, which are charged to the statement of consolidated income. An impairment test for goodwill is carried out annually or more frequently if events or changes in the circumstances indicate that the carrying value may be impaired.

2.16 Financial liabilities

All financial liabilities including customer and money market deposits and debt securities issued are initially recognized at fair value less transaction costs except for financial liabilities measured at FVIS where transactions cost, if any, are not deducted from the fair value measurement at initial recognition, and are included in the statement of consolidated income.

Subsequently, all special commission bearing financial liabilities other than those held at FVIS are measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium on settlement. Special commission bearing deposits for which there is an associated fair value hedging relationship are adjusted for fair value to the extent hedged.

Financial liabilities held at FVIS comprise market linked financial liabilities which are customer deposits where the rate of return is benchmarked to the performance of underlying instruments such as currencies, equities or commodities. At maturity, the repayment of principal amount to the customers is in accordance with the contractual terms. After initial recognition these deposits are measured at fair value and any gains or losses arising from the change in fair value are included in the statement of consolidated income for the period.

2.17 Financial guarantees

In the ordinary course of business, the Group extends credit related commitments consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the consolidated financial statements at fair value in other liabilities, being the value of the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligation arising as a result of guarantees. The premium received is recognized in the statement of consolidated income over the life of the guarantee.

2.18 Provisions

Provisions are recognized when a reliable estimate can be made 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.

2.19 Cash and cash equivalents

For the purpose of the statements of consolidated cash flows, cash and cash equivalents comprise cash, balances with Central Banks and reverse repos (excluding statutory deposit) and due from banks and other financial institutions having an original maturity of three months or less.

2.20 De-recognition of financial instruments

A financial asset is derecognized, when the contractual rights to the cash flows from the financial asset expires. In instances where the Group is assessed to have transferred a financial asset, the asset is derecognized if the Group has transferred substantially all the risks and rewards of ownership. Where the Group has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognized only if the Group has not retained control of the financial asset. The Group recognizes separately as assets or liabilities any rights and obligations created or retained in the process.

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

2.21 Share-based payments

The Bank offers its eligible employees three types of equity-settled share-based payment plans (the "Plans") as approved by SAMA. The following is a brief description of these plans:

a) Capital accumulation plan

Under the terms of the Capital Accumulation Plan (CAP), eligible employees of the Bank are offered stock options at a predetermined strike price to be withheld out of their annual bonus payments, should the employee decides and accepts to participate in the plan.

b) Long term bonus plan

Under the terms of the Long Term Bonus Plan (LTBP), eligible employees of the Bank are offered stock options at a predetermined strike price for a fixed period of time. At maturity of the plans, the Bank delivers the underlying allotted shares if the employees exercise the options as per the terms and conditions of the plans.

c) Employee share participation plan

Under the terms of the Employee Share Participation Plan (ESPP), eligible employees of the Bank are offered stock options at a predetermined strike price if the employees accept and agree to contribute the value of stock options in equal monthly installment for a 25-month period.

However, in case of CAP and ESPP, should the employee decide not to exercise their options, they are entitled to receive their contributions. Additionally, in case of ESPP, the employees will also receive a predetermined rate of return on their contributions.

The cost of these plans is measured by reference to the fair value at the date on which the options are granted. The fair value of the options is determined by the use of the Black-Scholes pricing model.

The cost of the plans is recognized over the period in which the service condition is fulfilled, ending on the date on which the relevant employees become fully entitled to the stock option ('the vesting date'). The cumulative expense recognized for these plans at each reporting date until the vesting date, reflects the extent to which the vesting period has expired and the Bank's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of consolidated income for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

The Bank uses the Black-Scholes model in order to risk-manage its options exposure under the plans. The Bank, with the approval from SAMA, has entered into an agreement with an independent third-party to acquire a beneficial interest in the underlying shares solely to manage the price risks associated with the above schemes. Under the provisions of such agreement, the Bank, at no point, becomes the legal owner of the underlying shares.

2.22 Staff indemnity provision

The staff indemnity provision is made based on an actuarial valuation of the Bank's liability under the Saudi Arabian Labor and Workmen Law and in accordance with the local statutory requirements of the foreign branches and subsidiaries.

2.23 Treasury stock

Treasury stocks are recorded at cost and presented as a deduction from the equity as adjusted for any transaction costs, dividends and gains or losses on sale of such stocks. Subsequent to their acquisition, these stocks are carried at the amount equal to the consideration paid.

These stocks are acquired by the Bank with the approval of SAMA, primarily for discharging its obligation under its share-based payment plans and also include stocks acquired in settlement of customer debt.

2.24 Zakat and income taxes

Under Saudi Arabian Zakat and Income tax laws, Zakat and income taxes are the 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 net income for the year.

Zakat and income taxes are not charged to the Bank's statement of consolidated income as they are deducted from the dividends paid to the shareholders. Overseas branches and subsidiaries are subject to income tax as per rules and regulations of country in which they reside.

2.25 Investment management services

The Bank offers investment management and advisory services to its customers through its subsidiary. These services include portfolio management on discretionary and non-discretionary basis and management of investment funds in consultation with professional investment advisors. The Bank's investment in these funds is included in the FVIS or available for sale investments and fees earned are disclosed under related party transactions.

Assets held at trust or in a fiduciary capacity are not treated as assets of the Bank or that of its subsidiary and accordingly are not included in the Bank's statements of consolidated financial position.

2.26 Shariah approved banking products

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

All Shariah compliant banking products are accounted for using IFRS and are in conformity with the accounting policies described in these consolidated financial statements.

2.27 Change in accounting policies

The accounting policies adopted are consistent with those of the previous financial year. Amendments resulting from improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- IAS 24 Related Party Disclosures (revised 2009): Amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities
- Amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction
- Amendments to IFRS 7 – Financial Instruments: Disclosures Transfers of Financial Assets (new disclosures requirements)
- Improvements to IFRS 2010 – IFRS 7 Financial Instruments: Disclosures; and
- Improvements to IFRS 2010 – IAS 1 Presentation of Financial Statements

3. Cash and balances with Central Banks

	2011 SAR '000	2010 SAR '000
Cash in hand	1,367,886	887,524
Statutory deposit	7,045,697	6,297,466
Current account	463,332	469,275
Money market placements	24,631,830	24,926,653
Total	**33,508,745**	**32,580,918**

In accordance with the Banking Control Law and regulations issued by SAMA, the Group is required to maintain a statutory deposit with SAMA & other Central Banks at stipulated percentages of its demand, savings, time and other deposits, as calculated at the end of each month. Money market placements represent securities purchased under an agreement to re-sell (reverse repos) with SAMA.

4. Due from banks and other financial institutions

	2011 SAR '000	2010 SAR '000
Current accounts	1,377,123	807,958
Money market placements	1,354,676	1,682,731
Total	**2,731,799**	**2,490,689**

5. Investments, net

a) Investment securities are classified as follows:

i) Held at fair value through income statement (FVIS)

	Domestic		International		Total	
	2011 SAR '000	2010 SAR '000	2011 SAR '000	2010 SAR '000	2011 SAR '000	2010 SAR '000
Fixed rate securities	397,285	428,744	140,847	117,136	**538,132**	**545,880**
Floating rate notes	-	-	30,689	-	**30,689**	**-**
Structured credits	-	-	277,753	115,903	**277,753**	**115,903**
Hedge funds	-	-	1,401,205	1,257,818	**1,401,205**	**1,257,818**
Equities & others	96,813	41,697	-	-	**96,813**	**41,697**
Total Held at FVIS	**494,098**	**470,441**	**1,850,494**	**1,490,857**	**2,344,592**	**1,961,298**

FVIS investments above include investments held for trading of SAR 665.6 million (2010: SAR 587.6 million). The designated FVIS investments included above are so designated when the financial instruments include one or more embedded derivatives or are being evaluated on a fair value basis and are in accordance with the documented risk management strategy of the Group.

ii) Available for sale

	Domestic		International		Total	
	2011 SAR '000	2010 SAR '000	2011 SAR '000	2010 SAR '000	2011 SAR '000	2010 SAR '000
Fixed rate securities	15,161,241	17,118,865	10,187,929	9,676,010	**25,349,170**	**26,794,875**
Floating rate notes	4,663,990	4,560,113	4,198,433	4,268,408	**8,862,423**	**8,828,521**
Structured credits	-	-	-	450	**-**	**450**
Private equity	-	-	612,607	650,037	**612,607**	**650,037**
Equities & others	2,905,485	2,810,302	116,538	88,942	**3,022,023**	**2,899,244**
Total available for sale	**22,730,716**	**24,489,280**	**15,115,507**	**14,683,847**	**37,846,223**	**39,173,127**

iii) Held to maturity

	International		Total	
	2011 SAR '000	2010 SAR '000	2011 SAR '000	2010 SAR '000
Fixed rate securities	5,578,535	5,569,286	**5,578,535**	**5,569,286**
Total Held to maturity	**5,578,535**	**5,569,286**	**5,578,535**	**5,569,286**

iv) Other investments held at amortized cost, net

	Domestic		International		Total	
	2011 SAR '000	2010 SAR '000	2011 SAR '000	2010 SAR '000	2011 SAR '000	2010 SAR '000
Fixed rate securities	997,439	1,513,137	-	-	**997,439**	**1,513,137**
Floating rate notes	4,132,211	7,295,876	341,918	344,613	**4,474,129**	**7,640,489**
Mudaraba investments	8,523,031	8,594,133	410,563	431,254	**8,933,594**	**9,025,387**
Total other investments held at amortized cost	**13,652,681**	**17,403,146**	**752,481**	**775,867**	**14,405,162**	**18,179,013**
Total investments, net	**36,877,495**	**42,362,867**	**23,297,017**	**22,519,857**	**60,174,512**	**64,882,724**

b) The composition of investments is as follows:

	2011 (SAR'000)			2010 (SAR'000)		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Fixed rate securities	15,728,734	16,734,542	**32,463,276**	15,364,803	19,058,375	**34,423,178**
Floating rate notes	9,243,168	4,124,073	**13,367,241**	9,166,691	7,302,319	**16,469,010**
Equities	2,939,387	136,452	**3,075,839**	2,716,288	136,472	**2,852,760**
Mudaraba Investments	-	8,933,594	**8,933,594**	-	9,025,387	**9,025,387**
Others	297,835	2,036,727	**2,334,562**	253,348	1,859,041	**2,112,389**
Total	**28,209,124**	**31,965,388**	**60,174,512**	**27,501,130**	**37,381,594**	**64,882,724**

Unquoted securities principally comprise Saudi Government Development Bonds, Saudi Floating Rate Notes, Treasury Bills, Hedge funds and Private equities. In view of the nature of the market for such securities, carrying values are determined either by using an appropriate pricing model or net asset values, as provided by independent third parties. Included in fixed rate securities above are securities pledged under repurchase agreements with other banks and customers whose carrying value at December 31, 2011 was SAR 14,684 million (2010: SR 15,688 million).

Mudaraba is an arrangement approved by the Shariah Board under which the Bank provides funds to customers for a specified business activity. The returns under such arrangements are shared between the Bank and customer on a predetermined basis. Mudaraba investments are included under 'Other investments held at amortized cost'. The fair values of these Mudaraba investments are not expected to be significantly different from their carrying values.

c) The analysis of unrecognized gains and losses and fair values of held to maturity and other investments held at amortized cost, are as follows:

	2011 (SAR'000)				2010 (SAR'000)			
	Carrying value	Gross unrecognized gain	Gross unrecognized losses	Fair value	Carrying value	Gross unrecognized gain	Gross unrecognized losses	Fair value
Fixed rate securities	6,575,974	663,294	(1,199)	7,238,069	7,082,423	251,911	(9,310)	7,325,024
Floating rate notes	4,474,129	6,791	(99,886)	4,381,034	7,640,489	14,762	(112,282)	7,542,969
Mudaraba investments	8,933,594	-	-	8,933,594	9,025,387	-	-	9,025,387
Total	**19,983,697**	**670,085**	**(101,085)**	**20,552,697**	**23,748,299**	**266,673**	**(121,592)**	**23,893,380**

d) Credit quality of investments

The credit quality of investment portfolio is as follows:

	2011 SAR '000	2010 SAR '000
Saudi government bonds & Treasury Bills	20,641,244	26,356,621
Investment grade	34,092,546	34,634,523
Non-investment grade	4,304,140	2,920,232
Unrated	1,136,582	971,348
Total	**60,174,512**	**64,882,724**

The Bank uses its internal ratings to rate the credit quality of the investment portfolio. Investments classified under investment grade above comprise of credit exposures equivalent to Aaa to Baa3 ratings under Moody's ratings methodology. The unrated investments mainly comprise of private equities and hedge funds.

e) The investments by counter-party are as follows:

	2011 SAR '000	2010 SAR '000
Government and quasi government	36,496,409	41,480,930
Banks and other financial institutions	11,452,095	10,900,975
Corporate	9,901,582	10,745,893
Hedge funds	1,401,205	1,257,818
Others	923,221	497,108
Total	**60,174,512**	**64,882,724**

f) Investment in associated companies represents Bank's share of investment in entities where the Bank has significant influence but not the control through its overseas subsidiary. These investments are accounted for using the equity method of accounting.

6. Loans and advances, net

a) Loans and advances are classified as follows:

2011 (SAR '000)	Credit cards	Consumer loans	Commercial loans & advances	Others	Total
Held at amortized cost					
Performing loans and advances, gross	1,357,598	15,986,904	72,184,710	257,118	**89,786,330**
Non performing loans and advances	-	23,609	2,720,645	19,606	**2,763,860**
Total held at amortized cost	**1,357,598**	**16,010,513**	**74,905,355**	**276,724**	**92,550,190**
Provision for credit losses	(51,500)	(148,440)	(3,210,699)	(28,122)	**(3,438,761)**
Loans & advances, net	**1,306,098**	**15,862,073**	**71,694,656**	**248,602**	**89,111,429**

2010 (SAR'000)	Credit cards	Consumer loans	Commercial loans & advances	Others	Total
Held at amortized cost					
Performing loans and advances, gross	1,553,368	14,194,437	64,756,256	315,067	**80,819,128**
Non performing loans and advances	-	26,778	3,089,400	22,520	**3,138,698**
Total held at amortized cost	**1,553,368**	**14,221,215**	**67,845,656**	**337,587**	**83,957,826**
Provision for credit losses	(55,326)	(134,818)	(3,481,707)	(35,150)	**(3,707,001)**
Loans & advances, net	**1,498,042**	**14,086,397**	**64,363,949**	**302,437**	**80,250,825**

Loans and advances, net includes Shariah-approved banking products in respect of Murabaha, Ijara and Tawarruq finance, which are stated at amortized cost less provision for credit losses amounting to SAR 35,793 million (2010: SAR 29,494 million).

b) Movement in provision for credit losses are as follows:

2011 (SAR'000)	Credit cards	Consumer loans	Commercial loans & advances	Others	Total
Balance at the beginning of the year	55,326	134,818	3,481,707	35,150	**3,707,001**
Provided during the year, net	(3,826)	15,562	270,531	(4,659)	**277,608**
Bad debts written off	-	(737)	(494,629)	(151)	**(495,517)**
Recoveries of amounts previously provided	-	-	(44,620)	(258)	**(44,878)**
Exchange adjustment	-	(1,203)	(2,290)	(1,960)	**(5,453)**
Balance at the end of the year	**51,500**	**148,440**	**3,210,699**	**28,122**	**3,438,761**

2010 (SAR'000)	Credit cards	Consumer loans	Commercial loans & advances	Others	Total
Balance at the beginning of the year	58,812	139,976	3,142,442	34,600	**3,375,830**
Provided during the year, net	(3,486)	(4,143)	377,955	1,332	**371,658**
Bad debts written off	-	(650)	(2,025)	(96)	**(2,771)**
Recoveries of amounts previously provided	-	-	(33,406)	(286)	**(33,692)**
Exchange adjustment	-	(365)	(3,259)	(400)	**(4,024)**
Balance at the end of the year	**55,326**	**134,818**	**3,481,707**	**35,150**	**3,707,001**

During the year, the Bank has charged an amount of SAR 301.4 million (2010: SAR 558.8 million) to the statement of consolidated income on account of provision for credit losses which is net of recoveries of amounts previously provided and net direct write-offs.

c) Credit quality of loans and advances:

i) Ageing of loans and advances past due but not impaired

2011 (SAR'000)	Credit cards	Consumer loans	Commercial loans & advances	Others	Total
Less than 90 days	104,533	376,192	432,259	-	**912,984**
90 days and more	23,918	49,762	59,626	-	**133,306**
Total	**128,451**	**425,954**	**491,885**	**-**	**1,046,290**

2010 (SAR'000)	Credit cards	Consumer loans	Commercial loans & advances	Others	Total
Less than 90 days	152,399	378,249	877,806	399	**1,408,853**
90 days and more	25,941	67,379	89,289	-	**182,609**
Total	**178,340**	**445,628**	**967,095**	**399**	**1,591,462**

ii) **Economic sector risk concentration for the loans and advances and the related credit loss provision is follows:**

2011	Performing SAR '000	Non-performing SAR '000	Credit loss provision SAR '000	Loans & advances, net SAR '000
Government and quasi government	565,519	-	322	**565,197**
Banks and other financial institutions	6,372,033	102,672	356,912	**6,117,793**
Agriculture and fishing	4,217,718	361	7,092	**4,210,987**
Manufacturing	11,945,725	132,971	276,114	**11,802,582**
Mining and quarrying	804,614	33,437	40,004	**798,047**
Electricity, water, gas and health services	5,499,963	24,672	73,427	**5,451,208**
Building and construction	6,025,228	208,589	338,577	**5,895,240**
Commerce	16,787,659	141,107	200,317	**16,728,449**
Transportation and communication	5,547,225	8,869	38,131	**5,517,963**
Services	3,786,116	1,081,001	411,831	**4,455,286**
Consumer loans and credit cards	17,344,502	23,609	199,940	**17,168,171**
Other	10,890,028	1,006,572	1,496,094	**10,400,506**
Total	**89,786,330**	**2,763,860**	**3,438,761**	**89,111,429**

2010	Performing SAR '000	Non-performing SAR '000	Credit loss provision SAR '000	Loans & advances, net SAR '000
Government and quasi government	746,361	-	3,886	**742,475**
Banks and other financial institutions	4,440,964	1,102	110,130	**4,331,936**
Agriculture and fishing	3,687,343	69,845	97,411	**3,659,777**
Manufacturing	10,740,596	193,960	396,275	**10,538,281**
Mining and quarrying	877,555	41,489	52,139	**866,905**
Electricity, water, gas and health services	3,056,262	20,610	75,185	**3,001,687**
Building and construction	6,117,986	251,382	429,953	**5,939,415**
Commerce	17,314,473	207,279	385,447	**17,136,305**
Transportation and communication	4,769,850	52,699	124,297	**4,698,252**
Services	3,052,183	1,110,164	484,674	**3,677,673**
Consumer loans and credit cards	15,747,805	26,778	190,144	**15,584,439**
Other	10,267,750	1,163,390	1,357,460	**10,073,680**
Total	**80,819,128**	**3,138,698**	**3,707,001**	**80,250,825**

iii) Analysis of loans and advances which are neither past due nor impaired

	2011 SAR '000	2010 SAR '000
Investment grade	32,682,551	28,656,600
Non-investment grade	55,697,155	50,277,801
Unrated	360,334	293,265
Total	**88,740,040**	**79,227,666**

The Bank uses its internal ratings to rate the credit quality of the loans and advances portfolio. Loans and advances classified under investment grade above comprise of credit exposures equivalent to Aaa to Baa3 ratings under Moody's ratings methodology.

d) Collateral

Fair value of collateral held by Bank against loans and advances by each category are as follows:

	2011 SAR '000	2010 SAR '000
Neither past due nor impaired	33,390,372	22,640,457
Past due but not impaired	8,423,223	15,450,608
Impaired	207,774	251,962
Total	**42,021,369**	**38,343,027**

The collateral consists of deposits, financial guarantees, marketable securities and real estate. Those collaterals which are not readily convertible into cash (i.e. real estate) are accepted by the Bank with intent to dispose off in case of default by the customer.

7. Property and equipment, net

	Land & buildings (SAR'000)	Leasehold improvements (SAR'000)	Furniture, equipment & vehicles (SAR'000)	2011 Total (SAR'000)	2010 Total (SAR'000)
Cost					
Balance at the beginning of the year	931,364	522,089	880,174	**2,333,627**	**2,320,917**
Additions	91	23,145	148,942	**172,178**	**82,733**
Disposals and adjustments	(404)	-	(47,860)	**(48,264)**	**(68,096)**
Exchange adjustment	(2,843)	(5)	(2,148)	**(4,996)**	**(1,927)**
Balance at the end of the year	**928,208**	**545,229**	**979,108**	**2,452,545**	**2,333,627**
Accumulated depreciation					
Balance at the beginning of the year	509,169	282,867	789,030	**1,581,066**	**1,512,041**
Charge for the year	11,639	45,610	77,297	**134,546**	**135,387**
Disposals and adjustments	-	-	(25,765)	**(25,765)**	**(65,781)**
Exchange adjustment	(210)	(2)	(1,338)	**(1,550)**	**(581)**
Balance at the end of the year	**520,598**	**328,475**	**839,224**	**1,688,297**	**1,581,066**
Net book value as at December 31, 2011	**407,610**	**216,754**	**139,884**	**764,248**	
Net book value as at December 31, 2010	**422,195**	**239,222**	**91,144**		**752,561**
Capital work in progress				**405,184**	**217,684**
Total				**1,169,432**	**970,245**

8. Other assets

	2011 SAR '000	2010 SAR '000
Accrued special commission receivable:		
Banks and other financial institutions	6,498	14,447
Investments	213,743	203,886
Loans and advances	196,381	203,423
Total accrued special commission receivable	**416,622**	**421,756**
Accounts receivable	90,945	460,868
Positive fair value of derivatives (note 9)	5,217,868	4,827,632
Other real estate, net	18,492	129,563
Goodwill	26,328	27,653
Other	307,509	372,748
Total	**6,077,764**	**6,240,220**

9. Derivatives

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

Swaps are contractual agreements 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 currency swaps, fixed commission payments and principal are exchanged in different currencies. For cross currency commission rate swaps, principal, fixed and floating commission payments are exchanged in different currencies.

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.

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

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 stipulated period, a specified amount of a currency, commodity, equity or financial instrument at a pre-determined price.

Derivatives held for trading purposes

Most of the Group's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers in order to, inter alia, 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.

Derivatives held for hedging purposes

As part of its asset and liability management, the Group 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 as well as by strategic hedging against overall statement of financial position exposures. Strategic hedging does not qualify for special hedge accounting and the related derivatives are accounted for as held for trading.

The Group uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks. In addition, the Group uses commission rate swaps and commission rate futures to hedge against the commission rate risk arising from specifically identified fixed commission rate exposures. The Group also uses commission rate swaps to hedge against the cash flow risk arising on certain floating rate exposures. In all such cases, the hedging relationship and objective, including the details of the hedged items and hedging instrument are formally documented and the transactions are accounted for as fair value or cash flow hedges.

The table below shows the positive and negative fair values of derivative financial instruments, together with the notional amounts analyzed by the term to maturity and the 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 Group's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor to market risk.

The analysis of derivative financial instruments and the related fair values together with the notional amounts classified by the term to maturity is as follows:

				Notional amounts by term to maturity				
2011	**Positive Fair value SAR '000**	**Negative Fair value SAR '000**	**Notional amount Total SAR '000**	**Within 3 Months SAR'000**	**3-12 Months SAR'000**	**1-5 Years SAR'000**	**Over 5 Years SAR'000**	**Monthly Average SAR '000**
Held for trading								
Commission rate swaps	4,364,702	1,690,554	99,849,210	7,516,852	9,669,613	49,930,738	32,732,007	102,056,172
Commission rate futures, options and guarantees	7,233	7,233	1,227,365	-	-	1,227,365	-	3,872,085
Forward foreign exchange contracts	112,880	100,670	41,885,825	19,622,689	22,087,372	175,764	-	43,274,421
Currency options	218,595	218,515	27,897,413	6,383,708	11,139,415	10,374,290	-	18,875,803
Swaptions	185,232	183,774	6,872,606	274,519	4,406,250	2,191,837	-	9,610,594
Equity & commodity options	29,908	33,503	921,398	324,109	290,477	306,812	-	745,844
Other	4,286	71	386,769	37,500	250,000	99,269	-	620,249
Held as fair value hedges								
Commission rate futures & options	-	2,492	748,500	748,500	-	-	-	187,125
Commission rate swaps	-	3,329	46,875	-	-	46,875	-	609,375
Held as cash flow hedges								
Commission rate swaps	295,032	134,461	9,781,250	375,000	4,167,500	3,066,750	2,172,000	10,178,125
Total	**5,217,868**	**2,374,602**	**189,617,211**	**35,282,877**	**52,010,627**	**67,419,700**	**34,904,007**	

2010	Positive Fair value SAR '000	Negative Fair value SAR '000	Notional amount Total SAR '000	Notional amounts by term to maturity: Within 3 Months SAR'000	3-12 Months SAR'000	1-5 Years SAR'000	Over 5 Years SAR'000	Monthly Average SAR '000
Held for trading								
Commission rate swaps	3,794,120	1,957,247	109,187,163	5,828,436	13,201,079	58,576,844	31,580,804	100,169,432
Commission rate futures, options and guarantees	276,642	276,704	11,132,006	-	825,000	5,885,381	4,421,625	11,402,940
Forward foreign exchange contracts	153,117	151,281	43,295,640	25,472,042	17,325,002	498,596	-	49,822,807
Currency options	63,554	65,755	5,844,674	2,353,874	3,470,226	20,574	-	9,239,649
Swaptions	68,113	64,706	6,931,831	-	4,875,000	2,056,831	-	4,141,666
Equity & commodity options	51,289	50,406	617,258	141,992	317,757	157,509	-	963,134
Other	5,956	963	212,308	11,250	82,500	81,058	37,500	720,375
Held as fair value hedges								
Commission rate swaps	-	5,237	46,875	-	-	46,875	-	46,875
Held as cash flow hedges								
Commission rate swaps	414,841	559	11,821,250	-	2,565,000	8,671,750	584,500	11,685,375
Total	**4,827,632**	**2,572,858**	**189,089,005**	**33,807,594**	**42,661,564**	**75,995,418**	**36,624,429**	

The tables below show a summary of hedged items, the nature of the risk being hedged, the hedging instrument and their fair values:

Description of hedged items	Fair value	Nature of Hedge	Hedging Instrument	Positive fair value	Negative fair value
2011 (SR '000)					
Fixed rate notes	887,961	Fair value	Commission rate swaps, futures and options	-	5,821
Fixed and floating rate notes	9,564,358	Cash flow	Commission rate swaps	295,032	134,461

Description of hedged items	Fair value	Nature of Hedge	Hedging Instrument	Positive fair value	Negative fair value
2010 (SR '000)					
Fixed rate notes	53,599	Fair value	Commission rate swaps	-	5,237
Floating rate notes	9,166,056	Cash flow	Commission rate swaps	414,841	559

The losses on the hedging instruments for fair value hedges are SAR 0.41 million (2010: Losses of SAR 1.91 million). The gains on the hedged items attributable to the hedged risk are SAR 0.41 million (2010: Gains of SAR 1.91 million). The net fair value of the derivatives is negative SAR 5.8 million (2010: Net negative fair value of SAR 5.24 million).

Cash flow hedges

The Group is exposed to variability in future cash flows on non-trading assets and liabilities which bear special commission at a variable rate. The Group generally uses special commission rate swaps as hedging instruments to hedge against these special commission rate risks. Also, as a result of firm commitments in foreign currencies, the Group is exposed to foreign exchange and special commission rate risks which are hedged with cross currency special commission rate swaps.

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

2011 (SAR'000)	Within 3 Months	3-12 Months	1-5 Years	Over 5 years	Total
Cash inflows (assets)	113,674	201,358	328,794	96,848	**740,674**

2010 (SAR'000)	Within 3 Months	3-12 Months	1-5 Years	Over 5 years	Total
Cash inflows (assets)	22,859	68,576	155,973	-	**247,408**

Approximately 36% (2010: 42%) of the positive fair value of the Group's derivatives are entered into with financial institutions and less than 31% (2010: 17%) of the positive fair value contracts are with any single counter-party at the statement of financial position date.

10. Due to banks and other financial institutions

	2011 SAR '000	2010 SAR '000
Current accounts	566,048	1,153,935
Money market deposits	20,062,245	18,646,700
Total	**20,628,293**	**19,800,635**

Money market deposits include deposits against the sale of fixed rate securities of SAR 13,237 million (2010: SAR 11,908 million) with an agreement to repurchase the same at fixed future dates.

11. Customer deposits

a) Customer deposits comprise the following:

	2011 SAR '000	2010 SAR '000
Demand	78,770,255	68,046,850
Savings	4,333,533	3,461,591
Time	49,482,491	55,561,083
Other	4,670,585	6,393,440
Total	**137,256,864**	**133,462,964**

Time deposits include deposits accepted under Shariah approved banking product contracts, of SAR 17,166 million (2010: SAR 20,511 million).

Time deposits include deposits against sale of fixed rate securities of SAR 1,500 million (2010: SAR 3,822 million) with agreements to repurchase the same at fixed future dates. Other customer deposits include SAR 838 million (2010: SAR 963 million) of margins held against facilities extended to customers.

Included in time deposits are market linked customer deposits amounting to SAR 264 million (2010: SAR 523 million), which are designated FVIS liabilities. The deposits are so designated when they include one or more embedded derivatives or are being evaluated on a fair value basis in accordance with the documented risk management strategy of the Group.

The above include foreign currency deposits as follows:

	2011 SAR '000	2010 SAR '000
Demand	7,487,209	5,647,053
Savings	183,773	108,845
Time	17,426,655	14,821,695
Other	311,501	426,963
Total	**25,409,138**	**21,004,556**

12. Other liabilities

	2011 SAR '000	2010 SAR '000
Accrued special commission payable:		
Banks and other financial institutions	5,268	4,394
Customer deposits	193,390	347,862
Debt securities issued	-	991
Total accrued special commission payable	**198,658**	**353,247**
Accounts payable	465,188	529,933
Negative fair value of derivatives (note 9)	2,374,602	2,572,858
Unearned special commission	2,288,066	2,061,059
Customer initial public offering deposits	40,624	17,357
Other	1,264,233	1,140,181
Total	**6,631,371**	**6,674,635**

13. Debt securities issued

During the second quarter of 2006, the Bank, with the approval of SAMA and the Capital Market Authority (CMA), issued USD 500 million senior unsecured five-year floating rate notes under its USD 1.6 billion Euro Medium Term Notes (EMTN) program to be used for general corporate purposes. These notes carried a special commission rate of LIBOR plus 30bps and were listed on the London Stock Exchange. The debt securities have been repaid during the year upon maturity.

The Bank accounts for such notes at amortized cost which is calculated by taking into account the discount allowed, if any, at the time of the issue.

14. Share capital

The authorized, issued and fully paid share capital of the Bank consists of 900 million shares of SAR 10 each.

15. Statutory and general reserves

In accordance with the Banking Control Law of the Kingdom of Saudi Arabia and the Articles of Association of the Bank, a minimum of 25% of the net income for the year is required to be transferred to a statutory reserve until this reserve equals the paid up capital of the Bank. Since the statutory reserve now equals the paid up capital , no amount has been transferred from 2011 net income (2010: SAR 750.9 million) to the statutory reserve. The statutory reserve is not currently available for distribution.

In addition, as and when considerate appropriate, the Bank makes an appropriation to general reserve for general banking risks.

16. Fair value reserves

2011	Cash flow hedges	Available for sale financial assets	Total
	SAR'000	SAR'000	SAR'000
Balance at beginning of the year	287,533	(680,511)	**(392,978)**
Net change in fair value	(572,411)	469,429	**(102,982)**
Transfer to statements of consolidated income	317,095	(434,300)	**(117,205)**
Net movement during the year	(255,316)	35,129	**(220,187)**
Balance at end of the year	**32,217**	**(645,382)**	**(613,165)**

2010	Cash flow hedges	Available for sale financial assets	Total
	SAR'000	SAR'000	SAR'000
Balance at beginning of the year	300,183	(1,515,087)	**(1,214,904)**
Net change in fair value	(324,341)	1,348,196	**1,023,855**
Transfer to statements of consolidated income	311,691	(513,620)	**(201,929)**
Net movement during the year	(12,650)	834,576	**821,926**
Balance at end of the year	**287,533**	**(680,511)**	**(392,978)**

17. Commitments and contingencies

a) Legal proceedings

No provision has been made in relation to legal proceedings existing as at December 31, 2011and 2010 as no material costs are expected to be incurred.

b) Capital commitments

The Group's capital commitments as at December 31, 2011 and 2010 in respect of building and equipment purchases are not material to the financial position of the Bank.

c) Credit related commitments and contingencies

Credit related commitments and contingencies mainly comprise letters of credit, guarantees, acceptances and irrevocable commitments to extend credit. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group 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. Documentary letters of credit which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group 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 less risk. Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be presented before being reimbursed by the customers. Cash requirements under these instruments are considerably less than the amount of the related commitment because the Group generally expects the customers to fulfill their primary obligation.

Commitments to extend credit represent the unused portion of approved facilities 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 Group 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 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 may expire or terminate without being funded.

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

2011 (SAR '000)	**Within 3 Months**	**3-12 Months**	**1-5 Years**	**Over 5 Years**	**Total**
Letters of credit	3,845,931	2,914,545	987,973	-	**7,748,449**
Letters of guarantee	5,652,090	11,776,020	9,557,654	66,412	**27,052,176**
Acceptances	1,500,305	348,138	44,866	-	**1,893,309**
Irrevocable commitments to extend credit	1,330,942	1,022,444	1,761,272	1,209,577	**5,324,235**
Other	-	3,755	-	323,087	**326,842**
Total	**12,329,268**	**16,064,902**	**12,351,765**	**1,599,076**	**42,345,011**

2010 (SAR '000)	**Within 3 Months**	**3-12 Months**	**1-5 Years**	**Over 5 Years**	**Total**
Letters of credit	3,271,350	2,312,462	1,355,217	-	**6,939,029**
Letters of guarantee	5,733,463	10,414,926	8,328,643	5,120	**24,482,152**
Acceptances	1,315,202	628,240	65,550	-	**2,008,992**
Irrevocable commitments to extend credit	698,803	472,922	2,136,518	742,610	**4,050,853**
Other	288,655	-	-	-	**288,655**
Total	**11,307,473**	**13,828,550**	**11,885,928**	**747,730**	**37,769,681**

The unused portion of commitments outstanding as at December 31, 2011 which can be revoked unilaterally at any time by the Bank amounts to SAR 64,093 million (2010: SAR 62,843 million).

ii) The analysis of credit related commitments and contingencies by counter-party are as follows:

	2011 SAR '000	**2010 SAR '000**
Corporate	40,709,611	34,845,474
Banks and other financial institutions	1,200,715	2,572,949
Other	434,685	351,258
Total	**42,345,011**	**37,769,681**

d) Assets pledged

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

	2011 SAR'000		**2010 SAR'000**	
	Assets	**Related liabilities**	**Assets**	**Related liabilities**
Available for sale investments	7,001,728	6,950,002	6,104,665	6,185,147
Other investments held at amortized cost	7,682,414	7,648,969	9,583,069	9,544,694
Total	**14,684,142**	**14,598,971**	**15,687,734**	**15,729,841**

e) Operating lease commitments

The future minimum lease payments under non-cancelable operating leases where the Group is the lessee are not material to the financial position of Group. .

18. Special commission income and expense

	2011 SAR '000	2010 SAR '000
Special commission income		
Investments:		
Available for sale	589,526	662,425
Held to maturity	172,618	149,160
Other investments held at amortized cost	659,452	687,794
	1,421,596	1,499,379
Due from banks and other financial institutions	76,435	96,709
Loans and advances	3,356,496	3,598,566
Total	**4,854,527**	**5,194,654**
Special commission expense		
Due to banks and other financial institutions	108,175	202,935
Customer deposits	364,434	442,169
Debt securities issued	6,260	13,089
Total	**478,869**	**658,193**

19. Fee and commission income, net

	2011 SAR '000	2010 SAR '000
Fee and commission income:		
Share trading and fund management	386,458	319,506
Trade finance	314,087	284,694
Corporate finance and advisory	107,206	100,318
Other banking services	756,172	701,808
Total	**1,563,923**	**1,406,326**
Fee and commission expense:		
Cards	(27,188)	(11,373)
Other banking services	(138,030)	(137,016)
Total	**(165,218)**	**(148,389)**
Fee and commission income, net	**1,398,705**	**1,257,937**

20. Trading income, net

	2011 SAR '000	2010 SAR '000
Debt securities	33,888	39,294
Derivatives	(158,468)	8,302
Total	**(124,580)**	**47,596**

21. Gains on non-trading investments, net

	2011 SAR '000	2010 SAR '000
Available for sale	434,300	512,556
Other investments held at amortized cost	51,957	24,779
Total	**486,257**	**537,335**

22. Other operating income

	2011 SAR '000	2010 SAR '000
Gain on disposal of property and equipment	3,311	1,212
Dividend income	114,275	39,087
Other	5,776	62,101
Total	**123,362**	**102,400**

23. Salaries and employee related expenses

The Bank's compensation policy is fully compliant with the regulatory requirements of SAMA and international standards of Financial Stability Forum with respect to compensation. Our policy defines the level and categories of key employees whose goal settings, performance measurement and appraisal processes are based on a balanced scorecard approach that links the financial performance evaluation with associated risks, at the overall bank level. The Bank's overall variable compensation pool is derived from the Risk Adjusted Net Income of the bank which takes into account significant existing and potential risks in order to protect Bank's capital adequacy and to mitigate risk of potential future losses. A process of distributing variable compensation payments over three annual installments is in place for key employees. Further, claw-back arrangements are included to address adverse future performance. No guaranteed bonuses are allowed. Through these mechanisms, the Bank has successfully achieved the policy objectives of ensuring that the overall variable compensation takes into account risks associated with financial performance and adjustments to deferred compensation are considered pursuant to any negative future impact arising out of decisions made during the current period. The Bank is finalizing the mechanism of building risk measurement tools into individual performance evaluation process.

Variable compensation is awarded to eligible employees in the form of cash, stock options or a combination of both. The proportion of variable compensation to be paid in cash and stock options is determined based on the level of responsibility and role of the individual employee, as well as the business area in which the employee works and it commensurate the risk taking or controlling ability of the employee .

In accordance with regulatory requirements relating to the corporate governance, Bank's Board of Directors has established a Nomination and Remuneration Committee (NRC) which comprises of three non-executive directors, chaired by an independent board member. The NRC is responsible for the overall architecture and oversight of the compensation system. The NRC makes its recommendations to the Board on the level and composition of remuneration after taking into account the Risk Management Group's input. NRC also reviews periodically the progress of the Compensation Policy implementation and ensures that its stated objectives are achieved in line with the laid out guidelines. Additionally progress reports are submitted to SAMA on a periodical basis. Currently, SBL Pakistan is in progress for implementing the best practices of the rules in terms of governance and performance measurement, as applicable.

The following is a breakup of the compensation paid to Bank's employees for 2011. The schedule separately shows compensation relating to Bank's subsidiary SBL.

Category	Number of Employees		Fixed Compensation	
	2011	2010	2011 SAR'000	2010 SAR'000
Senior executives*	14	14	22,479	21,239
Employees engaged in risk taking activities	939	975	312,953	321,401
Employees engaged in control functions	583	614	133,594	132,725
Other employees	1,521	1,532	167,925	165,605
Outsourced employees engaged in risk taking activities	-	-	-	-
Total	**3,057**	**3,135**	**636,951**	**640,970**
Variable compensation accrued during the year			141,632	140,638
Other employee related costs**			419,914	399,616
Employee related costs relating to SBL Pakistan			29,015	28,488
Total salaries & employee related expenses			**1,227,512**	**1,209,712**

The variable compensation paid to various employee categories during 2011 is as follows:

Category	2011 (SAR'000) Cash	Shares	Total
Senior executives*	24,054	-	24,054
Employees engaged in risk taking activities	72,021	-	72,021
Employees engaged in control functions	15,004	-	15,004
Other employees	5,906	-	5,906
Outsourced employees engaged in risk taking activities	-	-	-
Total	**116,985**	**-**	**116,985**

* Senior executives are employees whose appointment requires approval from SAMA.

** Other employee related costs include insurance premium paid, GOSI contribution, relocation charges, recruitment expenses, training and development and certain other employee related costs.

24. Basic and diluted earnings per share

Basic and diluted earnings per share is calculated by dividing the net income for the years 2011 and 2010 by 900 million shares.

25. Dividend, Zakat and income tax

The Board of Directors have proposed a final dividend of SR 831 million for 2011 (2010: SR 732 million). After deducting the applicable Zakat & income taxes, this will yield a net payment of SR 0.85 per share to the Saudi shareholders of the Bank (2010: SR 0.75). The total net dividend for the year to Saudi shareholders is SR 1.65 per share (2010: SR 1.65 per share) of which SR 0.80 (2010: SR 0.90) was paid as interim dividend earlier during the year.

The proposed final dividend is included within the equity until approved by the shareholders' annual general assembly.

Zakat attributable to Saudi shareholders for the year is estimated at SR 118 million (2010: SR 116 million) which will be deducted from their share of dividend. Income tax liability of the foreign shareholders on their current year's share of income is estimated at SR 32 million (2010: SR 32 million). Any such unpaid income tax liability for 2011 will be deducted from their share of dividend for the year. The net dividend to foreign shareholders is SR 22 million (2010: SR 22 million).

26. Cash and cash equivalents

Cash and cash equivalents for the purpose of the statements of consolidated cash flows comprise the following:

	2011 SAR'000	2010 SAR'000
Cash and balances with Central Banks excluding statutory deposit (note 3)	26,463,049	26,283,452
Due from banks and other financial institutions	44,098	975,661
Total	**26,507,147**	**27,259,113**

27. Operating segments

The Group is organized into the following main operating segments:

Consumer – comprises of individual customer time deposits, current, call and savings accounts, as well as credit cards, retail investment products and consumer loans.

Corporate – comprises of corporate time deposits, current and call accounts, overdrafts, loans and other credit facilities as well the Group's investment, trading and derivative portfolios and its corporate finance advisory services.

Treasury – principally manages money market, foreign exchange, commission rate trading and derivatives for corporate and institutional customers as well as for the Group's own account. It is also responsible for funding the Group's operations, maintaining liquidity and managing the Group's investment portfolio and statement of financial position.

Investment banking – deals in investment management services and asset management activities related to dealing, managing, arranging, advising and custody businesses. The investment banking business is housed under a separate legal entity Samba Capital and Investment Management Company.

The Group's primary business is conducted in Kingdom of Saudi Arabia with three overseas branches and one overseas subsidiary.

However, the results of operations of the overseas operations are not material to the Group's overall consolidated financial statements. Transactions between the business segments are on normal commercial terms. Funds are ordinarily reallocated between segments, resulting in funding cost transfers. Special commission charged for these funds is based on inter-bank rates. There are no other material items of income or expense between the business segments.

a) The Bank's total assets and liabilities as at December 31, 2011 and 2010, its total operating income, total operating expenses, net income, capital expenditure and depreciation expense for the years then ended, by operating segment, are as follows:

2011 (SAR'000)	**Consumer**	**Corporate**	**Treasury**	**Investment banking**	**Total**
Total assets	32,492,151	69,584,196	90,596,527	101,016	**192,773,890**
Total liabilities	67,448,659	75,001,178	22,012,141	54,550	**164,516,528**
Total operating income	2,653,322	2,496,445	897,685	514,915	**6,562,367**
Total operating expenses	1,142,354	539,502	112,892	161,358	**1,956,106**
Provisions for credit losses	63,216	238,196	-	-	**301,412**
Net income	1,447,752	1,718,747	784,793	353,557	**4,304,849**
Capital expenditure	30,211	286,373	368	42,726	**359,678**
Depreciation	51,375	73,072	2,281	7,818	**134,546**

2010 (SAR'000)	**Consumer**	**Corporate**	**Treasury**	**Investment banking**	**Total**
Total assets	30,344,458	60,324,118	96,677,895	69,369	**187,415,840**
Total liabilities	65,367,790	74,175,619	22,247,645	21,900	**161,812,954**
Total operating income	2,693,712	2,546,861	1,222,437	437,490	**6,900,500**
Total operating expenses	1,068,700	522,433	121,665	196,804	**1,909,602**
Provisions for credit losses	107,255	451,537	-	-	**558,792**
Net income	1,517,757	1,572,891	1,100,772	240,686	**4,432,106**
Capital expenditure	55,518	154,190	2,187	1,537	**213,432**
Depreciation	58,098	70,030	3,012	4,247	**135,387**

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

2011 (SAR'000)	**Consumer**	**Corporate**	**Treasury**	**Investment Banking**	**Total**
Balance sheet risk assets	26,582,142	62,524,930	62,906,519	4,358	**152,017,949**
Commitments and contingencies	272,522	24,302,709	339,455	-	**24,914,686**
Derivatives	129,946	2,327,850	5,158,313	-	**7,616,109**

2010 (SAR'000)	**Consumer**	**Corporate**	**Treasury**	**Investment Banking**	**Total**
Balance sheet risk assets	28,550,172	52,068,537	66,999,855	5,893	**147,624,457**
Commitments and contingencies	359,634	21,679,243	313,574	-	**22,352,451**
Derivatives	26,141	1,563,113	4,041,613	-	**5,630,867**

Balance sheet risk assets comprise of the carrying value of statement of financial position, excluding cash and balances with Central Banks, property and equipment and other assets. Credit exposures relating to commitments, contingencies and derivatives are stated at their credit equivalent amounts as prescribed by Central Banks.

28. Credit Risk

Credit risk is the risk that a customer will fail to discharge its financial obligation to the Group and will cause the Group to incur a financial loss. The Group seeks to manage its credit risk exposure by ensuring that its customers meet the minimum credit standards defined by the Group's management and through diversification of lending activities to ensure that there is no undue concentration of risks with individuals, or within groups of customers in specific locations or businesses. The Group continually assesses and monitors credit exposures to ensure timely identification of potential problem credits.

In addition to monitoring credit limits, the Group manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and by limiting the duration of exposure. In certain cases the Group may also close out transactions and settle on a net present value basis.

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 Group's performance to developments affecting a particular industry or geographical location. The Group limits the impact of concentration risk in exposure by setting progressively lower limits for longer tenors and taking security, where considered appropriate, to mitigate such risks.

Debt instruments included in the Group's investment portfolio are mainly sovereign risk instruments. Analysis of investments by counterparty and the composition of loans and advances is provided in notes 5 and 6 to the consolidated financial statements, respectively. The nature and extent of credit risk relating to derivative instruments and commitments and contingencies is provided in notes 9 and 17, respectively.

The Group classifies its exposure into ten risk categories that are compatible with internationally recognized ratings. Of these, eight categories are for performing and two for non-performing. Each individual borrower is rated based on an internally developed debt rating model that evaluates risk based on financial as well as qualitative inputs. The risk rating categories drive the due diligence and approval process, and these ratings are reviewed at least annually or sooner if any adverse signs are visible. These categories also form the basis for managing credit concentrations and identifying problem credits.

Exposures falling below a certain classification threshold are considered to be impaired, and appropriate specific provisions are made against these loans by comparing the present value of expected future cash flows for each such exposure with its carrying amount on the basis of criteria prescribed by IAS 39. Impairment and uncollectible are also measured and recognized on a portfolio basis for a group of similar credit exposure that are not individually identified as impaired.

28.1 Maximum exposure to credit risk without taking into account any collateral and other credit enhancements is as follows:

	2011 SAR'000	2010 SAR'000
ASSETS		
Due from banks and other financial institutions	2,731,799	2,490,689
Investments & investment in associate	60,174,721	64,882,943
Loans and advances, net	89,111,429	80,250,825
Total Assets	**152,017,949**	**147,624,457**
Contingent liabilities and commitments	24,914,686	22,352,451
Derivatives	7,616,109	5,630,867
Total	**184,548,744**	**175,607,775**

29. Geographical concentration

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

2011 (SAR'000)	Kingdom of Saudi Arabia	GCC & Middle east	Europe	North America	South East Asia	Other countries	Total
Assets							
Cash & balances with central banks	33,370,225	75,676	1,824	-	-	61,020	**33,508,745**
Due from banks and other financial institutions	164,113	862,301	527,606	1,112,081	5,430	60,268	**2,731,799**
Investments & investment in associate	36,877,704	2,213,157	5,399,119	14,651,424	512,402	520,915	**60,174,721**
Loans and advances, net	79,630,170	7,608,843	957,333	-	-	915,083	**89,111,429**
Total	**150,042,212**	**10,759,977**	**6,885,882**	**15,763,505**	**517,832**	**1,557,286**	**185,526,694**
Liabilities							
Due to banks & other financial institutions	6,271,526	4,843,659	6,359,780	2,528,582	-	624,746	**20,628,293**
Customer deposits	135,752,396	670,186	85,502	608	3,701	744,471	**137,256,864**
Total	**142,023,922**	**5,513,845**	**6,445,282**	**2,529,190**	**3,701**	**1,369,217**	**157,885,157**
Credit Exposure (stated at credit equivalent)							
Commitments & contingencies	18,215,077	2,244,300	1,202,577	764,842	1,801,005	686,885	24,914,686
Derivatives	2,948,865	174,188	3,976,764	440,899	-	75,393	7,616,109
Total	**21,163,942**	**2,418,488**	**5,179,341**	**1,205,741**	**1,801,005**	**762,278**	**32,530,795**

2010 (SAR'000)	Kingdom of Saudi Arabia	GCC & Middle East	Europe	North America	South East Asia	Other countries	Total
Assets							
Cash & balances with central banks	32,482,063	41,662	2,444	-	-	54,749	**32,580,918**
Due from banks & other financial institutions	580,506	602,456	1,102,848	103,140	14,872	86,867	**2,490,689**
Investments & Investment in associate	42,363,086	2,454,623	3,597,688	14,749,037	398,070	1,320,439	**64,882,943**
Loans and advances, net	73,486,742	5,294,083	728,157	-	210,208	531,635	**80,250,825**
Total	**148,912,397**	**8,392,824**	**5,431,137**	**14,852,177**	**623,150**	**1,993,690**	**180,205,375**
Liabilities							
Due to banks & other financial institutions	10,525,452	3,125,409	3,272,445	2,011,568	562,500	303,261	**19,800,635**
Customer deposits	130,772,336	1,970,454	65,132	338	540	654,164	**133,462,964**
Debt securities issued	-	-	1,874,720	-	-	-	**1,874,720**
Total	**141,297,788**	**5,095,863**	**5,212,297**	**2,011,906**	**563,040**	**957,425**	**155,138,319**
Commitments & contingencies	**28,660,657**	**2,660,577**	**2,615,562**	**559,154**	**3,143,007**	**130,724**	**37,769,681**
Credit Exposure (stated at credit equivalent)							
Commitments & contingencies	16,961,645	1,574,554	1,547,914	330,913	1,860,061	77,364	22,352,451
Derivatives	1,947,603	255,716	3,053,692	303,390	1,206	69,260	5,630,867
Total	**18,909,248**	**1,830,270**	**4,601,606**	**634,303**	**1,861,267**	**146,624**	**27,983,318**

Credit exposures are stated at their credit equivalent amounts as prescribed by SAMA.

b) The distribution by geographical concentration of non-performing loans and advances and provision for credit losses are as follows:

(SAR '000)	Non-performing loans, net		Provision for credit losses	
	2011	2010	2011	2010
Saudi Arabia	2,308,256	2,642,785	3,195,696	3,289,094
GCC and Middle East	56,206	1,102	12,122	1,102
Europe	290,168	376,057	124,875	302,508
Other countries	109,230	118,754	106,068	114,297
Total	**2,763,860**	**3,138,698**	**3,438,761**	**3,707,001**

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

a) Market Risk -Trading Book

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

A VAR methodology estimates the potential negative change in market value of a portfolio at a given confidence level and over a specified time horizon. The Group uses simulation models to assess the possible changes in the market value of the trading book based on historical data. VAR models are usually designed to measure the market risk in a normal market environment and therefore the use of VAR has limitations because it is based on historical correlations and volatilities in market prices and assumes that the future movements will follow a statistical normal distribution.

The VAR that the Group measures is an estimate, using a confidence level of 99% of the potential loss that is not expected to be exceeded if the current market positions were to be held unchanged for one day. The use of 99% confidence level depicts that within a one-day horizon, losses exceeding VAR figure should occur, on average, not more than once every hundred days.

The VAR represents the risk of portfolios at the close of a business day, and it does not account for any losses that may occur beyond the defined confidence interval. The actual trading results however, may differ from the VAR calculations and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions. To overcome the VAR limitations mentioned above, the Group also carries out stress tests of its portfolio to simulate conditions outside normal confidence intervals. The potential losses occurring under stress test conditions are reported regularly to the Group's Asset Liability Committee (ALCO) for their review.

The Group's VAR related information for the year ended December 31, 2011 and 2010 is as shown below.

2011 (SAR '000)	Foreign exchange risk	Special commission risk	Total
VAR as at December 31	3,095	5,040	**8,135**
Average VAR for the year	3,472	9,446	**12,918**
2010 (SAR '000)	**Foreign exchange risk**	**Special commission risk**	**Total**
VAR as at December 31	1,654	4,399	**6,053**
Average VAR for the year	3,295	6,604	**9,899**

b) Market Risk – Non-Trading or Banking Book

Market risk on non-trading or banking book positions mainly arises from the special commission rate, foreign currency exposures and equity price changes.

i) Special Commission Rate Risk

Special commission rate risk arises from the possibility that the changes in special commission rates will affect either the fair values or the future cash flows of the financial instruments. The Group has established special commission rate gap limits for stipulated periods. The Group monitors daily positions and uses hedging strategies to ensure maintenance of positions within the established gap limits.

The following table depicts the sensitivity to a reasonably possible change in special commission rates, with other variables held constant, on the Group's consolidated statement of income or equity. The sensitivity of the income is the effect of the assumed changes in special commission rates on the net special commission income for one year, based on non-trading financial assets and financial liabilities held as at December 31, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing the fixed rate available for sale financial assets, including the effect of any associated hedges as at December 31, for the effect of assumed changes in special commission rates. The sensitivity of equity is analyzed by maturity of the asset or swap.

All the banking book exposures are monitored and analyzed in currency concentrations and relevant sensitivities are presented below:

Currency	Increase / decrease in basis point	Sensitivity of special commission income	Sensitivity of equity				Total 2011 (SAR'000)
			6 months or less	6 to 12 months	1-5 years	Over 5 years	
SAR	+1 bps	998	(237)	(28)	(82)	(2)	**(349)**
	-1 bps	(998)	237	28	82	2	**349**
US Dollar	+1 bps	(7,527)	(685)	(638)	(4,101)	(2,887)	**(8,311)**
	-1 bps	7,527	685	638	4,101	2,887	**8,311**
Euro	+1 bps	(1,704)	(114)	(105)	(753)	(739)	**(1,711)**
	-1 bps	1,704	114	105	753	739	**1,711**

Currency	Increase / decrease in basis point	Sensitivity of special commission income	Sensitivity of equity				Total 2010 (SAR'000)
			6 months or less	6 to 12 months	1-5 years	Over 5 years	
SAR	+1 bps	2,791	(447)	(62)	(143)	(7)	**(659)**
	-1 bps	(2,791)	447	62	143	7	**659**
US Dollar	+1 bps	(8,411)	(706)	(669)	(4,795)	(2,575)	**(8,745)**
	-1 bps	8,411	706	669	4,795	2,575	**8,745**
Euro	+1 bps	(717)	(55)	(46)	(281)	(314)	**(696)**
	-1 bps	717	55	46	281	314	**696**

The Group is exposed to various risks associated with the effect of fluctuations in the prevailing levels of market commission rates on its financial position and cash flows. The table below summarizes the Group's exposure to commission rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates. The Group is exposed to special 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 Group manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

2011 (SAR '000)	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-commission bearing	Total
Assets						
Cash and balances with central banks	24,631,830	-	-	-	8,876,915	**33,508,745**
Due from banks and other financial institutions	1,015,885	338,791	-	-	1,377,123	**2,731,799**
Investments & investments in associate, net	22,267,910	5,288,417	11,961,199	16,969,458	3,687,737	**60,174,721**
Loans and advances, net	35,753,419	24,646,930	17,671,227	11,037,292	2,561	**89,111,429**
Property and equipment, net	-	-	-	-	1,169,432	**1,169,432**
Other assets	-	-	-	-	6,077,764	**6,077,764**
Total Assets	**83,669,044**	**30,274,138**	**29,632,426**	**28,006,750**	**21,191,532**	**192,773,890**
Liabilities and Equity						
Due to banks and other financial institutions	19,810,126	159,997	92,122	-	566,048	**20,628,293**
Customer deposits	44,875,964	7,919,180	351,904	2,844,995	81,264,821	**137,256,864**
Other liabilities	-	-	-	-	6,631,371	**6,631,371**
Total equity	-	-	-	-	28,257,362	**28,257,362**
Total Liabilities and Equity	**64,686,090**	**8,079,177**	**444,026**	**2,844,995**	**116,719,602**	**192,773,890**
On balance sheet gap	18,982,954	22,194,961	29,188,400	25,161,755	(95,528,070)	
Off balance sheet gap	9,129,373	(9,426,738)	1,658,109	(1,360,744)	-	
Total commission rate sensitivity gap	**28,112,327**	**12,768,223**	**30,846,509**	**23,801,011**		
Cumulative commission rate sensitivity gap	**28,112,327**	**40,880,550**	**71,727,059**	**95,528,070**		

2010 (SAR '000)	Within 3 Months	3-12 Months	1-5 Years	Over 5 Years	Non-commission bearing	Total
Assets						
Cash and balances with central banks	24,926,654	-	-	-	7,654,264	**32,580,918**
Due from banks and other financial institutions	155,853	-	-	-	2,334,836	**2,490,689**
Investments & investments in associate, net	37,777,060	6,073,704	5,907,837	11,864,174	3,260,168	**64,882,943**
Loans and advances, net	53,815,616	13,425,105	11,028,744	1,978,448	2,912	**80,250,825**
Property and equipment, net	-	-	-	-	970,245	**970,245**
Other assets	-	-	-	-	6,240,220	**6,240,220**
Total Assets	**116,675,183**	**19,498,809**	**16,936,581**	**13,842,622**	**20,462,645**	**187,415,840**

Liabilities and Equity						
Due to banks and other financial institutions	18,581,129	817,469	3,447	-	398,590	**19,800,635**
Customer deposits	47,449,298	8,030,215	833,766	4,808,097	72,341,588	**133,462,964**
Other liabilities	-	-	-	-	6,674,635	**6,674,635**
Debt securities issued	1,874,720	-	-	-	-	**1,874,720**
Total equity	-	-	-	-	25,602,886	**25,602,886**
Total Liabilities and Equity	**67,905,147**	**8,847,684**	**837,213**	**4,808,097**	**105,017,699**	**187,415,840**
On balance sheet gap	48,770,036	10,651,125	16,099,368	9,034,525	(84,555,054)	**-**
Off balance sheet gap	12,664,815	1,270,928	(12,459,724)	(1,851,019)	-	**(375,000)**
Total commission rate sensitivity gap	**61,434,851**	**11,922,053**	**3,639,644**	**7,183,506**		
Cumulative commission rate sensitivity gap	**61,434,851**	**73,356,904**	**76,996,548**	**84,180,054**		

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

ii) Foreign Currency Risk

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates.The Group manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. Management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions and hedging strategies, which are monitored daily. At the end of the year, the Group had the following significant net currency exposures:

	2011 (SAR'000) Long (Short)	**2010 (SAR'000) Long (Short)**
United States Dollar	453,290	(426,416)
United Arab Emirates Dirham	(96,881)	121,343
British Pound	21,578	179,981
Pakistan Rupees	317,351	329,475

The table below shows the currencies to which the Group has a significant exposure as at December 31, 2011 and 2010 on its non-trading monetary assets and liabilities and forecasted cash flows. The analysis calculates the effect of reasonable possible movement of the currency rate against SAR, with all other variables held constant, on the statement of consolidated income (due to the fair value of the currency sensitive non-trading monetary assets and liabilities) and equity (due to change in fair value of currency swaps and forward foreign exchange contracts used as cash flow hedges). A positive effect shows a potential increase in statement of consolidated income or equity; whereas a negative effect shows a potential net reduction in statement of consolidated income or equity.

	December 31, 2011		**December 31, 2010**	
Currency exposures	**Change in currency rate**	**Effect on net income (SAR'000)**	**Change in currency rate**	**Effect on net income (SAR'000)**
US Dollar	1%	32,315	1%	2,386
Euro	1%	(3,211)	1%	(1,301)

iii) Equity Price Risk

Equity price risk refers to the risk of decrease in fair values of equities in the Bank's non-trading investment portfolio as a result of reasonable possible changes in levels of equity indices and the value of individual stocks. Assuming all other variables are held constant, a 1% increase or decrease in the value of Group's available for sale quoted equity investments at December 31, 2011 would have a correspondingly increase or decrease equity by SR 29.4 million (2010: SR 26.8 million).

31. Liquidity risk

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

In accordance with Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% of total demand deposits and 4% of savings and time deposits (2010: 7% and 4% respectively).

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, gold, Saudi Government securities or assets that 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 securities up to 75% of the nominal value of bonds held.

i) Maturity profile of Group's assets, liabilities and equity

The tables below summarize the maturity profile of Group's assets, liabilities and equity based on the contractual maturities as at the reporting date. The amounts of assets and liabilities are based on management's expectations of recovery or settlement as at the reporting date. The management regularly monitors the maturity profile to ensure that adequate liquidity is maintained. For presentation purposes, the demand deposits are included under "No fixed maturity" category.

2011 (SAR '000)	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with central banks	24,631,830	-	-	-	8,876,915	**33,508,745**
Due from banks and other financial institutions	1,015,885	338,791	-	-	1,377,123	**2,731,799**
Investments & investments in associate, net	18,922,431	7,809,724	11,961,199	18,118,749	3,362,618	**60,174,721**
Loans and advances, net	38,555,044	21,983,244	18,129,840	10,270,182	173,119	**89,111,429**
Property and equipment, net	-	-	-	-	1,169,432	**1,169,432**
Other assets	23,948	3,589	3,441	-	6,046,786	**6,077,764**
Total Assets	**83,149,138**	**30,135,348**	**30,094,480**	**28,388,931**	**21,005,993**	**192,773,890**
Liabilities and Equity						
Due to banks and other financial institutions	19,816,303	153,820	92,122	-	566,048	**20,628,293**
Customer deposits	38,835,983	7,735,633	351,904	2,844,994	87,488,350	**137,256,864**
Other liabilities	9,551	100,969	-	-	6,520,851	**6,631,371**
Total equity	-	-	-	-	28,257,362	**28,257,362**
Total Liabilities and Equity	**58,661,837**	**7,990,422**	**444,026**	**2,844,994**	**122,832,611**	**192,773,890**

2010 (SAR '000)	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash & balances with central banks	25,413,280	-	-	-	7,167,638	**32,580,918**
Due from banks and other financial institutions	868,357	-	-	-	1,622,332	**2,490,689**
Investments & investments in associate, net	23,261,854	6,245,408	15,299,891	16,815,623	3,260,167	**64,882,943**
Loans and advances, net	35,908,335	23,022,450	16,123,294	5,122,673	74,073	**80,250,825**
Property and equipment, net	-	-	-	-	970,245	**970,245**
Other assets	16,412	2,432	3,580	-	6,217,796	**6,240,220**
Total Assets	**85,468,238**	**29,270,290**	**31,426,765**	**21,938,296**	**19,312,251**	**187,415,840**
Liabilities and Equity						
Due to banks and other financial institutions	19,296,946	67,713	3,447	-	432,529	**19,800,635**
Customer deposits	44,294,620	8,486,483	396,189	4,808,097	75,477,575	**133,462,964**
Other liabilities	11,524	22,680	-	-	6,640,431	**6,674,635**
Debt securities issued	-	1,874,720	-	-	-	**1,874,720**
Total equity	-	-	-	-	25,602,886	**25,602,886**
Total Liabilities and Equity	**63,603,090**	**10,451,596**	**399,636**	**4,808,097**	**108,153,421**	**187,415,840**

ii) Analysis of undiscounted financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of Group's financial liabilities at December 31, based on contractual undiscounted repayment obligations. The totals in this table do not match with the statement of consolidated financial position as special commission payments with contractual maturities are included in the table on an undiscounted basis. The contractual maturities of financial liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date. The table below does not reflect the expected cash flows indicated by the deposit retention history of the Group.

2011 (SAR '000)	Within 3 months	3-12 months	1-5 Years	Over 5 years	On demand	Total
Due to banks and other financial institutions	19,820,120	154,292	92,344	-	566,048	**20,632,804**
Customer deposits	38,861,320	7,780,626	352,351	2,848,995	87,488,351	**137,331,643**
Other liabilities	9,551	100,969	-	-	8,963,923	**9,074,443**
Total	**58,690,991**	**8,035,887**	**444,695**	**2,848,995**	**97,018,322**	**167,038,890**

2010 (SAR'000)	Within 3 months	3-12 months	1-5 years	Over 5 years	On demand	Total
Due to banks and other financial institutions	19,313,831	107,057	6,303	-	432,530	**19,859,721**
Customer deposits	42,851,276	8,539,428	399,750	3,345,597	78,403,158	**133,539,209**
Other liabilities	11,524	22,681	-	-	9,161,405	**9,195,610**
Debt securities issued	-	1,879,394	-	-	-	**1,879,394**
Total	**62,176,631**	**10,548,560**	**406,053**	**3,345,597**	**87,997,093**	**164,473,934**

32. Fair values of financial instruments

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 Group 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.

2011	SAR'000			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Derivative financial instruments	-	5,217,868	-	**5,217,868**
Financial assets designated at FVIS	459,125	397,285	1,488,182	**2,344,592**
Financial investments available for sale	20,412,669	15,114,309	2,319,245	**37,846,223**
Total	**20,871,794**	**20,729,462**	**3,807,427**	**45,408,683**
Financial Liabilities				
Derivative financial instruments	-	2,374,602	-	**2,374,602**
Financial liabilities designated at FVIS	-	263,941	-	**263,941**
Total	**-**	**2,638,543**	**-**	**2,638,543**

2010	SAR'000			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Derivative financial instruments	-	4,827,632	-	**4,827,632**
Financial assets designated at FVIS	194,927	428,744	1,337,627	**1,961,298**
Financial investments available for sale	18,789,824	17,819,496	2,563,807	**39,173,127**
Total	**18,984,751**	**23,075,872**	**3,901,434**	**45,962,057**
Financial Liabilities				
Derivative financial instruments	-	2,572,858	-	**2,572,858**
Financial liabilities designated at FVIS	-	523,004	-	**523,004**
Total	**-**	**3,095,862**	**-**	**3,095,862**

The following table shows a reconciliation from the beginning balances to the ending balances for the fair value measurements in Level 3 of the fair value hierarchy in respect of financial assets designated as FVIS and available for sale:

	2011 SAR '000	2010 SAR '000
Balance at beginning of the year	**3,901,434**	**2,781,240**
Total (losses) / gains in other comprehensive income	(98,795)	113,025
Purchases	483,972	1,285,043
Settlements	(479,184)	(277,874)
Balance at the end of the year	**3,807,427**	**3,901,434**

The fair values of on-balance sheet financial instruments, except for other investments held at amortised costs and held-to-maturity investments which are carried at amortised cost, are not significantly different from the carrying values included in the consolidated financial statements. The fair values of loans and advances, commission bearing customers' deposits, debt securities in issue, due from and due to banks and other financial institutions 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 and other investments held at amortised cost are based on quoted market prices when available or pricing models when used in the case of certain fixed rate bonds respectively. The fair values of these investments are disclosed in note 5.

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 or 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 statement of consolidated income without reversal of deferred day-one profits or losses.

33. Related party transactions

In the ordinary course of its activities, the Bank transacts business with related parties. The related party transactions are governed by limits set by the Banking Control Law and regulations issued by Central Banks. The year-end balances resulting from such transactions included in the consolidated financial statements are as follows:

	2011 SAR '000	2010 SAR '000
Directors, other major shareholders and their affiliates:		
Loans and advances	247,615	72,718
Customers' deposits	9,887,702	9,766,685
Commitments and contingencies	241,351	81,883
SAMBA's mutual funds:		
Investment	-	10,869
Customers' deposits	245,895	237,993

Other major shareholders represent shareholdings of more than 5% of the Bank's issued and paid up share capital, as listed on Tadawul.
Income and expenses pertaining to transactions with related parties included in the consolidated financial statements are as follows:

	2011 SAR '000	2010 SAR '000
Special commission income	2,196	1,520
Special commission expense	100,905	135,439
Fees and commission income, net	180,059	177,600
Directors' remuneration	3,891	3,825

The total amount of compensation paid to key management personnel during the year is as follows:

	2011 SAR '000	2010 SAR '000
Short-term employee benefits	54,446	51,615
Post-employment, termination and share-based payments	15,199	15,143

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

34 (a) Capital Adequacy

The Group monitors the adequacy of its capital using the methodology and ratios established by SAMA with a view to maintain a sound capital base to support business development and meet regulatory capital requirement as defined by SAMA. These ratios measure capital adequacy by comparing the Group's eligible capital with its statement of financial position assets, commitments and contingencies, notional amount of derivatives at a weighted amount to reflect their relative risk market risk and operational risk. During the year Group has fully complied with regulatory capital requirement.

The management reviews on a periodical basis capital base and level of risk weighted assets to ensure that capital is adequate for risk inherent in business activities. The management also considers Group's business plan along with economic conditions which directly and indirectly affects business environment. Overseas subsidiary manages its own capital as prescribed by local regulatory requirements.

SAMA has issued guidance regarding implementation of the Basel II disclosures which are effective from January 1, 2008. Accordingly, calculated under the Basel II framework, the Group's Risk Weighted Assets (RWA), total capital and related ratios on a consolidated group basis and on a standalone basis for its significant banking subsidiary calculated for the credit, market and operational risks, at December 31 are as follows:

	2011 SR'000	2010 SR'000
Samba Financial Group (consolidated)		
Credit risk RWA	132,691,373	120,579,963
Operational risk RWA	11,925,831	12,373,375
Market risk RWA	11,433,113	10,533,560
Total RWA	**156,050,317**	**143,486,898**
Tier I capital	28,231,034	25,575,235
Tier II capital	1,658,642	1,507,250
Total tier I & II capital	**29,889,676**	**27,082,485**
Capital adequacy ratio %		
Tier I ratio	**18.1%**	**17.8%**
Tier I + II ratio	**19.2%**	**18.9%**
Capital adequacy ratios for Samba Bank Limited, Pakistan are as follows:		
Tier I ratio	**46.6%**	**56.6%**
Tier I + II ratio	**46.7%**	**56.8%**

Tier I capital comprises the share capital, statutory, general and other reserves, minority interest and retained earnings less any intangible assets of the Bank as at the year-end. Tier II capital comprises of a prescribed amount of eligible provisions.

34 (b) Other pillar 3 disclosure

Certain quantitative disclosures as required by SAMA under pillar 3 of Basel II, have been placed on Bank's official website www.samba.com

35. Investment management services

The assets under management outstanding at end of the year including mutual funds and discretionary portfolios amounted to SAR 29,647 million (2010: SAR 26,809 million). This includes funds managed under Shariah-approved portfolios amounting to SAR 13,377 million (2010: SAR 9,645 million). Effective January 19, 2008 the investment management services are provided by Samba Capital and Investment Management Company, a 100% owned subsidiary of the Bank.

Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank or that of its subsidiary and, accordingly, are not included in the Group's consolidated financial statements.

36. Share-based payments

The Bank has following share-based payment plans outstanding at the end of the year. Significant features of each of these plans are as follows:

Nature of Plan	Long-Term Bonus Plan	Capital Accumulation Plan
Number of outstanding plans	4	2
Grant Date	Between Oct 2006 and March 2011	Between April 2010 and Apr 2011
Maturity date	Between March 2012 and March 2016	Between April 2012 and April 2013
Number of options granted on the grant date, adjusted for bonus share issue and split	7,908,500	262,954
Strike price per option at grant date, adjusted for bonus share issue and split	Between SAR 45 and SAR 80	Between SAR 45 and SAR 48
Vesting period	Between 3 and 5 years	24 months
Vesting conditions	Participating employees to remain in service	Participating employees to remain in service
Method of settlement	Equity	Equity
Valuation model used	Black-Scholes	Black-Scholes
Fair value per option on grant date after bonus and stock split adjustment	Between SAR 18 and SAR 31	SAR 16 and SAR 19

The movement in weighted average price and in the number of stock options are as follows:

	Weighted average exercise price (SAR)		Number of stock options	
	2011	2010	2011	2010
Beginning of the year	57.46	57.17	8,998,490	10,895,151
Granted during the year	45.00	47.90	1,329,424	142,030
Forfeited	(42.82)	(40.57)	(17,099)	(104,959)
Exercised / Expired	(35.71)	(55.99)	(2,142,708)	(1,933,732)
End of the Year	**61.17**	**57.46**	**8,168,107**	**8,998,490**

The stock options outstanding at December 31, 2011 have an exercise price in the range of SAR 45 to SAR 80 (2010: SAR 32 to SAR 80) and weighted average contractual life of three years. The weighted average share price at the time of exercise of the option during the year was SAR 55 (2010: SAR 57).

The fair value of stock options granted during the year using the Black Scholes model was SAR 24 million (2010: SAR 3 million). The inputs used to the model were the share price at the grant date, exercise price, life of the option, expected dividends and annual risk free rate of return. The expected volatility of the share price is based on statistical analysis of daily share price movements.

The stock options are granted only under a service condition with no market condition associated with them. The total amount of expense recognized in these consolidated financial statements in respect of share-based payment plans for the year 2011 is SAR 41.4 million (2010: SAR 60.9 million).

37. Comparative figures

Certain prior year balances have been reclassified to conform to current year presentation.

38. Accounting Standard issued but not yet effective

The Group has opted not to early adopt the amendments and revisions to the following standards which have been published and are mandatory for compliance for the Group's accounting year beginning after January 1, 2012.

- IFRS 9 — Financial Instruments — Classification and Measurement of Financial Assets & Financial Liabilities - Effective for annual periods beginning on or after 1 January 2015.

- IFRS 10 - Consolidated Financial Statements, IAS 27 Separate Financial Statements - Effective for annual periods beginning on or after 1 January 2013.

- IFRS 13 Fair Value Measurement - Effective for annual periods beginning on or after January 1, 2013.

39. Board of Directors' approval

The consolidated financial statements were approved by the Board of Directors on January 29, 2012 (Rabi Al Awal 6, 1433H)