



THE SAUDI INVESTMENT BANK
(A Saudi joint stock company)

CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS' REPORT

December 31, 2011 and 2010

THE SAUDI INVESTMENT BANK
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As of December 31, 2011 and 2010

	Notes	2011 SAR'000	2010 SAR'000
ASSETS			
Cash and balances with SAMA	4	1,934,171	1,442,081
Due from banks and other financial institutions	5	10,955,817	8,043,122
Investments, net	6	8,893,062	8,060,011
Loans and advances, net	7	27,114,093	31,001,899
Investments in associates	8	894,672	864,749
Property and equipment, net	9	907,317	747,852
Other assets	10	1,246,450	1,331,519
Total assets		51,945,582	51,491,233
LIABILITIES AND EQUITY			
Liabilities			
Due to banks and other financial institutions	12	4,224,172	4,896,013
Customer deposits	13	36,770,492	37,215,142
Other liabilities	14	893,622	738,704
Term loans	15	1,500,000	500,000
Total liabilities		43,388,286	43,349,859
Equity			
Equity attributable to equity holders of the Bank			
Share capital	16	5,500,000	4,500,000
Statutory reserve	17	2,703,000	2,526,000
Other reserves		(272,767)	(19,420)
Retained earnings		330,542	1,124,436
Proposed dividends	25	324,500	-
Employee stock option shares	36	(27,979)	(27,751)
Total equity attributable to equity holders of the Bank		8,557,296	8,103,265
Non controlling interests	1	-	38,109
Total equity		8,557,296	8,141,374
Total liabilities and equity		51,945,582	51,491,233

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

THE SAUDI INVESTMENT BANK
CONSOLIDATED INCOME STATEMENT

For the years ended December 31, 2011 and 2010

	Notes	2011 SAR'000	2010 SAR'000
Special commission income	19	1,549,073	1,674,386
Special commission expense	19	322,617	359,422
Net special commission income		1,226,456	1,314,964
Fee income from banking services, net	20	310,823	241,722
Exchange income, net		31,147	27,741
Dividend income	21	15,295	41,053
Gains on non-trading investments, net	22	12,243	123,336
Gain on sale of property and other income		19,916	442
Total operating income		1,615,880	1,749,258
Salaries and employee-related expenses	23	372,151	333,691
Rent and premises-related expenses		73,051	62,972
Depreciation and amortization	9	64,860	57,397
Other general and administrative expenses		114,114	105,217
Impairment charge for credit losses, net	7(b)	288,000	738,000
Impairment charge for non-trading investments	6(f)	85,000	107,000
Total operating expenses		997,176	1,404,277
Income from operating activities		618,704	344,981
Share in earnings of associates	8	93,073	94,876
Net income for the year		711,777	439,857
Income attributable to non controlling interests	1	4,171	10,522
Net income for the year attributable to equity holders of the Bank		707,606	429,335
Basic and diluted earnings per share, attributable to equity holders of the Bank (expressed in SAR per share)	24	1.29	0.78

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

THE SAUDI INVESTMENT BANK

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the years ended December 31, 2011 and 2010

	<u>Note</u>	<u>2011</u> <u>SAR'000</u>	<u>2010</u> <u>SAR'000</u>
Net income for the year		<u>711,777</u>	<u>439,857</u>
Other comprehensive (loss) / income:			
Available for sale investments:			
- Net change in fair value		(239,198)	385,179
- Fair value gains transferred to consolidated income statement on disposal		(12,243)	(123,336)
Share of other comprehensive (loss) / income of associates		<u>(1,906)</u>	<u>3,483</u>
Total other comprehensive (loss) / income for the year		<u>(253,347)</u>	<u>265,326</u>
Total comprehensive income for the year		<u>458,430</u>	<u>705,183</u>
Attributable to:			
Equity holders of the Bank		454,259	694,463
Non controlling interests	1	<u>4,171</u>	<u>10,720</u>
Total comprehensive income for the year		<u>458,430</u>	<u>705,183</u>

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

THE SAUDI INVESTMENT BANK

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the years ended December 31, 2011 and 2010

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

2010 (SAR'000)									
Equity attributable to equity holders of the Bank									
Notes	Share capital	Statutory reserve	Other reserves	Retained earnings	Proposed dividends	Employee stock option shares	Total	Non controlling interests	Total equity
Balance at the beginning of the year	4,500,000	2,418,000	(284,548)	803,101	-	(44,490)	7,392,063	36,067	7,428,130
Total comprehensive income for the year	-	-	265,128	429,335	-	-	694,463	10,720	705,183
Employees' stock option shares vesting		-	-	-	-	16,739	16,739	-	16,739
Payment to non controlling interests		-	-	-	-	-	-	(8,678)	(8,678)
Transfer to statutory reserve	17	-	108,000	(108,000)	-	-	-	-	-
Balance at end of the year		<u>4,500,000</u>	<u>2,526,000</u>	<u>(19,420)</u>	<u>1,124,436</u>	<u>(27,751)</u>	<u>8,103,265</u>	<u>38,109</u>	<u>8,141,374</u>

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

THE SAUDI INVESTMENT BANK

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended December 31, 2011 and 2010

	Notes	2011 SAR'000	2010 SAR'000
OPERATING ACTIVITIES			
Net income for the year		711,777	439,857
Adjustments to reconcile net income to net cash used in operating activities:			
Accretion of (discounts) / premium on non-trading investments, net		(8,922)	9,593
Gain on non-trading investments, net	22	(12,243)	(123,336)
Gain on sale of property		(18,248)	(442)
Depreciation and amortization	9	64,860	57,397
Impairment charge for credit losses	7(b)	288,000	738,000
Impairment charge for non-trading investments	6(f)	85,000	107,000
Share in earnings from associates	8	(93,073)	(94,876)
		1,017,151	1,133,193
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA		(420,728)	145,800
Due from banks and other financial institutions maturing after ninety days from acquisition date		(525,362)	-
Loans and advances		3,518,956	(1,955,095)
Other assets		(939)	(23,003)
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		(671,841)	1,684,063
Customer deposits		(444,650)	(1,032,287)
Other liabilities		154,690	(5,059)
Net cash from / (used in) operating activities		2,627,277	(52,388)
INVESTING ACTIVITIES			
Proceeds from sale of and matured non-trading investments		3,518,360	4,963,083
Purchase of non-trading investments		(4,666,692)	(2,017,649)
Dividends from associates	8	61,244	50,919
Purchase of property and equipment	9	(61,808)	(98,777)
Proceeds from sale of property		22,594	615
Net cash (used in) / from investing activities		(1,126,302)	2,898,191
FINANCING ACTIVITIES			
Term loan proceeds		1,000,000	-
Payment to non controlling interests	1	(42,280)	(8,678)
Net cash from / (used in) financing activities		957,720	(8,678)
Increase in cash and cash equivalents		2,458,695	2,837,125

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

THE SAUDI INVESTMENT BANK
CONSOLIDATED STATEMENT OF CASH FLOWS
For the years ended December 31, 2011 and 2010

	<u>Notes</u>	<u>2011 SAR'000</u>	<u>2010 SAR'000</u>
<u>Cash and cash equivalents</u>			
Increase in cash and cash equivalents		2,458,695	2,837,125
Cash and cash equivalents at the beginning of the year		8,444,516	5,607,391
Cash and cash equivalents at the end of the year	26	10,903,211	8,444,516
<u>Supplemental Special Commission Information</u>			
Special commission received during the year		1,626,667	1,675,985
Special commission paid during the year		302,224	396,779
<u>Supplemental non-cash information</u>			
Property and equipment transfer		162,517	147,940
Other assets acquired in settlement of loans	7(d)	80,850	-
Total other comprehensive (loss) income for the year		(253,347)	265,326
Employee stock option shares, net of allocation and vesting		(228)	16,739
Bonus shares issued	24	1,000,000	-
Proposed dividends	25	324,500	-

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

THE SAUDI INVESTMENT BANK

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2011 and 2010

1. General

The Saudi Investment Bank (the Bank), a Saudi Joint Stock Company, was formed pursuant to Royal Decree No. M/31 dated 25 Jumada II 1396H, corresponding to June 23, 1976 in the Kingdom of Saudi Arabia. The Bank operates under Commercial Registration No. 1010011570 dated 25 Rabie Awwal 1397H, corresponding to March 16, 1977 through its 48 branches (2010: 45 branches) in the Kingdom of Saudi Arabia. The address of the Bank's Head Office is as follows:

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

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

The consolidated financial statements include the financial statements of the Bank and the following subsidiaries:

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

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

2. Basis of preparation

a) Statement of compliance

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

b) Basis of measurement

The consolidated financial statements are prepared under the historical cost basis except for the following items in the consolidated statement of financial position.

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

THE SAUDI INVESTMENT BANK

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2011 and 2010

2. Basis of preparation – continued

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

During the years ended December 31, 2011 and 2010, the Group had no assets or liabilities which were held as trading, and had no financial instruments that were designated as fair value through the consolidated income statement.

c) Functional and preparation currency

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

d) Critical accounting judgements, estimates and assumptions

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

(i) Impairment for credit losses on loans and advances

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

(ii) Fair value of unquoted financial instruments

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. Models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable market data. However, areas such as credit risk (both own and counter party), and volatilities and correlations require management to make estimates. The judgements include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates, and default rate assumptions for asset backed securities. Changes in assumptions about these factors could affect reported fair values of financial instruments.

THE SAUDI INVESTMENT BANK

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2011 and 2010

2. Basis of preparation – continued

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

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

(iv) Classification of held to maturity investments

In accordance with the guidance of IAS 39, the Bank classifies non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity.

e) Going concern

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

3. Summary of significant accounting policies

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

a) Change in accounting policies

The accounting policies adopted are consistent with those of the annual financial statements for the year ended December 31, 2010, as described in the annual financial statements for the year ended December 31, 2010, except for the adoption of the following amendments and revisions to existing standards mentioned below, which have had no material financial impact on the consolidated financial statements of the Group:

- a. IAS 24 Related Party Disclosures (revised 2009)
The revised IAS 24 Related Party Disclosures amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities.
- b. Amendments to IFRIC 14, IAS 19 – The Limit on Defined Benefit Assets, Minimum Funding Requirements and their Interaction.
These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognized as an asset rather than as an expense.
- c. Amendments to IFRS 7 – Financial Instruments: Disclosures - Transfers of Financial Assets.
These amendments introduce new disclosure requirements about transfers of financial assets, including disclosures for:
 - Financial assets that are not derecognized in their entirety; and
 - Financial assets that are derecognized in their entirety but for which the entity retains continuing involvement.

THE SAUDI INVESTMENT BANK

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2011 and 2010

3. Summary of significant accounting policies – continued

- d. Improvements to IFRSs 2010 – IFRS 7 Financial Instruments; Disclosures
These amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments. In addition, the IASB amended and removed existing disclosure requirements.
- e. Improvements to IFRSs 2010 – IAS 1 Presentation of Financial Statements
IAS 1 was amended to clarify that disaggregation of changes in each component of equity arising from transactions recognized in other comprehensive income also is required to be presented, but is permitted to be presented either in the statement of changes in equity or in the notes.

Other amendments resulting from improvements to IFRSs to the following standards were also adopted in 2011.

- IFRS 3 - Business Combinations;
- IFRS 7 - Financial Instruments: Disclosures;
- IAS 1 - Presentation of Financial Statements;
- IAS 27 - Separate Financial Statements; and
- IAS 32 - Financial Statements: Presentation.

There was no material impact on the accounting policies, financial position, and performance of the Group as a result of these amendments and improvements.

b) Basis of consolidation

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

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

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

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

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

THE SAUDI INVESTMENT BANK

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2011 and 2010

3. Summary of significant accounting policies – continued

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

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

c) Investments in associates

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

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

d) Settlement date accounting

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

e) Derivative financial instruments and hedge accounting

Derivative financial instruments, including foreign exchange contracts, commission rate futures, forward rate agreements, currency and commission rate swaps, currency and commission rate options (both written and purchased) are measured at fair value. All derivatives are carried at their fair value as assets where the fair value is positive and as liabilities where the fair value is negative. Fair values are obtained by reference to quoted market prices, discounted cash flow models, and pricing models as appropriate.

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

(i) Derivatives held for trading

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

(ii) Embedded derivatives

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

3. Summary of significant accounting policies – continued

(iii) Hedge accounting

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

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

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

iii (a) Fair Value Hedges

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

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

iii (b) Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of a variability of cash flows attributable to a particular risk associated with a recognised asset or a liability or a highly probable forecasted transaction that could affect the consolidated income statement, the portion of the gain or loss on the hedging instrument that is determined to be an effective portion is recognised directly in other comprehensive income and the ineffective portion, if any, is recognised in the consolidated income statement. For cash flow hedges affecting future transactions, the gains or losses recognised in other reserves, are transferred to the consolidated income statement in the same period in which the hedged transaction affects the consolidated income statement.

Where the hedged transaction results in the recognition of a non- financial asset or a non-financial liability, then at the time such asset or liability is recognised, the associated gains or losses that had previously been recognised directly in other comprehensive income are included in the initial measurement of the acquisition cost or other carrying amount of such asset or liability.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2011 and 2010

3. Summary of significant accounting policies – continued

When the hedging instrument is expired or sold, terminated or exercised, or no longer qualifies for hedge accounting, or the transaction is no longer expected to occur or the Bank revokes the designation, any cumulative gain or loss on the cash flow hedging instrument that was recognised in other comprehensive income is retained until the forecasted transaction occurs. Where the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in other comprehensive income is transferred to the consolidated statement of income.

f) Foreign currencies

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

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

g) Offsetting financial instruments

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

h) Revenue /expense recognition

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

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

If the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, special commission income continues to be recognised using the original effective yield rate applied to the new carrying amount.

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3. Summary of significant accounting policies – continued

The calculation of the effective yield takes into account all contractual terms of the financial instruments (prepayment, options etc.) and includes all fees and points paid or transaction costs, and discounts or premiums that are an integral part of the effective special commission rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

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

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

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

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

i) Repurchase agreements and reverse repurchase agreements

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

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

j) Investments

All investment securities are initially recorded at fair value, including any incremental direct transaction cost. Premiums are amortized and discounts are accreted using the effective yield basis and are taken to special commission income.

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

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

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3. Summary of significant accounting policies – continued

Following initial recognition, subsequent transfers between the various classes of investments are permissible only if certain conditions are met. The subsequent period-end reporting values for each class of investment are determined on the basis as set out in the following paragraphs.

(i) Available for sale

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

Investments which are classified as “available-for-sale” are subsequently measured at fair value. For an available-for-sale investment where the fair value has not been hedged, any gain or loss arising from a change in its fair value is recognised in other comprehensive income. On de-recognition, any cumulative gain or loss previously recognized in other comprehensive income is included in the consolidated income statement.

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

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

(ii) Held to maturity

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

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

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

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

k) Loans and advances

Loans and advances are non-derivative financial assets originated or acquired by the Bank with fixed or determinable payments. Loans and advances are recognized when cash is advanced to borrowers. They are derecognized when either borrowers repay their obligations, or the loans are sold or written off, or substantially all the risks and rewards of ownership are transferred.

3. Summary of significant accounting policies – continued

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

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

l) Impairment of financial assets

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

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

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

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

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

(i) Impairment of financial assets held at amortized cost

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

A specific provision for credit losses due to impairment of a loan or any other financial asset held at amortized cost is established if there is objective evidence that the Bank will not be able to collect all amounts due. The amount of the specific provision is the difference between the carrying amount and the estimated recoverable amount. The estimated recoverable amount is the present value of expected cash flows, including amounts estimated to be recoverable from guarantees and collateral, discounted based on the original effective yield rate.

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

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3. Summary of significant accounting policies – continued

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

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

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

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

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

m) Impairment of non-financial assets

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

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

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

n) Other real estate

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

THE SAUDI INVESTMENT BANK

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For the years ended December 31, 2011 and 2010

3. Summary of significant accounting policies – continued

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

o) Property and equipment

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

Buildings	20 years
Leasehold improvements	Over the lease period or 5 years, whichever is shorter
Furniture, equipment and vehicles	4 to 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the consolidated income statement.

p) Financial liabilities

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

Subsequently all commission-bearing financial liabilities other than those where fair values have been hedged are measured at amortised cost. Amortized cost is calculated by taking into account any discount or premium. Premiums are amortized and discounts accreted on an effective yield basis to maturity and taken to special commission expense.

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

q) Financial guarantees

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

r) Provisions

Provisions are recognized when a reliable estimate can be made by the Bank for a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation.

s) Accounting for leases

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

THE SAUDI INVESTMENT BANK

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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3. Summary of significant accounting policies – continued

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

t) Cash and cash equivalents

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

u) Derecognition of financial instruments

A financial asset (or a part of a financial asset, or a part of a group of similar financial assets) is derecognized, when the contractual rights to receive the cash flows from the financial asset expires.

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

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

v) Zakat and income taxes

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

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

w) Employees' incentive plans

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

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

x) Asset management services

The Bank offers asset management services to its customers, through a subsidiary, which include management of certain investment funds in consultation with professional investment advisors. The Bank's share of these funds is included in available-for-sale investments and fees earned are disclosed in note 20.

THE SAUDI INVESTMENT BANK

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For the years ended December 31, 2011 and 2010

3. Summary of significant accounting policies – continued

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-interest based banking products

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

High level definitions of non-interest based products include:

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

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

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

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

4. Cash and balances with SAMA

Cash and balances with SAMA are summarized as follows:

	2011 SAR'000	2010 SAR'000
Cash in hand	472,756	401,394
Statutory deposit	1,461,415	1,040,687
Total	1,934,171	1,442,081

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

5. Due from banks and other financial institutions

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

	2011 SAR'000	2010 SAR'000
Current accounts	89,114	80,827
Money market placements	3,947,703	4,356,295
Reverse repurchase agreements	6,919,000	3,606,000
Total	10,955,817	8,043,122

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For the years ended December 31, 2011 and 2010

6. Investments, net

a) Investment securities are classified as follows:

i) Available for sale

	2011 (SAR'000)			2010 (SAR'000)		
	Domestic	International	Total	Domestic	International	Total
Fixed rate securities	1,258,373	2,002,744	3,261,117	793,388	823,037	1,616,425
Floating rate securities	1,474,173	2,628,364	4,102,537	2,204,551	2,312,124	4,516,675
Equities	462,324	8,628	470,952	606,881	8,628	615,509
Mutual funds	163,832	22,211	186,043	198,181	22,379	220,560
Allowance for impairment	-	(109,000)	(109,000)	-	(77,000)	(77,000)
Available for sale, net	<u>3,358,702</u>	<u>4,552,947</u>	<u>7,911,649</u>	<u>3,803,001</u>	<u>3,089,168</u>	<u>6,892,169</u>

ii) Held to maturity

	2011 (SAR'000)			2010 (SAR'000)		
	Domestic	International	Total	Domestic	International	Total
Fixed rate securities	50,000	409,413	459,413	50,000	550,842	600,842
Floating rate securities	650,000	-	650,000	650,000	-	650,000
Allowance for impairment	-	(128,000)	(128,000)	-	(83,000)	(83,000)
Held to maturity, net	<u>700,000</u>	<u>281,413</u>	<u>981,413</u>	<u>700,000</u>	<u>467,842</u>	<u>1,167,842</u>

iii) Investments, net

	2011 (SAR'000)			2010 (SAR'000)		
	Domestic	International	Total	Domestic	International	Total
Fixed rate securities	1,308,373	2,412,157	3,720,530	843,388	1,373,879	2,217,267
Floating rate securities	2,124,173	2,628,364	4,752,537	2,854,551	2,312,124	5,166,675
Equities	462,324	8,628	470,952	606,881	8,628	615,509
Mutual funds	163,832	22,211	186,043	198,181	22,379	220,560
Allowance for impairment	-	(237,000)	(237,000)	-	(160,000)	(160,000)
Investments, net	<u>4,058,702</u>	<u>4,834,360</u>	<u>8,893,062</u>	<u>4,503,001</u>	<u>3,557,010</u>	<u>8,060,011</u>

The available for sale domestic fixed rate securities and available for sale floating rate securities include receivable securitization agreements amounting to SAR 16 million (2010: SAR 35 million) entered into by the Bank. Upon initial recognition, these items were designated as available for sale. Their fair values are determined by using an appropriate pricing model.

Investments include SAR 3,590 million (2010: SAR 3,531 million), which have been pledged under repurchase agreements with other banks. The market value of such investments is SAR 3,522 million (2010: SAR 3,460 million).

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For the years ended December 31, 2011 and 2010

6. Investments, net – continued

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

i) Available for sale

	2011 (SAR'000)			2010 (SAR'000)		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Fixed rate securities	2,102,734	1,158,383	3,261,117	1,354,754	261,671	1,616,425
Floating rate securities	3,421,866	680,671	4,102,537	2,920,883	1,595,792	4,516,675
Equities	459,824	11,128	470,952	604,381	11,128	615,509
Mutual funds	186,043	-	186,043	220,560	-	220,560
Allowance for impairment	(109,000)	-	(109,000)	(77,000)	-	(77,000)
Available for sale, net	<u>6,061,467</u>	<u>1,850,182</u>	<u>7,911,649</u>	<u>5,023,578</u>	<u>1,868,591</u>	<u>6,892,169</u>

ii) Held to maturity

	2011 (SAR'000)			2010 (SAR'000)		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Fixed rate securities	253,231	206,182	459,413	427,599	173,243	600,842
Floating rate securities	650,000	-	650,000	650,000	-	650,000
Allowance for impairment	-	(128,000)	(128,000)	-	(83,000)	(83,000)
Held to maturity, net	<u>903,231</u>	<u>78,182</u>	<u>981,413</u>	<u>1,077,599</u>	<u>90,243</u>	<u>1,167,842</u>

iii) Investments, net

	2011 (SAR'000)			2010 (SAR'000)		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Fixed rate securities	2,355,965	1,364,565	3,720,530	1,782,353	434,914	2,217,267
Floating rate securities	4,071,866	680,671	4,752,537	3,570,883	1,595,792	5,166,675
Equities	459,824	11,128	470,952	604,381	11,128	615,509
Mutual funds	186,043	-	186,043	220,560	-	220,560
Allowance for impairment	(109,000)	(128,000)	(237,000)	(77,000)	(83,000)	(160,000)
Investments, net	<u>6,964,698</u>	<u>1,928,364</u>	<u>8,893,062</u>	<u>6,101,177</u>	<u>1,958,834</u>	<u>8,060,011</u>

The unquoted securities above are principally comprised of receivable securitization agreements and Saudi Government Development Bonds (SGDBs). Equities reported under available-for-sale investments include unquoted shares of SAR 11.1 million (2010: SAR 11.1 million) that are carried at cost, as their fair value cannot be reliably measured. The fair value of these unquoted investments is estimated at between SAR 8.0 million and SAR 10.0 million (2010: SAR 8.0 million and SAR 10 million).

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6. Investments, net – continued

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

	2011 (SAR'000)				2010 (SAR'000)			
	Carrying Value	Gross Unrealized gains	Gross Unrealized losses	Fair Value	Carrying Value	Gross Unrealized gains	Gross Unrealized losses	Fair Value
Fixed rate securities	331,413	21,790	122,010	231,193	517,842	29,340	123,015	424,167
Floating rate securities	650,000	14,625	-	664,625	650,000	11,375	-	661,375
Total	<u>981,413</u>	<u>36,415</u>	<u>122,010</u>	<u>895,818</u>	<u>1,167,842</u>	<u>40,715</u>	<u>123,015</u>	<u>1,085,542</u>

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

	2011 SAR'000	2010 SAR'000
Government and quasi-Government	1,998,377	1,908,174
Corporate	2,942,222	3,254,614
Banks and other financial institutions	3,952,463	2,897,223
Total	<u>8,893,062</u>	<u>8,060,011</u>

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

	2011 SAR'000	2010 SAR'000
Investment grade	7,485,491	5,926,099
Non investment grade	144,077	758,219
Unrated	1,263,494	1,375,693
Total	<u>8,893,062</u>	<u>8,060,011</u>

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

	2011 SAR'000	2010 SAR'000
Balance at the beginning of the year	160,000	123,000
Provided during the year	85,000	107,000
Amounts written - off during the year	(8,000)	(70,000)
Balance at the end of the year	<u>237,000</u>	<u>160,000</u>

THE SAUDI INVESTMENT BANK

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For the years ended December 31, 2011 and 2010

7. Loans and advances, net

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

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

	2010 (SAR'000)				
	Overdraft	Consumer	Commercial	Others	Total
Performing loans and advances	2,527,334	4,435,676	24,208,205	17,068	31,188,283
Non performing loans and advances	1,763,386	27,714	-	-	1,791,100
Total loans and advances	4,290,720	4,463,390	24,208,205	17,068	32,979,383
Allowance for credit losses	(1,538,174)	(43,065)	(396,245)	-	(1,977,484)
Loans and advances, net	2,752,546	4,420,325	23,811,960	17,068	31,001,899

Loans and advances above include non-interest based banking products in respect of Murabaha agreements, Istisna'a and Ijarah which are stated at amortized cost of SAR 11,491 million (2010: SAR 10,993 million).

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

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

	2010 (SAR'000)			
	Overdraft	Consumer	Commercial	Total
Balance at the beginning of the year	863,804	16,979	371,592	1,252,375
Provided during the year	674,370	38,977	24,653	738,000
Bad debts written off	-	(16,725)	-	(16,725)
Recoveries of amounts previously written off	-	3,834	-	3,834
Balance at the end of the year	1,538,174	43,065	396,245	1,977,484

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For the years ended December 31, 2011 and 2010

7. Loans and advances, net – continued

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

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

	2011 SAR'000	2010 SAR'000
Excellent	453,209	-
Strong	9,436,502	12,610,635
Average	5,167,973	4,605,326
Acceptable	5,478,069	7,994,359
Marginal	1,016,835	1,065,858
Watch	56,419	65,823
Unrated	5,340,444	4,379,420
Total	26,949,451	30,721,421

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

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

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

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

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

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

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

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

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

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

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7. Loans and advances, net – continued

	2010 (SAR'000)		
	Overdraft and commercial	Consumer	Total
From 1 day to 30 days	15	17,066	17,081
From 31 days to 90 days	116,245	13,086	129,331
From 91 days to 180 days	57,776	23,585	81,361
More than 180 days	236,570	2,519	239,089
Total	410,606	56,256	466,862

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

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

	2010 (SAR'000)		
	Performing	Non performing	Loans and advances, net
Government and quasi-Government	64,716	-	64,069
Banks and other financial services	2,222,126	-	2,199,905
Agriculture and fishing	146,093	-	144,632
Manufacturing	1,976,461	31,216	1,958,389
Mining and quarrying	210,727	-	208,620
Building and construction	1,688,440	250	1,671,581
Commerce	11,333,877	1,636,123	11,296,697
Electricity, water, gas and health services	286,634	-	283,768
Transportation and communication	64,451	-	63,806
Services	2,791,774	18,883	2,756,350
Consumer loans	4,435,676	27,714	4,420,325
Other	5,967,308	76,914	5,933,757
Total	31,188,283	1,791,100	31,001,899

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For the years ended December 31, 2011 and 2010

7. Loans and advances, net – continued

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

In 2011, the Bank acquired a parcel of land for approximately SAR 80.9 million in settlement of a credit exposure. The Bank did not repossess any assets held as collateral in settlement of credit exposures during 2010.

8) Investments in associates

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

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

	<u>2011</u>	<u>2010</u>
Amex Saudi Arabia Limited ("AMEX")	50%	50%
Saudi Orix Leasing Company ("ORIX")	38%	38%
Amlak International for Finance and Real Estate Development Co. ("AMLAK")	29%	29%
Mediterranean & Gulf Insurance & Reinsurance Co. – KSA ("MEDGULF")	19%	19%

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

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

	<u>2011 SAR'000</u>	<u>2010 SAR'000</u>
Balance at beginning of the year	864,749	817,309
Share of income and loss, net	93,073	94,876
Dividends	(61,244)	(50,919)
Share of other comprehensive (loss) / income of associates	<u>(1,906)</u>	<u>3,483</u>
Balance at end of the year	<u>894,672</u>	<u>864,749</u>

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For the years ended December 31, 2011 and 2010

8. Investment in associates - continued

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

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

	2010 (SAR'000)			
	MEDGULF	AMEX	ORIX	AMLAK
Total assets	250,392	96,398	378,091	254,316
Total liabilities	53,440	42,963	242,880	2,282
Total equity	196,952	53,435	135,211	252,034
Total income	36,441	98,480	50,941	11,748
Total expenses	385	66,086	28,984	7,357

9. Property and equipment, net

Property and equipment, net is summarized as follows:

	2011 and 2010 (SAR'000)				
	Land and buildings	Leasehold improvements	Furniture, equipment and vehicles	Total 2011	Total 2010
<u>Cost</u>					
Balance at beginning of the year	755,369	48,384	291,041	1,094,794	998,249
Additions	162,659	1,031	65,160	228,850	98,777
Disposals	-	-	(5,071)	(5,071)	(2,232)
Balance at end of the year	918,028	49,415	351,130	1,318,573	1,094,794
<u>Accumulated depreciation</u>					
Balance at beginning of the year	76,291	32,042	238,609	346,942	291,604
Charge for the year	31,722	4,552	28,586	64,860	57,397
Disposals	-	-	(546)	(546)	(2,059)
Balance at end of the year	108,013	36,594	266,649	411,256	346,942
<u>Net book value</u>					
As of December 31, 2011	810,015	12,821	84,481	907,317	
As of December 31, 2010	679,078	16,342	52,432		747,852

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10. Other assets

Other assets are summarized as follows:

	2011 SAR'000	2010 SAR'000
Accrued special commission receivable		
- Loans and advances	359,634	437,392
- Investments	39,913	50,896
- Banks and other financial institutions	3,213	3,065
Total accrued special commission receivable	402,760	491,353
Positive fair value of derivatives (note 11)	137,301	46,289
Zakat and income tax due from shareholders (note 25)	110,910	104,380
Other real estate	178,121	182,460
Customer receivables	232,696	174,725
Property and equipment pending completion	56,843	217,335
Prepaid expenses and other assets	127,819	114,977
Total	1,246,450	1,331,519

11. Derivatives

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

a) Swaps

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

b) Forwards and futures

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

c) Forward rate agreements

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

d) Options

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

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

11. Derivatives – continued

a) Held for trading purposes

Most of the Bank's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers and banks in order, inter alia, to enable them to transfer, modify or reduce current and future risks. Positioning involves managing market risk positions with the expectation of profiting from favorable movements in prices, rates or indices. Arbitrage involves identifying, with the expectation of profiting from price differentials, between markets or products.

b) Held for hedging purposes

The Bank has adopted a comprehensive system for the measurement and management of risk. The risk management process involves managing the Bank's exposure to fluctuations in currency and commission rate risks to acceptable levels as determined by the Board of Directors and within the guidelines issued by SAMA.

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

As part of its asset and liability management, the Bank uses derivatives for hedging purposes in order to adjust its own exposure to currency and commission rate risks. This is generally achieved by hedging specific transactions.

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

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

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11. Derivatives – continued

c) Derivative Financial Instruments are summarized as follows:

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

	Notional amounts by term to maturity							
	2010 (SAR'000)							
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading:								
Forward foreign exchange contracts	1,074	209	598,901	598,834	-	17	50	969,674
Commission rates swaps	16,035	45,957	1,223,524	-	972,548	250,976	-	984,768
Held as fair value hedges:								
Commission rate swaps	29,180	22,077	281,269	-	-	281,269	-	33,205
Total	46,289	68,243	2,103,694	598,834	972,548	532,262	50	1,987,647

The losses on hedging instruments for fair value hedges were SAR 38.3 million (2010: gains of SAR 7.1 million). The gains on hedged items attributable to hedged risk were SAR 30.0 million (2010: losses of SAR 2.8 million).

The net negative fair value of all derivatives is approximately SAR 22.1 million (2010: SAR negative 21.9 million).

Approximately 85% (2010: 100%) of the positive fair value of the Bank's derivatives are entered into with financial institutions, and less than 76% (2010: 94%) of the positive fair value contracts are with any single counterparty at the consolidated statement of financial position date. Derivative activities are mainly carried out under the Bank's treasury segment.

12. Due to banks and other financial institutions

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

	2011 SAR'000	2010 SAR'000
Current accounts	34,244	66,309
Repurchase agreements	3,037,420	2,900,573
Money market deposits	1,152,508	1,929,131
Total	4,224,172	4,896,013

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13. Customer deposits

Customer deposits are summarized as follows:

	2011 SAR'000	2010 SAR'000
Demand	7,394,013	4,792,027
Savings	929,547	2,215,201
Time	24,221,198	15,967,034
Other	4,225,734	14,240,880
Total	<u>36,770,492</u>	<u>37,215,142</u>

Time deposits include deposits against sale of securities of SAR 400 million (2010: SAR 895 million) with agreements to repurchase the same at fixed future dates. Other customer deposits include SAR 247 million (2010: SAR 207 million) of margins held for irrevocable commitments.

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

	2011 SAR'000	2010 SAR'000
Demand	263,871	246,980
Savings	64,498	809,335
Time	3,241,058	888,163
Other	2,125,115	2,383,011
Total	<u>5,694,542</u>	<u>4,327,489</u>

14. Other liabilities

Other liabilities are summarized as follows:

	2011 SAR'000	2010 SAR'000
Accrued special commission payable		
– Banks and other financial institutions	45,013	55,940
– Customer deposits	54,558	64,332
Total accrued special commission payable	99,571	120,272
Negative fair value of derivatives (note 11)	159,400	68,243
End of service and other employee - related benefits	299,556	261,784
Accrued expenses and other reserves	221,272	186,772
Deferred special commission and fee income	48,192	38,958
All other liabilities	65,631	62,675
Total	<u>893,622</u>	<u>738,704</u>

15. Term loans

On April 7, 2009, the Bank entered into a three-year term loan facility agreement for an amount of SAR 500 million for general corporate purposes. The facility has been fully utilized and is repayable in April 2012.

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

Both term loans bear commission at variable rates. The Bank has an option to effect early repayment of both term loans subject to the terms and conditions of the related agreements.

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16. Share capital

The authorized, issued and fully paid share capital of the Bank consists of 550 million shares of SAR 10 each.

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

	2011 %	2010 %
Saudi shareholders	90.0	90.0
Foreign shareholders:		
J.P. Morgan International Finance Limited	7.5	7.5
Mizuho Corporate Bank Limited	2.5	2.5

17. Statutory reserve

In accordance with Saudi Arabian Banking Control Law and the Articles of Association of the Bank, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid up capital of the Bank. Accordingly, SAR 177 million has been transferred from 2011 net income (2010: SAR 108 million). The statutory reserve is not available for distribution.

18. Commitments and contingencies

a) Legal proceedings

As of December 31, 2011 there were routine legal proceedings outstanding against the Bank. No provision has been made in most cases as professional legal advice indicates that it is not probable that any significant loss will arise. However, a provision has been made for certain specific cases where management foresees the possibility of an adverse outcome.

b) Capital commitments

As of December 31, 2011, the Bank had capital commitments of SAR 11.3 million (2010: SAR 31.9 million) in respect of construction for new branches and expansion of its head office.

c) Credit related commitments and contingencies

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

Guarantee and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans and advances. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement.

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

Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most acceptances to be presented before being reimbursed by the customers.

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18. Commitments and contingencies - continued

Commitments to extend credit represent the unused portion of authorizations to extend credit, principally in the form of loans and advances, guarantees and letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss, which cannot readily be quantified, is expected to be considerably less than the total unused commitment as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of these commitments could expire or terminate without being funded.

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

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

	2010 (SAR'000)				Total
	Within 3 months	3-12 months	1-5 years	Over 5 years	
Letters of credit	1,045,636	211,046	41,317	-	1,297,999
Letters of guarantee	891,524	1,559,195	1,426,435	7,895	3,885,049
Acceptances	149,091	134,619	503	-	284,213
Irrevocable commitments to extend credit	-	-	66,543	45,535	112,078
Total	<u>2,086,251</u>	<u>1,904,860</u>	<u>1,534,798</u>	<u>53,430</u>	<u>5,579,339</u>

The outstanding unused portion of commitments as of December 31, 2011 which can be revoked unilaterally at any time by the Bank, amounts to SAR 13,549 million (2010: SAR 11,428 million).

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

	2011 SAR'000	2010 SAR'000
Government and quasi-Government	3,589,240	3,366,328
Corporate	2,674,755	2,023,110
Banks and other financial institutions	107,350	63,909
Other	78,330	125,992
Total	<u>6,449,675</u>	<u>5,579,339</u>

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18. Commitments and contingencies – continued

d) Assets pledged

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

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

	2011 (SAR'000)		2010 (SAR'000)	
	Related		Related	
	Assets	Liabilities	Assets	Liabilities
Available-for-sale investments	3,383,620	2,837,039	3,530,981	2,900,573
Held to maturity	206,000	200,381	-	-
Total	3,589,620	3,037,420	3,530,981	2,900,573

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

e) Operating lease commitments

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

	2011 SAR'000	2010 SAR'000
Less than 1 year	25,293	25,496
1 to 5 years	64,943	86,200
Over 5 years	18,927	28,334
Total	109,163	140,030

19. Special commission income and expense

Special commission income and expense is summarized as follows:

	2011 SAR'000	2010 SAR'000
Special commission income:		
Investments		
- Available for sale	150,075	152,984
- Held to maturity	38,000	44,432
	188,075	197,416
Loans and advances	1,326,686	1,428,906
Due from banks and other financial institutions	34,312	48,064
Total	1,549,073	1,674,386
Special commission expense:		
Customer deposits	252,145	282,640
Due to banks and other financial institutions	53,452	67,344
Term loans	17,020	9,438
Total	322,617	359,422

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20. Fee income from banking services, net

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

	2011 <u>SAR'000</u>	2010 <u>SAR'000</u>
Fee income:		
- Share trading and fund management	78,291	83,019
- Trade finance	64,617	53,154
- Corporate and retail finance	134,975	76,474
- Other banking services	47,732	41,585
Total fee income	<u>325,615</u>	<u>254,232</u>
Fee expense:		
- Custodial services	14,336	12,025
- Other banking services	456	485
Total fee expense	<u>14,792</u>	<u>12,510</u>
Fee income from banking services, net	<u>310,823</u>	<u>241,722</u>

21. Dividend income

Dividend income is summarized as follows:

	2011 <u>SAR'000</u>	2010 <u>SAR'000</u>
Dividends received from available-for-sale investments	<u>15,295</u>	<u>41,053</u>

22. Gains on non-trading investments, net

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

	2011 <u>SAR'000</u>	2010 <u>SAR'000</u>
Realized gains on available-for-sale investments, net	<u>12,243</u>	<u>123,336</u>

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23. Compensation and related governance and practices

The information included in this note is disclosure required by SAMA in which SAMA has specified that no comparative information is required to be disclosed in these consolidated financial statements.

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

<u>Category</u>	<u>Number of Employees</u>	<u>2011 (SAR'000)</u>			
		<u>Fixed Compensation</u>	<u>Variable Compensation</u>		
			<u>Cash</u>	<u>Shares</u>	<u>Total</u>
Senior executives requiring SAMA no objection	16	29,903	9,653	1,955	11,608
Employees engaged in risk taking activities	488	89,584	23,769	1,482	25,251
Employees engaged in control functions	227	41,367	9,919	831	10,750
Other employees	267	52,831	10,186	1,226	11,412
Outsourced employees	73	7,937	2,232	67	2,299
Totals	1,071	221,622	55,759	5,561	61,320
Variable and other compensation accrued		61,687			
Other employee benefits and related expenses		88,842			
Total salaries and employee related expenses		372,151			

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

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

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

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

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23. Compensation and related governance and practices - continued

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

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

The total amount of compensation paid to key management for the year ended December 31, 2011 was SAR 41.5 million (2010: SAR 38.5 million). The post employment benefits accrued or paid to key management for the year ended December 31, 2011 was SAR 2.6 million (2010: SAR 2.1 million).

24. Basic and diluted earnings per share

Basic and diluted earnings per share for the years ended December 31, 2011 and 2010 is calculated by dividing the net income for the year attributable to the equity holders by 550.0 million shares (see Note 16).

During 2010, the Board of Directors proposed a bonus share issue of 100,000,000 shares of SAR 10 per share, or one bonus share for each four and one-half shares outstanding. The Bonus share issue was approved at the shareholders' extraordinary general assembly meeting held on Rabi'II 21, 1432H (corresponding to March 26, 2011). Accordingly, the total number of issued and outstanding shares increased to 550,000,000. As a result, basic and diluted earnings per share for the year ended December 31, 2010 has been adjusted retroactively to reflect the issuance of the bonus shares.

25. Proposed dividends, zakat and income tax

In 2011, the Board of Directors proposed a gross dividend for the year amounting to SAR 324.5 million. The dividend is equal to SAR 0.50 per share (SAR 275.0 million), plus the Zakat to be withheld from the Saudi shareholders, amounting to SAR 0.10 per share (SAR 49.5 million). The proposed dividend will be presented for approval in an extraordinary general assembly meeting expected to be convened in 2012.

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

a) Saudi shareholders:

Zakat attributable to the Saudi Shareholders for the years 2006 through 2010 amounts to approximately SAR 107.5 million. Estimated Zakat attributable to Saudi shareholders for 2011 is approximately SAR 15.3 million. The total Zakat attributable to Saudi shareholders through 2011 totaling approximately SAR 122.8 million will be deducted from their share of future dividends. The cumulative Zakat from 2006 through 2011 amounts to approximately SAR 0.25 per share.

b) Foreign shareholders:

Estimated income Tax attributable to the non-Saudi shareholders for 2011 is approximately SAR 10.5 million. Unreimbursed income tax for years prior to 2011 amounts to approximately SAR 3.4 million.

The Bank has received assessments for additional Zakat and Income Tax totaling approximately SAR 5.9 million relating to the Bank's 2003 and 2004 Zakat and Income Tax filings. The Bank has filed an appeal for these assessments.

During 2011, the Bank received an assessment for additional Zakat totaling approximately SAR 112.2 million relating to the Bank's 2010 Zakat filing. The assessment is primarily due to the disallowance of certain long-term investments from the Zakat base of the Bank. The Bank, in consultation with its Zakat advisors, has filed an appeal with the Department of Zakat and Income Tax, and is awaiting a response. The Bank, along with other Saudi Banks, has formally raised this issue with the Bank's regulator for a satisfactory resolution to this Saudi Banking Industry issue. At the current time, a reasonable estimation of the ultimate additional Zakat liability, if any, cannot be reliably determined.

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26. Cash and cash equivalents

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

	2011 SAR'000	2010 SAR'000
Cash and balances with SAMA excluding statutory deposit (note 4)	472,756	401,394
Due from banks and other financial institutions maturing within ninety days from the date of acquisition	10,430,455	8,043,122
Total	10,903,211	8,444,516

27. Business segments

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

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

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

Retail banking

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

Corporate banking

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

Treasury

Money market, investments, and other treasury services.

Asset Management and brokerage

Dealing, managing, advising and custody of securities services.

Commission is charged to operating segments based on a Funds Transfer Price rate, which approximates the marginal cost of funds. All of the segment revenue is from external customers.

- a) The segment information provided to the Bank's Board of Directors which includes the reportable segments for the Bank's total assets and liabilities of December 31, 2011 and 2010, its total operating income, total operating expenses, and net income for the years then ended, are as follows:

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For the years ended December 31, 2011 and 2010

27. Business segments – (continued)

	2011 (SAR'000)				
	Retail Banking	Corporate Banking	Treasury	Asset Manage- ment and Brokerage	Total
Total assets	<u>13,241,687</u>	<u>17,321,895</u>	<u>20,812,425</u>	<u>569,575</u>	<u>51,945,582</u>
Total liabilities	<u>14,641,590</u>	<u>21,290,879</u>	<u>7,428,919</u>	<u>26,898</u>	<u>43,388,286</u>
Net special commission income	504,860	549,345	155,615	16,636	1,226,456
Fee income from banking services, net	122,643	118,206	-	69,974	310,823
Other operating income	18,558	3,712	55,212	1,119	78,601
Total operating income	<u>646,061</u>	<u>671,263</u>	<u>210,827</u>	<u>87,729</u>	<u>1,615,880</u>
Operating expenses before impairment charges	385,086	108,645	60,572	69,873	624,176
Impairment charge for credit losses, net	38,406	249,594	-	-	288,000
Impairment charge for non trading investments	-	-	85,000	-	85,000
Total operating expenses	<u>423,492</u>	<u>358,239</u>	<u>145,572</u>	<u>69,873</u>	<u>997,176</u>
Share in earnings from associates	-	-	93,073	-	93,073
Net income for the year	<u>222,569</u>	<u>313,024</u>	<u>158,328</u>	<u>17,856</u>	<u>711,777</u>

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27. Business segments – (continued)

	2010 (SAR'000)				
	Retail Banking	Corporate Banking	Treasury	Asset Manage- ment and Brokerage	Total
Total assets	12,620,408	21,134,601	17,079,672	656,552	51,491,233
Total liabilities	10,915,248	26,660,874	5,752,351	21,386	43,349,859
Net special commission income	632,595	557,300	103,359	21,710	1,314,964
Fee income from banking services, net	65,951	98,735	-	77,036	241,722
Other operating income	442	-	192,130	-	192,572
Total operating income	698,988	656,035	295,489	98,746	1,749,258
Operating expenses before impairment charges	424,753	41,551	20,562	72,411	559,277
Impairment charge for credit losses, net	34,435	703,565	-	-	738,000
Impairment charge for non trading investments	-	-	107,000	-	107,000
Total operating expenses	459,188	745,116	127,562	72,411	1,404,277
Share in earnings from associates	-	-	94,876	-	94,876
Net income / (loss) for the year	239,800	(89,081)	262,803	26,335	439,857

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

	2011 (SAR'000)				
	Retail Banking	Corporate Banking	Treasury	Asset Management and Brokerage	Total
Statement of consolidated financial position assets	10,196,683	16,422,127	20,656,222	582,612	47,857,644
Commitments and contingencies	1,689,792	1,232,364	49,460	-	2,971,616
Derivatives	-	-	112,833	-	112,833

	2010 (SAR'000)				
	Retail Banking	Corporate Banking	Treasury	Asset Management and Brokerage	Total
Statement of consolidated financial position assets	10,771,343	19,681,396	16,887,365	629,677	47,969,781
Commitments and contingencies	1,556,293	901,564	28,480	-	2,486,337
Derivatives	-	-	11,518	-	11,518

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

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28. Credit risk

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

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

The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Bank's risk management policies are designed to identify and to set appropriate risk limits and to monitor the risks and adherence to limits. Actual exposures against limits are routinely monitored. In certain cases, the Bank may also close out transactions or assign them to other counterparties to mitigate credit risk. The Bank's credit risk for derivatives represents the potential cost to replace the derivative contracts if counterparties fail to fulfill their obligation, and to control the level of credit risk taken. The Bank assesses counterparties using the same techniques as for its lending activities.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

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

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

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

The debt securities included in the investment portfolio are mainly corporate and sovereign risk. Analysis of investments by counter-party is provided in Note 6. For details of the composition of loans and advances refer to Note 7. Information on credit risk relating to derivative instruments is provided in Note 11 and for commitments and contingencies in Note 18. The information on the Bank's credit exposure by business segment is given in Note 27. The information on credit risk exposure and their relative risk weights is also provided in Note 34.

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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29. Geographical concentration

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

	2011 (SAR'000)						
	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	South East Asia	Other Countries	Total
ASSETS							
Cash and balances with SAMA	1,913,685	178	6,327	13,981	-	-	1,934,171
Due from banks and other financial institutions	8,654,070	1,243,091	1,017,261	36,469	4,557	369	10,955,817
Investments, net	4,215,768	2,194,570	1,154,037	1,200,843	-	127,844	8,893,062
Loans and advances, net	27,114,093	-	-	-	-	-	27,114,093
Investments in associates	894,672	-	-	-	-	-	894,672
Total	42,792,288	3,437,839	2,177,625	1,251,293	4,557	128,213	49,791,815
Commitments and contingencies	5,068,122	367,667	358,015	421,178	227,957	6,736	6,449,675
Maximum credit exposure (stated at credit equivalent amounts)							
Commitments and contingencies	2,360,750	81,745	91,978	390,204	45,591	1,348	2,971,616
Derivatives	24,633	13,443	74,757	-	-	-	112,833

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For the years ended December 31, 2011 and 2010

29. Geographical concentration - continued

	2010 (SAR'000)						
	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	South East Asia	Other Countries	Total
ASSETS							
Cash and balances with SAMA	1,428,989	476	5,732	6,884	-	-	1,442,081
Due from banks and other financial institutions	7,393,471	374,549	261,256	7,002	6,816	28	8,043,122
Investments, net	4,784,650	1,487,570	579,964	982,712	-	225,115	8,060,011
Loans and advances, net	31,001,899	-	-	-	-	-	31,001,899
Investments in associates	864,749	-	-	-	-	-	864,749
Total	45,473,758	1,862,595	846,952	996,598	6,816	225,143	49,411,862
 Commitments and contingencies	 4,358,085	 217,047	 273,897	 285,526	 443,084	 1,700	 5,579,339
 Maximum credit exposure (stated at credit equivalent amounts)							
Commitments and contingencies	2,052,300	43,409	70,003	231,668	88,617	340	2,486,337
Derivatives	8,771	915	1,832	-	-	-	11,518

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

- b) The distribution by geographical concentration of non-performing loans and advances and allowance for credit losses as of December 31, 2011 and 2010 are entirely in the Kingdom of Saudi Arabia.

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30. Market risk

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

a) Market risk-trading book

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

b) Market risk – banking book

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

(i) Commission rate risk

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

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

The sensitivity of net special commission income is the effect of the assumed changes in commission rates on the net commission income for one year, based on the floating rate non-trading financial assets and financial liabilities held as of December 31, 2011 and 2010, including the effect of hedging instruments.

The sensitivity of equity is calculated by revaluing the fixed rate available for sale financial assets, including the effect of any associated hedges as of December 31, 2011 and 2010 for the effect of assumed changes in commission rates. The sensitivity of equity is analyzed by maturity of the asset or swap. All of the banking book exposures are monitored and analyzed by currency and relevant sensitivities are disclosed in SAR thousands.

		2011 SAR'000	2011 Sensitivity of Equity (SAR'000)				
Currency	Increase (decrease) in basis	Sensitivity of net special commission income	6 months or less	6 to 12 months	1 to 5 years	Over 5 years	Total
SAR	+5/-5	+7,285/-7,285	-	-	+129/-129	-	+129/-129
USD	+10/-10	+5,465/-5,465	+27/-27	+42/-42	+1,631/-1,631	+579/-579	+2,279/-2,279
EUR	+15/-15	+575/-575	-	-	+75/-75	-	+75/-75
		2010 SAR'000	2010 Sensitivity of Equity (SAR'000)				
Currency	Increase (decrease) in basis	Sensitivity of net special commission income	6 months or less	6 to 12 months	1 to 5 years	Over 5 years	Total
SAR	+5/-5	+9,879/-9,879	-	-	+156/-156	-	+156/-156
USD	+10/-10	+4,382/-4,382	-	-	+1,700/-1,700	+123/-123	+1,823/-1,823
EUR	+15/-15	+925/-925	-	-	-	-	-

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For the years ended December 31, 2011 and 2010

30. Market risk - continued

Commission rate sensitivity of assets, liabilities and off - balance sheet items:

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

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

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

The Bank is exposed to commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period. The Bank manages this risk by matching the re-pricing of assets and liabilities through commission rate risk management strategies.

	2011 (SAR'000)					Total
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	
Assets						
Cash and balances with SAMA	-	-	-	-	1,934,171	1,934,171
Due from banks and other financial institutions	10,430,455	525,362	-	-	-	10,955,817
Investments, net	5,364,586	245,988	1,989,342	579,348	713,798	8,893,062
Loans and advances, net	15,660,417	6,916,724	4,490,730	46,222	-	27,114,093
Investments in associates	-	-	-	-	894,672	894,672
Property and equipment, net	-	-	-	-	907,317	907,317
Other assets	-	-	-	-	1,246,450	1,246,450
Total	31,455,458	7,688,074	6,480,072	625,570	5,696,408	51,945,582
Liabilities and equity						
Due to banks and other financial institutions	4,189,928	34,244	-	-	-	4,224,172
Customer deposits	22,919,180	4,276,245	1,513,902	-	8,061,165	36,770,492
Other liabilities	-	-	-	-	893,622	893,622
Term loans	1,500,000	-	-	-	-	1,500,000
Equity	-	-	-	-	8,557,296	8,557,296
Total	28,609,108	4,310,489	1,513,902	-	17,512,083	51,945,582
Commission rate sensitivity-On balance sheet	2,846,350	3,377,585	4,966,170	625,570	(11,815,675)	-
Commission rate sensitivity-Off balance sheet	1,897,100	(1,677,100)	(220,000)	-	-	-
Total commission rate sensitivity gap	4,743,450	1,700,485	4,746,170	625,570	(11,815,675)	-
Cumulative commission rate sensitivity gap	4,743,450	6,443,935	11,190,105	11,815,675	-	-

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30. Market risk - continued

	2010 (SAR'000)					
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total
Assets						
Cash and balances with SAMA	-	-	-	-	1,442,081	1,442,081
Due from banks and other financial institutions	8,043,122	-	-	-	-	8,043,122
Investments, net	4,821,863	119,700	2,011,447	123,243	983,758	8,060,011
Loans and advances, net	18,698,720	7,960,704	4,307,137	35,338	-	31,001,899
Investments in associates	-	-	-	-	864,749	864,749
Property and equipment, net	-	-	-	-	747,852	747,852
Other assets	-	-	-	-	1,331,519	1,331,519
Total assets	31,563,705	8,080,404	6,318,584	158,581	5,369,959	51,491,233
Liabilities and equity						
Due to banks and other financial institutions	3,652,257	1,243,756	-	-	-	4,896,013
Customer deposits	23,551,866	7,815,282	390,000	-	5,457,994	37,215,142
Other liabilities	-	-	-	-	738,704	738,704
Term loan	500,000	-	-	-	-	500,000
Equity	-	-	-	-	8,141,374	8,141,374
Total liabilities and equity	27,704,123	9,059,038	390,000	-	14,338,072	51,491,233
Commission rate sensitivity-On balance sheet	3,859,582	(978,634)	5,928,584	158,581	(8,968,113)	-
Commission rate sensitivity-Off balance sheet	272,244	(272,244)	-	-	-	-
Total commission rate sensitivity gap	4,131,826	(1,250,878)	5,928,584	158,581	(8,968,113)	-
Cumulative commission rate sensitivity gap	4,131,826	2,880,948	8,809,532	8,968,113	-	-

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

(ii) Currency risk

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

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

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30. Market risk - continued

Currency Exposures as of December 31, 2011	Change in Currency rate in %	Effect on Net Income (SAR'000)	Effect on Equity (SAR'000)
USD	-	-	-
EUR	+0.17/-0.17	+709/-709	+86/-86
GBP	-	-	-
Currency Exposures as of December 31, 2010	Change in Currency rate in %	Effect on Net Income (SAR'000)	Effect on Equity (SAR'000)
USD	-	-	-
EUR	+2.8/-2.8	+12,276/-12,276	-
GBP	+0.84/-0.84	-	-

(iii) Currency position

The Bank manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. At the end of the year, the Bank had the following significant net exposures denominated in foreign currencies:

	2011 SAR '000 Long/(short)	2010 SAR '000 Long/(short)
US Dollar	(1,023,014)	47,575
Euro	32,002	6,100
Pound sterling	258	1,156
Japanese yen	824	147
U.A.E Dirham	952	6,033
Others	5,904	6,267

(iv) Equity price risk

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

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

	as of December 31, 2011		as of December 31, 2010	
	Change in equity price %	Effect in SAR'000	Change in equity price %	Effect in SAR'000
Market Indices				
Tadawul	+3.07/-3.07	+14,042/-14,042	+17/-17	+100,469/-100,469
NASDAQ	+1.8/-1.8	+338/-338	+10/-10	+3,043/-3,043
Unquoted	+5/-5	+556/-556	+5/-5	+556/-556

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31. Liquidity risk

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

Management monitors the maturity profile to ensure that adequate liquidity is maintained. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by The Asset Liability Management Committee. Daily reports cover the liquidity position of the Bank. A summary report, including any exceptions and remedial action taken, is submitted regularly to The Asset Liability Management Committee.

In accordance with Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% (2010: 7%) of total demand deposits and 4% (2010: 4%) of saving and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of no less than 20% of its deposit 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.

The Bank has the ability to raise additional funds through repo facilities with SAMA against Saudi Government Development Bonds up to 75% of the nominal value of bonds held.

a) Expected contractual maturity profile of assets and liabilities.

The tables below summarize the maturity profile of the Bank's assets and liabilities as of December 31, 2011 and 2010. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the consolidated statement of financial position date to the contractual maturity date, and do not take into account the effective maturities as indicated by the Bank's deposit retention history. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the bank manages the inherent liquidity risk based on expected undiscounted cash inflows for both contractual and non-contractual positions.

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

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31. Liquidity risk – continued

	2010 (SAR'000)					Total
	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	
Assets						
Cash and balances with SAMA	-	-	-	-	1,442,081	1,442,081
Due from banks and other financial institutions	7,962,295	-	-	-	80,827	8,043,122
Investments, net	69,031	1,511,961	4,750,975	743,458	984,586	8,060,011
Loans and advances, net	12,586,749	7,561,157	10,144,677	709,316	-	31,001,899
Investment in associates	-	-	-	-	864,749	864,749
Property and equipment, net	-	-	-	-	747,852	747,852
Other assets	-	-	-	-	1,331,519	1,331,519
Total assets	20,618,075	9,073,118	14,895,652	1,452,774	5,451,614	51,491,233
Liabilities and equity						
Due to banks and other financial institutions	3,585,948	1,243,756	-	-	66,309	4,896,013
Customer deposits	21,336,666	8,022,435	390,000	-	7,466,041	37,215,142
Other liabilities	-	-	-	-	738,704	738,704
Term loan	-	-	500,000	-	-	500,000
Equity	-	-	-	-	8,141,374	8,141,374
Total liabilities and equity	24,922,614	9,266,191	890,000	-	16,412,428	51,491,233
Derivatives, commitments and contingencies	2,685,085	2,877,408	2,067,060	53,480	-	7,683,033

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, balances with SAMA, items in the course of collection, loans and advances to banks, and loans and advances to customers. The cumulative maturities of commitments and contingencies is given in note 18c (i) of the consolidated financial statements.

b) Analysis of financial liabilities by remaining contractual maturities

The tables below summarize the maturity profile of the Bank's financial liabilities as of December 31, 2011 and 2010 based on contractual undiscounted repayment obligations. As special commission payments up to contractual maturity are included in the table, the totals do not match with the consolidated statement of financial position. The contractual maturities of liabilities have been determined based on the remaining period at the consolidated statement of financial position date to the contractual maturity date and do not take into account the effective expected maturities. The Bank expects that many customers will not request repayment on the earliest date that the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

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31. Liquidity risk – continued

The undiscounted maturity profile of financial liabilities is as follows:

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

	2010 (SAR'000)					Total
	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	
Non derivatives liabilities	24,922,614	9,266,191	890,000	-	7,532,350	42,611,155
Derivatives	598,834	972,548	532,262	50	-	2,103,694
Total	25,521,448	10,238,739	1,422,262	50	7,532,350	44,714,849

32. Fair values of financial assets and liabilities

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

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

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

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

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

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32. Fair values of financial assets and liabilities - continued

The following table shows an analysis of financial assets and liabilities recorded at fair value as at December 31, 2011 and 2010 by level of the fair value hierarchy.

	2011 (SAR '000)			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Derivative financial instruments	-	137,301	-	137,301
Financial investments available for sale	6,061,467	664,517	1,185,665	7,911,649
Total	6,061,467	801,818	1,185,665	8,048,950
Financial liabilities:				
Derivative financial instruments	-	159,400	-	159,400
Total	-	159,400	-	159,400
	2010 (SAR '000)			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Derivative financial instruments	-	46,289	-	46,289
Financial investments available for sale	5,023,578	1,660,863	207,728	6,892,169
Total	5,023,578	1,707,152	207,728	6,938,458
Financial liabilities:				
Derivative financial instruments	-	68,243	-	68,243
Total	-	68,243	-	68,243

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

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

The fair values of derivatives and other off-balance sheet financial instruments are based on quoted market prices when available or by using appropriate valuation models. The total amount of the changes in fair value recognized in the consolidated income statement, which was estimated using valuation models, is SAR 12.4 million (2010: SAR 22.5 million).

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

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33. Related party transactions

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

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

	2011	2010
	SAR'000	SAR'000
Foreign shareholders:		
Due from banks and other financial institutions	269,133	84,939
Due to banks and other financial institutions	324	15,965
Commitments and contingencies	426,151	400,824
Associates:		
Customer deposits	181,368	355,567
Commitments and contingencies	216,709	81,709
Directors, key management personnel, other major Saudi shareholders and their affiliates:		
Investments	16,151	34,878
Loans and advances, net	1,720,254	4,157,918
Due to banks and other financial institutions	500,000	1,000,000
Customer deposits	6,077,658	5,704,312
Commitments and contingencies	3,516,330	1,533,233
Bank's mutual funds and employees' post-employment benefit plan:		
Investments	76,508	117,669
Customer deposits	3,791	30,943

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

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

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

	2011	2010
	SAR'000	SAR'000
Special commission income	211,078	247,249
Special commission expense	82,331	74,162
Fees from banking services, net	33,005	45,010
Board of Directors and other Board Committee member remuneration	3,069	2,914

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

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34. Capital adequacy

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

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

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

	2011 SAR'000	2010 SAR'000
Credit Risk RWA	38,572,080	41,785,321
Operational Risk RWA	2,913,004	2,979,299
Market Risk RWA	1,021,386	123,125
Total Pillar- I RWA	42,506,470	44,887,745
Tier I Capital	8,091,138	7,706,702
Tier II Capital	34,815	52,311
Total Tier I & II Capital	8,125,953	7,759,013
Capital Adequacy Ratio %		
Tier I Ratio	19.04%	17.17%
Tier I + Tier II Ratio	19.12%	17.29%

35. Asset management and brokerage services

The Bank offers investment services to its customers, through a subsidiary, which include management of investment funds in consultation with professional investment advisors, with assets under management totalling approximately SAR 4,171 million (2010: SAR 4,473 million). This includes funds managed under Shariah approved portfolios amounting to approximately SAR 1,189 million (2010: SAR 1,176 million).

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36. Employee Share Options

The Bank has a share-based payment plan outstanding at the end of the year. Significant features of the Plan are as follows:

Grant dates: January 1, 2008, 2009, 2010, and 2011
Maturity dates: Between 2010 and 2015
Vesting period: 4 years per plan
Vesting conditions: participating employees to remain in service
Method of settlement: Shares
Cost to participating employees: SAR 4.09 per share

The share options outstanding as of December 31, 2011 and 2010 have a weighted average contractual life of between one and four years.

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

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

In 2010, the Bank vested 50% of the shares granted in January 2008 totalling 376,245 shares for an estimated cost of SAR 5.7 million.

37. Issued IFRS but not yet effective

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

- | | | | |
|-----------|------------|---|---|
| • IAS 1 | Amendments | - | Presentation of items of other comprehensive income |
| • IFRS 10 | | - | Consolidated financial statements |
| • IFRS 12 | | - | Disclosure of interests in other entities |
| • IFRS 13 | | - | Fair value measurement |
| • IAS 19 | Amendments | - | Employee benefits |
| • IAS 28 | Amendments | - | Investments in associates and joint ventures |

In addition to the above, the Bank has chosen not to adopt IFRS 9 – Financial instruments, which has been published and may also be early adopted, but 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.

38. Comparative figures

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

39. Board of Director's approval

The consolidated financial statements were approved by the Board of Directors on 14th Rabi Al Awal 1433H corresponding to February 6, 2012.

40. Basel II Pillar 3 disclosures (unaudited)

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