THE NATIONAL COMMERCIAL BANK

(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED

31 DECEMBER 2011 AND AUDITORS' REPORT

Ernst & Young **KPMG Al Fozan & Al Sadhan**

CONTENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

The National Commercial Bank

(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011 AND 2010

	Note	**2011** **SR '000**	2010 SR '000
ASSETS			
Cash and balances with SAMA	4	**24,702,024**	27,932,539
Due from banks and other financial institutions	5	**11,561,490**	11,846,431
Investments, net	6	**120,489,168**	108,065,249
Loans and advances, net	7	**135,289,496**	125,597,091
Investment in associates, net	8	**838,575**	827,465
Other real estate, net	9	**249,169**	279,665
Property and equipment, net	10	**2,317,353**	2,097,005
Intangible assets, net	11	**626,308**	922,677
Goodwill, net	11	**604,635**	734,744
Other assets	12	**4,519,943**	4,069,126
Total assets		**301,198,161**	282,371,992
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Due to banks and other financial institutions	14	**19,939,666**	14,331,698
Customers' deposits	15	**239,457,558**	229,160,181
Other liabilities	16	**6,215,683**	6,023,420
Total liabilities		**265,612,907**	249,515,299
SHAREHOLDERS' EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital	17	**15,000,000**	15,000,000
Treasury shares	17&42	**(177,093)**	(177,093)
Statutory reserve	18	**12,105,333**	10,655,725
Other reserves (cumulative changes in fair values)	19	**1,918,274**	1,318,720
Retained earnings		**5,226,884**	3,807,791
Proposed dividend	29	**1,495,975**	1,495,975
Foreign currency translation reserve		**(1,404,155)**	(828,860)
Total shareholders' equity attributable to equity holders of the Parent		**34,165,218**	31,272,258
Non-controlling interests		**1,420,036**	1,584,435
Total shareholders' equity		**35,585,254**	32,856,693
Total liabilities and shareholders' equity		**301,198,161**	282,371,992

The accompanying notes 1 to 45 form an integral part of these consolidated financial statements.

The National Commercial Bank

(A Saudi Joint Stock Company)

CONSOLIDATED INCOME STATEMENT

FOR THE YEARS ENDED 31 DECEMBER 2011 AND 2010

	Note	**2011 SR '000**	2010 SR '000
Special commission income	21	**10,185,103**	9,711,254
Special commission expense	21	**(1,603,677)**	(1,561,452)
Net special commission income		**8,581,426**	8,149,802
Fee income from banking services, net	22	**2,631,332**	2,487,858
Foreign exchange income, net		**474,305**	348,786
(Loss) income from FVIS investments, net	23	**(86,704)**	181,115
Trading income, net	24	**147,469**	151,154
Dividend income	25	**65,626**	65,781
Gains on non-trading investments, net	26	**324,940**	282,760
Operating income		**12,138,394**	11,667,256
Salaries and employee-related expenses		**2,480,154**	2,336,251
Rent and premises-related expenses		**449,452**	401,569
Depreciation of property and equipment	10	**352,377**	335,156
Amortisation of intangible assets	11.1	**197,880**	235,557
Other general and administrative expenses		**1,269,856**	1,163,370
Impairment charge for credit losses, net	7.3	**1,033,317**	1,831,560
Impairment charge on investments, net	6.5	**22,000**	52,883
Impairment loss on goodwill and intangible assets	11	**-**	277,153
Operating expenses		**5,805,036**	6,633,499
Income from operations, net		**6,333,358**	5,033,757
Other (expenses)			
Donations		**(53,856)**	(67,503)
Other non-operating (expenses), net	27	**(173,383)**	(162,850)
Net other (expenses)		**(227,239)**	(230,353)
Net income for the year		**6,106,119**	4,803,404
Net income for the year attributable to:			
Equity holders of the Parent		**6,011,751**	4,723,835
Non-controlling interest		**94,368**	79,569
Net income for the year		**6,106,119**	4,803,404
Basic and diluted earnings per share (expressed in SR per share)	28	**4.02**	3.16

The accompanying notes 1 to 45 form an integral part of these consolidated financial statements.

The National Commercial Bank

(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED 31 DECEMBER 2011 AND 2010

	Note	2011 SR '000	2010 SR '000
Net income for the year		**6,106,119**	4,803,404
Other comprehensive income (loss):			
Net changes arising during the year:			
Revaluation gains on cash flow hedges, net (effective portion)	13	**80,561**	22,122
Revaluation gains on available for sale investments (AFS), net		**738,805**	1,136,020
Foreign currency translation reserve - (losses)		**(828,323)**	(110,417)
Transfers to consolidated income statement:			
Fair value (gains) on cash flow hedges	13	**(53,095)**	(77,913)
(Gains) on non-trading investments, net (AFS)		**(209,630)**	(228,666)
Impairment charge on investments (AFS)		**22,000**	89,644
Other comprehensive (loss) income for the year		**(249,682)**	830,790
Total comprehensive income for the year		**5,856,437**	5,634,194
Total comprehensive income attributable to:			
Equity holders of the parent		**6,036,010**	5,595,359
Non-controlling interest		**(179,573)**	38,835
Total comprehensive income for the year		**5,856,437**	5,634,194

The National Commercial Bank
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2011 AND 2010

		Attributable to equity holders of the parent										
					Other reserves							
	Note	Share capital SR' 000	Treasury shares SR' 000	Statutory reserve SR' 000	Available for sale financial assets SR' 000	Cash flow hedge SR' 000	Retained earnings SR' 000	Proposed dividend SR' 000	Foreign currency translation reserve SR' 000	Total SR' 000	Non-controlling interests SR' 000	Total SR' 000
2011												
Balance as at 1 January 2011		**15,000,000**	**(177,093)**	**10,655,725**	**1,289,301**	**29,419**	**3,807,791**	**1,495,975**	**(828,860)**	**31,272,258**	**1,584,435**	**32,856,693**
Total comprehensive income/(loss) for the year		**-**	**-**	**-**	**572,088**	**27,466**	**6,011,751**	**-**	**(575,295)**	**6,036,010**	**(179,573)**	**5,856,437**
Transfer to statutory reserve		**-**	**-**	**1,449,159**	**-**	**-**	**(1,449,159)**	**-**	**-**	**-**	**-**	**-**
Transfer related to Lebanon branch		**-**	**-**	**449**	**-**	**-**	**(449)**	**-**	**-**	**-**	**-**	**-**
Adjustments in non-controlling interest and subsidiaries		**-**	**-**	**-**	**-**	**-**	**2,469**	**-**	**-**	**2,469**	**16,249**	**18,718**
Proposed final dividend for 2011	29	**-**	**-**	**-**	**-**	**-**	**(1,495,975)**	**1,495,975**	**-**		**-**	**-**
Zakat - NCB & NCBC (included in other liabilities)	16	**-**	**-**	**-**	**-**	**-**	**(452,764)**	**-**	**-**	**(452,764)**	**(1,075)**	**(453,839)**
Dividend paid for 2011 (interim) & 2010 (final)	29	**-**	**-**	**-**	**-**	**-**	**(1,196,780)**	**(1,495,975)**	**-**	**(2,692,755)**	**-**	**(2,692,755)**
Balance as at 31 December 2011		**15,000,000**	**(177,093)**	**12,105,333**	**1,861,389**	**56,885**	**5,226,884**	**1,495,975**	**(1,404,155)**	**34,165,218**	**1,420,036**	**35,585,254**
		-	-	-	-		-	-	-		-	
2010												
Balance as at 1 January 2010		15,000,000	(177,093)	9,524,343	281,941	85,210	3,061,538	2,243,963	(748,815)	29,271,087	1,589,072	30,860,159
Total comprehensive income/(loss) for the year		-	-	-	1,007,360	(55,791)	4,723,835	-	(80,045)	5,595,359	38,835	5,634,194
Transfer to statutory reserve		-	-	1,251,319	-	-	(1,251,319)	-	-	-	-	-
Transfer related to Lebanon branch		-	-	911	-	-	(911)	-	-	-	-	-
Adjustments in non-controlling interest and subsidiaries		-	-	(120,848)	-	-	128,257	-	-	7,409	(43,106)	(35,697)
Proposed final dividend for 2010	29	-	-	-	-	-	(1,495,975)	1,495,975	-	-	-	-
Zakat - NCB & NCBC (included in other liabilities)	16	-	-	-	-	-	(160,854)	-	-	(160,854)	(366)	(161,220)
Dividend paid for 2010 (interim) & 2009 (final)	29	-	-	-	-	-	(1,196,780)	(2,243,963)	-	(3,440,743)	-	(3,440,743)
Balance as at 31 December 2010		15,000,000	(177,093)	10,655,725	1,289,301	29,419	3,807,791	1,495,975	(828,860)	31,272,258	1,584,435	32,856,693

The National Commercial Bank

(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED 31 DECEMBER 2011 AND 2010

	Note	2011 SR' 000	2010 SR' 000
OPERATING ACTIVITIES			
Net income for the year		**6,106,119**	4,803,404
Adjustments to reconcile net income to net cash from operating activities:			
(Accretion of discounts) amortization of premium on non-trading investments, net		**(3,188)**	52,294
Amortisation of discount on debt securities issued		**-**	564
(Gains) on non-trading investments, net	26	**(324,940)**	(282,760)
(Gains) on disposal of property and equipment, net	27	**(13,749)**	(9,606)
(Gains) on disposal of other real estate, net	27	**(471)**	(2,275)
Depreciation of property and equipment	10	**352,377**	335,156
Amortisation of intangible assets	11	**197,880**	235,557
Impairment charge for credit losses, net	7.3	**1,033,317**	1,831,560
Bank's share in associates' losses	27	**12,658**	17,274
Impairment charge on investments, net	6.5	**22,000**	52,883
Impairment loss on goodwill and intangible assets	11	**-**	277,153
Provision for unrealized revaluation losses of other real estate	27	**6,365**	5,645
		7,388,368	7,316,849
Net (increase)/decrease in operating assets:			
Due from banks and other financial institutions maturing after 90 days		**(1,751,250)**	-
Statutory deposits with SAMA		**(1,643,065)**	(1,662,730)
Held for trading investments		**78,600**	726,966
Held as fair value through income statement (FVIS) investments		**1,338,356**	(191,663)
Loans and advances		**(10,725,722)**	(15,271,011)
Other real estate		**11,884**	3,853
Other assets		**(412,841)**	(1,294,190)
Net increase/(decrease) in operating liabilities:			
Due to banks and other financial institutions		**5,607,968**	(1,243,323)
Customers' deposits		**10,297,377**	26,577,673
Other liabilities		**(260,565)**	88,388
Net cash from operating activities		**9,929,110**	15,050,812
INVESTING ACTIVITIES			
Proceeds from sale and maturities of non-trading / non-FVIS investments		**118,256,283**	71,978,250
Purchase of non-trading / non-FVIS investments		**(131,049,879)**	(81,979,460)
Purchase of property and equipment	10	**(647,191)**	(301,363)
Proceeds from disposal of property and equipment		**34,577**	17,060
Investment in associates		**(23,768)**	-
Net cash (used in) investing activities		**(13,429,978)**	(10,285,513)
FINANCING ACTIVITIES			
Net movement in non-controlling interest		**(2,532)**	(4,637)
Settlement of debt securities issued		**-**	(2,625,000)
Dividends paid for 2011 (interim)		**(1,196,780)**	(1,196,780)
Dividends paid for 2010 (final)		**(1,495,975)**	(2,243,963)
Cash (used in) financing activities		**(2,695,287)**	(6,070,380)
Net decrease in cash and cash equivalents		**(6,196,155)**	(1,305,081)
Foreign currency translation reserve - net movement on cash and cash equivalents		**(713,616)**	(88,220)
Cash and cash equivalents at the beginning of the year		**27,625,299**	29,018,600
Cash and cash equivalents at the end of the year	30	**20,715,528**	27,625,299
Special commission received during the year		**10,101,061**	9,774,565
Special commission paid during the year		**1,573,480**	1,649,848
Supplemental non-cash information			
Net change in fair value and transfer to consolidated statement of income		**599,554**	961,195
Acquisition of available for sale investment (equities)	43	**-**	1,076,566

The accompanying notes 1 to 45 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

1. GENERAL

(1.1) Introduction

The financial statements comprise the consolidated financial statements of the National Commercial Bank (the Bank) and its subsidiaries (the Group).

The National Commercial Bank (the Bank) is a Saudi Joint Stock Company formed pursuant to Cabinet Resolution No. 186 on 22 Dhul Qida 1417H (30 March 1997) and Royal Decree No. M/19 on 23 Dhul Qida 1417H (31 March 1997), approving the Bank's conversion from a General Partnership to a Saudi Joint Stock Company.

The Bank commenced business as a partnership under registration certificate authenticated by a Royal Decree on 28 Rajab 1369H (15 May 1950) and registered under commercial registration No. 4030001588 issued on 27 Dhul Hijjah 1376H (24 July 1957). The Bank initiated business in the name of "The National Commercial Bank" under Royal Decree No. 3737 on 20 Rabi Thani 1373H (26 December 1953). The date of 1 July 1997 was determined to be the effective date of the Bank's conversion from a General Partnership to a Saudi Joint Stock Company.

The Bank operates through its 288 branches (2010: 284 branches), 7 corporate service centres (2010: 6 centres) and 25 QuickPay remittance centers (2010:13 centers) in the Kingdom of Saudi Arabia and two overseas branches (Lebanon and Bahrain) in addition to the subsidiaries as detailed below. The Group's Head Office is located at the following address:

The National Commercial Bank
Head Office
King Abdul Aziz street
P.O. Box 3555
Jeddah 21481, Saudi Arabia
http://www.alahli.com

The objective of the Group is to provide a full range of banking services. The Group also provides non-special commission based banking products in compliance with Shariah rules, which are approved and supervised by an independent Shariah Board.

(1.2) Group's subsidiaries

The details of the Group's subsidiaries are as follows:

(a) NCB Capital Company

In April 2007, the Bank formed a capital market company, namely, NCB Capital Company, a Saudi Joint Stock Company formed in accordance with Capital Market Authority's Resolution No. 2-83-2005 dated 21 Jumad Awal 1426H (28 June 2005), and registered in the Kingdom of Saudi Arabia. The Bank has 90.71% (2010: 90.42%) direct ownership interest in NCB Capital Company and an indirect ownership of 3.83% (2010: 5.90%) (the indirect ownership is held via an intermediary Trust for future grant to NCB Capital employees).

(b) Türkiye Finans Katılım Bankası A.Ş.

The Bank has 64.68% (2010: 64.68%) direct ownership interest in Türkiye Finans Katılım Bankası A.Ş. (the Turkish Bank). The Turkish Bank operates as a participation bank, by collecting funds through current accounts and profit sharing accounts, and lending funds to consumer and corporate customers, through finance leases and profit/loss sharing partnerships.

(c) Eastgate Capital Holdings Inc. (Eastgate)

The Group has 72.80% (2010: 74.17%) effective ownership interest in Eastgate Capital Holdings Inc., a Middle East-based private equity firm acquired through its subsidiary, NCB Capital. NCB Capital Company acquired 77% direct ownership interest and the remaining 23% is owned by the management of Eastgate.

(d) The Capital Partnership Group Limited (TCP)

NCB Capital Company acquired 100% ownership interest of The Capital Partnership Group Limited on 1 October 2008. On 30 June 2009, NCB Capital disposed off its 22% ownership interest in this subsidiary without losing control. TCP was incorporated and registered in the Dubai International Financial Centre on 1 November 2006. Its principal activity is providing investment management services.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

1. GENERAL (continued)

(1.2) **Group's subsidiaries (continued)**

(e) Real Estate Development Company

The Bank formed Real Estate Development Company (the Company) as a Limited Liability Company registered in the Kingdom of Saudi Arabia under Commercial Registration number 4030146558 dated 21 Dhul Qida 1424H (corresponding to 13 January 2004). The Bank has 100% ownership (2010: 100%) in the Company. The objectives of the Company primarily include keeping and managing property title deeds in the name of the Bank or others (as collateral); registering such title deeds in its name; purchasing land and constructing buildings on such land for future sale or lease.

2. BASIS OF PREPARATION

(2.1) **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 Group also prepares its consolidated financial statements to comply with the Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and the Bank's Articles of Association.

(2.2) **Basis of measurement**

The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of derivatives, financial assets held for trading, held at Fair Value through Income Statement (FVIS) and available for sale investments. In addition, financial assets or liabilities that are carried at cost but are hedged in a fair value hedging relationship are carried at fair value to the extent of the risk being hedged.

(2.3) **Presentation currency**

These consolidated financial statements are presented in Saudi Riyals (SR) and have been rounded off to the nearest thousand Saudi Riyals.

(2.4) **Basis of consolidation**

The consolidated financial statements comprise the financial statements of "The National Commercial Bank" and its subsidiaries - NCB Capital and its subsidiaries, Türkiye Finans Katılım Bankası A.Ş. (the Turkish Bank) and Real Estate Development Company. NCB Capital also consolidates the financial statements of Eastgate and the Capital Partnership Group in its consolidated financial statements. The financial statements of the subsidiaries are prepared for the same reporting year as that of the Group, using consistent accounting policies.

Subsidiaries are all entities over which the Bank has the power to govern the financial and operating policies, so as to obtain benefits from its activities, generally accompanying 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. The results of subsidiaries acquired or disposed of during the year, if any, are included in the consolidated statement of income from the date of the acquisition or up to the date of disposal, as appropriate.

Non-controlling interest represent the portion of net income and net assets of subsidiaries not owned, directly or indirectly, by the Bank in its subsidiaries and are presented separately in the consolidated statement of income and within equity in the consolidated statement of financial position, separately from parent shareholders' equity. Any losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Inter-group balances, income and expenses (except for foreign currency transaction gains or losses) arising from inter-group transactions are eliminated in preparing the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

2. BASIS OF PREPARATION (continued)

(2.5) **Critical accounting judgments and estimates**

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. Such judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. Revision to accounting estimates are recognized in the period in which the estimate is revised and any future period affected.

Significant areas where management has used estimates, assumptions or exercised judgments are as follows:

(a) Impairment charge for credit losses

The Group reviews its non-performing loans and advances at each reporting date to assess whether a specific provision for credit losses should be recorded in the consolidated statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the specific provision.

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

(b) Fair value of financial instruments that are not quoted in an active market

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

(c) Impairment of available for sale equity investments

The Group exercises judgment to consider impairment on the available for sale equity investments. This includes determination of a significant or prolonged decline in the fair value below its cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Group evaluates among other factors, the normal volatility in share price. In addition, the Group 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.

The Group considers 30% or more, as a reasonable measure for significant decline below its cost, irrespective of the duration of the decline, and is recognized in the consolidated statement of income as impairment charge on investments. Prolonged decline represents decline below cost that persists for 1 year or longer irrespective of the amount and is, thus, recognized in the consolidated statement of income as impairment charge on investments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

2. BASIS OF PREPARATION (continued)

(2.5) **Critical accounting judgments and estimates (continued)**

(d) Classification of held to maturity investments

The Group 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 judgment, the Group evaluates its intention and ability to hold such investments to maturity.

(e) Going concern

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

(f) Impairment of non-financial assets

The carrying amounts of the non-financial assets are reviewed at each reporting date or more frequently to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The fair value less cost to sell is based on observable market prices or, if no observable market prices exist, estimated prices for similar assets or if no estimated prices for similar assets are available, then based on discounted future cash flow calculations.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

The subsidiaries are regarded as a cash-generating unit for the purpose of impairment testing of their respective goodwill. Impairment losses are recognised in the consolidated statement of income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of other assets including the intangible assets in the unit (group of units) on a pro rata basis on condition that the carrying amount of other assets should not be reduced below their fair values.

Where goodwill forms part of a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative foreign currency translation reserve and unimpaired goodwill is recognised in the consolidated statement of income.

The previously recognized impairment loss in respect of goodwill and equity investments cannot be reversed through the consolidated statement of income.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Except for the change in accounting policies as detailed in note 3.1 below, the accounting policies adopted in the preparation of these financial statements are consistent with those used in the previous year.

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

(3.1) Change in accounting policies

The accounting policies adopted are consistent with those used in the Bank's 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:

(a) IAS 24 - Related Party Disclosures (revised in 2009):

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

(b) Amendments to IFRS 7 – Financial Instruments: Disclosures (Transfers of Financial Assets):

These amendments introduce new disclosure requirements about transfers of financial assets, including disclosures for:

- financial assets that are not derecognised in their entirety; and
- financial assets that are derecognised in their entirety but for which the entity retains continuing involvement.

(c) Improvements to IFRSs in 2010 – IFRS 7 Financial Instruments: Disclosures:

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

(d) Improvements to IFRSs in 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 recognised 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.

(e) Improvements to IFRSs in 2010 – IFRIC 13 Customer Loyalty Programmes:

The amendments clarifies 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.

(f) Other amendments resulting from the improvements to the IFRSs to the following standards did not have any material financial impact on the accounting policies, financial position and performance of the Group:

- IFRS 3 - Business Combinations
- IFRS 7 - Financial Instruments: Disclosures (related to maximum credit exposure, collateral, and renegotiated loans)
- IAS 27 - Consolidated and Separate Financial Statements
- IAS 32 - Financial Instruments: Presentation

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.2) **Investment in associates**

Associates are enterprises over which the Bank exercises significant influence. Investments in associates are initially recognized at cost and subsequently accounted for under the equity method of accounting and are carried in the balance sheet at the lower of the equity-accounted or the recoverable amount.

A subsidiary is an entity over which the Bank exerts control (see note 2.4). Where the Bank does not have effective control but has significant influence, such investment is then regarded as an associate and accounted for under the equity accounting method (see note 8).

Equity-accounted value represents the cost plus post-acquisition changes in the Bank's share of net assets of the associate (share of the results, reserves and accumulated gains/losses based on latest available financial statements) less impairment, if any.

The previously recognized impairment loss in respect of investment in associate can be reversed through the consolidated statement of income, such that the carrying amount of investment in the balance sheet remains at the lower of the equity-accounted (before provision for impairment) or the recoverable amount.

(3.3) **Settlement date accounting**

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

(3.4) **Derivative financial instruments and hedge accounting**

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

(3.4.1) Derivatives held for trading

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.4) **Derivative financial instruments and hedge accounting (continued)**

(3.4.2) 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 recognized asset or liability, or an unrecognized 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 recognized asset or liability or to a highly probable forecasted transaction that will affect the reported net gain or loss.

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

In relation to fair value hedges, which meet the criteria for hedge accounting, any gain or loss from remeasuring the hedging instruments to fair value is recognized immediately in the consolidated statement of income. Any gain or loss on the hedged item attributable to fair value changes relating to the risks being hedged is adjusted against the carrying amount of the hedged item and recognized in the consolidated statement of income (in the same line item as hedging instrument). Where the fair value hedge of a special commission bearing financial instrument ceases to meet the criteria for hedge accounting, the adjustment in the carrying value is amortised to the consolidated statement of income over the remaining life of the instrument.

In relation to cash flow hedges which meet the criteria for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized initially in other reserves under shareholders' equity and the ineffective portion, if any, is recognized in the consolidated statement of income. For cash flow hedges affecting future transactions, the gains or losses recognized in other reserves, are transferred to the consolidated statement of income in the same period in which the hedged transaction affects the consolidated statement of income.

Hedge accounting is discontinued when the hedging instrument is expired or 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 recognized in other reserves is retained in shareholders' equity until the forecasted transaction occurs. Where the hedged forecasted transaction is no longer expected to occur, the net cumulative gain or loss recognized in other reserves is transferred to the consolidated statement of income.

(3.5) **Foreign currencies**

The consolidated financial statements are presented in Saudi Riyals, which is the Group's presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currency of NCB and NCB Capital is Saudi Riyals. The functional currency for the Turkish Bank is Turkish Lira and the functional currency of Eastgate and TCP is U.S. Dollar.

(a) Transactions and balances

Transactions in foreign currencies are translated into functional currency at the spot exchange rates prevailing at transaction dates. Monetary assets and liabilities at the year-end, denominated in foreign currencies, are retranslated into functional currency 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 statement of income. Non-monetary assets measured at fair value in a foreign currency are translated using the exchange rates prevailing at the date when the fair value was determined.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.5) Foreign currencies (continued)

(b) Foreign subsidiaries

As at the reporting date, the assets and liabilities of the foreign subsidiaries are translated into the Group's presentation currency (Saudi Riyals) at the rate of exchange ruling at the statement of financial position date, shareholders equity (pre-acquisition) is translated at historical exchange rate at the date of acquisition and income and expenses of the statement of income are translated at the spot exchange rates prevailing at transaction dates on daily basis. Exchange differences arising on translation are taken directly to a separate component of equity (foreign currency translation reserve) and are recognized in consolidated statement of comprehensive income. However, if the operation is a non-wholly owned subsidiary, then the relevant proportionate share of the foreign exchange translation reserve is allocated to the non-controlling interest. The deferred cumulative amount of exchange differences recognised in equity will be recognised in the income statement in ‘Other operating expenses’ or ‘Other operating income’ at the time of any future disposal or partial disposal with loss of control.

Goodwill and intangible assets arising on the acquisition of the foreign subsidiary and fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign subsidiary and translated at the closing rate.

(3.6) Offsetting financial instruments

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

(3.7) Revenue / expenses recognition

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), including fees which are considered an integral part of the effective yield of a financial instrument, are recognized in the consolidated statement of income on the effective yield basis including premiums amortised and discounts accreted during the year. The effective special commission rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to the carrying amount of the financial asset or liability. When calculating the effective special commission rate, the Group estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

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

The calculation of the effective special commission rate includes all fees 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.

When the Group enters into a special commission rate swap to change special commission from fixed to floating (or vice versa), the amount of special commission income or expense is adjusted by the net special commission on the swap to the extent hedge is considered to be effective.

Foreign exchange income from banking services are recognized when earned. Dividend income is recognized when the right to receive dividend income is established.

Fees income is recognized on an accrual basis as the service is provided. Loan commitment fees for loans that are likely to be drawn down are deferred and recognized as an adjustment to the effective yield on the loan, if material. Portfolio and other management advisory and service fee income are recognized based on the applicable service contracts, usually on a time-proportionate basis. Fee income received on other services that are provided over an extended period of time, are recognized rateably over the period when the service is being provided, if material.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.8) **Trading income, net**

Results arising from trading activities include all gains and losses from changes in fair value and related special commission income or expense, dividends for financial assets held for trading and foreign exchange differences on open positions. This also includes any ineffective portion of the gain or loss on hedging instruments.

(3.9) **Sale and repurchase agreements**

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognized in the statement of financial position and are measured in accordance with related accounting policies for investments held for trading, 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 price is treated as special commission expense which is accrued over the life of the repo agreement using the effective special commission rate.

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

(3.10) **Business combinations and goodwill**

Business combinations are accounted for using the purchase method of accounting. The cost of an acquisition, being total consideration of the acquisition, is measured as the fair value of the assets given and liabilities incurred or assumed at the date of acquisition, plus costs directly attributable to the acquisition that occured prior to 1 January 2010. Identifiable assets acquired (including previously unrecognized intangible assets) and liabilities (including contingent liabilities) in an acquisition are measured initially at fair values at the date of acquisition, irrespective of the extent of any non-controlling interest. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. The Group elects on a transaction-by-transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognised amount of the identifiable net assets, at the acquisition date.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions, that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in the consolidated income statement. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investments or other categories of investments in accordance with the relevant Group's accounting policy.

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses; impairment loss of goodwill is charged to the consolidated income statement. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that its carrying value may be impaired.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.11) Intangible assets

Current balance of intangible assets in the statement of financial position includes customer deposits relationships, the value of the subsidiary's brands, and other banking relationships (asset management, private equity and trust structure). Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over their estimated useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of income under amortization of intangible assets.

Amortisation of intangible assets is calculated using the straight-line method over their estimated remaining useful lives of 5-6 years.

Intangible assets with indefinite lives are reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

(3.12) Investments

All investment securities are financial assets which are initially recognized at cost, being the fair value of the consideration given, including incremental direct transaction cost except for those transaction charges related to investments held as FVIS or for trading, which are not added to the cost at initial recognition and are charged to the consolidated statement of income. Premiums are amortised and discounts accreted using the effective yield basis and are taken to special commission income.

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

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

Following initial recognition, subsequent transfers between the various classes of investments are not ordinarily permissible.

The subsequent period-end accounting treatment for each class of investment are determined on the basis as set out in the following paragraphs:

(a) Held for trading

Investments classified as held for trading are acquired principally for the purpose of selling or repurchasing in the short term.

Securities which are held for trading are subsequently measured at fair value and any gain or loss arising from a change in fair value is included in the consolidated statement of income in the period in which it arises and are disclosed as trading income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.12) **Investments (continued)**

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

Investments can be designated as FVIS at inception except for equity instruments that do not have a quoted market price in an active market and whose fair values cannot be reliably measured. These include all hedge funds investments that are managed, by the Group directly or indirectly, and whose performance is evaluated on a fair value basis. The Group also classifies some compound debt instruments as Fair Value through Income Statement (FVIS). Under this option, the Group fair values the entire instrument instead of separating the embedded derivative from the host contract and carrying the host at amortised cost.

After initial recognition, investments at FVIS are measured at fair value and any change in the fair value is recognized in the consolidated statement of income for the period in which it arises and are disclosed as income from FVIS investments.

(c) Available for sale

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

Investments which are classified as available for sale are subsequently measured at fair value. Any unrealised gain or loss arising from a change in their fair value is recognized through the consolidated statement of comprehensive income in "other reserves" under shareholders' equity until the investments are derecognized or impaired. On derecognition, cumulative gains or losses previously recognized in shareholders' equity are included in the consolidated statement of income for the period and are disclosed as gains/(losses) on non-trading investments.

Available for sale investments, where fair value cannot be reliably measured, are carried at cost.

For impairment of available for sale investments, see note 3.15(b).

(d) Held to maturity

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

Investments classified as held to maturity cannot ordinarily be sold or reclassified without impacting the Group's ability to use this classification and cannot be designated as a hedged item with respect to special commission rate or prepayment risk, reflecting the intention to hold them to maturity.

(e) Other investments held at amortised cost

Investments having 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 an effective yield basis, less provision for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition using effective yield method. Any gain or loss is recognized in the consolidated statement of income when the investment is derecognized and are disclosed as gains/(losses) on non-trading investments.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.13) **Loans and advances**

Loans and advances are non-derivative financial assets originated or acquired by the Group with fixed or determinable payments.

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

Loans and advances are initially measured at cost, being the fair value of the consideration given.

Following the initial recognition, loans and advances for which fair value has not been hedged are stated at cost less any amount written off and specific and portfolio (collective) provisions for impairment.

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

(3.14) **Due from banks and other financial institutions**

Due from banks and other financial institutions are financial assets which are mainly money market placements with fixed or determinable payments and fixed maturities that are not quoted in an active market. Money market placements are not entered into with the intention of immediate or short-term resale. Due from banks and other financial institutions are initially measured at cost, being the fair value of the consideration given.

Following the initial recognition, due from banks and other financial institutions are stated at cost less any amount written-off and specific provisions for impairment, if any, and a portfolio (collective) provision for counterparty risk.

(3.15) **Impairment of financial assets**

An assessment is made at the date of each statement of financial position to determine whether there is objective evidence that a financial asset or a group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss is recognized for changes in its carrying amount as follows:

(a) Impairment of financial assets held at amortised cost

A financial asset is classified as impaired when there is an objective evidence of credit-related impairment as a result of one or more loss event(s) that occurred after the initial recognition of the asset and those loss events have an impact on the estimated future cash flows of the financial asset or group of financial assets and can be reliably estimated.

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 Group will not be able to collect all amounts due. The amount of the specific provision is the difference between the carrying amount and the estimated recoverable amount. The estimated recoverable amount is the present value of expected cash flows, including amounts estimated to be recoverable from guarantees and collateral, discounted based on the original effective yield basis.

In addition to a specific provision for credit losses of corporate loans, an additional portfolio provision for collective impairment is made on a portfolio basis for credit losses where there is an objective evidence that unidentified losses exist at the reporting date. These are based on any deterioration in the risk rating (i.e. downward migration of risk ratings) of the financial assets since it was originally granted. This provision is estimated based on various factors including credit ratings allocated to a borrower or group of borrowers, the current economic conditions, the experience the Group has had in dealing with a borrower or group of borrowers and available historical default information.

Consumer loans are considered to be impaired when a payment is overdue by 90 days or more. Since the risk metrics for consumer loans are based on a collective “pool” basis, rather than on individual loans, the provisions for consumer loans are also computed on a “pool basis” using the ‘flow rate” methodology. The provision coverage is 100% for such non-performing loans which reach the “write-off point” (write-off points are set at 180 days past due).

The carrying amount of the asset is adjusted through the use of a provision for impairment account and the amount of the adjustment is included in the consolidated statement of income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.15) **Impairment of financial assets (continued)**

(b) Impairment of financial assets held at fair value

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

If, in a subsequent period, the amount of the impairment loss on debt instruments decreases upon subsequent increase in the fair value and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the issuer's credit rating), the previously recognized impairment loss is reversed by adjusting the provision account. The amount of the reversal is recognized in the consolidated statement of income as provision for impairment on investment.

Where a loss has been recognized directly under shareholders' equity, the cumulative net loss recognized in shareholders' equity is transferred to the consolidated statement of income when the asset is considered to be impaired.

For equity investments held as available for sale, a significant or prolonged decline in fair value below its cost represents objective evidence of impairment [also see note 2.5(c)]. Unlike debt securities, the previously recognized impairment loss of equity investments cannot be reversed through the consolidated statement of income as long as the asset continues to be recognized, that is, any increase in fair value, after impairment has been recorded, can only be recognized in equity.

The Group writes off its financial assets when the respective business units together with Risk Management determine that the financial assets are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligations, or that proceeds from collateral will not be sufficient to pay back the entire exposure. The financial assets are, then, written off only in circumstances where effectively all possible means of recovery have been exhausted. For consumer loans, write off decisions are generally based on a product specific past due status. When a financial asset is uncollectible, it is written off against the related provision for impairment, if any, and any amounts in excess of available provision are directly charged to the consolidated statement of income.

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.

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

For impairment of non-financial assets, see note [2.5(f)].

(3.16) **Other real estate**

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

Subsequent to the initial recognition, such real estate are revalued on a periodic basis and adjusted for any subsequent provision for unrealized revaluation losses. Previously recognized unrealised revaluation losses of other real estates can be reversed through the consolidated statement of income on an individual basis upon subsequent increase in fair value. Any unrealised losses on revaluation (or reversal), realized losses or gains on disposal and net rental income are recognised in the consolidated statement of income as other non-operating income/(expenses).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.17) 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	40 years
Leasehold improvements	Over the lease period or 5 years, whichever is shorter
Furniture, equipment and vehicles	4-10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the date of each statement of financial position.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the consolidated statement of income and are disclosed as other non-operating income (expenses).

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

(3.18) Financial liabilities

All money market deposits, customers' deposits and debt securities issued are initially recognized at cost, net of transaction charges, being the fair value of the consideration received. Subsequently, all commission bearing financial liabilities, other than those held for trading or at FVIS or where fair values have been hedged, if any, are measured at amortised cost by taking into account any discount or premium. Premiums are amortised and discounts are accreted on an effective yield basis to maturity and taken to special commission expense.

(3.19) Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letter 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 amortized premium and the best estimate of expenditure required to settle any financial obligations arising as a result of guarantees. Any increase in the liability relating to the financial guarantee is taken to the consolidated statement of income as impairment charge for credit losses, net. The premium received is recognised in the consolidated statement of income as fee income from banking services on a straight line basis over the life of the guarantee, if material.

The specific and portfolio (collective) provisions for letters of credit, guarantees and acceptances are included and presented under other liabilities.

(3.20) Provisions

Provisions (other than impairment or credit loss provisions) are recognized when a reliable estimate can be made by the Group 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.21) **Accounting for leases**

(a) Where the Group is the lessee

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

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

(b) Where the Group is the lessor

When assets are sold under a finance lease, including assets under a lease arrangement in compliance with *Shariah* rules *(Ijara),* the present value of the lease payments is recognised as a receivable and disclosed under loans and advances. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return and is disclosed as special commission income.

(3.22) **Zakat and overseas income tax**

Zakat is the liability of the shareholders. Zakat is computed on the higher of net adjusted income or adjusted shareholders' equity using the basis defined under the Saudi Zakat Regulations. Zakat is paid by the Bank on their behalf and is not charged to the consolidated statement of income but is deducted from the gross dividend paid to the shareholders or charged to retained earnings as an appropriation of net income if no dividend has been distributed.

Overseas branches and subsidiaries are subject to income tax as per rules and regulations of country in which they are incorporated and such taxes are reported under non-operating expenses.

(3.23) **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 ninety days.

(3.24) **Derecognition of financial instruments**

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

In instances where the Group is assessed to have transferred a financial asset, the asset is derecognized if the Group has transferred substantially all the risks and rewards of ownership. Where the Group has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognized only if the Group has not retained control of the financial asset. The Group 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 derecognized when it is extinguished, that is, when the obligation specified in the contract is either discharged, cancelled or expires.

(3.25) **Investment management services**

The financial statements of investment management mutual funds are not included in the consolidated financial statements of the Group. Transactions with the funds are disclosed under related party transactions; the Group’s share of these funds is included in held for trading investments.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.26) **Financing products in compliance with *Shariah* rules**

In addition to conventional banking products, the Bank offers its customers certain non-special commission based financing products that comply with Shariah rules. These are approved and overseen by the Bank's Shariah Board.

3.26.1) Murabaha

Murabaha is a Shariah-compliant form of financing where the Bank, based on requests from its customers, purchases specific commodities and sells them to the customers at an agreed-upon price equal to the Bank's cost plus a specified profit margin, which is payable on a deferred basis in agreed-upon installments.

3.26.2) Tayseer

Tayseer Alahli is a Shariah-compliant financing instrument introduced by the Bank for customers in need of cash financing. It involves the Bank buying commodities from international or local markets and selling them to customers at agreed-upon deferred installment terms. Customers, on their own, or by appointing an agent, resell the commodities to third parties for cash.

3.26.3) Ijara with a promise to transfer ownership

Ijara is a Shariah-compliant form of financing where the Bank, based on requests from customers, purchases assets with agreed-upon specifications on a cash basis and leases them to customers for an agreed-upon rent to be settled in agreed-upon installments. In the Ijara contract, the Bank promises to transfer ownership of the assets to its customers at the end the lease periods, either by sale at nominal prices or in the form of grants.

3.26.4) Istisna'a

Istisna'a is a contract for the acquisition of assets to be manufactured in accordance with customer specifications. The Bank signs Istisna'a contracts with customers to provide specified assets at agreed-upon prices (equal to the Bank's cost plus a specified profit margin) and payment terms. The Bank then signs parallel Istisna'a agreements with manufacturers for the delivery of these assets in return for settlement of the costs by the Bank.

All the above Shariah-compliant financing products are accounted for using IFRS and in conformity with the accounting policies described in these financial statements. They are included in loans and advances.

(3.27) **Shariah-compliant deposit products**

The Bank offers its customers certain deposit products that comply with Shariah rules. These are approved and overseen by the Bank's Shariah Board.

3.27.1) AlKhairaat

Alkhairaat is a Shariah-compliant product based on commodity Murabaha. The Bank acts as an agent for its customers in purchasing commodities on their behalf with their funds and then purchases these commodities for its own account from customers at agreed-upon price and deferred maturities (3,6,9 or 12 months). Being a retail product, customers are allowed to choose the investment amount, tenure, and currency. Since the Bank purchases commodities from its customers, it is liable to them for the capital they invested plus a profit.

This Shariah-compliant deposit product is accounted for using IFRS, in conformity with the accounting policies described in these financial statements. They are included in customers' deposit.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.28) **Treasury shares**

Treasury shares are recorded at acquisition cost and presented as a deduction from shareholders' equity. Any gains or losses on disposal of such shares are reflected under shareholders' equity and shall not be recognized in the consolidated income statement.

(3.29) **End of Service Benefits**

The provision for end of service benefits is based on the rules stated under The Saudi Arabian Labor and Workmen Law and in accordance with the local statutory requirements of the foreign branches and subsidiaries.

The provision for the Bank is also in line with independent actuarial valuation of the Bank liability.

(3.30) **Staff Compensation**

The Bank's Board of Directors and its Nomination and Compensation Committee oversee the design and implementation of the Bank's Compensation process in accordance with SAMA's Compensation Rules.

Key elements of compensation in the Bank:

(3.30.1) Fixed Compensation

The fixed compensation element comprises salaries, allowances and cash and in-kind benefits. Salaries are set in relation to market rates to attract, retain and incentivize talented individuals. Salary administration is based on some key processes such as role profiling, job evaluation and pay scales and grading. The competitiveness of the pay structure is maintained through participation in periodic and regular market pay surveys.

(3.30.2) Variable Compensation

Variable compensation is designed to drive performance and limit excessive risk-taking. The Bank maintains two plans under this compensation element:

(a) Annual Performance Bonus

This plan aims to achieve a set of annual financial and non-financial objectives. Financial objectives relate to the economic performance of banking operations, while non-financial objectives relate to compliance with risk standards in addition to the achievement of certain strategic objectives relating to the employee development, teamwork, staff morale and other objectives.

The Bank has a periodic performance appraisal process aimed at assessing employees' performance and contribution. Annual performance bonus payments are based on employee contributions as well as the performance of their businesses and the Bank's overall results. The overall annual performance bonus pool is set as a percentage of the Bank's net income, adjusted to reflect the core performance of the Bank's employees. The Bank does not have a guaranteed bonus plan.

The cost of this plan is recognized in the income statement of the year to which it relates and is normally paid during the 1st quarter of the following year.

(b) Long Term Performance Plan

This plan aims at driving and rewarding achievements that lead to long-term corporate success, measured on the basis of return on equity (ROE) attributable to the equity holders of the Parent. The plan is rolled out in three-year cycles. The Bank's actual performance is assessed at the end of each cycle as a basis for determining the actual payout amount.

Although all executives whose roles and accountabilities are likely to influence the Bank's long term success are eligible to participate in this plan, their actual selection is made through rigorous vetting to ensure that other critical participation criteria are met.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.30) **Staff Compensation (continued)**

The cost of the plan is estimated by reference to a set of expected return-on-equity forecasts at the beginning of each cycle and is reviewed annually.

The three year cost estimate is apportioned and charged equally to the income statement of each year in the cycle. As the estimate is revised annually, the difference between the latest and the previous estimate is apportioned and charged equally over the remainder of the cycle.

(3.30.3) Compensation and Nomination Committee

The Compensation and Nomination Committee was established by the Board of Directors and is composed of four non-executive members including the Chairman of the Committee. The Committee's role and responsibilities have been reviewed and updated in line with SAMA’s Compensation Rules.

The Committee is responsible for the development and implementation of the compensation process and oversight of its execution, with the objective of preventing excessive risk-taking and promoting corporate financial soundness. The Committee submits its recommendations, resolutions and reports to the Board of Directors for approval.

4. CASH AND BALANCES WITH SAMA

	2011 **SR ’000**	2010 SR ’000
Cash in hand	**3,247,183**	2,759,131
Balances with SAMA:		
Statutory deposit	**13,796,736**	12,153,671
Current accounts	**158**	9,918
Money market placements (Reverse repo)	**7,657,947**	13,009,819
Total	**24,702,024**	27,932,539

In accordance with article (7) of the Banking Control Law and regulations issued by 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 Gregorian month (see note 34). The statutory deposits with SAMA are not available to finance the Bank’s day-to-day operations and therefore are not part of cash and cash equivalents.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2011 SR '000	2010 SR '000
Current accounts	**2,961,824**	4,447,925
Money market placements	**8,601,541**	7,400,381
Total	**11,563,365**	11,848,306
Provision for impairment and counterparty risk	**(1,875)**	(1,875)
Due from banks and other financial institutions, net	**11,561,490**	11,846,431

6. INVESTMENTS, NET

(6.1) Investments are classified as follows:

(a) Held for trading

	Domestic		International		Total	
	2011 SR '000	2010 SR '000	**2011 SR '000**	2010 SR '000	**2011 SR '000**	2010 SR '000
Mutual funds	**508,510**	587,110	**-**	-	**508,510**	587,110
Held for trading	**508,510**	587,110	**-**	-	**508,510**	587,110

(b) Held as FVIS

	Domestic		International		Total	
	2011 SR '000	2010 SR '000	**2011 SR '000**	2010 SR '000	**2011 SR '000**	2010 SR '000
Hedge funds and externally managed portfolio	**-**	-	**3,109,644**	4,448,001	**3,109,644**	4,448,001
Held as FVIS	**-**	-	**3,109,644**	4,448,001	**3,109,644**	4,448,001

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

6. INVESTMENTS, NET (continued)

(c) Available for sale

	Domestic		International		Total	
	2011 SR '000	2010 SR '000	**2011 SR '000**	2010 SR '000	**2011 SR '000**	**2010** SR '000
Fixed rate securities	**309,278**	364,226	**24,188,536**	21,293,870	**24,497,814**	21,658,096
Floating rate securities	-	-	**4,724,271**	5,776,361	**4,724,271**	5,776,361
Structured credit	-	-	**214,596**	459,448	**214,596**	459,448
Mutual funds	-	-	**172**	172	**172**	172
Equities	**2,158,718**	2,578,846	**28,992**	27,869	**2,187,710**	2,606,715
Private equity funds	-	-	**1,775,032**	1,505,224	**1,775,032**	1,505,224
Available for sale, gross	**2,467,996**	2,943,072	**30,931,599**	29,062,944	**33,399,595**	32,006,016
Provision for impairment	**(25,527)**	-	**(1,107,320)**	(1,520,939)	**(1,132,847)**	(1,520,939)
Available for sale, net	**2,442,469**	2,943,072	**29,824,279**	27,542,005	**32,266,748**	30,485,077

(d) Held to maturity

	Domestic		International		Total	
	2011 SR '000	2010 SR '000	**2011 SR '000**	2010 SR '000	**2011 SR '000**	2010 SR '000
Fixed rate securities	-	-	**2,154,228**	2,153,841	**2,154,228**	2,153,841
Floating rate securities	-	-	**13,554**	36,440	**13,554**	36,440
Held to maturity, gross	-	-	**2,167,782**	2,190,281	**2,167,782**	2,190,281
Provision for impairment	-	-	**(1,494)**	(1,494)	**(1,494)**	(1,494)
Held to maturity, net	-	-	**2,166,288**	2,188,787	**2,166,288**	2,188,787

(e) Other investments held at amortized cost

	Domestic		International		Total	
	2011 SR '000	2010 SR '000	**2011 SR '000**	2010 SR '000	**2011 SR '000**	2010 SR '000
Fixed rate securities	**51,280,245**	46,773,416	**25,669,499**	19,214,788	**76,949,744**	65,988,204
Floating rate securities	**4,700,024**	3,791,000	**797,063**	617,676	**5,497,087**	4,408,676
Other investments held at amortized cost, gross	**55,980,269**	50,564,416	**26,466,562**	19,832,464	**82,446,831**	70,396,880
Provision for impairment	-	-	**(8,853)**	(40,606)	**(8,853)**	(40,606)
Other investments held at amortized cost, net	**55,980,269**	50,564,416	**26,457,709**	19,791,858	**82,437,978**	70,356,274
Investments, net	**58,931,248**	54,094,598	**61,557,920**	53,970,651	**120,489,168**	108,065,249

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

(6.2) The analysis of the composition of investments is as follows:

	2011 SR '000			2010 SR '000		
	Quoted	**Unquoted**	**Total**	Quoted	Unquoted	Total
Fixed rate securities	**26,652,042**	**76,949,744**	**103,601,786**	23,503,241	66,296,899	89,800,140
Floating rate securities	**4,737,825**	**5,497,087**	**10,234,912**	5,494,707	4,726,770	10,221,477
Structured credit	**-**	**214,596**	**214,596**	-	459,448	459,448
Mutual funds	**508,510**	**172**	**508,682**	587,110	172	587,282
Hedge funds and externally managed portfolio	**-**	**3,109,645**	**3,109,645**	-	4,448,001	4,448,001
Equities	**2,111,816**	**75,894**	**2,187,710**	2,531,944	74,771	2,606,715
Private equity funds	**-**	**1,775,031**	**1,775,031**	-	1,505,224	1,505,224
Investments, gross	**34,010,193**	**87,622,169**	**121,632,362**	32,117,002	77,511,285	109,628,287
Provision for impairment	**(217,238)**	**(925,956)**	**(1,143,194)**	(245,376)	(1,317,662)	(1,563,038)
Investments, net	**33,792,955**	**86,696,213**	**120,489,168**	31,871,626	76,193,623	108,065,249

The above unquoted fixed rate securities and floating rate securities mainly comprise Saudi Government Securities, Foreign Government and Foreign Quasi Government Bonds.

Fixed and floating rate securities include sovereign, corporate and bank bonds, and asset-backed securities including Collateralized Debt Obligations (CDOs) and Collateralized Loans Obligations (CLOs).

Structured credit includes junior notes of Collateralized Debt Obligations and Collateralized Loans Obligations.

Quoted instruments are those which are quoted in an active market. Unquoted instruments also include certain securities that although are quoted but for which there is no active market, and their carrying value amounts to SR 24,557 million (2010: SR 17,486 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

6. INVESTMENTS, NET (continued)

(6.3) The analyses of unrealized revaluation gains/losses and fair values of held to maturity investments and other investments held at amortized cost are as follows:

(a) Held to maturity

	2011 SR '000				2010 SR '000			
	Carrying value	Gross unrealized gain	Gross unrealized loss	Fair value	Carrying value	Gross unrealized gain	Gross unrealized loss	Fair value
Fixed rate securities	**2,154,228**	**123,555**	**-**	**2,277,783**	2,153,841	115,221	-	2,269,062
Floating rate securities	**13,554**	**-**	**(268)**	**13,286**	36,440	-	(4,920)	31,520
Held to maturity, gross	**2,167,782**	**123,555**	**(268)**	**2,291,069**	2,190,281	115,221	(4,920)	2,300,582
Provision for impairment	**(1,494)**	-	-	**(1,494)**	(1,494)	-	-	(1,494)
Total	**2,166,288**	**123,555**	**(268)**	**2,289,575**	2,188,787	115,221	(4,920)	2,299,088

(b) Other investments held at amortized cost

	2011 SR '000				2010 SR '000			
	Carrying value	Gross unrealized gain	Gross unrealized loss	Fair value	Carrying value	Gross unrealized gain	Gross unrealized loss	Fair value
Fixed rate securities	**76,949,744**	**2,236,856**	**(114,334)**	**79,072,266**	65,988,204	1,884,015	(212,272)	67,659,947
Floating rate securities	**5,497,087**	**120,914**	**(309)**	**5,617,692**	4,408,676	134,154	(50,566)	4,492,264
Other investments held at amortized cost, gross	**82,446,831**	**2,357,770**	**(114,643)**	**84,689,958**	70,396,880	2,018,169	(262,838)	72,152,211
Provision for impairment	**(8,853)**	-	-	**(8,853)**	(40,606)	-	-	(40,606)
Total	**82,437,978**	**2,357,770**	**(114,643)**	**84,681,105**	70,356,274	2,018,169	(262,838)	72,111,605

Equities reported under available for sale investments include unquoted shares of SR 72.4 million (2010: SR 71.2 million), net of provision for impairment, that are carried at cost as their fair values cannot be reliably measured.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

6. INVESTMENTS, NET (continued)

(6.4) Movement in the provision for impairment on investments

The accumulated credit-related provision for investments is as follows:

	2011 **SR '000**	2010 SR '000
Balance at beginning of the year	**1,563,038**	1,912,154
Provided during the year	**161,985**	360,513
(Recoveries) of amounts previously provided	**(139,985)**	(307,630)
(Written-off) against investments sold	**(441,844)**	(401,999)
Balance at the end of the year	**1,143,194**	1,563,038

(6.5) Net charge for impairment provision on investments for the year in the consolidated statement of income:

	2011 **SR '000**	2010 SR '000
Addition during the year	**161,985**	360,513
(Recoveries) of amounts previously provided	**(139,985)**	(307,630)
Net charge for the year (impairment charge on investments, net)	**22,000**	52,883

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

7. LOANS AND ADVANCES, NET

(7.1) Loans and advances

	SR '000				
	Credit cards	**Consumer**	**Corporate**	**Others**	**Total**
2011					
Performing loans and advances	**1,779,329**	**38,423,592**	**92,902,974**	**3,928,963**	**137,034,858**
Non-performing loans and advances	**79,745**	**203,127**	**3,782,980**	**205,417**	**4,271,269**
Total loans and advances	**1,859,074**	**38,626,719**	**96,685,954**	**4,134,380**	**141,306,127**
Provision for credit losses	**(116,385)**	**(745,305)**	**(4,927,424)**	**(227,517)**	**(6,016,631)**
Loans & advances, net	**1,742,689**	**37,881,414**	**91,758,530**	**3,906,863**	**135,289,496**

	SR '000				
	Credit cards	Consumer	Corporate	Others	Total
2010					
Performing loans and advances	1,954,481	32,874,953	89,401,995	2,240,058	126,471,487
Non-performing loans and advances	40,995	436,959	4,347,543	337,113	5,162,610
Total loans and advances	1,995,476	33,311,912	93,749,538	2,577,171	131,634,097
Provision for credit losses	(129,792)	(845,873)	(4,836,465)	(224,876)	(6,037,006)
Loans & advances, net	1,865,684	32,466,039	88,913,073	2,352,295	125,597,091

Others include private banking customers and bank loans.

Loans and advances, net, include financing products in compliance with *Shariah* rules mainly Murabaha, Tayseer and Ijara which are stated at cost less provisions for credit losses, of SR 80,967 million (2010: SR 70,035 million).

Provision for credit losses related to financing products in compliance with *Shariah* rules is SR 1,771 million (2010: SR 1,846 million).

7. LOANS AND ADVANCES, NET (continued)

(7.2) Movements in the provision for credit losses

The accumulated provision for credit losses is as follows:

	SR '000				
	Credit cards	**Consumer**	**Corporate**	**Others**	**Total**
2011					
Balance at beginning of the year	**129,792**	**845,873**	**4,836,465**	**224,876**	**6,037,006**
Provided during the year	**90,365**	**567,375**	**761,321**	**36,200**	**1,455,261**
Bad debts (written off)	**(103,188)**	**(663,872)**	**(561,407)**	**(33,559)**	**(1,362,026)**
(Recoveries) of amounts previously provided	**(584)**	**(4,071)**	**(108,955)**	**-**	**(113,610)**
Balance at the end of the year	**116,385**	**745,305**	**4,927,424**	**227,517**	**6,016,631**

	SR '000				
	Credit cards	Consumer	Corporate	Others	Total
2010					
Balance at beginning of the year	96,224	575,023	3,653,233	298,856	4,623,336
Provided (reversed) during the year	127,092	860,092	1,425,241	(4,436)	2,407,989
Bad debts (written off)	(90,562)	(583,571)	(124,907)	(49,544)	(848,584)
(Recoveries) of amounts previously provided	(2,962)	(5,671)	(117,102)	(20,000)	(145,735)
Balance at the end of the year	129,792	845,873	4,836,465	224,876	6,037,006

(7.3) Net impairment charge for credit losses for the year in the consolidated statement of income:

	2011 **SR '000**	2010 SR '000
Addition during the year	**1,455,261**	2,407,989
(Recoveries) of amounts previously provided	**(113,610)**	(145,735)
	1,341,651	2,262,254
Provision (recoveries) against indirect facilities (included in other liabilities) (note 16)	**11,479**	(6,373)
(Recoveries) of debts previously written-off	**(346,756)**	(445,155)
Direct write-off	**26,943**	20,834
Net charge for the year (impairment charge for credit losses, net)	**1,033,317**	1,831,560

7. LOANS AND ADVANCES, NET (continued)

(7.4) Economic sector risk concentrations for the loans and advances and provisions for credit losses are as follows:

2011	**Performing SR' 000**	**Non-performing SR' 000**	**Specific provision SR' 000**	**Non-performing, net SR' 000**	**Loans and advances, net SR' 000**
Government and quasi Government	**3,639,760**	-	-	-	**3,639,760**
Banks and other financial institutions	**2,684,239**	**37,585**	**(37,543)**	**42**	**2,684,281**
Agriculture and fishing	**619,418**	**8,597**	**(6,956)**	**1,641**	**621,059**
Manufacturing	**20,352,974**	**272,636**	**(213,794)**	**58,842**	**20,411,816**
Electricity, water, gas and health services	**6,487,151**	**35,708**	**(31,027)**	**4,681**	**6,491,832**
Building and construction	**8,504,269**	**1,078,641**	**(1,042,821)**	**35,820**	**8,540,089**
Commerce	**26,669,474**	**2,218,365**	**(2,136,169)**	**82,196**	**26,751,670**
Transportation and communication	**9,221,332**	**59,224**	**(55,563)**	**3,661**	**9,224,993**
Services	**15,843,284**	**80,566**	**(74,988)**	**5,578**	**15,848,862**
Consumer loans and credit cards	**40,202,921**	**282,872**	**(197,829)**	**85,043**	**40,287,964**
Others	**2,810,036**	**197,075**	**(175,047)**	**22,028**	**2,832,064**
	137,034,858	**4,271,269**	**(3,971,737)**	**299,532**	**137,334,390**
Portfolio (collective) provision					**(2,044,894)**
Loans and advances, net					**135,289,496**

2010	Performing SR' 000	Non-performing SR' 000	Specific provision SR' 000	Non-performing, net SR' 000	Loans and advances, net SR' 000
Government and quasi Government	9,003,346	-	-	-	9,003,346
Banks and other financial institutions	329,896	37,589	(37,541)	48	329,944
Agriculture and fishing	587,208	12,563	(8,406)	4,157	591,365
Manufacturing	16,366,779	317,661	(219,625)	98,036	16,464,815
Electricity, water, gas and health services	4,294,633	40,400	(35,113)	5,287	4,299,920
Building and construction	7,694,655	1,158,548	(1,115,408)	43,140	7,737,795
Commerce	25,605,584	2,626,161	(2,354,937)	271,224	25,876,808
Transportation and communication	9,503,782	44,846	(39,213)	5,633	9,509,415
Services	15,031,626	141,758	(75,475)	66,283	15,097,909
Consumer loans and credit cards	34,423,030	469,957	(404,889)	65,068	34,488,098
Others	3,630,948	313,127	(136,871)	176,256	3,807,204
	126,471,487	5,162,610	(4,427,478)	735,132	127,206,619
Portfolio (collective) provision					(1,609,528)
Loans and advances, net					125,597,091

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

7. LOANS AND ADVANCES, NET (continued)

(7.5) Loans and advances include finance lease receivables (including *Ijara* in compliance with *Shariah* rules) which are analysed as follows:

	2011	2010
	SR '000	SR '000
Gross receivables from finance leases:		
Less than 1 year	**1,307,312**	422,280
1 to 5 years	**3,673,460**	4,616,603
Over 5 years	**2,595,016**	-
	7,575,788	5,038,883
Unearned finance income on finance leases	**(1,676,482)**	(1,086,598)
Net receivables from finance leases	**5,899,306**	3,952,285

Provision for uncollectable finance lease receivables included in the provision for credit losses is SR 294 million (2010: SR 267 million).

8. INVESTMENT IN ASSOCIATES, NET

	2011	2010
	SR '000	SR '000
Cost:		
At beginning of the year	**1,463,682**	1,463,682
Additions	**24,000**	-
Partial redemption	**(232)**	-
At 31 December	**1,487,450**	1,463,682
Provision for impairment and share of losses:		
At beginning of the year	**(636,217)**	(618,943)
Additions, net (note 27)	**(12,658)**	(17,274)
At 31 December	**(648,875)**	(636,217)
Investment in associates, net	**838,575**	827,465

Investment in associates represents a 60% (2010: 60%) ownership interest in the Commercial Real Estate Markets Company (see note 3.2), 30% (2010: 30%) ownership interest in each of Al Behar Real Estate Investment Company and Al-Ahali Takaful Company, which are all registered in the Kingdom of Saudi Arabia.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

9. OTHER REAL ESTATE, NET

	2011 SR '000	2010 SR '000
Cost:		
At beginning of the year	**368,394**	375,539
Additions	**33,151**	6,345
Disposals	**(44,424)**	(13,490)
At 31 December	**357,121**	368,394
Provision and foreign currency translation:		
Foreign currency translation reserve	**(12,718)**	-
Provision for unrealized revaluation losses	**(95,234)**	(88,729)
At 31 December	**(107,952)**	(88,729)
Total	**249,169**	279,665

10. PROPERTY AND EQUIPMENT, NET

	2011			2010		
	Land, buildings and leasehold improvements SR '000	**Furniture, equipment and vehicles SR '000**	**Total SR '000**	Land, buildings and leasehold improvements SR '000	Furniture, equipment and vehicles SR '000	Total SR '000
Cost:						
At beginning of the year	**2,586,149**	**1,785,138**	**4,371,287**	2,540,616	1,703,234	4,243,850
Additions	**288,983**	**358,208**	**647,191**	69,068	232,295	301,363
Disposals and retirement	**(19,889)**	**(40,373)**	**(60,262)**	(23,535)	(150,391)	(173,926)
At 31 December	**2,855,243**	**2,102,973**	**4,958,216**	2,586,149	1,785,138	4,371,287
Accumulated depreciation and foreign currency translation:						
At beginning of the year	**1,112,272**	**1,162,010**	**2,274,282**	1,012,542	1,078,173	2,090,715
Foreign currency translation reserve	**25,222**	**28,415**	**53,637**	-	-	-
Charge for the year	**99,641**	**252,736**	**352,377**	108,820	226,336	335,156
Disposals and retirement	**(11,765)**	**(27,668)**	**(39,433)**	(9,090)	(142,499)	(151,589)
At 31 December	**1,225,370**	**1,415,493**	**2,640,863**	1,112,272	1,162,010	2,274,282
Net book value:						
As at 31 December	**1,629,873**	**687,480**	**2,317,353**	1,473,877	623,128	2,097,005

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

11. GOODWILL AND INTANGIBLE ASSETS

(11.1) Net book value

	2011		2010	
	Goodwill	**Intangibles**	Goodwill	Intangibles
	SR '000	**SR '000**	SR '000	SR '000
Cost:				
At beginning of the year	**2,213,874**	**1,566,294**	2,213,874	1,566,294
At 31 December	**2,213,874**	**1,566,294**	2,213,874	1,566,294
Amortisation, impairment and foreign currency translation:				
At beginning of the year	**1,479,130**	**643,617**	1,230,418	359,329
Amortisation charge for the year	-	**197,880**	-	235,557
Impairment loss	-	-	224,485	52,668
Foreign currency translation reserve	**130,109**	**98,489**	24,227	(3,937)
At 31 December	**1,609,239**	**939,986**	1,479,130	643,617
Net book value:				
At 31 December	**604,635**	**626,308**	734,744	922,677

(11.2) Impairment testing of goodwill

In accordance with the requirements of International Financial Reporting Standards (IAS 36), the Group has performed an impairment test as at 30 November 2011 in respect of the goodwill arising as a result of the acquisition of Türkiye Finans Katılım Bankası A.Ş.. The goodwill arising on this acquisition has been allocated to Türkiye Finans Katılım Bankası A.Ş..

No goodwill impairment loss has been recognized for Türkiye Finans Katılım Bankası A.Ş. in 2011 and 2010.

The impairment loss of goodwill and intangible assets for The Capital Partnership Group in 2010 amounted to SR 277 million.

(11.2.1) Türkiye Finans Katılım Bankası A.Ş.,

In accordance with the requirements of International Financial Reporting Standards, the Group's management has carried out the impairment test in respect of the goodwill arising as a result of acquiring Türkiye Finans Katılım Bankası A.Ş. (TFK). The recoverable amount of TFK has been determined based on higher of value in use or fair value less cost to sell. The two key assumptions used in the goodwill impairment testing in respect of TFK are the discount rate and the estimated future cash flow.

The average discount rate of 14% (2010: 14%) was used to discount the future cash flow.

A long term growth rate of 4% (2010: 4%) is used in the terminal value calculation which is in line with expected long term inflation rates in Turkey.

Based on the above, the recoverable amount based on value in use as at 30 November 2011 was higher than the carrying value; hence no impairment loss on goodwill is required to be recognised in 2011 in respect of TFK.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

12. OTHER ASSETS

	2011 SR '000	2010 SR '000
Accrued special commission income receivable:		
- banks and other financial institutions	**7,523**	12,244
- investments	**780,710**	842,121
- loans and advances	**503,786**	371,722
- derivatives	**71,820**	53,710
Total accrued special commission income receivable	**1,363,839**	1,279,797
Prepayments and accounts receivable	**385,554**	455,870
Margin deposits against derivatives and repos	**641,068**	655,871
Positive fair value of derivatives, net (note 13)	**465,956**	402,813
Others	**1,663,526**	1,274,775
Total	**4,519,943**	4,069,126

13. DERIVATIVES

(13.1) Derivative products

In the ordinary course of business, the Group 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 rate special commission payments in a single currency without exchanging principal. For currency swaps, fixed special commission payments and principal are exchanged in different currencies. For cross-currency special commission rate swaps, principal and fixed and floating special 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. 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, based 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.

13. DERIVATIVES (continued)

(e) Swaptions

Swaptions are options on swaps and entail an option on the fixed rate component of a swap. An option on a swap provides the purchaser or holder of the option the right, but not the obligation to enter into a swap where it pays fixed rates against receipt of a floating rate index as at a future date.

(f) Structured Derivative products

Structured derivative products provide financial solutions to the customers of the Bank to manage their risks in respect of foreign exchange, special commission rate and commodity exposures and enhance yields by allowing deployment of excess liquidity within specific risk and return profiles. All structured derivative transactions are entered by the Bank on back-to-back basis with various counterparties and the Bank does not keep any open position.

(13.2) Derivatives held for trading purposes

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

(13.3) Derivatives held for hedging purposes

The Group has adopted a comprehensive system for the measurement and management of risk (see note 32 - credit risk, note 33 - market risk and note 34 - liquidity risk). Part of the risk management process involves managing the Group's exposure to fluctuations in foreign exchange 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 that positions are maintained within the established limits. The Board of Directors has 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 gaps to within the established limits.

As part of its asset and liability management, the Group uses derivatives for hedging purposes in order to adjust its own exposure to currency and special commission rate risks. This is generally achieved by hedging specific transactions as well as strategic hedging against overall statement of financial position exposures. Strategic hedging does not qualify for special hedge accounting and the related derivatives are accounted for as held for trading, such as special commission rate swaps, special commission rate options and futures, forward foreign exchange contracts and currency options.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

13. DERIVATIVES (continued)

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

(SR '000)

2011			Notional amounts by term to maturity					
	Positive fair value	**Negative fair value**	**Notional amount**	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Monthly average**
Held for trading:								
Special commission rate swaps	**182,484**	**(177,291)**	**5,424,126**	**-**	**308,075**	**4,374,530**	**741,521**	**8,167,679**
Special commission rate options and futures	**995**	**(995)**	**332,432**	**-**	**332,432**	**-**	**-**	**1,049,144**
Forward foreign exchange contracts	**135,939**	**(81,879)**	**52,094,215**	**23,523,507**	**28,476,708**	**94,000**	**-**	**58,687,788**
Options	**4,169**	**(5,951)**	**117,599**	**57,105**	**4,702**	**55,792**	**-**	**8,876,844**
Structured derivatives	**69,422**	**(69,657)**	**20,530,078**	**1,316,663**	**13,951,379**	**5,262,036**	**-**	**39,750,934**
Held as fair value hedges:								
Special commission rate swaps	**-**	**(430,189)**	**1,833,069**	**-**	**-**	**93,750**	**1,739,319**	**1,856,860**
Held as cash flow hedges:								
Special commission rate swaps	**73,164**	**(16,279)**	**4,830,250**	**-**	**240,000**	**4,590,250**	**-**	**2,850,521**
Total	**466,173**	**(782,241)**	**85,161,769**	**24,897,275**	**43,313,296**	**14,470,358**	**2,480,840**	
Provision for counterparty risk	**(217)**	**-**						
Fair value, net (note 12 & 16)	**465,956**	**(782,241)**						

(SR '000)

2010			Notional amounts by term to maturity					
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading:								
Special commission rate swaps	210,876	(202,318)	6,100,674	4,000	581,740	5,145,052	369,882	7,645,823
Special commission rate options and futures	34,705	(26,859)	2,041,926	135,000	1,400,484	573,942	-	2,527,564
Forward foreign exchange contracts	91,421	(89,497)	54,148,814	32,680,525	20,636,986	831,303	-	44,115,131
Options	20,958	(20,958)	4,679,046	4,634,046	45,000	-	-	3,995,614
Structured derivatives	12,902	(22,340)	4,654,160	-	-	1,500,000	3,154,160	6,409,392
Held as fair value hedges:								
Special commission rate swaps	-	(190,347)	1,814,332	-	-	-	1,814,332	1,750,988
Held as cash flow hedges:								
Special commission rate swaps	32,168	(2,748)	769,000	100,000	160,000	509,000	-	1,070,667
Total	403,030	(555,067)	74,207,952	37,553,571	22,824,210	8,559,297	5,338,374	
Provision for counterparty risk	(217)	-						
Fair value, net (note 12 & 16)	402,813	(555,067)						

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

13. DERIVATIVES (continued)

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

2011 Description of hedged items	**Fair value**	**Cost**	**Risk**	**Hedging instrument** (SR '000)	**Positive fair value**	**Negative fair value**
Fixed rate instruments	**3,563,176**	**3,102,150**	Fair value	Special commission rate swap	-	**(430,189)**
Floating rate instruments	**3,565,262**	**3,559,000**	Cash flow	Special commission rate swap	**73,164**	**(16,279)**

2010 Description of hedged items	Fair value	Cost	Risk	Hedging instrument (SR '000)	Positive fair value	Negative fair value
Fixed rate instruments	2,379,244	2,187,768	Fair value	Special commission rate swap	-	(190,347)
Floating rate instruments	767,990	769,100	Cash flow	Special commission rate swap	32,168	(2,748)

The losses on the hedging instruments for fair value hedge are SR 240 million (2010: SR 0.3 million). The gains on the hedged items attributable to the hedged risk are SR 240 million (2010: SR 0.3 million). Thus, the net fair value is Nil (2010: Nil).

Approximately 27% (2010: 31%) of the positive fair value of the Group's derivatives are entered into with financial institutions and less than 73% (2010: 69%) of the positive fair value contracts are with non-financial institutions at the consolidated statement of financial position date. Derivative activities are mainly carried out under the Group's Treasury segment.

Cash flows hedges:

The Bank is exposed to variability in future special commission cash flows on non-trading assets and liabilities which bear special commission at a variable rate. The Bank generally uses special commission rate swaps as hedging instruments to hedge against these special commission rate risks.

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

	2011 SR '000	2010 SR '000
Balance at beginning of the year	**29,419**	85,210
Gains from changes in fair value recognised directly in equity, net (effective portion)	**80,561**	22,122
(Gains) removed from equity and transferred to consolidated statement of income	**(53,095)**	(77,913)
Balance at end of the year	**56,885**	29,419

The discontinuation of hedge accounting due to disposal of both the hedging instruments and the hedged items, resulted in reclassification of the associated cumulative gains of SR 0.5 million (2010: SR 34 million) from equity to consolidated statement of income, included in the gains above.

For cash flows hedges, the amount shown as balance of other reserves under shareholders' equity as at 31 December 2011 is mainly expected to affect the consolidated statement of income in the forthcoming one to five years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

14. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2011 SR '000	2010 SR '000
Current accounts	**2,210,445**	1,769,710
Money market deposits	**5,573,067**	5,849,868
Money market deposits (Repos)	**12,156,154**	6,712,120
Total	**19,939,666**	14,331,698

Collateral given

The Bank conducts Repo transactions under the terms that are usually based on the applicable GMRA (Global Master Repurchase Agreement) collateral guidelines. The counterparty is allowed to sell or repledge those securities in the absence of default by the Bank.

The carrying amount and fair value of securities lent and of securities sold under agreement to repurchase (repo) are as follows:

	2011 SR '000		2010 SR '000	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Available for sale	**11,829,776**	**11,829,776**	5,710,563	5,710,563
Held to maturity	**-**	**-**	843,870	848,657
Investments held at amortized cost	**299,351**	**315,818**	-	-
Total	**12,129,127**	**12,145,594**	6,554,433	6,559,220

The Bank has placed a margin deposit of SR 34 million (2010: SR 174 million) as an additional security for these repo transactions.

15. CUSTOMERS' DEPOSITS

	2011 SR '000	2010 SR '000
Current accounts	**168,565,006**	142,116,553
Savings	**148,876**	153,474
Time	**60,426,636**	75,708,149
Others	**10,317,040**	11,182,005
Total	**239,457,558**	229,160,181

Other customers' deposits include SR 3,046 million (2010: SR 2,852 million) of margins held for irrevocable commitments and contingencies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

15. CUSTOMERS' DEPOSITS

Foreign currency deposits included in customers' deposits:

	2011 SR '000	2010 SR '000
Current accounts	**11,665,785**	9,685,373
Savings	**1,786**	-
Time	**22,937,166**	35,634,812
Others	**878,976**	2,672,858
Total	**35,483,713**	47,993,043

16. OTHER LIABILITIES

	2011 SR '000	2010 SR '000
Accrued special commission expense payable:		
- banks and other financial institutions	**21,284**	7,627
- customers' deposits	**227,017**	201,974
- derivatives	**68,515**	77,018
Total accrued special commission expense payable	**316,816**	286,619
Negative fair value of derivatives (note 13)	**782,241**	555,067
Zakat (NCB parent and NCBC)	**453,839**	161,220
Staff-related payables	**1,402,904**	1,409,173
Accrued expenses and accounts payable	**1,135,935**	960,797
Provisions for indirect facilities (note 7.3)	**222,195**	218,413
Others	**1,901,753**	2,432,131
Total	**6,215,683**	6,023,420

17. SHARE CAPITAL

The authorized, issued and fully paid share capital of the Bank excluding treasury shares (see note 42) consists of 1,495,975,148 shares of SR 10 each (2010: 1,495,975,148 shares of SR 10 each), wholly owned by Saudi shareholders.

18. STATUTORY RESERVE

In accordance with Saudi Arabian Banking Control Law, a minimum of 25% of the annual net income, inclusive of the overseas branches, is required to be transferred to a statutory reserve until this reserve equals the paid up capital of the Bank.

Pursuant to Lebanese Money and Credit Law, the Lebanon branch is required to transfer 10% of its annual net income to the statutory reserve. The Turkish Bank transferred 5% of its previous year annual net income to statutory reserve.

The statutory reserves are not currently available for distribution.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

19. OTHER RESERVES (cumulative changes in fair values)

Other reserves represent the net unrealized revaluation gains (losses) of cash flow hedges (effective portion) and available for sale investments. The movement of other reserves during the year is included under consolidated statement of other comprehensive income and the consolidated statement of changes in shareholders' equity. These reserves are not available for distribution.

20. COMMITMENTS AND CONTINGENCIES

(20.1) Legal proceeding

The Bank is one of many Saudi and non-Saudi defendants in certain lawsuits initiated in the United States during 2004. These lawsuits were consolidated in a Federal Court in New York for preliminary pre-trial purposes. During 2004, the Bank filed motions to dismiss the lead lawsuits and asserted a number of threshold jurisdictional and legal defenses. In July 2008, the Bank made a renewed motion to dismiss all of these lawsuits based on a lack of United States jurisdiction over the Bank. On 16 June 2010, the Presiding Judge granted the Bank's renewed motion to dismiss all of plaintiffs' claims against the Bank, finding that the evidence did not support the exercise of United States jurisdiction over the Bank, either generally, or specifically in connection with the plaintiffs' claims.

On 14 July 2011, the Clerk of the Court issued a formal judgment of dismissal of the Bank and numerous other defendants. Through a series of notices filed on or before 15 August 2011, the plaintiffs in all lawsuits against the Bank have commenced appeals of the judgment of dismissal of the Bank and numerous other defendants and has filed an opening brief on 20 January 2012.

The Bank's U.S. legal counsel has advised the Bank's management that they believe the judgment dismissing the claims against the Bank has a strong basis in both law and fact, and that the plaintiffs will face significant difficulties in challenging that judgment on appeal.

(20.2) Capital and other non-credit related commitments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

20. COMMITMENTS AND CONTINGENCIES (continued)

(20.3) Credit-related commitments and contingencies

Credit-related commitments and contingencies mainly comprise letters of credit, guarantees, acceptances and commitments to extend credit (irrevocable). The primary purpose of these instruments is to ensure that funds are available to customers as required.

Guarantees including standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that customers cannot meet their obligations to third parties, carry the same credit risk as loans and advances.

Cash requirements under guarantees are normally considerably less than the amount of the related commitment because the Group does not generally expect the third party to draw funds under the agreement.

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

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

Commitments to extend credit represent the unused portion of 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 Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss, which cannot readily be quantified, is expected to be considerably less than the total unused commitment as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of the commitments could expire or terminate without being funded.

(a) The contractual maturity structure of the Group's credit-related commitments and contingencies is as follows:

			(SR '000)		
2011	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Guarantees	**12,595,316**	**16,772,096**	**17,828,629**	**665,252**	**47,861,293**
Letter of credit	**12,833,440**	**5,045,415**	**543,891**	**531,884**	**18,954,630**
Acceptances	**2,219,250**	**957,547**	**76,508**	**8,315**	**3,261,620**
Irrevocable commitments to extend credit	-	**2,557,714**	**5,717,098**	**825,000**	**9,099,812**
Total	**27,648,006**	**25,332,772**	**24,166,126**	**2,030,451**	**79,177,355**

			(SR '000)		
2010	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Guarantees	13,400,538	9,688,503	18,856,759	257,745	42,203,545
Letter of credit	12,673,575	3,901,237	1,353,271	28,496	17,956,579
Acceptances	1,673,721	714,096	117,102	-	2,504,919
Irrevocable commitments to extend credit	-	2,392,793	6,614,995	-	9,007,788
Total	27,747,834	16,696,629	26,942,127	286,241	71,672,831

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

20. COMMITMENTS AND CONTINGENCIES (continued)

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

	2011 SR '000	2010 SR '000
Government and quasi Government	**3,282,209**	4,753,153
Corporate and establishments	**54,623,665**	46,661,191
Banks and other financial institutions	**20,474,051**	19,495,432
Others	**797,430**	763,055
Total	**79,177,355**	71,672,831

(20.4) Operating lease commitments

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

	2011 SR '000	2010 SR '000
Less than 1 year	**189,846**	148,331
1 to 5 years	**571,969**	432,410
Over 5 years	**547,684**	401,093
Total	**1,309,499**	981,834

21. NET SPECIAL COMMISSION INCOME

	2011 SR '000	2010 SR '000
Special commission income:		
Investments - available for sale	**897,565**	900,892
Investments - held to maturity	**63,197**	63,919
Other investments held at amortized cost	**1,917,820**	1,737,458
Sub total - investments	**2,878,582**	2,702,269
Due from banks and other financial institutions	**65,108**	107,237
Loans and advances	**7,241,413**	6,901,748
Total	**10,185,103**	9,711,254
Special commission expense:		
Due to banks and other financial institutions	**118,613**	59,375
Customers' deposits	**1,485,064**	1,487,223
Debt securities issued	**-**	14,854
Total	**1,603,677**	1,561,452
Net special commission income	**8,581,426**	8,149,802

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

22. FEE INCOME FROM BANKING SERVICES, NET

	2011 SR '000	2010 SR '000
Fee income:		
Shares brokerage	**310,034**	202,520
Investment management services	**222,093**	302,571
Finance and lending	**1,107,553**	1,021,646
Others	**1,454,410**	1,370,409
Total	**3,094,090**	2,897,146
Fee expenses:		
Shares brokerage	**50,294**	31,503
Investment management services	**11,966**	13,134
Others	**400,498**	364,651
Total	**462,758**	409,288
Fees from banking services, net	**2,631,332**	2,487,858

Other fee income includes fees from trade finance, credit cards and other miscellaneous banking activities.

23. (LOSS)/INCOME FROM FVIS INVESTMENTS, NET

	2011 SR '000	2010 SR '000
Revaluation (loss)/gains on investments held as FVIS	**(86,704)**	180,895
Special commission income on FVIS investments	**-**	220
Total (loss) income	**(86,704)**	181,115

24. TRADING INCOME, NET

	2011 SR '000	2010 SR '000
Foreign exchange	**95,769**	102,233
Mutual funds	**11,767**	8,710
Derivatives	**39,933**	40,053
Bonds	**-**	158
Total	**147,469**	151,154

25. DIVIDEND INCOME

	2011 SR '000	2010 SR '000
Available for sale investments	**65,626**	65,781

26. GAINS ON NON-TRADING INVESTMENTS, NET

	2011 SR '000	2010 SR '000
Gains on available for sale investments, net	**246,231**	275,141
Gains on other investments held at amortised cost, net	**78,709**	7,619
Total	**324,940**	282,760

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

27. OTHER NON-OPERATING (EXPENSES), NET

	2011 **SR '000**	2010 SR '000
Income (loss) from other real estate		
Rental income, net	**933**	28
Gain on disposal, net	**471**	2,275
(Provision for) unrealized revaluation loss	**(6,365)**	(5,645)
Net (loss) from other real estate	**(4,961)**	(3,342)
Overseas income tax of a foreign subsidiary and branches	**(139,443)**	(118,347)
Bank's share in associates' (losses) (note 8)	**(12,658)**	(17,274)
Gain on disposal of property and equipment	**13,749**	9,606
Net other (expenses)	**(30,070)**	(33,493)
Total	**(173,383)**	(162,850)

28. BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share for the years ended 31 December 2011 and 2010 is calculated by dividing the net income attributable to equity holders of the parent for the year by the weighted average number of shares outstanding during 2011 and 2010 (see note 17).

The calculation of diluted earnings per share is not applicable to the Group.

29. NET DIVIDEND AND ZAKAT

During the year, the Board of Directors recommended a dividend, net of zakat, for the year as follows:

	Amount SR '000		Rate per share SR	
	2011	2010	**2011**	2010
Interim dividend paid	**1,196,780**	1,196,780	**0.80**	0.80
Proposed final dividend	**1,495,975**	1,495,975	**1.00**	1.00
Total net dividend	**2,692,755**	2,692,755	**1.80**	1.80
Zakat attributable to shareholders of the parent	**434,134**	151,529		
Total gross dividend	**3,126,889**	2,844,284		

The zakat assessments had been finalized with the Department of Zakat and Income Tax (DZIT) for all the years up to 2007. The Bank has submitted zakat returns for the years 2008 to 2010 and obtained limited zakat certificates for these years which are under the process of final assessment by DZIT.

30. CASH AND CASH EQUIVALENTS

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

	2011 **SR '000**	2010 SR '000
Cash and balances with SAMA excluding statutory deposits (note 4)	**10,905,288**	15,778,868
Due from banks and other financial institutions maturing within ninety days (note 5)	**9,810,240**	11,846,431
Total	**20,715,528**	27,625,299

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

31. OPERATING SEGMENTS

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Group management.

The Group has five reportable segments, as described below, which are the Group's strategic divisions. The strategic divisions offer different products and services, and are managed separately based on the Group's management and internal reporting structure.

Consumer - Provides banking services, including lending and current accounts in addition to products in compliance with *Shariah* rules which are supervised by the independent *Shariah* Board, to individuals, small sized businesses and private banking customers.

Corporate - Provides banking services including all conventional credit-related products and financing products in compliance with *Shariah* rules to medium and large establishments and companies.

Treasury - Provides a full range of treasury products and services, including money market and foreign exchange, to the Bank's clients, in addition to carrying out investment and trading activities (local and international) and managing liquidity risk, market risk and credit risk (related to investments).

Capital Market - Provides wealth management, assets management, investment banking and shares brokerage services (local, regional and international).

International - Comprises banking services provided outside Saudi Arabia including overseas subsidiaries and international banking services.

Transactions between the operating segments are recorded as per the Bank and its subsidiaries' transfer pricing system.

The supports and Head Office expenses are allocated to segments using activity-based costing.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

31. OPERATING SEGMENTS (continued)

(31.1) The Group's total assets and liabilities at year end, its operating income and expenses (total and main items) and net income for the year, by business segments, are as follows:

			(SR '000)			
2011	**Consumer**	**Corporate**	**Treasury**	**Capital Market**	**International**	**Total**
Total assets	**51,965,703**	**77,884,222**	**138,977,993**	**1,246,081**	**31,124,162**	**301,198,161**
Total liabilities	**150,042,367**	**71,637,882**	**18,022,999**	**261,540**	**25,648,119**	**265,612,907**
Fee income from banking services, net	**961,318**	**557,841**	**-**	**498,701**	**613,472**	**2,631,332**
Operating income	**4,757,149**	**2,010,452**	**3,001,865**	**521,236**	**1,847,692**	**12,138,394**
Operating expenses of which:	**2,754,451**	**976,287**	**332,078**	**406,773**	**1,335,447**	**5,805,036**
- Depreciation of property and equipment	**190,771**	**41,298**	**32,170**	**18,874**	**69,264**	**352,377**
- Impairment charge for credit losses, net	**412,237**	**399,998**	**-**	**-**	**221,082**	**1,033,317**
- Impairment charge on investments, net	**-**	**-**	**2,534**	**19,466**	**-**	**22,000**
- Impairment loss on goodwill and intangible assets	-	-	-	-	-	-
Net income (parent and non-controlling interests)	**2,022,090**	**981,723**	**2,606,760**	**131,860**	**363,686**	**6,106,119**

			(SR '000)			
2010	Consumer	Corporate	Treasury	Capital Market	International	Total
Total assets	45,329,287	76,063,835	131,821,120	1,339,773	27,817,977	282,371,992
Total liabilities	139,543,192	71,245,236	14,845,246	283,002	23,598,623	249,515,299
Fee income from banking services, net	892,214	511,695	9,509	491,507	582,933	2,487,858
Operating income	5,215,359	2,171,065	2,024,614	544,451	1,711,767	11,667,256
Operating expenses of which:	2,925,707	1,437,054	257,177	804,027	1,209,534	6,633,499
- Depreciation of property and equipment	181,979	40,155	26,078	19,697	67,247	335,156
- Impairment charge for credit losses, net	777,015	964,293	-	-	90,252	1,831,560
- Impairment charge on investments, net	-	(36,762)	9,312	80,333	-	52,883
- Impairment loss on goodwill and intangible assets	-	-	-	277,153	-	277,153
Net income (parent and non-controlling interests)	2,262,628	708,816	1,725,915	(278,846)	384,891	4,803,404

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

31. OPERATING SEGMENTS (continued)

(31.2) The Group's credit exposure, by business segments, is as follows:

			(SR '000)			
2011	**Consumer**	**Corporate**	**Treasury**	**Capital Market**	**International**	**Total**
Statement of financial position assets	**38,584,574**	**74,035,485**	**122,937,828**	**71,405**	**27,238,883**	**262,868,175**
Commitments and contingencies (credit equivalent)	**1,222,392**	**23,262,946**	**-**	**-**	**16,642,068**	**41,127,406**
Derivatives (credit equivalent)	**-**	**-**	**831,054**	**1,232**	**-**	**832,286**

			(SR '000)			
2010	Consumer	Corporate	Treasury	Capital Market	International	Total
Statement of financial position assets	33,955,135	72,843,752	108,267,018	93,372	23,948,481	239,107,758
Commitments and contingencies (credit equivalent)	1,246,094	17,824,628	-	-	15,817,658	34,888,380
Derivatives (credit equivalent)	-	-	2,503,961	16,879	53,673	2,574,513

The credit exposure of assets as per statement of financial position comprises the carrying value of due from banks and other financial institutions, investments subject to credit risk, loans and advances, accrued special commission income, margin deposits against derivatives and repos and positive fair value of derivatives.

The credit equivalent of commitments and contingencies and derivatives is calculated according to SAMA’s prescribed methodology.

32. CREDIT RISK

The Group manages exposure to credit risk, which is the risk that one party to a financial instrument or transaction will fail to discharge an obligation and will cause the other party to incur a financial loss. Credit exposures arise principally in credit-related risk that is embedded in loans and advances and investments. There is also credit risk in off-balance sheet financial instruments, such as trade-finance related products and loan commitments.

For loans and advances and off-balance sheet financing to borrowers, the Group assesses the probability of default of counterparties using internal rating models. For investments, due from banks and off-balance sheet financial instruments with international counterparties, the Group uses external ratings of the major rating agencies.

The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Group's risk management policies are designed to identify risks and to set appropriate risk limits and to monitor the risks and adherence to limits. Actual exposures against limits are monitored daily.

The Group manages the credit exposure relating to its trading activities by monitoring credit limits, entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposure. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk. The Group's credit risk for derivatives represents the potential cost to replace the derivative contracts if counterparties fail to fulfill their obligation and the Group assesses counterparties using the same techniques as for its lending activities in order to control the level of credit risk taken.

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

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

The debt securities included in investments are mainly sovereign risk and high-grade securities. Analysis of investments by counterparty is provided in note (32.5). For details of the composition of the loans and advances refer to notes (7.4) and (32.1). Information on credit risk relating to derivative instruments is provided in notes (13) and (32.5) and for commitments and contingencies in note (20). The information on the Bank's total maximum credit exposure is given in note (32.4).

The Bank uses an internal classification system based on risk ratings for its corporate and middle market customers. The risk rating system, which is managed by an independent unit, provides a rating at the obligor level. The risk rating system includes twenty grades, of which sixteen grades relate to the performing portfolio as follows:

- Level 1: represents very strong quality (i.e. top 8 risk rating grades);
- Level 2: represents good quality (i.e. 9th and 10th risk rating grades);
- Level 3: represents satisfactory quality (i.e. 11th and 12th risk rating grades) and
- Level 4: represents satisfactory quality, with higher risk (i.e. 13th to 16th risk rating grades).

The lowest four grades (i.e. 17th to 20th rating grades) relate to the non-performing portfolio.

Each individual borrower is rated based on an internally developed debt rating model that evaluates risk based on financial, qualitative and industry specific inputs. The associated loss estimate norms for each grade have been developed based on the Bank's experience. These risk ratings are reviewed on a regular basis.

Performing credit cards, consumer loans and small business loans are classified as standard as they are performing and have timely repayment with no past dues.

The Group in the ordinary course of lending activities holds collaterals as security to mitigate credit risk in the loans and advances (refer to note 32.2). These collaterals mostly include time and other cash deposits, financial guarantees from other banks, local and international equities, real estate and other fixed assets. The collaterals are held mainly against commercial and individual loans and are managed against relevant exposures at their net realizable values.The Group holds real estate collateral against transfer of title deed (*ifrag*) as a collateral but due to the difficulty in siezing and liquidating them, the Group does not consider them as immediate cash flow for impairment assessment for non-performing loans. Collateral generally is not held against due from banks & other financial institutions, except when securities are held as part of reverse repurchase. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2011 and 2010.

32. CREDIT RISK (continued)

The Group seeks to manage its credit risk exposure through the diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or businesses. It also takes security when appropriate. The Group also seeks additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant loans and advances. The Group monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained periodically.

Specific provisions for credit losses for the impaired lending portfolio are maintained by the Group's Credit Risk Management in addition to credit-related specific provision for investments. Exposures falling within certain high risk ratings are considered impaired and appropriate specific provisions are individually made. An additional portfolio (collective) provision is allocated over the performing loans and advances as well as investments [refer to note (3.15) for accounting policy of impairment of financial assets].

(32.1) Credit quality of financial assets (loans and advances and due from banks and other financial institutions)

The credit quality of loans and advances is managed using internal credit ratings and for due from banks & financial institutions is managed using external credit ratings. The table below shows the credit quality by class of asset.

(SR '000)

	Loans and Advances				Due from banks and other financial institutions	
2011	**Consumer and credit cards**	**Corporate**	**Others**	**Sub total**		**Total**
Performing:						
Neither past due nor impaired (performing)						
Level 1	-	61,988,950	2,570,649	64,559,599	11,563,365	76,122,964
Level 2	-	18,667,801	-	18,667,801	-	18,667,801
Level 3	-	4,749,174	-	4,749,174	-	4,749,174
Level 4	-	3,379,661	-	3,379,661	-	3,379,661
Standard - unrated	38,562,409	2,069,653	1,319,858	41,951,920	-	41,951,920
Total	38,562,409	90,855,239	3,890,507	133,308,155	11,563,365	144,871,520
Past due but not impaired (performing)						
Less than 30 days	1,266,575	841,947	662	2,109,184	-	2,109,184
30-59 days	236,019	859,924	4,588	1,100,531	-	1,100,531
60-90 days	137,918	345,864	33,206	516,988	-	516,988
Sub Total	1,640,512	2,047,735	38,456	3,726,703	-	3,726,703
Total performing	40,202,921	92,902,974	3,928,963	137,034,858	11,563,365	148,598,223
Less: portfolio (collective) provision	(663,862)	(1,348,144)	(32,888)	(2,044,894)	(1,875)	(2,046,769)
Net performing	39,539,059	91,554,830	3,896,075	134,989,964	11,561,490	146,551,454
Non-performing:						
Total non-performing	282,872	3,782,980	205,417	4,271,269	-	4,271,269
Less: specific provision	(197,829)	(3,579,281)	(194,627)	(3,971,737)	-	(3,971,737)
Net non-performing	85,043	203,699	10,790	299,532	-	299,532

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

32. CREDIT RISK (continued)

(32.1) Credit quality of financial assets (loans and advances and due from banks and other financial institutions) (continued)

(SR '000)

2010	Loans and Advances: Consumer and credit cards	Loans and Advances: Corporate	Loans and Advances: Others	Loans and Advances: Sub total	Due from banks and other financial institutions	Total
Performing						
Neither past due nor impaired (performing)						
Level 1	-	62,988,958	-	62,988,958	11,848,306	74,837,264
Level 2	-	10,871,225	-	10,871,225	-	10,871,225
Level 3	-	9,606,556	-	9,606,556	-	9,606,556
Level 4	-	1,325,940	-	1,325,940	-	1,325,940
Standard - unrated	32,364,453	3,297,964	2,191,504	37,853,921	-	37,853,921
Total	32,364,453	88,090,643	2,191,504	122,646,600	11,848,306	134,494,906
Past due but not impaired (performing)						
Less than 30 days	1,852,684	906,187	23,211	2,782,082	-	2,782,082
30-59 days	456,686	290,947	25,343	772,976	-	772,976
60-90 days	155,611	114,218	-	269,829	-	269,829
Sub Total	2,464,981	1,311,352	48,554	3,824,887	-	3,824,887
Total performing	34,829,434	89,401,995	2,240,058	126,471,487	11,848,306	138,319,793
Less: portfolio (collective) provision	(570,775)	(1,008,505)	(30,248)	(1,609,528)	(1,875)	(1,611,403)
Net performing	34,258,659	88,393,490	2,209,810	124,861,959	11,846,431	136,708,390
Non-performing						
Total non-performing	477,954	4,347,543	337,113	5,162,610	-	5,162,610
Less: specific provision	(404,890)	(3,827,960)	(194,628)	(4,427,478)	-	(4,427,478)
Net non-performing	73,064	519,583	142,485	735,132	-	735,132

Standard - unrated loans mainly comprise consumer, credit cards, small businesses and private banking loans.

(32.2) Collateral

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

	2011 SR '000	2010 SR '000
Neither past due nor impaired	**37,658,460**	38,370,084
Past due but not impaired	**1,705,401**	1,503,451
Impaired	**498,275**	697,415
Total	**39,862,136**	40,570,950

Those collaterals, which are not readily convertible into cash (i.e. real estate), are accepted by the Bank with intent to dispose off in case of default by the customer.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

32. CREDIT RISK (continued)

(32.3) Credit quality of financial assets (Investments)

The credit quality of investments (excluding investment in equities, hedge funds and externally managed portfolio, mutual funds and private equity funds) is managed using external credit ratings.

The table below shows the credit quality by class of asset using Moody's rating agency.

	Investments	
	2011	2010
	SR '000	SR '000
Performing:		
High grade (Aaa-Baa3)	**111,809,356**	97,020,331
Standard grade (Ba1-B2)	**1,665,582**	2,426,047
Sub-standard grade (B3-C)	**339,010**	235,543
Unrated	**185,463**	415,810
Total performing	**113,999,411**	100,097,731
Less: portfolio (collective) provision	**(453,085)**	(698,187)
Net performing	**113,546,326**	99,399,544
Non-performing:		
Total non-performing	**51,882**	383,334
Less: specific provision	**(51,882)**	(363,839)
Net non-performing (see note 6)	**-**	19,495
Total	**113,546,326**	99,419,039

The unrated investments comprise junior notes under structured credit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

32. CREDIT RISK (continued)

(32.4) Maximum credit exposure

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

	2011 **SR '000**	2010 SR '000
Assets		
Due from banks and other financial institutions (note 32.1)	**11,561,490**	11,846,431
Investments (note 32.3)	**113,546,326**	99,419,039
Loans and advances, net (note 32.1)	**135,289,496**	125,597,091
Other assets - margin deposits against derivatives and repos and accrued special commission income receivable (note 12)	**2,004,907**	1,935,668
Total assets	**262,402,219**	238,798,229
Contingent liabilities and commitments, net (notes 15,16 & 20.3)	**75,908,739**	68,602,418
Derivatives - positive fair value, net (note 13)	**465,956**	402,813
Total maximum exposure	**338,776,914**	307,803,460

(32.5) Counterparty analysis of the Group's investment and derivatives, net of provisions.

	(SR '000) Maximum exposure		
	Investment, net of provisions	**Derivatives financial instruments, (positive fair value, net)**	**Total**
2011			
Government and quasi Government	**110,918,711**	**738**	**110,919,449**
Corporate	**6,503,687**	**320,911**	**6,824,598**
Banks and other financial institutions	**3,066,770**	**127,268**	**3,194,038**
Others	-	**17,039**	**17,039**
Net maximum exposure (note 6 & 13)	**120,489,168**	**465,956**	**120,955,124**

	(SR '000) Maximum exposure		
	Investment, net of provisions	Derivatives financial instruments, (positive fair value, net)	Total
2010			
Government and quasi Government	95,952,404	12,977	95,965,381
Corporate	6,589,226	265,837	6,855,063
Banks and other financial institutions	5,523,619	123,128	5,646,747
Others	-	871	871
Net maximum exposure (note 6 & 13)	108,065,249	402,813	108,468,062

33. MARKET RISK

Market risk is the risk that changes in market prices, such as special commission rate, credit spreads (not relating to changes in the obligor's / issuer's credit standing), equity prices and foreign exchange rates, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Group separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios mainly are held by the Treasury division and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

Overall authority for market risk is vested in the Board of Directors. The Group Risk Management is responsible for the development of detailed risk management policies (subject to review and approval by the Board of Directors) and for the day-to-day review of their implementation.

(33.1) MARKET RISK-TRADING PORTFOLIO

The principal tool used to measure and control market risk exposure within the Group's trading portfolios is Value at Risk (VaR). The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used by the Group is based upon a 99 percent confidence level and assumes a 1-day holding period, except for Fair Value through Income Statement (FVIS) investments which are computed over a 3-month holding period (i.e., VaR is measured daily, except for VaR on FVIS investments which are computed on a monthly basis), to facilitate the comparison with the trading income (loss) which is also computed and reported on a daily and monthly basis respectively for these products. The model computes volatility and correlations using relevant historical market data.

The Group uses VaR limits for total market risk embedded in its trading activities including derivatives related to foreign exchange and special commission rate. The Group also assesses the market risks using VaR in its FVIS investments which are controlled by volume limits. The overall structure of VaR limits is subject to review and approval by the Board of Directors. VaR limits are allocated to trading portfolios. The daily reports of utilisation of VaR limits are submitted to the senior management of the Group. In addition, regular summaries about various risk measures including the Economic Capital are submitted to the Risk Management Committee of the Board.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

(i) A 1-day holding period assumes that it is possible to hedge or dispose of positions within one day horizon. This is considered to be a realistic assumption in most of the cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period.

(ii) A 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a one percent probability that losses could exceed the VaR.

(iii) VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day.

(iv) The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.

(v) The VaR measure is dependent upon the Group's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

The limitations of the VaR methodology are recognised by supplementing VaR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio. In addition, the Group uses stress tests to model the financial impact of exceptional market scenarios on individual trading portfolios and the Group's overall trading position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

33. MARKET RISK (continued)

(33.1) MARKET RISK-TRADING PORTFOLIO (continued)

The table below shows the VaR related information for the year ended 31 December 2011 and 2010 for both Held for Trading and Held as FVIS portfolios:

	(SR '000) Held for Trading			
2011	**Foreign exchange risk**	**Special commission risk**	**Overall risk**	**FVIS**
VaR as at 31 December 2011	**5**	**16**	**21**	**260,934**
Average VaR for 2011	**1,137**	**45**	**1,182**	**274,715**

	(SR '000) Held for Trading			
2010	Foreign exchange risk	Special commission risk	Overall risk	FVIS
VaR as at 31 December 2010	3,759	154	3,913	283,884
Average VaR for 2010	2,173	152	2,325	231,075

(33.2) MARKET RISK - NON TRADING BOOK

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

(33.2.1) SPECIAL COMMISSION RATE RISK

Special commission rate risk arises from the possibility that changes in special commission rates will affect future cash flows or the fair values of financial instruments. The Group's Assets-Liabilities Committee (ALCO) has established limits on the special commission rate gap. Positions are regularly monitored and reported on a monthly basis to ALCO and hedging strategies are used to ensure positions are maintained within the established limits. In case of stressed market conditions, the asset-liability gap may be monitored more frequently.

The following table depicts the sensitivity due to reasonably possible changes in special commission rates, with other variables held constant, on the Group’s consolidated statement of income or equity. The sensitivity of the income is the effect of the assumed changes in special commission rates on the net special commission income for one year, based on the special commission bearing non-trading financial assets and financial liabilities held as at 31 December 2011, including the effect of hedging instruments. The sensitivity of the equity is calculated by revaluing the fixed rate available for sale financial assets, including the effect of any associated hedges, as at 31 December 2011 for the effect of assumed changes in special commission rates. The sensitivity of equity is analyzed by maturity of the assets or cash flow hedge swaps. All significant non-trading book exposures are monitored and analyzed in currency concentrations and relevant sensitivities are disclosed in local currency. The sensitivity analysis does not take account of actions by the Group that might be taken to mitigate the effect of such changes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

33. MARKET RISK (continued)

(33.2) MARKET RISK - NON TRADING BOOK (continued)

(33.2.1) SPECIAL COMMISSION RATE RISK (continued)

			SR '000 Sensitivity of shareholder's equity (other reserves)				
2011	**Increase / Decrease in basis points**	**Sensitivity of special commission income**	**within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Currency							
SR	**± 10**	**± 38,929**	**-**	**± 125**	**± 764**	**± 16,347**	**± 17,236**
USD	**± 10**	**± 18,592**	**-**	**± 723**	**± 28,518**	**± 85,683**	**± 114,924**

			SR '000 Sensitivity of shareholder's equity (other reserves)				
2010	Increase / Decrease in basis points	Sensitivity of special commission income	within 3 months	3-12 months	1-5 years	Over 5 years	Total
Currency							
SR	± 10	± 63,664	-	± 88	± 1,196	± -	± 1,284
USD	± 10	± 16,429	-	± 167	± 27,404	± 54,009	± 81,580

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

33. MARKET RISK (continued)

(33.2) MARKET RISK - NON TRADING BOOK (continued)

(33.2.1) SPECIAL COMMISSION RATE RISK (continued)

(a) Special commission rate sensitivity of assets, liabilities and off-balance sheet items

The Group 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 table below summarizes the Group's exposure to special commission rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorized by the earlier of the contractual re-pricing or the maturity dates. The Group manages exposure to special commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period. The Group manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

The table below summarizes the Group's exposure to special commission rate risks.

	SR '000					
2011	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Non-special commission bearing**	**Total**
Assets						
Cash and balances with SAMA	**7,657,947**	-	-	-	**17,044,077**	**24,702,024**
Due from banks and other financial institutions	**9,162,736**	**1,751,250**	-	-	**647,504**	**11,561,490**
Investments, net	**19,369,722**	**24,436,667**	**41,978,635**	**27,786,077**	**6,918,067**	**120,489,168**
Loans and advances, net	**30,748,318**	**55,095,523**	**46,135,515**	**1,822,205**	**1,487,935**	**135,289,496**
Investment in associates, net	-	-	-	-	**838,575**	**838,575**
Other real estate, net	-	-	-	-	**249,169**	**249,169**
Property and equipment, net	-	-	-	-	**2,317,353**	**2,317,353**
Intangible assets, net	-	-	-	-	**626,308**	**626,308**
Goodwill, net	-	-	-	-	**604,635**	**604,635**
Other assets	-	-	-	-	**4,519,943**	**4,519,943**
Total assets	**66,938,723**	**81,283,440**	**88,114,150**	**29,608,282**	**35,253,566**	**301,198,161**
Liabilities and shareholders' equity						
Due to banks and other financial institutions	**15,418,297**	**2,376,143**	**396,904**	**282,273**	**1,466,049**	**19,939,666**
Customers' deposits	**53,160,479**	**12,378,654**	**448,264**	-	**173,470,161**	**239,457,558**
Other liabilities	-	-	-	-	**6,215,683**	**6,215,683**
Shareholders' equity attributable to equity holders of the parent	-	-	-	-	**34,165,218**	**34,165,218**
Non-controlling interest	-	-	-	-	**1,420,036**	**1,420,036**
Total liabilities and shareholders' equity	**68,578,776**	**14,754,797**	**845,168**	**282,273**	**216,737,147**	**301,198,161**
On-balance sheet gap	**(1,640,053)**	**66,528,643**	**87,268,982**	**29,326,009**	**(181,483,581)**	
Off-balance sheet gap	**(643,160)**	**(699,640)**	**1,036,550**	**306,250**	-	
Total special commission rate sensitivity gap	**(2,283,213)**	**65,829,003**	**88,305,532**	**29,632,259**	**(181,483,581)**	
Cumulative special commission rate sensitivity gap	**(2,283,213)**	**63,545,790**	**151,851,322**	**181,483,581**	-	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

33. MARKET RISK (continued)

(33.2) MARKET RISK - NON TRADING BOOK (continued)

(33.2.1) SPECIAL COMMISSION RATE RISK (continued)

(a) Special commission rate sensitivity of assets, liabilities and off-balance sheet items (continued)

SR '000

2010	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-special commission bearing	Total
Assets						
Cash and balances with SAMA	13,009,819	-	-	-	14,922,720	27,932,539
Due from banks and other financial institutions	9,204,522	-	-	-	2,641,909	11,846,431
Investments, net	29,084,119	1,763,842	43,698,880	23,383,245	10,135,163	108,065,249
Loans and advances, net	32,119,254	47,312,970	43,875,321	1,838,071	451,475	125,597,091
Investment in associates, net	-	-	-	-	827,465	827,465
Other real estate, net	-	-	-	-	279,665	279,665
Property and equipment, net	-	-	-	-	2,097,005	2,097,005
Intangible assets, net	-	-	-	-	922,677	922,677
Goodwill, net	-	-	-	-	734,744	734,744
Other assets	-	-	-	-	4,069,126	4,069,126
Total assets	83,417,714	49,076,812	87,574,201	25,221,316	37,081,949	282,371,992
Liabilities and shareholders' equity						
Due to banks and other financial institutions	11,407,769	1,162,461	-	1,042	1,760,426	14,331,698
Customers' deposits	64,345,415	11,362,405	220,087	6,720	153,225,554	229,160,181
Other liabilities	-	-	-	-	6,023,420	6,023,420
Shareholders' equity attributable to equity holders of the parent	-	-	-	-	31,272,258	31,272,258
Non-controlling interest	-	-	-	-	1,584,435	1,584,435
Total liabilities and shareholders' equity	75,753,184	12,524,866	220,087	7,762	193,866,093	282,371,992
On-balance sheet gap	7,664,530	36,551,946	87,354,114	25,213,554	(156,784,144)	
Off-balance sheet gap	(1,173,609)	416,214	851,145	(93,750)	-	
Total special commission rate sensitivity gap	6,490,921	36,968,160	88,205,259	25,119,804	(156,784,144)	
Cumulative special commission rate sensitivity gap	6,490,921	43,459,081	131,664,340	156,784,144	-	

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

33. MARKET RISK (continued)

(33.2) MARKET RISK - NON TRADING BOOK (continued)

(33.2.2) CURRENCY RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Board has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

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

Currency	**2011 SR '000 Long (short)**	2010 SR '000 Long (short)
US Dollar	**2,148,100**	5,557,043
TRY	**4,073,197**	4,559,460

Long position indicates that assets in a foreign currency are higher than the liabilities in the same currency; the opposite applies to short position.

The table below indicates the extent to which the Group was exposed to currency risk at 31 December 2011 on its significant foreign currency positions. The analysis is performed for reasonably possible movements of the currency rate against the Saudi Riyal with all other variables held constant, including the effect of hedging instruments, on the consolidated statement of income; the effect on equity of foreign currencies other than Turkish Lira (TRY) is not significant. A negative amount in the table reflects a potential net reduction in consolidated statement of income, while a positive amount reflects a net potential increase. The sensitivity analysis does not take account of actions by the Group that might be taken to mitigate the effect of such changes.

	2011 SR '000			2010 SR '000		
Currency	**Increase/ Decrease in currency rate in %**	**Effect on profit**	**Effect on equity**	Increase/ Decrease in currency rate in %	Effect on profit	Effect on equity
US Dollar	-	-	-	-	-	-
TRY	**± 10%**	**± 32,779**	**± 407,320**	± 10%	± 28,596	± 455,946

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

33. MARKET RISK (continued)

(33.2) MARKET RISK - NON TRADING BOOK (continued)

(33.2.3) EQUITY PRICE RISK

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the levels of equity index and the value of individual stocks.

The effect on shareholders' equity (other reserves) as a result of a change in the fair value of equity instruments quoted in Tadawul and held as available-for-sale at 31 December 2011 and 2010, due to reasonably possible changes in the prices of these quoted shares held by the Bank, with all other variables held constant, is as follows:

	2011 SR '000		2010 SR '000	
Market index	**Increase / Decrease in market prices %**	**Effect on shareholders' equity (other reserves)**	Increase / Decrease in market prices %	Effect on shareholders' equity (other reserves)
Impact of change in market prices	**± 10%**	**± 211,182**	± 10%	± 253,194

34. LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to be less readily available. To mitigate this risk, management has diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, maintaining an appropriate balance of cash, cash equivalents and readily marketable securities and monitors future cash flows and liquidity on a daily basis. The Group has lines of credit in place that it can access to meet liquidity needs.

In accordance with the Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA of 7% of total demand deposits and 4% of savings and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of not less than 20% of the deposit liabilities, in the form of cash, Saudi Government Development Bonds or assets which can be converted into cash within a period not exceeding 30 days. The Bank has the ability to raise additional funds through repo facilities available with SAMA against Saudi Government Development Bonds up to 75% of the nominal value of bonds held.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. One of these methods is to maintain limits on the ratio of liquid assets to deposit liabilities, set to reflect market conditions. Liquid assets consists of cash, short-term bank deposits and liquid debt securities available for immediate sale and Saudi Government Bonds excluding repos. Deposits liabilities include both customers and Banks, excluding non-resident Bank deposits in foreign currency. The ratio during the year was as follows:

	2011	2010
	%	%
As at 31 December	**40%**	41%
Average during the year	**45%**	39%

(34.1) Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group'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 on the basis of the remaining period at the consolidated statement of financial position date to the contractual maturity date and do not take into account the effective expected maturities as shown on note (34.2) below (Maturity analysis of assets and liabilities for the expected maturities). Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

34. LIQUIDITY RISK (continued)

(34.1) Analysis of financial liabilities by remaining contractual maturities (continued)

SR '000

Financial liabilities	**On demand**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
As at 31 December 2011						
Due to banks and other financial institutions	**2,705,985**	**15,636,513**	**1,005,761**	**636,192**	**87,117**	**20,071,568**
Customers' deposits	**178,524,868**	**47,992,424**	**12,599,423**	**462,854**	**-**	**239,579,569**
Derivative financial instruments (gross contractual amounts payable)	**-**	**29,834,693**	**34,214,631**	**6,223,512**	**25,062**	**70,297,898**
Total undiscounted financial liabilities	**181,230,853**	**93,463,630**	**47,819,815**	**7,322,558**	**112,179**	**329,949,035**

SR '000

Financial liabilities	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
As at 31 December 2010						
Due to banks and other financial institutions	2,273,594	11,092,367	1,171,752	1,114	-	14,538,827
Customers' deposits	154,109,405	64,217,822	11,415,587	225,685	7,708	229,976,207
Derivative financial instruments (gross contractual amounts payable)	-	26,587,110	20,627,451	1,184,975	13,055	48,412,591
Total undiscounted financial liabilities	156,382,999	101,897,299	33,214,790	1,411,774	20,763	292,927,625

The contractual maturity structure of the credit-related contingencies and commitments are shown under note (20.3(a)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

34. LIQUIDITY RISK (continued)

(34.2) MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled. See note (34.1) above for the contractual undiscounted financial liabilities.

(SR '000)

2011	Less than 12 months			More than 1 year				
	Less than 3 months	3 to 12 months	Sub total	1 to 5 years	Over 5 years	Sub total	No-fixed maturity	Total
Assets								
Cash and balances with SAMA	8,347,784	896,882	9,244,666	2,763,450	12,693,908	15,457,358	-	24,702,024
Due from banks and other financial institutions	9,032,119	143,526	9,175,645	591,990	1,793,855	2,385,845	-	11,561,490
Investments, net	18,296,672	16,740,255	35,036,927	48,336,364	37,115,877	85,452,241	-	120,489,168
Loans and advances, net	25,401,246	48,051,381	73,452,627	37,238,946	24,429,638	61,668,584	168,285	135,289,496
Investment in associates, net	-	-	-	-	-	-	838,575	838,575
Other real estate, net	-	-	-	-	-	-	249,169	249,169
Property and equipment, net	-	-	-	-	-	-	2,317,353	2,317,353
Intangible assets, net	47,334	142,003	189,337	436,971	-	436,971	-	626,308
Goodwill, net	-	-	-	-	-	-	604,635	604,635
Other assets	318,836	473,915	792,751	361,274	559,108	920,382	2,806,810	4,519,943
Total assets	61,443,991	66,447,962	127,891,953	89,728,995	76,592,386	166,321,381	6,984,827	301,198,161
Liabilities and shareholders' equity								
Due to banks and other financial institutions	17,525,193	145,472	17,670,665	221,045	2,047,956	2,269,001	-	19,939,666
Customers' deposits	66,567,304	21,190,119	87,757,423	16,855,571	134,844,564	151,700,135	-	239,457,558
Other liabilities	751,586	326,191	1,077,777	247,967	-	247,967	4,889,939	6,215,683
Total liabilities	84,844,083	21,661,782	106,505,865	17,324,583	136,892,520	154,217,103	4,889,939	265,612,907
Total shareholders' equity	-	-	-	-	-	-	35,585,254	35,585,254
Total liabilities and shareholders' equity	84,844,083	21,661,782	106,505,865	17,324,583	136,892,520	154,217,103	40,475,193	301,198,161

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

34. LIQUIDITY RISK (continued)

(34.2) MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

(SR '000)

2010	Less than 12 months: Less than 3 months	Less than 12 months: 3 to 12 months	Less than 12 months: Sub total	More than 1 year: 1 to 5 years	More than 1 year: Over 5 years	More than 1 year: Sub total	No-fixed maturity	Total
Assets								
Cash and balances with SAMA	13,617,502	752,104	14,369,606	2,674,717	10,888,216	13,562,933	-	27,932,539
Due from banks and other financial institutions	7,991,541	197,053	8,188,594	889,210	2,768,627	3,657,837	-	11,846,431
Investments, net	16,591,208	15,964,459	32,555,667	42,823,829	32,685,753	75,509,582	-	108,065,249
Loans and advances, net	22,081,290	43,193,191	65,274,481	27,817,684	32,504,926	60,322,610	-	125,597,091
Investment in associates, net	-	-	-	-	-	-	827,465	827,465
Other real estate, net	-	-	-	-	-	-	279,665	279,665
Property and equipment, net	-	-	-	-	-	-	2,097,005	2,097,005
Intangible assets, net	60,159	137,721	197,880	709,501	15,296	724,797	-	922,677
Goodwill, net	-	-	-	-	-	-	734,744	734,744
Other assets	287,995	421,889	709,884	329,567	546,284	875,851	2,483,391	4,069,126
Total assets	60,629,695	60,666,417	121,296,112	75,244,508	79,409,102	154,653,610	6,422,270	282,371,992
Liabilities and shareholders' equity								
Due to banks and other financial institutions	11,998,754	160,899	12,159,653	176,971	1,995,074	2,172,045	-	14,331,698
Customers' deposits	78,494,657	22,775,885	101,270,542	14,209,960	113,679,679	127,889,639	-	229,160,181
Other liabilities	594,942	255,288	850,230	199,781	-	199,781	4,973,409	6,023,420
Total liabilities	91,088,353	23,192,072	114,280,425	14,586,712	115,674,753	130,261,465	4,973,409	249,515,299
Total shareholders' equity	-	-	-	-	-	-	32,856,693	32,856,693
Total liabilities and shareholders' equity	91,088,353	23,192,072	114,280,425	14,586,712	115,674,753	130,261,465	37,830,102	282,371,992

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

35. GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES, COMMITMENTS AND CONTINGENCIES AND CREDIT EXPOSURE

(35.1) The distribution by geographical region for major categories of assets, liabilities and commitments and contingencies and credit exposure at year end is as follows:

	(SR '000)					
2011	**The Kingdom of Saudi Arabia**	**GCC and Middle East**	**Europe**	**Turkey**	**Other countries**	**Total**
Assets						
Cash and balances with SAMA	**24,107,818**	**2,720**	**134,938**	**152,118**	**304,430**	**24,702,024**
Due from banks and other financial institutions	**3,383,098**	**3,404,908**	**1,021,243**	**3,198,371**	**553,870**	**11,561,490**
Investments, net	**58,020,596**	**17,202,791**	**26,328,133**	**1,194,905**	**17,742,743**	**120,489,168**
Loans and advances, net	**112,396,198**	**130,944**	**896,033**	**20,225,997**	**1,640,324**	**135,289,496**
Investment in associates, net	**838,575**	**-**	**-**		**-**	**838,575**
Intangible assets, net	**-**	**-**	**-**	**626,308**	**-**	**626,308**
Goodwill, net	**-**	**-**	**-**	**604,635**	**-**	**604,635**
Total	**198,746,285**	**20,741,363**	**28,380,347**	**26,002,334**	**20,241,367**	**294,111,696**
Liabilities						
Due to banks and other financial institutions	**193,561**	**3,534,141**	**1,559,734**	**2,234,127**	**12,418,103**	**19,939,666**
Customers' deposits	**219,674,421**	**488,086**	**24,456**	**19,197,485**	**73,110**	**239,457,558**
Total	**219,867,982**	**4,022,227**	**1,584,190**	**21,431,612**	**12,491,213**	**259,397,224**
Commitments and contingencies (note 20.3)	**47,031,225**	**1,400,916**	**1,641,469**	**13,775,039**	**15,328,706**	**79,177,355**
Credit exposure (credit equivalent) (note 31.2):						
Commitments and contingencies	**24,348,492**	**731,219**	**856,777**	**7,189,985**	**8,000,933**	**41,127,406**
Derivatives	**294,535**	**175,482**	**298,678**	**63,200**	**391**	**832,286**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

35. GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES, COMMITMENTS AND CONTINGENCIES AND CREDIT EXPOSURE (continued)

2010	(SR '000)					
	The Kingdom of Saudi Arabia	GCC and Middle East	Europe	Turkey	Other countries	Total
Assets						
Cash and balances with SAMA	27,327,345	2,107	401,984	142,359	58,744	27,932,539
Due from banks and other financial institutions	4,287,911	2,320,337	1,182,921	3,887,525	167,737	11,846,431
Investments, net	53,583,601	13,627,563	23,063,359	1,389,294	16,401,432	108,065,249
Loans and advances, net	106,078,645	130,803	65,625	19,134,515	187,503	125,597,091
Investment in associates, net	827,465	-	-	-	-	827,465
Intangible assets, net	-	-	-	922,677	-	922,677
Goodwill, net	-	-	-	734,744	-	734,744
Total	192,104,967	16,080,810	24,713,889	26,211,114	16,815,416	275,926,196
Liabilities						
Due to banks and other financial institutions	798,485	5,731,533	1,877,608	318,210	5,605,862	14,331,698
Customers' deposits	208,247,754	303,313	24,410	20,550,489	34,215	229,160,181
Total	209,046,239	6,034,846	1,902,018	20,868,699	5,640,077	243,491,879
Commitments and contingencies (note 20.3)	41,006,400	2,597,584	1,634,046	10,300,346	16,134,455	71,672,831
Credit exposure (credit equivalent) (note 31.2):						
Commitments and contingencies	19,194,131	1,086,442	1,089,497	5,883,173	7,635,137	34,888,380
Derivatives	1,220,382	51,995	1,045,044	53,673	203,419	2,574,513

The credit equivalent of commitments and contingencies and derivatives is calculated according to SAMA's prescribed methodology.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

35. GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES, COMMITMENTS AND CONTINGENCIES AND CREDIT EXPOSURE (continued)

(35.2) The distribution by geographical concentration of non-performing loans and advances and specific provision are as follows:

(SR '000)

2011	The Kingdom of Saudi Arabia	GCC and Middle East	Europe	Turkey	Other countries	Total
Non performing loans and advances	**3,749,143**	**37,500**	**-**	**484,626**	**-**	**4,271,269**
Less: specific provision	**(3,598,916)**	**(37,500)**	**-**	**(335,321)**	**-**	**(3,971,737)**
Net	**150,227**	**-**	**-**	**149,305**	**-**	**299,532**

2010						
Non performing loans and advances	4,540,055	37,500	-	585,055	-	5,162,610
Less: specific provision	(4,011,730)	(37,500)	-	(378,248)	-	(4,427,478)
Net	528,325	-	-	206,807	-	735,132

36. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. Consequently, differences can arise between carrying values and fair value estimates.

The fair values of on-balance sheet financial instruments, except for loans and advances and customers' deposits which are carried at cost as well as investments held at amortized cost, are not significantly different from the carrying values included in the consolidated financial statements. The estimated fair values of other investments held at amortized cost and held to maturity investments are based on quoted market prices, when available, third party quotes or valuation models in the case of certain fixed rate securities, structured credit and investments where no quoted prices are available. The fair values of these investments are disclosed in note (6).

The fair values of derivatives and other off-balance sheet financial instruments are based on the quoted market prices when available or by using the appropriate valuation techniques.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

37. DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY

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

Level 1: quoted prices in active markets for the same instrument.

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

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

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	(SR '000)			
2011	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets available for sale:				
Debt securities	**26,298,008**	**2,451,470**	**24,521**	**28,773,999**
Structured credit	**-**	**-**	**168,063**	**168,063**
Mutual funds	**-**	**-**	**172**	**172**
Quoted equities	**2,089,815**	**-**	**-**	**2,089,815**
Unquoted equities	**-**	**-**	**72,368**	**72,368**
Private equity funds	**-**		**1,162,330**	**1,162,330**
Sub total	**28,387,823**	**2,451,470**	**1,427,454**	**32,266,747**
Held for trading:				
Mutual funds	**508,510**	**-**	**-**	**508,510**
Fair value through income statement (FVIS):				
Hedge funds and externally managed portfolio	**-**	**2,510,030**	**599,615**	**3,109,645**
Total	**28,896,333**	**4,961,500**	**2,027,069**	**35,884,902**
Derivative financial instruments				
Financial assets	**-**	**396,534**	**69,422**	**465,956**
Financial liabilities	**-**	**712,584**	**69,657**	**782,241**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

37. DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

	(SR '000)			
2010	Level 1	Level 2	Level 3	Total
Financial assets available for sale:				
Debt securities	23,134,740	3,533,519	79,939	26,748,198
Structured credit	-	-	125,682	125,682
Mutual funds	-	-	172	172
Quoted equities	2,531,944	-	-	2,531,944
Unquoted equities	-	-	71,243	71,243
Private equity funds	-	-	1,007,838	1,007,838
Sub total	25,666,684	3,533,519	1,284,874	30,485,077
Held for trading:				
Mutual funds	587,110	-	-	587,110
Fair value through income statement (FVIS):				
Hedge funds and externally managed portfolio	-	2,936,581	1,511,420	4,448,001
Total	26,253,794	6,470,100	2,796,294	35,520,188
Derivative financial instruments				
Financial assets	-	389,911	12,902	402,813
Financial liabilities	-	532,727	22,340	555,067

Movement of level 3 is as follows:

	2011 **SR '000**	2010 SR '000
Balance at beginning of the year	**2,796,294**	3,904,034
Total gains/(losses) in consolidated income statement and comprehensive income	**9,989**	(63,646)
Purchases	**242,341**	550,890
(Sales)	**(729,130)**	(1,563,563)
(Settlements)	**(3,036)**	-
Transfer (from) level 3	**(289,388)**	(31,421)
Balance at end of the year	**2,027,070**	2,796,294

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

38. RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Bank transacts business with related parties. In the opinion of the management and the Board, the related party transactions are performed on an arm's length basis. The related party transactions are governed by the limits set by the Banking Control Law and the regulations issued by SAMA. Related party balances include the balances resulting from transactions with Governmental shareholders. All other Government transactions are also at market rates.

(38.1) The balances as at 31 December included in the financial statements are as follows:

	2011 **SR '000**	2010 SR '000
Group's Board of Directors and senior executives:		
Loans and advances	**384,407**	406,945
Customers' deposits	**39,687**	53,322
Commitment and contingencies	**1,563**	2,671
Other liabilities - end of service benefits	**29,124**	28,020
Major shareholders:		
Customers' deposits	**13,712,073**	12,847,614
Bank's mutual funds:		
Investments	**508,505**	586,110
Customers' deposits	**431,340**	2,558,053

Major shareholders represent shareholdings of more than 5% of the Bank's issued share capital. Related parties are the persons or close members of those persons' families and their affiliate entities which they have control, joint control or significant influence over these entities.

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

	2011 **SR '000**	2010 SR '000
Special commission income	**7,600**	5,753
Special commission expense	**90,763**	170,446

Bank's Board of Directors include the Board and Board related committees (Executive Committee, Credit Committee, Risk Management Committee, Compensation and Nomination Committee and Audit Committee); their remunerations, allowances and expenses are disclosed in the Board of Directors' report. For Bank's senior executives compensation, refer to note 39.

39. GROUP's STAFF COMPENSATION

The total cost of the Group's compensation is as follows:

2011

Categories of employees	Number of employees	Fixed compensation (on accrual basis)	Variable compensation (on cash basis)
Senior executives	**15**	**29,871**	**44,181**
Employees engaged in risk taking activities	**208**	**77,807**	**15,130**
Employees engaged in control functions	**251**	**81,198**	**17,087**
Other employees	**5,437**	**884,185**	**201,608**
Outsourced employees (engaged in risk taking activities)	**-**	**-**	**-**
Subsidiaries	**3,720**	**496,023**	**102,463**
Group total	**9,631**	**1,569,084**	**380,469**

All forms of payment for fixed and variable compensation are in cash, except for part of NCB Capital's variable compensation amounting to SR 20.1 million, which is settled in equities. The two basic salaries of SR 93.4 million paid to Saudi staff pursuant to The Royal Award are excluded from the above compensation.

The Bank's senior executives are those persons having authority and responsibility for planning, directing and controlling the activities of the Group.

Employees engaged in risk taking activities comprise those officers of the business sectors of Individual Banking, Consumer Finance, International, Corporate and Treasury division, who are the key drivers in undertaking business transactions, and managing related business risks.

Employees engaged in control functions include employees in Risk Management, Internal Audit, Compliance, Finance and Legal divisions.

The Group's variable compensation recognized as staff expenses in the consolidated statement of income for 2011 is SR 375.8 million (2010: SR 365 million) which will be paid to employees during quarter 1 of 2012.

40. CAPITAL ADEQUACY

(40.1) Capital adequacy ratio

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.

The Group monitors the adequacy of its capital using the ratios and weights established by SAMA. These ratios measure capital adequacy by comparing the Group’s eligible capital with its statement of position assets, commitments & contingencies and notional amount of derivatives at a weighted amount to reflect their relative credit risk, market risk and operational risk. SAMA requires to hold the minimum level of the regulatory capital and maintain a ratio of total eligible capital to the risk-weighted asset at or above the agreed minimum of 8%. Regulatory Capital is computed for Credit, Market and Operational risk which comprise the Pillar 1 minimum capital requirements.

	Eligible capital		**Capital Adequacy Ratio (Pillar 1)**	
	2011 **SR '000**	2010 SR '000	**2011** **%**	2010 %
Core capital (Tier 1)	**34,318,125**	31,174,410	**17.2**	17.1
Supplementary capital (Tier 2)	**2,008,707**	1,584,662		
Core and supplementary capital (Tier 1 and Tier 2)	**36,326,832**	32,759,072	**18.2**	18.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

40. CAPITAL ADEQUACY (continued)

(40.1) Capital adequacy ratio (continued)

Tier 1 capital of the Group at the year end comprises share capital, statutory reserve, other reserves, retained earnings, proposed dividend and non-controlling interests less treasury shares, goodwill, intangible assets and other prescribed deductions. Tier 2 capital comprises a prescribed amount of eligible portfolio (collective) provisions less prescribed deductions.

The Group has implemented Basel II effective 1 January 2008 as stipulated by SAMA. The Group uses the Standardized approach of Basel II to calculate the risk weighted assets and required Regulatory Capital for Pillar -1 (including credit risk, market risk and operational risk). The Group's Risk Management Division is responsible for ensuring that minimum required Regulatory Capital calculated is compliant with Basel II requirements. Quarterly prudential returns are submitted to SAMA showing the Capital Adequacy Ratio.

	Risk weighted assets	
	2011	2010
	SR '000	SR '000
Credit risk	**169,732,836**	154,962,437
Operational risk	**22,107,907**	19,205,066
Market risk	**7,809,547**	8,261,749
Total Pillar-1 - risk weighted assets	**199,650,290**	182,429,252

(40.2) BASEL II PILLAR 3 DISCLOSURES

Under Basel II pillar 3, certain quantitative and qualitative disclosures are required, and these disclosures, which are not required to be audited, will be made available on the Group's website **www.alahli.com** as required by the Saudi Arabian Monetary Agency (SAMA).

41. INVESTMENT SERVICES

The Bank offers investment management services to its customers through NCB capital. Assets under management outstanding at 31 December 2011 amounted to SR 33,963 million (2010: SR 41,645 million)

42. TREASURY SHARES

The Bank acquired its own equity shares in 2009 from a customer as a result of partial set-off of debt.

43. ACQUISITION OF AVAILABLE FOR SALE INVESTMENTS (EQUITIES)

The Bank acquired equities during 2009 and 2010 from a customer as a result of partial set-off of debt.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

44. PROSPECTIVE CHANGES IN ACCOUNTING POLICIES

Standards issued but not yet effective up to the date of issuance of the Group consolidated financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective.

Effective from periods beginning on or after	Standard, amendment or interpretation	Summary of requirements
1-July-2012	Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)	The amendments require that an entity present separately, the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met, from those that would never be reclassified to profit or loss.
1-January-2013	IFRS 9 - Financial Instruments	Standard issued in November 2009 (IFRS 9 (2009)) which is the first standard issued as part of a wider project to replace IAS 39. IFRS 9 (2009) retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply. The IASB issued exposure draft (ED) "Mandatory effective date of IFRS 9" that proposes to move the mandatory effective date to periods beginning on or after 1 January 2015 with early application continue to be permitted.
1-January-2013	IFRS 9 - Financial Instruments	Standard issued in October 2010 (IFRS 9 (2010)) which adds the requirements related to the classification and measurement of financial liabilities, and derecognition of financial assets and liabilities to the version issued in November 2009. It also includes those paragraphs of IAS 39 dealing with how to measure fair value and accounting for derivatives embedded in a contract that contains a host that is not a financial asset, as well as the requirements of IFRIC 9 Reassessment of Embedded Derivatives. Also refer to ED on Mandatory effective date, as stated above.
1-January-2013	IFRS 10 - Consolidated Financial Statements	IFRS 10 introduces a new approach to determining which investees should be consolidated and provides a single model to be applied in the control analysis for all investees. An investor controls an investee when: • it is exposed or has rights to variable returns from its involvement with that investee; • it has the ability to affect those returns through its power over that investee; and • there is a link between power and returns. Control is re-assessed as facts and circumstances change. IFRS 10 supersedes IAS 27 (2008) and SIC-12 Consolidation – Special Purpose Entities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

44. PROSPECTIVE CHANGES IN ACCOUNTING POLICIES (continued)

Effective from periods beginning on or after	Standard, amendment or interpretation	Summary of requirements
1-January-2013	IFRS 12 - Disclosure of Interests in Other Entities	IFRS 12 contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities, aiming to provide information to enable users to evaluate: • the nature of, and risks associated with, an entity's interests in other entities; and • the effects of those interests on the entity's financial position, financial performance and cash flows.
1-January-2013	IFRS - 13 Fair Value Measurement	IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other IFRSs.
1-January-2013	IAS - 27 Separate Financial Statements (2011)	IAS 27 (2011) supersedes IAS 27 (2008). IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications.
1-January-2013	IAS 28 Investments in Associates and Joint Ventures (2011)	IAS 28 (2011) supersedes IAS 28 (2008). IAS 28 (2011) makes the following amendments: • IFRS 5 applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and • on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture or vice versa, the entity does not remeasure the retained interest.

45. BOARD OF DIRECTORS' APPROVAL

The consolidated financial statements were approved by the Board of Directors on 31 January 2012 (corresponding to 8 Rabi Al-Awal 1433H).