بنك الرياض
riyad bank

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2011 and 2010

	Notes	2011 SAR'000	2010 SAR'000
ASSETS			
Cash and balances with SAMA	4	**17,623,477**	23,178,560
Due from banks and other financial institutions	5	**6,085,023**	4,688,754
Investments, net	6	**36,616,170**	33,822,441
Loans and advances, net	7	**112,972,764**	106,034,740
Investment in associates	8	**339,954**	-
Other real estate		**440,896**	431,578
Property and equipment, net	9	**1,806,833**	1,862,855
Other assets	10	**5,002,273**	3,537,502
Total assets		**180,887,390**	173,556,430
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks and other financial institutions	12	**6,241,948**	10,636,551
Customer deposits	13	**139,822,500**	126,945,459
Debt securities in issue	14	**-**	1,873,723
Other liabilities	15	**4,664,587**	4,867,479
Total liabilities		**150,729,035**	144,323,212
Shareholders' equity			
Share capital	16	**15,000,000**	15,000,000
Statutory reserve	17	**12,475,088**	11,687,749
Other reserves	18	**535,749**	813,965
Retained earnings		**872,518**	610,504
Proposed dividends	24	**1,275,000**	1,121,000
Total shareholders' equity		**30,158,355**	29,233,218
Total liabilities and shareholders' equity		**180,887,390**	173,556,430

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

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

	Notes	2011 SAR'000	2010 SAR'000
Special commission income	20	**4,915,363**	4,872,527
Special commission expense	20	**718,329**	730,740
Net special commission income		**4,197,034**	4,141,787
Fee and commission income, net	21	**1,589,174**	1,418,202
Exchange income, net		**278,607**	231,445
Trading losses, net		**(4,330)**	(5,972)
Gains on Available for sale investments, net		**149,193**	129,849
Other operating income		**111,544**	65,141
Total operating income		**6,321,222**	5,980,452
Salaries and employee-related expenses	22	**1,285,910**	1,124,228
Rent and premises-related expenses		**250,829**	254,382
Depreciation of property and equipment		**286,222**	277,812
Other general and administrative expenses		**667,262**	641,020
Impairment charge for credit losses, net		**661,712**	935,074
Impairment charge for investments, net		**-**	(85,000)
Other operating expenses		**19,934**	8,309
Total operating expenses		**3,171,869**	3,155,825
Net income for the year		**3,149,353**	2,824,627
Basic and diluted earnings per share (in SAR)	23	**2.10**	1.88

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

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

	2011 SAR'000	2010 SAR'000
Net income for the year	**3,149,353**	2,824,627
Other comprehensive income:		
-Available for sale investments		
Net changes in fair value (note 18)	(50,573)	487,550
Net changes in fair value transferred to consolidated income statement (note 18)	(174,014)	(222,004)
	(224,587)	265,546
-Cash flow hedges		
Effective portion of net changes in fair value (note 18)	(53,467)	(58,821)
Net changes in fair value transferred to consolidated income statement (note 18)	(162)	1,422
	(53,629)	(57,399)
Other comprehensive income for the year	(278,216)	208,147
Total comprehensive income for the year	2,871,137	3,032,774

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2011 and 2010

SAR'000

	Notes	Share capital	Statutory reserve	Other reserves: Available for sale investments	Other reserves: Cash flow hedges	Retained earnings	Proposed dividend	Total
2011								
Balance at the beginning of the year		15,000,000	11,687,749	751,238	62,727	610,504	1,121,000	29,233,218
Total comprehensive income		-	-	(224,587)	(53,629)	3,149,353	-	2,871,137
Final dividends paid - 2010	24	-	-	-	-	-	(1,121,000)	(1,121,000)
Interim dividends paid -2011	24	-	-	-	-	(825,000)	-	(825,000)
Transfer to statutory reserve	17	-	787,339	-	-	(787,339)	-	-
2011 final proposed dividends	24	-	-	-	-	(1,275,000)	1,275,000	-
Balance at the end of the year		15,000,000	12,475,088	526,651	9,098	872,518	1,275,000	30,158,355
2010								
Balance at the beginning of the year		15,000,000	10,981,592	485,692	120,126	513,034	1,135,000	28,235,444
Total comprehensive income		-	-	265,546	(57,399)	2,824,627	-	3,032,774
Final dividends paid - 2009	24	-	-	-	-	-	(1,135,000)	(1,135,000)
Interim dividends paid -2010	24	-	-	-	-	(900,000)	-	(900,000)
Transfer to statutory reserve	17	-	706,157	-	-	(706,157)	-	-
2010 final proposed dividends	24	-	-	-	-	(1,121,000)	1,121,000	-
Balance at the end of the year		15,000,000	11,687,749	751,238	62,727	610,504	1,121,000	29,233,218

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

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		**3,149,353**	2,824,627
Adjustments to reconcile net income for the year to net cash from (used in) from operating activities:			
(Accretion of discounts) on non-trading investments, net and debt securities in issue,net		**(51,216)**	(89,542)
(Gains) on Available for sale investments, net		**(149,193)**	(129,849)
Depreciation of property and equipment		**286,222**	277,812
Impairment charge for investments, net		**-**	(85,000)
Impairment charge for credit losses, net		**661,712**	935,074
		3,896,878	3,733,122
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA	4	**(826,152)**	(44,647)
Due from banks and other financial institutions maturing after three months from date of acquisition		**(1,368,302)**	2,692,865
Loans and advances		**(7,599,736)**	(455,201)
Other real estate		**(9,318)**	(24,446)
Other assets		**(1,464,771)**	(321,988)
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		**(4,394,603)**	(5,526,461)
Customer deposits		**12,877,041**	1,667,353
Other liabilities		**(222,762)**	42,436
Net cash from operating activities		**888,275**	1,763,033
INVESTING ACTIVITIES			
Proceeds from sales and maturities of non-trading investments		**36,506,721**	27,050,935
Purchase of non-trading investments		**(39,716,884)**	(28,052,441)
Purchase of property and equipment, net		**(230,200)**	(310,510)
Net cash (used in) investing activities		**(3,440,363)**	(1,312,016)
FINANCING ACTIVITIES			
Repayment of debt securities in issue	14	**(1,875,050)**	-
Dividend and zakat paid		**(1,926,130)**	(2,059,250)
Net cash (used in) financing activities		**(3,801,180)**	(2,059,250)
Net (decrease)/ increase in cash and cash equivalents		**(6,353,268)**	(1,608,233)
Cash and cash equivalents at beginning of the year		**20,837,007**	22,445,240
Cash and cash equivalents at end of the year	25	**14,483,739**	20,837,007
Special commission received during the year		**4,903,050**	4,957,968
Special commission paid during the year		**733,174**	804,138
Supplemental non-cash information			
Net changes in fair value and transfer to consolidated income statement		**(278,216)**	208,147

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

1. GENERAL

Riyad Bank (The "Bank") is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia, formed pursuant to the Royal Decree and the Council of Ministers' Resolution No. 91 dated 1 Jumad Al-Awal 1377H (corresponding to November 23, 1957G). The Bank operates under commercial registration No. 1010001054 dated 25 Rabi Al-Thani 1377H (corresponding to November 18, 1957G) through its 248 branches (2010: 241 branches) in the Kingdom of Saudi Arabia, a branch in London-United Kingdom, an agency in Houston-United States, and a representative office in Singapore. The Bank's Head Office is located at the following address:

Riyad Bank
P.O. Box 22622
Riyadh 11416
Kingdom of Saudi Arabia

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

2. BASIS OF PREPARATION

a) Statement of compliance

The 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 Banking Control Law, the provisions of Regulations for Companies in the Kingdom of Saudi Arabia and the Bank's Articles of Association.

b) Basis of measurement

The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of derivatives and Available for Sale financial assets. In addition, financial assets or liabilities that are hedged in a fair value hedging relationship, and otherwise carried at cost, are carried at fair value to the extent of the risk being hedged. The consolidated financial statements are prepared on the going concern basis.

c) Functional and presentation currency

These 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 Saudi Arabian Riyals.

d) Critical accounting judgements, estimates and assumptions

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. Such judgements, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advices 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 & advances

The Bank reviews its loan portfolios to assess specific and collective impairment on a quarterly basis. In determining whether an impairment loss should be recorded, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows . This evidence may include observable data indicating that there has been an adverse change in the payment 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 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, which are validated and periodically reviewed independently, to ensure that outputs reflect actual data and comparative market prices. To the extent practical, valuation techniques use only observable market data; however areas such as credit risk, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

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.

2. BASIS OF PREPARATION (continued)

d) Critical accounting judgements, estimates and assumptions (continued)

iv) Classification of held-to-maturity investments

The Bank follows the guidance of IAS 39 on classifying 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Change in accounting policies

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

I) 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

ii) 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

iii) Improvements to IFRSs 2010 – IFRS 7 Financial Instruments: Disclosures – The amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to enable users to evaluate an entity's exposure to risks arising from financial instruments. In addition, the IASB amended and removed existing disclosure requirements.

iv) Improvements to IFRSs 2010 – IAS 1 Presentation of Financial Statements - IAS 1 is 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.

v) Improvements to IFRSs 2010 – IFRIC 13 Customer Loyalty Programmes – The amendments clarify that the fair value of award credits takes into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits.

vi) Other amendments resulting from the improvements to the IFRSs that did not have any material impact on the accounting policies, financial position and performance of the Group include IFRS 3, IAS 27 and IAS 32.

b) Basis of consolidation

The consolidated financial statements comprise the financial statements of Riyad Bank and its subsidiaries; Riyad Capital and Ithra Al-Riyad 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.

Subsidiaries are all entities controlled by the Bank. Control exists when the Bank has the power to govern the financial and operating policies, so as to obtain benefits from its activities, generally accompanying an ownership interest 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.

Non-controlling interests represent the portion of net income and net assets attributable to interests, which are not owned, directly or indirectly, by the Bank in its subsidiaries. As at December 31, 2011 and 2010, non-controlling interests are less than 1% of the Bank's subsidiaries' net assets and is owned by representative shareholders and hence, they are not presented separately in the consolidated income statement.

Balances between the Bank and its subsidiaries, and any income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

The Bank is a party to special purpose entities (SPEs), primarily for the purpose of facilitation of certain Shariah compliant financing arrangements.

c) Settlement date accounting

All regular way purchases and sales of financial assets are recognized and derecognized on the settlement date. The Bank accounts for any change in fair value between the trade and the reporting date in the same way as it accounts for the acquired assets. Regular way purchases or sales are purchases or sales of financial instruments that require delivery of assets within the time frame generally established by regulation or convention in the market place.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Investments in associates

Investment in associates are initially recognized at cost and subsequently accounted for under the equity method of accounting. An associate is an entity in which the Bank holds 20% to 50% of the voting power and over which it has significant influence and which is neither a subsidiary nor a joint venture. Investment in associates are carried in the statement of financial position at cost, plus post-acquisition changes in the Bank's share of net assets of the associate, less any impairment in the value of individual investments. Distribution received from the investee reduces the carrying amount of the investment.

e) Derivative financial instruments and hedge accounting

Derivative financial instruments, including foreign exchange contracts, special commission rate swaps and currency 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 consolidated income statement and disclosed in trading income/ loss. Derivatives held for trading also include those derivatives which do not qualify for hedge accounting described below.

(ii) Hedge accounting

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

For the purpose of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability 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 is 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 the inception of the hedge, the risk management objective and strategy is documented, including the identification of the hedging instrument, the related hedged item, the nature of 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.

a) Fair value hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect income statement, any gain or loss from re-measuring the hedging instruments to fair value is recognised immediately in the consolidated income statement. The related portion of the hedged item is adjusted against the carrying amount of the hedged item and recognised in the consolidated income statement. For hedged items measured at amortised cost, where the fair value hedge of a special commission bearing financial instrument ceases to meet the criteria for hedge accounting or is sold, exercised or terminated, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the effective yield basis. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated income statement.

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 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 immediately 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 forecasted 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.

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Foreign currencies

Transactions in foreign currencies are translated into Saudi Arabian Riyals at exchange rates prevailing on the transaction dates. Monetary assets and liabilities at the year-end, denominated in foreign currencies, are translated into Saudi Arabian Riyals at the exchange rates prevailing at the reporting date. 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 re-translation of Available for sale equity instruments except, when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges. Translation gains or losses on non-monetary items carried at fair value are included as part of the fair value adjustment either in the consolidated income statement or in equity, depending on the underlying financial asset.

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

The monetary assets and liabilities of overseas branch are translated at the rate of exchange ruling at the reporting date. The income and expenses of overseas branch are translated at the average exchange rates for the year. Exchange differences arising on monetary items that form part of net investment in a foreign operation, if significant are included as a separate component of equity. These differences are transferred to consolidated income statement at the time of disposal of foreign operations. All insignificant differences are included in the consolidated income statement.

g) Offsetting financial instruments

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

h) Revenue recognition

i) Special commission income and expenses

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

The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective 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 applied to the new carrying amount.

The calculation of the effective yield includes all fees and points paid or received, 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 financial asset or liability.

ii) Fee and commission income

Fees and commissions are recognised when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred and, together with the related direct cost, are recognised as an adjustment to the effective yield on the loan. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportionate basis. Fee received on asset management, wealth management, financial planning, custody services and other similar services that are provided over an extended period of time, are recognised over the period when the service is being provided.

iii) Others

Dividend income is recognised when the right to receive payment is established. Exchange income/ loss is recognised when earned/ incurred. Results arising from trading activities include gains and losses from changes in fair value and related special commission income or expense for financial assets and financial liabilities held for trading.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Sale and repurchase agreements

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

Amounts paid under these agreements are included in "Cash and balances with SAMA" or "Due from banks and other financial institutions" as appropriate. The difference between purchase and resale prices is treated as special commission income and accrued over the life of the reverse repo agreement on an effective yield basis.

j) Investments

All investment securities are initially recognised at fair value, including incremental direct transaction cost except for investments held as Fair Value through Income Statement (FVIS) and are subsequently accounted for depending on their classification as either held to maturity, FVIS, Available for sale or other investments held at amortised cost. Premiums are amortised and discounts accreted using the effective yield basis and are taken to special commission income.

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 reporting 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 if possible. 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.

Following recognition, subsequent transfers between the various classes of investments are not ordinarily permissible except in accordance with amendments in IAS 39 (refer note 6). The subsequent period-end reporting values for each class of investment are determined on the basis as set out in the following paragraphs:

i) Held as FVIS

Investments in this category are classified at initial recognition as either investment held for trading or those upon initial recognition designated as FVIS. Investments classified as trading are acquired principally for the purpose of selling or repurchasing in short term.

After initial recognition, investments at FVIS are measured at fair value and any change in the fair value is recognised in the consolidated income statement for the period in which it arises. Transaction costs, if any, are not added to the fair value measurement at initial recognition of FVIS investments. Special commission income and dividend income on investment securities held as FVIS are reflected as trading income.

ii) Available for sale

Available–for–sale investments are non-derivative financial instruments and include equity and debt securities that are either designated as AFS or not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.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 directly in other comprehensive income. On derecognition, any cumulative gain or loss previously recognised in other comprehensive income is included in the consolidated income statement.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Investments (continued)

iii) Other investments held at amortised cost

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

iv) Held to maturity

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

Investments classified as held to maturity cannot ordinarily be sold or reclassified without impacting the 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.

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 recognised when cash is advanced to borrowers. They are derecognised when either borrowers repay their obligations, or the loans are sold or written off, or substantially all the risks and rewards of ownership are transferred.

All loans and advances are initially measured at fair value, including directly attributable transaction costs associated with the loans and advances. Loans and advances originated or acquired by the Bank that are not quoted in an active market, are stated at amortised cost. For presentation purposes, allowance for credit losses is deducted from loans and advances.

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 carried at amortized cost may be impaired. 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 amounts.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the group on the terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of active market for a security or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers.

It may also include instances where Bank considers that the obligor is unlikely to pay its credit obligations to the Bank, in full, without recourse by the Bank to actions such as realizing the security, if held.

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

Loans whose terms have been renegotiated are no longer considered to be past due. Restructuring policies and practices are based on indicators or criteria, which indicate that payment will most likely continue. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective yield rate. Consumer loans are charged off when they become 180 days past due.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Impairment of financial assets (continued)

i) Impairment of financial assets held at amortised cost

In case of financial instruments held at amortised cost or held to maturity, the Bank assesses individually whether there is objective evidence of impairment based on same criteria as explained above.

A specific provision for credit losses due to impairment of a loan or any other financial asset held at amortised cost is established if there is objective evidence that the 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.

The Bank also considers evidence of impairment at a collective assets level. The collective provision is based upon deterioration in the internal grading or external credit ratings, allocated to the borrower or group of borrowers, the current economic climate in which the borrowers operate and the experience and historical default patterns that are embedded in the components of the credit portfolio.

ii) Impairment of Available for sale financial assets

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

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

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

m) 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 are considered as assets held for sale and are initially stated at the lower of net realizable value of due loans and advances or the current fair value of the related properties, less any costs to sell, if material. Rental income from other real estate is recognised in the consolidated income statement. No depreciation is charged on such real estate.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Property and equipment

Property and equipment are 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	33 years
Improvements and decoration of premises	over the lower of the lease period or 5 years
Furniture, fixtures and equipment	5 to 20 years
Computer hardware	5 years
Software programs and automation projects	3 to 5 years
Motor vehicles	4 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 amount and are included in consolidated income statement.

o) Financial liabilities

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

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

p) Guarantee contracts

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

q) Provisions

Provisions are recognised 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.

r) Accounting for leases

Leases entered into by the Group as a lessee, are operating leases. Payments made under operating leases are charged to the consolidated income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

s) Cash and cash equivalents

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

t) Derecognition of financial instruments

A financial asset (or a part of a financial asset, or a part of a group of similar financial assets) is derecognised, 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 derecognised 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 derecognised only if the Bank has not retained control of the financial asset. The Bank recognises separately as assets or liabilities any rights and obligations created or retained in the process.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

u) End of service benefits

Benefits payable to the employees of the Bank at the end of their services are accrued in accordance with the guidelines set by the Saudi Arabian Labor Regulations and are included in other liabilities in the consolidated statement of financial position.

v) Zakat

Under Saudi Arabian Zakat and Income Tax Laws, Zakat is the liabilities of shareholders. Zakat is computed on the shareholders' equity or net income using the basis defined under the Zakat regulations. Zakat is not charged to the Group's consolidated income statement as they are deducted from the dividends paid to the shareholders.

w) Investment management services

The Group offers investment services to its customers, which include management of certain investment funds. Fees earned are disclosed under related party transactions. Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly, are not included in the consolidated financial statements.

x) Non-interest based banking products

In addition, to the conventional banking, the Bank offers its customers certain non-interest based banking products, which are approved by its Shariah Board. These products include Murabaha, Tawaraq, Istisna'a and Ijara. These banking products are accounted for using IFRS and are in conformity with the accounting policies described in these consolidated financial statements.

4. CASH AND BALANCES WITH SAMA

	2011	2010
	SAR'000	SAR'000
Cash in hand and other balances	**3,831,890**	2,562,125
Statutory deposit	**6,963,587**	6,137,435
Reverse repos with SAMA	**6,828,000**	14,479,000
Total	**17,623,477**	23,178,560

In accordance with the Banking Control Law and regulations issued by the Saudi Arabian Monetary Agency (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 deposit with SAMA is 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

	2011	2010
	SAR'000	SAR'000
Current accounts	**102,290**	83,354
Money market placements	**5,982,733**	4,605,400
Total	**6,085,023**	4,688,754

6. INVESTMENTS, NET

a) Investment securities are classified as follows:

i) Held as FVIS

On September 1, 2008, the Group reclassified investments held in trading portfolio reported under its investments at fair value through income statement ("FVIS") category to the available for sale category.

The carrying and fair value of these reclassified investments as at December 31, 2011 was SAR 3,625 million (December 31, 2010: SAR 3,553 million).

Had the reclassification not occurred, the consolidated income statement for the year ended December 31, 2011, would have included unrealised fair value gain on such reclassified investments amounting to SAR 80.3 million (31 December 2010: unrealised fair value gain SAR

ii) Available for sale

SAR'000	Domestic		International		Total	
	2011	2010	**2011**	2010	**2011**	2010
Fixed rate securities	**39,746**	40,545	**9,913,341**	8,997,997	**9,953,087**	9,038,542
Floating rate securities	**-**	-	**1,842,492**	1,764,956	**1,842,492**	1,764,956
Mutual funds	**244,218**	138,598	**1,980,174**	2,268,717	**2,224,392**	2,407,315
Equities	**1,134,158**	947,760	**55,606**	129,846	**1,189,764**	1,077,606
Available for sale, net	**1,418,122**	1,126,903	**13,791,613**	13,161,516	**15,209,735**	14,288,419

International investments above includes investment portfolios of SAR 11.3 billion (2010: SAR 11.3 billion) which are externally managed.

iii) Other investments held at amortised cost

SAR'000	Domestic		International		Total	
	2011	2010	**2011**	2010	**2011**	2010
Fixed rate securities	**8,242,077**	13,321,266	**1,828,973**	1,297,242	**10,071,050**	14,618,508
Floating rate securities	**4,287,644**	3,859,396	**38,930**	38,643	**4,326,574**	3,898,039
Other investments held at amortised cost	**12,529,721**	17,180,662	**1,867,903**	1,335,885	**14,397,624**	18,516,547

iv) Held to maturity

SAR'000	Domestic		International		Total	
	2011	2010	**2011**	2010	**2011**	2010
Fixed rate securities	**216,974**	404,722	**6,791,837**	612,753	**7,008,811**	1,017,475
Held to maturity	**216,974**	404,722	**6,791,837**	612,753	**7,008,811**	1,017,475
Investments, net	**14,164,817**	18,712,287	**22,451,353**	15,110,154	**36,616,170**	33,822,441

6. INVESTMENTS, NET (continued)

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

SAR 000'	2011 Quoted	2011 Unquoted	2011 Total	2010 Quoted	2010 Unquoted	2010 Total
Fixed rate securities	11,823,426	15,209,522	27,032,948	10,328,159	14,346,366	24,674,525
Floating rate securities	4,555,347	1,613,719	6,169,066	3,863,651	1,799,344	5,662,995
Equities	1,053,375	176,841	1,230,216	637,826	480,352	1,118,178
Mutual funds	2,224,392	-	2,224,392	2,407,315	-	2,407,315
Allowance for impairment	-	(40,452)	(40,452)	-	(40,572)	(40,572)
Investments, net	19,656,540	16,959,630	36,616,170	17,236,951	16,585,490	33,822,441

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

i) Other investments held at amortised cost

SAR 000'	2011 Carrying value	2011 Gross unrealised gain	2011 Gross unrealised loss	2011 Fair value	2010 Carrying value	2010 Gross unrealised gain	2010 Gross unrealised loss	2010 Fair value
Fixed rate securities	10,071,050	107,752	(7,450)	10,171,352	14,618,508	77,984	(4,927)	14,691,565
Floating rate securities	4,326,574	90,122	-	4,416,696	3,898,039	50,180	-	3,948,219
Total	14,397,624	197,874	(7,450)	14,588,048	18,516,547	128,164	(4,927)	18,639,784

ii) Held to maturity

SAR 000's	2011 Carrying value	2011 Gross unrealised gain	2011 Gross unrealised loss	2011 Fair value	2010 Carrying value	2010 Gross unrealised gain	2010 Gross unrealised loss	2010 Fair value
Fixed rate securities	7,008,811	23,301	-	7,032,112	1,017,475	23,746	-	1,041,221

d) Credit quality of investments

SAR 000'	2011 Fixed rate securities	2011 Floating rate securities	2011 Others	2011 Total	2010 Fixed rate securities	2010 Floating rate securities	2010 Others	2010 Total
AAA	1,295,564	1,583,697	-	2,879,261	3,372,997	1,486,239	-	4,859,236
AA- to AA+	12,523,252	1,810,178	-	14,333,430	14,873,897	2,042,358	-	16,916,255
A- to A+	8,403,392	1,756,857	-	10,160,249	3,734,750	1,584,441	-	5,319,191
Lower than A-	3,515,966	441,544	-	3,957,510	2,297,230	505,782	-	2,803,012
Unrated	1,294,774	576,790	3,414,156	5,285,720	395,651	44,175	3,484,921	3,924,747
Total	27,032,948	6,169,066	3,414,156	36,616,170	24,674,525	5,662,995	3,484,921	33,822,441

Lower than A- comprise mainly of bonds rated BBB and BB. The unrated category mainly comprises of mutual funds and equities.

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

	2011 SAR '000	2010 SAR '000
Government and quasi Government	15,456,747	20,028,755
Corporate	8,222,385	7,515,232
Banks and other financial institutions	12,937,038	6,278,454
Total	36,616,170	33,822,441

Investments include SAR 2,044 million (2010: SAR 4,216 million), which have been pledged under repurchase agreements with customers (note 19 d). The market value of such investments is SAR 2,116 million (2010: SAR 4,369 million).

6. INVESTMENTS, NET (continued)

f) Movements of allowance for impairment on available for sale equity investments:

	2011 SAR '000	2010 SAR '000
Balance at beginning of the year	40,572	40,854
Other movements during the year	(120)	(282)
Balance at end of the year	40,452	40,572

7. LOANS AND ADVANCES, NET

a) Loans and advances held at amortised cost

These comprise the following:

2011 SAR'000	Overdrafts	Credit cards	Consumer loans	Commercial loans	Others	Total
Performing loans and advances, gross	7,001,831	745,616	25,549,643	79,011,785	783,210	113,092,085
Non-performing loans and advances, net	48,672	-	-	1,758,372	72,179	1,879,223
Total Loans and advances	7,050,503	745,616	25,549,643	80,770,157	855,389	114,971,308
Allowance for impairment	(29,071)	-	-	(834,485)	(62,639)	(926,195)
Total	7,021,432	745,616	25,549,643	79,935,672	792,750	114,045,113
Portfolio provision	-	-	-	-	-	(1,072,349)
Loans and advances held at amortised cost, net						112,972,764

2010 SAR'000	Overdrafts	Credit cards	Consumer loans	Commercial loans	Others	Total
Performing loans and advances, gross	5,358,633	847,429	20,505,072	79,475,447	323,027	106,509,608
Non-performing loans and advances, net	100,131	-	-	1,641,331	72,023	1,813,485
Total Loans and advances	5,458,764	847,429	20,505,072	81,116,778	395,050	108,323,093
Allowance for impairment	(67,797)	-	-	(1,100,321)	(47,886)	(1,216,004)
Total	5,390,967	847,429	20,505,072	80,016,457	347,164	107,107,089
Portfolio provision	-	-	-	-	-	(1,072,349)
Loans and advances held at amortised cost, net						106,034,740

Loans and advances, net, include Islamic products of SR 52,569 million (2010: 47,377million).

b) Movements in allowance for impairment are as follows:

2011 SAR'000	Allowances for impairment Credit cards	Consumer loans	Commercial loans *	Total	Portfolio provision	Total
Balance at beginning of the year	-	-	1,216,004	1,216,004	1,072,349	2,288,353
Provided during the year	87,456	338,677	586,055	1,012,188	-	1,012,188
Bad debts written off	(87,456)	(338,677)	(703,544)	(1,129,677)	-	(1,129,677)
Recoveries of previously provided amounts	-	-	(142,578)	(142,578)	-	(142,578)
Other movements	-	-	(29,742)	(29,742)	-	(29,742)
Balance at end of the year	-	-	926,195	926,195	1,072,349	1,998,544

2010 SAR'000	Allowances for impairment Credit cards	Consumer loans	Commercial loans *	Total	Portfolio provision	Total
Balance at beginning of the year	-	-	693,599	693,599	1,072,349	1,765,948
Provided during the year	71,003	350,272	780,764	1,202,039	-	1,202,039
Bad debts written off	(71,003)	(350,272)	(135,318)	(556,593)	-	(556,593)
Recoveries of previously provided amounts	-	-	(74,605)	(74,605)	-	(74,605)
Other movements	-	-	(48,436)	(48,436)	-	(48,436)
Balance at end of the year	-	-	1,216,004	1,216,004	1,072,349	2,288,353

* Including overdrafts and other loans

7. LOANS AND ADVANCES, NET

c) Credit Quality of Loans and Advances

i) Neither past due nor impaired

2011 SAR'000	Credit cards	Consumer loans	Commercial loans*	Total
Standard category	646,658	24,409,415	86,047,353	111,103,426
Special Mention category	-	-	642,751	642,751
Total	646,658	24,409,415	86,690,104	111,746,177

2010 SAR'000	Credit cards	Consumer loans	Commercial loans*	Total
Standard category	717,749	19,206,995	84,808,499	104,733,243
Special Mention category	-	-	91,064	91,064
Total	717,749	19,206,995	84,899,563	104,824,307

Above includes past due but not impaired loans with upto 30 days ageing amounting to SAR 3,389 million as at Dec 31,2011(2010: SAR 2,457

Standard category: A credit with very strong to satisfactory credit quality and repayment ability, where regular monitoring is carried out.

Special Mention category: A credit that requires close monitoring by management due to deterioration in the borrowers' financial condition.

Standard Category as at Dec 31, 2011 includes Commercial loans* of Very Strong Quality SAR 27,280 million (2010: SAR 32,654 million), Good Quality SAR 49,302 million (2010: SAR 42,691 million) and Satisfactory Quality SAR 9,465 million (2010: SAR 9,463 million).

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

2011 SAR'000	Credit cards	Consumer loans	Commercial loans*	Total
From 31 -90 days	57,969	710,735	23,962	792,666
From 91 - 180 days	40,989	429,493	15,691	486,173
More than 180 days	-	-	67,069	67,069
Total	98,958	1,140,228	106,722	1,345,908

2010 SAR'000	Credit cards	Consumer loans	Commercial loans*	Total
From 31 -90 days	72,995	810,740	101,332	985,067
From 91 - 180 days	56,685	487,336	138,272	682,293
More than 180 days	-	-	17,941	17,941
Total	129,680	1,298,076	257,545	1,685,301

* Including overdrafts and other loans

7. LOANS AND ADVANCES, NET (continued)

d) Economic sector risk concentration for the loans and advances and allowance for impairment are as follows

SAR '000s	2011 Performing	2011 Non performing, net	2011 Allowance for impairment	2011 Loans and advances, net	2010 Performing	2010 Non performing, net	2010 Allowance for impairment	2010 Loans and advances, net
Government and quasi Government	6,697	-	-	6,697	20,090	-	-	20,090
Banks and other financial institutions	7,281,019	-	-	7,281,019	4,664,535	-	-	4,664,535
Agriculture and fishing	1,172,464	-	-	1,172,464	1,079,112	9,293	(8,559)	1,079,846
Manufacturing	15,692,470	272,989	(157,732)	15,807,727	15,365,186	268,864	(133,968)	15,500,082
Mining and quarrying	1,941,254	-	-	1,941,254	1,902,403	-	-	1,902,403
Electricity, water, gas and health	2,350,869	-	-	2,350,869	2,437,559	-	-	2,437,559
Building and construction	10,201,366	171,703	(139,151)	10,233,918	10,037,939	119,460	(123,370)	10,034,029
Commerce	36,263,713	1,348,241	(588,761)	37,023,193	37,002,582	1,344,468	(918,894)	37,428,156
Transportation and communication	7,436,146	1,808	(964)	7,436,990	7,766,495	-	-	7,766,495
Services	2,890,228	20,189	(11,315)	2,899,102	2,849,061	19,920	(18,784)	2,850,197
Consumer loans and credit cards	26,295,259	-	-	26,295,259	21,352,501	-	-	21,352,501
Other	1,560,600	64,293	(28,272)	1,596,621	2,032,145	51,480	(12,429)	2,071,196
Total	113,092,085	1,879,223	(926,195)	114,045,113	106,509,608	1,813,485	(1,216,004)	107,107,089
Portfolio provision				(1,072,349)				(1,072,349)
Loans and advances, net				112,972,764				106,034,740

e) Collateral

The Bank in the ordinary course of lending activities hold collaterals as security to mitigate credit risk in the loans and advances. These collaterals mostly include time and demand and other cash deposits, financial guarantees, local and international equities, real estate and other fixed assets. The collaterals are held mainly against commercial and consumer loans and are managed against relevant exposures at their net realizable values. Management monitors the market value of the collateral and requests additional collateral in accordance with the underlying agreement when deemed necessary.

8. INVESTMENT IN ASSOCIATES

Investment in associates represents the Bank's share of investment in entities where the Bank has significant influence. These investment are accounted for, using the equity method of accounting. In prior years, these investments were measured at fair value and classified as available for sale investments. The impact of the change is not material on the overall consolidated financial statements.

Investment in associates represents 35% (2010: 35%) share ownership in Ajil Financial Services Company incorporated in Kingdom of Saudi Arabia, 21.4% (2010: 21.4%) share in ownership in Royal and Sun Alliance Insurance (Middle East) Limited E.C., incorporated in Bahrain and 19.9% (2010 :19.9%) share ownership and Board representation in Al-Alamiya for Cooperative Insurance Company incorporated in Kingdom of Saudi Arabia.

9. PROPERTY AND EQUIPMENT, NET

SAR' 000	Land and buildings	Improvements and decoration of premises	Furniture, fixtures and equipment	Computer hardware, software programs and automation projects	Motor vehicles	Total 2011	Total 2010
Cost							
Balance at beginning of the year	1,311,169	644,210	336,843	1,707,377	2,369	4,001,968	3,693,947
Additions	23,473	42,552	27,932	135,782	461	230,200	310,510
Disposals	-	(2,634)	(6,570)	(5,798)	-	(15,002)	(2,489)
Balance at end of the year	1,334,642	684,128	358,205	1,837,361	2,830	4,217,166	4,001,968
Accumulated depreciation and amortisation							
Balance at beginning of the year	392,239	436,305	242,915	1,065,334	2,320	2,139,113	1,863,790
Charge for the year	24,789	76,240	29,984	154,712	497	286,222	277,812
Disposals	-	(2,634)	(6,570)	(5,798)	-	(15,002)	(2,489)
Balance at end of the year	417,028	509,911	266,329	1,214,248	2,817	2,410,333	2,139,113
Net book value							
As at December 31, 2011	917,614	174,217	91,876	623,113	13	1,806,833	
As at December 31, 2010	918,930	207,905	93,928	642,043	49		1,862,855

Land and buildings and improvements and decoration of premises include work in progress as at December 31, 2011 amounting to SAR 40.6 million (2010: SAR 104.6 million); and SAR 2.3 million (2010: SAR 1.9 million), respectively.

10. OTHER ASSETS

	2011 SAR'000	2010 SAR'000
Accrued special commission receivable		
- banks and other financial institutions	7,040	7,234
- investments	224,246	162,010
- loans and advances	315,136	347,399
- other	45,520	62,986
Total accrued special commission receivable	591,942	579,629
Accounts receivable	165,307	55,455
Positive fair value of derivatives (note 11)	2,958,870	2,674,320
Other	1,286,154	228,098
Total	5,002,273	3,537,502

11. DERIVATIVES

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

a) Swaps

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

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 favourable movements in prices, rates or indices. Arbitrage involves identifying pricing anomalies in different markets and products, with the expectation of profiting from price differentials between markets or products.

Held for hedging purposes

The Bank adopted a comprehensive system for the measurement and management of risk. Part of the risk management process involves managing the Bank's exposure to fluctuations in foreign exchange rates and special commission rates to reduce its exposure to currency and special commission rate risks to acceptable levels as determined by the Board of Directors 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 monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits. The Board of Directors have also established the level of special commission rate risk by setting limits on special commission rate gaps for stipulated periods. Asset and liability special commission rate gaps are reviewed on a periodic basis and hedging strategies are used to reduce special 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 special commission rate risks. This is generally achieved by hedging specific transactions as well as strategic hedging against overall consolidated statement of financial position exposures. Strategic hedging, other than portfolio hedges for special commission rate risks, does not qualify for special hedge accounting and the related derivatives are accounted for as held for trading.

11. DERIVATIVES (continued)

Held for hedging purposes (continued)

Fair value hedges

The Bank uses special commission rate swaps to hedge against the special commission rate risk arising from specifically identified fixed special commission rate exposures.

Cash flow hedges

The Bank is exposed to variability in future special commission cash flows on non-trading assets and liabilities which bear special commission rate at a variable rate. The Bank uses special commission rate swaps as cash flow hedges of these special commission rate risks.

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

2011 SAR'000	**Within 1 year**	**1-3 years**	**3-5 years**
Cash inflows (assets)	**4,735**	**449**	**-**
Cash outflows (liabilities)	**-**	**-**	**-**
Net cash inflow	**4,735**	**449**	**-**

2010 SAR'000	Within 1 year	1-3 years	3-5 years
Cash inflows (assets)	12,866	6,624	-
Cash outflows (liabilities)	(711)	-	-
Net cash inflow	12,155	6,624	-

The table below shows the positive and negative fair values of derivative financial instruments held, together with their 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 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.

				Notional amounts by term to maturity			
2011 SAR'000	**Positive fair value**	**Negative fair value**	**Notional amount total**	**Within 3 months**	**3-12 months**	**1-5 years**	**Monthly average**
Held for trading:							
Special commission rate swaps	2,544	(1,690)	1,360,162	382,637	715,018	262,507	2,743,068
Forward foreign exchange contracts	2,886,658	(89,222)	93,510,641	50,958,421	42,552,220	-	85,809,075
Currency options	27,978	(27,331)	15,805,052	9,564,344	5,339,084	901,624	13,465,451
Commodity options	17,301	(17,301)	80,160	80,160	-	-	119,431
Held as fair value hedges:							
Special commission rate swaps	-	(3,871)	500,000	-	500,000	-	2,261,740
Held as cash flow hedges:							
Special commission rate swaps	24,389	-	1,098,000	-	998,000	100,000	1,455,252
Total	2,958,870	(139,415)	112,354,015	60,985,562	50,104,322	1,264,131	105,854,017

11. DERIVATIVES (continued)

2010 SAR'000	Positive fair value	Negative fair value	Notional amount total	Notional amounts by term to maturity: Within 3 months	3-12 months	1-5 years	Monthly average
Held for trading:							
Special commission rate swaps	3,201	(3,256)	854,455	439,444	-	415,011	1,390,964
Forward foreign exchange contracts	2,241,307	(317,957)	63,149,908	47,399,105	15,750,803	-	61,919,694
Currency options	350,747	(350,997)	1,218,686	859,875	357,211	1,600	944,539
Commodity options	-	-	-	-	-	-	-
Held as fair value hedges:							
Special commission rate swaps	-	(9,766)	2,661,795	322,000	1,839,795	500,000	3,149,663
Held as cash flow hedges:							
Special commission rate swaps	79,065	(1,209)	1,929,011	96,000	735,011	1,098,000	2,199,855
Total	2,674,320	(683,185)	69,813,855	49,116,424	18,682,820	2,014,611	69,604,715

The table below shows a summary of hedged items, the nature of the risk being hedged, the hedging instrument and its fair value:

2011 SAR '000 Description of hedged items	**Fair value**	**Hedge inception value**	**Risk**	**Hedging instrument**	**Positive fair value**	**Negative fair value**
Floating rate notes	**1,098,000**	**1,098,000**	**Cash flow**	**Special commission rate swaps**	**24,389**	**-**
Fixed special commission rate loans	**506,809**	**500,000**	**Fair value**	**Special commission rate swaps**	**-**	**(3,871)**

2010 SAR '000 Description of hedged items	Fair value	Hedge inception value	Risk	Hedging instrument	Positive fair value	Negative fair value
Floating rate notes (including debt securities in issue)	1,929,011	1,929,011	Cash flow	Special commission rate swaps	79,065	(1,209)
Fixed special commission rate loans	1,247,226	1,226,081	Fair value	Special commission rate swaps	-	(9,766)

The net gains on the hedging instruments for fair value hedge is SAR 5.90 million (2010: net gain of SAR 1.91 million). The net losses on the hedged item attributable to the hedged risk is SAR 14.34 million (2010: net loss of SAR 22.94 million).

Reconciliation of movements in the other reserve of cash flow hedges:

	2011 SAR'000	2010 SAR'000
Balance at beginning of the year	**62,727**	120,126
Gains/losses from changes in fair value recognised directly in equity	**(53,467)**	(58,821)
Losses/gains removed from equity and included in net special commission income	**(162)**	1,422
Balance at end of the year	**9,098**	62,727

12. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2011 SAR'000	2010 SAR'000
Current accounts	722,268	527,820
Money market deposits	5,519,680	10,108,731
Total	6,241,948	10,636,551

Money market deposits include deposits against sales of fixed rate bonds of SAR 1,438 million (2010: SAR 4,136 million) with agreement to repurchase the same at fixed future dates.

13. CUSTOMER DEPOSITS

	2011 SAR'000	2010 SAR'000
Demand	58,123,709	47,939,992
Saving	305,148	285,581
Time	75,615,429	70,081,869
Other	5,778,214	8,638,017
Total	139,822,500	126,945,459

Time deposits include deposits against sales of bonds of SAR 180 million (2010: SAR nil) with agreement to repurchase the same at fixed future dates. Other customers' deposits include SAR 2,140 million (2010: SAR 1,917 million) of margins held for irrevocable commitments.

Time deposits include non-interest based deposits of SAR 29,006 million (2010: SAR 26,241 million).

The above include foreign currency deposits as follows:

	2011 SAR'000	2010 SAR'000
Demand	2,683,930	1,533,515
Saving	141	141
Time	21,176,343	18,037,118
Other	384,369	187,874
Total	24,244,783	19,758,648

14. DEBT SECURITIES IN ISSUE

During April 2006, the Bank issued USD 500 million (SAR 1,875 million) Floating Euro Medium Term Note (EMTN), as the first tranche of the Notes issuance programme amounting to USD 1,600 million. These matured on April 26, 2011.

15. OTHER LIABILITIES

	2011 SAR'000	2010 SAR'000
Accrued special commission payable		
– banks and other financial institutions	2,479	7,849
– customer deposits	215,999	223,421
– debt securities in issue	-	2,053
Total accrued special commission payable	218,478	233,323
Accounts payable	1,115,204	787,348
Negative fair value of derivatives (note 11)	139,415	683,185
Other*	3,191,490	3,163,623
Total	4,664,587	4,867,479

*Includes items in transit which are cleared in the normal course of business

16. SHARE CAPITAL

The authorised, issued and fully-paid share capital of the Bank consist of 1,500 million shares of SAR 10 each(2010:1,500 million shares of SAR 10 each).

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 the statutory reserve until this reserve equals the paid up capital of the Bank. Accordingly, SAR 787.3 million has been transferred from 2011 net income (2010: SAR 706.2 million). The statutory reserve is not currently available for distribution.

18. OTHER RESERVES

2011 **SAR'000s**	**Cash flow hedges**	**Available for sale**	**Total**
Balance at beginning of the year	**62,727**	**751,238**	**813,965**
Net change in fair value	**(53,467)**	**(50,573)**	**(104,040)**
Transfer to consolidated income statement	**(162)**	**(174,014)**	**(174,176)**
Net movement during the year	**(53,629)**	**(224,587)**	**(278,216)**
Balance at end of the year	**9,098**	**526,651**	**535,749**

2010 SAR'000s	Cash flow hedges	Available for sale	Total
Balance at beginning of the year	120,126	485,692	605,818
Net change in fair value	(58,821)	487,550	428,729
Transfer to consolidated income statement	1,422	(222,004)	(220,582)
Net movement during the year	(57,399)	265,546	208,147
Balance at end of the year	62,727	751,238	813,965

19. COMMITMENTS AND CONTINGENCIES

a) Legal proceedings

As at December 31, 2011 there were legal proceedings of a routine nature outstanding against the Bank. No provision has been made as management and in-house legal adviser believes that it is unlikely that any significant loss will arise.

b) Capital commitments

As at December 31, 2011 the Bank had capital commitments of SAR 102.4 million (2010: SAR 178.7 million). This includes computer hardware, software, automation projects, construction and equipment purchases.

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.

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.

19. COMMITMENTS AND CONTINGENCIES (continued)

c) Credit related commitments and contingencies (continued)

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

2011 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	9,680,109	5,105,796	762,713	-	15,548,618
Letters of guarantee	11,534,965	26,480,516	17,260,918	141,800	55,418,199
Acceptances	2,080,936	231,326	38,489	-	2,350,751
Irrevocable commitments to extend credit	1,024,688	539,339	4,434,290	3,227,620	9,225,937
Total	24,320,698	32,356,977	22,496,410	3,369,420	82,543,505

2010 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	2,645,169	2,879,268	2,785,106	2,977,566	11,287,109
Letters of guarantee	7,220,465	6,353,124	29,851,224	7,764,490	51,189,303
Acceptances	1,327,310	567,093	27,022	190,574	2,111,999
Irrevocable commitments to extend credit	295,298	3,135,622	4,103,268	1,096,228	8,630,416
Total	11,488,242	12,935,107	36,766,620	12,028,858	73,218,827

The outstanding unused portion of non firm commitments as at December 31,2011 which can be revoked unilaterally at any time by the Bank, amounts to SAR 68,638 million (2010: SAR 65,301 million).

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

	2011 SAR'000	2010 SAR'000
Government and quasi government	1,125,000	1,125,000
Corporate	61,239,859	56,498,211
Banks and other financial institutions	20,178,646	15,595,616
Total	82,543,505	73,218,827

d) Assets pledged

Assets pledged as collateral with other financial institutions and customers are as follows:

	2011		2010	
	Assets SAR'000	Related liabilities SAR'000	Assets SAR'000	Related liabilities SAR'000
Other investments held at amortised cost and available for sale (note 6,12 and 13)	2,043,860	1,617,991	4,216,499	4,135,748

19. COMMITMENTS AND CONTINGENCIES (continued)

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	14,887	22,400
1 to 5 years	34,969	40,338
Over 5 years	19,484	20,882
Total	69,340	83,620

20. SPECIAL COMMISSION INCOME AND EXPENSE

		2011 SAR'000	2010 SAR'000
Special commission income			
Investments	- Available for sale	362,843	328,004
	- Other investments held at amortised cost	211,105	196,293
	- Held to maturity	91,663	41,004
		665,611	565,301
Due from banks and other financial institutions		78,973	101,512
Loans and advances		4,170,779	4,205,714
Total		4,915,363	4,872,527

	2011 SAR'000	2010 SAR'000
Special commission expense		
Due to banks and other financial institutions	130,799	94,817
Customer deposits	582,610	623,374
Debt securities in issue	4,920	12,549
Total	718,329	730,740

21. FEE AND COMMISSION INCOME, NET

	2011 SAR'000	2010 SAR'000
Fee and commission income:		
- Share brokerage and fund management	298,183	245,137
- Trade finance and corporate finance and advisory	1,147,384	1,038,509
- Other banking services	506,352	431,693
Total fee and commission income	1,951,919	1,715,339
Fee and commission expense:		
- Banking cards and share brokerage	283,713	230,260
- Other banking services	79,032	66,877
Total fee and commission expense	362,745	297,137
Fee and commission income, net	1,589,174	1,418,202

22. STAFF COMPENSATION

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

Categories	Number of employees	Fixed compensation	Variable compensation	Total compensation
			SAR'000	
Senior executives requiring SAMA no objections	22	26,470	8,032	34,502
Employees engaged in risk taking activities	285	70,916	13,965	84,881
Employees engaged in control functions	475	87,505	7,645	95,150
Outsourced employees	166	11,016	-	11,016
Others	4,308	539,681	72,035	611,716
Total	5,256	735,588	101,677	837,265
Variable Compensation accrued in 2011 and other employee related benefits*		550,322		
Total Salaries and employee-related expenses as per consolidated statement of income		1,285,910		

*Other employee benefits include; Insurance, Gosi, Relocation Expenses, Recruitment Expenses, Training and Development and Other Employee benefits

Compensation policy is based on the job profile requirement, market practices, nature and level of involvement in risk taking process. It applies to the Bank's senior management and all employees and aims to link individual performance to the Bank's overall achievements and soundness. Compensation includes fixed and variable components. Salary revision, performance bonus and other performance linked incentives are decided based on the performance evaluation process outcome as well as the Bank's financial performance and strategic goals.

The Board of Directors has the responsibility to approve and oversee the Bank's compensation policy. The Nomination and Compensation Committee, made up of five non executive Directors is in charge of overseeing the compensation system design and effectiveness on behalf of the Board of Directors as well as preparing the Bank's compensation policy and undertaking its periodic assessment and update to ensure achievement of the system objectives and reinforce the Bank's risk management framework. Fixed compensation comprises of salaries and wages and other benefits and allowances. The variable compensation includes sales incentives, product related rewards and performance related payments.

23. 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 by the weighted average number of ordinary shares outstanding at end of the year.

24. PROPOSED GROSS DIVIDEND AND ZAKAT

The net cash dividend after deduction of zakat reached SAR 1,950 million (2010: SAR 1,950 million), resulting in a net dividend to the shareholders of SAR 1.30 per share (2010: SAR 1.30 per share). The gross dividends for 2011 include interim net dividends of SAR 825 million paid for the first half of 2011 (2010: SAR 900 million). Final dividends, net of zakat of SAR 1,125 million have been proposed for 2011 (2010: SAR 1,050 million).

Zakat for the year amounted to approximately SAR 150 million (2010: SAR 71 million).

The Bank has filed its Zakat returns for the years up to and including the financial year 2010 with the Department of Zakat and Income Tax (the "DZIT"). During 2011, the Bank has received Zakat assessments from the DZIT in respect of the years 2008 and 2009 raising an additional Zakat liability. The basis for this additional liability is being contested by all the Banks in Saudi Arabia.

The Bank has formally contested these assessments and is awaiting a response from DZIT. The management believes that the ultimate outcome of the appeals filed and actions taken by the Bank in conjunction with other banks in the Kingdom of Saudi Arabia cannot be determined reliably at this stage.

25. CASH AND CASH EQUIVALENTS

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

	2011 SAR'000	2010 SAR'000
Cash and balances with SAMA excluding statutory deposit (note 4)	10,659,890	17,041,125
Due from banks and other financial institutions maturing within three months from the date of acquisition	3,823,849	3,795,882
Total	14,483,739	20,837,007

26. OPERATING SEGMENTS

The Bank determines and presents operating segments based on the information that is provided internally to the chief operating decision maker in order to allocate resources to the segments and to assess its performance. The operating segments are managed separately based on the Group's management and internal reporting structure. The Group's primary business is conducted in Saudi Arabia with one international branch, a representative office and an agency. However, the total assets, liabilities, commitments and results of operations of this branch, representative office and agency are not material to the Group's overall consolidated financial statements and as a result have not been separately disclosed. There are no other material items of income or expense between the operating segments.

The Group's reportable segments under IFRS 8 are as follows:

Retail

Deposit, credit and investment products for individuals and small to medium sized businesses.

Investment banking and brokerage

Investment management services and asset management activities related to dealing, managing, arranging, advising and custody of securities.

Corporate

Principally handling corporate customers' current accounts, deposits and providing loans, overdrafts and other credit facilities and derivative

Treasury and investments

Principally providing money market trading and treasury services as well as the management of the Bank's investment portfolios

Other

Includes income on capital and unallocated costs pertaining to head office, finance division, human resources, technology services and other support departments and unallocated assets and liabilities.

26. OPERATING SEGMENTS (continued)

a) The Group's total assets and liabilities as at December 31, its total operating income and expense and its net income, for the years then ended by operating segments, are as follows:

2011 SAR'000	Retail	Investment banking and brokerage	Corporate	Treasury and investment	Other	Total
Total assets	26,678,641	1,579	87,441,546	64,811,268	1,954,356	180,887,390
Total liabilities	44,693,376	50,743	95,219,691	7,614,786	3,150,439	150,729,035
Net special commission income	1,557,531	15,808	1,862,644	(112,207)	873,258	4,197,034
Total operating income	1,930,206	296,875	2,879,297	309,929	904,915	6,321,222
Fee and commission income, net	370,614	283,070	948,298	(12,808)	-	1,589,174
Total operating expenses	1,217,409	132,517	615,222	29,924	1,176,797	3,171,869
Depreciation and amortization	139,219	-	3,583	372	143,048	286,222
Capital expenditure	59,096	-	2,604	159	168,341	230,200
Impairment charge for credit losses, net	248,558	-	413,154	-	-	661,712
Impairment charge for investments, net	-	-	-	-	-	-
Net income (loss)	712,797	164,358	2,264,075	280,005	(271,882)	3,149,353

2010 SAR'000	Retail	Investment banking and brokerage	Corporate	Treasury and investment	Other	Total
Total assets	21,877,126	1,205	86,364,273	64,319,946	993,880	173,556,430
Total liabilities	40,919,794	41,370	87,774,172	14,129,081	1,458,795	144,323,212
Net special commission income	1,313,212	938	1,576,441	491,726	759,470	4,141,787
Total operating income	1,655,675	229,477	2,448,964	851,315	795,021	5,980,452
Fee and commission income, net	364,783	233,905	830,365	(10,851)	-	1,418,202
Total operating expenses	1,203,849	131,285	783,795	(47,926)	1,084,822	3,155,825
Depreciation and amortization	110,362	-	4,001	687	162,762	277,812
Capital expenditure	82,516	-	1,981	181	225,832	310,510
Impairment charge for credit losses, net	295,345	-	639,729	-	-	935,074
Impairment charge for investments, net	-	-	-	(85,000)	-	(85,000)
Net income (loss)	451,826	98,192	1,665,169	899,241	(289,801)	2,824,627

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

2011 SAR'000	Retail	Corporate	Treasury and investment	Total
Consolidated statement of financial position assets	26,664,872	88,191,409	59,853,456	174,709,737
Commitments and contingencies	-	37,782,543	-	37,782,543
Derivatives	-	-	2,233,444	2,233,444

2010 SAR'000	Retail	Corporate	Treasury and investment	Total
Consolidated statement of financial position assets	21,570,963	86,329,044	37,718,277	145,618,284
Commitments and contingencies	-	34,279,280	-	34,279,280
Derivatives	-	-	1,330,250	1,330,250

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

27. CREDIT RISK

Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The Bank uses internal credit rating tools to assess credit standing of its counterparties and assigns credit ratings accordingly. Also the Bank uses the external ratings, of the major rating agency, where applicable. A potential credit loss might arise due to lack of proper credit analysis of the borrower's credit worthiness, inability to service the debt, lack of appropriate documentation etc.

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 monitored daily. In addition to monitoring credit limits, the Bank manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposure. 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 fulfil 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 recurrently, 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 practice.

The debt securities included in the investment portfolio are mainly sovereign risk. Analysis of investments by counterparty 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 19.The information on Banks maximum credit exposure by business segment is given in note 26. The information on maximum credit risk exposure and their relative risk weights is also provided in note 33.

28. CONCENTRATION OF RISKS OF FINANCIAL ASSETS WITH CREDIT RISK EXPOSURE AND FINANCIAL LIABILITIES

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

2011 SAR'000	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other countries	Total
Assets								
Cash and balances with SAMA	17,623,468	-	9	-	-	-	-	17,623,477
Due from banks and other financial institutions	638,526	861,837	3,759,538	696,225	-	88,617	40,280	6,085,023
Investments, net and investment in associates	14,409,394	2,007,276	9,533,992	10,149,642	6,487	390,103	459,230	36,956,124
Loans and advances, net	106,647,687	5,147,379	883,590	248,525	-	-	45,583	112,972,764
Total	139,319,075	8,016,492	14,177,129	11,094,392	6,487	478,720	545,093	173,637,388
Liabilities								
Due to banks and other financial institutions	791,993	1,661,244	1,378,220	1,848,827	-	-	561,664	6,241,948
Customer deposits	137,853,509	1,521,166	447,825	-	-	-		139,822,500
Debt securities in issue	-	-	-	-	-	-	-	-
Total	138,645,502	3,182,410	1,826,045	1,848,827	-	-	561,664	146,064,448
Commitments and contingencies	66,438,456	1,177,367	7,969,373	6,942,086	-	15,844	379	82,543,505
Maximum credit exposure (stated at credit equivalent amounts)								
Derivatives	737,475	336,142	1,046,864	112,919	-	-	44	2,233,444
Commitments and contingencies	30,484,008	306,964	3,512,417	3,471,043	-	7,922	189	37,782,543

2010 SAR'000	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other countries	Total
Assets								
Cash and balances with SAMA	23,178,548	-	11	1	-	-	-	23,178,560
Due from banks and other financial institutions	419,582	916,981	3,049,177	267,482	-	14,875	20,657	4,688,754
Investments, net	18,712,287	1,266,535	2,827,165	10,311,055	19,325	154,437	531,637	33,822,441
Loans and advances, net	102,394,307	3,029,637	319,244	239,883	-	-	51,669	106,034,740
Total	144,704,724	5,213,153	6,195,597	10,818,421	19,325	169,312	603,963	167,724,495
Liabilities								
Due to banks and other financial institutions	1,114,274	3,661,217	3,189,923	2,061,258	-	-	609,879	10,636,551
Customer deposits	126,060,848	47,568	837,037	6	-	-	-	126,945,459
Debt securities in issue	-	-	1,873,723	-	-	-	-	1,873,723
Total	127,175,122	3,708,785	5,900,683	2,061,264	-	-	609,879	139,455,733
Commitments and contingencies	48,705,174	608,842	9,068,632	9,476,739	1,522	276,880	5,081,038	73,218,827
Maximum credit exposure (stated at credit equivalent amounts)								
Derivatives	545,658	170,549	511,914	102,129	-	-	-	1,330,250
Commitments and contingencies	22,853,330	275,929	4,516,084	4,738,071	761	112,731	1,782,374	34,279,280

b) The distributions by geographical concentration of non-performing loans and advances and specific allowance for credit losses, which is entirely attributable to Saudi Arabia is as follows:

	Non-performing loans and advances, net		Allowance for credit losses	
	2011 SAR'000	2010 SAR'000	**2011 SAR'000**	2010 SAR'000
Kingdom of Saudi Arabia	**1,879,223**	1,813,485	**(926,195)**	(1,216,004)
Total	**1,879,223**	1,813,485	**(926,195)**	(1,216,004)

29. MARKET RISK

Market Risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate due to changes in market variables such as special commission rates, foreign exchange rates, commodity and equity prices. The Bank classifies exposures to market risk into either trading or non-trading/ banking-book. The market risk for the trading book is managed and monitored using a VaR methodology. Market risk for the non-trading book is managed and monitored using a combination of VaR, stress testing and sensitivity analysis

a) Market Risk - Trading Book

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

A VaR methodology estimates the potential negative change in market value of a portfolio at a given confidence level and over a specified time horizon. The Bank uses variance-covariance approach for calculating VaR for trading book based on historical data (of 1 year). VaR models are usually designed to measure the market risk in a normal market environment and therefore the use of VaR has limitations because it is based on historical correlations and volatilities in market prices and assumes that the future movements will follow a statistical distribution.

The Bank calculates VaR on the basis of the following:

1. 1 day holding period at 95% confidence interval for internal reporting
2. 10 days holding period at 99% confidence interval for regulatory capital computation (under IMA approach of Basel II Accord that the Bank plans to adopt in near future)
3. 1 day holding period at 99% confidence interval for internal reporting and for disclosure purposes.

This means that the VaR that the Bank measures is an estimate (using a confidence level of 95% and 99% of the potential loss) that is not expected to be exceeded if the current market positions were to be held unchanged for one day or 10 days. The use of 99% confidence level depicts that within a 1-day horizon, losses exceeding VaR figure should occur, on average, not more than once every hundred days.

The VaR represents the risk of portfolios at the close of a business day, and it does not account for any losses that may occur beyond the defined confidence interval. The actual trading results however, may differ from the VaR calculations and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions.

To overcome the VaR limitations mentioned above, the Bank also carries out stress tests of both non-trading and trading portfolios to simulate conditions outside normal confidence intervals using six stress scenarios for the entire Bank. The potential losses occurring under stress test conditions are reported regularly to the Bank's Asset Liability Committee (ALCO) for their review.

The Bank's VaR related information for the year ended December 31, 2011 and 2010 using a 1 day holding period at 99% confidence interval is as under. All the figures are in million SAR:

	2011			
	Foreign exchange rate risk	**Special commission rate risk**	**Equity price risk**	**Overall risk**
VaR as at December 31, 2011	**1.75**	**3.20**	**-**	**4.04**
Average VaR for 2011	**1.89**	**2.52**	**-**	**3.29**
Maximum VaR for 2011	**3.04**	**10.81**	**-**	**11.12**
Minimum VaR for 2011	**1.17**	**0.44**	**-**	**1.51**

	2010			
	Foreign exchange rate risk	Special commission rate risk	Equity price risk	Overall risk
VaR as at December 31, 2010	1.40	2.48	-	3.07
Average VaR for 2010	0.98	1.92	-	2.29
Maximum VaR for 2010	3.25	5.48	-	5.39
Minimum VaR for 2010	0.51	0.45	-	0.83

29. MARKET RISK (continued)

b) Market Risk - Banking Book

i) Special commission rate risk

Special commission rate risk arises from the possibility that the changes in special commission rates will affect either the fair values or the future cash flows of the financial instruments. The Bank has established Net special commission Income at Risk and Market Value at Risk (MVaR) limits that are monitored by ALCO. There are gap limits to accommodate Forward FX and Money Market for all currencies. The Bank monitors positions daily and uses hedging strategies to ensure maintenance of positions within the established gap limits.

The following table depicts the sensitivity to a reasonable possible change in special commission rates, with other variables held constant, on the Bank's consolidated income statement or equity. The sensitivity of the income is the effect of the assumed changes in special commission rates on the net special commission income for one year, on the non-trading financial assets and financial liabilities held as at December 31, 2011 & 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 at December 31, 2011 & 2010 for the effect of assumed changes in special commission rates. The sensitivity of equity is analyzed by maturity of the asset or swap. All the banking book exposures are monitored and analyzed in currency concentrations and relevant sensitivities are disclosed in SAR million.

<u>2011</u>

Currency	Increase in basis	Sensitivity of special commission income	Sensitivity of equity				Total
			6 months or less	1 year or less	1-5 years	Over 5 years	
SAR	+ 100	113.18	-	-	-	-	-
USD	+ 100	(55.06)	2.48	2.40	26.38	215.88	247.14
EUR	+ 100	69.97	0.22	0.40	7.06	2.97	10.65
GBP	+ 100	0.20	0.07	-	0.98	1.22	2.27
JPY	+ 100	5.96	0.07	-	-	-	0.07
Others	+ 100	(1.16)	0.02	0.09	1.76	1.85	3.72

Currency	Decrease in basis	Sensitivity of special commission income	Sensitivity of equity				Total
			6 months or less	1 year or less	1-5 years	Over 5 years	
SAR	- 100	(172.45)	-	-	-	-	-
USD	- 100	4.25	(2.48)	(2.40)	(26.38)	(215.88)	(247.14)
EUR	- 100	(68.93)	(0.22)	(0.40)	(7.06)	(2.97)	(10.65)
GBP	- 100	0.37	(0.07)	-	(0.98)	(1.22)	(2.27)
JPY	- 100	(3.32)	(0.07)	-	-	-	(0.07)
Others	- 100	(2.31)	(0.02)	(0.09)	(1.76)	(1.85)	(3.72)

29. MARKET RISK (continued)

b) Market Risk - Banking Book

i) Special commission rate risk

2010

Currency	Increase in basis	Sensitivity of special commission income	Sensitivity of equity				Total
			6 months or less	1 year or less	1-5 years	Over 5 years	
SAR	+ 100	153.76	-	-	-	-	-
USD	+ 100	(104.10)	2.51	0.96	28.53	185.82	217.82
EUR	+ 100	6.00	0.46	0.49	7.29	9.93	18.17
GBP	+ 100	(3.56)	0.03	0.21	0.93	1.88	3.05
JPY	+ 100	19.23	-	-	-	-	-
Others	+ 100	5.01	0.04	0.18	2.07	-	2.29

Currency	Decrease in basis	Sensitivity of special commission income	Sensitivity of equity				Total
			6 months or less	1 year or less	1-5 years	Over 5 years	
SAR	- 100	(164.43)	-	-	-	-	-
USD	- 100	28.81	(2.51)	(0.96)	(28.53)	(185.82)	(217.82)
EUR	- 100	(5.74)	(0.46)	(0.49)	(7.29)	(9.93)	(18.17)
GBP	- 100	2.24	(0.03)	(0.21)	(0.93)	(1.88)	(3.05)
JPY	- 100	(11.00)	-	-	-	-	-
Others	- 100	(5.47)	(0.04)	(0.18)	(2.07)	-	(2.29)

Special Commission sensitivity of assets, liabilities and off statement of financial position items

The Bank manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market special commission rates on its financial position and cash flows. The Bank is exposed to special commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off statement of financial position 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 risk management strategies.

29. MARKET RISK (continued)

b) Market Risk - Banking Book (continued)

i) Special commission rate risk(continued)

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

2011 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Non special commission bearing	Total
Assets						
Cash and balances with SAMA	6,828,000	-	-	-	10,795,477	17,623,477
Due from banks and other financial institutions	5,861,053	153,752	-	-	70,218	6,085,023
Investments, net and investment in associates	13,328,479	8,689,078	5,828,297	5,356,160	3,754,110	36,956,124
Loans and advances, net	46,952,349	23,244,022	33,941,642	8,834,751	-	112,972,764
Other real estate	-	-	-	-	440,896	440,896
Property and equipment, net	-	-	-	-	1,806,833	1,806,833
Other assets	-	-	-	-	5,002,273	5,002,273
Total assets	72,969,881	32,086,852	39,769,939	14,190,911	21,869,807	180,887,390
Liabilities and shareholders' equity						
Due to banks and other financial institutions	5,514,930	4,750	-	-	722,268	6,241,948
Customer deposits	47,400,097	29,837,931	-	-	62,584,472	139,822,500
Other liabilities	-	-	-	-	4,664,587	4,664,587
Shareholders' equity	-	-	-	-	30,158,355	30,158,355
Total liabilities and shareholders' equity	52,915,027	29,842,681	-	-	98,129,682	180,887,390
Special commission rate sensitivity -On statement of financial position gap	20,054,854	2,244,171	39,769,939	14,190,911	(76,259,875)	
Special commission rate sensitivity -Off statement of financial position gap	(553,001)	453,001	100,000	-	-	
Total special commission rate sensitivity gap	19,501,853	2,697,172	39,869,939	14,190,911	(76,259,875)	
Cumulative special commission rate sensitivity gap	19,501,853	22,199,025	62,068,964	76,259,875	-	

2010 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Non special commission bearing	Total
Assets						
Cash and balances with SAMA	14,479,000	-	-	-	8,699,560	23,178,560
Due from banks and other financial institutions	3,734,726	876,251	-	-	77,777	4,688,754
Investments, net	12,387,326	7,038,301	6,373,542	4,538,351	3,484,921	33,822,441
Loans and advances, net	42,465,652	23,342,528	35,127,132	5,099,428	-	106,034,740
Other real estate	-	-	-	-	431,578	431,578
Property and equipment, net	-	-	-	-	1,862,855	1,862,855
Other assets	-	-	-	-	3,537,502	3,537,502
Total assets	73,066,704	31,257,080	41,500,674	9,637,779	18,094,193	173,556,430
Liabilities and shareholders' equity						
Due to banks and other financial institutions	9,751,133	357,598	-	-	527,820	10,636,551
Customer deposits	49,364,899	21,911,047	-	-	55,669,513	126,945,459
Debt securities in issue	1,873,723	-	-	-	-	1,873,723
Other liabilities	-	-	-	-	4,867,479	4,867,479
Shareholders' equity	-	-	-	-	29,233,218	29,233,218
Total liabilities and shareholders' equity	60,989,755	22,268,645	-	-	90,298,030	173,556,430
Special commission rate sensitivity -On statement of financial position gap	12,076,949	8,988,435	41,500,674	9,637,779	(72,203,837)	
Special commission rate sensitivity -Off statement of financial position gap	1,301,749	(1,854,750)	553,001	-	-	
Total special commission rate sensitivity gap	13,378,698	7,133,685	42,053,675	9,637,779	(72,203,837)	
Cumulative special commission rate sensitivity gap	13,378,698	20,512,383	62,566,058	72,203,837	-	

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

29. MARKET RISK (continued)

b) Market Risk - Banking Book

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

Currency Exposures As at December 31, 2011	**Change in currency rate in %**	**Effect on net income**
USD	**+1**	**6.28**
EUR	**+1**	**1.49**
GBP	**+1**	**0.09**
JPY	**+1**	**0.13**
Others	**+1**	**0.15**

Currency Exposures As at December 31, 2010	Change in currency rate in %	Effect on net income
USD	+1	6.14
EUR	+1	0.32
GBP	+1	0.18
JPY	+1	0.10
Others	+1	0.24

iii) Foreign currency risk

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

	2011 Long (short) SAR'000	2010 Long (short) SAR'000
US Dollar	**2,124,911**	1,263,249
Japanese	**115,919**	51,702
Euro	**(27,352)**	(27,724)
Pound	**40,988**	13,507
Other	**78,349**	(20,211)

iv) Banking Book -Equity Price risk

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

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:

Market Indices	**December 31, 2011**		December 31, 2010	
	Change in equity	**Effect in SAR millions**	Change in equity indices %	Effect in SAR millions
Tadawal	**+5**	**50.65**	+5	27.64
	+10	**101.30**	+10	55.27
	-5	**(50.65)**	-5	(27.64)
	-10	**(101.30)**	-10	(55.27)

30. LIQUIDITY RISK

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

30. LIQUIDITY RISK (continued)

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

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 not less than 20% of its deposit liabilities, in the form of cash, gold, 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 upto 75 % of the nominal value of bonds held by the Bank.

The table below summarizes the maturity profile of the Bank's financial liabilities at 31 December 2011 and 2010 based on contractual undiscounted repayment obligations. As special commission payments up to contractual maturity are included in the table, totals do not match with the statement of financial position. The contractual maturities of liabilities have been determined based on the remaining period at the reporting 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 the Bank could be required to pay and the table does not affect the expected cash flows indicated by the Bank's deposit retention history. The undiscounted maturity profile of the liabilities is as follows:

2011 **SAR'000**	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Financial liabilities					
Due to banks and other financial institutions	6,241,061	4,758	-	-	6,245,819
Customer deposits	110,341,522	29,191,239	723,293	5,145	140,261,199
Derivative financial instruments(gross contractual amounts payable)	6,278	7,984	4,463	-	18,725
Total undiscounted financial liabilities	116,588,861	29,203,981	727,756	5,145	146,525,743

2010 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Financial liabilities					
Due to banks and other financial institutions	10,289,929	357,907	-	-	10,647,836
Customer deposits	103,957,418	22,733,762	622,095	6,065	127,319,340
Debt securities in issue	4,828	1,874,539	-	-	1,879,367
Derivative financial instruments(gross contractual amounts	11,579	22,121	17,553	-	51,253
Total undiscounted financial liabilities	114,263,754	24,988,329	639,648	6,065	139,897,796

The table below summarises the maturity profile of the Bank's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date and do not take account of 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.The maturity profile of the Bank's assets and liabilities is as follows:

2011 **SAR'000**	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**No fixed maturity**	**Total**
Assets						
Cash and balances with SAMA	10,659,891	-	-	-	6,963,586	17,623,477
Due from banks and other financial institutions	5,931,271	153,752	-	-	-	6,085,023
Investments, net and investment in associates	9,450,160	10,170,904	7,807,473	5,773,477	3,754,110	36,956,124
Loans and advances, net	38,608,394	19,643,165	39,367,470	15,353,735	-	112,972,764
Other real estate	-	-	-	-	440,896	440,896
Property and equipment, net	-	-	-	-	1,806,833	1,806,833
Other assets	3,550,814	-	-	-	1,451,459	5,002,273
Total assets	68,200,530	29,967,821	47,174,943	21,127,212	14,416,884	180,887,390
Liabilities and shareholders' equity						
Due to banks and other financial institutions	6,237,198	4,750	-	-	-	6,241,948
Customer deposits	109,984,569	29,116,356	716,430	5,145	-	139,822,500
Other liabilities	357,893	-	-	-	4,306,694	4,664,587
Shareholders' equity	-	-	-	-	30,158,355	30,158,355
Total liabilities and shareholders' equity	116,579,660	29,121,106	716,430	5,145	34,465,049	180,887,390

30. LIQUIDITY RISK (continued)

The maturity profile of the Bank's assets and liabilities is as follows (continued):

2010 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	17,041,125	-	-	-	6,137,435	23,178,560
Due from banks and other financial institutions	3,812,503	876,251	-	-	-	4,688,754
Investments, net	9,181,653	6,551,301	9,919,213	4,685,353	3,484,921	33,822,441
Loans and advances, net	33,113,612	21,142,761	40,476,950	11,301,417	-	106,034,740
Other real estate	-	-	-	-	431,578	431,578
Property and equipment, net	-	-	-	-	1,862,855	1,862,855
Other assets	3,253,949	-	-	-	283,553	3,537,502
Total assets	66,402,842	28,570,313	50,396,163	15,986,770	12,200,342	173,556,430
Liabilities and shareholders' equity						
Due to banks and other financial institutions	10,278,953	357,598	-	-	-	10,636,551
Customer deposits	103,633,711	22,683,588	622,095	6,065	-	126,945,459
Debt securities in issue	-	1,873,723	-	-	-	1,873,723
Other liabilities	916,508	-	-	-	3,950,971	4,867,479
Shareholders' equity	-	-	-	-	29,233,218	29,233,218
Total liabilities and shareholders' equity	114,829,172	24,914,909	622,095	6,065	33,184,189	173,556,430

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 19 c) (i) of the financial statements.

31. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

Level 1: quoted market price: financial instruments with quoted prices for identical instruments in active markets.

Level 2: valuation technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

Level 3: valuation technique with significant unobservable inputs: financial instruments valued using valuation techniques where one or more significant inputs are unobservable. Valuations are based on Net Asset Value (NAV) per unit/share as per the as per statement provided by custodian for managed funds or the latest available audited financial statements for entities other than managed funds.

Fair value and fair value hierarchy

2011 **SAR' 000**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Derivative financial instruments	-	**2,958,870**	-	**2,958,870**
Financial investments available for sale	**12,482,326**	**978,828**	**1,748,581**	**15,209,735**
Financial Liabilities				
Derivative financial instruments	-	**139,415**	-	**139,415**

2010 SAR' 000	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments	-	2,674,320	-	2,674,320
Financial investments available for sale	11,022,232	965,398	2,300,789	14,288,419
Financial Liabilities				
Derivative financial instruments	-	683,185	-	683,185

There were no transfer in/out between the fair value hierarchy levels.

Although the Bank believes that its estimates of fair value of Level 3 securities are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. Level 3 consists of local and international unquoted equity securities. Bank uses net assets valuation method based on most recent available audited financial statements to fair value these investments. Other methodology that could be used to value the securities is discount cash flow model based on expected dividend yield for which no data is available. Therefore potential impact of using reasonably possible alternative assumptions for the valuation techniques is not quantified.

Reconciliation of movement in Level 3	**2011** **SAR' 000**	2010 SAR' 000
Opening balance	**2,300,789**	1,983,968
Total gains or losses		
- recognised in consolidated income statement	**(387)**	(1,191)
- recognised in other comprehensive income	**(94,330)**	164,183
Purchases	-	163,176
Redemption	**(139,831)**	(9,347)
Classified as associates (refer note 8)	**(317,660)**	-
Closing balance	**1,748,581**	2,300,789

31. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

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

The fair values of on-statement of financial position financial instruments, except for other investments held at amortised costs and held-to-maturity investments which are carried at amortised cost, are not significantly different from the carrying values included in the financial statements.The fair values of loans and advances, special commission bearing customers' deposits, debts securities in issue, due from and due to banks which are carried at amortised cost, are not significantly different from the carrying values included in the financial statements, since the current market special commission rates for similar financial instruments are not significantly different from the contracted rates, and for the short duration of due from and due to banks.

The estimated fair values of held-to-maturity investments and other investments held at amortised cost are based on quoted market prices when available or pricing models when used in the case of certain fixed rate bonds (respectively). The fair values of these investments are disclosed in note 6.

The fair values of derivatives are based on the quoted market prices when available or by using the appropriate valuation technique.

32. RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Bank transacts business with related parties. Related party transactions are governed by the limits set by the Banking Control Laws and regulations issued by SAMA. The balances at December 31, resulting from such transactions are as follows:

	2011	2010
	SAR'000	SAR'000
a) Directors, key management personnel, other major shareholders' and their affiliates:		
Loans and advances	**5,057,884**	5,149,513
Customer deposits	**23,443,098**	25,616,748
Derivatives asset(at fair value)	**1,494,532**	1,367,828
Commitments and contingencies (irrevocable)	**3,333,428**	3,294,073
Executive end of service	**35,651**	26,576

Key management personnel are those persons, including a non-executive director, having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly.

Other major shareholders represent shareholdings of 5% or more of the Bank's issued share capital.

b) Bank's mutual funds:		
Customers' deposits	**1,607,473**	2,360,469

Income and expenses pertaining to transactions with related parties included in the financial statements are as follows:

	2011	2010
	SAR'000	SAR'000
Special commission income	**140,974**	112,419
Special commission expense	**277,053**	367,765
Fees from banking services, net	**208,066**	186,962
Directors and committees remuneration and expenses	**4,431**	4,425
Executive remuneration and bonus	**28,007**	21,426
Executive end of service	**2,700**	2,273
Other expenses	**5,248**	5,248

33. CAPITAL ADEQUACY

The Group's objectives when managing capital, are, to comply with the capital requirements set by SAMA; to safeguard the Group'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 daily by the Group's management. SAMA requires to hold the minimum level of the regulatory capital of and maintain a ratio of total regulatory capital to the risk-weighted asset at or above the agreed minimum of 8%.

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by the Saudi Arabian Monetary Agency in supervising the banks in the Kingdom.

Pursuant to SAMA guidelines regarding implementation of Basel II, Pillar 3 disclosures effective 1 January 2008, the following disclosures have been made.

	2011		2010	
	Capital	**Ratio**	Capital	Ratio
	SAR'000	**%**	SAR'000	%
Top consolidated level	**(unaudited)**		(unaudited)	
Tier 1 capital	**26,835,624**	**14.8%**	26,248,816	16.0%
Total regulatory capital (Tier 1 + Tier 2)	**30,883,950**	**17.1%**	29,986,016	18.3%

33. CAPITAL ADEQUACY (continued)

Risk weighted assets	2011 SAR '000s	2010 SAR '000s
Credit risk weighted assets	167,886,678	152,213,239
Operational risk weighted assets	10,791,225	10,212,100
Market risk weighted assets	2,374,267	1,360,097
Total Pillar 1 Risk Weighted Assets	181,052,170	163,785,436

34. STAFF INVESTMENT SAVINGS PLANS

The Bank operates a Staff Savings Investment Plan. Under the terms of the Staff Savings Investment Plan, participating employees of the Bank make monthly contributions by way of a deduction from their salary subject to a maximum of 15 % of their basic salaries. The Bank also contributes on a monthly basis a pre-determined percentage (subject to a maximum of 6 %) of the basic salary of an employee based on the varying service periods. The proceeds are invested in the Bank's existing range of mutual funds for the benefit of the employees.

The costs of the above plans are charged to the Bank's consolidated income statement.

35. INVESTMENT MANAGEMENT SERVICES

The Bank offers investment management services to its customers, which include management of certain investment funds with assets totaling of SAR 18.9 billion (2010: SAR 21.0 billion).

The Bank's assets under management include non-interest based funds amounting to SAR 5.3 billion (2010: SAR 5.9 billion).

36. ISSUED IFRS BUT NOT YET EFFECTIVE

The Bank has chosen not to early adopt the following new/revised standards issued by IASB and is currently assessing their impact:

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

ii) IAS 28 Investments in Associates and Joint Ventures (2011): revised version of IAS 28 applicable from 1 January 2013. The majority of these revisions result from the incorporation of Joint ventures into IAS 28 (2011) and the fundamental approach to accounting for equity accounted investments has not changed.

iii) IFRS 9 Financial instruments (2010): revised version of IFRS 9 applicable from 1 January 2015. This incorporates revised requirements for the classification and measurement of financial liabilities and carries over the existing derecognition requirements from IAS 39 Financial Instruments: Recognition and Measurement.

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

v) IFRS 11 Joint arrangements: IFRS 11 replaces IAS 31 Interests in Joint Ventures and is applicable from 1 January 2013. Requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and then account for those rights and obligations in accordance with that type of joint arrangement.

vi) IFRS 12 Disclosure of Interests in Other Entities: Requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows and is applicable from 1 January 2013.

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

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

i) Amendments to IAS 1 Presentation of financial statements: amends IAS 1 to revise the way other comprehensive income is presented and is applicable from 1 January 2013..

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

iii) Amendments to IAS 32 Financial instruments presentation: Amends IAS 32 to clarify certain aspects relating to requirements on offsetting and is applicable from 1 January 2014.

37. COMPARATIVE FIGURES

Other than reclassifications required by adoption of the revised IAS 39 (amendments), certain prior year figures have been reclassified to conform with current year presentation.

38. BOARD OF DIRECTORS' APPROVAL

The consolidated financial statements were approved by the Board of Directors on 7 Rabi I 1433H (corresponding to 30 January 2012).

39. BASEL II PILLAR 3 DISCLOSURES

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.riyadbank.com and the annual report, respectively, as required by the Saudi Arabian Monetary Agency. Such disclosures are not subject to review or audit by the external auditors.