Saudi Hollandi Bank البنك السعودي الهولندي

Saudi Hollandi Bank

(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2012

Saudi Hollandi Bank البنك السعودي الهولندي

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2012 and 2011

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Deloitte & Touche
Bakr Abulkhair & Co
Deloitte

KPMG Al Fozan & Al Sadhan

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, 2012, the consolidated statements of income, 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 40. We have not audited note 41, nor the information related to "Basel II Pillar 3 disclosures" cross referenced therein, which is not required to be within the scope of our audit.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

- present fairly, in all material respects, the financial position of the Group as at December 31, 2012, 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.

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Rabie Al-Thani 1, 1434H
February 11, 2013

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2012 and 2011
Amounts in SAR'000

	Notes	2012	2011
ASSETS			
Cash and balances with SAMA	4	**9,562,455**	5,968,777
Due from banks and other financial institutions	5	**840,717**	612,866
Investments, net	6	**11,365,576**	11,502,536
Loans and advances, net	7	**45,276,199**	37,409,598
Investment in an associate	8	**18,050**	17,750
Property and equipment, net	9(a)	**488,767**	489,499
Other assets	10	**953,749**	1,196,460
Total assets		**68,505,513**	57,197,486
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks and other financial institutions	12	**1,474,923**	1,611,091
Customers' deposits	13	**53,913,672**	44,688,736
Subordinated debt	14	**2,900,000**	1,500,000
Other liabilities	15	**1,910,939**	1,989,337
Total liabilities		**60,199,534**	49,789,164
Shareholders' equity			
Share capital	16	**3,969,000**	3,307,500
Statutory reserve	17	**2,705,726**	2,392,480
General reserve		**130,000**	130,000
Other reserves	18	**(5,790)**	(20,240)
Reserve for bonus shares	16	**-**	661,500
Retained earnings		**1,051,286**	556,077
Proposed gross dividend	26	**444,528**	377,055
Staff share based plan reserve	37	**11,229**	3,950
Total shareholders' equity		**8,305,979**	7,408,322
Total liabilities and shareholders' equity		**68,505,513**	57,197,486

Dr. Bernd van Linder
Managing Director
Saudi Hollandi Bank

The accounting notes 1 to 41 form an integral part of these consolidated financial statements.

Saudi Hollandi Bank البنك السعودي الهولندي

CONSOLIDATED STATEMENT OF INCOME

For the years ended December 31, 2012 and 2011
Amounts in SAR'000

	Notes	*2012*	*2011*
Special commission income	**20**	**1,719,767**	1,523,706
Special commission expense	**20**	**347,433**	234,111
Net special commission income		**1,372,334**	1,289,595
Fee and commission income, net	**21**	**627,705**	519,203
Exchange income, net		**117,092**	109,526
Income from financial instruments designated as FVIS, net		**-**	5,040
Trading income, net	**22**	**97,661**	76,030
Gains on non-trading investments, net	**23**	**4,555**	5,852
Total operating income		**2,219,347**	2,005,246
Salaries and employees related expenses	**24**	**474,103**	440,432
Rent and premises related expenses		**73,073**	75,953
Depreciation and amortisation	**9(a)**	**110,741**	101,775
Other general and administrative expenses		**187,571**	183,863
Other provisions	**19(a)**	**1,272**	16,333
Impairment charge for credit losses, net	**7(b)**	**139,904**	160,776
Impairment (release) / charge for investments, net	**6(g)**	**(20,000)**	10,000
Total operating expenses		**966,664**	989,132
Operating income		**1,252,683**	1,016,114
Gain on sale of property	**9(b)**	**-**	18,057
Share in earning / (loss) of an associate	**8**	**300**	(2,250)
Net income for the year		**1,252,983**	1,031,921
Earnings per share (Expressed in SAR per share)			
Basic EPS	**25**	**3.16**	2.60

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Saudi Hollandi Bank البنك السعودي الهولندي

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the years ended December 31, 2012 and 2011

Amounts in SAR'000

	Notes	*2012*	*2011*
Net income for the year		**1,252,983**	1,031,921
Other comprehensive income			
Available for sale investments			
- Net change in fair value	**18**	**4,395**	3,395
- Transferred to the consolidated statement of income	**18**	**4,536**	7,335
		8,931	10,730
Cash flow hedges			
- Effective portion of changes in fair value recognised	**18**	**5,519**	(1,054)
Total comprehensive income for the year		**1,267,433**	1,041,597

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CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2012 and 2011
Amounts in SAR'000

					Other reserves						
	Notes	*Share Capital*	*Statutory reserve*	*General Reserve*	*Available for sale investments*	*Cash flow hedges*	*Reserve for bonus shares*	*Retained earnings*	*Proposed gross dividend*	*Staff share based plan reserve*	*Total shareholders' equity*
2012											
Balance at beginning of the year		**3,307,500**	**2,392,480**	**130,000**	**(8,366)**	**(11,874)**	**661,500**	**556,077**	**377,055**	**3,950**	**7,408,322**
Total comprehensive income for the year		-	-	-	**8,931**	**5,519**	-	**1,252,983**	-	-	**1,267,433**
Staff share based payments	**37**	-	-	-	-	-	-	-	-	**7,279**	**7,279**
Transfer to statutory reserve	**17**	-	**313,246**	-	-	-	-	**(313,246)**	-	-	-
Bonus shares issued	**16**	**661,500**	-	-	-		**(661,500)**	-	-	-	-
Dividend paid		-	-	-	-	-	-	-	**(377,055)**	-	**(377,055)**
Proposed gross dividend	**26**	-	-	-	-	-	-	**(444,528)**	**444,528**	-	-
Balance at the end of the year		**3,969,000**	**2,705,726**	**130,000**	**565**	**(6,355)**	-	**1,051,286**	**444,528**	**11,229**	**8,305,979**
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 payments	37	-	-	-	-	-	-	-	-	(20,231)	(20,231)
Transfer to statutory reserve	17	-	257,980	-	-	-	-	(257,980)	-	-	-
Proposed bonus shares	16	-	-	-	-	-	661,500	(661,500)	-	-	-
Proposed gross dividend	26	-	-	-	-	-	-	(377,055)	377,055	-	-
Balance at the end of the year		3,307,500	2,392,480	130,000	(8,366)	(11,874)	661,500	556,077	377,055	3,950	7,408,322

Dr. Bernd van Linder
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Saudi Hollandi Bank

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CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended December 31, 2012 and 2011
Amounts in SAR'000

	Notes	2012	2011
OPERATING ACTIVITIES			
Net income for the year		**1,252,983**	1,031,921
Adjustments to reconcile net income to net cash from operating activities:			
(Accretion of discounts) and amortisation of premium on non-trading investments, net		**(44,880)**	(176,706)
Gains on non-trading investments, net		**(4,555)**	(5,852)
Depreciation / amortisation	9(a)	**110,741**	101,775
Impairment charge for credit losses, net	7(b)	**139,904**	160,776
Share in (earning) / loss of an associate	8	**(300)**	2,250
Impairment (release) / charge for investments, net	6(g)	**(20,000)**	10,000
Staff share based plan expenses		**7,279**	3,950
Gain on sale of property		**-**	(18,057)
		1,441,172	1,110,057
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA		**(348,626)**	(30,277)
Due from banks and other financial institutions maturing after three months from the date of acquisition		**-**	750
Investments held as FVIS (including trading investments)		**11,110**	104,468
Loans and advances, net		**(8,006,505)**	(2,550,983)
Other assets		**69,626**	71,514
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		**(136,168)**	(1,245,921)
Customers' deposits		**9,224,936**	3,104,705
Other liabilities		**(78,398)**	454,511
Net cash from operating activities		**2,177,147**	1,018,824
INVESTING ACTIVITIES			
Proceeds from sale and maturity of non-trading investments		**15,966,576**	16,181,262
Purchase of non-trading investments		**(15,762,361)**	(15,878,548)
Purchase of property and equipment	9(a)	**(110,009)**	(106,501)
Proceeds from sale of property		**-**	28,500
Net cash from investing activities		**94,206**	224,713
FINANCING ACTIVITIES			
Proceeds from issuance of subordinated debt		**1,400,000**	-
Dividend paid net of Zakat and income tax recovered from shareholders		**(198,450)**	-
Net cash from financing activities		**1,201,550**	-
Net increase in cash and cash equivalents		**3,472,903**	1,243,537
Cash and cash equivalents at beginning of the year		**4,323,141**	3,079,604
Cash and cash equivalents at end of the year	27	**7,796,044**	4,323,141
Special commission received during the year		**1,678,131**	1,647,128
Special commission paid during the year		**306,215**	301,906
Supplemental non-cash information			
Net changes in fair value and transfers to consolidated statement of income		**14,450**	9,676

The accounting notes 1 to 41 form an integral part of these consolidated financial statements.

Dr. Bernd van Linder
Managing Director
Saudi Hollandi Bank

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 45 branches (2011: 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 Hijjah 1428H (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. During the year, the Bank acquired the remaining beneficial ownership of SHC. As a result, SHC became wholly owned subsidiary of the Bank. SHC commenced its operations effective 1 Rabi'II 1429H (corresponding to April 8, 2008).

Saudi Hollandi Real Estate Company (SHREC)

SHREC, a wholly owned subsidiary of the Bank through direct 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). During the year, the Bank acquired the remaining beneficial ownership of SHREC.

Saudi Hollandi Insurance Agency Company (SHIAC)

SHIAC, an effectively wholly owned subsidiary of the Bank through direct ownership was established under commercial registration number 1010300250 dated 29 Muharram 1432H (corresponding to January 4, 2011) with the approval of SAMA. The Company was formed to act as an agent for Wataniya Insurance Company's (WIC), an associate, selling its insurance products.

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, International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), the Banking Control Law, the provisions of Regulations for Companies in the Kingdom of Saudi Arabia and the Bank's By-Laws.

b) Basis of measurement

The consolidated financial statements are prepared under the historical cost convention except for the following material items in the consolidated 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.

c) Functional and presentation currency

These consolidated financial statements are presented in Saudi Arabian Riyals (SAR), which is the Group's functional currency. Financial information has been rounded off to the nearest thousand, except where indicated otherwise.

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 judgments, 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 judgments, 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 judgments are as follows:

(i) Impairment for 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 that there has been an adverse change in the payment status of borrowers in a group. Management uses estimates based on historical loss experience for loans with 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 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 and debt 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 the investment's share price. In addition, management considers impairment to be appropriate when there is evidence of a deterioration in the financial health of the investee, industry, sector, or operational and financing cash flows or changes in technology.

(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. If the Bank fails to keep these investments to maturity other than in certain specific circumstances – for example, selling close to maturity or an insignificant amount– it will be required to reclassify the entire class as available-for-sale.

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 December 31, 2011, except for the adoption of amendments to the existing standards as mentioned below. These amendments and interpretations have been adopted retrospectively and had no material impact on the consolidated financial statements of the Group.

- Amendment to IAS 12– Recovery of Underlying Assets:

The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Further, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The amendment became effective for annual periods beginning on or after 1 January 2012. The bank does not hold any investment property and therefore does not expect this change to have any impact.

- Amendments to IFRS 7 – Enhanced Derecognition Disclosure Requirements:

The IASB introduced enhanced disclosure requirements to IFRS 7 as part of its comprehensive review of off-balance sheet activities. The amendments are designed to ensure that users of financial statements are able to more readily understand transactions involving the transfer of financial assets (for example, securitisations), including the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. Disclosures are not required for comparative periods before the date of initial application of the amendments.

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

- *IAS 1 - Amendments - Presentation of items of other comprehensive income*
- *IFRS 10 - Consolidated financial statements*
- *IFRS 12 - Disclosure of involvement with other entities*
- *IFRS 13 - Fair value measurement*
- *IAS 19 - Revised 2011 - Employee benefits*
- *IAS 28 - Revised 2011 - Investments in associates and joint ventures*
- *IAS 32, and IFRS 7 Amendments - Financial instruments on asset and liability offsetting*

In addition to the above, the Bank has chosen not to early adopt the amendments to the basis for conclusions on IAS 1, 16, 32, and 34. The Bank also has chosen not to early adopt IFRS 9 – Financial instruments, which will not be effective until January 1, 2015.

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

a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Saudi Hollandi Bank and its subsidiaries 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 their accounting policies where necessary to align them with the accounting policies of the Group.

Subsidiaries are entities over which the Group has the power to directly or indirectly govern its 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 full in preparing these consolidated financial statements.

b) Investments in associates

Investments in associates are initially recognised at cost and subsequently accounted for under the equity method of accounting based on annual audited or latest available reviewed financial statements. An associate is an entity in which the Bank has significant influence (but not control), over financial and operating policies and which is neither a subsidiary nor a joint venture. Investments in associates are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Bank's share of net assets, less any impairment in the value of individual investments. The Bank's share of its associates' post-acquisition profits or losses is recognised in the consolidated statement of income, and its share of post-acquisition movements in other comprehensive income is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Bank's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Bank does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains and losses on transactions between the Bank and its associates are eliminated to the extent of the Bank's interest in the associates. Under the equity method, the investment in the associate is carried on the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of the associate's net assets. The consolidated statement of income reflects the Group's share of the results of associate's operations. When there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses it in the consolidated statement of changes in equity.

The Group's share of profit of an associate is shown on the face of the consolidated statement of income. This is the profit attributable to equity holders of the associate and, therefore, is profit after tax and non-controlling interests in the subsidiaries of the associate. The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on its investment in its associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the 'share of earning of an associate' in the consolidated statement of income.

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.

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, currency and commission rate options (both written and purchased) are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently re-measured at fair value in the consolidated statement of financial position with transaction costs recognised in the consolidated statement of income. All derivatives are carried at their fair value as assets where the fair value is positive and as liabilities where the fair value is negative. Fair values are derived by applying discounted cash flow models and pricing models as appropriate.

The treatment of changes in their fair value depends on their classification into the following categories:

i) Derivatives held for trading

Any changes in the fair value of derivatives held for trading are taken directly to the consolidated statement of income and disclosed in net trading income. Derivatives held for trading also include those derivatives which 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 statement of income (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 statement of income.

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 loss.

In order to qualify for hedge accounting, hedge should be expected to be highly effective, i.e. changes in the fair value or cash flows of the hedging instruments 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 on-going 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 statement of income together with the change in the fair value of the hedged item attributable to the hedged risk.

Where the fair value hedge of a commission bearing hedged item measured at amortized cost 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 statement of income.

Cash Flow Hedges

When a derivative is designated as an hedging instrument 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 consolidated other comprehensive income whereas the ineffective portion, if any, is recognised in the consolidated statement of income. For cash flow hedges affecting future transactions, the fair value gains or losses recognised in other reserves are transferred to the consolidated statement of income in the same period in which the hedged items affects the consolidated statement of income.

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 consolidated 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 or 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 consolidated 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 comprehensive income is transferred to the consolidated statement of income for the year.

e) Foreign currencies

The Group's consolidated financial statements are presented in Saudi Arabian Riyals, which is also the Group's functional currency. Each entity in the Group determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency.

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

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

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 currently 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 expenses for all commission-bearing financial instruments, except for those classified as held for trading or at fair value through income statement (FVIS), are recognised in the consolidated statement of income using effective yield basis. The effective interest rate 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 excluding 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.

Subsequent to the recognition of an impairment loss on a financial asset or a group of financial assets, commission income continues to be recognised on the effective yield basis, on the asset's carrying value net of impairment provisions.

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, as discussed in foreign currencies policy above.

iii) Fees and commission income

Fees and commission income that are integral to the effective yield are included in the measurement of the relevant assets. 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.
- Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective yield on the loan. 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.

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.

vi) 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 differs from the fair value of 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 statement of income 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 statement of income when the inputs become observable, or when the instrument is derecognised.

i) Sale and repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the consolidated statement of financial position as the bank retains substantially all the risks and rewards of ownership. These assets are continued to measure in accordance with related accounting policies for investments held as FVIS, available for sale, held to maturity and other investments held at amortized cost. The transactions are treated as collateralised borrowing and counter-party liability for amounts received under these agreements is included in "Due to banks and other financial institutions" or "Customer deposits", as appropriate.

The difference between sale and repurchase price is treated as special commission expense and accrued over the life of the repo agreement on an effective yield basis. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repo) are not recognised in the statement of financial position, as the bank does not obtain control over the assets. Amounts paid under these agreements are included in "Cash and balances with SAMA", "Due from banks and other financial institutions" or "Loans and advances", as appropriate. The difference between purchase and resale price is treated as special commission income and accrued over the life of the reverse repo agreement on an effective yield basis.

j) Investments

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.

Determination of 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 which approximate the fair value.

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'.

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 if they are held for trading or designated by management as FVIS on initial recognition. Investments classified as trading are acquired principally for the purpose of selling or repurchasing in the short term and are recorded in the statement of financial position at fair value. Changes in fair value are recognized in net trading income / loss.

An investment may be designated at FVIS by the management, at initial recognition, if it satisfies the criteria laid down by IAS 39 except for 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 statement of income 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 statement of income.

ii) Available for sale

Available-for-sale investments are those equity and debt securities which are neither classified as Held For Trading nor designated as FVIS, 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. AFS are non-derivative investments that are designated as AFS or not classified as another category of financial assets.

Investments which are classified as "available-for-sale" are initially recognised at fair value including direct and incremental transaction costs and subsequently measured at fair value except for unquoted equity securities whose fair value cannot be reliably measured are carried at cost. Unrealised gains or losses arising from a change in its fair value is recognised in other comprehensive income until the investment is de-recognised, recognised or impaired whereupon any cumulative gain or loss previously recognized in other comprehensive income is reclassified to consolidated statement of income.

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 statement of income 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 commission 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 statement of income when the investment is derecognised or impaired.

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 statement of income. 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.

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 statement of income 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.

Loans and advances are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. In the latter case, renegotiation can result in an extension of the due date of payment or repayment plans under which the Bank offers a revised rate of commission to genuinely distressed borrowers. This results in the asset continuing to be overdue and individually impaired as the renegotiated payments of commission and principal do not recover the original carrying amount of the loan. In other cases, renegotiation lead to a new agreement, this is treated as a new loan. Restructuring policies and practices are based on indicators or criteria which, indicate that payment will most likely continue. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective yield rate.

(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 statement of income.

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

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

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 statement of income.

Subsequent to initial recognition, any subsequent write down to fair value, less costs to sell, are charged to the consolidated statement of income. 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 measured at cost less accumulated depreciation and accumulated impairment loss. Freehold land is not depreciated. Changes in the expected useful life are accounted for by changing the period or method, as appropriate, and treated as changes in accounting estimates. The cost of other property and equipment is depreciated / amortised on the straight-line method over the estimated useful lives of the assets as follows:

Buildings	33 years
Leasehold improvements	Over the shorter of lease period or 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 statement of income.

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) Financial Liabilities

All money market deposits, customer deposits and subordinated debts in issue are initially recognised at fair value less transaction costs. Financial liabilities at FVIS are recognised initially at fair value and transaction costs are taken directly to the consolidated statement of income. 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 statement of income.

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 statement of income. For financial liabilities carried at amortised cost, any gain or loss is recognised in the consolidated statement of income when derecognised.

p) Financial 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 statement of income in "impairment charge for credit losses". The premium received is recognised in the consolidated statement of income "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 statement of income on a straight-line basis over the period of the lease.

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" include notes and coins on hand, balances with SAMA excluding statutory deposit, and due from banks and other financial institutions with original maturity of three months or less which are subject to insignificant risk of changes in their fair value.

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-recognized when:

- The rights to receive cash flows from the asset have expired; or
- 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 37.

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 statement of income over the remaining vesting period, with a corresponding adjustment to the staff share base 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 statement of income 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.

y) Non-commission based banking products

In addition to conventional banking, the Group also offers its customers certain non-commission 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) **Ijarah** 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.

(iii) **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) **Tawaruq** 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-interest based banking products are included in "loans and advances" and are in conformity with the related accounting policies described in these consolidated financial statements.

Amounts in SAR'000

4 CASH AND BALANCES WITH SAMA

	2012	2011
Cash in hand	**395,250**	406,200
Statutory deposit	**2,607,128**	2,258,502
Current accounts	**298,120**	252,096
Reverse repo with SAMA	**6,261,957**	3,051,979
Total	**9,562,455**	5,968,777

In accordance with the requirements of the 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 does not form part of cash and cash equivalents.

5 DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2012	2011
Current accounts	**840,717**	590,183
Money market placements	-	22,683
Total	**840,717**	612,866

6 INVESTMENTS, NET

a) Investment securities are classified as follows:

i) Held at FVIS	International 2012	International 2011	Total 2012	Total 2011
Fixed rate securities	-	11,110	-	11,110
Total held at FVIS	-	11,110	-	11,110

ii) Available-for-sale	Domestic 2012	Domestic 2011	International 2012	International 2011	Total 2012	Total 2011
Fixed rate securities	**70,430**	89,618	-	-	**70,430**	89,618
Floating rate securities	**30,000**	339,500	**93,765**	112,068	**123,765**	451,568
Mutual funds	**29,103**	28,184	-	-	**29,103**	28,184
Equities	**4,188**	39,518	-	-	**4,188**	39,518
Total available-for-sale	**133,721**	496,820	**93,765**	112,068	**227,486**	608,888

Equities reported under available for sale investments include unquoted shares of SAR 4 million (2011: SAR 4 million) that are carried at cost. In the opinion of management the fair value approximates the investment's carrying value.

iii) Other investments held at amortised cost	Domestic 2012	Domestic 2011	International 2012	International 2011	Total 2012	Total 2011
Fixed rate securities	**8,295,874**	6,408,132	**1,196,936**	1,210,573	**9,492,810**	7,618,705
Floating rate securities	**1,107,011**	2,483,315	**432,814**	575,138	**1,539,825**	3,058,453
Total other investments held at amortised cost, gross	**9,402,885**	8,891,447	**1,629,750**	1,785,711	**11,032,635**	10,677,158
Allowances for impairment	-	-	-	(20,000)	-	(20,000)
Total other investments held at amortised cost, net	**9,402,885**	8,891,447	**1,629,750**	1,765,711	**11,032,635**	10,657,158

Amounts in SAR'000

	Domestic		International		Total	
iv) Held to maturity	**2012**	2011	**2012**	2011	**2012**	2011
Fixed rate securities	**45,445**	71,860	**-**	-	**45,445**	71,860
Floating rate securities	**-**	-	**60,010**	153,520	**60,010**	153,520
Total held to maturity	**45,445**	71,860	**60,010**	153,520	**105,455**	225,380
Total investments, net	**9,582,051**	9,460,127	**1,783,525**	2,042,409	**11,365,576**	11,502,536

b) Investments reclassification

Management identified certain AFS investments, 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 at that date from AFS to other investments held at amortised cost at fair value. Had the reclassification not been made, other reserves would have included unrealised fair value losses amounting to SAR 2 million (2011: SAR 24 million) and shareholders' equity would have been lower by the same amount.

With effect from July 20, 2011, the Group reclassified certain trading investments to other investments held at amortised cost for which it no longer had the intention to hold for the purpose of selling in the short term. For these reclassified investments, 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 statement of income as the fair value approximates the carrying value as at December 31, 2012 and 2011.

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

	2012		2011	
	Carrying value	Fair value	Carrying value	Fair value
Available for sale securities reclassified to other investments held at amortised cost	**144,590**	**135,172**	452,109	426,389

c) The composition of investments is as follows:

	2012			2011		
	Quoted	***Unquoted***	***Total***	*Quoted*	*Unquoted*	*Total*
Fixed rate securities	**1,368,378**	**8,240,307**	**9,608,685**	1,392,586	6,398,707	7,791,293
Floating rate securities	**1,273,600**	**450,000**	**1,723,600**	1,950,541	1,693,000	3,643,541
Mutual funds	**29,103**	**-**	**29,103**	28,184	-	28,184
Equities	**-**	**4,188**	**4,188**	35,282	4,236	39,518
Total Investments, net	**2,671,081**	**8,694,495**	**11,365,576**	3,406,593	8,095,943	11,502,536

Unquoted securities principally comprise of treasury bills and other Saudi Government Bonds. Such securities are traded in the 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:

	2012				2011			
i) Other investments held at amortised cost	***Carrying value***	***Gross unrealised gains***	***Gross unrealised losses***	***Fair value***	*Carrying value, net of allowances*	*Gross unrealised gains*	*Gross unrealised losses*	*Fair value*
Fixed-rate securities	**9,492,810**	**76,266**	**(20,793)**	**9,548,283**	7,618,705	74,825	(5,784)	7,687,746
Floating rate securities	**1,539,825**	**11,340**	**(9,440)**	**1,541,725**	3,038,453	8,773	(46,411)	3,000,815
Total	**11,032,635**	**87,606**	**(30,233)**	**11,090,008**	10,657,158	83,598	(52,195)	10,688,561

Amounts in SAR'000

	2012				2011			
	Carrying value	*Gross unrealised gains*	*Gross unrealised losses*	*Fair value*	*Carrying value*	*Gross unrealised gains*	*Gross unrealised losses*	*Fair value*
ii) Held to maturity								
Fixed-rate securities	**45,445**	**4,471**	**-**	**49,916**	71,860	5,972	-	77,832
Floating rate securities	**60,010**	**-**	**(5,972)**	**54,038**	153,520	177	(14,153)	139,544
Total	**105,455**	**4,471**	**(5,972)**	**103,954**	225,380	6,149	(14,153)	217,376

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

	2012	2011
Government and quasi-government	**8,870,666**	8,683,745
Corporates	**1,352,517**	1,495,471
Banks and other financial institutions	**1,109,102**	1,255,618
Others	**33,291**	67,702
Total Investments, net	**11,365,576**	11,502,536

Other investments held at amortized cost amounting to SAR 3,690 million (2011: SAR 2,063 million) are pledged under repurchase agreements with customers. The market value of these investments is SAR 3,666 million (2011: SAR 2,567 million).

f) Credit risk exposures of Investments

	2012				2011			
	Fixed rate securities	**Floating rate securities**	**Others**	**Total**	Fixed rate securities	Floating rate securities	Others	Total
AAA	**137,355**	**-**	**-**	**137,355**	137,193	-	-	137,193
AA- To AA+	**9,235,655**	**214,028**	**-**	**9,449,683**	7,392,871	1,963,287	-	9,356,158
A- To A+	**186,040**	**744,723**	**-**	**930,763**	200,419	966,785	-	1,167,204
BBB- To BBB+	**26,635**	**120,849**	**-**	**147,484**	37,810	225,495	-	263,305
Lower than BBB	**-**	**-**	**-**	**-**	-	35,805	-	35,805
Unrated	**23,000**	**644,000**	**33,291**	**700,291**	23,000	452,169	67,702	542,871
Total Investments, net	**9,608,685**	**1,723,600**	**33,291**	**11,365,576**	7,791,293	3,643,541	67,702	11,502,536

g) Allowances for impairment on investments

	2012	2011
Balance at beginning of the year	**35,000**	25,000
Charge during the year	**-**	10,000
Released during the year	**(20,000)**	-
Total	**15,000**	35,000

During the year, total impairment charge on other investments held at amortised cost amounting to SAR 20 million was released to the consolidated statement of income. At December 31, 2012, the balance of SAR 15 million (2011: SAR 15 million) represents impairment charge on available for sale investments.

Amounts in SAR'000

7 LOANS AND ADVANCES, NET

a) Loans and advances held at amortised cost

2012	Overdraft	Credit Cards	Consumer loans	Commercial loans	Total
Performing loans and advances-gross	2,574,597	235,638	5,176,167	37,671,231	45,657,633
Non performing loans and advances, net	333,184	9,034	37,646	342,251	722,115
Total loans and advances	2,907,781	244,672	5,213,813	38,013,482	46,379,748
Allowances for impairment of credit losses	(642,383)	(11,326)	(56,942)	(392,898)	(1,103,549)
Total loans and advances, net	**2,265,398**	**233,346**	**5,156,871**	**37,620,584**	**45,276,199**

2011	Overdraft	Credit Cards	Consumer Loans	Commercial loans	Total
Performing loans and advances-gross	3,034,406	235,742	3,920,246	30,553,442	37,743,836
Non performing loans and advances, net	365,576	9,233	30,646	329,955	735,410
Total loans and advances	3,399,982	244,975	3,950,892	30,883,397	38,479,246
Allowances for impairment of credit losses	(608,540)	(11,326)	(38,722)	(411,060)	(1,069,648)
Total loans and advances, net	2,791,442	233,649	3,912,170	30,472,337	37,409,598

b) Movements in Allowances for impairment of credit losses

2012	Overdraft	Credit Cards	Consumer Loans	Commercial loans	Total
Balance at beginning of the year	608,540	11,326	38,722	411,060	1,069,648
Provided during the year	184,410	21,125	74,256	54,595	334,386
Bad debts written off	(67,366)	(13,170)	(25,467)	-	(106,003)
Recoveries of amounts previously provided	(83,201)	(7,955)	(30,569)	(72,757)	(194,482)
Balance at the end of the year	**642,383**	**11,326**	**56,942**	**392,898**	**1,103,549**

2011	Overdraft	Credit Cards	Consumer Loans	Commercial loans	Total
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

c) Credit quality of loans and advances

i) Loans and advances neither past due nor impaired

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

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.

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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. Loans and advances in the watch category are not expected to expose the Group to high enough level of risk to warrant a worse classification.

2012	**Overdraft**	**Credit Cards**	**Consumer Loans**	**Commercial loans**	**Total**
Strong	**1,135,773**	**211,087**	**5,103,446**	**20,090,390**	**26,540,696**
Satisfactory	**1,355,124**	**16,310**	**9,873**	**17,201,793**	**18,583,100**
Watch	**37,533**	**1,812**	**16,930**	**320,152**	**376,427**
Total	**2,528,430**	**229,209**	**5,130,249**	**37,612,335**	**45,500,223**

2011	Overdraft	Credit Cards	Consumer Loans	Commercial loans	Total
Strong	879,685	211,604	3,873,962	15,617,952	20,583,203
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	2,695,275	226,643	3,886,670	30,534,429	37,343,017

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

2012	**Overdraft**	**Credit Cards**	**Consumer Loans**	**Commercial loans**	**Total**
From 1 day to 30 days	**29,184**	**3,543**	**20,277**	**9,999**	**63,003**
From 31 days to 90 days	**10,756**	**2,886**	**25,641**	**48,897**	**88,180**
From 91 days to 180 days	**6,227**	**-**	**-**	**-**	**6,227**
Total	**46,167**	**6,429**	**45,918**	**58,896**	**157,410**

2011	Overdraft	Credit Cards	Consumer Loans	Commercial loans	Total
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

Out of the past due loans for 2012 loans amounting to SAR 117 million are fully secured by collateral (2011: SAR 269 million)

Amounts in SAR'000

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

2012	**Performing**	**Non performing**	**Allowances for impairment**	**Loans and advances, net**
Government and quasi-government	**1,368,093**	-	-	**1,368,093**
Banks and other financial institutions	**1,227,766**	-	-	**1,227,766**
Agriculture and fishing	**474,081**	**21,488**	**(21,488)**	**474,081**
Manufacturing	**8,583,687**	**72,228**	**(72,228)**	**8,583,687**
Mining and quarrying	**284,984**	-	-	**284,984**
Electricity, water, gas and health services	**1,958,132**	**8,300**	**(8,300)**	**1,958,132**
Building and construction	**5,795,073**	**129,487**	**(129,487)**	**5,795,073**
Commerce	**13,372,435**	**369,069**	**(369,069)**	**13,372,435**
Transportation and communication	**735,580**	-	-	**735,580**
Services	**3,239,010**	**7,787**	**(7,787)**	**3,239,010**
Consumer loans and credit cards	**5,411,805**	**46,680**	**(54,280)**	**5,404,205**
Others	**3,206,987**	**67,076**	**(64,910)**	**3,209,153**
	45,657,633	**722,115**	**(727,549)**	**45,652,199**
Portfolio impairment allowances	-	-	**(376,000)**	**(376,000)**
Total	**45,657,633**	**722,115**	**(1,103,549)**	**45,276,199**

2011	Performing	Non performing	Allowances for impairment	Loans and advances, net
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	7,277,984	64,102	(117,817)	7,224,269
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
	37,743,836	735,410	(772,877)	37,706,369
Portfolio impairment allowances	-	-	(296,771)	(296,771)
Total	37,743,836	735,410	(1,069,648)	37,409,598

Loans and advances, include Islamic products of SAR 20.30 billion (2011: SAR 13.70 billion)

	2012	*2011*
Murabaha	**13,198,779**	8,745,159
Ijarah	**3,490,894**	1,535,296
Tawaruq	**3,611,481**	3,419,545
Total	**20,301,154**	13,700,000

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. As at December 31, 2012, the fair value of collaterals held by the Group against loans and advances is SAR 9.46 billion (2011: SAR 7.07 billion).

Amounts in SAR'000

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 147 million (2011: SAR 344 million).

8 INVESTMENT IN AN ASSOCIATE

	2012	2011
Balance at beginning of the year	17,750	20,000
Share in earning / (loss)	300	(2,250)
Balance at end of the year	18,050	17,750

Investment in an 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).

9 PROPERTY AND EQUIPMENT, NET

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

	Land and Buildings	Leasehold Improvements	Computer hardware / software	Furniture /Fixtures	Motor Vehicles	Capital Work In Progress (CWIP)	Total
Cost:							
Balance at beginning of the year	187,577	266,123	655,903	180,211	4,380	63,119	1,357,313
Additions during the year	-	-	-	-	217	109,792	110,009
Transfers from CWIP during the year		9,696	37,578	1,439	-	(48,713)	-
Balance at end of the year	187,577	275,819	693,481	181,650	4,597	124,198	1,467,322
Accumulated depreciation/ amortisation:							
Balance at beginning of the year	36,628	219,924	472,201	135,623	3,438	-	867,814
Charge for the year	5,266	13,384	72,909	18,798	384	-	110,741
Balance at end of the year	41,894	233,308	545,110	154,421	3,822	-	978,555
Net book value:							
As at 31 December 2012	145,683	42,511	148,371	27,229	775	124,198	488,767
As at 31 December 2011	150,949	46,199	183,702	44,588	942	63,119	489,499

9 (b) Gain on sale of property

During the year 2011, 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

	2012	2011
Accrued special commission receivable:		
Banks and other financial institutions	43	57
Investments	37,601	39,999
Loans and advances	191,035	152,314
Others	68,401	63,074
Total accrued special commission receivable	297,080	255,444
Accounts receivable	399,233	554,279
Positive fair value of derivatives (note 11)	253,524	381,159
Others	3,912	5,578
Total	953,749	1,196,460

Amounts in SAR'000

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.

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 to inter alia, enable them to transfer, modify or reduce current and future risks. Positioning involves managing market risk positions with the expectation of profiting from 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, 2012, the periods when the hedged cash flows are expected to occur and when they are expected to affect consolidated statement of income:

	2012		2011	
	Within 1 year	**1-3 years**	Within 1 year	1-3 years
Cash inflows (assets)	**3,630**	-	3,569	4,532
Cash outflows (liabilities)	**(10,068)**	-	(10,095)	(10,200)
Net cash outflows	**(6,438)**	-	(6,526)	(5,668)

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The tables below show the positive and negative fair values and notional amounts of derivative financial instruments, 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 market risk, credit risk. The latter is generally limited to the positive fair value of derivatives.

				Notional amounts by maturity				
Derivative financial instruments 2012	***Positive fair value***	***Negative fair value***	***Notional amount total***	***Within three months***	***3-12 Months***	***1-5 Years***	***Over 5 Years***	***Monthly Average***
Held for trading:								
Commission rate swaps	132,136	105,144	18,682,591	1,042,188	3,098,570	12,970,323	1,571,510	17,397,804
Forward foreign exchange contracts	99,614	97,450	21,742,440	13,481,898	8,260,542	-	-	28,034,814
Currency options	21,722	21,501	21,556,764	5,326,374	13,110,207	3,120,183	-	29,399,035
Forward rate agreements	19	-	200,000	-	-	200,000	-	475,000
Commission rate options	33	33	1,219,279	-	-	1,219,279	-	969,279
Held as fair value hedges:								
Commission rate swaps	-	22,717	651,835	2,118	17,867	594,344	37,506	812,666
Held as cash flow hedges:								
Commission rate swaps	-	6,355	350,000	-	350,000	-	-	350,000
Total	253,524	253,200	64,402,909	19,852,578	24,837,186	18,104,129	1,609,016	

				Notional amounts by maturity				
Derivative financial instruments 2011	*Positive fair value*	*Negative fair value*	*Notional amount total*	*Within three months*	*3-12 Months*	*1-5 Years*	*Over 5 Years*	*Monthly Average*
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	227,211	203,833	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	237,502	1,253,583
Held as cash flow hedges:								
Commission rate swaps	-	11,874	350,000	-	-	350,000	-	350,000
Total	381,159	380,198	77,511,965	25,797,304	29,911,036	21,104,507	699,118	

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

Description of hedged items	***Fair value***	***Hedge inception value***	***Risk***	***Hedging Instrument***	***Positive fair value***	***Negative fair value***
2012						
Fixed commission rate investments	379,242	348,806	**Fair Value**	**Commission rate swaps**	-	16,583
Subordinated debts	355,349	350,000	**Cash Flow**	**Commission rate swaps**	-	6,355
Loans and advances	319,638	294,207	**Fair Value**	**Commission rate swaps**	-	6,134

Amounts in SAR'000

Description of hedged items	*Fair value*	*Hedge inception value*	*Risk*	*Hedging Instrument*	*Positive fair value*	*Negative fair value*
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

The net gains / (losses) on the hedging instruments held for fair value hedge are SAR 22.7 million (2011: SAR 20.5 million). The net fair value of the derivatives is SAR 0.32 million (2011: SAR 0.96 million).

Approximately 65% (2011: 69%) of the positive fair value of the hedging instruments relating to Group's derivatives are entered into with financial institutions and less than 11% (2011: 7%) of the total positive fair value of the derivatives 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

	2012	*2011*
Current accounts	**591,858**	704,347
Call/ Overnight	-	26
Money market deposits	**883,065**	906,718
Total	**1,474,923**	1,611,091

13 CUSTOMERS' DEPOSITS

	2012	*2011*
Time	**30,129,109**	24,156,021
Demand	**22,698,615**	19,512,606
Saving	**411,420**	390,244
Others	**674,528**	629,865
Total	**53,913,672**	44,688,736
Time deposits include:		
i) Deposits under repurchase agreements with customers	**3,690,000**	2,063,000
ii) Islamic deposits	**12,516,277**	9,417,472

Customers' deposits include SAR 517 million (2011: SAR 498 million) of margins held for irrevocable commitments, non commission based deposits amounting to SAR 22.7 billion (2011: SAR 19.4 billion) and foreign currency deposits as follows:

	2012	*2011*
Time	**6,012,648**	4,219,645
Demand	**2,661,663**	1,824,780
Saving	**22,732**	26,137
Others	**97,702**	65,983
Total	**8,794,745**	6,136,545

Amounts in SAR'000

14 SUBORDINATED DEBT

Subordinated debt represents the following debt securities:

Issued on November 26, 2012:

The Group issued SAR 1,400 million unsecured subordinated Tier II Sukuk, which is due in 2019. The Group has the option, subject to the prior written approval of SAMA, to redeem these Sukuk at their redemption amount at the end of 2017, at the end of each calendar year thereafter until 2019 or in the event of certain changes affecting the taxation and regulatory capital treatment of these Sukuk. All required approvals from regulatory Authorities have been obtained for the purpose of issuance.

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 has the option, subject to the prior written approval of SAMA, to redeem these certificates at their redemption amount at the end of 2014, 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 has the option, subject to the prior written approval of SAMA, to redeem these certificates at their redemption amount at the end of 2013, 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 on any principal or commission repayments and there has been no other breaches with regard to any of these liabilities during 2012 or 2011.

15 OTHER LIABILITIES

Accrued special commission payable:	***2012***	*2011*
Banks and other financial institutions	**126**	230
Customer deposits	**115,596**	76,519
Subordinated debt	**3,149**	116
Others	**83,075**	83,863
Total accrued special commission payable	**201,946**	160,728
Accrued expenses and accounts payable	**1,056,914**	1,064,521
Negative fair value of derivatives (note 11)	**253,200**	380,198
Others	**398,879**	383,890
Total	**1,910,939**	1,989,337

16 SHARE CAPITAL

The authorised, issued and fully paid share capital consists of 396.90 million (2011: 330.75 million) shares of SAR 10 (2011: SAR 10) each.

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

	Percentage	***2012***	*2011*
Saudi shareholders	**60%**	**2,381,400**	1,984,500
ABN AMRO Bank N.V. (The Netherlands)	**40%**	**1,587,600**	1,323,000
Total	**100%**	**3,969,000**	3,307,500

The extra ordinary general assembly approved during its meeting held on March 18, 2012 the proposal of the Board of Directors to increase the Bank's share capital by SAR 661.5 million through bonus shares of one for every five shares held.

Amounts in SAR'000

17 STATUTORY RESERVE

In accordance with Saudi Arabian Banking Control Law and the By-Laws 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 share capital of the Bank. Accordingly, SAR 313.25 million (2011: SAR 257.98 million) has been transferred from net income. The statutory reserve is not available for distribution.

18 OTHER RESERVES

	Available for sale investments	*Cash flow hedges*	*Total*
2012			
Balance at beginning of the year	**(8,366)**	**(11,874)**	**(20,240)**
Net change in fair value / effective portion of change in fair value recognised	**4,395**	**5,519**	**9,914**
Transfer to consolidated statement of income	**4,536**	**-**	**4,536**
Balance at end of the year	**565**	**(6,355)**	**(5,790)**

2011	*Available for sale investments*	*Cash flow hedges*	*Total*
Balance at beginning of the year	(19,096)	(10,820)	(29,916)
Net change in fair value / effective portion of change in fair value recognised	3,395	(1,054)	2,341
Transfer to consolidated statement of income	7,335	-	7,335
Balance at end of the year	(8,366)	(11,874)	(20,240)

19 COMMITMENTS AND CONTINGENCIES

a) Legal proceedings

As at December 31, 2012 and 2011, there were certain legal proceedings outstanding against the Group that arose in the normal course of business. Provision amounting to SAR 1.27 million (2011: SAR 16.30 million) 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

The Group has capital commitments of SAR 16.8 million (2011: SAR 20.8 million) in respect of leasehold improvements and computer hardware and software 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.

Amounts in SAR'000

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 of 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.

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

2012	Within 3 months	3 to 12 months	1 to 5 Years	Over 5 Years	Total
Letters of credit	**2,923,339**	**2,934,003**	**445,998**	-	**6,303,340**
Letters of guarantee	**1,671,574**	**7,123,593**	**6,608,379**	**67,325**	**15,470,871**
Acceptances	**1,897,045**	**346,029**	**28,807**	-	**2,271,881**
Irrevocable commitments to extend credit	-	-	**240,208**	**963,478**	**1,203,686**
Total	**6,491,958**	**10,403,625**	**7,323,392**	**1,030,803**	**25,249,778**

2011	Within 3 months	3 to 12 months	1 to 5 Years	Over 5 Years	Total
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

The outstanding and unused portion of commitments that can be revoked unilaterally at any time by the Group amounts to SAR 1,203.7 million (2011: SAR 305.3 million).

ii) Commitments and contingencies by counterparty are as follows:	**2012**	2011
Government and quasi-government	**38,833**	34,266
Corporate	**22,170,671**	17,173,196
Banks and other financial institutions	**2,745,393**	2,517,146
Other	**294,881**	281,981
Total	**25,249,778**	20,006,589

d) Operating lease commitments

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

	2012	2011
Less than 1 year	**45,395**	46,522
1 to 5 years	**118,038**	104,251
Over 5 years	**66,878**	55,725
Total	**230,311**	206,498

Amounts in SAR'000

20 SPECIAL COMMISSION INCOME AND EXPENSE

Special commission income

Investments:	*2012*	*2011*
Available for sale	9,761	15,364
Held to maturity	4,748	5,200
Other investments held at amortised cost	138,200	155,708
	152,709	176,272
Due from banks and other financial institutions	19,384	19,227
Loans and advances	1,547,674	1,328,207
Total	1,719,767	1,523,706

Special commission expense	*2012*	*2011*
Due to banks and other financial institutions	4,813	6,439
Customers' deposits	287,458	185,734
Subordinated debt	55,162	41,938
Total	347,433	234,111

21 FEE AND COMMISSION INCOME, NET

Fee and commission income:	*2012*	*2011*
Share brokerage and fund management, net	55,030	51,846
Trade finance	210,761	181,075
Corporate finance and advisory	260,857	179,889
Credit cards	73,243	74,136
Other banking services	91,599	89,827
Total fee and commission income	691,490	576,773
Fee expenses:		
Credit cards	53,322	48,024
Other banking services	10,463	9,546
Total fee expenses	63,785	57,570
Fee and commission income, net	627,705	519,203

22 TRADING INCOME, NET

	2012	*2011*
Foreign exchange, net	56,522	52,162
Investments held for trading	1,073	2,219
Derivatives	40,066	21,649
Total	97,661	76,030

23 GAINS ON NON-TRADING INVESTMENTS, NET

	2012	*2011*
Available for sale investments	7,689	-
Other investments held at amortised costs	(3,134)	5,852
Total	4,555	5,852

Amounts in SAR'000

24 SALARIES AND EMPLOYEES 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, 2012, and the forms of such payments.

2012			Variable Compensation paid		
Categories of employees	Number of employees	Fixed compensation paid	Cash	Shares vested	Total
Senior executives who require SAMA's no objection	15	21,253	5,604	-	26,857
Employees engaged in control and risk management functions	93	24,038	2,556	-	26,594
Employees engaged in risk taking activities	445	94,803	14,927	-	109,730
Other employees	1,568	189,885	18,956	-	208,841
Total	2,121	329,979	42,043	-	372,022
Variable Compensation accrued during the year		46,209			
Other employee related expenses paid during the year		81,245			
Other employee related expenses accrued during the year		16,670			
Total Salaries and employee related expenses		474,103			

2011			Variable Compensation paid		
Categories of employees	Number of employees	Fixed compensation paid	Cash	Shares vested	Total
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 others directly reporting 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.

Amounts in SAR'000

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.

25 EARNINGS PER SHARE

Basic earnings per share for the years ended December 31, 2012 and 2011 are calculated by dividing the net income for the year attributable to the equity holders by 396.900 million shares. The calculation of basic earnings per share for the years December 31, 2012 and 2011 have been adjusted to give the retrospective effect of the bonus shares issued.

26 PROPOSED GROSS DIVIDEND, ZAKAT AND INCOME TAX

The Board of Directors has proposed a gross final dividend of SAR 444.53 million for the current year (2011: SAR 377.06 million). 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 54 million (2011: SAR 94 million), which will be deducted from their share of future dividends. Zakat of SAR 28 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 98 million (2011: SAR 75 million). Tax paid in prior years amounting to SAR 103 million will be deducted from current year's proposed dividend resulting in a net dividend of SAR 0.47 per share.

The Bank has filed its Zakat and returns for the years up to and including the financial year 2011 with the Department of Zakat and Income Tax (the "DZIT"). During 2011, the Bank 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.

27 CASH AND CASH EQUIVALENTS

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

	2012	*2011*
Cash and balances with SAMA excluding statutory deposit (note 4)	**6,955,327**	3,710,275
Due from banks and other financial institutions maturing within 3 months or less from the acquisition date	**840,717**	612,866
Total	**7,796,044**	4,323,141

28 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:

Amounts in SAR'000

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.

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, 2012 and 2011.

2012	***Corporate Banking***	***Personal Banking***	***Treasury***	***Investment banking and investment services***	***Total***
Total assets	**39,774,597**	**6,447,887**	**21,799,808**	**483,221**	**68,505,513**
Total liabilities	**27,384,439**	**17,526,608**	**15,263,721**	**24,766**	**60,199,534**
Net special commission income	**895,796**	**466,281**	**6,152**	**4,105**	**1,372,334**
Fee and commission income, net	**488,092**	**71,941**	**-**	**67,672**	**627,705**
Trading income, net	**-**	**-**	**93,865**	**3,796**	**97,661**
Total operating income	**1,383,888**	**538,221**	**221,664**	**75,574**	**2,219,347**
Impairment charge for credit losses, net	**63,098**	**40,253**	**36,553**	**-**	**139,904**
Impairment (release) for investments, net	**-**	**-**	**(20,000)**	**-**	**(20,000)**
Depreciation / amortisation	**26,132**	**76,336**	**8,273**	**-**	**110,741**
Total operating expenses	**360,986**	**456,872**	**98,542**	**50,264**	**966,664**
Net operating income for the year	**1,022,902**	**81,349**	**123,122**	**25,310**	**1,252,683**

2011	*Corporate Banking*	*Personal Banking*	*Treasury*	*Investment banking and investment services*	*Total*
Total assets	33,057,493	4,964,957	18,696,914	478,122	57,197,486
Total liabilities	20,533,123	17,127,477	12,104,233	24,331	49,789,164
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

Amounts in SAR'000

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

2012	*Corporate Banking*	*Consumer Banking*	*Treasury*	*Total*
Non derivative financial assets	**39,774,597**	**6,447,887**	**11,260,008**	**57,482,492**
Commitments and contingencies	**11,739,866**	-	-	**11,739,866**
Derivatives	-	-	**1,132,341**	**1,132,341**

2011	*Corporate Banking*	*Consumer Banking*	*Treasury*	*Total*
Non derivative financial assets	33,057,493	4,964,957	11,502,550	49,525,000
Commitments and contingencies	10,748,738	-	-	10,748,738
Derivatives	-	-	1,938,701	1,938,701

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

29 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 a credit risk on credit related commitments, contingencies and derivatives. 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 28.

The Group's maximum exposure to credit risk at December 31, 2012 and 2011, without taking into account of any collateral held or credit enhancements attached is reflected below:

	2012	*2011*
Due from banks and other financial institutions	**840,717**	612,866
Investments, net	**11,365,576**	11,502,536
Loans and advances, net	**45,276,199**	37,409,598
Derivatives	**1,132,341**	1,938,701
Credit related commitments and contingencies	**11,739,866**	10,748,738
Total	**70,354,699**	62,212,439

Amounts in SAR'000

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.

30 GEOGRAPHICAL CONCENTRATION

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

2012	***Saudi Arabia***	***Other GCC and Middle East***	***Europe***	***America***	***Other countries***	***Total***
Assets						
Cash and balances with SAMA	**9,562,455**	**-**	**-**	**-**	**-**	**9,562,455**
Due from banks and other financial institutions	**21**	**125,861**	**696,590**	**14,517**	**3,728**	**840,717**
Investments, net	**9,582,051**	**1,402,742**	**281,295**	**-**	**99,488**	**11,365,576**
Loans and advances, net	**44,833,214**	**442,985**	**-**	**-**	**-**	**45,276,199**
Total	**63,977,741**	**1,971,588**	**977,885**	**14,517**	**103,216**	**67,044,947**
Commitments and Contingencies	**22,793,292**	**236,863**	**644,625**	**117,495**	**1,457,503**	**25,249,778**
Maximum credit exposure (stated at credit equivalent amounts)						
Commitments and contingencies	**10,603,857**	**189,938**	**394,688**	**61,298**	**490,085**	**11,739,866**
Derivatives	**496,688**	**90,324**	**263,065**	**8,341**	**273,923**	**1,132,341**

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	9,460,127	1,459,834	123,178	-	459,397	11,502,536
Loans and advances, net	36,961,372	448,226	-	-	-	37,409,598
Total	52,391,441	1,939,902	219,800	477,621	465,013	55,493,777
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

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.

31 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.

Amounts in SAR'000

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, 2012 is as provided below. Total VaR takes into account correlations across asset classes and accordingly it is not the total of individual VaR.

	Foreign exchange rate risk	***Special Commission rate risk***	***Foreign Exchange Forwards***	***Overall Risk***
2012 (VaR)				
As at December 31	**200**	**422**	**10**	**632**
Average for the year	**155**	**309**	**63**	**527**
Maximum	**970**	**765**	**301**	**1,386**
Minimum	**9**	**96**	**5**	**173**

	Foreign exchange rate risk	*Special Commission rate risk*	*Foreign Exchange Forwards*	*Overall Risk*
2011 (VaR)				
As at December 31	58	176	12	246
Average for the year	163	174	19	356
Maximum	1,022	589	160	1,330
Minimum	11	68	5	133

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 statement of income 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.

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

2012

Currency	Increase/ (decrease) in basis points	Sensitivity of special commission income	Sensitivity of equity			
			6 months or less	6 to12 months	1-5 Yrs	Over 5Years
USD	25	(5)	-	-	-	-
	(25)	5	-	-	-	-
EUR	25	-	-	-	-	-
	(25)	-	-	-	-	-
SAR	25	43	(7)	(17)	(308)	-
	(25)	(43)	7	17	308	-
Others	25	-	-	-	-	-
	(25)	-	-	-	-	-

2011

Currency	Increase/ (decrease) in basis points	Sensitivity of special commission income	Sensitivity of equity			
			6 months or less	6 to12 months	1-5 Yrs	Over 5Years
USD	25	(70)	-	-	-	-
	(25)	70	-	-	-	-
EUR	25	(20)	-	-	-	-
	(25)	20	-	-	-	-
SAR	25	569	(7)	(15)	(496)	-
	(25)	(569)	7	15	496	-
Others	25	13	-	-	-	-
	(25)	(13)	-	-	-	-

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 other derivative financial 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.

2012	Within 3 Months	3 to 12 Months	1 to 5 years	Over 5 Years	Non commission bearing	Total
Assets						
Cash and balances with SAMA	6,261,957	-	-	-	3,300,498	9,562,455
Due from banks and other financial institutions	-	-	-	-	840,717	840,717
Investments, net	2,777,270	8,435,127	119,888	-	33,291	11,365,576
Loans and advances, net	29,821,857	9,637,150	4,297,687	1,519,505	-	45,276,199
Investment in an associate	-	-	-	-	18,050	18,050
Property and equipment, net	-	-	-	-	488,767	488,767
Other assets	-	-	-	-	953,749	953,749
Total	38,861,084	18,072,277	4,417,575	1,519,505	5,635,072	68,505,513

Amounts in SAR'000

Liabilities and shareholders' equity	*Within 3 Months*	*3 to 12 Months*	*1 to 5 years*	*Over 5 Years*	*Non commission bearing*	*Total*
Due to banks and other financial institutions	881,350	1,715	-	-	591,858	1,474,923
Customers' deposits	25,136,543	5,492,231	639,157	-	22,645,741	53,913,672
Subordinated debt	-	2,900,000	-	-	-	2,900,000
Other liabilities	-	-	-	-	1,910,939	1,910,939
Shareholders' equity	-	-	-	-	8,305,979	8,305,979
Total liabilities and shareholders' equity	26,017,893	8,393,946	639,157	-	33,454,517	68,505,513
Commission rate sensitivity - financial position gap	12,843,191	9,678,331	3,778,418	1,519,505	(27,819,445)	-
Commission rate sensitivity on derivative financial instruments	685,139	248,109	(1,055,653)	122,405	-	-
Total commission rate sensitivity gap	13,528,330	9,926,440	2,722,765	1,641,910	(27,819,445)	-
Cumulative commission rate sensitivity gap	13,528,330	23,454,770	26,177,535	27,819,445	-	-

2011	*Within 3 Months*	*3 to 12 Months*	*1 to 5 years*	*Over 5 Years*	*Non commission bearing*	*Total*
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	19,474,557	9,027,419	8,332,181	575,441	-	37,409,598
Investment in an associate	-	-	-	-	17,750	17,750
Property and equipment, net	-	-	-	-	489,499	489,499
Other assets	-	-	-	-	1,196,460	1,196,460
Total	26,145,177	13,784,826	10,750,474	1,238,617	5,278,392	57,197,486

Liabilities and shareholders' equity	*Within 3 Months*	*3 to 12 Months*	*1 to 5 years*	*Over 5 Years*	*Non commission bearing*	*Total*
Due to banks and other financial institutions	882,316	24,214	188	-	704,373	1,611,091
Customers' deposits	19,226,926	5,434,108	627,157	-	19,400,545	44,688,736
Subordinated debt	-	1,500,000	-	-	-	1,500,000
Other liabilities	-	-	-	-	1,989,337	1,989,337
Shareholders' equity	-	-	-	-	7,408,322	7,408,322
Total liabilities and shareholders' equity	20,109,242	6,958,322	627,345	-	29,502,577	57,197,486
Commission rate sensitivity - financial position gap	6,035,935	6,826,504	10,123,129	1,238,617	(24,224,185)	-
Commission rate sensitivity on derivative financial instruments	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	-	-

Commission rate sensitivity gap represents the net notional amounts of derivative 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.

ii) CURRENCY RISK

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Board 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 consolidated statement of income (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 statement of income or equity, whereas a negative effect shows a potential net reduction in consolidated statement of income or equity.

2012

Currency exposure	**Change in Currency Rate (%)**	**Effect on Net Income**
USD	**5** **(5)**	**(22,021)** **22,021**
EUR	**5** **(5)**	**101** **(101)**
GBP	**5** **(5)**	**1** **(1)**
JPY	**5** **(5)**	**12** **(12)**
Others	**5** **(5)**	**479** **(479)**

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)

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	
	2012	2011
US Dollar	**(440,423)**	(21,325)
Euro	**2,028**	(167)
Pound Sterling	**27**	(313)
Japanese Yen	**235**	160
Others	**9,571**	11,809

Amounts in SAR'000

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.

32 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% (2011: 7%) of total demand deposits and 4% (2011: 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:

2012	No fixed maturity	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total
Assets						
Cash and balances with SAMA	2,607,128	6,955,327	-	-	-	9,562,455
Due from banks and other financial institutions	840,717	-	-	-	-	840,717
Investments, net	33,291	464,283	7,860,497	2,260,884	746,621	11,365,576
Loans and advances, net	2,193,163	17,016,104	9,275,744	12,795,600	3,995,588	45,276,199
Investment in an associate	18,050	-	-	-	-	18,050
Property and equipment, net	488,767	-	-	-	-	488,767
Other assets	953,749	-	-	-	-	953,749
Total	7,134,865	24,435,714	17,136,241	15,056,484	4,742,209	68,505,513

	No fixed maturity	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total
Liabilities and shareholders' equity						
Due to banks and other financial institutions	591,858	881,351	1,714	-	-	1,474,923
Customers' deposits	24,112,128	23,670,157	5,492,231	639,156	-	53,913,672
Subordinated debt	-	-	775,000	725,000	1,400,000	2,900,000
Other liabilities	1,910,939	-	-	-	-	1,910,939
Shareholders' equity	8,305,979	-	-	-	-	8,305,979
Total	34,920,904	24,551,508	6,268,945	1,364,156	1,400,000	68,505,513

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For the years ended December 31, 2012 and 2011
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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	2,700,167	16,449,232	9,027,419	8,385,516	847,264	37,409,598
Investment in an associate	17,750	-	-	-	-	17,750
Property and equipment, net	489,499	-	-	-	-	489,499
Other assets	1,196,460	-	-	-	-	1,196,460
Total	7,320,263	23,760,398	13,784,826	10,803,809	1,528,190	57,197,486

Liabilities and shareholders' equity	No fixed maturity	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total
Due to banks and other financial institutions	704,374	882,316	24,213	188	-	1,611,091
Customers' deposits	20,978,607	17,648,937	5,434,107	627,085	-	44,688,736
Subordinated debt	-	-	-	1,500,000	-	1,500,000
Other liabilities	1,989,337	-	-	-	-	1,989,337
Shareholders' equity	7,408,322	-	-	-	-	7,408,322
Total	31,080,640	18,531,253	5,458,320	2,127,273	-	57,197,486

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

iii) 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.

2012	**No fixed maturity**	**Within 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Financial Liabilities						
Due to banks and other financial institutions	**591,858**	**881,459**	**1,718**	**-**	**-**	**1,475,035**
Customers' deposits	**24,112,128**	**23,708,410**	**5,523,905**	**719,810**	**-**	**54,064,253**
Subordinated debts	**-**	**3,154**	**74,572**	**535,688**	**3,235,459**	**3,848,873**
Derivatives						
Contractual amounts payable	**-**	**(68,216)**	**(204,360)**	**(507,228)**	**(68,841)**	**(848,645)**
Contractual amounts receivable	**-**	**62,517**	**200,748**	**491,196**	**74,409**	**828,870**
Total undiscounted financial liabilities	**24,703,986**	**24,587,324**	**5,596,583**	**1,239,466**	**3,241,027**	**59,368,386**
2011						
Financial Liabilities						
Due to banks and other financial institutions	704,374	883,322	24,424	190	-	1,612,310
Customers' deposits	20,978,607	17,692,850	5,482,921	748,178	-	44,902,556
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	21,682,981	18,573,156	5,530,406	1,040,145	1,742,680	48,569,368

Amounts in SAR'000

33 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.

2012

Financial assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative financial instruments	-	253,524	-	253,524
Financial investments available for sale	152,868	70,430	4,188	227,486
Total	152,868	323,954	4,188	481,010
Financial liabilities				
Derivative financial instruments	-	253,200	-	253,200
Total	-	253,200	-	253,200

2011

Financial assets	Level 1	Level 2	Level 3	Total
Derivative financial instruments	-	381,159	-	381,159
Financial assets held as FVIS	11,110	-	-	11,110
Financial investments available for sale	432,202	172,450	4,236	608,888
Total	443,312	553,609	4,236	1,001,157
Financial liabilities				
Derivative financial instruments	-	380,198	-	380,198
Total	-	380,198	-	380,198

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 statement of income, which was estimated using valuation technique, is negative SAR 6 million (2011: SAR 3 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 statement of income without reversal of deferred day one profits and losses.

Amounts in SAR'000

34 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:

	2012	2011
ABN AMRO Bank N.V.		
Due from banks and other financial institutions	**39,392**	481,966
Investments	**187,530**	180,823
Due to banks and other financial institutions	**17,545**	25,137
Commitments and contingencies	**97,114**	59,403
Associates & other major shareholders and their affiliate entities with significant influence:		
Loans and advances	**521,055**	526,939
Investments	**40,000**	-
Customers' deposits	**4,869,777**	4,652,541
Commitments and contingencies	**2,112**	1,807
Mutual funds managed by the Group:		
Investments	**29,103**	28,184
Customers' deposits	**45,500**	104,289

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:

	2012	2011
Special commission income	**16,136**	6,591
Special commission expense	**50,241**	50,735
Fees from banking services, net	**2,784**	6,081
Fees from management services	**15,854**	14,404
General and administrative expenses	**567**	620
Directors' remuneration	**3,850**	2,814
Compensation paid to key management personnel (all short-term employee benefits)	**26,857**	25,406

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

35 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:

	2012	2011
Credit Risk RWA	**58,831,550**	48,758,662
Operational Risk RWA	**3,625,338**	3,711,900
Market Risk RWA	**738,672**	602,262
Total RWA	**63,195,560**	53,072,824
Tier I Capital	**7,841,197**	7,018,443
Tier II Capital	**3,278,204**	1,791,846
Total Tier I & II Capital	**11,119,401**	8,810,289
Capital Adequacy Ratio %		
Tier I	**12.41**	13.22
Tier I + Tier II	**17.60**	16.60

Amounts in SAR'000

36 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 2.262 billion (2011: SAR 2.276 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.

37 STAFF SHARE BASED PLAN RESERVE

In January 2008, the Group launched an equity settled share-based payment plan (the "Plan") for executives and senior employees (eligible employees). The initial Plan was 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 1429H (corresponding March 4, 2008). The vesting conditions were amended in 2009 as per approval by the Board of Directors in their meeting held on 5 Shabaan 1430H (corresponding July 27, 2009) and SAMA in their letter dated 20 Dhualqada 1430H (corresponding November 9, 2009). According to the amended Plan, 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 two years from the grant date to have half of their shares vest and another year for the remainder to vest; 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.

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.

During 2008, the Fund has purchased 2.15 million Bank's shares for a total consideration of SR 114 million which are held by it in fiduciary capacity until the shares vest to the eligible employees. During the current year, the Fund purchased further one million shares worth of SAR 27 million. 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.

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 Committee.

In accordance with the terms of the Plan, shares will be granted to eligible employees annually and will vest as described above. The first tranch was granted in January 2008 and vested in January 2011. The Bank has granted the second and third tranches of the plan in March 2011 and March 2012 respectively. Both these Plans are currently under their vesting periods. The Plan details are as follows:-

	Grant in 2011	***Grant in 2012***
Plan Commencement date	March 2011	March 2012
Value of shares granted on the grant date	11,850,637	15,775,890
Fair value per share at grant date	40.51	30
Vesting period	As above	As above
Method of settlement	Bank's shares	Bank's shares
Current status	Under vesting period (a)	Under vesting period (b)

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.

a) During 2011 a grant on the terms and conditions as approved on July 27, 2009 was made to key management and senior employees that will vest in March 2013 and March 2014. A total number of 292,521 shares were granted with a fair value at the grant date of SAR 11.851 million.

b) During March 2012 a grant on similar terms and conditions as approved on July 27, 2009 was made to key management and senior employees that will vest in March 2014 and March 2015. A total number of 525,863 shares were granted with a fair value at the grant date of SAR 15.78 million.

Amounts in SAR'000

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

	Number of shares	
	2012	2011
Beginning of the year	**272,231**	551,478
Granted during the year	**743,383**	292,521
Shares vested during the year	**-**	(551,478)
Forfeited during the year	**(136,885)**	(20,290)
Shares expected to vest at the reporting date	**878,729**	272,231

38 PROSPECTIVE CHANGES IN THE INTERNATIONAL FINANCIAL REPORTING FRAMEWORK

The Group has chosen not to early adopt the following new standards which have been issued but not yet effective for the Bank's accounting years beginning after January 1, 2013 and is currently assessing their impact.

i) - IFRS 9 Financial Instruments

IFRS 9, as issued, reflects the first phase of the IASB's work though the adoption date is subject to the recently issued Exposure Draft on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The bank is currently assessing the impact of adopting IFRS 9. However, as the impact of adoption depends on the assets held by the bank at the date of adoption, it is not practical to quantify the effect. On 16 December 2011, the IASB issued Mandatory Effective Date and Transition Disclosures (Amendments to IFRS 9 and IFRS 7), which amended the effective date of IFRS 9 to annual periods beginning on or after 1 January 2015, and modified the relief from restating comparative periods and the associated disclosures in IFRS 7.

ii) - IFRS 10 – Consolidated Financial Statements

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

iii) - IFRS 11 – Joint Arrangements

The amendment becomes effective for annual periods beginning on or after 1 January 2013. It replaces IAS 31 Interests in Joint Ventures and SIC 13 Jointly Controlled Entities – Non-monetary Contributions by Venturers. The bank is currently assessing the impact of adopting IFRS 11.

iv) - IFRS 12 – Disclosure of Involvement with Other Entities

The amendment becomes effective for annual periods beginning on or after 1 January 2013. It includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 Interests in Joint Ventures and IAS 28 Investment in Associates.

v) - IFRS 13 – Fair Value measurement

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

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

a) - IAS 1 - Financial Statement Presentation – Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has there no impact on the bank's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

b) - Amendments to IFRS 7 Financial Instruments: Disclosure:

Amends the disclosure requirements in IFRS 7 to require information about all recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32 and also require disclosure of information about recognised financial instruments subject to enforceable master netting arrangements and agreements even if they are not set off under IAS 32 and is applicable from 1 January 2013.

c) Amendments to IAS 32 Financial instruments presentation:

Amends IAS 32 to clarify certain aspects relating to requirements on offsetting and is applicable from 1 January 2014.

c) - IAS 19 Employee Benefits – Amendments

The amendments to IAS 19 remove the option to defer the recognition of actuarial gains and losses, i.e., the corridor mechanism. All changes in the value of defined benefit plans will be recognised in profit or loss and other comprehensive income. The effective date of the standard is 1 January 2013.

c) - IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains in IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

d) - IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12. IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

39 COMPARATIVE FIGURES

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

40 BOARD OF DIRECTORS' APPROVAL

The consolidated financial statements were approved by the Board of Directors on Safar 26, 1434H (corresponding to January 8, 2013).

41 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.