

INTRODUCTION

The Board of Directors of Saudi Hollandi Bank is pleased to present its annual report to the Bank's valued shareholders for the financial year ended 31 December 2011.

During 2011 the Bank grew its net profit considerably by 31% to SAR 1,032 million. The Bank maintained its conservative provisioning policy with the year-end coverage ratio at 145.5%. Capital ratios remained robust positioning the Bank well to meet its 2012 growth targets and to satisfy shareholder returns. Despite the backdrop of uncertainty in the West, confidence remained high in the Saudi economy during the year which is expected to continue over the coming periods.

A summary of business developments during the year is presented in the Business Review section of this report.

1- BUSINESS SEGMENTS

The Bank is organised into three main business segments, Corporate Banking, Personal Banking and Treasury. In addition, the Bank provides brokerage, asset management and investment banking services through Saudi Hollandi Capital, an effectively wholly-owned subsidiary. The Bank owns 20% in the Wataniya insurance company, effectively wholly-owns the bancassurance distribution arm Saudi Hollandi Insurance Agency Company and effectively wholly-owns a subsidiary in support of its real-estate related business, Saudi Hollandi Real Estate Company.

i) Corporate Banking

The Corporate Banking Group provides corporate, commercial and institutional clients with a wide range of products and services including Term Loans, Trade Finance, Guarantees and Corporate Finance and Advisory. It also offers an extensive range of Sharia'a-compliant corporate products under Islamic structures.

ii) Personal Banking

The Personal Banking Group operates through a national network of branches and ATMs complemented by a range of phone banking and e-banking services.

Products and services include Current and Time Deposit Accounts, Personal Loans, Credit Cards, Internet Banking and Telephone Banking. Tailored "Preferred Banking" and "Taqdeer" services are available to qualifying clients who place sufficient funds with the Bank. Share Trading services and Fund Management products are available through Saudi Hollandi Bank's subsidiary, Saudi Hollandi Capital. The Bank also offers a wide range of Ladies Banking services through a network of Ladies Branches.

iii) Treasury

Saudi Hollandi Bank's Treasury unit provides hedging and investment solutions to the Bank's clients. Building on its leading position in foreign exchange cash products, the Treasury department has continued to grow its (structured) derivatives businesses in foreign exchange and special commission rates. Treasury is among the most active interbank market makers in Saudi Riyal-denominated foreign exchange and special commission rate products.

The assets, liabilities and results of these segments are set out in Note 29 of the Consolidated Financial Statements. Transactions between business segments are on normal commercial terms and conditions. Funds reallocated between business segments attract a commission based upon a transfer pricing mechanism designed to reflect appropriate funding costs.

The subsidiaries and associates of Saudi Hollandi Bank are provided below:

Saudi Hollandi Capital (SHC), an effectively wholly owned subsidiary of SHB commenced business activities in early 2008 with the approval of SAMA and the CMA, and has since then been involved in some significant deals. SHC engages as principle and agent in retail equity brokerage, asset management, corporate finance and investment advisory activity, debt arrangement and securities custody services.

Saudi Hollandi Real Estate Company (SHREC), an effectively wholly owned subsidiary of SHB, commenced its business activities in early 2010 with the approval of SAMA. SHREC is involved in the registration of real estate title deeds in support of the Bank's Home Financing products.

Saudi Hollandi Insurance Agency Company: (SHIAC), an effectively wholly owned subsidiary of SHB, has completed its registration procedures. It is licensed in insurance activities. The Company obtained SAMA's approval in December 2011 and is expected to commence its operations during 2012.

Wataniya Insurance: The Bank purchased a 20% equity stake in the Wataniya Insurance Company during 2008. This strategic acquisition enables the Bank to have an insurance capability to complement the existing retail banking offering. Wataniya was incorporated on 26th April 2010 and commenced trading on 1st July 2010

Further details of subsidiaries and associates are covered in note 1 to the Consolidated Financial Statements.

2- STRATEGY

2011 was the second year of the three-year Al-Heen strategy. Through execution of this strategy, the Bank aims to become a competitive force in Personal Banking by providing a high quality service to specific customer segments whilst diversifying and expanding its customer base in Corporate Banking. Under Al-Heen, the Bank's operations are being organised to align more closely with business units to meet their commercial requirements more responsively.

The Personal Banking Group aims to become the leading financial services provider to affluent individuals and professionals, competing on the basis of comprehensive, personalised quality service. As part of this strategy, the focus on establishing an attractive branch network continues. As at 31 December 2011 SHB had 44 branches inclusive of 15 ladies offices and 257 ATMs throughout the Kingdom of which 31 were installed during the year. We continue to enhance our comprehensive and competitive range of personal banking and card products for our customers in the affluent customer segments (Private, Preferred and Taqdeer). Furthermore, we launched a major project to set up the infrastructure to provide banking services to small-businesses.

SHB remains a strong force in corporate banking in the Kingdom. The Corporate Banking Group aims to provide the best solutions with flawless service, focusing on mid to large corporate customers within KSA.

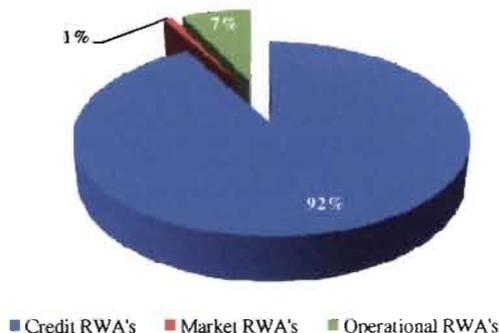
SHB Treasury, SHC and SHREC have positioned themselves as product and expertise providers to our corporate and personal banking businesses. Our Treasury unit provides our corporate and personal banking clients with hedging solutions and investment yield enhancement. SHC offers a full range of brokerage, asset management and investment banking products. SHREC provides real estate purchase and registration services in support of the Bank's Home Financing business.

The Bank continues to invest in its Islamic business and is aiming to be a leader in this field. During 2011, the Bank held client awareness sessions to introduce the new generation of Shariah compliant products which included the Islamic overdraft, receivable financing and Islamic treasury solutions.

3- RISK MANAGEMENT

Risk management is of great importance in a banking environment ensuring that policies set by the Board are adhered to at all times. The Bank's main business is corporate relationship banking in the Kingdom Of Saudi Arabia. A large proportion of the corporate client base has a long-standing relationship with the Bank, typically with stable credit histories that have experienced at least one economic downturn. These characteristics enable the Bank to take a long term view and have confidence in lending through the cycle. The Bank details its Risk Appetite and risk management strategies and controls in its Internal Capital Adequacy Plan, (ICAAP) which is approved by the Board and submitted to the regulator on an annual basis.

The chart below summarises the amount of Risk-Weighted Assets as at the end of 2011.



It can be observed that the Bank is predominantly exposed to credit risk by virtue of it being a major player in corporate banking.

The focus during the year for the Credit Risk Management division has been greater scrutiny of credit quality whilst considering risk-based returns, selective asset growth that has led to higher levels of diversification and lower levels of concentration and the implementation of new processes to manage client excesses more efficiently.

Further details of the risks the Bank is exposed to are detailed in note 30, 32 and 33 of the Consolidated Financial Statements.

4- FINANCIAL HIGHLIGHTS

The Board of Directors is pleased to report a net profit of SAR 1,032 million, a 31% increase compared with 2010. Despite the back-drop of competitive market pricing putting pressure on lending margins, revenues increased by 2.6% in the year supported by firm growth across many fee based activities.

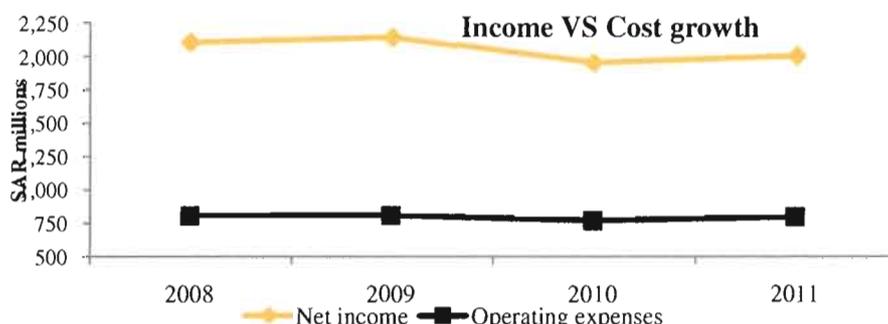
Loans and advances were 7.7% above the 2010 year-end position and 4.8% above the 2009 year-end, closely approaching 2008 levels. Notably, balance sheet growth has been accompanied with a substantial increase in quality. This is reflected by lower non performing loans (NPLs) and past dues as compared to last year accompanied with a continued conservative approach to provisioning. The coverage of NPLs increased to 145.4% from 124.4% and the non-performing loans to gross loan ratio at year-end closed at 1.9%.

The Bank's long established Corporate Banking franchise was positioned well to benefit from the improving economic activity. During the year, Trade Services income increased by 8%, arrangement fees increased by 46% and in concert with the Treasury unit, Foreign Exchange income increased by 22.6%.

Within the Personal Banking segment confidence increased in local share trading with fees increasing by 25%. The year-end balance sheet for Personal banking closed at its highest level to date including a positive start in home loans growth.

A key objective under Al-Heen is cost control with operating expenses and capital expenditure being constantly scrutinised. The cost-income ratio for the year was 40%, marginally higher than the prior year at 39.5%, due largely to some unanticipated one-off operational costs. Underlying costs are in alignment with management expectations with a number of initiatives to achieve operational efficiencies being executed during 2011.

The Income vs Cost growth graph below, (excluding provisions), displays cost-management being sustained across the periods.



Key Business Unit financial data

2011 SAR millions	Corporate Banking	Personal Banking	Treasury	Investment banking and invest. services	Total
Total assets	33,515	5,301	18,255	478	57,549
Total liabilities	20,869	17,127	12,120	24	50,140
Net operating income for the year	821	103	81	11	1,016

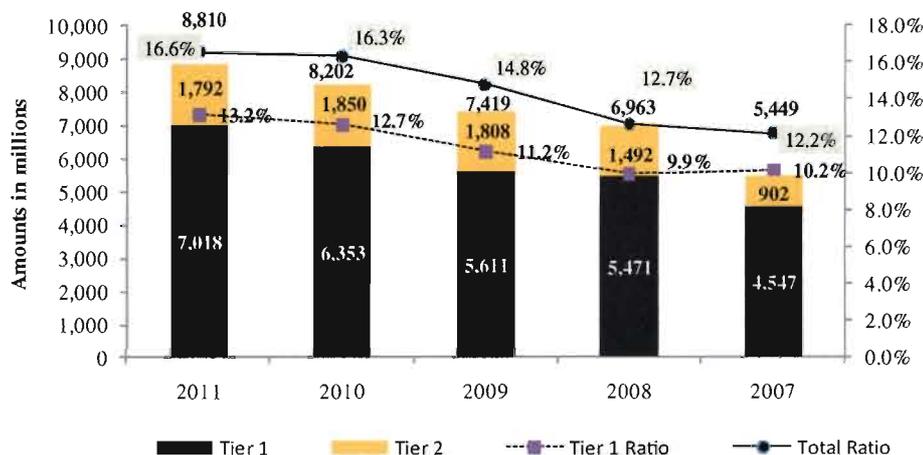
Key Bank-wide financial data and ratios

5-year trend	SAR millions	2011	2010	2009	2008	2007
Loans		37,745	35,039	36,023	38,017	27,555
Investments		11,503	11,752	12,132	18,368	12,954
Total Assets		57,549	53,882	59,110	61,436	50,411

Deposits	45,024	41,604	44,827	43,012	34,605
Due to banks	1,611	2,857	5,757	9,286	9,158
Subordinated debt	1,500	1,500	1,500	1,475	700
Shareholders' Equity	7,408	6,387	5,633	5,715	4,547
Net Profit	1,032	790	86	1,224	439
Earnings per Share – SAR	3.12	2.39	0.26	3.70	1.66
Gross Dividends per share - SAR	1.14	Nil	Nil	0.88	0.80
	2011	2010	2009	2008	2007
NPLs (SAR'000s)	735	931	2,241	1,067	1,079
NPL %	1.9	2.6	6.2	2.8	3.9
Coverage %	145.5	124.4	100.2	107.8	110.0
Capital ratios (%)					
- Tier 1	13.2	12.7	11.2	9.9	10.2
- Total	16.6	16.4	14.8	12.7	12.2
Loans to deposit (%)	81.4	81.3	77.8	85.5	78.0
Liquidity ratio (%)	26.2	28.8	38.0	27.7	37.3

In line with Kingdom-wide banking trends, the Bank saw the demand for credit increase, with year-end loans and advances closing 7.7% above 2010 levels. The Bank's capital ratios remained strong with the total capital ratio closing the year at 16.6% and the Tier 1 closing the year at 13.2%, both of which factor the proposed dividend for 2011. The current capital levels allow the Bank to meet its Al-Heen growth strategy throughout 2012 and beyond without the requirement for further capital raising whilst reinstating dividend payments, augmenting Tier 1 capital and issuing bonus shares (see not 16 to the Consolidated Financial Statements).

CAPITAL and CAPITAL RATIOS



Conclusion

During 2011, the Bank was able to leverage its established corporate franchise and its increasing retail presence to benefit from credit expansion and economic growth in the Kingdom. The year was characterised by the continuation of selective asset growth improving asset quality, diversification and a prudent approach to provisioning, all of which positions the Bank well to meet growth opportunities.

5- GEOGRAPHICAL CONCENTRATION

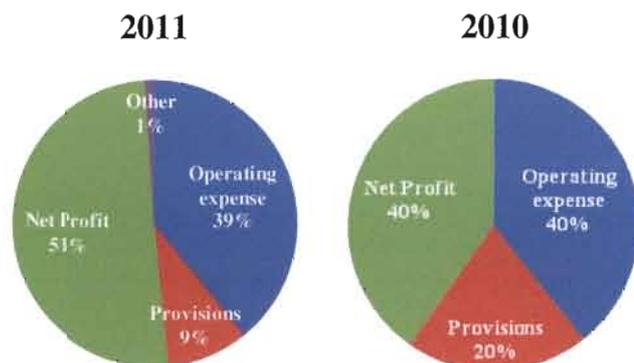
Geographical distribution of credit risk is as follows:
(Amounts in SAR '000)

2011	Saudi Arabia	Other GCC and Middle East	Europe	America	Other countries	Total
Assets						
Cash and Balances with SAMA	5,968,777	-	-	-	-	5,968,777
Due from banks and other financial institutions	1,165	31,842	96,622	477,621	5,616	612,866
Investments, net	9,460,128	1,459,833	123,178	-	459,397	11,502,536
Loans and advances, net	37,297,073	448,226	-	-	-	37,745,299
Total	52,727,143	1,939,901	219,800	477,621	465,013	55,829,478
Credit-related Commitments and Contingencies						
Credit-related Commitments and Contingencies	17,865,743	337,748	468,036	74,329	1,260,733	20,006,589
Maximum credit exposure (stated at credit equivalent amount of the above)						
Commitments and contingencies	9,108,276	245,424	269,984	35,935	1,089,119	10,748,738
Derivatives	894,507	90,557	128,745	17,216	807,676	1,938,701

The three subsidiaries of the Bank SHC, SHREC and SHIC have no exposures outside the Kingdom. Further details are provided in Note 31 of the Consolidated Financial Statements.

6- KEY PROFIT AND LOSS ITEMS AS A PERCENTAGE OF TOTAL INCOME

The graph below displays the major profit and loss lines as a percentage of total income.



The table below shows the variation in the key profit and loss lines between 2011 and 2010:

SAR millions	2011	2010	% change
Total Income	2,005	1,954	2.6%
Operating expenses	802	772	4%
Provisions (net)	187	398	(53%)
Other	16	6	144%
Net Profit	1,032	790	31%
Earnings per share (SAR)	3.12	2.39	31%

7-FINANCIAL REPORTING STANDARDS & AUDIT

The Bank prepares its Consolidated Financial Statements in accordance with accounting standards for financial institutions promulgated by the Saudi Arabian Monetary Agency and International Financial Reporting Standards. These include International Accounting Standards and interpretations issued by the International Accounting Standards Board as required by the Saudi Arabian Monetary Agency.

Proper books of account have been maintained. The Bank has an Internal Audit department which submits its reports to the Audit Committee which in turn reports to the Board of Directors. This Committee oversees the proper functioning and independence of the Internal Audit department and considers its recommendations. The Committee has periodic discussions with the management, internal and external auditors on matters affecting Consolidated Financial statements, internal controls and various governance and control issues and has advised the Board of Directors accordingly. The Board acknowledges receipt of that advice.

The Board of Directors ensures the safety of the Internal Audit System with regard to its structure and is being efficiently implemented.

8- SAFETY OF INTERNAL CONTROL SYSTEM

The Audit committee is a sub-committee of the Board. In addition to maintaining a satisfactory control environment and independence of the internal audit function, it reviews the specific internal audit findings and ensures prompt resolution by management. The Audit committee relays its findings to the Board on a regular basis. The Board is of the opinion that the functioning of the internal audit system is appropriate and nothing has come to the attention of the Audit Committee that causes it to believe that the system of internal control has not been properly designed and implemented.

9- SUBSIDIARIES AND ASSOCIATES

A. Saudi Hollandi Capital

SHC was formed in accordance with the Capital Market Authority's (CMA) Resolution number 1-39-2007 under commercial registration number 1010242378 dated 30 Dhul Hijja 1428 H (corresponding to January 09, 2008) to take over and manage the Group's Investment Services and Asset Management activities related to dealing, managing, arranging, advising and taking custody of securities regulated by CMA. SHC is effectively wholly owned by the Bank through direct and beneficial ownership and commenced its operations effective 1 Rabi'II 1429H (corresponding to April 8, 2008).. SHC head office is in Riyadh, and it is operating within the Kingdom.

The authorized, issued and fully paid-up share capital of Saudi Hollandi Capital is SAR 400 million,

consisting of 400,000 shares of SAR1,000 each.

B. Saudi Hollandi Real Estate Company

Saudi Hollandi Real Estate Company (SHREC), an effectively wholly owned subsidiary of the Bank through direct and beneficial ownership, was established under commercial registration number 1010250772 dated 21 Jumada II 1429H (corresponding to June 25, 2008) with the approval of the Saudi Arabian Monetary Agency (SAMA). SHREC engages in the activities of the purchase, sale and leasing of real estate. It further engages in the registration of real estate title deeds of financed products and manages real estate funds. SHREC head office is in Riyadh, and it is operating within the Kingdom.

The authorized, issued and fully paid-up share capital of Saudi Hollandi Real Estate Company is SAR 500,000, consisting of 500 shares of SAR 1000 each.

C. Saudi Hollandi Insurance Agency Company

SHIAC an effectively wholly owned subsidiary of the Bank through direct and beneficial ownership was established under commercial registration number 1010300250 dated 29 Muharram 1432H (corresponding to January 4, 2011) with the approval of SAMA. The Company will act as an agent selling Wataniya insurance products. The Company did not have any operating activities during the year.

D. Wataniya Insurance

The Bank purchased a 20% equity stake in the Wataniya Insurance Company during 2008 at a cost of SAR 20 million. It is classified as an associate company. This strategic acquisition enables the Bank to have an insurance capability to complement the existing retail banking offering. Wataniya was incorporated on 26th April 2010 and commenced trading on 1st July 2010.

10- LONG TERM BORROWINGS

The borrowings comprise two tranches of Sharia'a compliant Subordinated Debt issued in 2008 and 2009 for SAR 775 million maturing in 2018 and SAR 725 million maturing in 2019, respectively. Further details are provided in Note 14 of the Consolidated Financial Statements.

11- DIVIDEND POLICY

A. Objectives

The main objective of the dividend policy is to provide a return to shareholders to meet their investment expectations with due consideration given to capital management and growth requirements of the Bank.

B. Type

The dividend may be paid in cash to shareholders or distributed via the issue of bonus shares or a combination of cash and bonus shares may be used.

C. Declaration Frequency

Dividends may be declared bi-annually. The Board will review and decide whether an interim dividend is to be paid based on the actual or forecasted half-year results, whilst the final dividend will be decided upon based on forecasted or actual full-year results.

D. Review Frequency

The Board shall review the Dividend Policy for the current year on an annual basis. The review will be on the agenda of the Board meeting where the previous year's approved annual financial results and

the current year's budget will be presented.

E. Guiding Principles

In reviewing and setting the annual dividend policy the Board and senior management will be guided by the following principles:

I. Dividend sustainability

To build long term shareholder value and market confidence in the Bank's future, the amount and frequency of dividends to be paid should be evaluated based on the Bank's ability to continue paying at an equal or increased level in the foreseeable future. Risks that may threaten the Bank's ability to maintain current levels of dividends need to be identified and evaluated.

II. Growth of the Bank:

The amount, frequency and type of dividends paid should not impede the ability of the Bank to meet its strategic growth plans.

III. Capital management:

During the annual review and while setting the dividend policy for the current year, the Board and senior management must ensure the Bank:

- Maintains sufficient levels of capital to meet the requirements as set out in the Bank's ICAAP as well as minimum regulatory capital requirements set by SAMA in accordance with Basel II and Basel III capital requirements;
- maintains sufficient levels of capital levels to support the Bank's strategic growth objectives;
- does not hold capital in excess of the requirements as summarized in items i) and ii) above.

12- PROPOSED CASH DIVIDEND AND BONUS SHARES

The proposed dividend for 2011 amounts to SAR 377.1 million representing 11% of the Bank's capital. Subject to approval at the Extraordinary General Shareholders Assembly due in the first quarter of 2012, it shall be paid to the shareholders in the locations and on the dates set by the Board of Directors.

During December 2011 the Board's long-term commitment to support business growth was further demonstrated by the proposal to increase the Bank's capital by 20% from SAR 3,307.5 million to SAR 3,969 million. This will be facilitated through the distribution of 1 bonus share for every 5 shares held; subject to approval at the Extraordinary General Shareholders Assembly due in the first quarter of 2012.

13- SIGNIFICANT SHAREHOLDINGS

Material shareholdings (i.e. in excess of 5%) remained unchanged during 2011.

	1 January 2011		31 December 2011		Change %
	Shares Held	%	Shares Held	%	
ABN AMRO Bank N. V.	132,300,000	40.0	132,300,000	40.0	0
Olayan Saudi Investment Company	68,955,000	20.8	68,955,000	20.8	0
General Organization for Social Insurance	32,012,847	9.7	32,012,847	9.7	0

14- RELATED PARTY TRANSACTIONS

During its ordinary course of business, the Bank conducts business with its related parties. These transactions are done undergoing the same fair dealing conditions of other parties and it is subject to the limits stipulated in the Banking Control Law and instructions issued by the Saudi Arabian Monetary Agency.

Note 35 to the audited Consolidated Financial statements summarises all related party transactions.

15- BOARD OF DIRECTORS

The membership status of the Bank's directors during 2011 and their directorships in Saudi listed Companies were as follows:

Name	Membership Status	Directorship in other listed Companies
Eng. Mubarak Abdullah Al-Khafrah (Chairman)	Independent	National Industrialization Co, Malath Insurance Co.
Mrs. Lubna Sulaiman Al-Olayan	Non-Executive	-
HE.Dr. Fahad Abdullah Al-Mubarak	Independent	Etihad Itisalat Co. 'Mobily'
Mr. Sulaiman Abdullah Al-Kadi	Independent	-
Mr. Abdulhadi Shayif	Independent	Arab Cement Co. Ltd
Mr. Eyad Al-Hussain	Non-Executive	-
Mr. Jan Koopman	Non-Executive	-
Dr. Bernd van Linder	Executive	-
Mr. Javier Maldonado	Non-Executive	
Mr. Simon Penney	Non-Executive	

The Board of Directors convened four times during the year as per the table below.

Name	Sessions Attended	15 Jan 2011	19 April 2011	17 Aug 2011	15 Nov 2011
Eng. Mubarak Al-Khafrah (Chairman)	4	√	√	√	√
Mrs. Lubna Sulaiman Al-Olayan	3	√	X	√	√
HE.Dr. Fahad Abdullah Al-Mubarak*	4	√	√	√	√
Mr.Sulaiman Abdullah AlKadi	4	√	√	√	√
Mr. Abdulhadi Ali Shayif	3	√	√	X	√
Mr. Eyad Abdulahman Al-Hussain	4	√	√	√	√
Mr. Javier Maldonado	2	X	X	√	√
Mr. Jan Koopman	4	√	√	√	√
Mr. Simon Penney	4	√	√	√	√
Dr. Bernd van Linder	4	√	√	√	√

*√ : Present X: Absent

*HE. Dr.Fahad Abullah Al-Mubarak resigned on 14-12-2011 following the issuance of the Royal Order appointing him as Governor of the Saudi Arabian Monetary Agency.

Board Committees:

The Board of Directors has three committees - the Executive Committee, the Audit Committee, and the Nomination and Remuneration Committee.

I. Executive Committee

The Executive Committee is empowered by the Board of Directors in accordance with article 26 of the

Bank's Articles of Association. The Executive Committee shall assist the Board of Directors within the powers determined for it by the Board, and deal with all matters referred to it by the Board though the committee shall not have power to alter any decision, rules or regulations taken or laid down by the Board. It consists of the Chairman and four members of the Board (as below). The Executive Committee convened 6 times during the year.

Members
Eng. Mubarak Al-Khafrah (Chairman)
Mrs. Lubna Sulaiman Al-Olayan
Mr. Abdulhadi Ali Shayif
Mr. Javier Maldonado
Dr. Bernd van Linder

II. Audit Committee

The Audit Committee is a sub committee appointed by the Board of Directors. The Committee is responsible for all control issues of the Bank. This Committee oversees the functioning and independence of the Internal Audit department and considers its recommendations. The Committee has periodic discussions with management, the internal auditors and external auditors on matters affecting Consolidated Financial Statements and internal controls and advises the Board of Directors accordingly. The Audit Committee convened four times during the year.

Members
HE.Dr. Fahad Adbullah Al-Mubarak (Chairman)
Mr.Saleh Hassan Husain
Mr.Muffadal Abbas MohammedAli

III. Nomination and Remuneration Committee

In accordance with article (15) of the Corporate Governance regulation Issued by CMA decision no. 1-212-2006 dated 21/10/1427H corresponding 12/11/2006 and after having the approval of General Shareholders Assembly in its meeting held on 29th March 2008, the Board of Directors established a separate committee for nomination and remuneration. The duties and responsibilities of the Nomination and Remuneration Committee include the following:

- 1- Recommendation of appointments to the Board
- 2- Annual review of the requirement of suitable skills for membership of the Board of Directors
- 3- Review the structure of the Board of Directors and the absence of conflict of interest of their membership.
- 4- Establish clear policies for the remuneration of Board members and the Bank's senior management.

The Nomination and Remuneration Committee convened 3 times during the year.

Members
Mr. Abdulhadi Ali Shayef (Chairman)
Mrs. Lubna Sulaiman Al-Olayan
Mr. Eyad Al-Hussain
Mr.Javier Maldonado
Mr.Sulaiman Abdullah Al-Kadi

The Bank's compensation policies have also been amended where necessary to comply with the Basel

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2011

accord.

16- BOARD OF DIRECTORS AND SENIOR EXECUTIVE COMPENSATION

(All amounts in SAR 000)

Details	Executive Members	Board	Non-Executive Members	Board	Six Executive Managers in the Bank Receiving Highest Compensation, including MD and CFO
Salaries & Compensations	Nil		Nil		7,982
Allowances	Nil		Nil		1,655
Annual & Periodical Remunerations	Nil		Nil		Nil
Incentives	Nil		Nil		3,545
Any other Compensations or benefits (in kind paid monthly or annually)	Nil		1,380		Nil

17- DIRECTORS & SENIOR MANAGEMENT INTERESTS (Including their Spouses and minors)

Board Members

Including the 1000 qualification shares held by each Board Member during their term of office, shares held by the Directors at the beginning and end of 2011 are set out in the table below.

Name	Shares Held as of 1 st Jan. 2011	Shares Held as of 31 st Dec. 2011
Eng. Mubarak Abdullah Al-Khafrah (Chairman)	6,250	6,250
Mrs. Lubna Sulaiman Al-Olayan	10,000	12,000
HE.Dr. Fahad Abdullah Al-Mubarak	56,640	56,640
Mr.Sulaiman Abdullah Al-Kadi	500	1000
Mr. Abdulhadi Ali Shayif	150,000	150,000
Mr. Eyad Abdulrahman Al-Hussain	0	0
Members appointed by ABN AMRO	4000	4000
Dr. Bernd van Linder	6,500	16,495

Senior Management:

Shares held by senior management at the beginning and end of 2011 are set out in the table below:

Name	Shared Held as of 1 st Jan 2011	Shared Held as of 31 st Dec 2011
Farid Mustafa Zaouk	Nil	9995
Musad Abdullah Al-Hammadi	Nil	9995
Tahir Mohammed Al-Dabbagh	1000	Nil
Abdullah Al-Hassan	Nil	6330

18- EXTERNAL AUDITORS

At the Annual Ordinary General Meeting of the Bank's shareholders held on 23/04/1432 (28 March,2011), Messrs Deloitte & Touche Bakr Abulkhair & Co. and KPMG Al Fozan & Al Sadhan were appointed as joint external auditors for the year ended 31 December 2011 for a total remuneration of SR 934,000.00.

19- PAYMENTS OF ZAKAT, INCOME TAX & OTHERS

Zakat and income tax are paid as follows:

a. Saudi Shareholders

Zakat attributable to Saudi Shareholders for the year is an estimated SAR 94 million (2010: SAR 15 million), which will be deducted from their share of future dividends. Zakat of SAR 27 million paid in prior years will be deducted from the current year's proposed dividend resulting in a net dividend of SAR 1 per share.

b. Non-Saudi Shareholders

Income tax payable on the current year's share of income of foreign shareholders is an estimated SAR 75 million (2010: SAR 62 million). Tax paid in prior years amounting to SAR 66.2 million and advance tax paid during the year amounting to SAR 50 million, included in the current year's tax liability, will be deducted from current year's proposed dividend resulting in a net dividend of SAR 0.26 per share.

The below table reflects major payments made to governmental agencies.

Payment (SAR 000)	2011	2010
Zakat & Income Tax	123,170	7,801
GOSI	37,922	37,950
Visas and passports	608	638
Total	161,700	46,389

20- SHARE PLAN

In January 2008, the Bank launched its Share Plan Program for its qualified staff. In accordance with the provisions of this program, which was approved by the Board of Directors of the Bank in its meeting dated 10 Dhu Alqi'da 1428H (Corresponding to 20 November 2007G) and by Saudi Arabian Monetary Agency via its letter dated 26 Saffar 1429H (Corresponding to 4 March 2008G), qualified employees will receive the Bank's shares if they meet the terms and conditions of the program.

Under the provisions of the program, the Bank shall not be the legal owner of those shares at any time. Until the shares are vested, they will not acquire any voting rights. Also, according to the program, SHC shall manage the Share Plan Fund and act in accordance with the terms and conditions approved by the Bank's Board of Directors in their above-mentioned meeting and in accordance with Saudi Arabian Monetary Agency letter referred to above. Any other amendments on the terms and conditions of this program shall require prior approval from the Saudi Arabian Monetary Agency.

These are set out in Note 38 to the Consolidated Financial Statements titled 'Staff Share Plan'.

21-APPLICABLE REGULATIONS

Saudi Hollandi Bank has adhered to the provisions of the Banking Control Law, Saudi Companies'

Law, and regulations issued by the Saudi Arabian Monetary Agency (SAMA) and the Capital Market Authority (CMA). In the event of conflicting regulation, the Bank adheres to the existing rules governing banks and joint stock companies prior to the foundation of the Capital Market Authority.

During 2011 the Bank paid SAR 565,314 in respect of penalties levied by regulatory authorities in the Kingdom as per the following table:

Authority Imposing the Penalty	Amount (SAR)
Saudi Arabian Monetary Authority	250,314
Capital Markets Authority*	315,000
Total	565,314

*Penalty imposed on the subsidiary Saudi Hollandi Capital

22- DECLARATIONS

The Board of Directors hereby declares that:

- Proper books of account have been maintained
- The Bank prepares its Consolidated Financial Statements in accordance with accounting standards for financial institutions promulgated by the Saudi Arabian Monetary Agency and International Financial Reporting Standards, including International Accounting Standards, consistent with interpretations issued by the International Accounting Standards Board and as required by the Saudi Arabian Monetary Agency.
- Internal Audit Control was properly and efficiently implemented.
- The Bank has no existing contracts in which a Director, the MD, the CFO or any associate has a material interest.
- There is no doubt as to the Bank's ability to continue as a going concern.
- The Bank has implemented all provisions of the Corporate Governance Regulations issued by CMA with the exception of the following:
 - Applying the Accumulative Voting method in the nomination of the Board Members as this issue requires the amendment of the articles related to the election of Board members in the Bank's Articles of Association and the Companies Regulation.

23 CONCLUSION

The Board of Directors of Saudi Hollandi Bank extends its regards and gratitude to the government of the Custodian of the Two Holy Mosques, King Abdullah bin Abdulaziz Al Saud, and to HRH the Crown Prince, HE. the Minister of Finance, HE. The Minister of Commerce and Industry, HE. the Governor of the Saudi Arabian Monetary Agency and HE. the Chairman of the Capital Market Authority for their continued support to the Banking community.

The Board of Directors also extends its thanks and appreciation to the shareholders, customers and correspondents of Saudi Hollandi Bank for their continuing confidence and support.

Finally, appreciation must be given to the Bank's management and staff for their dedication and team work, without which this year's achievements would not have been possible.

Board Of Directors

Saudi Hollandi Bank
(A Saudi Joint Stock Company)

**CONSOLIDATED FINANCIAL
STATEMENTS**

December 31, 2011

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2011 and 2010

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Saudi Hollandi Bank (the "Bank") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at December 31, 2011, the consolidated income statement, and the consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes from 1 to 41. We have not audited note 42, nor the information related to "Basel II Pillar 3 disclosures" cross referenced therein, which is not required to be within the scope of our audit.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Deloitte & Touche
Bakr Abulhair & Co.
Deloitte.

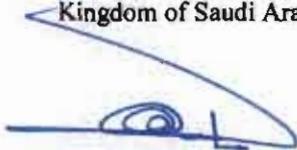
KPMG
KPMG Al Fozan & Al Sadhan

Opinion

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

- present fairly, in all material respects, the financial position of the Group as at December 31, 2011, and its financial performance and its cash flows for the year then ended in accordance with Accounting Standards for Financial Institutions in the Kingdom of Saudi Arabia issued by SAMA and with International Financial Reporting Standards; and
- comply with the requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's By-Laws in so far as they affect the preparation and presentation of the consolidated financial statements.

Deloitte & Touche
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Riyadh 11411
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Bakr A. Abulhair
Certified Public Accountant
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P.O. Box 92876
Riyadh 11663
Kingdom of Saudi Arabia



Tareq A. Al Sadhan
Certified Public Accountant
Registration No. 352

Rabi Al-Awal 19, 1433H
February 11, 2012



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2011 and 2010

Amounts in SAR'000

	<u>Notes</u>	<u>2011</u>	<u>2010</u>
ASSETS			
Cash and balances with SAMA	4	5,968,777	4,999,698
Due from banks and other financial institutions	5	612,866	308,881
Investments, net	6	11,502,536	11,751,665
Loans and advances, net	7	37,745,299	35,038,979
Investment in an associate	8	17,750	20,000
Property and equipment, net	9(a)	489,499	495,216
Other assets	10	1,212,025	1,267,974
Total assets		57,548,752	53,882,413
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks and other financial institutions	12	1,611,091	2,857,012
Customers' deposits	13	45,024,437	41,603,619
Subordinated debt	14	1,500,000	1,500,000
Other liabilities	15	2,004,902	1,534,826
Total liabilities		50,140,430	47,495,457
Shareholders' equity			
Share capital	16	3,307,500	3,307,500
Statutory reserve	17	2,392,480	2,134,500
General reserve		130,000	130,000
Other reserves	18	(20,240)	(29,916)
Reserve for bonus shares	16	661,500	-
Retained earnings		556,077	820,691
Proposed gross dividend	27	377,055	-
Staff share based plan reserve	38	3,950	24,181
Total shareholders' equity		7,408,322	6,386,956
Total liabilities and shareholders' equity		57,548,752	53,882,413


 Dr. Remo van Linder
 Managing Director
 Saudi Hollandi Bank





The accompanying notes 1 to 42 form an integral part of these consolidated financial statements.


 GM-Legal & Corporate Secretary

CONSOLIDATED INCOME STATEMENT

For the years ended December 31, 2011 and 2010

Amounts in SAR'000

	<u>Notes</u>	<u>2011</u>	<u>2010</u>
Special commission income	20	1,566,505	1,624,997
Special commission expense	20	276,910	337,666
Net special commission income		1,289,595	1,287,331
Fee and commission income, net	21	519,203	454,827
Exchange income, net		109,526	89,345
Income from financial instruments designated as FVIS, net	22	5,040	5,389
Trading income, net	23	76,030	86,197
Gains on non-trading investments, net	24	5,852	30,994
Total operating income		2,005,246	1,954,083
Salaries and employee related expenses	25	440,432	426,669
Rent and premises related expenses		75,953	73,755
Depreciation and amortisation	9	101,775	92,223
Other general and administrative expenses		183,863	179,559
Other provisions	19	16,333	-
Impairment charge for credit losses, net	7 (b)	160,776	388,726
Impairment charge for investments	6 (g)	10,000	9,200
Total operating expenses		989,132	1,170,132
Net operating income for the year		1,016,114	783,951
Gain on sale of property	9 (b)	18,057	6,480
Share in loss of an associate	8	2,250	-
Net income for the year		1,031,921	790,431
Earnings per share (Expressed in SAR per share)			
Basic and diluted EPS	26	3.12	2.39


Dr. Bernd van Linder
Managing Director


Farid Zaouk
GM-Legal & Corporate Secretary

The accompanying notes 1 to 42 form an integral part of these consolidated financial statements.



CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the years ended December 31, 2011 and 2010

Amounts in SAR'000

	<u>2011</u>	<u>2010</u>
Net Income for the year	1,031,921	790,431
Other comprehensive income		
Available for sale investments		
- Net change in fair value	3,395	(14,305)
- Net amounts transferred to consolidated income statement	7,335	2,394
	<u>10,730</u>	<u>(11,911)</u>
Cash flow hedges		
- Effective portion of changes in fair value recognised	(1,054)	(29,391)
- Net change in fair value transferred to consolidated income statement	-	2,391
	<u>(1,054)</u>	<u>(27,000)</u>
Total comprehensive income for the year	<u>1,041,597</u>	<u>751,520</u>





 Dr. Bernd van Linder
 Managing Director
 Saudi Hollandi Bank

Farid Zaouk
 GM-Legal & Corporate Secretary

The accompanying notes 1 to 42 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2011 and 2010

Amounts in SAR '000

	Notes	Share Capital	Statutory reserve	General Reserve	Other reserves			Retained earnings	Proposed gross dividends	Staff share based plan reserve	Total shareholders' equity
					Available for sale Investments	Cash flow hedges	Reserve for bonus shares				
2011											
Balance at beginning of the year		3,307,500	2,134,500	130,000	(19,096)	(10,820)	-	820,691	-	24,181	6,386,956
Total comprehensive income for the year		-	-	-	10,730	(1,054)	-	1,031,921	-	-	1,041,597
Staff share based plan transactions	38	-	-	-	-	-	-	-	-	(20,231)	(20,231)
Transfer to statutory reserve	17	-	257,980	-	-	-	-	(257,980)	-	-	-
Proposed bonus shares	16	-	-	-	-	-	661,500	(661,500)	-	-	-
Proposed gross dividend	27	-	-	-	-	-	-	(377,055)	377,055	-	-
Balance at the end of the year		<u>3,307,500</u>	<u>2,392,480</u>	<u>130,000</u>	<u>(8,366)</u>	<u>(11,874)</u>	<u>661,500</u>	<u>556,077</u>	<u>377,055</u>	<u>3,950</u>	<u>7,408,322</u>
2010											
Balance at beginning of the year		3,307,500	1,936,500	130,000	(7,185)	16,180	-	228,260	-	21,567	5,632,822
Total comprehensive income for the year		-	-	-	(11,911)	(27,000)	-	790,431	-	-	751,520
Staff share based plan transactions	38	-	-	-	-	-	-	-	-	2,614	2,614
Transfer to statutory reserve	17	-	198,000	-	-	-	-	(198,000)	-	-	-
Balance at the end of the year		<u>3,307,500</u>	<u>2,134,500</u>	<u>130,000</u>	<u>(19,096)</u>	<u>(10,820)</u>	<u>-</u>	<u>820,691</u>	<u>-</u>	<u>24,181</u>	<u>6,386,956</u>




 Mr. Bernd van Linder
 Managing Director
 Saudi Hollandi Bank



 Farid Zaouk
 CML-Legal & Corporate Secretary



 SAUDI HOLLANDI BANK
 Financial Control Department
 البنك السعودي الهولندي

The accompanying notes 1 to 42 form an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended December 31, 2011 and 2010

Amounts in SAR'000

	<u>Notes</u>	<u>2011</u>	<u>2010</u>
OPERATING ACTIVITIES			
Net income for the year		1,031,921	790,431
Adjustments to reconcile net income to net cash from / (used in) operating activities:			
Accretion of discounts on non-trading investments, net		(176,706)	(192,779)
Gains on non-trading investments, net		(5,852)	(30,994)
Depreciation / amortisation	9(a)	101,775	92,223
Impairment charge for credit losses, net	7(b)	160,776	388,726
Share in loss of an associate		2,250	-
Impairment charge for Investments	6(g)	10,000	9,200
Staff share based plan expenses		3,950	2,614
Gain on sale of property		(18,057)	(6,480)
		<u>1,110,057</u>	<u>1,052,941</u>
Net (Increase) / decrease in operating assets:			
Statutory deposit with SAMA		(30,277)	(132,214)
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		750	1,381
Investments held as FVIS (including trading investments)		104,468	(3,685)
Loans and advances, net		(2,867,096)	595,265
Other assets		55,949	(237,886)
Net Increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		(1,245,921)	(2,899,544)
Customers' deposits		3,420,818	(3,223,670)
Other liabilities		470,076	141,775
		<u>1,018,824</u>	<u>(4,705,637)</u>
INVESTING ACTIVITIES			
Proceeds from sales and maturities of non-trading investments		16,181,262	9,642,386
Purchase of non-trading investments		(15,878,548)	(9,083,150)
Acquisition of property and equipment	9(a)	(106,501)	(96,756)
Proceeds from sale of property		28,500	12,405
		<u>224,713</u>	<u>474,885</u>
Net cash from investing activities			
		<u>1,243,537</u>	<u>(4,230,752)</u>
Net increase / (decrease) in cash and cash equivalents			
Cash and cash equivalents at beginning of the year		3,079,604	7,310,356
Cash and cash equivalents at end of the year	28	<u>4,323,141</u>	<u>3,079,604</u>
Special commission received during the year		<u>1,647,128</u>	<u>1,706,210</u>
Special commission paid during the year		<u>301,906</u>	<u>452,740</u>
Supplemental non-cash information			
Net changes in fair value and transfers to consolidated income statement		<u>9,676</u>	<u>38,911</u>


Dr. Bernd van Linder
Chairman of the Board of Directors





The accompanying notes 1 to 42 form an integral part of these consolidated financial statements.

Farid Zaouk
GM-Legal & Corporate Secretary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2011 and 2010

1 GENERAL

Saudi Hollandi Bank (the "Bank"), is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia and was formed pursuant to Royal Decree No. M/85 dated 29 Dhul Hijjah 1396H (corresponding to December 20, 1976). The Bank commenced business on 16 Shaaban 1397H (corresponding to August 1, 1977) when it took over the operations of Algemene Bank Nederland N.V. in the Kingdom of Saudi Arabia. The Bank operates under commercial registration No. 1010064925 dated 6 Jumada II 1407H (corresponding to February 4, 1987) through its 44 branches (2010: 44 branches) in the Kingdom of Saudi Arabia. The postal address of the Bank's head office is:

Saudi Hollandi Bank
Head Office
Al-Dhabab Street
P O Box 1467
Riyadh 11431
Kingdom of Saudi Arabia.

The consolidated financial statements comprise of the financial statements of the Bank and its subsidiaries (collectively referred to as "the Group"). The details of these subsidiaries are set out below:

Saudi Hollandi Capital (SHC)

SHC was formed in accordance with the Capital Market Authority's (CMA) Resolution number 1-39-2007 under commercial registration number 1010242378 dated 30 Dhul Hijja 1428 H (corresponding to January 09, 2008) to take over and manage the Group's Investment Services and Asset Management activities related to dealing, managing, arranging, advising and taking custody of securities regulated by CMA. SHC is effectively wholly owned by the Bank through direct and beneficial ownership and commenced its operations effective 1 Rabi'II 1429H (corresponding to April 8, 2008).

Saudi Hollandi Real Estate Company (SHREC)

SHREC an effectively wholly owned subsidiary of the Bank through direct and beneficial ownership, was established under commercial registration number 1010250772 dated 21 Jumada II 1429H (corresponding to June 25, 2008) with the approval of the Saudi Arabian Monetary Agency (SAMA).

Saudi Hollandi Insurance Company (SHIC)

SHIC an effectively wholly owned subsidiary of the Bank through direct and beneficial ownership was established under commercial registration number 1010300250 dated 29 Muharram 1432H (corresponding to January 4, 2011) with the approval of SAMA. The Company will act as an agent for Wataniya Insurance Company's, an associate, insurance products. The Company did not have any operating activities during the year.

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

2 BASIS OF PREPARATION

a) Statement of compliance

The consolidated financial statements are prepared in accordance with Accounting Standards for Financial Institutions promulgated by SAMA and International Financial Reporting Standards (IFRS) issued by International Accounting Standards Board (IASB). The Group prepares its consolidated financial statements to comply with the requirements of Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and the Bank's Articles of Association.

b) Basis of measurement

The consolidated financial statements are prepared under the historical cost convention except for the following material items in the statement of financial position:

- assets and liabilities held for trading are measured at fair value;
- financial instruments designated at fair value through Income Statement (FVIS) are measured at fair value;
- derivatives which are held at fair value;
- available for sale investments are measured at fair value; and
- recognised financial assets and financial liabilities designated as hedged items in qualifying fair value hedge relationships are adjusted for changes in fair value attributable to the risk being hedged.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2011 and 2010

c) Functional and presentation currency

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

d) Critical accounting judgements, estimates and assumptions

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

(i) Impairment for credit losses on loans and advances

Management reviews its loan portfolios to assess specific and collective impairment on a quarterly basis. In determining whether an impairment loss should be recorded management applies judgement when assessing 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 there has been an adverse change in the payment status of borrowers in a group. Management uses estimates based on historical loss experience for loans with similar credit risk characteristics where objective evidence of impairment exists. The methodology and assumptions used for estimating both the amount and the timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Fair value of unquoted financial instruments

Fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. These valuation techniques (for example, models) are validated and periodically reviewed by qualified personnel independent of the area that created them. Models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable market data, however, areas such as credit risk (both own and counter party), volatilities and correlations require Management to apply judgement. This include considerations of liquidity and model inputs such as volatility for longer dated financial instruments, discounts, prepayments and default rate assumptions for asset backed securities. Changes in assumptions about these factors could affect reported fair value of financial instruments.

(iii) Impairment of available-for-sale equity investments

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

(iv) Classification of held-to-maturity investments

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

e) Going concern

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the annual consolidated financial statements for the year ended 31 December 2010, except for the adoption of amendments to the existing standards as mentioned below. The Group has adopted the following amendments and interpretations retrospectively, which had no material impact on its consolidated financial statements of the Group.

- Amendments to IAS 1 - Presentation of Financial Statements

The amendments clarify that the classification of the liability component of a convertible instrument as current or non-current is not affected by terms that could, at the option of the holder of the instrument, result in settlement of the liability by the issue of equity instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2011 and 2010

- Amendments to IAS 7 - Statements of Cash Flows

The amendments clarify that only expenditures that result in the recognition of an asset can be classified as a cash flow from investing activities.

- IAS 24 - Related Party Disclosures (Revised 2009)

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

- Amendments to IFRS 7 - Financial Instruments: Disclosures Transfers of Financial Assets

These amendments introduce new disclosure requirements about transfers of financial assets, including disclosures for financial assets that are not derecognised in their entirety and financial assets that are derecognised in their entirety but for which the entity retains continuing involvement.

- Improvements to IFRSs 2010 - IFRS 7 - Financial Instruments: Disclosures

The amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments. In addition, the IASB amended and removed existing disclosure requirements.

- Improvements to IFRSs 2010 - IFRIC 13 Customer Loyalty Programmes

The amendments clarify that the fair value of award credits take into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits.

Other amendments resulting from the improvements to IFRIC 19, IFRIC 13, IFRS 1, IAS 32 and IFRS 3 did not have a material impact on the accounting policies, financial position and performance of the Group.

a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Saudi Hollandi Bank and its subsidiaries and are drawn up to December 31 of each year. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank and changes have been made to accounting policies where necessary to align them with the accounting policies adopted by the Group.

Subsidiaries are entities over which the Group has the power to govern financial and operating policies, so as to obtain benefits from its activities and generally accompany 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 consolidated financial statements have been prepared using uniform accounting policies and valuation methods for like transactions and other events in similar circumstances.

Intra-group balances and any income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

b) Investments in associates

Investments in associates are initially recognised at cost and subsequently equity accounted, based on annual audited or latest available reviewed financial statements. An associate is an entity in which the Bank holds 20% to 50% of the voting power and over which it has significant influence but which is neither a subsidiary nor a joint venture. Investments in associates are carried in the statement of financial position at cost, plus post-acquisition changes in the Group's share of net assets of the associate, less any impairment in the value of individual investments.

c) Trade date accounting

All 'regular-way' purchases and sales of financial assets are recognised and derecognised on trade date, i.e. the date that the Group commits to purchase a transaction. 'Regular way' purchases or sales are purchases or sales that require delivery within the time frame generally established by regulation or convention in the market place.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2011 and 2010

d) Derivative financial instruments and hedge accounting

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

i) Derivatives held for trading

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

ii) Embedded derivatives

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

iii) Hedge accounting

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

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

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

Fair Value Hedges

When a derivative is designated as a hedging instrument in a fair value hedge relationship, any gain or loss from re-measuring the hedging instrument to fair value is recognised in the consolidated income statement together with the change in the fair value of the hedged item attributable to the hedged risk.

For hedged items measured at amortised cost, where the fair value hedge of a commission bearing financial instrument ceases to meet the criteria for hedge accounting or is sold, exercised or terminated, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the effective yield basis. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated income statement.

Cash Flow Hedges

When a derivative is designated hedge in a cash flow hedge relationship, the portion of the gain or loss on the hedging instrument that is determined to be effective is recognised directly in other comprehensive income whereas the ineffective portion, if any, is recognised in the consolidated income statement. For cash flow hedges affecting future transactions, the fair value gains or losses recognised in other reserves are transferred to the consolidated income statement in the same period in which the hedged transaction affects the consolidated income statement.

Where the hedged forecasted transaction results in the recognition of a non-financial asset or liability, the associated gain or loss that had previously been recognised directly in other comprehensive income are included in the initial measurement of the acquisition cost or other carrying amount at the time such asset or liability is recognised. When the hedging instrument expires, is sold, terminated, exercised, no longer qualifies for hedge accounting the forecasted transaction is no longer expected to occur or the Group revokes the designation, any cumulative gain or loss on the cash flow hedging instrument that was recognised in other comprehensive income is retained until the forecasted transaction occurs. Where the hedged forecasted transaction is no longer expected to occur, the net cumulative gain or loss recognised in the consolidated statement of comprehensive income is transferred to the consolidated income statement for the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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e) Foreign currencies

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

Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement, except for differences arising on the retranslation of available for sale equity instruments. Translation gains or losses on non-monetary items carried at fair value are included as part of the fair value adjustment either in the consolidated income statement or in other comprehensive income depending on the classification of the underlying financial asset.

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

f) Offsetting financial instruments

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

g) Revenue / expense recognition

i) Special commission income and expenses

Special commission income and expense for all commission-bearing financial instruments, except for those classified as held for trading or FVIS are recognised in the consolidated income statement on effective yield basis. The effective yield is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective yield, the Group estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

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

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

ii) Exchange income / loss

Exchange income/loss is recognised when earned/incurred.

iii) Fees and commission income

Fees and commission income that are not integral part of the effective yield calculation on a financial asset or liability is recognised when the related service is provided as follows:

- Portfolio and other management advisory and service fees are recognised over the period of applicable service contracts.
- Fees received on asset management, wealth management, financial planning, custody services and other similar services that are provided over an extended period of time, are recognised over the period when the services are being provided.
- When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.
- Fees and commission expense relate mainly to transaction and service fees and are expensed as the services are received and are disclosed net of the related fee and commission income.

iv) Dividend Income

Dividend income is recognised when the right to receive dividend is established. Dividends are reflected as a component of net trading income, net income from FVIS financial instruments or other operating income based on the classification of the related equity instrument.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2011 and 2010

v) *Net trading income*

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

vd) *Income / (Loss) from FVIS financial instruments*

Net income from FVIS financial instruments relates to financial assets and liabilities designated as FVIS and include all realised and unrealised fair value changes, dividends, commission, and foreign exchange differences.

h) *Day one profit*

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognises the difference between the transaction price and fair value (a 'Day one' profit) in the consolidated income statement in 'Net trading income'. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognised in the consolidated income statement when the inputs become observable, or when the instrument is derecognised.

f) *Sale and repurchase agreements*

Assets sold with a simultaneous commitment to repurchase at a specified future date (repo agreements) continue to be recognised in the consolidated statement of financial position and are measured in accordance with related accounting policies for financial instruments held as FVIS, available-for-sale, held-to-maturity and other investments held at amortised cost. The counterparty liability for amounts received under these agreements is included in "Due to banks and other financial institutions" or "Customers' deposits". The difference between the sale and repurchase prices is treated as special commission expense and is accrued over the life of the repo agreement on an effective commission rate basis. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repo agreements) are not recognised in the consolidated statement of financial position, as the Group does not obtain control over the assets. Amounts paid under these agreements are included in "Cash and balances with SAMA" or "Due from banks and other financial institutions". The difference between the purchase and resale prices is treated as special commission income and accrued over the life of the reverse repo agreement on an effective yield basis.

j) *Investments*

Initial recognition

All investment securities are initially recognised at fair value, plus for investments not held as FVIS, incremental direct transaction cost and are subsequently accounted for depending on their classification as either held to maturity, FVIS, available for sale or other investments held at amortised cost. Premiums are amortised and discounts accreted using the effective yield basis and are taken to special commission income.

Fair value

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

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

Reclassification

Investments at FVIS are not reclassified subsequent to their initial recognition, except that non-derivative FVIS instrument, other than those designated as FVIS upon initial recognition (i.e. trading investments), may be reclassified out of the FVIS category if they are no longer held for the purpose of being sold or repurchased in the near term, and the following conditions are met:

- If the investments would have met the definition of "held at amortised cost" and had not been required to be classified as held for trading at initial recognition, then may be reclassified if the Group has the intention and ability to hold the investments for the foreseeable future or until maturity.
- If the investments would not have met the definition of held at amortised cost, and then it is reclassified out of the trading category only in 'rare circumstances'.

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

Subsequent measurement

The investments under each class are accounted for and presented using the basis set out in the following paragraphs.

i) Held as FVIS

Investments in this category are classified as either investment held for trading or those designated as FVIS on initial recognition. Investments held for trading are acquired principally for the purpose of selling or repurchasing in the short term and are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recognised in trading income/loss.

An investment can be designated as FVIS by Management if the assets or liabilities are managed, evaluated and reported internally on a fair value basis and the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or except for the equity instruments that do not have a quoted price in an active market and whose fair values cannot be reliably measured.

Investments at FVIS are recorded in the consolidated statement of financial position at fair value. Changes in the fair value are recognised in the consolidated income statement for the year in which it arises. Special commission income and dividend income on financial assets held as FVIS are reflected as either trading income or income from FVIS financial instruments in the consolidated income statement.

ii) Available for sale

Available for sale investments are those equity and debt securities that are intended to be held for an unspecified period of time, which may be sold in response to needs for liquidity or changes in special commission rates, exchange rates or equity prices.

Investments which are classified as "available for sale" are subsequently measured at fair value. Unrealised gain or loss arising from a change in its fair value is recognised in other comprehensive income. On de-recognition, any cumulative gain or loss previously recognised in other comprehensive income is included in the consolidated income statement. Special commission income is recognised in the consolidated income statement on an effective yield basis. Dividend income is recognised in the consolidated income statement when the Group becomes entitled to the dividend. Foreign exchange gains or loss on available for sale debt security investments are recognised in the consolidated income statement.

iii) Held to maturity

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

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

However, sales and reclassifications in any of the following circumstances would not impact the Group's ability to use this classification;

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

iv) Other investments held at amortised cost

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

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k) Loans and advances

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

All loans and advances are initially measured at fair value, including acquisition charges associated with the loans and advances.

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

l) Impairment of financial assets

An assessment is made at each reporting date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, the net present value of future anticipated cash flows from that asset is determined and any impairment loss, is recognised for changes in its carrying amounts.

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

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

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

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

(i) Impairment of financial assets held at amortised cost

A financial asset or group of financial assets is classified as impaired when there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset or group of financial assets and that a 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 allowance for credit losses due to impairment of a loan or any other financial asset held at amortised cost is established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the specific allowances 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 yield rate.

(ii) Impairment of available-for-sale financial assets

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

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

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

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For the years ended December 31, 2011 and 2010

m) Other real estate

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

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

n) Property and equipment

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

Buildings	33 years
Leasehold improvements	Over the shorter of lease period and 10 years
Furniture and fixtures, computer hardware and software and motor vehicles	4 to 10 years

The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each reporting date.

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

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

o) Liabilities

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

Financial liabilities are designated as FVIS on initial recognition if doing so significantly reduces measurement inconsistencies which would otherwise arise. After initial recognition these liabilities are measured at fair value and the resulting gain or loss is included in the consolidated income statement.

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

p) Guarantees

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

q) Provisions

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

r) Accounting for leases

Leases entered into by the Group as a lessee are all operating leases. Payments made under operating leases are charged to the consolidated income statement on a straight-line basis over the period of the lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2011 and 2010

When an operating lease is terminated before the lease period has expired, any penalty required to be paid to the lessor is recognised as an expense in the period in which termination takes place.

s) Cash and cash equivalents

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

t) Derecognition of financial instruments

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is de-recognised when:

- The rights to receive cash flows from the asset have expired
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

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

u) Share based payment transactions

The Group's share plan is classified as an equity settled plan. The fair value of shares which the Group expects will eventually vest is determined at the grant date and is expensed on a straight line basis over the vesting period with corresponding increase in staff share based plan reserve. Details regarding the plan and determination of the fair value are set out in Note 38.

At each reporting date, Management revises its estimates of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in the consolidated income statement over the remaining vesting period, with a corresponding adjustment to the staff share plan reserve.

v) End of service benefits

The liability for employees' end of service benefits is determined based on an actuarial valuation conducted by an independent actuary. The actuarial valuation process takes into account the provisions of the Saudi Arabian Labour and Workmen law.

w) Zakat and income tax

Under Saudi Arabian Zakat and Income tax laws, Zakat and income taxes are the liabilities of 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 Group's consolidated income statement and are deducted from current and future dividends payable to shareholders.

x) Investment management services

The Group offers investment services to its customers through its subsidiary SHC. The services include the management of certain investment funds in consultation with professional investment advisors. The Group's share of these funds is included in FVIS or available-for-sale investments and fees earned are disclosed under related party transactions.

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in the consolidated financial statements.

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y) Non-interest based banking products

In addition to conventional banking, the Group also offers its customers certain non-interest based banking products, which are approved by its independent Shariah Board, as follows:

Definitions of non-commission based products

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

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

(ii) **Musharaka** is an agreement between the Group and a customer to contribute to a certain investment enterprise or the ownership of a certain property ending up with the acquisition by the customer of the full ownership. The profit or loss is shared as per the terms of the agreement.

(iv) **Tawarag** is a form of Murabaha transactions where the Group purchases a commodity and sells it to the customer. The customer sells the underlying commodity at spot and uses the proceeds for his financing requirements.

All non-commission based banking products are accounted for as held at amortised cost under IFRS and are in conformity with the accounting policies described in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2011 and 2010

Amounts in SAR'000

4 CASH AND BALANCES WITH SAMA

	<u>2011</u>	<u>2010</u>
Cash in hand	406,200	297,711
Statutory deposit	2,258,502	2,228,225
Current accounts	252,096	23,796
Reverse repo with SAMA	3,051,979	2,449,966
Total	<u>5,968,777</u>	<u>4,999,698</u>

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

5 DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	<u>2011</u>	<u>2010</u>
Current accounts	590,183	106,403
Money market placements	22,683	202,478
	<u>612,866</u>	<u>308,881</u>

6 INVESTMENTS, NET

a) Investment securities are classified as follows:

	<u>Domestic</u>		<u>International</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
<i>i) Held at FVIS</i>						
Fixed rate securities	-	-	11,110	210	11,110	210
Floating rate securities	-	18,133	-	37,501	-	55,634
Index linked securities	-	-	-	59,734	-	59,734
Total held as FVIS	<u>-</u>	<u>18,133</u>	<u>11,110</u>	<u>97,445</u>	<u>11,110</u>	<u>115,578</u>

Investments in index linked securities were made to economically hedge the returns on related deposits whose returns were linked to the same index. Both investment securities and related deposits were designated as FVIS as such designation significantly reduced measurement inconsistencies. The securities and underlying deposits matured during the year. Fixed and floating rate securities are held for trading purposes.

	<u>Domestic</u>		<u>International</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
<i>ii) Available-for-sale</i>						
Fixed rate securities	89,618	129,800	-	-	89,618	129,800
Floating rate securities	339,500	772,191	112,068	85,718	451,568	857,909
Mutual funds	28,184	26,863	-	-	28,184	26,863
Equities	39,518	4,236	-	-	39,518	4,236
Total available-for-sale	<u>496,820</u>	<u>933,090</u>	<u>112,068</u>	<u>85,718</u>	<u>608,888</u>	<u>1,018,808</u>

Equities reported under available for sale investments include unquoted shares of SAR 4 million (2010: SAR 4 million) that are carried at cost. In the opinion of Management its fair value approximates the carrying value.

	<u>Domestic</u>		<u>International</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
<i>iii) Other investments held at amortised cost</i>						
Fixed rate securities	6,408,132	4,337,962	1,210,573	961,300	7,618,705	5,299,262
Floating rate securities	2,483,315	4,005,844	575,138	1,095,317	3,058,453	5,101,161
Total other investments held at amortised cost	<u>8,891,447</u>	<u>8,343,806</u>	<u>1,785,711</u>	<u>2,056,617</u>	<u>10,677,158</u>	<u>10,400,423</u>
Allowances for impairment	-	-	(20,000)	(10,000)	(20,000)	(10,000)
Total other investments held at amortised cost, net	<u>8,891,447</u>	<u>8,343,806</u>	<u>1,765,711</u>	<u>2,046,617</u>	<u>10,657,158</u>	<u>10,390,423</u>

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Amounts in SAR '000

	<u>Domestic</u>		<u>International</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
<i>iv) Held to maturity</i>						
Fixed rate securities	71,860	73,375	-	-	71,860	73,375
Floating rate securities	-	50,000	153,520	103,481	153,520	153,481
Total held to maturity	71,860	123,375	153,520	103,481	225,380	226,856
Total Investments, net	9,460,127	9,418,404	2,042,409	2,333,261	11,502,536	11,751,665

b) Investments reclassification

Management identified certain AFS, for which at July 1, 2008, it had a clear intention to hold the instruments for the foreseeable future rather than to exit or trade in the short term. As a result these instruments were reclassified from AFS to other investments held at amortised cost at that date and the reclassification was made at fair value. Had the reclassification not been made, other reserves would have included unrealised fair value losses amounting to SAR 24 million (December 31, 2010: SAR 23 million) and shareholders' equity would have been lower by the same amount.

With effect from July 20, 2011, the Group reclassified certain trading financial assets to other investments held at amortised cost, for which it no longer has the intention to hold these financial assets for the purpose of selling in the short term. For these reclassified financial assets, the Group has the intention and ability to hold them for the foreseeable future or until maturity. Had the reclassification not been made, there would have been no impact on the consolidated income statement as the fair value was same as of the carrying value at December 31, 2011.

The following table shows carrying values and fair values of the reclassified investments:

	<u>2011</u>	<u>2011</u>	<u>2010</u>	<u>2010</u>
	<u>Carrying value</u>	<u>Fair value</u>	<u>Carrying value</u>	<u>Fair value</u>
Available for sale securities reclassified to other investments held at amortised cost	452,109	426,389	594,515	553,544
Trading financial assets reclassified to other investments held at amortised cost	17,510	17,510	17,424	17,433

c) The composition of Investments is as follows:

	<u>2011</u>			<u>2010</u>		
	<u>Quoted</u>	<u>Unquoted</u>	<u>Total</u>	<u>Quoted</u>	<u>Unquoted</u>	<u>Total</u>
Fixed rate securities	1,392,586	6,398,707	7,791,293	984,510	4,518,137	5,502,647
Floating rate securities	1,950,541	1,693,900	3,643,541	2,021,622	4,136,563	6,158,185
Mutual funds	28,184	-	28,184	26,863	-	26,863
Equities	35,282	4,236	39,518	-	4,236	4,236
Index linked securities	-	-	-	-	59,734	59,734
Investments, net	3,406,593	8,095,943	11,502,536	3,032,995	8,718,670	11,751,665

Unquoted securities included above principally comprise Treasury bills and Saudi Government Bonds. Such securities are traded in inter-bank market within Saudi Arabia and values are determined according to an appropriate pricing model.

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

	<u>2011</u>				<u>2010</u>			
	<u>Carrying value, net of allowances</u>	<u>Gross unrealised gains</u>	<u>Gross unrealised losses</u>	<u>Fair value</u>	<u>Carrying value, net of allowances</u>	<u>Gross unrealised gains</u>	<u>Gross unrealised losses</u>	<u>Fair value</u>
<i>i) Other Investments held at amortised cost</i>								
Fixed-rate securities	7,618,705	74,825	(5,784)	7,687,746	5,299,262	81,842	(1,075)	5,380,029
Floating rate securities	3,038,453	8,773	(46,411)	3,000,815	5,091,161	19,285	(44,343)	5,066,103
Total	10,657,158	83,598	(52,195)	10,688,561	10,390,423	101,127	(45,418)	10,446,132

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	2011				2010			
	Carrying value	Gross unrealised gains	Gross unrealised losses	Fair value	Carrying value, net of allowances	Gross unrealised gains	Gross unrealised losses	Fair value
<i>b) Held to maturity</i>								
Fixed-rate securities	71,860	5,972	-	77,832	73,375	6,906	-	80,281
Floating rate securities	153,520	177	(14,153)	139,544	153,481	-	(13,106)	140,375
Total	225,380	6,149	(14,153)	217,376	226,856	6,906	(13,106)	220,656

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

	2011	2010
Government and quasi-government	8,683,745	9,102,512
Corporates	1,495,471	1,469,469
Banks and other financial institutions	1,255,618	1,148,586
Others	67,702	31,098
Total	11,502,536	11,751,665

Investments include SAR 2,568 million (2010: SAR 535 million) which have been pledged under repurchase agreements with customers. The market value of these investments is SAR 2,567 million (2010: SAR 546 million).

f) Credit risk exposures of Investments

	2011				2010			
	Fixed rate securities	Floating rate securities	Others	Total	Fixed rate securities	Floating rate securities	Others	Total
AAA	137,193	-	-	137,193	134,223	-	-	134,223
AA- To AA+	7,392,871	1,963,287	-	9,356,158	5,304,400	4,383,698	56,889	9,744,987
A- To A+	200,419	966,785	-	1,167,204	40,814	599,585	-	640,399
BBB- To BBB+	37,810	225,495	-	263,305	-	311,358	-	311,358
Lower than BBB	-	35,805	-	35,805	-	88,643	-	88,643
Unrated	23,000	452,169	67,702	542,871	23,210	774,901	33,944	832,055
Total	7,791,293	3,643,541	67,702	11,502,536	5,502,647	6,158,185	90,833	11,751,665

g) Allowances for impairment on investments

Allowances for impairment on investments during the year was SAR 10 million (2010: SAR 9.2 million).

7 LOANS AND ADVANCES, NET

a) Loans and advances held at amortised cost

2011	Overdraft	Credit Cards	Consumer loans	Commercial loans	Total
Performing loans and advances-gross	3,370,107	235,742	3,920,246	30,553,442	38,079,537
Non performing loans and advances, net	365,576	9,233	30,646	329,955	735,410
Total loans and advances	3,735,683	244,975	3,950,892	30,883,397	38,814,947
Allowances for impairment of credit losses	(608,540)	(11,326)	(38,722)	(411,060)	(1,069,648)
Loans and advances, net	3,127,143	233,649	3,912,170	30,472,337	37,745,299

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<u>2010</u>	<u>Overdraft</u>	<u>Credit Cards</u>	<u>Consumer Loans</u>	<u>Commercial loans</u>	<u>Total</u>
Performing loans and advances-gross	3,104,079	228,539	3,485,985	28,447,362	35,265,965
Non performing loans and advances, net	661,260	11,069	45,714	212,949	930,992
Total loans and advances	3,765,339	239,608	3,531,699	28,660,311	36,196,957
Allowances for impairment of credit losses	(742,645)	(11,326)	(38,722)	(365,285)	(1,157,978)
Loans and advances, net	3,022,694	228,282	3,492,977	28,295,026	35,038,979

b) Movements in Allowances for impairment of credit losses

<u>2011</u>	<u>Overdraft</u>	<u>Credit Cards</u>	<u>Consumer Loans</u>	<u>Commercial loans</u>	<u>Total</u>
Balance at beginning of the year	742,645	11,326	38,722	365,285	1,157,978
Provided during the year	180,950	24,826	73,788	98,378	377,942
Bad debts written off	(189,653)	(16,082)	(43,371)	-	(249,106)
Recoveries of amounts previously provided	(125,402)	(8,744)	(30,417)	(52,603)	(217,166)
Balance at the end of the year	608,540	11,326	38,722	411,060	1,069,648

<u>2010</u>	<u>Overdraft</u>	<u>Credit Cards</u>	<u>Consumer Loans</u>	<u>Commercial loans</u>	<u>Total</u>
Balance at beginning of the year	2,026,059	5,542	48,070	166,271	2,245,942
Provided during the year	152,000	21,563	49,314	202,789	425,666
Bad debts written off	(1,434,308)	(8,140)	(34,242)	-	(1,476,690)
Recoveries of amounts previously provided	(1,106)	(7,639)	(24,420)	(3,775)	(36,940)
Balance at the end of the year	742,645	11,326	38,722	365,285	1,157,978

c) Credit quality of loans and advances

i) Loans and advances neither past due nor impaired

The Group has categorised its portfolio of loans and advances that are neither past due nor impaired into three sub categories i.e. strong, satisfactory and watch according to the Group's internal rating system.

Loans and advances under the Strong category are performing, have sound fundamental characteristics and include those that exhibit neither current nor potential weaknesses.

Loans and advance under the Satisfactory category are of sufficient quality to meet its financial obligations in the medium term, but could be impacted by adverse business or economic conditions.

The Watch category includes loans and advances that are performing, current and up to date in terms of principal and special commission payments. However, they require close management attention as they may have potential weaknesses that could, at some future date, result in the deterioration of the repayment prospects of either the principal or the special commission. The Watch category loans and advances would not expose the Group to sufficient risk to warrant a worse classification.

<u>2011</u>	<u>Overdraft</u>	<u>Credit Cards</u>	<u>Consumer Loans</u>	<u>Commercial loans</u>	<u>Total</u>
Strong	1,215,386	211,604	3,873,962	15,617,952	20,918,904
Satisfactory	1,564,823	13,398	11,260	14,464,486	16,053,967
Watch	250,767	1,641	1,448	451,991	705,847
Total	3,030,976	226,643	3,886,670	30,534,429	37,678,718

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<u>2010</u>	<u>Overdraft</u>	<u>Credit Cards</u>	<u>Consumer Loans</u>	<u>Commercial loans</u>	<u>Total</u>
Strong	1,125,524	207,643	3,431,107	13,216,939	17,981,213
Satisfactory	1,366,290	10,052	8,196	14,683,262	16,067,800
Watch	277,407	956	239	389,836	668,438
Total	2,769,221	218,651	3,439,542	28,290,037	34,717,451

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

<u>2011</u>	<u>Overdraft</u>	<u>Credit Cards</u>	<u>Consumer Loans</u>	<u>Commercial loans</u>	<u>Total</u>
From 1 day to 30 days	24,644	3,320	17,923	1,641	47,528
From 31 days to 90 days	16,313	5,779	15,653	300	38,045
From 91 days to 180 days	17,847	-	-	17,072	34,919
More than 180 days	280,327	-	-	-	280,327
Total	339,131	9,099	33,576	19,013	400,819

<u>2010</u>	<u>Overdraft</u>	<u>Credit Cards</u>	<u>Consumer Loans</u>	<u>Commercial loans</u>	<u>Total</u>
From 1 day to 30 days	28,885	4,041	21,294	39,947	94,167
From 31 days to 90 days	9,781	5,847	25,149	56,163	96,940
From 91 days to 180 days	-	-	-	28,465	28,465
More than 180 days	296,192	-	-	32,750	328,942
Total	334,858	9,888	46,443	157,325	548,514

Out of the past due loans for 2011 loans amounting to SAR 269 million are fully secured by collateral (2010: SAR 272 million)

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

<u>2011</u>	<u>Performing</u>	<u>Non performing</u>	<u>Allowances for impairment</u>	<u>Loans and advances net</u>
Government and quasi-government	1,067,209	-	-	1,067,209
Banks and other financial institutions	1,593,928	-	-	1,593,928
Agriculture and fishing	526,752	23,170	(23,310)	526,612
Manufacturing	7,613,685	64,102	(117,817)	7,559,970
Mining and quarrying	197,076	-	-	197,076
Electricity, water, gas and health services	1,916,952	8,251	(8,367)	1,916,836
Building and construction	5,123,535	37,987	(115,214)	5,046,308
Commerce	10,519,870	439,105	(414,395)	10,544,580
Transportation and communication	586,565	173	(178)	586,560
Services	1,380,078	105,166	(28,396)	1,456,848
Consumer loans and credit cards	4,116,107	39,879	(28,335)	4,127,651
Others	3,437,780	17,577	(36,865)	3,418,492
	38,079,537	735,410	(772,877)	38,042,070
Portfolio impairment allowances	-	-	(296,771)	(296,771)
Total	38,079,537	735,410	(1,069,648)	37,745,299

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<u>2010</u>	<u>Performing</u>	<u>Non performing</u>	<u>Allowances for impairment</u>	<u>Loans and advances, net</u>
Government and quasi-government	2,369,483	-	-	2,369,483
Banks and other financial institutions	1,197,190	-	-	1,197,190
Agriculture and fishing	367,049	23,231	(23,231)	367,049
Manufacturing	7,827,346	119,016	(111,241)	7,835,121
Mining and quarrying	302,274	-	-	302,274
Electricity, water, gas and health services	1,692,207	38,144	(14,867)	1,715,484
Building and construction	5,228,508	54,070	(52,827)	5,229,751
Commerce	7,529,166	512,973	(507,306)	7,534,833
Transportation and communication Services	420,794	28	(28)	420,794
Consumer loans and credit cards	1,818,761	96,391	(96,391)	1,818,761
Others	3,714,525	56,783	-	3,771,308
	<u>2,798,662</u>	<u>30,356</u>	<u>(16,644)</u>	<u>2,812,374</u>
	35,265,965	930,992	(822,535)	35,374,422
Portfolio impairment allowances	-	-	(335,443)	(335,443)
Total	<u>35,265,965</u>	<u>930,992</u>	<u>(1,157,978)</u>	<u>35,038,979</u>

Loans and advances, include Islamic products of SAR 13.70 billion (2010: SAR 13.55 billion)

e) Collateral

The Group, in the ordinary course of its lending activities holds collateral to mitigate the associated credit risk. This mostly consists of time, demand and other cash deposits, financial guarantees, local and international equities, real estate and other fixed assets. Collateral is mainly held against commercial and consumer loans and is managed against relevant exposures at its net realisable value. The fair value of collateral held by the Group against loans and advances at December 31, 2011 is SAR 7.07 billion (2010: SAR 7.75 billion).

f) Loans and advances renegotiated

Restructuring activities include extended repayment arrangements, approved external management plans and modification or deferral of payments. Following restructuring, previously overdue customer accounts are reset to a normal status and managed together with other similar accounts. Renegotiated loans that would otherwise be past due or impaired totaled SAR 344 million (2010: SAR 740 million).

8 INVESTMENT IN AN ASSOCIATE

	<u>2011</u>	<u>2010</u>
Balance at beginning of the year	20,000	20,000
Share in undistributed loss	(2,250)	-
Balance at end of the year	<u>17,750</u>	<u>20,000</u>

Investment in associate represents a 20 % shareholding in Wataniya Insurance Company formed in the Kingdom of Saudi Arabia, pursuant to Royal Decree No. 26/30 dated 16 Rabi' II 1430H (corresponding to April 12, 2009). The Group's share of associate's financial statements is not material enough to disclose at December 31, 2011.

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9 PROPERTY AND EQUIPMENT, NET

9 (a) Property and equipment details are as follows:

	Land and Buildings	Leasehold Improvements	Computer hardware and software	Furniture and Fixtures	Motor Vehicles	Capital Work In Progress (CWIP)	Total
Cost:							
Balance at beginning of the year	208,884	266,595	537,646	174,959	4,380	95,616	1,288,080
Additions during the year	-	-	-	-	-	106,501	106,501
Disposals / write off during the year	(34,268)	(3,000)	-	-	-	-	(37,268)
Transfers from CWIP during the year	12,961	2,528	118,257	5,252	-	(138,998)	-
Balance at end of the year	187,577	266,123	655,903	180,211	4,380	63,119	1,357,313
Accumulated depreciation/ amortisation							
Balance at beginning of the year	54,995	209,184	408,930	116,707	3,048	-	792,864
Charge for the year	5,458	13,740	63,271	18,916	390	-	101,775
Disposals / write off during the year	(23,825)	(3,000)	-	-	-	-	(26,825)
Balance at end of the year	36,628	219,924	472,201	135,623	3,438	-	867,814
Net book value:							
As at 31 December 2011	150,949	46,199	183,702	44,588	942	63,119	489,499
As at 31 December 2010	153,889	57,411	128,716	58,252	1,332	95,616	495,216

9 (b) Gain on sale of property

During the year the Group disposed off property which it considered surplus to its requirements. At the time of disposal the book value of the property amounted to SAR 10.44 million and sale proceeds were SAR 28.50 million. Necessary regulatory approvals were obtained for the sale.

10 OTHER ASSETS

	2011	2010
Accrued special commission receivable:		
Banks and other financial institutions	57	1,358
Investments	39,999	40,441
Loans and advances	152,314	209,431
Others	63,074	84,638
Total accrued special commission receivable	255,444	335,868
Accounts receivable	554,279	631,098
Positive fair value of derivatives (note 11)	396,724	297,821
Others	5,578	3,187
Total	1,212,025	1,267,974

11 DERIVATIVES

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

a) Swaps

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

b) Forwards and futures

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

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c) Forward-rate agreements

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

d) Options

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

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 and banks in order, inter alia, to enable them to transfer, modify or reduce current and future risks. Positioning involves managing market risk positions with the expectation of profiting from favourable movements in prices, rates or indices. Arbitrage involves identifying price differentials between markets or products, with the expectation of profiting.

Derivatives held for hedging purposes

The Group has adopted a comprehensive process for the measurement and management of risk. Part of the risk management process involves managing the Group's exposure to fluctuations in foreign exchange and commission rates to acceptable levels as determined by the Board of Directors and within guidelines issued by SAMA.

The Board of Directors has established levels of currency risk by setting limits on counterparty and currency positions. Positions are monitored on a daily basis and hedging strategies are used to ensure that positions are maintained within the established limits. The Board of Directors has also established the levels of commission rate risk by setting limits on special commission rate gaps for stipulated periods. Asset and liability commission rate gaps are reviewed on a periodic basis and hedging strategies are used to reduce commission rate gaps within the established limits.

As part of its asset and liability management process, 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.

The Group uses commission rate swaps 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 details of the hedged items and hedging instrument, are formally documented and the transactions are accounted for as fair value or cash flow hedges.

Cash flow hedges

The Group is exposed to variability in future special commission cash flows on non-trading assets and liabilities which bear commission at a variable rate. The Group uses commission rate swaps as cash flow hedges of these commission rate risks. The table below indicates as at December 31, 2011, the periods when the hedged cash flows are expected to occur and when they are expected to affect profit or loss:

	<u>2011</u>		<u>2010</u>	
	<u>Within 1 year</u>	<u>1-3 years</u>	<u>Within 1 year</u>	<u>1-3 years</u>
Cash inflows (assets)	3,569	4,532	3,297	15,944
Cash outflows (liabilities)	(10,095)	(10,200)	(10,068)	(20,163)
Net cash outflows	(6,526)	(5,668)	(6,771)	(4,219)

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

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<i>Derivative financial instruments 2011</i>	<i>Positive fair value</i>	<i>Negative fair value</i>	<i>Notional amount total</i>	<i>Within three months</i>	<i>Notional amounts by maturity</i>			<i>Monthly Average</i>
					<i>3-12 Months</i>	<i>1-5 Years</i>	<i>Over 5 Years</i>	
Held for trading:								
Commission rate swaps	137,526	127,685	14,448,135	828,779	1,702,446	11,455,294	461,616	16,084,925
Forward foreign exchange contracts	242,776	219,398	33,029,836	19,634,079	13,377,158	18,599	-	35,861,533
Currency options	16,240	16,255	28,259,091	5,324,446	14,436,692	8,497,953	-	20,550,611
Forward rate agreements	115	-	150,000	-	150,000	-	-	166,667
Commission rate options	67	67	219,279	-	-	219,279	-	73,093
Held as fair value hedges:								
Commission rate swaps	-	20,484	1,055,624	10,000	244,740	563,382	237,501	1,253,583
Held as cash flow hedges:								
Commission rate swaps	-	11,874	350,000	-	-	350,000	-	350,000
Total	396,724	395,763	77,511,965	25,797,304	29,911,036	21,104,507	699,118	

<i>Derivative financial instruments 2010</i>	<i>Positive fair value</i>	<i>Negative fair value</i>	<i>Notional amount total</i>	<i>Within three months</i>	<i>Notional amounts by maturity</i>			<i>Monthly Average</i>
					<i>3-12 Months</i>	<i>1-5 Years</i>	<i>Over 5 Years</i>	
Held for trading:								
Commission rate swaps	149,378	148,071	19,556,467	2,228,503	3,912,721	11,946,785	1,468,458	20,556,443
Forward foreign exchange contracts	116,952	101,851	37,258,805	18,721,776	17,948,645	588,384	-	40,275,625
Currency options	22,114	21,375	6,036,749	2,047,397	1,829,295	2,160,057	-	3,062,974
Forward rate agreements	105	13	600,000	-	600,000	-	-	900,000
Held as fair value hedges:								
Commission rate swaps	9,272	13,002	2,092,356	5,000	424,470	1,425,385	237,501	1,770,622
Held as cash flow hedges:								
Commission rate swaps	-	10,820	350,000	-	-	350,000	-	650,000
Total	297,821	295,132	65,894,377	23,002,676	24,715,131	16,470,611	1,705,959	

The tables below shows a summary of hedged items, the nature of the risk being hedged, the hedging instrument and it's fair value:

<i>Description of hedged items</i>	<i>Fair value</i>	<i>Hedge inception value</i>	<i>Risk</i>	<i>Hedging instrument</i>	<i>Positive fair value</i>	<i>Negative fair value</i>
2011						
Floating commission rate investments	195,654	206,250	Fair value	Commission rate swaps	-	3,069
Fixed commission rate investments	374,777	348,750	Fair value	Commission rate swaps	-	5,957
Subordinated debts	254,830	350,000	Cash flow	Commission rate swaps	-	11,874
Loans and advances	480,729	475,556	Fair value	Commission rate swaps	-	11,458

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<i>Description of hedged items</i>	<i>Fair value</i>	<i>Hedge inception value</i>	<i>Risk</i>	<i>Hedging Instrument</i>	<i>Positive fair value</i>	<i>Negative fair value</i>
2010						
Floating commission rate investments	185,006	206,250	Fair value	Commission rate swaps	-	127
Fixed commission rate investments	594,660	558,750	Fair value	Commission rate swaps	5,833	-
Subordinated debts	350,027	350,000	Cash flow	Commission rate swaps	-	10,820
Deposits taken	122,980	120,000	Fair value	Commission rate swaps	3,439	-
Loans and advances	918,215	893,797	Fair value	Commission rate swaps	-	12,875

The net fair value of fair value hedges is negative SAR 20.482 million (2010: SAR 3.730 million).

Approximately 69% (2010: 61%) of the positive fair value of the Group's derivatives are entered into with financial institutions and less than 7% (2010: 9%) of the positive fair value contracts are with any single counterparty at the reporting date. Derivative activities are carried out by the Group's treasury segment.

12 DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2011	2010
Current accounts	704,347	510,649
Call/ Overnight	26	358
Money market deposits	906,718	2,346,005
Total	1,611,091	2,857,012

13 CUSTOMERS' DEPOSITS

	2011	2010
Time	24,156,021	23,764,572
Demand	19,848,307	16,894,955
Saving	390,244	350,059
Others	629,865	594,033
Total	45,024,437	41,603,619

Time deposits include:

i) Deposits designated as FVIS	-	59,734
ii) Deposits under repurchase agreements with customers	2,063,090	534,800
iii) Islamic deposits	9,417,472	10,339,000

Customers' deposits include SAR 498 million (2010: SAR 554 million) of margins held for irrevocable commitments, non commission based deposits amounting to SAR 19.40 billion (2010: SAR 16.86 billion) and foreign currency deposits as follows:

	2011	2010
Time	4,219,645	6,957,924
Demand	1,824,780	1,723,808
Saving	26,137	34,368
Others	65,983	21,630
Total	6,136,545	8,737,730

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14 SUBORDINATED DEBT

Subordinated debt includes the following debt securities:

Issued on December 30, 2009:

The Group issued SAR 725 million unsecured subordinated Mudaraba Certificates which is due in 2019, through public offer. The Group may at its option, but subject to the prior written approval of SAMA redeem these certificates at their redemption amount at the end of 2014 or at the end of each calendar year thereafter until 2018, or in the event of certain changes affecting taxation and the regulatory capital treatment of these Mudaraba Certificates.

Issued on December 29, 2008:

The Group issued SAR 775 million unsecured subordinated Mudaraba Certificates which is due in 2018. The Group may at its option, but subject to the prior written approval of SAMA redeem these certificates at their redemption amount at the end of 2013 or at the end of each calendar year thereafter until 2017, or in the event of certain changes affecting the taxation and regulatory capital treatment of these Mudaraba Certificates.

The Group has not defaulted any principal or commission repayments and there has been no other breaches with regard to any of these liabilities during 2011 or 2010.

15 OTHER LIABILITIES

<i>Accrued special commission payable:</i>	<u>2011</u>	<u>2010</u>
Banks and other financial institutions	230	828
Customer deposits	76,519	65,408
Subordinated debt	116	234
Others	<u>83,863</u>	<u>119,255</u>
Total accrued special commission payable	160,728	185,725
Accrued expenses and accounts payable	1,064,521	673,928
Negative fair value of derivatives (note 11)	395,763	295,132
Others	<u>383,890</u>	<u>380,041</u>
Total	<u>2,004,902</u>	<u>1,534,826</u>

16 SHARE CAPITAL

The authorised, issued and fully paid share capital consists of 330.75 million (2010: 330.75 million) shares of SAR 10 (2010: SAR 10) each.

The ownership of the Bank's share capital is as follows:

	<u>Percentage</u>	<u>2011</u>	<u>2010</u>
Saudi shareholders	60%	1,984,500	1,984,500
ABN AMRO Bank N.V. (The Netherlands)	<u>40%</u>	<u>1,323,000</u>	<u>1,323,000</u>
Total	<u>100%</u>	<u>3,307,500</u>	<u>3,307,500</u>

On November 15, 2011, the Board of Directors has approved the transfer of SAR 661.5 million (2010: Nil) to reserve with an intention to increase the Bank's share capital through a one-for-five bonus share dividend subject to final approval at an Extraordinary General Assembly meeting.

17 STATUTORY RESERVE

In accordance with Saudi Arabian Banking Control Law and the Articles of Association of the Bank, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid up capital of the Bank. Accordingly, SAR 258 million (2010: SAR 198 million) has been transferred from net income. The statutory reserve is not available for distribution.

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18 OTHER RESERVES

	<i>Available for sale investments</i>	<i>Cash flow hedges</i>	<i>Total</i>
2011			
Balance at beginning of the year	(19,096)	(10,820)	(29,916)
Net change in fair value	3,395	(1,054)	2,341
Transfer to consolidated income statement	7,335	-	7,335
Balance at end of the year	<u>(8,366)</u>	<u>(11,874)</u>	<u>(20,240)</u>
2010			
Balance at beginning of the year	(7,185)	16,180	8,995
Net change in fair value	(14,305)	(29,391)	(43,696)
Transfer to consolidated income statement	2,394	2,391	4,785
Balance at end of the year	<u>(19,096)</u>	<u>(10,820)</u>	<u>(29,916)</u>

19 COMMITMENTS AND CONTINGENCIES

a) Legal proceedings

As at December 31, 2011 and 2010, there were certain legal proceedings outstanding against the Group that arose in the normal course of business. Provision amounting to SAR 16.3 million (2010: Nil) has been made during the year as professional legal advice indicates that it is probable that losses will arise with respect to these proceedings.

b) Capital commitments

As at December 31, 2011, the Group had capital commitments of SAR 20.8 million (2010: SAR 9.38 million) in respect of leasehold improvements and equipment purchases.

c) Credit related commitments and contingencies

The primary purpose of these instruments is to ensure that funds are available to customers as required.

Guarantees and stand-by 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. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw the full funds under the agreement.

Documentary letters of credit are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions and are generally collateralised by the underlying shipments of goods to which they relate and therefore, have significantly 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.

Commitments to extend credit represent the unused portion of authorisations 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 considerably less than the total unused commitment as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The total outstanding commitments to extend credit do not necessarily represent future cash requirements as many of the commitments could expire or terminate without being funded.

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i) The contractual maturities of the Group's commitments and contingencies are as follows:

	<u>Within 3</u> <u>months</u>	<u>3 to 12</u> <u>months</u>	<u>1 to 5</u> <u>Years</u>	<u>Over 5</u> <u>Years</u>	<u>Total</u>
2011					
Letters of credit	1,999,727	2,275,118	225,653	-	4,500,498
Letters of guarantee	1,231,289	5,906,102	5,743,038	40,721	12,921,150
Acceptances	1,916,926	344,179	17,023	1,509	2,279,637
Irrevocable commitments to extend credit	7,172	27,708	109,292	161,132	305,304
Total	5,155,114	8,553,107	6,095,006	203,362	20,006,589
2010					
Letters of credit	592,385	2,138,415	694,545	58,281	3,483,626
Letters of guarantee	1,138,014	886,819	7,697,983	1,988,188	11,711,004
Acceptances	998,082	1,037,340	52,349	245	2,088,016
Irrevocable commitments to extend credit	6,500	81,902	38,621	55,406	182,429
Total	2,734,981	4,144,476	8,483,498	2,102,120	17,465,075

The outstanding unused portion of commitments as at December 31, 2011, which can be revoked unilaterally at any time by the Bank, amounts to SAR 305.3 million (2010: SAR 182.4 million).

ii) Commitments and contingencies by counterparty are as follows:

	<u>2011</u>	<u>2010</u>
Government and quasi-government	34,266	73,535
Corporate	17,173,196	14,491,471
Banks and other financial institutions	2,517,146	2,730,892
Other	281,981	169,177
Total	20,006,589	17,465,075

d) Operating lease commitments

The future minimum lease payments under non-cancellable operating leases where the Group is a lessee, are as follows:

	<u>2011</u>	<u>2010</u>
Less than 1 year	46,522	44,338
1 to 5 years	104,251	116,470
Over 5 years	55,725	63,805
Total	206,498	224,613

20 SPECIAL COMMISSION INCOME AND EXPENSE

	<u>2011</u>	<u>2010</u>
Special commission income		
Investments:		
Available for sale	15,364	24,772
Held to maturity	5,200	6,529
Other investments held at amortised cost	155,708	163,761
	176,272	195,062
Due from banks and other financial institutions	19,227	38,756
Loans and advances	1,371,006	1,391,179
Total	1,566,505	1,624,997

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Special commission expense	<u>2011</u>	<u>2010</u>
Due to banks and other financial institutions	6,439	24,634
Subordinated debt	41,938	46,667
Customers' deposits	<u>228,533</u>	<u>266,365</u>
Total	<u>276,910</u>	<u>337,666</u>
21 FEE AND COMMISSION INCOME, NET		
Fee and commission income:	<u>2011</u>	<u>2010</u>
Share brokerage and fund management, net	51,846	48,666
Trade finance	181,075	168,272
Corporate finance and advisory	179,889	126,838
Credit cards	74,136	68,341
Other banking services	<u>89,827</u>	<u>88,336</u>
Total fee and commission income	<u>576,773</u>	<u>500,453</u>
Fee expenses:		
Credit cards	48,024	39,891
Other banking services	<u>9,546</u>	<u>5,735</u>
Total fee expenses	<u>57,570</u>	<u>45,626</u>
Fee and commission income, net	<u>519,203</u>	<u>454,827</u>
22 INCOME FROM FINANCIAL INSTRUMENTS DESIGNATED AS FVIS, NET		
Fair value change on investments designated as FVIS	<u>2011</u>	<u>2010</u>
Special commission income on investments designated as FVIS, net	-	1,250
	<u>5,040</u>	<u>4,139</u>
Total	<u>5,040</u>	<u>5,389</u>
23 TRADING INCOME, NET		
Foreign exchange, net	<u>2011</u>	<u>2010</u>
Investments held for trading	52,162	50,064
Derivatives	2,219	14,815
	<u>21,649</u>	<u>21,318</u>
Total	<u>76,030</u>	<u>86,197</u>
24 GAINS ON NON-TRADING INVESTMENTS, NET		
Available for sale	<u>2011</u>	<u>2010</u>
Held to maturity	-	32,667
Other investments held at amortised costs	-	(1,673)
	<u>5,852</u>	-
Total	<u>5,852</u>	<u>30,994</u>
25 SALARIES AND EMPLOYEE RELATED EXPENSES		

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

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<u>Categories of employees</u>	<u>Number of employees</u>	<u>Fixed compensation</u>	<u>Variable Compensation in 2011</u>		
			<u>Cash paid</u>	<u>Shares vested</u>	<u>Total</u>
Senior executives who require SAMA's no objection	14	18,342	4,643	2,421	25,406
Employees engaged in control and risk management functions	68	17,485	1,953	913	20,351
Employees engaged in risk taking activities	401	87,193	9,171	4,435	100,799
Other employees	1,122	180,185	15,138	8,555	203,878
Total	1,605	303,205	30,905	16,324	350,434
Variable Compensation accrued during the year		33,000			
Other employee related expenses paid during the year		88,008			
Other employee related expenses accrued during the year		16,219			
Total Salaries and employee related expenses		440,432			

Senior executives requiring SAMA's no objection:

This comprises senior management having responsibility and authority for formulating strategies and directing and controlling the activities of the Group. This covers the Managing Director (MD) and certain direct reports to the MD.

Employees engaged in control and risk management functions:

This refers to employees working in divisions that are not involved in risk taking activities but are engaged in review and control functions, for example Risk Management, Compliance, Internal Audit, Operations and Finance. These functions are fully independent from the risk taking units.

Employees engaged in risk taking activities:

This comprises staff within business lines (Corporate Banking, Personal Banking, Treasury and SHC), who are responsible for executing and implementing the business strategy on behalf of the Group, for example staff involved in recommending credit limits, pricing of loans, undertaking and executing business proposals, treasury dealing activities, investment management and brokerage services.

Other employees:

This includes all other employees of the Group, excluding those already mentioned above.

Group Compensation policy:

The purpose of the policy is to establish and apply compensation policies and processes which support delivery of business strategy, reinforce the desired organisational culture, reflect prudent risk management and comply with SAMA Regulations.

The Group's compensation policy is aimed at rewarding both risk-adjusted performance and appropriate behaviour in line with the Group's core values. To this end, performance measurements are risk adjusted and reviewed by the independent Risk Management function. In addition, the Compensation Policy is reviewed by Risk Management to ensure rewards are adjusted for the level of risk incurred.

The Board of Directors are responsible for ensuring the effective implementation of the compensation policy. The Board is advised by the Nominations and Remuneration Committee ("The Committee"), which comprises three independent Non Executive Directors. The Committee receives reports and recommendations from Executive Management supported by Human Resources. The Committee reviews and approves all compensation decisions relating to all employees.

Heads of business units and control functions being monitored and/or controlled by Internal Audit, Compliance, Risk Management and Credit Risk will not have any input to compensation decisions of employees in the control functions. Compensation recommendations are determined based on a clear understanding of the intended total reward package and decisions are taken considering the balance between external competitiveness and affordability together with focusing attention on building motivational and performance related compensation arrangements.

Comparative information has not been provided as SAMA requires disclosure of the above information for the current and prospective financial years.

26 EARNINGS PER SHARE

Basic Earnings per share for the years ended December 31, 2011 and 2010 are calculated by dividing the net income for the year attributable to the equity holders by 330.750 million shares.

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27 DIVIDENDS, ZAKAT AND INCOME TAX

The Board of Directors has proposed a gross final dividend of SAR 377.1 million for the year 2011 (2010: SAR Nil). The dividends are paid to the Saudi and non-Saudi shareholders after deduction of Zakat and income tax respectively as follows:

a) Saudi shareholders:

Zakat attributable to Saudi Shareholders for the year is an estimated SAR 94 million (2010: SAR 15 million), which will be deducted from their share of future dividends. Zakat of SAR 27 million paid in prior years will be deducted from the current year's proposed dividend resulting in a net dividend of SAR 1 per share.

b) Non-Saudi shareholders:

Income tax payable on the current year's share of income of foreign shareholders is an estimated SAR 75 million (2010: SAR 62 million). Tax paid in prior years amounting to SAR 66.2 million and advance tax paid during the year amounting to SAR 50 million, included in the current year's tax liability, will be deducted from current year's proposed dividend resulting in a net dividend of SAR 0.26 per share.

The Bank has filed its Zakat and returns for the years up to and including the financial year 2010 with the Department of Zakat and Income Tax (the "DZIT"). During 2011, the Bank has received Zakat and tax assessments from the DZIT in respect of the years from 2004 to 2006 and a partial assessment for year 2010 raising additional Zakat and tax liabilities.

The Bank has formally contested these assessments and is awaiting a response from DZIT. Management believes that the ultimate outcome of the actions taken by the Bank alone and in conjunction with other Banks in the Kingdom of Saudi Arabia having similar additional assessments from DZIT, cannot be determined reliably at this stage and accordingly the Bank has not made any provision for the additional assessed Zakat and tax liabilities.

28 CASH AND CASH EQUIVALENTS

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

	<u>2011</u>	<u>2010</u>
Cash and balances with SAMA excluding statutory deposits (note 4)	3,710,275	2,771,473
Due from banks and other financial institutions maturing within 3 months or less from the date of acquisition	<u>612,866</u>	<u>308,131</u>
Total	<u>4,323,141</u>	<u>3,079,604</u>

29 OPERATING SEGMENTS

All of the Group's business is conducted within the Kingdom of Saudi Arabia. Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief decision maker in order to allocate resources and to assess performance. Transactions between reportable segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between reportable segments, resulting in funding cost transfers. Commission is charged to reportable segments based on a pool rate, which approximates the marginal cost of funds. Following are the reportable business segments of the Group:

Corporate banking

The corporate banking group offers a range of products and services to corporate and institutional customers. It accepts customer deposits and provides financing, including term loans, overdrafts, syndicated loans, trade finance services, treasury and derivative products and foreign exchange. Services provided to customers include internet banking, global transaction services and a centralised service that manages all customer transfers, electronic or otherwise.

Personal banking

The personal banking group operates through a national network of branches and ATMs supported by a 24-hour phone banking center. The Group accepts customers' deposits in various savings and deposit accounts and provides retail banking products and services, including consumer loans, overdrafts and credit cards to individuals and small-to-medium-sized enterprises.

Treasury

Treasury transacts mainly money market, foreign exchange, interest 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 bank-wide liquidity and managing the Group's investment portfolio and consolidated statement of financial position.

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Investment banking and investment services

The investment banking and services group offers dealing, managing, arranging, advising and maintaining custody services in relation to securities.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit as included in the internal management reports that are reviewed by Management. Segment profit is used to measure performance as Management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

a) The following is an analysis of the Bank's assets, revenues and results by operating segments for the years ended December 31, 2011 and 2010.

	<i>Corporate Banking</i>	<i>Personal Banking</i>	<i>Treasury</i>	<i>Investment banking and investment services</i>	<i>Total</i>
2011					
Total assets	33,515,015	5,300,741	18,254,874	478,122	57,548,752
Total liabilities	20,868,824	17,127,477	12,119,798	24,331	50,140,430
Net special commission income	724,471	384,171	179,144	1,809	1,289,595
Fee and commission income, net	361,458	81,464	16,777	59,504	519,203
Trading income, net	353	3,392	72,285	-	76,030
Total operating income	1,194,876	539,442	209,615	61,313	2,005,246
Impairment charge for credit losses, net	112,021	48,755	-	-	160,776
Impairment charge for investments	-	-	10,000	-	10,000
Depreciation / amortisation	25,329	69,815	6,631	-	101,775
Total operating expenses	373,953	436,613	128,333	50,233	989,132
Net operating income for the year	820,923	102,829	81,282	11,080	1,016,114
				<i>Investment banking and investment services</i>	
2010					
Total assets	30,817,161	4,886,038	17,697,086	482,128	53,882,413
Total liabilities	21,332,976	14,713,923	11,429,147	19,411	47,495,457
Net special commission income	711,453	366,212	207,388	2,278	1,287,331
Fee and commission income, net	324,143	57,290	13,908	59,486	454,827
Trading income, net	3,064	12,461	70,672	-	86,197
Total operating income	1,125,257	461,769	305,293	61,764	1,954,083
Impairment charge for credit losses, net	337,068	51,658	-	-	388,726
Impairment charge for investments	-	-	9,200	-	9,200
Depreciation / amortisation	24,585	67,346	292	-	92,223
Total operating expenses	580,264	383,885	149,561	56,422	1,170,132
Net operating income for the year	544,993	77,884	155,732	5,342	783,951

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

	<i>Corporate Banking</i>	<i>Consumer Banking</i>	<i>Treasury</i>	<i>Total</i>
2011				
Balance sheet assets	33,393,194	4,964,957	11,520,300	49,878,451
Commitments and contingencies	10,748,738	-	-	10,748,738
Derivatives	-	-	1,938,701	1,938,701
2010				
Balance sheet assets	30,685,145	4,524,406	11,909,974	47,119,525
Commitments and contingencies	9,412,941	-	-	9,412,941
Derivatives	-	-	1,092,802	1,092,802

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

30 CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities. There is also credit risk in off statement of financial position financial instruments, such as loan commitments. The Group controls credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties.

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 Management may also close out transactions or assign them to other counterparties to mitigate credit risk. The Group's credit risk on derivatives represents the potential cost to replace the derivative contracts if counterparties fail to fulfill their obligation. To control the level of credit risk taken, Management assesses counter parties using the same techniques as for its lending activities.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

Management seeks to manage concentration of credit risk through the diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or businesses. It also takes security when appropriate or seeks additional collateral from the counterparty as soon as impairment indicators are noticed.

Management monitors on a regular basis the market value of collateral and requests additional collateral in accordance with the underlying agreement, if required. In addition it also specifically monitors the market value of collateral during its review of the adequacy of the allowances for impairment losses. Management regularly reviews its risk management policies and systems to reflect changes in markets products and emerging best practice.

The debt securities included in the investment portfolio are mainly sovereign risk. Analysis of investments by class of counter party is provided in note 6. For details of the composition of loans and advances refer to note 7. Information on credit risk relating to derivative instruments and commitments and contingencies are provided in note 11 and 19 respectively. Information on the Group's maximum credit exposure by operating segment is provided in note 29.

The Group's maximum exposure to credit risk at December 31, 2011 and 2010, without taking into account of any collateral held or credit enhancements attached is reflected below:

	<u>2011</u>	<u>2010</u>
Duc from banks and other financial institutions	612,866	308,881
Investments, net	11,520,286	11,771,665
Loans and advances, net	37,745,299	35,038,979
Derivatives	1,938,701	1,092,802
Credit related commitments and contingencies	10,748,738	9,412,941
Total	62,565,890	57,625,268

The Group uses a credit classification system as a tool to assist in managing the quality of credit risk within the lending portfolio. In addition to the three categories mentioned in note 7 management maintains further classification grades that differentiates between performing and impaired portfolios and allocates portfolio and specific allowances respectively. Management determines each individual borrower's grade based on specific objectives and criteria such as activity, cash flows, capital structure, security, quality of management and borrower's character. A further quality classification is performed over existing borrowers and the results of this exercise are validated by the independent risk management unit.

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31 GEOGRAPHICAL CONCENTRATION

The Group's credit exposure by geographical region is as follows:

	<i>Saudi Arabia</i>	<i>Other GCC and Middle East</i>	<i>Europe</i>	<i>America</i>	<i>Other countries</i>	<i>Total</i>
2011						
Assets						
Cash and balances with SAMA	5,968,777	-	-	-	-	5,968,777
Due from banks and other financial institutions	1,165	31,842	96,622	477,621	5,616	612,866
Investments, net	9,460,128	1,459,833	123,178	-	459,397	11,502,536
Loans and advances, net	37,297,073	448,226	-	-	-	37,745,299
Total	52,727,143	1,939,901	219,800	477,621	465,013	55,829,478
Credit-related commitments and Contingencies	17,865,743	337,748	468,036	74,329	1,260,733	20,006,589
Maximum credit exposure (stated at credit equivalent amounts)						
Commitments and contingencies	9,108,276	245,424	269,984	35,935	1,089,119	10,748,738
Derivatives	894,507	90,557	128,745	17,216	807,676	1,938,701
2010						
Assets						
Cash and balances with SAMA	4,999,698	-	-	-	-	4,999,698
Due from banks and other financial institutions	153,175	25,158	78,992	4,966	46,590	308,881
Investments, net	9,794,242	1,330,981	170,662	-	455,780	11,751,665
Loans and advances, net	35,038,590	-	389	-	-	35,038,979
Total	49,985,705	1,356,139	250,043	4,966	502,370	52,099,223
Credit-related commitments and Contingencies	15,267,818	270,262	1,015,095	74,992	836,908	17,465,075
Maximum credit exposure (stated at credit equivalent amounts)						
Commitments and contingencies	7,833,256	197,807	722,450	37,522	621,906	9,412,941
Derivatives	520,068	114,071	422,568	33,052	3,043	1,092,802

Credit equivalent amounts reflect the amounts that result from translating the Group's contingent liabilities and commitments into the risk equivalent of loans, using credit conversion factors prescribed by SAMA. The Credit conversion factor is meant to capture the potential credit risk related to the exercise of that commitment. Impaired loans and advances and allowances for credit losses are all within the Kingdom of Saudi Arabia.

32 MARKET RISK

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as commission rates, foreign exchange rates, and equity prices. Management classifies exposures to market risk into either trading, non-trading or banking book.

The market risk for the trading book is managed and monitored using a Value at Risk (VaR) methodology. Market risk for the non-trading book is managed and monitored using a combination of VaR, stress testing and sensitivity analysis.

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a) MARKET RISK - TRADING BOOK

The Board of Directors has set limits for the acceptable level of risk in managing the trading book. In order to manage market risk in the trading book, Management applies a VaR methodology daily 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 the 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 distribution.

VaR that Management uses 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 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, Management maintains a framework of non-modeled limits that show potential loss for a given change in a market factor and makes no assumption about the behaviour of market factors. Furthermore, Management employs stop loss limits on market risk positions and 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 Asset and Liability Committee (ALCO) for review.

The Group's VaR related information for the year ended December 31, 2011 is as provided below. Total VaR takes into account correlations across asset classes and accordingly it is not the total of individual VaR.

	<i>Foreign exchange rate risk</i>	<i>Special Commission rate risk</i>	<i>Foreign Exchange Forwards</i>	<i>Overall Risk</i>
2011 (VaR)				
As at December 31	58	176	12	246
Average for the year	163	174	19	356
Maximum	1,022	589	160	1,771
Minimum	11	68	5	84
2010 (VaR)				
As at December 31	242	97	146	485
Average for the year	381	695	40	1,116
Maximum	1,072	1,881	1,845	4,798
Minimum	38	78	56	172

b) MARKET RISK – NON-TRADING OR BANKING BOOK

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

i) COMMISSION RATE RISK

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

The following table depicts the sensitivity to a reasonable possible change in commission rates, with other variables held constant, on the Group's consolidated income statement or equity. The sensitivity of the income is the effect of the assumed changes in commission rates on the net commission income for one year, based on the floating rate non-trading financial assets and financial liabilities held at year end 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 at year end for the effect of assumed changes in commission rates. The sensitivity of equity is analyzed by maturity of the asset or swap.

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Banking book exposures are monitored and analyzed in currency concentrations and relevant sensitivities are disclosed in SAR million below:

2011

Currency	Increase/ (decrease) in basis points	Sensitivity of special commission income	Sensitivity of equity			
			6 months or less	6 to 12 months	1-5 Yrs	Over 5 Years
USD	25 (25)	(70) 70	- -	- -	- -	- -
EUR	25 (25)	(20) 20	- -	- -	- -	- -
SAR	25 (25)	569 (569)	(7) 7	(15) 15	(496) 496	- -
Others	25 (25)	13 (13)	- -	- -	- -	- -

2010

Currency	Increase/ (decrease) in basis points	Sensitivity of special commission income	Sensitivity of equity			
			6 months or less	6 to 12 months	1-5 Yrs	Over 5 Years
USD	25 (25)	(21) 21	(58) 58	(116) 116	(237) 237	- -
EUR	25 (25)	(13) 13	- -	- -	- -	- -
SAR	25 (25)	659 (659)	(365) 365	(71) 71	(833) 833	(2,514) 2,514
Others	25 (25)	6 (6)	- -	- -	- -	- -

The exposure to the effect of various risks associated with fluctuations in the prevailing levels of market commission rates on the Group's financial position and cash flows is managed.

The Board of Directors sets limits on the level of commission rate re-pricing mismatch that may be undertaken. These limits are monitored daily by the Group's Treasury. The Group is exposed to commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off the consolidated statement of financial position instruments that mature or re-price in a given period. This risk is managed by matching the re-pricing of assets and liabilities through risk management strategies. The table below summarises the Group's exposure to commission rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of the contractual re-pricing or the maturity dates.

	Within 3 Months	3 to 12 Months	1 to 5 years	Over 5 Years	Non commission bearing	Total
2011						
Assets						
Cash and balances with SAMA	3,051,979	-	-	-	2,916,798	5,968,777
Due from banks and other financial institutions	22,683	-	-	-	590,183	612,866
Investments, net	3,595,958	4,757,407	2,418,293	663,176	67,702	11,502,536
Loans and advances, net	19,810,258	9,027,419	8,332,181	575,441	-	37,745,299
Investment in an associate	-	-	-	-	17,750	17,750
Property and equipment, net	-	-	-	-	489,499	489,499
Other assets	-	-	-	-	1,212,025	1,212,025
Total	26,480,878	13,784,826	10,750,474	1,238,617	5,293,957	57,548,752

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	<i>Within 3 Months</i>	<i>3 to 12 Months</i>	<i>1 to 5 years</i>	<i>Over 5 Years</i>	<i>Non commission bearing</i>	<i>Total</i>
Liabilities and shareholders' equity						
Due to banks and other financial institutions	882,316	24,214	188	-	704,373	1,611,091
Customers' deposits	19,562,627	5,434,108	627,157	-	19,400,545	45,024,437
Other liabilities	-	-	-	-	2,004,902	2,004,902
Subordinated debt	-	1,500,000	-	-	-	1,500,000
Shareholders' equity	-	-	-	-	7,408,322	7,408,322
Total liabilities and share holders' equity.	20,444,943	6,958,322	627,345	-	29,518,142	57,548,752
Commission rate sensitivity - financial position gap	6,035,935	6,826,504	10,123,129	1,238,617	(24,224,185)	-
Commission rate sensitivity	1,182,129	74,642	(791,481)	(465,290)	-	-
Total commission rate sensitivity gap	7,218,064	6,901,146	9,331,648	773,327	(24,224,185)	-
Cumulative commission rate sensitivity gap	7,218,064	14,119,210	23,450,858	24,224,185	-	-
	<i>Within 3 Months</i>	<i>3 to 12 Months</i>	<i>1 to 5 years</i>	<i>Over 5 Years</i>	<i>Non commission bearing</i>	<i>Total</i>
2010 Assets						
Cash and balances with SAMA	2,449,965	-	-	-	2,549,733	4,999,698
Due from banks and other financial institutions	201,727	751	-	-	106,403	308,881
Investments, net	9,917,663	1,559,815	234,569	8,519	31,099	11,751,665
Loans and advances, net	22,224,834	8,553,576	4,232,997	27,572	-	35,038,979
Property and equipment, net	-	-	-	-	20,000	20,000
Investment in an associate	-	-	-	-	495,216	495,216
Other assets	-	-	-	-	1,267,974	1,267,974
Total	34,794,189	10,114,142	4,467,566	36,091	4,470,425	53,882,413
	<i>Within 3 Months</i>	<i>3 to 12 Months</i>	<i>1 to 5 years</i>	<i>Over 5 Years</i>	<i>Non commission bearing</i>	<i>Total</i>
Liabilities and shareholders' equity						
Due to banks and other financial institutions	2,230,617	115,388	-	-	511,007	2,857,012
Customers' deposits	19,392,666	5,281,894	71,612	-	16,857,447	41,603,619
Other liabilities	-	-	-	-	1,534,826	1,534,826
Subordinated debt	-	1,500,000	-	-	-	1,500,000
Shareholders' equity	-	-	-	-	6,386,956	6,386,956
Total liabilities and share holders' equity.	21,623,283	6,897,282	71,612	-	25,290,236	53,882,413
Commission rate sensitivity - financial position gap	13,170,906	3,216,860	4,395,954	36,091	(20,819,811)	-
Commission rate sensitivity	1,668,669	(512,759)	(1,012,664)	(143,246)	-	-
Total commission rate sensitivity gap	14,839,575	2,704,101	3,383,290	(107,155)	(20,819,811)	-
Cumulative commission rate sensitivity gap	14,839,575	17,543,676	20,926,966	20,819,811	-	-

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Commission rate sensitivity gap represents the net notional amounts of off statement of financial position financial instruments that are used to manage commission rate risk.

The effective yield of a monetary financial instrument is the yield that the Group earns from its clients taking into consideration the contractual commission rate.

10) CURRENCY RISK

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

The table below shows the currencies to which the Group has a significant exposure as at year end on its non-trading monetary assets and liabilities and forecasted cash flows. The analysis calculates the effect on the income statement (due to the fair value of the currency sensitive non-trading monetary assets and liabilities) of a potential movement in the foreign currency against SAR, with all other variables held constant. A positive effect shows a potential increase in consolidated income or equity, whereas a negative effect shows a potential net reduction in consolidated income or equity.

2011

Currency exposure	Change in Currency Rate (%)	Effect on Net Income
USD	5 (5)	(1,066) 1,066
EUR	5 (5)	(8) 8
GBP	5 (5)	(16) 16
JPY	5 (5)	8 (8)
Others	5 (5)	590 (590)

2010

Currency exposure	Change in Currency Rate (%)	Effect on Net Income
USD	5 (5)	(26,207) 26,207
EUR	5 (5)	13 (13)
GBP	5 (5)	24 (24)
JPY	5 (5)	(23) 23
Others	5 (5)	358 (358)

Exposure to the effects of fluctuations in prevailing foreign currency exchange rates on the Group's financial position and cash flows is managed by the Board of Directors setting limits on the level of exposure by currency and in total for both overnight and intra-day positions. These limits are monitored daily.

At the end of the year, the Group had the following significant net exposures denominated in foreign currencies:

	Long / (short) SAR ' 000	
	2011	2010
US Dollar	(21,325)	(524,146)
Euro	(167)	258
Pound Sterling	(313)	475
Japanese Yen	160	(452)
Others	11,809	7,156

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iii) EQUITY PRICE RISK

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

The Group does not have significant exposure to Equities.

33 LIQUIDITY RISK

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up at short notice. To mitigate this risk, management has diversified funding sources and assets are managed considering liquidity positions to maintain a healthy balance of cash and cash equivalents and readily marketable securities.

i) Maturity profile of assets and liabilities

The tables below summarise the maturity profile of the Group's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period to contractual maturity date as at year end and do not take into account the effective maturities as indicated by the Group's deposit retention history. Management monitors the maturity profile to ensure that adequate liquidity is maintained. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of both the Bank and other operating subsidiaries. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

In accordance with the Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% (2010: 7%) of total demand deposits and 4% (2010: 4%) of savings and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of no less than 20% of its deposits liabilities, in the form of cash, Saudi Government Development Bonds or assets which can be converted into cash within a period not exceeding 30 days or the Bank may raise additional funds through repo facilities available with SAMA against securities issued by the Saudi Government up to 75% of the nominal value of bonds held.

(ii) The maturity profile of assets and liabilities at year end is as follows:

2011	No fixed maturity	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total
Assets						
Cash and balances with SAMA	2,258,502	3,710,275	-	-	-	5,968,777
Due from banks and other financial institutions	590,183	22,683	-	-	-	612,866
Investments, net	67,702	3,578,208	4,757,407	2,418,293	680,926	11,502,536
Loans and advances, net	3,035,868	16,449,232	9,027,419	8,385,516	847,264	37,745,299
Investment in associate	17,750	-	-	-	-	17,750
Property and equipment, net	489,499	-	-	-	-	489,499
Other assets	1,212,025	-	-	-	-	1,212,025
Total	7,671,529	23,760,398	13,784,826	10,803,809	1,528,190	57,548,752
Liabilities and shareholders' equity						
Due to banks and other financial institutions	704,374	882,316	24,213	188	-	1,611,091
Customers' deposits	21,314,308	17,648,937	5,434,107	627,085	-	45,024,437
Other liabilities	2,004,902	-	-	-	-	2,004,902
Subordinated debt	-	-	-	1,500,000	-	1,500,000
Shareholders' equity	7,408,322	-	-	-	-	7,408,322
Total	31,431,906	18,531,253	5,458,320	2,127,273	-	57,548,752

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<i>2010</i>	<i>No fixed maturity</i>	<i>Within 3 Months</i>	<i>3 to 12 Months</i>	<i>1 to 5 Years</i>	<i>Over 5 Years</i>	<i>Total</i>
Assets						
Cash and balances with SAMA	2,228,225	2,771,473	-	-	-	4,999,698
Due from banks and other financial institutions	106,403	201,727	751	-	-	308,881
Investments, net	31,099	4,035,727	2,472,265	4,666,544	546,030	11,751,665
Loans and advances, net	2,877,092	17,441,533	8,455,666	5,803,171	461,517	35,038,979
Investment in associate	20,000	-	-	-	-	20,000
Property and equipment, net	495,216	-	-	-	-	495,216
Other assets	1,267,974	-	-	-	-	1,267,974
Total	7,026,009	24,450,460	10,928,682	10,469,715	1,007,547	53,882,413
Liabilities and shareholders' equity						
Due to banks and other financial institutions						
Customers' deposits	19,155,185	17,094,928	5,281,894	71,612	-	41,603,619
Other liabilities	1,534,826	-	-	-	-	1,534,826
Subordinated debt	-	-	-	-	1,500,000	1,500,000
Shareholders' equity	6,386,956	-	-	-	-	6,386,956
Total	27,587,974	19,325,545	5,397,282	71,612	1,500,000	53,882,413

The cumulative maturity of commitments and contingencies is given in note 19 (d) of the consolidated financial statements.

ii) Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at year end based on contractual undiscounted repayment obligations. As special commission payments up to contractual maturity are included in the table, totals do not match with the consolidated statement of financial position. The contractual maturities of liabilities have been determined based on the remaining period at year end to the contractual maturity date and do not take into account the effective expected maturities. The Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and therefore the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

<i>2011</i>	<i>No fixed maturity</i>	<i>Within 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
Financial Liabilities						
Due to banks and other financial institutions	704,374	883,322	24,424	190	-	1,612,310
Customers' deposits	21,314,308	17,692,850	5,482,921	748,178	-	45,238,257
Subordinated debts	-	116	41,548	324,073	1,738,742	2,104,479
Derivatives						
Contractual amounts payable	-	(94,889)	(326,091)	(917,028)	(44,902)	(1,382,910)
Contractual amounts receivable	-	91,757	307,604	884,732	48,840	1,332,933
Total undiscounted financial liabilities	22,018,682	18,573,156	5,530,406	1,040,145	1,742,680	48,905,069
2010						
Financial Liabilities						
Due to banks and other financial institutions	511,007	2,234,130	115,787	-	-	2,860,924
Customers' deposits	19,155,185	17,140,186	5,330,674	77,222	-	41,703,267
Subordinated debts	-	234	30,393	406,162	1,822,900	2,259,689
Derivatives						
Contractual amounts payable	-	(5,709)	(25,146)	(288,311)	(5,941)	(325,107)
Contractual amounts receivable	-	2,433	11,808	296,122	10,415	320,778
Total undiscounted financial liabilities	19,666,192	19,371,274	5,463,516	491,195	1,827,374	46,819,551

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34 FAIR VALUES OF FINANCIAL INSTRUMENTS

Determination of fair value and the fair value hierarchy

Management 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 significant inputs are not based on observable market data.

2011

<u>Financial assets</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Derivative financial instruments	-	396,724	396,724
Financial assets held as FVIS	11,110	-	11,110
Financial investments available for sale	432,202	176,686	608,888
Total	443,312	573,410	1,016,722

Financial liabilities

Derivative financial instruments	-	395,763	395,763
Total	-	395,763	395,763

2010

<u>Financial assets</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Derivative financial instruments	-	297,821	297,821
Financial assets held as FVIS	55,844	59,734	115,578
Financial investments available for sale	457,865	560,943	1,018,808
Total	513,709	918,498	1,432,207

Financial liabilities

Derivative financial instruments	-	295,132	295,132
Total	-	295,132	295,132

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

The fair values of financial instruments included in the statement of financial position, except for those held to maturity, other investments held at amortised costs and customers' deposits that are carried at amortised cost, are not significantly different from the carrying values included in the consolidated financial statements. The estimated fair values of other investments held at amortised cost and held-to-maturity investments are based on quoted market prices, when available, or pricing models in the case of certain fixed rate bonds. The fair values of these investments are disclosed in note 6. The fair value of loans and advances held at amortised cost and commission-bearing customers' deposits are not significantly different from their book values since the current market commission rates for similar financial assets are not significantly different from the contracted rates. The fair values of due from banks and other financial institutions and due to financial institutions are not significantly different from the carrying values since the underlying amounts for these categories are for shorter durations which indicates that their booking rates are not significantly different from the current market rates. The fair value of subordinated debt approximates carrying value since this is a floating rate liability with commission rates re-priced every six months.

The fair values of derivatives are based on the quoted market prices wherever available or by using the appropriate valuation models. The total amount of the changes in fair value recognised in the consolidated income statement, which was estimated using valuation technique, is SAR 3 million (2010: SAR 2 million).

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

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35 RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Group transacts business with related parties. The related party transactions are performed on an arm's length basis. Banking transactions with related parties are governed by limits set by the Banking Control Law and regulations issued by SAMA.

The balances at reporting date, resulting from such transactions are as follows:

	<i>2011</i>	<i>2010</i>
ABN AMRO Bank N.V.		
Due from banks and other financial institutions	481,966	55,486
Investments	180,823	239,205
Due to banks and other financial institutions	25,137	59,586
Commitments and contingencies	59,403	268,848
Associates & other major shareholders and their affiliates entities with significant influence:		
Loans and advances	526,939	511,549
Customers' deposits	4,652,541	4,735,626
Commitments and contingencies	1,807	1,219
Bank's mutual funds and employees' post-employment benefit plan:		
Investments	28,184	26,863
Customers' deposits	104,289	648,687

Other major shareholders represent shareholdings (excluding the non-Saudi shareholder) of more than 5% of the Bank's issued share capital. Income and expenses pertaining to transactions with related parties included in the consolidated financial statements are as follows:

Special commission income	6,591	20,806
Special commission expense	50,735	105,298
Fees from banking services, net	6,081	5,459
Fees from management services	14,404	17,684
General and administrative expenses	620	506
Directors' remuneration	2,814	2,771
Compensation paid to key management personnel (all short-term employee benefits)	25,406	31,917

Key management personnel are those persons having responsibility and authority for formulating strategies and directing and controlling the activities of the Group.

36 CAPITAL ADEQUACY

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

Management monitors the adequacy of its capital using ratios established by SAMA. These ratios expressed as a percentage, measure capital adequacy by comparing the Group's eligible capital with its consolidated statement of financial position assets, commitments and contingencies and notional amount of derivatives at amounts weighted to reflect their relative risk in line with the standardised approach prescribed under the Basel II accord as modified by SAMA. In accordance with the regulations promulgated by SAMA, banks in the Kingdom are expected to meet a minimum required capital adequacy ratio of 8%.

The components of risk weighted assets (RWA), capital and ratios are as follows:

	<i>2011</i>	<i>2010</i>
Credit Risk RWA	48,758,662	45,397,771
Operational Risk RWA	3,711,900	3,614,300
Market Risk RWA	602,262	1,163,798
Total RWA	53,072,824	50,175,869
Tier I Capital	7,018,443	6,352,775
Tier II Capital	1,791,846	1,849,530
Total Tier I & II Capital	8,810,289	8,202,305
Capital Adequacy Ratio %		
Tier I	13.22	12.66
Tier I + Tier II	16.60	16.35

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37 INVESTMENT MANAGEMENT AND BROKERAGE SERVICES

The Group offers investment management services to its customers that include the management of investment funds with total assets of SAR 1.91 billion (2010: SAR 2.61 billion) in consultation with professional investment advisors. The financial statements of these funds are not consolidated with the consolidated financial statements of the Group. The Group's investment in these funds is included in available for sale investments. Fees earned from management services are disclosed under "related party transactions". Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and, therefore, are not included in the consolidated financial statements.

38 STAFF SHARE BASED PLAN RESERVE

In January 2008, the Group launched an equity settled share-based payment plan for executives and senior employees (eligible employees). In accordance with the provision of the plan, as approved by the Board of Directors in their meeting held on 10 Dhu-al-Qa'dah 1428H (corresponding November 20, 2007) and SAMA in their letter dated 26 Safar 1429 H (corresponding March 4, 2008), such eligible employees will receive shares in the Bank if the following terms and conditions are met:

- Eligible employees are required to continue their employment with the Group for a period of three years from the grant date; and
- The Group achieves specific growth thresholds as approved by the Board of Directors where each threshold will accrue a certain value of shares to the eligible employees.

The Fund has purchased 2.15 million Bank's shares for a total consideration of SR 114 million during 2008 which are held by it in fiduciary capacity until the shares vest to the eligible employees. At the vesting date the ownership of these shares will pass to the employees. The acquisition of shares was financed by the Bank and the amount is included in Other Assets.

Under the provisions of the plan, the Group at no point becomes the legal owner of the underlying shares. Until such time as these shares vest they will not carry voting rights. As per the plan, SHC manages the Staff Share Plan Fund (the Fund) which will operate in accordance with the terms and conditions as approved by the Board of Directors in their above referred meeting and by SAMA in their above referred letter. Any further modifications in the terms and conditions of the plan require prior approval of SAMA. Due to restrictions regarding its operations as agreed by SAMA the results and assets and liabilities of the Fund are not consolidated in these consolidated financial statements.

The number of shares granted is calculated in accordance with the performance based formula approved by the Board of Directors and is subject to approval of the remuneration committees, however, in accordance with the plan the total value of the plan will not exceed SR 114 million in 9 years starting from January 2008

This plan is to be executed in three tranches over a period of nine years with a vesting period of three years. The first tranche was granted in January 2008 and vested in January 2011. The Bank has granted the second tranche of the plan in March 2011 which is currently under its vesting period. The Plan details are as follows:

	<u>Grant in 2008</u>	<u>Grant in 2011</u>
Plan Commencement date	January 2008	January 2011
Value of shares granted on the grant date	32,342,500	8,684,950
Fair value per share at grant date	53.15	29.69
Vesting period	3 years from the grant date	3 years from the grant date
Method of settlement	Bank shares	Bank shares
Current status	Fully vested (a)	Under vesting period (b)

- a) 551,478 shares ultimately vested in January 2011 and were transferred to the eligible employees. This resulted in SAR 24.2 million being transferred from the staff share plan reserve to retained earnings. At the same time SAR 24.2 million was also written off to retained earnings from the balance of the loan provided to the Staff share plan fund.
- b) During the year a further grant on similar terms and conditions was made to key management and senior employees that will vest in March 2014. A total number of 292,521 shares were granted with a fair value at the grant date of SAR 8.7 million.

The following is the movement in number of shares in grant at December 31, 2011:

	Number of shares	
	<u>2011</u>	<u>2010</u>
Beginning of the year	551,478	601,354
Granted during the year	292,521	-
Shares vested during the year	(551,478)	-
Forfeited during the year	(20,290)	(49,876)
Shares expected to vest at the reporting date	<u>272,231</u>	<u>551,478</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2011 and 2010

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39 PROSPECTIVE CHANGES IN THE INTERNATIONAL FINANCIAL REPORTING FRAMEWORK

The Group has chosen 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 years beginning after January 1, 2012.

Presentation of Items of Other Comprehensive Income (Amendments to IAS 1). The amendments require that:

- an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to the consolidated income statement;
- do not change the existing option to present profit or loss and other comprehensive income in two statements; and
- change the title of the statement of comprehensive income to the consolidated income statement and other comprehensive income.

However, an entity is still allowed to use other titles. The amendments do not address which items are presented in other reclassified. The comprehensive income or which items need to be requirements of other IFRSs continue to apply in this regard. Effective date January 1, 2012.

IFRS 9 Financial Instruments Standard issued in November 2009 (IFRS 9 (2009)) IFRS 9 (2009) is the first standard issued as part of a wider project to replace IAS 39. IFRS 9 (2009) retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply. Prior periods need not be restated if an entity adopts the standard for reporting periods beginning before January 1, 2012. Effective date January 1, 2015.

IFRS 9 (2010) adds the requirements related to the classification and measurement of financial liabilities, and derecognition of financial assets and liabilities to the version issued in November 2009. It also includes those paragraphs of IAS 39 dealing with how to measure fair value and accounting for derivatives embedded in a contract that contains a host that is not a financial asset, as well as the requirements of IFRIC 9 Reassessment of Embedded Derivatives.

IFRS 10 Consolidated Financial Statements introduces a new approach to determining which investees should be consolidated and provides a single model to be applied in the control analysis for all investees. An investor controls an investee when:

- it is exposed or has rights to variable returns from its involvement with that investee;
- it has the ability to affect those returns through its power over that investee; and
- there is a link between power and returns.

Control is re-assessed as facts and circumstances change. IFRS 10 supersedes IAS 27 (2008) and SIC-12 Consolidation – Special Purpose Entities.

IFRS 13 Fair Value Measurement replaces the fair value measurement guidance contained in various IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other IFRSs. It does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. Effective date is January 1, 2013.

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

IAS 28 - Investments in Associates and Joint Ventures supersedes IAS 28 (2008) is applicable from 1 January 2013. The majority of these revisions result from the incorporation of Joint Ventures in to IAS 28 (2011) and the fundamental approach to account for equity accounted investments has not changed.

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

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

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40 COMPARATIVE FIGURES

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

41 BOARD OF DIRECTORS' APPROVAL

The consolidated financial statements were approved by the Board of Directors on XXXX Safar 1432H (corresponding to January XXX, 2012).

42 BASEL II PILLAR 3 DISCLOSURE

Under Basel II pillar 3, certain quantitative and qualitative disclosures are required. These disclosures will be made available on the Group's website www.shb.com.sa or included in the annual report as required by SAMA. Such disclosures are not subject to review or audit by the external auditors.