BANK ALJAZIRA

(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011 AND AUDITORS' REPORT

ERNST & YOUNG

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Deloitte & Touche
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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Bank AlJazira:
(a Saudi Joint Stock Company)

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

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INDEPENDENT AUDITORS' REPORT (continued)

Opinion

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

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

for Ernst & Young

Ahmed I. Reda
Certified Public Accountant
Licence Number 356

February 7, 2012
Rabi-Al-Awal 15, 1433 H

for Deloitte & Touche
Bakr Abulkhair & Co.

Husam H. Sadagah
Certified Public Accountant
Licence Number 73

Bank AlJazira
(A Saudi Joint Stock Company)

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

	Notes	2011 SR'000	2010 SR'000
ASSETS			
Cash and balances with SAMA	3	**4,379,043**	2,607,890
Due from banks and other financial institutions	4	**4,331,024**	5,579,852
Investments	5	**5,396,915**	4,546,171
Loans and advances, net	6	**23,307,451**	18,704,442
Other real estate, net	6e	**680,778**	679,800
Property and equipment, net	7	**446,829**	462,493
Other assets	8	**356,210**	437,573
Total assets		**38,898,250**	33,018,221
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks and other financial institutions	10	**1,305,778**	388,719
Customers' deposits	11	**31,158,531**	27,344,918
Other liabilities	12	**497,078**	478,902
Subordinated sukuk	13	**1,000,000**	-
Total liabilities		**33,961,387**	28,212,539
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK			
Share capital	14	**3,000,000**	3,000,000
Statutory reserve	15	**1,474,000**	1,398,000
General reserve	15	**68,000**	68,000
Other reserve	16	**24,250**	739
Retained earnings		**6,287**	48,779
Proposed dividend	26	**160,000**	-
Total equity attributable to equity holders of the Bank		**4,732,537**	4,515,518
Non-controlling interest		**204,326**	290,164
Total equity attributable to equity holders of the Bank and non-controlling interest		**4,936,863**	4,805,682
Total liabilities and equity		**38,898,250**	33,018,221

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

Bank AlJazira

(A Saudi Joint Stock Company)

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

	Notes	2011 SR'000	2010 SR'000
Special commission income	18	**968,116**	868,346
Special commission expense	18	**(186,653)**	(151,093)
Net special commission income		**781,463**	717,253
Fees and commission income, net	19	**356,208**	265,471
Foreign exchange income, net		**19,927**	18,184
Trading income, net	20	**11,381**	27,804
Income from FVIS financial instruments		**-**	67,506
Dividend income	21	**9,719**	10,394
Loss on non-trading investments	22	**(6,441)**	-
Other operating income	23	**35,841**	48,454
Total operating income		**1,208,098**	1,155,066
Salaries and employee-related expenses		**482,842**	434,004
Rent and premises-related expenses		**62,864**	64,597
Depreciation	7	**66,775**	81,268
Other general and administrative expenses		**187,206**	175,014
Impairment charge for credit losses, net	6	**70,352**	362,232
Other operating expenses	24	**35,148**	9,376
Total operating expenses		**905,187**	1,126,491
Net income for the year		**302,911**	28,575
Attributable to:			
Equity holders of the Bank		**302,853**	28,912
Non-controlling interest		**58**	(337)
Net income for the year		**302,911**	28,575
Earning per share (expressed in SR per share)			
Basic and diluted earnings per share	25	**1.01**	0.10

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

Bank AlJazira

(A Saudi Joint Stock Company)

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

	2011 **SR'000**	2010 SR'000
Net income for the year	**302,911**	28,575
Other comprehensive (loss) / income		
Cash flow hedges:		
Fair value gain on cash flow hedges	**5,585**	-
Net amount transferred to consolidated income statement	**(374)**	-
Net changes in fair value of investment classified as at Fair Value through other comprehensive income (FVTOCI) *(from 1 January 2011)*	**(91,045)**	-
Net changes in fair value of available for sale investments *(prior to 1 January 2011)*	**-**	739
Other comprehensive (loss) / income for the year	**(85,834)**	739
Total comprehensive income for the year	**217,077**	29,314
Attributable to:		
Equity holders of the Bank	**217,019**	29,651
Non-controlling interest	**58**	(337)
Total comprehensive income for the year	**217,077**	29,314

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

Bank AlJazira

(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

2011	Notes	Share capital SR'000	Statutory reserve SR'000	General reserve SR'000	Other reserve SR'000	Retained earnings SR'000	Proposed dividend SR'000	Total equity attributable to equity holders of the Bank SR'000	Non-controlling interest SR'000	Total SR'000
Balance at January 1, 2011		**3,000,000**	**1,398,000**	**68,000**	**739**	**48,779**	**-**	**4,515,518**	**290,164**	**4,805,682**
Effect of early adoption of IFRS 9 (note 2c (xii))		**-**	**-**	**-**	**109,345**	**(109,345)**	**-**		**-**	**-**
Net income / (loss) for the year		**-**	**-**	**-**		**302,853**		**302,853**	**58**	**302,911**
Other comprehensive income					**(85,834)**	**-**	**-**	**(85,834)**	**-**	**(85,834)**
Total comprehensive income / (loss)		**-**	**-**	**-**	**(85,834)**	**302,853**		**217,019**	**58**	**217,077**
Transfer to statutory reserve	**15**	**-**	**76,000**			**(76,000)**	**-**	**-**	**-**	**-**
Net changes in non-controlling interest		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(85,896)**	**(85,896)**
Proposed dividend for 2011	**26**	**-**	**-**	**-**	**-**	**(160,000)**	**160,000**	**-**	**-**	**-**
Balance at December 31, 2011		**3,000,000**	**1,474,000**	**68,000**	**24,250**	**6,287**	**160,000**	**4,732,537**	**204,326**	**4,936,863**
2010										
Balance at January 1, 2010		3,000,000	1,390,000	68,000	-	27,867	-	4,485,867	208,467	4,694,334
Net income / (loss) for the year		-	-	-	-	28,912	-	28,912	(337)	28,575
Other comprehensive income		-	-	-	739	-	-	739	-	739
Total comprehensive income / (loss)		-	-	-	739	28,912	-	29,651	(337)	29,314
Transfer to statutory reserve	15	-	8,000	-	-	(8,000)	-	-	-	-
Net changes in non-controlling interest		-	-	-	-	-	-	-	82,034	82,034
Balance at December 31, 2010		3,000,000	1,398,000	68,000	739	48,779	-	4,515,518	290,164	4,805,682

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

Bank AlJazira

(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	Notes	2011 SR'000	2010 SR'000
OPERATING ACTIVITIES			
Net income for the year attributable to equity holders of the Bank		**302,853**	28,912
Adjustments to reconcile net income to net cash from / (used in) operating activities:			
Trading income	20	**(11,381)**	(27,804)
Income from FVIS financial instruments, net		**-**	(67,506)
Loss on non-trading investments	22	**6,441**	-
Depreciation	7	**66,775**	81,268
Dividend Income		**(9,719)**	(10,394)
(Gain)/Loss on disposal of property and equipment, net		**(31,494)**	615
Impairment charge for credit losses	6c	**70,352**	362,232
		393,827	367,323
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA		**(124,265)**	(249,970)
Due from banks and other financial institutions maturing after three months from the date of acquisition		**790,408**	1,611,074
Investments held as at FVTIS (including trading investments)		**971,481**	-
Investment held for trading		-	(902,528)
Loans and advances		**(4,673,361)**	(3,562,580)
Other real estate, net		**(978)**	11,867
Other assets		**83,923**	(72,253)
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		**917,059**	(2,301,920)
Customers' deposits		**3,691,113**	5,202,442
Other liabilities		**16,124**	27,309
Net cash from operating activities		**2,065,331**	130,764
INVESTING ACTIVITIES			
Proceeds from sales and maturities of non-trading investments		**2,742,371**	3,393,750
Acquisition of non-trading investments		**(4,733,609)**	(2,585,321)
Acquisition of property and equipment	7	**(65,931)**	(43,490)
Proceeds from sale of property and equipment		**46,314**	165
Dividend received		**9,719**	10,394
Net cash (used in)/from investing activities		**(2,001,136)**	775,498
FINANCING ACTIVITIES			
Dividends paid		**(353)**	(103)
Net movements in non-controlling interest		**2,126**	1,521
Issue of subordinated sukuk		**1,000,000**	-
Net cash from financing activities		**1,001,773**	1,418
Net increase in cash and cash equivalents		**1,065,968**	907,680
Cash and cash equivalents at the beginning of the year		**4,905,463**	3,997,783
Cash and cash equivalents at the end of the year	27	**5,971,431**	4,905,463
Special commission received during the year		**941,079**	882,798
Special commission paid during the year		**178,581**	155,556
SUPPLEMENTAL NON-CASH INFORMATION			
Net changes in fair values		**(85,834)**	739
Real estate acquired in settlement of loans and advances	6 (e)	**2,628**	-

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

1. GENERAL

Bank AlJazira (the Bank) is a Joint Stock Company incorporated in the Kingdom of Saudi Arabia and formed pursuant to Royal Decree number 46/M dated Jumad Al-Thani 12, 1395H (June 21, 1975). The Bank commenced its business on Shawwal 16, 1396H (October 9, 1976) with the takeover of The National Bank of Pakistan's branches in the Kingdom of Saudi Arabia and operates under commercial registration number 4030010523 dated Rajab 29, 1396H (July 27, 1976) issued in Jeddah, through its 51 branches (2010: 50 branches) in the Kingdom of Saudi Arabia and employed 1,574 staff (2010: 1,616 staff). The Bank's Head Office is located at the following address:

Bank AlJazira
Nahda Center, Malik Street, P. O. Box 6277
Jeddah 21442, Kingdom of Saudi Arabia

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

The Bank provides its customers Shari'ah compliant (non-commision based) banking products comprising of Murabaha, Istisna'a, Ijarah and Tawaraq, which are approved and supervised by an independent Shari'ah Board established by the Bank.

The Bank's subsidiaries are as follows:

	Country of incorporation	**Nature of business**	**Ownership (direct and indirect) December 31, 2011**	Ownership (direct and indirect) December 31, 2010
Al-Mashareq Japanese Equities Fund	Saudi Arabia	Mutual fund	**23%**	27%
Al-Thoraiya European Equities Fund	Saudi Arabia	Mutual fund	**28%**	32%
Al-Khair Global Equities Fund	Saudi Arabia	Mutual fund	**-**	20%
AlJazira Capital Company	Saudi Arabia	Brokerage and asset management	**100%**	100%
Aman Real Estate	Saudi Arabia	Holding and managing collateral on behalf of the Bank	**98%**	98%

The Bank has control over the entities listed above and therefore, such entities are considered to be subsidiaries.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation

The consolidated financial statements are prepared in accordance with Accounting Standards for Financial Institutions promulgated by the Saudi Arabian Monetary Agency (SAMA), and with International Financial Reporting Standards (IFRS). The Bank 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.

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

- assets and liabilities held for trading are measured at fair value;
- financial instruments designated at fair value through income statement are measured at fair value;
- investments in equity instruments are measured at fair value;
- Other financial assets, not held in a business model whose objective is to hold assets to collect contractual cash flows or whose contractual terms do not give rise solely to payments of principal and special commission, are measured at fair value (*policy is applicable from 1 January 2011*);
- financial assets or liabilities that are hedged in a fair value hedging relationship, and otherwise carried at cost, are carried at fair value to the extent of risk being hedged;
- available for sale financial assets are measured at fair value (*policy applicable prior to 1 January 2011*).

b) Basis of consolidation

The consolidated financial statements comprise the financial statements of Bank AlJazira and its subsidiaries drawn up to December 31 each year. The financial statements of subsidiaries are prepared for the same reporting year as that of the Bank, using consistent accounting policies.

Al-Khair Global Equities Fund was consolidated in the financial statements of the Bank up to 31 December 2010. Due to the reduction in ownership interest of the Bank in Al-Khair Global Equities Fund to 18.67% the Bank has ceased to consolidate this fund with effect from 1 January 2011, as management believes that the control is transferred from the Bank.

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

The consolidated financial statements have been prepared using uniform accounting policies and valuation methods for like transactions and other events in similar circumstances. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Bank.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Basis of consolidation (continued)

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

Acquisitions of non-controlling interests are accounted for using the Parent extension method whereby, the difference between the consideration and the fair value of the share of the net assets acquired is recognised as goodwill. The Bank 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.

All significant inter-company transactions and balances have been eliminated upon consolidation.

These consolidated financial statements comprise the financial statements of Bank AlJazira and its subsidiaries, namely, Al-Mashareq Japanese Equities Fund, Al-Thoraiya European Equities Fund, AlJazira Capital Company and Aman Real Estate (collectively the "Group").

c) Changes in accounting policies

The accounting policies adopted are consistent with those followed in the preparation of the Group's consolidated financial statement for the year ended December 31, 2010, except for early adoption of International Financial Reporting Standard (IFRS) 9 with effect from 1 January 2011 (see note 5). The adoption of the new and amended standards and interpretation applicable to the Group, other than IFRS 9 as explained below did not have any significant financial impact on the financial statements, for the year ended December 31, 2011.

IAS 24 - Related party disclosures (revised 2009)

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

Amendment to IFRS 7 - Financial instruments: Disclosure for Transfer of Financial Assets:

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

a. financial assets that are not derecognized in their entirety; and
b. financial assets that are derecognized in their entirety but there is a continuing involvement

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Changes in accounting policies (continued)

Improvement to IFRS 7 Financial instruments: Disclosure

The amendments add an explicit statement that qualitative disclosures 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.

Improvements to IFRSs 2010 – IAS 1 Presentation of Financial Statements

IAS 1 is amended to clarify that disaggregation of changes in each component of equity arising from transactions 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.

Improvements to IFRSs 2010 – IFRIC 13 Customer Loyalty Programmes

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

Other amendments resulting from the improvements to the IFRSs to the following standards did not have any material 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 loan.
- IAS 27 – Consolidated and Separate Financial Statements
- IAS 32 – Financial Instruments: Presentation

EARLY ADOPTION OF IFRS 9

The Group has early adopted IFRS 9 Financial Instruments, issued in November 2009 and revised in October 2010 and related consequential amendments in advance of its effective date.

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 continued to be permitted.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Changes in accounting policies (continued)

EARLY ADOPTION OF IFRS 9 (continued)

The date of initial application of IFRS 9 (i.e. the date on which the Group has assessed its existing financial assets and financial liabilities) is 1 January 2011 in accordance with the transitional provisions of IFRS 9. All other financial assets are measured at fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans and receivables. The Group has voluntarily adopted this standard, as this is considered to result in a presentation that better reflects the performance and operations of the Group.

The Group has not restated comparative information as permitted by the transitional provisions of IFRS 9 and has recognized impact of early adoption of IFRS 9 as at 1 January 2011, the opening retained earnings and other reserves as of that date (see note 16 for quantification of the impact).

IFRS 9 (phase 1) has been applied by the Group for the classification and measurement of financial assets and financial liabilities. IAS 39 is still being followed for impairment of financial assets and hedge accounting, as these will be covered through phase 2 and phase 3 of IFRS 9, respectively, which have not yet been completed by the International Accounting Standards Board (IASB). As IASB completes these phases, it will delete the relevant portions of IAS 39 and create chapters in IFRS 9 that would replace the requirements in IAS 39.

Policy applicable prior to 1 January 2011

All investment securities are financial assets which are initially recognised 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 are accreted on a systematic basis to their maturity and are taken to special commission income.

For securities that are traded in organized financial markets, fair value is determined by reference to exchange quoted market bid prices at the close of business on the reporting date.

For securities where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument, which is substantially the same, or is based on the expected cash flows or the underlying net asset base of the security.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Changes in accounting policies (continued)

Policy applicable prior to 1 January 2011(continued)

Following initial recognition, subsequent transfers between the various classes of investments are not ordinarily permissible. The subsequent period-end reporting values for each class of investment are determined on the basis as set out in the following paragraphs:

i) Held for trading and held at fair value through income statement (FVIS)

Investments in this category are classified as either investment held for trading or those designated as FVIS on initial recognition. Investments held for trading are acquired principally for the purpose of selling or repurchasing in short term and are recorded in the statement of financial position at fair value. An investment may be designated as FVIS by the management if it satisfies the criteria laid down by IAS 39 except for equity instruments that do not have a quoted market price in an active market and whose fair values cannot be reliably measured.

After initial recognition, investments are measured at fair value and any change in the fair value is recognised in the consolidated income statement for the period in which it arises. Transaction costs, if any, are not added to the fair value measurement at initial recognition of held for trading and held at FVIS investments. Dividend income received on investment held for trading and held at FVIS is reflected as either trading income or income from FVIS financial instruments in the consolidated income statement.

ii) Available for sale

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

Investments, which are classified as available for sale, are subsequently measured at fair value. For available for sale investments where the fair value has not been hedged, unrealised gain or loss arising from a change in their fair values is recognised in consolidated statement of comprehensive income. On derecognition, any cumulative gain or loss previously recognised in consolidated statement of comprehensive income is included in the consolidated income statement for the year. Dividend income is recognised in consolidated income statement when the Bank becomes entitled to the dividend.

iii) Held to maturity

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Changes in accounting policies (continued)

Policy applicable prior to 1 January 2011(continued)

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

iv) Other investments held at amortised cost

Investments securities with fixed or determinable payments that are not quoted in an active market are classified as "Other investments held at amortised cost". Such investments whose fair values have not been hedged are stated at amortised cost, 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 recognised in the consolidated income statement when the investment is derecognised or impaired.

v) Loans and advances

Loans and advances are non-derivative financial assets originated by the Bank with fixed or determinable payments. Loans and advances are recognised when cash is advanced to borrowers. These are derecognised when either the borrower repays the obligation or the loans are sold or written off, or substantially all the risk and rewards of ownership are transferred.

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

Following initial recognition, loans and advances originated or acquired by the Bank that are not quoted in an active market and for which fair value has not been hedged, are stated at cost less any amount written off and provisions for impairment.

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

vi) Impairment of financial assets

An assessment is made at each reporting date 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, based on the net present value of future anticipated cash flows, is recognised for changes in its carrying amounts as follows:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Changes in accounting policies (continued)

Policy applicable prior to 1 January 2011(continued)

Impairment of financial assets held at amortised cost

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

In addition to specific provision for credit losses, 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. 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 Bank has had in dealing with a borrower or group of borrowers and available historical default information.

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

Impairment of financial assets held at fair value

For financial assets held at fair value, where a loss has been recognised in consolidated statement of comprehensive income, the cumulative net loss recognised in consolidated statement of comprehensive income is transferred to the consolidated income statement 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. The impairment loss cannot be reversed through consolidated income statement as long as the asset continues to be recognised, i.e. any increase in fair value after impairment has been recorded can only be recognised in equity. On derecognition, any cumulative gain or loss previously recognised in equity is included in the consolidated income statement for the year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Changes in accounting policies (continued)

Policy applicable prior to 1 January 2011(continued)

Impairment of financial assets held at fair value (continued)

The Group writes off its financial assets when the respective business units 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 consolidated income statement.

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

If, in a subsequent period, the amount of the impairment loss on investments, other than available for sale equity investments, decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the issuer’s credit rating), the previously recognised impairment loss is reversed by adjusting the provision account. The amount of the reversal is recognised in the consolidated income statement as reversal of provision for impairment for other financial assets.

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.

Policy applicable from 1 January 2011

IFRS 9 introduces new classification and measurement requirements for financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement.

Specifically, IFRS 9 requires all financial assets to be classified and subsequently measured at either amortised cost or fair value on the basis of the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. (Refer Note 2c (vii)).

At inception, financial asset are classified at amortized cost or fair value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Changes in accounting policies (continued)

Policy applicable from 1 January 2011(continued)

vii) Investment in debt instruments classified as at amortised cost:

Debt instruments that meet the following conditions are subsequently measured at amortised cost less impairment loss (except for debt investments that are designated as at fair value through income statement on initial recognition):

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and commission on the principal amount outstanding.

If a financial asset does not meet both of these conditions, then it is measured at fair value.

The Group makes an assessment of a business model at portfolio level as this reflects best the way the business is managed and information is provided to management.

In making an assessment of whether an asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows, the Group considers:

- Management’s stated policies and objectives for the portfolio and the operation of those policies in practice;
- How management evaluates the performance of the portfolio;
- Whether the management’s strategy focus on earning contractual commission income;
- The degree of frequency of any expected asset sales;
- The reason for any asset sales; and
- Whether assets that are sold are held for an extended period of time relative to their contractual maturity or are sold shortly after acquisition or an extended time before maturity.

Financial assets held for trading are not held within a business model whose objective is to hold the asset in order to collect contractual cash flows.

Income is recognised on an effective profit basis for debt instruments measured subsequently at amortised cost. Commission income is recognised in consolidated income statement.

Debt instruments that are subsequently measured at amortised cost are subject to impairment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Changes in accounting policies (continued)

Policy applicable from 1 January 2011(continued)

viii) Financial assets classified as at Fair Value through Income Statement (FVTIS)

Investments in equity instruments are classified as at FVTIS, unless the Group designates an investment that is not held for trading as at fair value through other comprehensive income (FVTOCI) on initial recognition (see note 5 below).

Debt instruments that do not meet the amortised cost criteria are measured at FVTIS. In addition, debt instruments that meet the amortised cost criteria but are designated as at FVTIS are measured at fair value through income statement. A debt instrument may be designated as at FVTIS upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The Group has not designated any debt instrument as at FVTIS on the date of initial application of IFRS 9 (i.e. 1 January 2011).

Debt instruments are reclassified from amortised cost to FVTIS when the business model is changed such that the amortised cost criteria are no longer met. Reclassification of debt instruments that are designated as at FVTIS on initial recognition is not allowed.

Financial assets at FVTIS are measured at fair value at the end of each reporting period, with any gains or losses arising on remeasurement recognised in consolidated income statement.

Commission income on debt instruments as at FVTIS is included in the consolidated income statement.

Dividend income on investments in equity instruments at FVTIS is recognised in consolidated income statement when the Group’s right to receive the dividends is established in accordance with IAS 18 - Revenue and is included in the consolidated income statement.

ix) Investment in equity instruments designated as at Fair Value through Other Comprehensive Income (FVTOCI)

On initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation as at FVTOCI is not permitted if the equity investment is held for trading.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Changes in accounting policies (continued)

Policy applicable from 1 January 2011(continued)

ix) Investment in equity instruments designated as at Fair Value through Other Comprehensive Income (FVTOCI) – (continued)

A financial asset or financial liability is held for trading if:

(a) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;

(b) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or

(c) it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in other reserves. Gain and losses on such equity instruments are never reclassified to consolidated income statement and no impairment is recognised in consolidated income statement. Investment in unquoted equity instruments which were previously accounted for at cost in accordance with IAS 39, are now measured at fair value. The cumulative gain or loss will not be reclassified to consolidated income statement on disposal of the investments.

The Group has designated all investments in equity instruments that are not held for trading as at FVTOCI on initial application of IFRS 9.

Dividends on these investments in equity instruments are recognised in consolidated income statement when the Groups right to receive the dividends is established in accordance with IAS 18 Revenue, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends earned are recognised in consolidated income statement.

Fair value reserve includes the cumulative net change in fair value of equity investment measured at fair value through other comprehensive income. When such equity instruments are derecognised, the related cumulative amount in the fair value reserve is transferred to retained earnings.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Changes in accounting policies (continued)

Policy applicable from 1 January 2011(continued)

x) Financial liabilities

Financial liabilities carried at amortised cost under IAS 39 have been classified and measured at amortised cost using the effective yield method under IFRS 9 and no changes in the classification and measurement have been made.

One major change in the classification and measurement of financial liabilities under IFRS 9 relates to the accounting for changes in fair value of a financial liability (designated as at Fair Value through Income Statement (FVTIS)) attributable to changes in the credit risk of that liability. For financial liabilities that are designated as at FVTIS, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in consolidated income statement. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to consolidated income statement. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at FVTIS was recognised in the income statement.

The liability credit reserve includes the cumulative changes in the fair value of the financial liabilities designated as at fair value through income statement that are attributable to changes in the credit risk of these liabilities and which would not create or enlarge accounting mismatch in consolidated income statement. Amount presented in liability credit reserve are not subsequently transferred to consolidated income statement. When such investments are derecognised, the related cumulative amount in the liability credit reserve is transferred to retained earnings.

At 31 December 2010, there were no financial liabilities designated by the Group as at Fair Value Through Income Statement (FVTIS). On the date of initial application of IFRS 9 (i.e. 1 January 2011), the Group has also not designated any financial liability as at FVTIS.

xi) Impairment of financial assets

At each reporting date the Group assesses whether there is objective evidence that financial assets carried at amortised cost are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Changes in accounting policies (continued)

Policy applicable from 1 January 2011(continued)

xi) Impairment of financial assets (continued)

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

The Group considers evidence of impairment for loans and advances and investment securities measured at amortised costs at both a specific asset and collective level. All individually significant loans and advances and investment securities measured at amortised cost are assessed for specific impairment. All individually significant loans and advances and investment securities measured at amortised cost found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and investment securities measured at amortised cost that are not individually significant are collectively assessed for impairment by grouping together loans and advances and investment securities measured at amortised cost with similar risk characteristics.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective yield rate. Impairment losses are recognised in consolidated income statement and reflected in an allowance account against loans and advances. Commission on impaired assets continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through consolidated income statement. The Group writes off loans and advances and investment securities when they are determined to be uncollectible.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Changes in accounting policies (continued)

xii) IMPACT OF EARLY ADOPTION OF IFRS 9

Impact on other reserves and retained earnings

The impact of the early adoption on the opening retained earnings and other reserves classified in equity as at 1 January 2011, and on the classification of financial assets as at 1 January 2011, is as follows:

Impact on other reserves and retained earnings

	Carrying amount as at 31 December 2010 SR'000	Carrying amount as at 1 January 2011 upon adoption of IFRS 9 SR'000	Impact of early adoption SR'000
Other reserves	739	110,084	109,345
Retained earnings	48,779	(60,566)	(109,345)

Cumulative fair value gains of SR 109.3 million recognised in the consolidated income statement for periods up to 31 December 2010, in relation to the Bank's investment in equity shares previously designated as at FVIS under IAS 39, have been reclassified from opening retained earnings as at 1 January 2011 to other reserves as at 1 January 2011 (see impact on classification of financial asset below for more details).

Had the Bank not early adopted IFRS 9, the net income for the year ended 31 December 2011 would have been lower by SR 91.7 million, retained earnings as at 31 December 2011 would have been higher by SR 17.6 million and other reserves in equity as at 31 December 2011 would have been lower by SR 17.6 million.

Had the Bank not early adopted IFRS 9, the basic and diluted earnings per share for the year ended 31 December 2011 would have been SR 0.7 per share.

Impact on classification of financial assets

The adoption of IFRS 9 has resulted in a change in the classification of financial assets, although this has not impacted the value of those financial assets.

The Bank's investment in equity shares that were previously designated as at FVIS under IAS 39, have been designated as FVTOCI under IFRS 9 as at 1 January 2011, as the new classification is considered to result in a presentation that better reflects the performance and operations of the Bank (also see note 5c).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Changes in accounting policies (continued)

Impact on classification of financial liabilities

As stated earlier, financial liabilities carried at amortised cost under IAS 39 have been classified and measured at amortised cost using the effective yield method under IFRS 9 and no changes in the classification and measurement have been made.

For derivatives, see notes 9. In respect of derivatives, there is no impact of the early adoption on the consolidated financial statements of the Group.

d) Critical accounting judgements, estimates and assumptions

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

i) Business model – Applicable from 1 January 2011

In making an assessment whether a business model's objective is to hold assets in order to collect contractual cash flows, the Group considers at which level of its business activities such assessment should be made. Generally, a business model is a matter of fact which can be evidenced by the way business is managed and the information provided to management. However, in some circumstances it may not be clear whether a particular activity involves one business model with some infrequent asset sales or whether the anticipated sales indicate that there are two different business models.

In determining whether its business model for managing financial assets is to hold assets in order to collect contractual cash flows the Group considers:

- management's stated policies and objectives for the portfolio and the operation of those policies in practice;
- how management evaluates the performance of the portfolio;
- whether management's strategy focuses on earning contractual special commission income;
- the degree of frequency of any expected asset sales;
- the reason for any asset sales; and
- whether assets that are sold are held for an extended period of time relative to their contractual maturity or are sold shortly after acquisition or an extended time before maturity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

ii) Contractual cash flows of financial assets – Applicable from 1 January 2011

The Group exercises judgement in determining whether the contractual terms of financial assets it originates or acquires give rise on specific dates to cash flows that are solely payments of principal and commission income on the principal outstanding and so may qualify for amortised cost measurement. In making the assessment the Group considers all contractual terms, including any prepayment terms or provisions to extend the maturity of the assets, terms that change the amount and timing of cash flows and whether the contractual terms contain leverage.

iii) Impairment for credit losses on loans and advances and investment carried at amortised cost

At each reporting date the Group assesses whether there is objective evidence that financial assets carried at amortised cost are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

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

The Group considers evidence of impairment for loans and advances and investment securities measured at amortised costs at both a specific asset and collective level. All individually significant loans and advances and investment securities measured at amortised cost are assessed for specific impairment. All individually significant loans and advances and investment securities measured at amortised cost found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and investment securities measured at amortised cost that are not individually significant are collectively assessed for impairment by grouping together loans and advances and investment securities measured at amortised cost with similar risk characteristics.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

iii) Impairment for credit losses on loans and advances and investment carried at amortised cost (continued)

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective yield rate. Impairment losses are recognised in consolidated income statement and reflected in an impairment for credit losses. Commission on impaired assets continues to be recognised through the unwinding of the discount.

When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through consolidated income statement.

The Group writes off loans and advances and investment securities when they are determined to be uncollectible.

iv) Going concern

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

e) Settlement date accounting

All regular way purchases and sales of financial assets are recognised and derecognised on the settlement date, i.e. the date on which the asset is delivered to the counterparty. Changes in fair value between the trade date and the settlement date are accounted for in the same way as acquired assets. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or convention in the market place.

f) Derivative financial instruments and hedge accounting

Derivative financial instruments including foreign exchange contracts, commission rate futures, forward rate agreements, currency and commission rate swaps, currency and commission rate options (both written and purchased) are initially measured at fair value.

All derivatives, are carried at their fair value as assets, where the fair value is positive, and as liabilities, where the fair value is negative. Fair values are obtained by reference to quoted market prices, discounted cash flow models and pricing models, as appropriate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Derivative financial instruments and hedge accounting (continued)

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

(i) Derivatives held for trading

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

(ii) Hedge Accounting

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

At inception of the hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

In addition, at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. Hedges are formally assessed each quarter. It is expected to be highly effective if the changes in fair value or cash flow attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%.

Fair Value Hedge

Fair value hedges are used to hedge the exposure to changes in 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.

For designated and qualifying fair value hedge, the change in the fair value of a hedging derivative is recognized in the consolidated income statement in ‘trading income, net’. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the consolidated income statement in ‘trading income, net’.

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated.

For hedged items recorded at amortised cost, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the Effective rate of return (ERR). If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Derivative financial instruments and hedge accounting (continued)

(ii) Hedge Accounting (continued)

Cash Flow Hedge

Cash flow hedge are used to hedge the exposure to variability in cash flow that is attributable to a particular risk associated with a recognized asset or liability or highly probable forecast transaction and could affected the reported gain or loss.

For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is initially recognized directly in equity in the other reserve. The ineffective portion of the gain or loss on the hedging instrument is recognized immediately in trading income, net.

When the hedged cash flow affects the consolidated income statement, the gain or loss on the hedging instrument is recorded in the corresponding income or expense line of the consolidated income statement. When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income and is recognized when the hedged forecast transaction is ultimately recognized in the consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the consolidated income statement.

g) Derecognition of financial instruments

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

In instances where the Group is assessed to have transferred a financial asset, the asset is derecognised 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 derecognised 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 derecognised when it is extinguished, that is when the obligation specified in the contract is either discharged, cancelled or expires.

On dereognition of a financial asset, measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in consolidated income statement.

On derecognition of a financial asset that is classified as FVTOCI, the cumulative gain or loss previously accumulated in investments revaluation reserve is not reclassified to consolidated income statement, but is reclassified to retained earnings.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Foreign currencies

The consolidated financial statements are denominated and presented in Saudi Arabian Riyals, which is also the functional currency of the Bank.

Transactions denominated in foreign currencies are translated into Saudi Riyal (SR) at spot exchange rates prevailing at transaction dates. Monetary assets and liabilities at the year end, denominated in foreign currencies, are translated into Saudi Riyal (SR) at the exchange rates prevailing at the year end.

Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement. Translation gains or losses on non-monetary items carried at fair value are included as part of the fair value adjustment either in the consolidated income statement or in other comprehensive income depending on the underlying financial asset.

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

The accounting records of the Bank's subsidiaries are maintained in United States Dollar (USD) or Saudi Riyal (SR). As the rate of exchange of the United States Dollar (USD) against the Saudi Riyal was constant throughout the last two years, no exchange difference has arisen on the translation of the subsidiaries' financial statements for the purposes of consolidation.

i) Offsetting financial instrument

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

j) Revenue recognition

Special commission income and expense including the fees which are considered an integral part of the effective yield of a financial instrument, are recognised in the consolidated income statement on an effective yield basis and include premiums amortised and discounts accreted during the year.

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 income or expense.

The calculation of the effective special commission rate includes all fees and points paid or received, transaction costs, and discounts or premiums that are an integral part of the effective special commission rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of financial asset or liability.

Foreign exchange income / loss is recognised when earned / incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Revenue recognition (continued)

Fees and commissions are recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred and, together with the related direct cost, are recognised if material, as an adjustment to the effective yield on the loan. Portfolio and other management advisory and service fees, including fees for managing investment funds, are recognised based on the applicable service contracts, usually on a time-proportionate basis. Other fees and commission expense relate mainly to transaction and service fee, which are expensed as services are received.

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

k) Sale and repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the consolidated statement of financial position and are measured in accordance with related accounting policies for investments as at FVTIS, FVTOCI and 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 the sale and repurchase price is treated as special commission expense and 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 repos) are not recognised in the consolidated statement of financial position, as the Bank does not obtain control over the assets. Amounts paid under these agreements are included in “cash and balances with SAMA”, “due from banks and other financial institutions” or “loans and advances”, as appropriate. The difference between the purchase and resale price is treated as special commission income and is accrued over the life of the reverse repo agreement using the effective special commission rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Other real estate

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

Subsequent to the initial recognition, such real estate are revalued on a periodic basis. Any unrealised losses on revaluation, realized losses or gains on disposal and rental income are recognised in the consolidated income statement. Any subsequent gain in the fair value less costs to sell of these assets to the extent this does not exceed the cumulative write down is recognised as income together with any gain/ loss on disposal.

m) Property and equipment

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

Buildings	33 years
Leasehold improvements	Over the lease period or 10 years, whichever is shorter
Furniture, equipment and vehicles	4 to 10 years

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Liabilities

All money market deposits, customer deposits and subordinated sukuk are initially recognised at cost, which represents fair value.

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

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

o) Financial guarantees

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

p) Provisions

Provisions are recognised 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.

q) Accounting for leases

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

r) 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 with original maturity of three months or less from the date of acquisition.

s) Zakat and income tax

Under Saudi Arabian Zakat and Income tax laws, zakat and income tax are the liabilities of Saudi and foreign shareholders, respectively. Zakat is computed on the Saudi shareholders’ share of equity or net income using the basis defined under the zakat regulations. Income tax is computed on the foreign shareholder’s share of net income for the year.

Zakat and income taxes, relating to the shareholders of the Bank, are not charged to the Bank’s consolidated income statement as they are deducted from the dividends paid to the shareholders.

Zakat and income tax relating to AlJazira Capital are included in the consolidated statement of changes in equity.

t) Fiduciary assets

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

u) Shari’ah compliant (non-interest based) banking products

The Bank offers its customers Shari’ah compliant (non-interest based) banking products, which are approved by its Shari’ah Board, as follows:

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

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

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

Tawaraq is a form of Murabaha transactions where the Bank purchases a commodity and sells it to the customer. The customer sells the underlying commodity at spot and uses the proceeds for his financing requirements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

v) Shari'ah compliant (non-interest based) banking products

Wa'ad Fx is an agreement whereby a client in consideration for the payment of a fee agrees to enter into one or series of trades. One party (promisor) gives a commitment as unilateral undertaking to a second party (promisee).

Sukuk are Islamic instrument which represents an individual proportionate ownership interest in an asset and corresponding right to the income streams generated by the assets.

All Shari'ah compliant (non-interest based) products are accounted for using International Financial Reporting Standards and in conformity with the accounting policies described in these financial statements.

w) End of Service Benefits

The provision of 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.

3. CASH AND BALANCES WITH SAMA

	2011 SR'000	2010 SR'000
Cash in hand	**737,657**	444,769
Statutory deposit	**1,347,386**	1,223,121
Current account	**2,294,000**	940,000
Total	**4,379,043**	2,607,890

In accordance with 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, time and other deposits, calculated at the end of each Gregorian month. The statutory deposit with SAMA is not available to finance the Bank's day-to-day operations and therefore is not part of cash and cash equivalents. Furthermore, an amount of SR 122.5 million is included in Cash in hand for 2011, being restricted as share capital of Al Jazira Takaful, pending its initial public offering.

4. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2011 SR'000	2010 SR'000
Current accounts	**154,024**	97,391
Money market placements	**4,177,000**	5,482,461
Total	**4,331,024**	5,579,852

The money market placements represent funds placed on a Shari'ah compliant (non-interest based) Murabaha basis.

5. INVESTMENTS

a) As of 31 December 2011, investments are classified as follows:

i) Mandatorily measured at FVTIS

	Domestic	International	Total
	2011	**2011**	**2011**
	SR'000	**SR'000**	**SR'000**
Mutual funds	**565,440**	**-**	**565,440**

ii) Designated as at FVTIS

	Domestic	International	Total
	2011	**2011**	**2011**
	SR'000	**SR'000**	**SR'000**
Equities	**-**	**293,824**	**293,824**

iii) FVTOCI

	Domestic	International	Total
	2011	**2011**	**2011**
	SR'000	**SR'000**	**SR'000**
Equities	**295,445**	**2,872**	**298,317**
	295,445	**2,872**	**298,317**

iv) Amortised cost

	Domestic	International	Total
	2011	**2011**	**2011**
	SR'000	**SR'000**	**SR'000**
Murabaha investments	**1,648,971**	**-**	**1,648,971**
Sukuk investments	**1,508,410**	**1,081,953**	**2,590,363**
Total	**3,157,381**	**1,081,953**	**4,239,334**
Grand Total	**4,018,266**	**1,378,649**	**5,396,915**

5. INVESTMENTS (continued)

b) As of December 31, 2010, investments were classified as follows:

i) Held at FVIS

	Domestic	International	Total
	2010 SR'000	2010 SR'000	2010 SR'000
Equities	384,055	-	384,055

ii) Held for trading

	Domestic	International	Total
	2010 SR'000	2010 SR'000	2010 SR'000
Equities	2,611	398,300	400,911
Mutual funds	1,509,207	-	1,509,207
	1,511,818	398,300	1,910,118

iii) Available for sale

	Domestic	International	Total
	2010 SR'000	2010 SR'000	2010 SR'000
Equities	3,250	2,057	5,307

iv) Other investments held at amortised cost

	Domestic	International	Total
	2010 SR'000	2010 SR'000	2010 SR'000
Murabaha investments	1,335,321	-	1,335,321
Sukuk investments	911,370	-	911,370
Other investments held at amortised cost	2,246,691	-	2,246,691
Total investments	4,145,814	400,357	4,546,171

5. INVESTMENTS (continued)

c) The following table summarises the transitional classification and measurement adjustments to the Group's financial assets on 1 January 2011, the date of initial application of IFRS 9 by the Group.

Description of financial assets	Previous classification under IAS 39	Carrying amount as at 31 December 2010 SR'000	Classification/ designation under IFRS 9	Carrying amount as at 1 January 2011 SR'000
• Equity investments not held for trading and previously classified as available for sale	Available for sale	5,307	Fair Value through Other Comprehensive Income (FVTOCI)	5,307
• Equity investments not held for trading but previously designated as at FVIS on initial recognition	Designated as at FVIS on initial recognition	384,055	Fair Value through Other Comprehensive Income (FVTOCI)	384,055
• Equity investments held for trading	FVIS (held for trading)	400,911	Designated as at Fair Value through Income Statement (FVTIS)	400,911
• Mutual Funds held for trading	FVIS (held for trading)	1,509,207	Mandatorily Fair Value through Income Statement (FVTIS)	1,509,207
• Investments in Sukuk and Murabaha classified as other investments held at amortised cost	Loans and advances (held at amortised cost)	2,246,691	Amortised cost	2,246,691
• Loans and advances, net	Loans and advances (held at amortised cost)	18,704,442	Amortised cost	18,704,442
• Due from banks and other financial institutions	Loans and advances (held at amortised cost)	5,579,852	Amortised cost	5,579,852

5. INVESTMENTS (continued)

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

	2011			2010		
	Quoted SR'000	**Unquoted SR'000**	**Total SR'000**	Quoted SR'000	Unquoted SR'000	Total SR'000
Murabaha investments	**-**	**1,648,971**	**1,648,971**	-	1,335,321	1,335,321
Sukuk investments	**1,791,025**	**799,338**	**2,590,363**	911,370	-	911,370
Equities	**588,703**	**3,438**	**592,141**	786,835	3,438	790,273
Mutual fund	**565,440**	**-**	**565,440**	1,509,207	-	1,509,207
Investments	**2,945,169**	**2,451,746**	**5,396,915**	3,207,412	1,338,759	4,546,171

e) The analysis of unrealized gains and losses and the fair values of investments at amortised costs are as follows:

	2011				2010			
	Carrying value SR'000	**Gross unrealized gains SR'000**	**Gross unrealized losses SR'000**	**Fair value SR'000**	Carrying value SR'000	Gross unrealized gains SR'000	Gross unrealized losses SR'000	Fair value SR'000
Murabaha investments	**1,648,971**	**-**	**-**	**1,648,971**	1,335,321	-	-	1,335,321
Sukuk investments	**2,590,363**	**3,975**	**(361)**	**2,593,977**	911,370	1,463	(10,888)	901,945
Total	**4,239,334**	**3,975**	**(361)**	**4,242,948**	2,246,691	1,463	(10,888)	2,237,266

f) The analysis of investments by counterparty is as follows:

	2011 SR'000	2010 SR'000
Government and quasi Government	**2,663,346**	1,335,321
Corporate	**1,872,495**	1,314,151
Banks and other financial institutions	**861,074**	1,896,699
Total	**5,396,915**	4,546,171

5. INVESTMENTS (continued)

The portion Bank's investment in equity shares that were previously designated as at FVIS under IAS 39, have been designated as FVTOCI under IFRS 9 as at 1 January 2011. For impact of the early adoption of IFRS 9, please refer note 2c and 5c.

The outstanding balance of investments held at FVTOCI, as at 31 December 2011, includes an amount of SR 292.92 million relating to equity securities. Prior to 1 January 2011 the amount was designated as at FVIS on initial recognition under IAS 39, with a carrying value of SR 384.05 million as at 31 December 2010. These equity securities were acquired in the settlement of loan in 2009 amounting to SR 274.6 million.

Fair value through income statement (FVTIS) represents Shari'ah compliant equity and other investments, having a carrying value of SR 859 million, which have been measured at fair value.

Amortised costs comprise murabaha investments of SR 1,649 million (2010: SR 1,335 million) and Sukuk investments of SR 2,590 million (2010: SR 911 million) that are carried at amortised cost. The fair values of these investments are not significantly different from their carrying values. The Sukuk investments (disclosed in 5d) are quoted in a market but not actively traded.

6. LOANS AND ADVANCES, NET

Consumer includes loans and advances related to individuals for personal needs.

Commercial include loans and advances to corporate, small and medium sized business and institutional customers.

Others include loans and advances to staff

a) Loans and advances, net comprise the following:

	SR'000			
2011	**Consumer**	**Commercial**	**Others**	**Total**
Performing loans and advances	**7,230,960**	**16,169,005**	**87,242**	**23,487,207**
Non-performing loans and advances	**57,886**	**972,802**	**-**	**1,030,688**
Total loans and advances	**7,288,846**	**17,141,807**	**87,242**	**24,517,895**
Impairment charge for credit losses				
Specific provision	**(28,115)**	**(876,465)**	**-**	**(904,580)**
Portfolio provision	**(101,497)**	**(204,367)**	**-**	**(305,864)**
Total impairment charge	**(129,612)**	**(1,080,832)**	**-**	**(1,210,444)**
Loans and advances, net	**7,159,234**	**16,060,975**	**87,242**	**23,307,451**

	SR'000			
2010	Consumer	Commercial	Others	Total
Performing loans and advances	4,500,902	13,923,255	74,014	18,498,171
Non-performing loans and advances	58,746	1,271,589	-	1,330,335
Total loans and advances	4,559,648	15,194,844	74,014	19,828,506
Impairment charge for credit losses				
Specific provision	(24,648)	(914,777)	-	(939,425)
Portfolio provision	(45,586)	(139,053)	-	(184,639)
Total impairment charge	(70,234)	(1,053,830)	-	(1,124,064)
Loans and advances, net	4,489,414	14,141,014	74,014	18,704,442

Loans and advances, net represents Shari'ah Compliant (non-interest based) products in respect of Murabaha agreements, Istisna'a and Tawaraq.

6. LOANS AND ADVANCES, NET (continued)

b) Movements in impairment for credit losses are as follows:

	SR'000			
2011	**Consumer**	**Commercial**	**Others**	**Total**
Balance at the beginning of the year	**70,234**	**1,053,830**	-	**1,124,064**
Provided during the year, net	**65,076**	**70,496**	-	**135,572**
Bad debts written off	**(421)**	**(2,375)**	-	**(2,796)**
Reclassification	**(300)**	**300**	-	**-**
Reclassification from other liabilities (Refer Note 12)	**-**	**11,245**	-	**11,245**
Recoveries of amounts previously provided	**(4,977)**	**(52,664)**	-	**(57,641)**
Balance at the end of the year	**129,612**	**1,080,832**	-	**1,210,444**

	SR'000			
2010	Consumer	Commercial	Others	Total
Balance at the beginning of the year	37,332	756,275	-	793,607
Provided during the year, net	34,325	339,010	-	373,335
Bad debts written off	(64)	(31,711)	-	(31,775)
Reclassification	243	(243)	-	-
Recoveries of amounts previously provided	(1,602)	(9,501)	-	(11,103)
Balance at the end of the year	70,234	1,053,830	-	1,124,064

c) Net impairment charge for credit losses for the year in the consolidated income statement is as follows:

	2011 **SR'000**	2010 SR'000
Addition during the year, net	**135,572**	373,335
Recoveries of amounts previously provided	**(57,641)**	(11,103)
Recoveries of debts previously written off	**(7,579)**	-
Impairment charge for credit losses, net	**70,352**	362,232

6. LOANS AND ADVANCES, NET (continued)

d) Economic sector risk concentrations for the loans and advances and provision for credit losses are as follows:

2011	**Performing SR'000**	**Non performing, net SR'000**	**Impairment charge for credit losses SR'000**	**Loans and advances, net SR'000**
Banks and other financial institutions	711,692	-	-	711,692
Agriculture and fishing	57,549	-	-	57,549
Manufacturing	4,846,965	81,418	(56,974)	4,871,409
Mining and quarrying	12,182	-	-	12,182
Electricity, water, gas and health services	10,112	16,744	(15,996)	10,860
Building and construction	3,877,097	126,614	(89,287)	3,914,424
Commerce	2,436,343	671,032	(671,032)	2,436,343
Transportation and communication	162,049	-	-	162,049
Services	460,449	62,617	(32,617)	490,449
Consumer loans and credit cards	7,230,960	57,886	(28,115)	7,260,731
Share trading	1,293,016	10,677	(10,339)	1,293,354
Others	2,388,793	3,700	(220)	2,392,273
	23,487,207	1,030,688	(904,580)	23,613,315
Portfolio provision	-	-	(305,864)	(305,864)
Total	**23,487,207**	**1,030,688**	**(1,210,444)**	**23,307,451**

2010	Performing SR'000	Non performing, net SR'000	Impairment charge for credit losses SR'000	Loans and advances, net SR'000
Banks and other financial institutions	423,938	-	-	423,938
Agriculture and fishing	36,019	-	-	36,019
Manufacturing	3,878,661	86,541	(86,541)	3,878,661
Mining and quarrying	6,409	-	-	6,409
Electricity, water, gas and health services	33,699	16,744	(16,744)	33,699
Building and construction	4,016,014	130,914	(87,797)	4,059,131
Commerce	2,154,622	943,141	(665,516)	2,432,247
Transportation and communication	225,076	-	-	225,076
Services	337,185	65,175	(33,336)	369,024
Consumer loans and credit cards	4,500,902	58,746	(24,648)	4,535,000
Share trading	970,716	8,102	(6,487)	972,331
Others	1,914,930	20,972	(18,356)	1,917,546
	18,498,171	1,330,335	(939,425)	18,889,081
Portfolio provision	-	-	(184,639)	(184,639)
Total	18,498,171	1,330,335	(1,124,064)	18,704,442

6. LOANS AND ADVANCES, NET (continued)

e) Other real estate, net

	2011 **SR'000**	2010 SR'000
Balance at the beginning of the year	**693,800**	705,667
Additions	**2,628**	-
Disposal	**(1,650)**	(11,867)
	694,778	693,800
Provision for unrealised revaluation losses	**(14,000)**	(14,000)
Balance at the year end	**680,778**	679,800

7. PROPERTY AND EQUIPMENT, NET

	Land and buildings SR'000	**Leasehold improvements SR'000**	**Furniture, equipment and vehicles SR'000**	**Capital work in progress SR'000**	**Total 2011 SR'000**	Total 2010 SR'000
Cost						
Balance at the beginning of the year	190,484	265,010	404,643	19,603	**879,740**	837,926
Additions	-	1,776	16,360	47,795	**65,931**	43,490
Transfers	-	4,946	7,183	(12,129)	-	-
Disposals	(14,725)	-	(1,309)	-	**(16,034)**	(1,676)
Write off	-	-	-	-	-	-
Balance at the end of the year	**175,759**	**271,732**	**426,877**	**55,269**	**929,637**	879,740
Accumulated depreciation						
Balance at the beginning of the year	4,434	111,294	301,519	-	**417,247**	336,875
Charge for the year	151	26,858	39,766	-	**66,775**	81,268
Disposals	-	-	(1,214)	-	**(1,214)**	(896)
Balance at the end of the year	**4,585**	**138,152**	**340,071**	-	**482,808**	417,247
Net book value						
At December 31, 2011	**171,174**	**133,580**	**86,806**	**55,269**	**446,829**	
At December 31, 2010	186,050	153,716	103,124	19,603		462,493

8. OTHER ASSETS

	2011 SR'000	2010 SR'000
Accrued special commission receivable:		
Banks and other financial institutions	**5,900**	13,876
Investments	**12,878**	4,425
Loans and advances	**213,852**	186,016
Total accrued special commission receivable	**232,630**	204,317
Advances and prepayments	**28,437**	68,419
Positive fair value of derivatives	**3,715**	-
Other	**91,428**	164,837
Total	**356,210**	437,573

9. DERIVATIVES

In the ordinary course of business, the Bank utilizes the following derivative financial instruments for both trading and strategic 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 commission payments in a single currency without exchanging principal. For cross-currency commission rate swaps, principal, fixed and floating commission payments are exchanged in different currencies.

b) Options (Wa'ad Fx)

Foreign exchange option, whereby a client in consideration for the payment of a fee agrees to enter into one or series of trades. Where one party (promisor) gives a commitment as unilateral undertaking to a second party (promisee).

Option would be a unilateral promise or combination of promises. The Bank does the option depending on the client risk profile, where client may promise to buy, sell or (buy & sell) a currency with or without conditions for hedging his exposure.

c) Held for trading purposes

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

9. DERIVATIVES (continued)

d) Held for hedging purposes

The Bank uses Shariah compliant derivatives for hedging purposes in order to reduce its exposure to commission rate risk.

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

The Bank 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.

e) Cash flow hedges

The Bank is exposed to variability in future special commission cash flows on non-trading assets and liabilities which bear special commission at a variable rate. The Bank uses special commission rate swaps as cash flow hedges of these special commission rate risks. Below is the schedule indicating as at 31 December, the periods when the hedged cash flows are expected to occur and when they are expected to affect consolidated income statement:

2011 **SR'000**	Within 1 year	1-3 years	3-5 years	Over 5 years
Cash inflows (assets)	5,251	15,495	20,883	-
Cash out flows (liabilities)	-	-	-	-
Net cash inflow	5,251	15,495	20,883	-

The net gains on cash flow hedges reclassified to the consolidated income statement during the year was as follows;

	2011 **SR'000**	2010 SR'000
Balance at the beginning of the year	**-**	-
Gains from change in fair value recognised directly in equity, net (effective portion)	**5,585**	-
(Gain) removed from equity and transferred to consolidated income statement	**(374)**	-
Balance at the year end	**5,211**	-

9. DERIVATIVES (continued)

The discontinuation of hedge accounting resulted in reclassification of the associated cumulative gains of SR 0.37 million from equity to consolidated income statement for the year ended December 31, 2011.

The table below sets out the net fair value of the Bank's derivative financial instrument, together with its notional amount. The notional amount, which provides an indication of the volume of transactions outstanding at the year end, does not necessarily reflect the amount of future cash flows involved. The notional amount, therefore, is neither indicative of the Bank's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor market risk.

2011
SR'000

Derivative financial instruments	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								
Options	14,292	14,292	4,379,140	-	1,311,336	3,067,804	-	228,440
Held as cash flow hedge:								
Special commission rate swaps	3,715	-	365,000	-	-	365,000	-	178,252
Special commission rate swaps	-	1,430	425,250	-	-	425,250	-	207,675
Total	18,007	15,722	5,169,390	-	1,311,336	3,858,054	-	614,367

2010
SR'000

Derivative financial instruments	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	1,915	-	187,500	-	-	187,500	-	187,500
Total	1,915	-	187,500	-	-	187,500	-	187,500

10. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2011 SR'000	2010 SR'000
Current accounts	**111,368**	43,707
Money market deposits from banks and other financial institutions	**1,194,410**	345,012
Total	**1,305,778**	388,719

The money market deposits from banks and other financial institutions comprise deposits received on Murabaha basis.

11. CUSTOMERS' DEPOSITS

	2011 SR'000	2010 SR'000
Demand	**10,052,986**	7,522,240
Time	**20,639,890**	19,233,171
Other	**465,655**	589,507
Total	**31,158,531**	27,344,918

Time deposits comprise deposits received on Shari'ah Compliant (non-interest based) Murabaha basis.

Other customers' deposits include SR 266 million (2010: SR 318 million) of margins held for irrevocable commitments.

The above include foreign currency deposits as follows:

	2011 SR'000	2010 SR'000
Demand	**246,915**	352,948
Time	**5,274,975**	3,700,343
Other	**31,989**	49,053
Total	**5,553,879**	4,102,344

12. OTHER LIABILITIES

	2011 SR'000	2010 SR'000
Accrued special commission payable:		
Banks and other financial institutions	**1,528**	479
Customers' deposits	**59,734**	62,149
Total accrued special commission payable	**61,262**	62,628
AlJazira Philanthropic Program (see note below)	**76,905**	83,004
Accounts payable	**144,947**	138,997
Dividend payable	**25,162**	25,515
Negative fair value of derivatives	**1,430**	-
Provision for indirect facilities (see note below)	**-**	11,245
Other	**187,372**	157,513
Total	**497,078**	478,902

During 2006, the Board of Directors approved the contribution to a philanthropic program to carry out the Bank's social responsibilities towards the Saudi society, through the charitable contributions to various benevolent efforts that promote the general welfare of the society.

For this purpose, the Bank contributed SR 100 million to this program during 2006.

A Social Committee has been established to coordinate this program, consisting of three board members, and it is the intention of the Board of Directors to seek assistance of other independent members' from the business community and the Shari'ah Board of the Bank to overview and provide guidance for the activities of the program.

The provision for indirect facilities has been re-classified to impairment for credit losses and presented under note 6(b)

13. SUBORDINATED SUKUK

On March 29, 2011, the Bank issued 1,000 Subordinated Sukuk Certificates (Sukuk) of SR 1 million each, with a profit distribution rate based on 6 months Saudi Inter-Bank Offered Rate (SIBOR), reset semi annually in advance, plus a margin of 170 basis point per annum and payable semi-annually in arrears on 29 March and 29 September each year until 29 March 2021, on which date the Sukuk will expire. The proceeds of the Sukuk will be used by the Bank for strengthening its capital base as it is intended that Sukuk will comprise Tier II capital for Saudi Arabian regulatory purposes. The proceeds of the Sukuk will be used by the Issuer to grow its banking and finance activities. The obligation of the issuer to the Sukukholders is not secured by any assets or security or guaranteed by third party and is subordinated. The Sukuk are due in 2021 with a step up in margin to 550 basis point in 2016. The Bank has a call option which can be exercised after March 29, 2016 on meeting certain conditions and as per the terms mentioned in the related Offering Circular dated March 28, 2011. The Sukuk may also be called upon occurrence of certain other conditions as per the terms specified in the above Offering Circular. These Sukuk are registered with Saudi stock exchange (Tadawul).

14. SHARE CAPITAL

The authorized, issued and fully paid share capital of the Bank consists of 300 million shares of SR 10 each (2010: 300 million shares of SR 10 each).

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

	2011	2010
Saudi shareholders	**94.17%**	94.17 %
Non Saudi shareholder - National Bank of Pakistan	**5.83%**	5.83 %

15. STATUTORY AND GENERAL RESERVES

In accordance with Saudi Arabian Banking Control Law and the Articles of Association of the Bank, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid-up capital of the Bank. Accordingly, SR 76 million has been transferred from net income for 2011 (2010: SR 8 million). The statutory reserve is currently not available for distribution.

In addition, when considered appropriate, the Bank makes an appropriation to a general reserve for general banking risks.

16. OTHER RESERVE

2011	**Cash flow hedges SR' 000**	**Fair value reserve SR' 000**	**Total SR' 000**
Balance at beginning of the year	-	739	739
Effect of early adoption of IFRS 9 (Note 2c(xii))	-	109,345	109,345
Net change in fair value	5,585	(91,045)	(85,460)
Transfer to consolidated income statement	(374)	-	(374)
Net movement during the year	5,211	18,300	23,511
Balance at end of the year	**5,211**	**19,039**	**24,250**

2010	Available for sale investments SR' 000	Total SR' 000
Balance at beginning of the year	-	-
Net change in fair value	739	739
Transfer to (consolidated) income statement	-	-
Net movement during the year	739	739
Balance at end of the year	739	739

17. COMMITMENTS AND CONTINGENCIES

a) Legal proceedings

At December 31, 2011, there were legal proceedings of a routine nature outstanding against the Bank. No significant provision has been made as related professional legal advice indicates that it is unlikely that any significant loss will eventually arise.

b) Capital commitments

At December 31, 2011, the Bank had capital commitments of SR 46.2 million (2010: SR 18.3 million) in respect of the construction of branches.

c) Credit related commitments and contingencies

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

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

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

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

Commitments to extend credit represent the unused portion of authorizations to extend credit, principally in the form of loans and advances, guarantees and letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss, which cannot be readily quantified, is expected to be considerably less than the total unused commitments 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.

17. COMMITMENTS AND CONTINGENCIES (continued)

c) Credit related commitments and contingencies (continued)

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

			(SR'000)		
2011	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Letters of credit	**461,111**	**141,770**	**-**	**-**	**602,881**
Letters of guarantee	**810,766**	**1,152,895**	**506,369**	**2,988**	**2,473,018**
Acceptances	**407,612**	**-**	**-**	**-**	**407,612**
Irrevocable commitments to extend credit	**-**	**14,286**	**-**	**650,131**	**664,417**
Total	**1,679,489**	**1,308,951**	**506,369**	**653,119**	**4,147,928**

			(SR'000)		
2010	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	407,682	165,514	-	-	573,196
Letters of guarantee	909,516	747,065	579,264	6,902	2,242,747
Acceptances	115,661	-	-	-	115,661
Irrevocable commitments to extend credit	-	-	176,745	1,624,376	1,801,121
Total	1,432,859	912,579	756,009	1,631,278	4,732,725

The outstanding unused portion of commitments as at December 31, 2011, which can be revoked unilaterally at any time by the Bank, amounts to SR 2.6 billion (2010: SR 1.1 billion).

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

	2011 SR'000	2010 SR'000
Corporate	**3,992,240**	4,599,050
Banks and other financial institutions	**155,688**	133,675
Total	**4,147,928**	4,732,725

17. COMMITMENTS AND CONTINGENCIES (continued)

e) Operating lease commitments

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

	2011 SR'000	2010 SR'000
Less than 1 year	**1,766**	2,661
1 to 5 years	**4,249**	1,579
Over 5 years	**-**	1,349
Total	**6,015**	5,589

18. NET SPECIAL COMMISSION INCOME

	2011 SR'000	2010 SR'000
Special commission income		
Investment:		
Other investments held at amortised costs (*prior to 1 January 2011*)	**-**	25,303
Investment held as at amortised cost (*from 1 January 2011*)	**31,777**	-
Due from banks and other financial institutions	**34,489**	50,933
Loans and advances	**901,850**	792,110
Total	**968,116**	868,346
Special commission expense		
Due to banks and other financial institutions	**7,550**	8,287
Customers' deposits	**148,060**	134,658
Subordinated Sukuk	**19,223**	-
Others	**11,820**	8,148
Total	**186,653**	151,093
Net special commission income	**781,463**	717,253

19. FEES AND COMMISSION INCOME, NET

	2011 SR'000	2010 SR'000
Fee and commission income		
Local share trading	**203,475**	149,200
Takaful Ta'awuni (insurance) wakala fee	**43,381**	38,883
Loan commitment and management fee	**96,515**	47,356
Trade finance	**30,943**	21,791
International share trading	**2,775**	4,102
Mutual funds fee	**1,838**	3,423
Fee from ATM transactions	**34,874**	37,312
Others	**8,907**	11,372
Total fee and commission income	**422,708**	313,439
Fee and commission expense		
Brokerage Fee	**(59,798)**	(43,559)
Takaful Ta'awuni – sales commission	**(6,702)**	(4,409)
Net	**356,208**	265,471

20. TRADING INCOME

	2011 SR'000	2010 SR'000
Equities	**(12,633)**	7,198
Mutual funds	**12,235**	11,826
Dividends on equity investments held for trading	**6,104**	6,865
Derivatives	**5,675**	1,915
Total	**11,381**	27,804

21. DIVIDEND INCOME

	2011 SR'000	2010 SR'000
Investments held at FVIS and available for sale *(prior to 1 January 2011)*	**-**	10,394
Investments held at FVTOCI *(from 1 January 2011)*	**9,719**	-

22. (LOSS) / GAIN ON NON-TRADING INVESTMENTS

	2011 SR'000	2010 SR'000
Held as at amortised cost investments *(from 1 January 2011)*	**(6,441)**	-

During the year, the Bank sold a murabaha investment (Sukuk) held as at amortised cost as the investment sold no longer meet the Bank's investment policy as allowed by IFRS 9 i.e. the credit rating of the investment declined below the level required as per Bank's policy.

23. OTHER OPERATING INCOME

	2011 SR'000	2010 SR'000
Rental income	**-**	40
Gain on sale of property and equipment	**32,013**	45,831
Other	**3,828**	2,583
Total	**35,841**	48,454

24. OTHER OPERATING EXPENSES

	2011 SR'000	2010 SR'000
Takaful accelerated receivable written off	**26,743**	-
Provision for other losses	**6,600**	-
Other operating expenses	**1,805**	9,376
Total	**35,148**	9,376

25. EARNINGS PER SHARE

Basic earnings per share for the years ended December 31, 2011 and 2010 is calculated by dividing the net income for the year attributable to equity holders of the Bank by weighted average number of ordinary shares in issue during the year. The weighted average number of ordinary shares outstanding during 2011 was 300 million (2010: 300 million).

The calculations of basic and diluted earnings per share are same for the Bank.

26. PROPOSED GROSS DIVIDEND, ZAKAT AND INCOME TAX

The Board of Directors approved a proposed gross dividend on December 26, 2011, for the year ended December 31, 2011 of SR 160 million. The dividends are paid to the Saudi and non-Saudi shareholders after deduction of zakat and income tax, respectively, as follows:

a) Saudi shareholders:

The zakat attributable to Saudi shareholders for 2011 amounted to SR 10 million (2010: SR 3.7 million) will be deducted from their share of dividend, resulting in a net dividend to Saudi Shareholders of SAR 0.5 per share (2010: Nil per share).

b) Non-Saudi shareholder:

The income tax payable on the current year's share of income for Non-Saudi shareholder amounted to SR 3.5 million (2010: SR 0.5 million).

Income Tax and Zakat assessment for the years upto 2000 have been finalised

For the years 2001 through 2004 the Department of Zakat and Income Tax (DZIT) has raised assessment with additional liability of SR 12.3 million. The Bank has filed appeals with the Higher Appeal Committee [HAC] against Preliminary Appeal Committee (PAC) decisions confirming the DZIT's assessments. The Bank has also lodged Bank Guarantee for the disputed liability. The DZIT for the year 2005 raised assessment with an additional liability of SR 1.03 million, BAJ has settled additional liability of SR 457 thousand "under protest" and filed an appeal against additional liability of SR 578 thousand.

Assessments for the years 2006 through 2010 have not yet been raised by the DZIT. However, during 2010, the DZIT issued initial assessment disallowing investments from the zakat base with an additional zakat of SR 128.8 million. Bank filed an appeal against DZIT's assessment.

27. 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 deposit and restricted share capital for AlJazira Takaful (note 3)	**2,909,157**	1,384,769
Due from banks and other financial institutions with an original maturity of three months or less from the date of acquisition	**3,062,274**	3,520,694
Total	**5,971,431**	4,905,463

28. OPERATING SEGMENTS

The operating segments have been identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief decision maker in order to allocate resources to the segments and to assess their performance.

All of the Group's operations are based in the Kingdom of Saudi Arabia.

Transactions between business segments are recorded based on the Group's transfer pricing methodologies. Segment assets and liabilities mainly comprise operating assets and liabilities.

Fund Transfer Pricing

During the year, the Group has redefined and modified its funds transfer pricing system in order to achieve the objective of better product pricing, profitability and liquidity management. The assigned transfer rate within the operating segments is based on its maturity and prevailing commission rates. Long maturity pools receive a long-term commission rate, while short-term pools receive a transfer rate reflective of their shorter tenor. The Group has developed an assumption based model for each class of asset and liability and the pricing is applied to the funds accordingly. The pricing is based on the market rate prevailing at the time of transaction. The segmental results for the year ended December 31, 2011 have been prepared under the revised methodology. The segmental results for the year ended December 31, 2010 were prepared using a single commission rate for all maturity pools.

For management purposes, the Group is organized into following main operating segments:

Personal Banking
Deposit, credit and investment products for individuals.

Corporate Banking
Loans, deposits and other credit products for corporate, small and medium sized business and institutional customers.

Brokerage and asset management
Provides shares brokerage services to customers (this segment includes the activities of the Bank's subsidiary AlJazira Capital Company).

Treasury
Treasury includes money market, foreign exchange, trading and treasury services. Commission is charged to business segments based on a pool rate, which approximates the marginal cost of funds.

Takaful Ta'awuni
Takaful Ta'awuni provides protection and saving products services and is fully Shariah compliant and is substitute to conventional life insurance products.

28. OPERATING SEGMENTS (continued)

The Group's total assets and liabilities and its income from operations and net income for the year by operating segment are as follows:

(SR'000)

2011	Personal Banking	Corporate Banking	Brokerage and asset management	Treasury	Takaful Ta'awuni	Others	Total
Total assets	9,303,028	15,465,984	440,433	13,463,222	13,513	212,070	38,898,250
Total liabilities	12,565,175	18,419,474	165,811	2,767,404	35,759	7,764	33,961,387
Operating income from external customers	487,694	452,834	156,103	90,396	36,699	(15,628)	1,208,098
Inter – segment operating income/(loss)	(158,232)	(21,112)	47,130	136,543	(260)	(4,069)	-
Total operating income	329,462	431,722	203,233	226,939	36,439	(19,697)	1,208,098
Net special commission	247,298	330,796	11,184	191,419	(260)	1,026	781,463
Fee and commission income, net	53,753	81,842	188,570	(557)	36,677	(4,077)	356,208
Trading income	(5,846)	(5,158)	(54)	16,334	-	6,105	11,381
Operating expenses:							
- Impairment charge for credit losses, net	45,661	24,691	-	-	-	-	70,352
- Depreciation	39,963	7,700	13,436	2,224	3,452	-	66,775
Total operating expenses including non-controlling interest	449,238	196,075	133,723	60,507	68,769	(3,067)	905,245
Net (loss) / income attributable to equity holders of the Bank	(119,776)	235,647	69,510	166,432	(32,330)	(16,630)	302,853

28. OPERATING SEGMENTS (continued)

(SR'000)

2010	Personal banking	Corporate banking	Brokerage and asset management	Treasury	Takaful ta'awuni	Others	Total
Total assets	6,228,876	13,986,811	537,846	11,909,807	56,083	298,798	33,018,221
Total liabilities	11,276,200	3,151,604	48,089	13,686,073	41,919	8,654	28,212,539
Operating income from external customers	347,547	582,486	117,214	19,279	34,761	53,779	1,155,066
Inter – segment operating income/(loss)	4,529	(72,999)	44,097	24,711	(338)	-	-
Total operating income	352,076	509,487	161,311	43,990	34,423	53,779	1,155,066
Net special commission	237,323	506,306	-	(26,038)	(338)	-	717,253
Fee and commission income, net	30,239	54,740	149,059	358	34,750	(3,675)	265,471
Trading income	-	-	371	20,568	-	6,865	27,804
Operating expenses:							
- Impairment Charge for credit losses, net	32,351	329,881				-	362,232
- Depreciation	37,719	5,787	15,961	18,015	3,786	-	81,268
Total operating expenses including non-controlling interest	401,831	442,128	162,599	84,133	49,190	(13,727)	1,126,154
Net (loss) / income attributable to equity holders of the Bank	(49,755)	67,359	(1,288)	(40,143)	(14,767)	67,506	28,912

28. OPERATING SEGMENTS (continued)

Had the revised fund transfer pricing methodology, been applied to the year ended December 31, 2010 as if this had been in place throughout the year, the impact on the segment results for the year ended December 31, 2010 would be as follows:

(SR'000)

2010	Personal banking	Corporate banking	Brokerage and asset management	Treasury	Takaful ta'awuni	Others	Total
Total operating income	273,479	451,799	161,310	197,168	34,479	36,831	1,155,066
Net (loss) / income attributable to equity holders of the Bank	(120,556)	(36,547)	(1,288)	148,022	(11,275)	50,556	28,912

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

2011	**Personal banking**	**Corporate banking**	**Brokerage and asset management**	**Treasury**	**Takaful ta'awuni**	**Others**	**Total**
Consolidated statement of financial position assets	**8,567,711**	**14,789,835**	**-**	**10,188,440**	**-**	**-**	**33,545,986**
Commitments and contingencies	**-**	**2,281,725**	**-**	**-**	**175,000**	**-**	**2,456,725**
Derivatives	**-**	**-**	**-**	**51,693**	**-**	**-**	**51,693**

2010	Personal banking	Corporate banking	Brokerage and asset management	Treasury	Takaful ta'awuni	Others	Total
Consolidated statement of financial position assets	5,589,300	13,301,103	9,250	7,840,956	-	-	26,740,609
Commitments and contingencies	-	1,866,449	-	-	175,000	-	2,041,449
Derivatives	-	-	-	1,875	-	-	1,875

Credit exposure comprises the carrying value of consolidated statement of financial position assets excluding cash, property and equipment, other real estate, investment in equities and mutual fund, certain other assets. Additionally and the credit equivalent values of commitments, contingencies and derivatives are also included in the credit exposure.

29. CREDIT RISK (continued)

Credit risk, which is the result of failure by counterparty to meet its financial and/or contractual obligations to the Group, is managed in accordance with the Group's comprehensive risk management control framework. Two credit committees are responsible for the oversight of credit risk, the Executive Committee and the Management Credit Committee. These committees have clearly defined mandates and delegated authorities, which are reviewed regularly.

The Group assesses the probability of default of counterparties using either internal rating models or external ratings as assessed by 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 credit policy aims at maintaining the high quality of the loan portfolio and ensuring proper risk diversification. The credit policy sets the basic criteria for acceptable risks and identifies risk areas that require special attention.

The Group manages the credit exposures 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.

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

The debt securities included in the investment portfolio are mainly sovereign risk. Analysis of investments by counter-party is provided in note 5. For details of the composition of loans and advances, refer to note 6. Information on credit risk relating to commitments and contingencies is provided in note 17. Information on the Bank's maximum credit exposure by operating segment is given in note 28.

The Bank in the ordinary course of its lending activities will often seek to take collateral to provide an alternative source of repayment in the event that customers or counterparties are unable to meet their obligations. Assets taken as collateral include promissory note, time and other cash deposits, financial guarantees, local and international equities subject to an appropriate margin to reflect price volatility, real estate and other physical assets. The Bank holds real estate collateral against the transfer of title deed. Collateral generally is not held over 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 December 31, 2011 and 2010. Customer agreements often include requirements for provision of additional collateral should valuations decline or credit exposure increase.

29. CREDIT RISK (continued)

The Bank uses an internal credit classification and review system to manage the credit risk within its wholesale loans portfolio. The classification system includes ten grades, of which seven grades relate to the performing portfolio as follows:

- Standard-low risk: represents risk ratings 1 to 3;
- Standard-medium risk: represents risk ratings 4 to 6; and
- Special mention: represents risk rating 7

Three grades relate to the non-performing portfolio (substandard, doubtful and loss; risk ratings 8 to 10). Loans and advances under the standard category are performing, have sound fundamental characteristics and include those that exhibit neither actual nor potential weaknesses. Specific provisions for impairment are maintained in respect of the non performing portfolio based on each borrower's grade, which is determined by the Bank's Credit Control Division using specific criteria such as activities, cash flows, capital structure, securities and delinquency. Portfolio provisions are created for losses, where there is objective evidence that unidentified losses are present at the reporting date. These are estimated based upon credit gradings allocated to the borrower or group of borrowers as well as the current economic climate in which the borrowers operate together with the experience and the historical default patterns that are embedded in the components of the credit portfolio. The Bank's Internal Audit Division independently reviews the overall system on a regular basis.

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

29. CREDIT RISK (continued)

a) Credit quality of financial assets (Loans and advances and Due from banks and other financial institutions)

The table below shows the credit quality by class of asset.

SR'000

2011	Loans and advances				Due from Banks and Other Financial Institutions	Total
	Consumer	Commercial	Others	Sub total		
Performing						
Neither past due nor impaired (performing)						
Standard – low risk	-	3,230,166	-	**3,230,166**	**4,331,024**	**7,561,190**
Standard – medium risk	-	9,935,105	-	**9,935,105**	-	**9,935,105**
Standard – unclassified	7,041,289	1,255,231	87,242	**8,383,762**	-	**8,383,762**
Sub total - standard	**7,041,289**	**14,420,502**	**87,242**	**21,549,033**	**4,331,024**	**25,880,057**
Special mention	**-**	1,669,340	-	1,669,340	-	1,669,340
Sub total	**7,041,289**	**16,089,842**	**87,242**	**23,218,373**	**4,331,024**	**27,549,397**
Past due but not impaired						
Less than 30 days	150,849	48,931	-	199,780	-	199,780
30-60 days	29,038	30,232	-	59,270	-	59,270
60-90 days	6,663	-	-	6,663	-	6,663
Over 90 days	3,121	-	-	3,121	-	3,121
Total	**7,230,960**	**16,169,005**	**87,242**	**23,487,207**	**4,331,024**	**27,818,231**
Less: portfolio provision	(101,497)	(204,367)	-	(305,864)	-	(305,864)
Net performing	**7,129,463**	**15,964,638**	**87,242**	**23,181,343**	**4,331,024**	**27,512,367**
Non Performing						
Total non Performing	57,886	972,802	-	1,030,688	-	1,030,688
Less: Specific provision	(28,115)	(876,465)	-	(904,580)	-	(904,580)
Net non performing	**29,771**	**96,337**	**-**	**126,108**	**-**	**126,108**

29. CREDIT RISK (continued)

	SR'000					
	Loans and advances				Due from Banks and Other Financial Institutions	
2010	Consumer	Commercial	Others	Sub total		Total
Performing						
Neither past due nor impaired (performing)						
Standard – low risk	-	1,822,052	-	1,822,052	5,579,852	7,401,904
Standard – medium risk	-	9,159,394	-	9,159,394	-	9,159,394
Standard – unclassified	4,399,389	1,028,184	74,014	5,501,587	-	5,501,587
Sub total - standard	4,399,389	12,009,630	74,014	16,483,033	5,579,852	22,062,885
Special mention	-	1,798,929	-	1,798,929	-	1,798,929
Sub total	4,399,389	13,808,559	74,014	18,281,962	5,579,852	23,861,814
Past due but not impaired						
Less than 30 days	85,629	66,545	-	152,174	-	152,174
30-60 days	3,269	31,595	-	34,864	-	34,864
60-90 days	4,926	12,441	-	17,367	-	17,367
Over 90 days	7,689	4,115	-	11,804	-	11,804
Total	4,500,902	13,923,255	74,014	18,498,171	5,579,852	24,078,023
Less: portfolio provision	(45,586)	(139,053)	-	(184,639)	-	(184,639)
Net performing	4,455,316	13,784,202	74,014	18,313,532	5,579,852	23,893,384
Non Performing						
Total non Performing	58,746	1,271,589	-	1,330,335	-	1,330,335
Less: Specific provision	(24,648)	(914,777)	-	(939,425)	-	(939,425)
Net non performing	34,098	356,812	-	390,910	-	390,910

Standard unclassified mainly comprise consumer, credit cards, small business, employee and share trading loans.

Others mainly comprise employee loans.

29. CREDIT RISK (continued)

Performing loans as at December 31, 2011 include renegotiated loans restructured due to deterioration in the borrower's financial position) of SR 969.9 million (2010: SR 768 million).

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

b) Credit quality Investments as at Amortised Cost

The credit quality of investments include debt instrument held as at amortised cost is managed using credit ratings of Moody's.

Unrated investments are debt instrument which have not been rated by any external credit rating agency.

The table below shows the credit quality by class of asset.

	2011 SR'000	2010 SR'000
Performing		
High grade (AAA – BBB)	**2,553,966**	1,654,811
Standard grade (BA1 – B2)	**-**	-
Sub-standard grade (BA3 – C)	**-**	-
Unrated	**1,685,368**	591,880
Total performing	**4,239,334**	2,246,691
Less: portfolio provision	**-**	-
Net performing	**4,239,334**	2,246,691
Overall Investments, net	**4,239,334**	2,246,691

As at December 31, 2011 and 2010, no provision was required for the impairment in the value of investments held as at amortised cost.

29. CREDIT RISK (continued)

c) An economic sector analysis of Bank's loans and advances

The tables below show an economic sector analysis of Bank's loans and advances, net of specific and portfolio provisions; after taking into account total collateral held for both performing and non-performing loans and advances. Collateral includes time and cash deposits, local and international equities, real estate, counter guarantees and assignment of receivables.

	Maximum exposure		
2011	On-balance sheet position, net of provisions SR'000	Off-balance sheet credit – related commitments and contingencies, net of provisions SR'000	Total SR'000
Banks and other financial institutions	**702,745**	**155,688**	**858,433**
Agriculture and fishing	**56,826**	**14,828**	**71,654**
Manufacturing	**4,810,475**	**607,034**	**5,417,509**
Mining and quarrying	**12,029**	**93,750**	**105,779**
Electricity, water, gas and health services	**10,733**	**1,515**	**12,248**
Building and construction	**3,865,683**	**1,404,601**	**5,270,284**
Commerce	**2,405,714**	**476,426**	**2,882,140**
Transportation and communication	**160,012**	**160,730**	**320,742**
Services	**484,660**	**84,610**	**569,270**
Consumer loans and credit cards	**7,159,234**	**-**	**7,159,234**
Share trading	**1,277,099**	**-**	**1,277,099**
Other	**2,362,241**	**1,137,591**	**3,499,832**
Maximum exposure	**23,307,451**	**4,136,773**	**27,444,224**
Less: collateral for performing and non performing	**(9,710,792)**	**(1,314,362)**	**(11,025,154)**
Net maximum exposure	**13,596,659**	**2,822,411**	**16,419,070**

29. CREDIT RISK (continued)

c) An economic sector analysis of Bank's loans and advances (continued)

	Maximum exposure		
2010	On-balance sheet position, net of provisions SR'000	Off-balance sheet credit – related commitments and contingencies, net of provisions SR'000	Total SR'000
Banks and other financial institutions	148,704	133,675	282,379
Agriculture and fishing	35,658	1,637	37,295
Manufacturing	4,112,063	1,169,455	5,281,518
Mining and quarrying	6,345	61,876	68,221
Electricity, water, gas and health services	33,361	1,724	35,085
Building and construction	4,018,857	2,158,952	6,177,809
Commerce	2,410,640	371,799	2,782,439
Transportation and communication	222,819	28,194	251,013
Services	365,643	98,920	464,563
Consumer loans and credit cards	4,489,414	-	4,489,414
Share trading	962,596	-	962,596
Other	1,898,342	695,248	2,593,590
Maximum exposure	18,704,442	4,721,480	23,425,922
Less: collateral for performing and non performing	(8,195,713)	(1,132,660)	(9,328,373)
Net maximum exposure	10,508,729	3,588,820	14,097,549

30. GEOGRAPHICAL CONCENTRATION

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

				(SR'000)			
2011 **Assets**	**Saudi Arabia**	**GCC and Middle East**	**Europe**	**North America**	**South East Asia**	**Other Countries**	**Total**
Cash and balances with SAMA	4,365,341	-	11,720	-	1,982	-	**4,379,043**
Due from banks and other financial institutions	2,030,353	2,220,797	49,201	25,831	4,741	101	**4,331,024**
Investments	4,018,345	67,688	133,691	25,151	402,041	749,999	**5,396,915**
Loans and advances, net	23,237,260	70,191	-	-	-	-	**23,307,451**
Total	**33,651,299**	**2,358,676**	**194,612**	**50,982**	**408,764**	**750,100**	**37,414,433**
Commitments and Contingencies	**4,013,133**	**17,094**	**98,452**	-	**2,272**	**16,977**	**4,147,928**
Credit exposure (credit equivalent)							
Commitments and contingencies	**2,386,677**	**10,565**	**49,641**	**-**	**1,136**	**8,706**	**2,456,725**
Derivatives	**21,895**	**25,423**	**4,375**	**-**	**-**	-	**51,693**

30. GEOGRAPHICAL CONCENTRATION (continued)

(SR'000)

2010 Assets	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	South East Asia	Other Countries	Total
Cash and balances With SAMA	2,597,251	-	3,022	3,536	4,081	-	2,607,890
Due from banks and other financial institutions	2,690,001	2,824,944	58,451	3,256	2,759	441	5,579,852
Investments	4,145,814	188	160,918	74,872	142,620	21,759	4,546,171
Loans and advances, net	18,592,556	111,886	-	-	-	-	18,704,442
Total	28,025,622	2,937,018	222,391	81,664	149,460	22,200	31,438,355
Commitments and Contingencies	4,606,270	26,432	96,010	-	-	4,013	4,732,725
Credit exposure (credit equivalent) Commitments and contingencies	1,971,929	18,703	48,005	-	-	2,812	2,041,449
Derivatives	-	-	1,875	-	-	-	1,875

Credit equivalent of commitments and contingencies is calculated according to SAMA's prescribed methodology.

30. GEOGRAPHICAL CONCENTRATION (continued)

b) The distributions by geographical concentration of non-performing loans and advances and impairment for credit losses are as follows:

	Non performing loans, net		Impairment for credit losses	
	2011	2010	**2011**	2010
	SR' 000	SR' 000	**SR' 000**	SR' 000
Kingdom of Saudi Arabia	**1,030,688**	1,330,335	**1,210,444**	1,124,064

31. MARKET RISK

Market risk is the risk that the Group's earnings or capital, or its ability to meet business targets, will be adversely affected by changes in the level or volatility in market prices, such as special commission rates, credit spreads (not relating to changes in the obligor's / issuer's credit standing), equity prices and foreign exchange rates. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

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 equity investments and mutual funds that are managed on a fair value basis.

The Board approves market risk appetite for trading and non-trading activities. The Market Risk Policy Committee is responsible for the Market Risk Framework and under the delegated authority of the Board sets a limits framework within the approved market risk appetite. A daily market risk report details the Group's market risk exposures against agreed limits. This daily report is reviewed by the Treasurer and Chief Risk Officer. The market risk for the trading book and non-trading book is managed and monitored using sensitivity analysis.

a) MARKET RISK TRADING BOOK

Market risk on trading mainly arises from the foreign currency exposures and changes in equity prices and the net asset value of mutual fund.

i) FOREIGN EXCHANGE 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 daily to ensure positions are maintained within established limits.

31. MARKET RISK (continued)

a) MARKET RISK TRADING BOOK (continued)

i) FOREIGN EXCHANGE RISK (continued)

At the end of the year, the Group has the following significant exposure, net of non controlling interest, in its trading book, denominated in foreign currencies as at December 31:

	2011 **SR'000**	2010 SR'000
USD	**13,107**	14,303
Euro	**12,118**	17,152
Pound Sterling	**19,040**	18,112
Japanese Yen	**32,584**	36,110

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

Currency	**2011**		2010	
	Increase in currency rate in %	**Effect on net income SR'000**	Increase in currency rate in %	Effect on net income SR'000
USD	± **0.375**	± **49**	± 0.375	± 54
Euro	± **6.450**	± **782**	± 9.84	± 1,688
Pound Sterling	± **10.630**	± **2,024**	± 8.81	± 1,596
Japanese Yen	± **7.210**	± **2,349**	± 8.77	± 3,167

31. MARKET RISK (continued)

a) MARKET RISK TRADING BOOK (continued)

ii) 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 financial instruments included in the FVTIS portfolio are equity securities held by two mutual funds that are subsidiaries of the Bank and mutual fund. The Bank manages the risk relating to the mutual funds by monitoring changes in net asset value of the mutual funds. The investments in equity securities held by the subsidiaries of the Bank are managed by the Bank in conjunction with professional investment advisors, and the equity price risk is monitored by the Group on a portfolio basis for each mutual fund. The effect on the consolidated income statement as a result of a change in the fair value of equity instruments held for trading at December 31, 2011 and 2010 due to reasonably possible changes in the underlying respective fund's net asset value, with all other variables held constant, is as follows:

	2011		2010	
Portfolio	**Increase / decrease in equity price %**	**Effect on consolidated income statement SR'000**	Increase / decrease in equity price %	Effect on consolidated income statement SR'000
Al Thoraiya	**± 8.29**	**± 3,146**	± 8.9	± 3,842
Al Khair	**± 6.11**	**± 1,373**	± 8.18	± 2,089
Al Mashareq	**± 17.34**	**± 5,296**	± 3.15	± 1,097

The effect on the consolidated income statement as a result of a change in the fair value of mutual fund investments as at FVTIS at December 31, 2011 and 2010 due to reasonably possible change in the net asset value (NAV) of the fund, with all other variables held constant, is as follows:

	2011		2010	
Portfolio	**Increase / decrease in NAV %**	**Effect on consolidated income statement SR'000**	Increase / decrease in NAV %	Effect on consolidated income statement SR'000
Mutual Fund	**± 5**	**± 28,227**	± 5	± 7,546

31. MARKET RISK (continued)

a) MARKET RISK TRADING BOOK (continued)

ii) EQUITY PRICE RISK (continued)

The effect on the consolidated income statement as a result of a change in the fair value of equity instruments held at FVTIS at December 31, 2011, previously FVIS at 31 December 2010 due to reasonably possible changes in the following market index, with all other variables held constant, is as follows:

	2011		2010	
Market index	**Increase / decrease in index %**	**Effect on shareholders' equity (other reserve) SR'000**	Increase / decrease in index %	Effect on shareholders' equity (other reserve) SR'000
Tadawul	-	-	± 7.79%	± 29,918

b) MARKET RISK – NON TRADING OR BANKING BOOK

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

i) 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 monitored on a daily basis and reported on a monthly basis to ALCO to ensure positions are maintained within the established limits. In case of stressed market conditions, the asset-liability gap may be reported to ALCO 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 income statement. 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 December 31, 2011 including the effect of hedging instrument. All the 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 that might be taken by the Group to mitigate the effect of such changes.

31. MARKET RISK (continued)

b) MARKET RISK – NON TRADING OR BANKING BOOK (continued)

i) SPECIAL COMMISSION RATE RISK (continued)

Currency	**2011**		2010	
	Increase / decrease in basis point	**Sensitivity of special commission income SR'000**	Increase / decrease in basis point	Sensitivity of special commission income SR'000
SR	**+25**	**13,136**	+25	2,425
SR	**-25**	**(13,136)**	-25	(2,425)
USD	**+25**	**(3,617)**	+25	(785)
USD	**-25**	**3,617**	-25	785
Qatari Riyal	**+25**	**83**	+25	1,412
Qatari Riyal	**-25**	**(83)**	-25	(1,412)

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 commission rates on its financial position and cash flows.

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

31. MARKET RISK (continued)

b) MARKET RISK – NON TRADING OR BANKING BOOK (continued)

i) SPECIAL COMMISSION RATE RISK (continued)

(SR'000)

2011	Within 3 Months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total	Effective commission rate
Assets							
Cash and balances with SAMA	2,293,984	-	-	-	2,085,059	4,379,043	-
Due from banks and other financial institutions	3,749,774	581,250	-	-	-	4,331,024	0.71%
Investments	2,511,209	1,115,000	613,125	-	1,157,581	5,396,915	1.00%
Loans and advances, net	7,133,516	8,959,935	6,052,651	1,035,241	126,108	23,307,451	4.25%
Other real estate, net	-	-	-	-	680,778	680,778	-
Property and equipment, net	-	-	-	-	446,829	446,829	-
Other assets	-	-	-	-	356,210	356,210	-
Total assets	15,688,483	10,656,185	6,665,776	1,035,241	4,852,565	38,898,250	-
Liabilities and equity							
Due to banks and other financial institutions	1,194,410	-	-	-	111,368	1,305,778	1.02%
Customers' deposits	15,480,492	4,650,169	59,289	-	10,968,581	31,158,531	0.89%
Other liabilities	-	-	-	-	497,078	497,078	-
Subordinated Sukuk	-	1,000,000	-	-	-	1,000,000	-
Equity including non-controlling interests	-	-	-	-	4,936,863	4,936,863	-
Total liabilities and Equity	16,674,902	5,650,169	59,289	-	16,513,890	38,898,250	-
On-balance sheet gap	(986,419)	5,006,016	6,606,487	1,035,241	(11,661,325)	-	-
Commission rate sensitivity – off balance sheet	5,054,390	115,000	(5,169,390)	-	-	-	-
Total commission rate sensitivity gap	4,067,971	5,121,016	1,437,097	1,035,241	(11,661,325)	-	-
Cumulative commission rate sensitivity gap	4,067,971	9,188,987	10,626,084	11,661,325	-	-	-

31. MARKET RISK (continued)

b) MARKET RISK – NON TRADING OR BANKING BOOK (continued)

i) SPECIAL COMMISSION RATE RISK (continued)

(SR' 000)

2010	Within 3 Months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total	Effective commission rate
Assets							
Cash and balances with SAMA	-	-	-	-	2,607,890	2,607,890	-
Due from banks and other financial institutions	4,319,553	1,162,908	-	-	97,391	5,579,852	1.19%
Investments	1,211,370	1,035,321	-	-	2,299,480	4,546,171	1.02%
Loans and advances, net	5,304,747	6,825,729	5,964,121	218,935	390,910	18,704,442	4.57%
Other real estate, net	-	-	-	-	679,800	679,800	-
Property and equipment, net	-	-	-	-	462,493	462,493	-
Other assets	-	-	-	-	437,573	437,573	-
Total assets	10,835,670	9,023,958	5,964,121	218,935	6,975,537	33,018,221	-
Liabilities and equity							
Due to banks and other financial institutions	180,012	165,000	-	-	43,707	388,719	0.46%
Customers' deposits	13,981,128	4,838,472	413,626	-	8,111,692	27,344,918	0.95%
Other liabilities	-	-	-	-	478,902	478,902	-
Equity including non-controlling interests	-	-	-	-	4,805,682	4,805,682	-
Total liabilities and Equity	14,161,140	5,003,472	413,626	-	13,439,983	33,018,221	-
On-balance sheet gap	(3,325,470)	4,020,486	5,550,495	218,935	(6,464,446)	-	-
Commission rate sensitivity – off balance sheet	187,500	-	(187,500)	-	-	-	-
Total commission rate sensitivity gap	(3,137,970)	4,020,486	5,362,995	218,935	(6,464,446)	-	-
Cumulative commission rate sensitivity gap	(3,137,970)	882,516	6,245,511	6,464,446	-	-	-

The effective commission rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current market rate for a floating rate instrument or an instrument carried at fair value.

31. MARKET RISK (continued)

b) MARKET RISK – NON TRADING OR BANKING BOOK (continued)

ii) 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 to ensure positions are maintained within established limits.

At the end of the year, the Group has the following significant net exposures denominated in foreign currencies as at December 31:

	2011 SR' 000 Long (short)	2010 SR'000 Long (short)
USD	**194,063**	(66,015)
Qatari Riyals	**(1,915)**	566,335

The table below indicates the currencies to which the Group has significant exposure as at December 31, 2011. The analysis is performed for a reasonable possible movement of the currency rate against the Saudi Riyal with all other variables held constant, including the effect of hedging instrument, on the consolidated income statement. A negative amount in the table reflects a potential net reduction in consolidated income statement, while a positive amount reflects a net potential increase. The sensitivity analysis does not take account of actions that might be taken by the Group to mitigate the effect of such changes.

Currency	**2011**		2010	
	Increase / decrease in currency rate in %	**Effect on net income SR'000**	Increase in currency rate in %	Effect on net income SR'000
USD	**± 0.05**	**± 97**	± 0.05	± 33
Qatari Riyals	**± 0.05**	**± 1**	± 0.05	± 283

31. MARKET RISK (continued)

b) MARKET RISK – NON TRADING OR BANKING BOOK (continued)

iii) 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 as at FVTOCI at December 31, 2011 and available for sale at 31 December 2010 due to reasonably possible changes in the following market index, with all other variables held constant, is as follows:

Market index	**2011**		2010	
	Increase / decrease in index %	**Effect on shareholders' equity (other reserve) SR'000**	Increase / decrease in index %	Effect on shareholders' equity (other reserve) SR'000
New York Stock Exchange	**± 6.11%**	**± 164**	± 8%	± 150
Tadawul	**± 3.22%**	**± 9,418**	-	-

32. 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 stressed 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 gaps on a daily basis. The Group also has committed lines of credit 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 at 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 15% of the deposit liabilities, in the form of cash or assets that 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 up to 75% of the value of Murabaha placements with SAMA.

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 consist of cash, short term bank deposits, Murabaha placements with SAMA and liquid debt securities available for immediate sale. Deposits liabilities include both customers and Banks, excluding non-resident Bank deposits in foreign currency. The Bank also monitors the loan to deposit ratio. The liquidity ratio during the year was as follows:

32. LIQUIDITY RISK (continued)

	2011 %	2010 %
As at 31 December	**33**	42
Average during the period	**33**	39
Highest	**47**	48
Lowest	**26**	35

a) Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities at December 31, 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 reporting date to the contractual maturity date and do not take into account the effective expected maturities as shown on note (b) 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 Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

(SR' 000)

	On demand	**Less than 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Financial liabilities						
As at 31 December 2011						
Due to banks and other financial institutions	**111,368**	**1,179,404**	**20,161**	**-**	-	**1,310,933**
Customers' deposits	**10,069,636**	**16,566,598**	**4,028,226**	**1,133,087**	-	**31,797,547**
Subordinated Sukuk	**-**	**6,018**	**11,775**	**1,094,200**	-	**1,111,993**
Derivatives	**-**	**894**	**1,317,913**	**3,893,617**	-	**5,212,424**
Total undiscounted financial liabilities 2011	**10,181,004**	**17,746,896**	**5,366,300**	**5,026,704**	-	**38,320,904**
Financial liabilities						
As at 31 December 2010						
Due to banks and other financial institutions	43,719	180,406	165,739	-	-	389,864
Customers' deposits	7,529,199	14,507,278	4,410,955	1,045,826	-	27,493,258
Derivatives	-	1,083	3,309	203,983	-	208,375
Total undiscounted financial liabilities 2010	7,572,918	14,688,767	4,580,003	1,249,809	-	28,091,497

The contractual maturity structure of the Bank's credit-related contingencies and commitments are shown under note 17.

32. LIQUIDITY RISK (continued)

b) 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 (a) above for the Bank's contractual undiscounted financial liabilities. For presentation purposes demand deposits are included in "No fixed maturity" category.

	(SR' 000)					
2011	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	-	-	-	-	4,379,043	**4,379,043**
Due from banks and other financial institutions	1,499,910	2,482,364	348,750	-	-	**4,331,024**
Investments	1,449,838	124,976	2,239,519	425,000	1,157,582	**5,396,915**
Loans and advances, net	3,091,910	8,367,908	7,076,316	4,645,209	126,108	**23,307,451**
Other real estate, net	-	-	-	-	680,778	**680,778**
Property and equipment, net	-	-	-	-	446,829	**446,829**
Other assets	137,479	111,616	52,575	45,009	9,531	**356,210**
Total assets	**6,179,137**	**11,086,864**	**9,717,160**	**5,115,218**	**6,779,871**	**38,898,250**
Liabilities and equity						
Due to banks and other financial institutions	879,702	293,234	-	-	132,842	**1,305,778**
Customers' deposits	4,659,207	12,067,528	3,913,155	-	10,518,641	**31,158,531**
Subordinated Sukuk	-	-	1,000,000	-	-	**1,000,000**
Other liabilities	46,913	11,197	3,152	-	435,816	**497,078**
Equity including non-controlling interests	-	-	-	-	4,936,863	**4,936,863**
Total liabilities and equity	**5,585,822**	**12,371,959**	**4,916,307**	-	**16,024,152**	**38,898,250**

32. LIQUIDITY RISK (continued)

b) Maturity analysis of assets and liabilities (continued)

(SR' 000)

2010	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	-	-	-	-	2,607,890	2,607,890
Due from banks and other financial institutions	1,766,778	3,115,329	697,745	-	-	5,579,852
Investments	300,000	227,064	1,544,627	175,000	2,299,480	4,546,171
Loans and advances, net	2,533,647	6,476,595	5,861,465	3,441,825	390,910	18,704,442
Other real estate, net	-	-	-	-	679,800	679,800
Property and equipment, net	-	-	-	-	462,493	462,493
Other assets	234,325	117,822	39,063	44,020	2,343	437,573
Total assets	4,834,750	9,936,810	8,124,900	3,660,845	6,442,916	33,018,221
Liabilities and equity						
Due to banks and other financial institutions	135,000	210,000	-	-	43,719	388,719
Customers' deposits	4,042,446	10,861,224	4,329,501	-	8,111,747	27,344,918
Other liabilities	43,680	15,763	3,185	-	416,274	478,902
Equity including non-controlling interests	-	-	-	-	4,805,682	4,805,682
Total liabilities and equity	4,221,126	11,086,987	4,332,686	-	13,377,422	33,018,221

33. 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 are not significantly different from the carrying values included in the consolidated financial statements. The estimated fair values of other investment held at amortised costs are based on quoted market prices, when available. The fair values of these investments are disclosed in note 5.

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

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 identical assets or liabilities.

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

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

	2011 (SR'000)			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
FVTIS	**859,264**	-	-	**859,264**
FVTOCI	**294,879**	-	**3,438**	**298,317**
Derivatives	-	**2,285**	-	**2,285**
Total	**1,154,143**	**2,285**	**3,438**	**1,159,866**

	2010 (SR'000)			
	Level 1	Level 2	Level 3	Total
Financial assets				
Held at FVIS	384,055	-	-	384,055
Held for trading	1,910,118	-	-	1,910,118
Available for sale	1,869	-	3,438	5,307
Derivatives	-	1,915	-	1,915
Total	2,296,042	1,915	3,438	2,301,395

During the year there were no transfer between levels and it remained as it was at December 31, 2010. The classification of investment has been changed due to the early adoption of IFRS 9 and further new investments acquired during the year are classified under the relevant categories.

34. RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Bank transacts business with related parties. In the opinion of management and the Board of Directors, the related party transactions are conducted at market rates. The related party transactions are governed by the limits set by the Banking Control Law and regulations issued by SAMA.

The balances as at December 31 resulting from such transactions included in the consolidated financial statements are as follows:

	2011 SR' 000	2010 SR' 000
National Bank of Pakistan (shareholder)		
Due from banks and other financial institutions	**-**	207
Due to banks and other financial institutions	**506**	579
Other receivables	**369**	20
Commitments and contingencies	**1,347**	2,711
Directors, key management personnel, other major shareholders and their affiliates		
Loans and advances	**1,480,022**	1,226,861
Customers' deposits	**3,883,162**	4,010,653
Commitments and contingencies	**10,730**	2,111

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

Income, expenses and other transactions with related parties included in the consolidated financial statements are as follows:

	2011 SR' 000	2010 SR'000
Special commission income	**49,444**	59,751
Special commission expense	**41,992**	47,305
Fees and commission income	**110**	528
Fees and commission expense	**264**	-
Directors' remunerations	**5,109**	702

The total amount of compensation paid to directors and key management personnel during the year is as follows:

	2011 SR' 000	2010 SR'000
Short-term employee benefits	**51,472**	38,583
Termination benefits	**12,277**	14,084

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

35. COMPENSATION

Categories of employees	**Number of employees**	**Fixed compensation**	**Variable compensation**	**Total**
		SR' 000	**SR' 000**	**SR' 000**
Senior Executives that require SAMA no objection	12	20,655	5,353	**26,008**
Employees involved in control function	110	29,937	3,867	**33,804**
Employees involved in risk taking activities	29	7,911	775	**8,686**
Other employees	1,721	291,350	46,310	**337,660**
Outsourced employees	749	27,707	169	**27,876**
Total	**2,621**	**377,560**	**56,474**	**434,034**
Variable Compensation accrued in 2011 and other employee related benefits				48,808
Total Salaries and employee-related expenses				482,842

Categories of employees	Number of employees	Fixed compensation	Variable compensation	Total
		SR' 000	SR' 000	SR' 000
Senior Executives that require SAMA no objection	12	17,356	7,217	24,573
Employees involved in control function	15	5,540	1,100	6,640
Employees involved in risk taking activities	98	21,631	2,965	24,596
Other employees	1,690	279,483	50,085	329,568
Outsourced employees	577	14,475	48	14,523
Total	2,392	338,485	61,415	399,900
Variable Compensation accrued in 2010 and other employee related benefits				34,104
Total Salaries and employee-related expenses				434,004

The compensation and benefits program philosophy

The compensation and benefits program of Bank is designed to attract, motivate and retain the best talent to support robust business performance, and achieve superior business strategy goals, aims and objectives, while managing and mitigating any associated risks, and ensuring due compliance with all regulatory requirements and mandates.

The spirit and letter of the Bank's compensation philosophy is to reasonably and accurately reward and recognize staff for achieving their personal best highest level of customer services.

36. CAPITAL ADEQUACY

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

The Bank monitors the adequacy of its capital using ratios established by SAMA. These ratios measure capital adequacy by comparing the Bank's eligible capital with its consolidated statement of financial position assets, commitments and notional amount of derivatives at a weighted amount to reflect their relative risk. Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management. SAMA requires to hold the minimum level of the regulatory capital and maintain a ratio of total eligible capital to the risk-weighted assets at or above the agreed minimum of 8%.

	2011		2010	
	Eligible capital SR '000	**Capital adequacy ratio %**	Eligible capital SR '000	Capital adequacy ratio %
Core capital (Tier 1)	**4,732,537**	**13.64%**	4,515,518	15.11%
Supplementary capital (Tier 2)	**1,305,864**		184,639	
Core and supplementary capital (Tier 1 + Tier 2)	**6,038,401**	**17.40%**	4,700,157	15.72%

Tier 1 capital of the Bank at the year end comprises share capital, statutory, other reserves, retained earnings, proposed dividend and non-controlling interest less other prescribed deductions. Tier 2 capital comprises a prescribed amount of eligible portfolio provisions (collective provisions) less prescribed deductions.

The Bank has implemented Basel II effective January 1, 2008 as stipulated by SAMA. The Bank 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 Bank'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.

	2011 SR '000	2010 SR '000
Credit risk	**30,819,867**	24,804,376
Operational risk	**2,102,541**	2,043,119
Market risk	**1,785,681**	3,046,425
Total pillar-1 – risk weighted assets	**34,708,089**	29,893,920

37. INVESTMENT MANAGEMENT AND BROKERAGE SERVICES

The Bank's subsidiary AlJazira Capital Company (AJC) (note 1) offers investment management and advisory services to its customers, compliant with the principle of Shari'ah (non-interest based). These services include portfolio management on discretionary and non discretionary basis and management of investment funds in conjunction with professional investment advisors. Five such funds for which AJC acts as the manager are Al-Khair Global Equities Fund, Al-Thoraiya European Equities Fund, Al-Mashareq Japanese Equities Fund, Al-Taiyebat Saudi Equities Fund and Al-Qawafel commodities Fund. All are open-ended mutual funds for Saudi and foreign nationals. Al-Khair Global Equities Fund, Al-Thoraiya European Equities Fund and Al-Mashareq Japanese Equities Fund invest in foreign equities, while Al-Taiyebat Saudi Equities Fund invests in local equities. Al-Qawafel Commodities Fund trades in commodities through Murabaha. The financial statements of Al-Thoraiya European Equities Fund, and Al-Mashareq Japanese Equities Fund are consolidated with these financial statements.

The Group also provides investment management and other services to the policyholders of its Takaful Ta'awuni program.

The asset held by the Group under the investment management and brokerage services are amounted to SR 1.29 billion (2010: SR 1.07 billion).

38. TAKAFUL TA'AWUNI DIVISION

As required by Insurance Law of Saudi Arabia, the Group has decided to spin off its insurance business in a separate entity formed under the new Insurance Law of Saudi Arabia. The Bank and AlJazira Capital Company will have 35% shareholding in the new insurance company and remaining will be held by other founding shareholders and offered to the public by way of the Initial Public Offering. Once the new insurance company is incorporated and licensed, the assets, liabilities and operations of the insurance business will be transferred to the new insurance company at a valuation to be approved by the Regulator.

39. PROSPECTIVE CHANGES IN ACCOUNTING STANDARDS

Standards issued but not yet effective up to date of issuance of the Group's consolidated financial statement 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	IAS 1 - Presentation of Items of Other Comprehensive Income	The amendments require that an entity present separately the items of other comprehensive income that would be reclassified to consolidate income statement in the future if certain conditions are met from those that would never be reclassified to consolidated income statement
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.
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.

39. PROSPECTIVE CHANGES IN ACCOUNTING STANDARDS (continued)

Effective From periods beginning on or after	Standard, amendment or interpretation	Summary of requirements
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 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.

40. BOARD OF DIRECTORS' APPROVAL

The consolidated financial statements were authorized for issue by the Board of Directors on 7 February 2012.

41. COMPARATIVE FIGURES

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

42. BASEL II PILLAR 3 DISCLOSURES

Under Basel II pillar 3, certain quantitative and qualitative disclosures are required, and these disclosures, will be made available on the Bank's website **www.baj.com.sa** and the annual report, respectively as required by the Saudi Arabian Monetary Agency (SAMA). Such disclosures are not subject to audit or review by the external auditors of the Bank.