

SAMBA FINANCIAL GROUP

**CONSOLIDATED FINANCIAL STATEMENTS
AND AUDITORS' REPORT FOR THE
YEAR ENDED DECEMBER 31, 2012**

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
SAMBA FINANCIAL GROUP
(a Saudi Joint Stock Company)**

We have audited the accompanying consolidated financial statements of Samba Financial Group (the "Bank") and its subsidiaries (collectively referred to as "the Group"), which comprise the statement of consolidated financial position as at December 31, 2012, the statements of consolidated income, consolidated comprehensive income, consolidated changes in equity and consolidated cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes from 1 to 38. We have not audited note 33(b), 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 Articles of Association. 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 the 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 auditor's 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 Bank's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

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

- present fairly, in all material respects, the financial position of the Group as at December 31, 2012, and its financial performance and its cash flows for the year then ended in accordance with Accounting Standards for Financial Institutions 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 Articles of Association in so far as they affect the preparation and presentation of the consolidated financial statements.

Ernst & Young

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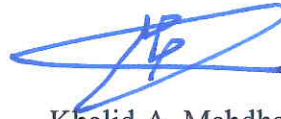


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February 9, 2013
(28 Rabi Al Awwal 1434 H)

Samba Financial Group

STATEMENTS OF CONSOLIDATED FINANCIAL POSITION As at December 31, 2012 and 2011

	<u>Notes</u>	<u>2012 SAR'000</u>	<u>2011 SAR'000</u>
ASSETS			
Cash and balances with Central Banks	3	30,916,137	33,508,745
Due from banks and other financial institutions	4	3,642,333	2,731,799
Investments, net	5	52,575,973	60,174,721
Loans and advances, net	6, 32	104,786,045	89,111,429
Property and equipment, net	7	1,547,928	1,169,432
Other assets	8	5,755,723	6,077,764
Total Assets		199,224,139	192,773,890
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks and other financial institutions	10	11,956,659	20,628,293
Customer deposits	11, 32	148,736,368	137,256,864
Other liabilities	12	6,792,325	6,631,371
Total Liabilities		167,485,352	164,516,528
EQUITY			
Equity attributable to equity holders of the Bank			
Share capital	13	9,000,000	9,000,000
Statutory reserve	14	9,000,000	9,000,000
General reserve	14	130,000	130,000
Other reserves		101,386	(726,665)
Retained earnings		13,576,835	11,051,460
Proposed dividend	24	943,000	831,000
Treasury stocks		(1,114,354)	(1,155,892)
Total equity attributable to equity holders of the Bank		31,636,867	28,129,903
Non-controlling interest		101,920	127,459
Total Equity		31,738,787	28,257,362
Total Liabilities and Equity		199,224,139	192,773,890

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements

Samba Financial Group

STATEMENTS OF CONSOLIDATED INCOME For the years ended December 31, 2012 and 2011

	Notes	2012 SAR'000	2011 SAR'000
Special commission income	17	4,768,156	4,774,598
Special commission expense	17	494,776	466,130
Special commission income, net		4,273,380	4,308,468
Fees and commission income, net	18	1,692,539	1,398,705
Exchange income, net		417,024	309,308
Income / (Loss) from investments held at FVIS, net		130,095	(6,343)
Trading income / (loss), net	19	54,731	(57,390)
Gains on non-trading investments, net	20	45,182	486,257
Other operating income	21	81,140	123,362
Total operating income		6,694,091	6,562,367
Salaries and employee related expenses	22	1,215,173	1,227,512
Rent and premises related expenses		255,175	217,555
Depreciation	7	138,131	134,546
Other general and administrative expenses		454,862	376,493
Provision for credit losses, net of recoveries	6	298,654	301,412
Total operating expenses		2,361,995	2,257,518
Net income for the years		4,332,096	4,304,849
Attributable to:			
Equity holders of the Bank		4,330,188	4,303,269
Non-controlling interest		1,908	1,580
		4,332,096	4,304,849
Basic and diluted earnings per share for the year (SAR)	23	4.81	4.78

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements

Samba Financial Group

STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME For the years ended December 31, 2012 and 2011

	<u>2012</u> <u>SAR'000</u>	<u>2011</u> <u>SAR'000</u>
Net Income for the years	4,332,096	4,304,849
Other comprehensive income:		
Exchange differences on translation of foreign operations	(31,898)	(19,074)
Available for sale financial assets:		
- Change in fair values	876,202	426,085
- Transfers to statements of consolidated income	(45,182)	(434,300)
Cash flow hedges		
- Change in fair values	(172,568)	(572,411)
- Transfers to statements of consolidated income	174,050	317,095
Total comprehensive income for the year	<u>5,132,700</u>	<u>4,022,244</u>
Attributable to:		
Equity holders of the Bank	5,158,239	4,067,989
Non-controlling interest	(25,539)	(45,745)
	<u>5,132,700</u>	<u>4,022,244</u>

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements

STATEMENTS OF CONSOLIDATED CHANGES IN EQUITY
For the years ended December 31, 2012 and 2011

		Attributable to equity holders of the Bank											
		Other reserves											
<u>2012</u>	<u>Notes</u>	Share capital	Statutory reserve	General reserve	Exchange translation reserve	AFS financial assets	Cash flow hedges	Retained earnings	Proposed dividend	Treasury stocks	Total	Non-controlling interest	Total equity
		SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Balance at the beginning of the year		9,000,000	9,000,000	130,000	(113,500)	(645,382)	32,217	11,051,460	831,000	(1,155,892)	28,129,903	127,459	28,257,362
Net changes in treasury stock		-	-	-	-	-	-	28,187	-	41,538	69,725	-	69,725
Dividend paid for 2012 (interim) and 2011 (final)	24	-	-	-	-	-	-	(890,000)	(831,000)	-	(1,721,000)	-	(1,721,000)
Proposed final dividend 2012	24	-	-	-	-	-	-	(943,000)	943,000	-	-	-	-
Total comprehensive income for the year		-	-	-	(24,203)	850,772	1,482	4,330,188	-	-	5,158,239	(25,539)	5,132,700
Balance at the end of the year		9,000,000	9,000,000	130,000	(137,703)	205,390	33,699	13,576,835	943,000	(1,114,354)	31,636,867	101,920	31,738,787
2011													
Balance at the beginning of the year		9,000,000	9,000,000	130,000	(98,407)	(680,511)	287,533	8,327,508	731,889	(1,268,330)	25,429,682	173,204	25,602,886
Net changes in treasury stock		-	-	-	-	-	-	27,683	-	112,438	140,121	-	140,121
Dividend paid for 2011 (interim) and 2010 (final)	24	-	-	-	-	-	-	(776,000)	(731,889)	-	(1,507,889)	-	(1,507,889)
Proposed final dividend 2011	24	-	-	-	-	-	-	(831,000)	831,000	-	-	-	-
Total comprehensive income for the year		-	-	-	(15,093)	35,129	(255,316)	4,303,269	-	-	4,067,989	(45,745)	4,022,244
Balance at the end of the year		9,000,000	9,000,000	130,000	(113,500)	(645,382)	32,217	11,051,460	831,000	(1,155,892)	28,129,903	127,459	28,257,362

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements

STATEMENTS OF CONSOLIDATED CASH FLOWS
For the years ended December 31, 2012 and 2011

	<u>Notes</u>	<u>2012 SAR'000</u>	<u>2011 SAR'000</u>
<u>OPERATING ACTIVITIES</u>			
Net income for the years		4,332,096	4,304,849
Adjustments to reconcile net income to net cash used in operating activities:			
Accretion of discount and amortization of premium on non-trading investments, net		83,400	76,617
(Income) / loss from investments held at FVIS, net		(130,095)	6,343
Gain on non-trading investments, net	20	(45,182)	(486,257)
Depreciation	7	138,131	134,546
Gains on disposal of property and equipment, net	21	(3,141)	(3,311)
Provision for credit losses, net of recoveries		298,654	301,412
Net (increase) / decrease in operating assets:			
Statutory deposits with Central Banks		(869,791)	(748,231)
Due from banks and other financial institutions maturing after ninety days		(1,001,872)	(516,778)
Investments held for trading		(865,044)	(176,407)
Loans and advances		(15,973,270)	(9,162,016)
Other assets		322,041	162,456
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		(8,671,634)	827,658
Customer deposits		11,479,504	3,793,900
Other liabilities		172,555	(405,134)
Net cash used in operating activities		<u>(10,733,648)</u>	<u>(1,890,353)</u>
<u>INVESTING ACTIVITIES</u>			
Proceeds from sale of and matured non-trading investments		51,907,609	54,117,315
Purchase of non-trading investments		(42,501,169)	(48,794,261)
Purchase of property and equipment, net		(523,621)	(359,678)
Proceeds from sale of property and equipment		3,431	25,810
Net cash from investing activities		<u>8,886,250</u>	<u>4,989,186</u>
<u>FINANCING ACTIVITIES</u>			
Repayment of debt securities issued		-	(1,874,720)
Dividends paid		(1,776,064)	(1,460,306)
Treasury stocks, net		69,725	140,121
Net cash used in financing activities		<u>(1,706,339)</u>	<u>(3,194,905)</u>
Decrease in cash and cash equivalents		(3,553,737)	(96,072)
Cash and cash equivalents at the beginning of the year	25	27,873,676	27,969,748
Cash and cash equivalents at the end of the year	25	<u>24,319,939</u>	<u>27,873,676</u>
Special commission received during the year		4,667,539	4,858,640
Special commission paid during the year		432,101	633,068
Supplemental non-cash information:			
Net changes in fair value and transfers to Statements of Consolidated Income		<u>832,502</u>	<u>(263,531)</u>

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the years ended December 31, 2012 and 2011

1. General

Samba Financial Group (the Bank), a joint stock company incorporated in the Kingdom of Saudi Arabia, was formed pursuant to Royal Decree No. M/3 dated 26 Rabie Al-Awal 1400H (February 12, 1980). The Bank commenced business on 29 Shaa'ban 1400H (July 12, 1980) when it took over the operations of Citibank in the Kingdom of Saudi Arabia. The Bank operates under commercial registration no. 1010035319 dated 6 Safar 1401H (December 13, 1980) through its 72 branches (2011: 69 branches) in the Kingdom of Saudi Arabia and three overseas branches (2011: three branches). The Bank including its overseas branches employed 3,329 full time direct staff at the year-end (2011: 3,057). The Bank is listed on the Saudi Arabian stock exchange and its head office is located at King Abdul Aziz Road, P.O. Box 833, Riyadh 11421, Kingdom of Saudi Arabia.

The objective of the Bank is to provide a full range of banking and related services. The Bank also provides its customers Shariah approved Islamic banking products.

The consolidated financial statements include financial statements of the Bank and its following subsidiaries, herein after collectively referred to as "the Group":

Samba Capital and Investment Management Company (Samba Capital)

In accordance with the securities business regulations issued by the Capital Market Authority (CMA), the Bank has established a wholly owned subsidiary, Samba Capital and Investment Management Company formed as a limited liability company under commercial registration number 1010237159 issued in Riyadh dated 6 Shaa'ban 1428H (August 19, 2007), to manage the Bank's investment services and asset management activities related to dealing, arranging, managing, advising and custody businesses. The company is licensed by the CMA and has commenced its business effective January 19, 2008.

Samba Bank Limited, Pakistan (SBL)

A majority owned subsidiary incorporated as a banking company in Pakistan and engaged in commercial banking and related services, and is listed on all stock exchanges in Pakistan. In May 2010, the ownership of the Bank was increased to 80.68% from 68.42% through participation in a right shares issue by SBL.

Co-Invest Offshore Capital Limited (COCL)

A wholly owned company incorporated under the laws of Cayman Islands for the purpose of managing certain overseas investments, through an entity controlled by COCL.

Samba Real Estate Company

A wholly owned subsidiary incorporated in Saudi Arabia under commercial registration no. 1010234757 issued in Riyadh dated 9 Jumada II, 1428H (June 24, 2007). The company has been formed as limited liability company with the approval of SAMA and is engaged in managing real estate projects on behalf of Samba Real Estate Fund, a fund under management by Samba Capital, and the Bank.

2. Summary of significant accounting policies

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

2.1 Basis of preparation

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

The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of derivatives, available for sale and FVIS financial assets and liabilities. In addition, as explained fully in the related notes, financial assets and liabilities that are hedged under a fair value hedging relationship are carried at fair value to the extent of the risk being hedged.

Under article 37 of the Bank's Articles of Association, the Gregorian calendar is observed for reporting the consolidated financial statements.

These consolidated financial statements are expressed in Saudi Arabian Riyals (SAR) and are rounded off to the nearest thousands.

2.2 Consolidation

These consolidated financial statements include the financial position and results of Samba Financial Group and its subsidiary companies. The financial statements of subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies except for Co-Invest Offshore Capital Limited (COCL) whose financial statements are made up to the previous quarter end for consolidation purposes to meet the group reporting timetable. However any material changes during the interim period are adjusted for the purposes of consolidation. In addition, wherever necessary, adjustments have been made to the financial statements of the subsidiaries to align with the Bank's financial statements.

Significant inter-group balances and transactions are eliminated upon consolidation.

Subsidiaries are all entities over which the Bank has the power to govern the financial and operating policies, so as to obtain benefits from their 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 statements of consolidated income from the date of acquisition or up to the date of disposal, as appropriate.

Non-controlling interest represents the portion of net income or loss and net assets not owned, directly or indirectly, by the Bank in subsidiaries and are presented in the statements of consolidated income and within equity in the statements of consolidated financial position separately from the equity holders of the Bank.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Bank. The cost of acquisition is measured at the fair value of the consideration given at the date of exchange. The acquired identifiable assets, liabilities and contingent liabilities are measured at their fair value at the date of acquisition. The excess of the cost of acquisition over the fair value of the Bank's share of identifiable net assets acquired is recorded as intangible asset – goodwill.

2.3 Critical accounting judgments and estimates

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

(a) Impairment for credit losses on loans and advances

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

(b) Fair value of unquoted financial instruments

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques including models are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

(c) Impairment of available for sale equity investments

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

2.4 Settlement date accounting

All regular way purchases and sales of financial instruments are recognized and derecognized on the settlement date. Regular way purchases or sales are purchases or sales of financial instruments that require delivery of assets within the time frame generally established by regulation or convention in the market place. For financial instruments held at fair value, the Group accounts for any change in fair values between the trade date and the reporting date.

2.5 Derivative financial instruments and hedge accounting

Derivative financial instruments are measured at fair value and their fair values are included in other assets, if positive, or in other liabilities, if negative. Fair values are generally obtained by reference to quoted market prices, discounted cash flow models and other pricing models, as appropriate.

Derivative financial instruments are designated as held for trading unless they are part of an effective hedging relationship. Any changes in the fair values of derivatives that are held for trading purposes are taken directly to the statement of consolidated income.

Hedge accounting

Hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognized asset or liability; and (b) cash flow hedges which hedge exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability.

In order to qualify for hedge accounting, the hedge is required to be highly effective at inception i.e. the changes in the fair value or the cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item, and should be reliably measurable. At the inception of the hedge, the risk management objective and strategy is documented including the identification of the hedging instrument, the related hedged item, the nature of the risk being hedged, and how the Group will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis. Hedge accounting is discontinued when the designation is revoked, the hedging instrument is expired or sold, terminated or exercised, or no longer qualifies for hedge accounting.

In relation to fair value hedges that meet the criteria for hedge accounting, any gain or loss from re-measuring the hedging instruments to change in fair value is recognized immediately in the statement of consolidated income. The corresponding change in fair value of the hedged item is adjusted against the carrying amount and is recognized in the statement of consolidated income. Where the fair value hedge of a special commission bearing financial instrument ceases to meet the criteria for hedge accounting, the adjustment to the carrying value resulting from fair value changes is amortized to the statement of consolidated income over the remaining life of the hedged item.

In relation to cash flow hedges that meet the criteria for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized initially in other reserves under equity and the ineffective portion, if any, is recognized in the statement of consolidated income. Gains or losses recognized initially in other reserves are transferred to the statement of consolidated income in the period in which the hedged item impacts the statement of consolidated income.

2.6 Foreign currencies

The consolidated financial statements are denominated and presented in Saudi Arabian Riyals, which is also the functional currency of the Bank. Transactions in foreign currencies are translated into Saudi Arabian Riyals at exchange rates prevailing at transaction dates. Monetary assets and liabilities denominated in foreign currencies at the year end are translated into Saudi Arabian Riyals at the exchange rates prevailing at the reporting date.

The monetary assets and liabilities of overseas branches and subsidiaries are translated at the rate of exchange prevailing at the date of statement of consolidated financial position. The statements of income of overseas branches and subsidiaries are translated at the average exchange rates for the year. On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to equity.

Realized and unrealized gains or losses on exchange are credited or charged to the statement of consolidated income.

2.7 Offsetting

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

2.8 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 recognized in the statement of consolidated income using the effective yield method, and include premiums amortized and discounts accreted during the year. Any special commission income received but not earned is classified as 'other liability'.

Fee from banking services are recognized on an accrual basis when the service has been provided. Commitment fees for loans that are likely to be drawn down are deferred and, together with the related direct cost, are recognized as an adjustment to the effective yield on the loan when it is drawn down. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportionate basis. Fee received on asset management, wealth management, financial planning, custody services and other similar services that are provided over an extended period of time, are recognized rateably over the period when the service is being provided. Dividend income is recognized when declared and right to receive is ascertained.

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

Exchange income is recognized as and when it arises. For presentation purposes, "Exchange income, net" includes exchange related gains and losses from derivative financial instruments and translated foreign currency assets and liabilities.

2.9 Sale and repurchase agreements

Securities sold with a commitment to repurchase at a specified future date (repos), continue to be recognized in the statement of consolidated financial position and are measured in accordance with related accounting policies for trading, FVIS, available for sale and other investments at amortized cost. The counterparty liability for amounts received under these agreements is included in due to banks and other financial institutions or customer deposits, as appropriate. The difference between the sale and the repurchase price is treated as special commission expense and is recognized over the life of the repo agreement on an effective yield basis.

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

2.10 Investments

All investment securities are initially recognized at fair value and except for investments held at FVIS, include the acquisition costs associated with the investment. Transaction costs if any, are not added to fair value measurement at initial recognition of investments held at FVIS. Premiums are amortized and discounts are accreted using the effective yield method and are taken to statement of consolidated income.

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

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

Following initial recognition of investment securities, subsequent transfers between the various classes of investment are not ordinarily permissible. The year end reporting values for each class of investments are determined as follows:

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

Investments in this category are classified as either held for trading or those designated as FVIS on initial recognition. Investments classified as trading are acquired principally for the purpose of selling or repurchasing in short term. An investment may be designated as FVIS by the management if it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as "an accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on different bases; or a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Group's key management personnel.

After initial recognition, investments are measured at fair value and gains and losses arising from any change in the fair value are recognized in the statement of consolidated income for the period in which it arises.

b) Available for sale

Investments that are classified as available for sale are subsequently measured at fair value. For available for sale investments where fair value has not been hedged, any gain or loss arising from a change in the fair value is recognized directly through the statement of consolidated comprehensive income in fair value reserves under equity until the investment is derecognized or considered impaired, at which time the cumulative gain or loss previously recognized in equity is included in the statement of consolidated income for the period.

Any gain or loss arising from a change in the fair value of available for sale investments that are part of an effective hedging relationship is recognized directly in the statement of consolidated income to the extent of the changes in fair value being hedged.

c) Other Investments held at amortized cost

Investments with fixed or determinable payments that are not quoted in an active market, other than those purchased with the intent to be sold immediately or in the short term and are not classified as available for sale, are classified as other investments held at amortized cost. Such investments where fair value has not been hedged are stated at amortized cost, less provision for any impairment. Any gain or loss is recognized in the statement of consolidated income when the investment is derecognized or impaired.

d) Held to maturity

Investments having fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity other than those that meet the definition of FVIS, available for sale and other investments held at amortized cost are classified as held to maturity. Held to maturity investments are subsequently measured at amortized cost, less provision for impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition on an effective yield method.

Any gain or loss on such investments is recognized in the statement of consolidated income when the investment is derecognized or impaired.

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

2.11 Loans and advances

Loans and advances are non-derivative financial assets having fixed or determinable payments that are not quoted in an active market.

All loans and advances are initially measured at fair value including acquisition charges associated with the loans and advances, if any. Following initial recognition, subsequent transfers between the various classes of loans and advances is not ordinarily permissible.

Loans and advances that are not quoted in an active market and for which fair value has not been hedged are stated at amortized cost. For loans and advances which are hedged, the related portion of the hedged fair value is adjusted against the carrying amount.

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

2.12 Impairment of financial assets

An assessment is made at each period end date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. Objective evidence of impairment may include indications that the borrower is experiencing significant financial difficulty, default or delinquency in special commission or principal payments, the probability that it will enter bankruptcy or other financial reorganization and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in economic conditions that correlate with defaults. If such evidence exists, the estimated recoverable amount of that asset is determined and an impairment loss, based on the net present value of future anticipated cash flows, is recognized for changes in its carrying amounts.

Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted.

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the statement of consolidated income.

Renegotiation activity is designed to manage customer relationships, maximise collection opportunities and, if possible, avoid foreclosure or repossession. Such activity may involve extending the payment arrangements and/or the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

(a) Impairment of financial assets held at amortized 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 asset (a 'loss event') and that 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 amortized 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 future 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, a 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 Group has had in dealing with a borrower or group of borrowers and available historical default information. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions.

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

(b) Impairment of financial assets held as available for sale

For financial assets held as available for sale at fair value, where a loss has been recognised directly under equity, the cumulative net loss recognised in equity is transferred to the statement of consolidated income when the asset is considered to be impaired.

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

2.13 Other real estate owned

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

Subsequent to the initial recognition, these other real estate owned are periodically revalued and are carried at lower of their carrying values or the related net realizable value. Rental income, realized gains or losses on disposal and unrealized losses on revaluation are credited or charged to the statement of consolidated income.

2.14 Property and equipment

Property and equipment are stated at historical cost 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 premises	Period of lease
Leasehold improvements	Over the lease period or 10 years, whichever is shorter
Furniture, equipment and vehicles	Up to 7 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Gains and losses on disposals of property and equipment are included in the statement of consolidated income.

2.15 Intangible assets - goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the Bank's share of identifiable assets, liabilities and contingent liabilities of the acquired subsidiary at the date of acquisition. Goodwill is stated at cost less any accumulated impairment losses, which are charged to the statement of consolidated income. An impairment test for goodwill is carried out annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

2.16 Financial liabilities

All financial liabilities including customer and money market deposits and debt securities issued are initially recognized at fair value less transaction costs except for financial liabilities measured at FVIS where transactions cost, if any, are not deducted from the fair value measurement at initial recognition, and are included in the statement of consolidated income.

Subsequently, all special commission bearing financial liabilities other than those held at FVIS are measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium on settlement. Special commission bearing deposits for which there is an associated fair value hedging relationship are adjusted for fair value to the extent hedged.

Financial liabilities held at FVIS comprise market linked financial liabilities which are customer deposits where the rate of return is benchmarked to the performance of underlying instruments such as currencies, equities or commodities. At maturity, the repayment of principal amount to the customers is in accordance with the contractual terms. After initial recognition these deposits are measured at fair value and any gains or losses arising from the change in fair value are included in the statement of consolidated income for the period.

2.17 Financial guarantees

In the ordinary course of business, the Group extends credit related commitments consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the consolidated financial statements at fair value in other liabilities, being the value of the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligation arising as a result of guarantees. The premium received is recognized in the statement of consolidated income over the life of the guarantee.

2.18 Provisions

Provisions are recognized when a reliable estimate can be made 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.

2.19 Cash and cash equivalents

For the purpose of the statements of consolidated cash flows, cash and cash equivalents comprise cash, balances with Central Banks and reverse repos (excluding statutory deposit) and due from banks and other financial institutions having an original maturity of three months or less.

2.20 De-recognition of financial instruments

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

A financial liability is derecognized only when it is extinguished, that is when the obligation specified in the contract is either discharged, cancelled or expires.

2.21 Share-based payments

The Bank offers its eligible employees three types of equity-settled share-based payment plans (the "Plans") as approved by SAMA. The following is a brief description of these plans:

a) Capital accumulation plan

Under the terms of the Capital Accumulation Plan (CAP), eligible employees of the Bank are offered stock options at a predetermined strike price to be withheld out of their annual bonus payments, should the employee decide and accepts to participate in the plan.

b) Long term bonus plan

Under the terms of the Long Term Bonus Plan (LTBP), eligible employees of the Bank are offered stock options at a predetermined strike price for a fixed period of time. At maturity of the plans, the Bank delivers the underlying allotted shares if the employees exercise the options as per the terms and conditions of the plans.

c) Employee share participation plan

Under the terms of the Employee Share Participation Plan (ESPP), eligible employees of the Bank are offered stock options at a predetermined strike price if the employees accept and agree to contribute the value of stock options in equal monthly installment for a 25-month period.

However, in case of CAP and ESPP, should the employee decide not to exercise their options, they are entitled to receive their contributions. Additionally, in case of ESPP, the employees will also receive a predetermined rate of return on their contributions.

The cost of these plans is measured by reference to the fair value at the date on which the options are granted. The fair value of the options is determined by the use of the Black-Scholes pricing model.

The cost of the plans is recognized over the period in which the service condition is fulfilled, ending on the date on which the relevant employees become fully entitled to the stock option ('the vesting date'). The cumulative expense recognized for these plans at each reporting date until the vesting date, reflects the extent to which the vesting period has expired and the Bank's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of consolidated income for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

The Bank uses the Black-Scholes model in order to risk-manage its options exposure under the plans. The Bank, with the approval from SAMA, has entered into an agreement with an independent third-party to acquire a beneficial interest in the underlying shares solely to manage the price risks associated with the above schemes. Under the provisions of such agreement, the Bank, at no point, becomes the legal owner of the underlying shares.

2.22 Staff indemnity provision

The staff indemnity provision is made based on an actuarial valuation of the Bank's liability under the Saudi Arabian Labor and Workmen Law and in accordance with the local statutory requirements of the foreign branches and subsidiaries.

2.23 Treasury stock

Treasury stocks are recorded at cost and presented as a deduction from the equity as adjusted for any transaction costs, dividends and gains or losses on sale of such stocks. Subsequent to their acquisition, these stocks are carried at the amount equal to the consideration paid.

These stocks are acquired by the Bank with the approval of SAMA, primarily for discharging its obligation under its share-based payment plans and also include stocks acquired in settlement of customer debt.

2.24 Zakat and income taxes

Under Saudi Arabian Zakat and Income tax laws, Zakat and income taxes are the liabilities of the Saudi and foreign shareholders, respectively.

Zakat is computed on the Saudi shareholders' share of equity or net income using the basis defined under the Zakat regulations. Income taxes are computed on the foreign shareholders' share of net income for the year.

Zakat and income taxes are not charged to the Bank's statement of consolidated income as they are deducted from the dividends paid to the shareholders. Overseas branches and subsidiaries are subject to income tax as per rules and regulations of country in which they reside.

2.25 Investment management services

The Bank offers investment management and advisory services to its customers through its subsidiary. These services include portfolio management on discretionary and non-discretionary basis and management of investment funds in consultation with professional investment advisors. The Bank's investment in these funds is included in the FVIS or available for sale investments and fees earned are disclosed under related party transactions.

Assets held at trust or in a fiduciary capacity are not treated as assets of the Bank or that of its subsidiary and accordingly are not included in the Bank's statements of consolidated financial position.

2.26 Shariah approved banking products

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

All Shariah compliant banking products are accounted for using IFRS and are in conformity with the accounting policies described in these consolidated financial statements.

2.27 Change in accounting policies

The accounting policies adopted are consistent with those of the previous financial year. The following authoritative pronouncements which introduce certain improvements to existing standards did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment): Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopter
- IFRS 7 Financial Instruments: Disclosures (amendment): The amendment provides enhanced disclosures for transferred financial assets that are derecognized in their entirety and transferred assets that are not derecognized in their entirety.
- IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets

3. Cash and balances with Central Banks

	2012 SAR '000	2011 SAR '000
Cash in hand	1,142,380	1,367,886
Statutory deposit	7,915,488	7,045,697
Current account	528,416	463,332
Money market placements	21,329,853	24,631,830
Total	30,916,137	33,508,745

In accordance with the Banking Control Law and regulations issued by SAMA, the Group is required to maintain a statutory deposit with SAMA and other Central Banks at stipulated percentages of its demand, savings, time and other deposits, as calculated at the end of each month. Money market placements represent securities purchased under an agreement to re-sell (reverse repos) with SAMA.

4. Due from banks and other financial institutions

	2012 SAR '000	2011 SAR '000
Current accounts	1,215,952	1,377,123
Money market placements	2,426,381	1,354,676
Total	3,642,333	2,731,799

5. Investments, net

a) Investment securities are classified as follows:

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

	Domestic		International		Total	
	2012 SAR '000	2011 SAR '000	2012 SAR '000	2011 SAR '000	2012 SAR '000	2011 SAR '000
Fixed rate securities	346,848	397,285	1,137,822	140,847	1,484,670	538,132
Floating rate notes	-	-	18,374	30,689	18,374	30,689
Structured credits	-	-	651,449	277,753	651,449	277,753
Hedge funds	-	-	1,389,607	1,401,205	1,389,607	1,401,205
Equities	27,635	96,813	-	-	27,635	96,813
Total Held at FVIS	374,483	494,098	3,197,252	1,850,494	3,571,735	2,344,592

FVIS investments above include investments held for trading of SAR 1,530.7 million (2011: SAR 665.6 million). The designated FVIS investments included above are so designated when the financial instruments include one or more embedded derivatives or are being evaluated on a fair value basis and are in accordance with the documented risk management strategy of the Group.

ii) Available for sale

	Domestic		International		Total	
	2012 SAR '000	2011 SAR '000	2012 SAR '000	2011 SAR '000	2012 SAR '000	2011 SAR '000
Fixed rate securities	17,804,107	15,161,241	9,049,463	10,187,929	26,853,570	25,349,170
Floating rate notes	2,481,660	4,663,990	4,675,520	4,198,433	7,157,180	8,862,423
Private equity	-	-	676,664	612,607	676,664	612,607
Equities	2,971,499	2,905,485	181,933	116,747	3,153,432	3,022,232
Total available for sale	23,257,266	22,730,716	14,583,580	15,115,716	37,840,846	37,846,432

iii) Held to maturity

	International		Total	
	2012 SAR '000	2011 SAR '000	2012 SAR '000	2011 SAR '000
Fixed rate securities	5,587,593	5,578,535	5,587,593	5,578,535
Total Held to maturity	5,587,593	5,578,535	5,587,593	5,578,535

iv) Other investments held at amortized cost, net

	Domestic		International		Total	
	2012 SAR '000	2011 SAR '000	2012 SAR '000	2011 SAR '000	2012 SAR '000	2011 SAR '000
Fixed rate securities	545,535	997,439	420,639	-	966,174	997,439
Floating rate notes	898,479	4,132,211	220,572	341,918	1,119,051	4,474,129
Mudaraba investments	2,867,627	8,523,031	622,947	410,563	3,490,574	8,933,594
Total other investments held at amortized cost	4,311,641	13,652,681	1,264,158	752,481	5,575,799	14,405,162
Total investments, net	27,943,390	36,877,495	24,632,583	23,297,226	52,575,973	60,174,721

b) The composition of investments is as follows:

	2012 (SAR'000)			2011 (SAR'000)		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Fixed rate securities	17,363,592	17,528,415	34,892,007	15,728,734	16,734,542	32,463,276
Floating rate notes	6,861,342	1,433,263	8,294,605	9,243,168	4,124,073	13,367,241
Equities	3,053,414	127,653	3,181,067	2,939,387	179,658	3,119,045
Mudaraba Investments	-	3,490,574	3,490,574	-	8,933,594	8,933,594
Others	675,759	2,041,961	2,717,720	297,835	1,993,730	2,291,565
Total	27,954,107	24,621,866	52,575,973	28,209,124	31,965,597	60,174,721

Unquoted securities principally comprise Saudi Government Development Bonds, Saudi Floating Rate Notes, Sukuks, Treasury Bills, Hedge funds and Private equities. In view of the nature of the market for such securities, carrying values are determined either by using an appropriate pricing model or net asset values, as provided by independent third parties. Included in fixed rate securities above are securities pledged under repurchase agreements with other banks and customers whose carrying value at December 31, 2012 was SAR 1,017 million (2011: SR 14,684 million).

Mudaraba is an arrangement approved by the Shariah Board under which the Bank provides funds to customers for a specified business activity. The returns under such arrangements are shared between the Bank and customer on a predetermined basis. Mudaraba investments are included under 'Other investments held at amortized cost'. The fair values of these Mudaraba investments are not expected to be significantly different from their carrying values.

c) The analysis of unrecognized gains and losses and fair values of held to maturity and other investments held at amortized cost, are as follows:

	2012 (SAR'000)				2011 (SAR'000)			
	Carrying value	Gross unrecognized gain	Gross unrecognized losses	Fair value	Carrying value	Gross unrecognized gain	Gross unrecognized losses	Fair value
Fixed rate securities	6,553,767	631,943	(1,487)	7,184,223	6,575,974	663,294	(1,199)	7,238,069
Floating rate notes	1,119,051	1,629	(87,249)	1,033,431	4,474,129	6,791	(99,886)	4,381,034
Mudaraba investments	3,490,574	-	-	3,490,574	8,933,594	-	-	8,933,594
Total	11,163,392	633,572	(88,736)	11,708,228	19,983,697	670,085	(101,085)	20,552,697

d) Credit quality of investments

The credit quality of investment portfolio is as follows:

	2012 SAR '000	2011 SAR '000
Saudi government, government backed bonds & treasury bills	19,470,281	20,641,244
Investment grade	26,557,416	34,092,546
Non-investment grade	5,446,492	4,304,140
Unrated	1,101,784	1,136,791
Total	52,575,973	60,174,721

Samba Financial Group

The Bank uses its internal ratings to rate the credit quality of the investment portfolio. Investments classified under investment grade above comprise of credit exposures equivalent to Aaa to Baa3 ratings under Moody's ratings methodology. The unrated investments mainly comprise of private equities and hedge funds.

e) **The investments by counter-party are as follows:**

	2012 SAR '000	2011 SAR '000
Government and quasi government	32,296,857	36,496,409
Banks and other financial institutions	10,223,389	11,452,095
Corporate	7,516,371	9,901,791
Hedge funds	1,389,607	1,401,205
Others	1,149,749	923,221
Total	52,575,973	60,174,721

6. Loans and advances, net

a) **Loans and advances are classified as follows:**

2012 (SAR '000)	Credit cards	Consumer loans	Commercial loans & advances	Others	Total
Held at amortized cost					
Performing loans and advances	1,312,529	18,192,313	85,623,498	435,535	105,563,875
Non performing loans and advances	-	19,768	2,303,460	17,738	2,340,966
Total held at amortized cost	1,312,529	18,212,081	87,926,958	453,273	107,904,841
Provision for credit losses	(43,143)	(150,667)	(2,894,247)	(30,739)	(3,118,796)
Loans & advances, net	1,269,386	18,061,414	85,032,711	422,534	104,786,045
2011 (SAR'000)					
Held at amortized cost					
Performing loans and advances	1,357,598	15,986,904	72,184,710	257,118	89,786,330
Non performing loans and advances	-	23,609	2,720,645	19,606	2,763,860
Total held at amortized cost	1,357,598	16,010,513	74,905,355	276,724	92,550,190
Provision for credit losses	(51,500)	(148,440)	(3,210,699)	(28,122)	(3,438,761)
Loans & advances, net	1,306,098	15,862,073	71,694,656	248,602	89,111,429

Loans and advances, net includes Shariah-approved banking products in respect of Murabaha, Ijara and Tawarruq finance, which are stated at amortized cost less provision for credit losses amounting to SAR 47,734 million (2011: SAR 35,793 million).

b) Movement in provision for credit losses are as follows:

2012 (SAR'000)	Credit cards	Consumer loans	Commercial loans & advances	Others	Total
Balance at the beginning of the year	51,500	148,440	3,210,699	28,122	3,438,761
Provided during the year, net	(8,357)	7,780	260,548	4,228	264,199
Bad debts written off	-	(569)	(562,074)	-	(562,643)
Recoveries of amounts previously provided	-	(3,338)	(10,126)	(334)	(13,798)
Exchange adjustment	-	(1,646)	(4,800)	(1,277)	(7,723)
Balance at the end of the year	43,143	150,667	2,894,247	30,739	3,118,796

2011 (SAR'000)	Credit cards	Consumer loans	Commercial loans & advances	Others	Total
Balance at the beginning of the year	55,326	134,818	3,481,707	35,150	3,707,001
Provided during the year, net	(3,826)	15,562	270,531	(4,659)	277,608
Bad debts written off	-	(737)	(494,629)	(151)	(495,517)
Recoveries of amounts previously provided	-	-	(44,620)	(258)	(44,878)
Exchange adjustment	-	(1,203)	(2,290)	(1,960)	(5,453)
Balance at the end of the year	51,500	148,440	3,210,699	28,122	3,438,761

During the year, the Bank has charged an amount of SAR 298.7 million (2011: SAR 301.4 million) to the statement of consolidated income on account of provision for credit losses which is net of recoveries of amounts previously provided and net direct write-offs.

c) Credit quality of loans and advances:
i) Ageing of loans and advances past due but not impaired

2012 (SAR'000)	Credit cards	Consumer loans	Commercial loans & advances	Others	Total
Less than 90 days	104,452	476,178	492,703	-	1,073,333
90 days and more	20,068	60,294	15,518	-	95,880
Total	124,520	536,472	508,221	-	1,169,213

2011 (SAR'000)	Credit cards	Consumer loans	Commercial loans & advances	Others	Total
Less than 90 days	104,533	376,192	432,259	-	912,984
90 days and more	23,918	49,762	59,626	-	133,306
Total	128,451	425,954	491,885	-	1,046,290

ii) Economic sector risk concentration for the loans and advances and the related credit loss provision is follows:

2012	Performing SAR '000	Non-performing SAR '000	Credit loss provision SAR '000	Loans & advances, net SAR '000
Government and quasi government	1,459,854	-	267	1,459,587
Banks and other financial institutions	6,626,910	102,676	289,897	6,439,689
Agriculture and fishing	4,617,626	358	6,325	4,611,659
Manufacturing	15,090,039	117,487	283,449	14,924,077
Mining and quarrying	1,528,447	33,437	41,762	1,520,122
Electricity, water, gas and health services	6,277,172	22,827	67,865	6,232,134
Building and construction	6,977,694	441,602	546,100	6,873,196
Commerce	19,398,577	129,128	189,852	19,337,853
Transportation and communication	9,580,362	8,866	34,791	9,554,437
Services	3,953,930	984,673	575,357	4,363,246
Consumer loans and credit cards	19,504,842	19,768	193,810	19,330,800
Other	10,548,422	480,144	889,321	10,139,245
Total	105,563,875	2,340,966	3,118,796	104,786,045

2011	Performing SAR '000	Non-performing SAR '000	Credit loss provision SAR '000	Loans & advances, net SAR '000
Government and quasi government	565,519	-	322	565,197
Banks and other financial institutions	6,372,033	102,672	356,912	6,117,793
Agriculture and fishing	4,217,718	361	7,092	4,210,987
Manufacturing	11,945,725	132,971	276,114	11,802,582
Mining and quarrying	804,614	33,437	40,004	798,047
Electricity, water, gas and health services	5,499,963	24,672	73,427	5,451,208
Building and construction	6,025,228	208,589	338,577	5,895,240
Commerce	16,787,659	141,107	200,317	16,728,449
Transportation and communication	5,547,225	8,869	38,131	5,517,963
Services	3,786,116	1,081,001	411,831	4,455,286
Consumer loans and credit cards	17,344,502	23,609	199,940	17,168,171
Other	10,890,028	1,006,572	1,496,094	10,400,506
Total	89,786,330	2,763,860	3,438,761	89,111,429

iii) Analysis of loans and advances which are neither past due nor impaired

	2012 SAR '000	2011 SAR '000
Investment grade loans and advances	17,676,341	17,018,246
Consumer loans and credit cards	18,843,850	16,790,097
Non-investment grade	67,539,072	54,579,461
Unrated	335,399	352,236
Total	104,394,662	88,740,040

The Bank uses its internal ratings to rate the credit quality of the loans and advances portfolio. Loans and advances classified under investment grade above comprise of credit exposures (other than consumer loans and credit card advances) equivalent to Aaa to Baa3 ratings under Moody's ratings methodology.

d) Collateral

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

	2012 SAR '000	2011 SAR '000
Neither past due nor impaired	46,906,003	33,390,372
Past due but not impaired	4,331,611	8,423,223
Impaired	219,456	207,774
Total	51,457,070	42,021,369

The collateral consists of deposits, financial guarantees, marketable securities and real estate. Those collaterals which are not readily convertible into cash (i.e. real estate) are accepted by the Bank with intent to dispose off in case of default by the customer.

7. Property and equipment, net

	Land & buildings (SAR'000)	Leasehold improvements (SAR'000)	Furniture, equipment & vehicles (SAR'000)	2012 Total (SAR'000)	2011 Total (SAR'000)
Cost					
Balance at the beginning of the year	928,208	545,229	979,108	2,452,545	2,333,627
Additions	-	51,099	80,988	132,087	172,178
Disposals	-	(34)	(1,192)	(1,226)	(48,264)
Exchange adjustment	(6,349)	119	(3,133)	(9,363)	(4,996)
Balance at the end of the year	921,859	596,413	1,055,771	2,574,043	2,452,545
Accumulated depreciation					
Balance at the beginning of the year	520,598	328,475	839,224	1,688,297	1,581,066
Charge for the year	13,005	44,486	80,640	138,131	134,546
Disposals	-	(33)	(903)	(936)	(25,765)
Exchange adjustment	(1,882)	66	(843)	(2,659)	(1,550)
Balance at the end of the year	531,721	372,994	918,118	1,822,833	1,688,297
Net book value as at December 31, 2012	390,138	223,419	137,653	751,210	
Net book value as at December 31, 2011	407,610	216,754	139,884		764,248
Capital work in progress				796,718	405,184
Total				1,547,928	1,169,432

8. Other assets

	2012 SAR '000	2011 SAR '000
Accrued special commission receivable:		
Banks and other financial institutions	25,312	6,498
Investments	219,726	213,743
Loans and advances	272,201	196,381
Total accrued special commission receivable	517,239	416,622
Accounts receivable	135,285	90,945
Positive fair value of derivatives (note 9)	4,653,148	5,217,868
Other real estate, net	18,492	18,492
Goodwill	24,370	26,328
Other	407,189	307,509
Total	5,755,723	6,077,764

9. Derivatives

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

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

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

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

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

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

Derivatives held for trading purposes

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

Derivatives held for hedging purposes

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

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

Samba Financial Group

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

All derivatives are reported on the consolidated statement of financial position at fair value. In addition, where applicable, all such contracts covered by master netting agreements are reported net. Gross positive or negative fair values are netted with the cash collateral received or paid to a given counterparty pursuant to a valid master netting agreement.

The analysis of derivative financial instruments and the related fair values together with the notional amounts classified by the term to maturity is as follows:

2012	Positive Fair value SAR '000	Negative Fair value SAR '000	Notional amount Total SAR '000	Notional amounts by term to maturity			
				Within 3 Months SAR'000	3-12 Months SAR'000	1-5 Years SAR'000	Over 5 Years SAR'000
Held for trading							
Commission rate Swaps	3,907,342	1,348,025	101,137,292	6,435,233	14,794,398	53,830,567	26,077,094
Commission rate futures, options and guarantees	1,335	2,336	112,520	75,020	37,500	-	-
Forward foreign exchange contracts	128,040	125,016	34,416,867	7,984,194	26,432,673	-	-
Currency options	398,560	393,022	47,828,620	10,363,042	20,139,984	17,325,594	-
Swaptions	35,203	38,584	2,630,787	375,000	2,255,787	-	-
Equity & commodity options	22,709	23,267	662,520	165,013	312,841	184,666	-
Other	-	2,390	64,333	-	24,743	-	39,590
Held as fair value hedges							
Commission rate swaps	-	1,096	46,875	-	46,875	-	-
Held as cash flow hedges							
Commission rate Swaps	159,959	97,041	4,473,750	-	900,000	1,792,500	1,781,250
Total	4,653,148	2,030,777	191,373,564	25,397,502	64,944,801	73,133,327	27,897,934

Notional amounts by term to maturity

2011	Notional amounts by term to maturity						
	Positive Fair value SAR '000	Negative Fair value SAR '000	Notional amount Total SAR '000	Within 3 Months SAR'000	3-12 Months SAR'000	1-5 Years SAR'000	Over 5 Years SAR'000
Held for trading							
Commission rate swaps	4,364,702	1,690,554	99,849,210	7,516,852	9,669,613	49,930,738	32,732,007
Commission rate futures, options and guarantees	7,233	7,233	1,227,365	-	-	1,227,365	-
Forward foreign exchange contracts	112,880	100,670	41,885,825	19,622,689	22,087,372	175,764	-
Currency options	218,595	218,515	27,897,413	6,383,708	11,139,415	10,374,290	-
Swaptions	185,232	183,774	6,872,606	274,519	4,406,250	2,191,837	-
Equity & commodity Options	29,908	33,503	921,398	324,109	290,477	306,812	-
Other	4,286	71	386,769	37,500	250,000	99,269	-
Held as fair value hedges							
Commission rate futures & options	-	2,492	748,500	748,500	-	-	-
Commission rate swaps	-	3,329	46,875	-	-	46,875	-
Held as cash flow hedges							
Commission rate swaps	295,032	134,461	9,781,250	375,000	4,167,500	3,066,750	2,172,000
Total	5,217,868	2,374,602	189,617,211	35,282,877	52,010,627	67,419,700	34,904,007

The amount of payables in respect of cash collateral received that was netted with unrealized gains from derivatives is SAR 292.8 million (2011: SAR 396.7 million). The amount of receivables in respect of cash collateral paid that was netted with unrealized losses from derivatives is SAR 2,829 million (2011: SAR 3,017 million).

The tables below show a summary of hedged items, the nature of the risk being hedged, the hedging instrument and their fair values:

Description of hedged items	Fair value	Nature of Hedge	Hedging Instrument	Positive fair value	Negative fair value
<u>2012 (SR '000)</u>					
Fixed rate notes	47,401	Fair value	Commission rate swaps	-	1,096
Floating rate notes	4,478,150	Cash flow	Commission rate swaps	159,959	97,041
<u>2011 (SR '000)</u>					
Fixed rate notes	887,961	Fair value	Commission rate swaps, futures and options	-	5,821
Floating rate notes	9,564,358	Cash flow	Commission rate swaps	295,032	134,461

The losses on the hedging instruments for fair value hedges are SAR 0.03 million (2011: Losses of SAR 0.41 million). The gains on the hedged items attributable to the hedged risk are SAR 0.03 million (2011: Gains of SAR 0.41 million).

Cash flow hedges

The Group is exposed to variability in future cash flows on non-trading assets and liabilities which bear special commission at a variable rate. The Group generally uses special commission rate swaps as hedging instruments to hedge against these special commission rate risks. Also, as a result of firm commitments in foreign currencies, the Group is exposed to foreign exchange and special commission rate risks which are hedged with cross currency special commission rate swaps.

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

2012 (SAR'000)	Within 3 Months	3-12 Months	1-5 Years	Over 5 years	Total
Cash inflows	8,690	28,095	140,341	317,998	495,124

2011 (SAR'000)	Within 3 Months	3-12 Months	1-5 Years	Over 5 years	Total
Cash inflows	113,674	201,358	328,794	96,848	740,674

Approximately 38% (2011: 36%) of the positive fair value of the Group's derivatives are entered into with financial institutions and less than 29% (2011: 31%) of the positive fair value contracts are with any single counter-party at the statement of financial position date.

10. Due to banks and other financial institutions

	2012 SAR '000	2011 SAR '000
Current accounts	953,774	566,048
Money market deposits	11,002,885	20,062,245
Total	11,956,659	20,628,293

Money market deposits include deposits against the sale of fixed rate securities of SAR 439.3 million (2011: SAR 13,237 million) with an agreement to repurchase the same at fixed future dates.

11. Customer deposits
a) Customer deposits comprise the following:

	2012 SAR '000	2011 SAR '000
Demand	88,740,230	78,770,255
Savings	4,830,960	4,333,533
Time	49,250,228	49,482,491
Other	5,914,950	4,670,585
Total	148,736,368	137,256,864

Time deposits include deposits accepted under Shariah approved banking product contracts, of SAR 18,602 million (2011: SAR 17,166 million).

Time deposits include deposits against sale of fixed rate securities of SAR 577 million (2011: SAR 1,500 million) with agreements to repurchase the same at fixed future dates. Other customer deposits include SAR 902 million (2011: SAR 838 million) of margins held against facilities extended to customers.

Included in time deposits are market linked customer deposits amounting to SAR 45 million (2011: SAR 264 million), which are designated FVIS liabilities. The deposits are so designated when they include one or more embedded derivatives or are being evaluated on a fair value basis in accordance with the documented risk management strategy of the Group.

The above include foreign currency deposits as follows:

	2012 SAR '000	2011 SAR '000
Demand	6,902,711	7,487,209
Savings	399,416	183,773
Time	18,872,109	17,426,655
Other	238,987	311,501
Total	26,413,223	25,409,138

12. Other liabilities

	2012 SAR '000	2011 SAR '000
Accrued special commission payable:		
Banks and other financial institutions	5,834	5,268
Customer deposits	255,499	193,390
Total accrued special commission payable	261,333	198,658
Accounts payable	539,908	465,188
Negative fair value of derivatives (note 9)	2,030,777	2,374,602
Unearned special commission	2,573,364	2,288,066
Customer initial public offering deposits	42,038	40,624
Other	1,344,905	1,264,233
Total	6,792,325	6,631,371

13. Share capital

The authorized, issued and fully paid share capital of the Bank consists of 900 million shares of SAR 10 each.

14. Statutory and general reserves

In accordance with the Banking Control Law of the Kingdom of Saudi Arabia and the Articles of Association of the Bank, a minimum of 25% of the net income for the year is required to be transferred to a statutory reserve until this reserve equals the paid up capital of the Bank. Since the statutory reserve now equals the paid up capital, no amount has been transferred from 2012 net income (2011: SAR Nil) to the statutory reserve. The statutory reserve is not currently available for distribution.

In addition, as and when considerate appropriate, the Bank makes an appropriation to general reserve for general banking risks.

15. Fair value reserves

2012	Cash flow hedges SAR'000	Available for sale financial assets SAR'000	Total SAR'000
Balance at beginning of the year	32,217	(645,382)	(613,165)
Net change in fair value	(172,568)	895,954	723,386
Transfer to statements of consolidated income	174,050	(45,182)	128,868
Net movement during the year	1,482	850,772	852,254
Balance at end of the year	33,699	205,390	239,089

2011	Cash flow hedges SAR'000	Available for sale financial assets SAR'000	Total SAR'000
Balance at beginning of the year	287,533	(680,511)	(392,978)
Net change in fair value	(572,411)	469,429	(102,982)
Transfer to statements of consolidated income	317,095	(434,300)	(117,205)
Net movement during the year	(255,316)	35,129	(220,187)
Balance at end of the year	32,217	(645,382)	(613,165)

16. Commitments and contingencies
a) Legal proceedings

No provision has been made in relation to legal proceedings existing as at December 31, 2012 and 2011 as no material costs are expected to be incurred.

b) Capital commitments

The Group's capital commitments as at December 31, 2012 amounted to SAR 721.9 million (2011: SAR 487.9 million) in respect of building, construction and equipment purchases.

c) Credit related commitments and contingencies

Credit related commitments and contingencies mainly comprise letters of credit, guarantees, acceptances and irrevocable commitments to extend credit. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans and advances. Documentary letters of credit which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are generally collateralized by the underlying shipments of goods to which they relate, and therefore have less risk. Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be presented before being reimbursed by the customers. Cash requirements under these instruments are considerably less than the amount of the related commitment because the Group generally expects the customers to fulfill their primary obligation.

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

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

2012 (SAR '000)	Within 3 Months	3-12 Months	1-5 Years	Over 5 Years	Total
Letters of credit	4,747,779	2,615,457	1,306,775	-	8,670,011
Letters of guarantee	6,722,104	12,203,145	10,755,377	4,641	29,685,267
Acceptances	1,573,237	311,084	26,628	-	1,910,949
Irrevocable commitments to extend credit	1,901,822	94,238	1,612,333	1,169,662	4,778,055
Other	15,521	-	78,732	202,559	296,812
Total	14,960,463	15,223,924	13,779,845	1,376,862	45,341,094

2011 (SAR '000)	Within 3 Months	3-12 Months	1-5 Years	Over 5 Years	Total
Letters of credit	3,845,931	2,914,545	987,973	-	7,748,449
Letters of guarantee	5,652,090	11,776,020	9,557,654	66,412	27,052,176
Acceptances	1,500,305	348,138	44,866	-	1,893,309
Irrevocable commitments to extend credit	1,330,942	1,022,444	1,761,272	1,209,577	5,324,235
Other	-	3,755	-	323,087	326,842
Total	12,329,268	16,064,902	12,351,765	1,599,076	42,345,011

The unused portion of commitments outstanding as at December 31, 2012 which can be revoked unilaterally at any time by the group amounts to SAR 83,387 million (2011: SAR 68,346 million).

ii) The analysis of credit related commitments and contingencies by counter-party are as follows:

	2012 SAR '000	2011 SAR '000
Corporate	43,711,274	40,709,611
Banks and other financial institutions	1,349,109	1,200,715
Other	280,711	434,685
Total	45,341,094	42,345,011

d) Assets pledged

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

	2012 SAR'000		2011 SAR'000	
	Assets	Related liabilities	Assets	Related liabilities
Available for sale investments	1,016,771	1,016,286	7,001,728	6,950,002
Other investments held at amortized cost	-	-	7,682,414	7,648,969
Total	1,016,771	1,016,286	14,684,142	14,598,971

e) Operating lease commitments

There are no non-cancelable operating lease commitments as of December 31, 2012 and 2011.

17. Special commission income and expense

	2012 SAR '000	2011 SAR '000
Special commission income		
Investments:		
Available for sale	495,436	589,526
Held to maturity	172,945	172,618
Other investments held at amortized cost	411,305	659,452
	<u>1,079,686</u>	<u>1,421,596</u>
Due from banks and other financial institutions	116,260	76,435
Loans and advances	3,572,210	3,276,567
Total	<u>4,768,156</u>	<u>4,774,598</u>
Special commission expense		
Due to banks and other financial institutions	107,398	98,022
Customer deposits	387,378	361,848
Debt securities issued	-	6,260
Total	<u>494,776</u>	<u>466,130</u>

18. Fee and commission income, net

	2012 SAR '000	2011 SAR '000
Fee and commission income:		
Share trading and fund management	532,584	386,458
Trade finance	370,739	314,087
Corporate finance and advisory	236,987	107,206
Other banking services	724,946	756,172
Total	<u>1,865,256</u>	<u>1,563,923</u>
Fee and commission expense:		
Cards	(42,129)	(27,188)
Other banking services	(130,588)	(138,030)
Total	<u>(172,717)</u>	<u>(165,218)</u>
Fee and commission income, net	<u>1,692,539</u>	<u>1,398,705</u>

19. Trading income / (loss), net

	2012 SAR '000	2011 SAR '000
Debt securities	59,668	61,562
Derivatives	(4,937)	(118,952)
Total	<u>54,731</u>	<u>(57,390)</u>

20. Gains on non-trading investments, net

	2012 SAR '000	2011 SAR '000
Available for sale	45,182	434,300
Other investments held at amortized cost	-	51,957
Total	45,182	486,257

21. Other operating income

	2012 SAR '000	2011 SAR '000
Gain on disposal of property and equipment	3,141	3,311
Dividend and other income	77,999	120,051
Total	81,140	123,362

22. Salaries and employee related expenses

The Bank's compensation policy complies with the regulatory requirements of SAMA and international standards of Financial Stability Forum with respect to compensation. Our policy defines the level and categories of key employees whose goal settings, performance measurement and appraisal processes are based on a balanced scorecard approach that links the financial performance evaluation with associated risks, at the overall bank level. The Bank's overall variable compensation pool is derived from the Risk Adjusted Net Income of the Bank which takes into account significant existing and potential risks in order to protect Bank's capital adequacy and to mitigate risk of potential future losses. A process of distributing variable compensation payments over three annual installments is in place for key employees. Further, claw-back arrangements are included to address adverse future performance. No guaranteed bonuses are allowed. Through these mechanisms, the Bank has successfully achieved the policy objectives of ensuring that the overall variable compensation takes into account risks associated with financial performance and adjustments to deferred compensation are considered pursuant to any negative future impact arising out of decisions made during the current period. The Bank has finalized a mechanism on Risk measurements which will be an integral part of the individual performance evaluation process after its incorporation.

Variable compensation is awarded to eligible employees in the form of cash, stock options or a combination of both. The proportion of variable compensation to be paid in cash and stock options is determined based on the level of responsibility and role of the individual employee, as well as the business area in which the employee works and it commensurate the risk taking or controlling ability of the employee.

In accordance with regulatory requirements on corporate governance, Bank's Board of Directors has established a Nomination and Remuneration Committee (NRC) which comprises of three non-executive directors, chaired by an independent board member. The NRC is responsible for the overall architecture and oversight of the compensation system. The NRC makes its recommendations to the Board on the level and composition of remuneration after taking into account the Risk Management Group's input. NRC also reviews periodically the progress of the Compensation Policy implementation and ensures that its stated objectives are achieved in line with the laid out guidelines. Additionally progress reports are submitted to SAMA on a periodical basis. SBL Pakistan has put in place a comprehensive Compensation Policy in line with SAMA guidelines.

The following is a breakup of the compensation paid to Bank's employees for 2012 and 2011. The schedule separately shows compensation relating to Bank's subsidiary SBL.

Category	Number of Employees		Fixed Compensation	
	2012	2011	2012 SAR'000	2011 SAR'000
Senior executives*	18	14	26,537	22,479
Employees engaged in risk taking activities	895	939	306,500	312,953
Employees engaged in control functions	607	583	134,409	133,594
Other employees	1,809	1,521	179,786	167,925
Outsourced employees engaged in risk taking activities	-	-	-	-
Total	3,329	3,057	647,232	636,951
Variable compensation accrued during the year			151,446	141,632
Other employee related costs**			389,325	419,914
Employee related costs relating to SBL Pakistan			27,170	29,015
Total salaries & employee related expenses			1,215,173	1,227,512

The variable compensation paid in cash to various employee categories during the year is as follows:

Category	2012 (SAR'000)	2011 (SAR'000)
Senior Executives	30,134	24,054
Employees engaged in risk taking activities	85,104	72,021
Employees engaged in control functions	18,064	15,004
Other employees	7,186	5,906
Outsourced employees engaged in risk taking activities	-	-
Total	140,488	116,985

* Senior executives are employees whose appointment requires approval from SAMA.

** Other employee related costs include insurance premium paid, GOSI contribution, relocation charges, recruitment expenses, training and development and certain other employee related costs.

23. Basic and diluted earnings per share

Basic and diluted earnings per share is calculated by dividing the net income for the years 2012 and 2011 by 900 million shares.

24. Dividend, Zakat and income tax

a) Proposed Final Dividend

The Board of Directors has proposed a final dividend of SR 943 million for 2012 (2011: SR 831 million). After deducting the applicable Zakat & income taxes, this will yield a net payment of SR 0.85 per share to the Saudi shareholders of the Bank (2011: SR 0.85). The total net dividend for the year to Saudi shareholders is SR 1.65 per share (2011: SR 1.65 per share) of which SR 0.80 (2011: SR 0.80) was paid as interim dividend earlier during the year.

The proposed final dividend is included within the equity until approved by the shareholders' annual general assembly.

b) Zakat and Income Tax Liabilities

Zakat and income taxes are the liabilities of the Saudi and foreign shareholders respectively, and are computed on their respective shares of equity or the net income.

Zakat attributable to Saudi shareholders for the year is estimated at SR 336 million (2011: SR 118 million) which will be deducted from their share of dividend. Zakat liability for the current year has been calculated on a prudent basis considering dis-allowance of certain long-term investments held by the Bank, as advised by our external advisors based on recent assessments issued by the Department of Zakat and Income Tax (the "DZIT"). The Bank however, as a matter of principle, disagrees with this calculation and intends to contest it with the appropriate authorities, should the DZIT disallows long term investments in the Bank's Zakat assessments. Income tax liability of the foreign shareholders on their current year's share of income is estimated at SR 32 million (2011: SR 32 million). Any such unpaid income tax liability for 2012 will be deducted from their share of dividend for the year. The net dividend to foreign shareholders is SR 29 million (2011: SR 22 million).

c) Status of Zakat and Income Tax Assessments

Income tax and Zakat assessments have been agreed with the DZIT up to the year ended 31 December, 2003. The assessments for the years ended 31 December 2004 to 2011 are currently under review with the DZIT. However, no assessments have been raised as yet.

25. Cash and cash equivalents

Cash and cash equivalents for the purpose of the statements of consolidated cash flows comprise the following:

	2012 SAR'000	2011 SAR'000
Cash and balances with Central Banks excluding statutory deposit (note 3)	23,000,649	26,463,048
Due from banks and other financial institutions	1,319,290	1,410,628
Total	24,319,939	27,873,676

26. Operating segments

The Group is organized into the following main operating segments:

Consumer – comprises of individual customer time deposits, current, call and savings accounts, as well as credit cards, retail investment products, individual and consumer loans.

Corporate – comprises of corporate time deposits, current and call accounts, overdrafts, loans and other credit facilities as well the Group's investment, trading and derivative portfolios and its corporate advisory business.

Treasury – principally manages money market, foreign exchange, commission rate trading and derivatives for corporate and institutional customers as well as for the Group's own account. It is also responsible for funding the Group's operations, maintaining liquidity and managing the Group's investment portfolio and statement of financial position.

Investment banking – engaged in investment management services and asset management activities related to dealing, managing, arranging, advising and custody businesses. The investment banking business is housed under a separate legal entity Samba Capital and Investment Management Company.

The Group's primary business is conducted in the Kingdom of Saudi Arabia with three overseas branches and two overseas subsidiaries. However, the results of the overseas operations are not material to the Group's overall consolidated financial statements.

Transactions between the business segments are on normal commercial terms. Funds are ordinarily reallocated between segments, resulting in funding cost transfers. Special commission charged for these funds is based on inter-bank rates. There are no other material items of income or expense between the operating segments.

- a) The Group's total assets and liabilities as at December 31, 2012 and 2011, its total operating income, total operating expenses, net income, Capital expenditure and depreciation expenses for the years then ended, by operating segment, are as follows:

<u>2012 (SAR'000)</u>	Consumer	Corporate	Treasury	Investment Banking	Total
Total Assets	36,203,046	82,519,676	80,403,277	98,140	199,224,139
Total Liabilities	74,698,040	79,492,648	13,228,622	66,042	167,485,352
Total Operating Income	2,362,717	2,363,869	1,181,946	785,559	6,694,091
Total Operating Expenses	1,280,949	788,673	118,784	173,589	2,361,995
of which:					
- Depreciation	47,596	74,913	7,665	7,957	138,131
- Provision for credit losses	55,596	243,058	-	-	298,654
Net Income	1,081,768	1,575,196	1,063,162	611,970	4,332,096
Capital expenditure	54,474	464,788	4,139	220	523,621

<u>2011 (SAR'000)</u>	Consumer	Corporate	Treasury	Investment Banking	Total
Total Assets	32,492,151	69,584,196	90,596,527	101,016	192,773,890
Total Liabilities	67,448,659	75,001,178	22,012,141	54,550	164,516,528
Total Operating Income	2,653,322	2,496,445	897,685	514,915	6,562,367
Total Operating Expenses	1,205,570	777,698	112,892	161,358	2,257,518
of which:					
- Depreciation	51,375	73,072	2,281	7,818	134,546
- Provision for credit losses	63,216	238,196	-	-	301,412
Net Income	1,447,752	1,718,747	784,793	353,557	4,304,849
Capital expenditure	30,211	286,373	368	42,726	359,678

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

<u>2012 (SAR'000)</u>	<u>Consumer</u>	<u>Corporate</u>	<u>Treasury</u>	<u>Investment Banking</u>	<u>Total</u>
Balance sheet risk assets	30,014,874	74,766,577	56,218,306	4,594	161,004,351
Commitments and contingencies	215,651	24,792,555	307,815	-	25,316,021
Derivatives	174,806	2,136,084	4,782,179	-	7,093,069
<u>2011 (SAR'000)</u>	<u>Consumer</u>	<u>Corporate</u>	<u>Treasury</u>	<u>Investment Banking</u>	<u>Total</u>
Balance sheet risk assets	26,582,142	62,524,930	62,906,519	4,358	152,017,949
Commitments and contingencies	272,522	24,302,709	339,455	-	24,914,686
Derivatives	129,946	2,327,850	5,158,313	-	7,616,109

Balance sheet risk assets comprise of the carrying value of statement of financial position, excluding cash and balances with Central Banks, property and equipment and other assets. Credit exposures relating to commitments, contingencies and derivatives are stated at their credit equivalent amounts as prescribed by Central Banks.

27. Credit Risk

Credit risk is the risk that a customer will fail to discharge its financial obligation to the Group and will cause the Group to incur a financial loss. The Group seeks to manage its credit risk exposure by ensuring that its customers meet the minimum credit standards defined by the Group's management and through diversification of lending activities to ensure that there is no undue concentration of risks with individuals, or within groups of customers in specific locations or businesses. The Group continually assesses and monitors credit exposures to ensure timely identification of potential problem credits.

In addition to monitoring credit limits, the Group manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and by limiting the duration of exposure. In certain cases the Group may also close out transactions and settle on a net present value basis.

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 limits the impact of concentration risk in exposure by setting progressively lower limits for longer tenors and taking security, where considered appropriate, to mitigate such risks. Debt instruments included in the Group's investment portfolio are mainly sovereign risk instruments. Analysis of investments by counterparty and the composition of loans and advances is provided in notes 5 and 6 to the consolidated financial statements, respectively. The nature and extent of credit risk relating to derivative instruments and commitments and contingencies is provided in notes 9 and 16, respectively. The Group classifies its exposure into ten risk categories that are compatible with internationally recognized ratings. Of these, seven categories are for performing and three for non-performing. Each individual borrower is rated based on an internally developed debt rating model that evaluates risk based on financial as well as qualitative inputs. The risk rating categories drive the due diligence and approval process, and these ratings are reviewed at least annually or sooner if any adverse signs are visible. These categories also form the basis for managing credit concentrations and identifying problem credits.

Exposures falling below a certain classification threshold are considered to be impaired, and appropriate specific provisions are made against these loans by comparing the present value of expected future cash flows for each such exposure with its carrying amount on the basis of criteria prescribed by IAS 39. Impairment and uncollectible are also measured and recognized on a portfolio basis for a group of similar credit exposure that are not individually identified as impaired.

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

	<u>2012 SAR'000</u>	<u>2011 SAR'000</u>
ASSETS		
Due from banks and other financial institutions	3,642,333	2,731,799
Investments, net	52,575,973	60,174,721
Loans and advances, net	104,786,045	89,111,429
Total Assets	161,004,351	152,017,949
Contingent liabilities and commitments	25,316,021	24,914,686
Derivatives	7,093,069	7,616,109
Total	193,413,441	184,548,744

Samba Financial Group

28. Geographical concentration

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

2012 (SAR'000)	Kingdom of Saudi Arabia	GCC & Middle East	Europe	North America	South East Asia	Other countries	Total
Assets							
Cash & balances with central banks	30,717,790	116,725	2,384	-	-	79,238	30,916,137
Due from banks and other financial institutions	656,524	1,813,236	168,789	764,750	6,884	232,150	3,642,333
Investments, net	28,880,890	2,628,849	5,534,495	14,231,141	620,767	679,831	52,575,973
Loans and advances, net	92,913,537	9,396,854	1,369,072	-	-	1,106,582	104,786,045
Total	153,168,741	13,955,664	7,074,740	14,995,891	627,651	2,097,801	191,920,488
Liabilities							
Due to banks & other financial institutions	6,957,438	3,760,703	769,708	-	-	468,810	11,956,659
Customer deposits	146,872,565	920,495	68,703	4,464	6,870	863,271	148,736,368
Total	153,830,003	4,681,198	838,411	4,464	6,870	1,332,081	160,693,027
Credit Exposure (stated at credit equivalent)							
Commitments & contingencies	19,051,233	2,384,966	1,206,372	477,666	1,618,234	577,550	25,316,021
Derivatives	2,922,746	237,241	3,343,160	561,831	-	28,091	7,093,069
Total	21,973,979	2,622,207	4,549,532	1,039,497	1,618,234	605,641	32,409,090
2011 (SAR'000)							
Kingdom of Saudi Arabia	GCC & Middle East	Europe	North America	South East Asia	Other countries	Total	
Assets							
Cash & balances with central banks	33,370,225	75,676	1,824	-	-	61,020	33,508,745
Due from banks & other financial institutions	164,113	862,301	527,606	1,112,081	5,430	60,268	2,731,799
Investments, net	36,877,495	2,213,157	5,399,119	14,651,424	512,402	521,124	60,174,721
Loans and advances, net	79,630,170	7,608,843	957,333	-	-	915,083	89,111,429
Total	150,042,003	10,759,977	6,885,882	15,763,505	517,832	1,557,495	185,526,694
Liabilities							
Due to banks & other financial institutions	6,271,526	4,843,659	6,359,780	2,528,582	-	624,746	20,628,293
Customer deposits	135,752,396	670,186	85,502	608	3,701	744,471	137,256,864
Total	142,023,922	5,513,845	6,445,282	2,529,190	3,701	1,369,217	157,885,157
Credit Exposure (stated at credit equivalent)							
Commitments & contingencies	18,215,077	2,244,300	1,202,577	764,842	1,801,005	686,885	24,914,686
Derivatives	2,948,865	174,188	3,976,764	440,899	-	75,393	7,616,109
Total	21,163,942	2,418,488	5,179,341	1,205,741	1,801,005	762,278	32,530,795

Credit exposures are stated at their credit equivalent amounts as prescribed by SAMA.

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

(SAR '000)	Non-performing loans and advances		Provision for credit losses	
	2012	2011	2012	2011
Saudi Arabia	1,899,904	2,308,256	2,835,310	3,195,696
GCC and Middle East	158,882	56,206	66,096	12,122
Europe	187,553	290,168	124,821	124,875
Other countries	94,627	109,230	92,569	106,068
Total	2,340,966	2,763,860	3,118,796	3,438,761

29. Market Risk

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

a) Market Risk -Trading Book

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

A VAR methodology estimates the potential negative change in market value of a portfolio at a given confidence level and over a specified time horizon. The Group uses simulation models to assess the possible changes in the market value of the trading book based on historical data. VAR models are usually designed to measure the market risk in a normal market environment and therefore the use of VAR has limitations because it is based on historical correlations and volatilities in market prices and assumes that the future movements will follow a statistical normal distribution.

The VAR that the Group measures is an estimate, using a confidence level of 99% of the potential loss that is not expected to be exceeded if the current market positions were to be held unchanged for one day. The use of 99% confidence level depicts that within a one-day horizon, losses exceeding VAR figure should occur, on average, not more than once every hundred days.

The VAR represents the risk of portfolios at the close of a business day, and it does not account for any losses that may occur beyond the defined confidence interval. The actual trading results however, may differ from the VAR calculations and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions. To overcome the VAR limitations mentioned above, the Group also carries out stress tests of its portfolio to simulate conditions outside normal confidence intervals. The potential losses occurring under stress test conditions are reported regularly to the Group's Asset Liability Committee (ALCO) for its review.

The Group's VAR related information for the year ended December 31, 2012 and 2011 is as shown below.

2012 (SAR '000)	Foreign exchange risk	Special commission risk	Total
	VAR as at December 31	5,133	5,703
Average VAR for the year	3,965	14,700	18,665
2011 (SAR '000)	Foreign exchange risk	Special commission risk	Total
	VAR as at December 31	3,095	5,040
Average VAR for the year	3,472	9,446	12,918

b) Market Risk – Non-Trading or Banking Book

Market risk on non-trading or banking book 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 the changes in special commission rates will affect either the fair values or the future cash flows of the financial instruments. The Group has established special commission rate gap limits for stipulated periods. The Group monitors daily positions and uses hedging strategies to ensure maintenance of positions within the established gap limits.

The following table depicts the sensitivity to a reasonably possible change in special commission rates, with other variables held constant, on the Group's statement of consolidated income or equity. The sensitivity of the income is the effect of the assumed changes in special commission rates on the net special commission income for one year, based on non-trading financial assets and financial liabilities held as at December 31, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing the fixed rate available for sale financial assets, including the effect of any associated hedges as at December 31, for the effect of assumed changes in special commission rates. The sensitivity of equity is analyzed by maturity of the asset or swap.

All the banking book exposures are monitored and analyzed in currency concentrations and relevant sensitivities are presented below:

Currency	Increase / decrease in basis point	Sensitivity of special commission income	Sensitivity of equity				Total 2012 (SAR'000)
			6 months or less	6 to 12 months	1-5 years	Over 5 years	
SAR	+1 bps	(3,035)	(516)	(314)	(656)	(750)	(2,236)
	-1 bps	3,035	516	314	656	750	2,236
US Dollar	+1 bps	(6,269)	(602)	(559)	(3,068)	(1,914)	(6,143)
	-1 bps	6,269	602	559	3,068	1,914	6,143
Euro	+1 bps	(1,763)	(66)	(63)	(463)	(1,173)	(1,765)
	-1 bps	1,763	66	63	463	1,173	1,765

Currency	Increase / decrease in basis point	Sensitivity of special commission income	Sensitivity of equity				Total 2011 (SAR'000)
			6 months or less	6 to 12 months	1-5 years	Over 5 years	
SAR	+1 bps	998	(237)	(28)	(82)	(2)	(349)
	-1 bps	(998)	237	28	82	2	349
US Dollar	+1 bps	(7,527)	(685)	(638)	(4,101)	(2,887)	(8,311)
	-1 bps	7,527	685	638	4,101	2,887	8,311
Euro	+1 bps	(1,704)	(114)	(105)	(753)	(739)	(1,711)
	-1 bps	1,704	114	105	753	739	1,711

The Group is exposed to various risks associated with the effect of 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 contractual re-pricing or maturity dates. The Group is exposed to special commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period. The Group manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

Samba Financial Group

<u>2012 (SAR '000)</u>	Within 3 months	3-12 months	1-5 years	Over 5 years	Non- commission bearing	Total
Assets						
Cash and balances with central banks	21,329,854	-	-	-	9,586,283	30,916,137
Due from banks and other financial institutions	2,228,531	197,850	-	-	1,215,952	3,642,333
Investments, net	19,148,107	6,002,397	9,951,345	13,616,393	3,857,731	52,575,973
Loans and advances, net	52,118,754	27,395,418	18,240,901	7,029,625	1,347	104,786,045
Property and equipment, net	-	-	-	-	1,547,928	1,547,928
Other assets	-	-	-	-	5,755,723	5,755,723
Total Assets	94,825,246	33,595,665	28,192,246	20,646,018	21,964,964	199,224,139
Liabilities and Equity						
Due to banks and other financial institutions	10,147,908	769,561	85,416	-	953,774	11,956,659
Customer deposits	42,253,693	8,540,519	414,171	2,872,805	94,655,180	148,736,368
Other liabilities	-	-	-	-	6,792,325	6,792,325
Total equity	-	-	-	-	31,738,787	31,738,787
Total Liabilities and Equity	52,401,601	9,310,080	499,587	2,872,805	134,140,066	199,224,139
On balance sheet gap	42,423,645	24,285,585	27,692,659	17,773,213	(112,175,102)	
Off balance sheet gap	589,756	3,101,062	(3,418,943)	(271,875)		
Total commission rate sensitivity gap	43,013,401	27,386,647	24,273,716	17,501,338		
Cumulative commission rate sensitivity gap	43,013,401	70,400,048	94,673,764	112,175,102		
2011 (SAR '000)						
	Within 3 Months	3-12 Months	1-5 Years	Over 5 Years	Non- commission bearing	Total
Assets						
Cash and balances with central banks	24,631,830	-	-	-	8,876,915	33,508,745
Due from banks and other financial institutions	1,015,885	338,791	-	-	1,377,123	2,731,799
Investments, net	22,267,910	5,288,417	11,961,199	16,969,458	3,687,737	60,174,721
Loans and advances, net	35,753,419	24,646,930	17,671,227	11,037,292	2,561	89,111,429
Property and equipment, net	-	-	-	-	1,169,432	1,169,432
Other assets	-	-	-	-	6,077,764	6,077,764
Total Assets	83,669,044	30,274,138	29,632,426	28,006,750	21,191,532	192,773,890

Liabilities and Equity						
Due to banks and other financial institutions	19,810,126	159,997	92,122	-	566,048	20,628,293
Customer deposits	44,875,964	7,919,180	351,904	2,844,995	81,264,821	137,256,864
Other liabilities	-	-	-	-	6,631,371	6,631,371
Total equity	-	-	-	-	28,257,362	28,257,362
Total Liabilities and Equity	64,686,090	8,079,177	444,026	2,844,995	116,719,602	192,773,890
On balance sheet gap	18,982,954	22,194,961	29,188,400	25,161,755	(95,528,070)	
Off balance sheet gap	9,129,373	(9,426,738)	1,658,109	(1,360,744)		
Total commission rate sensitivity gap	28,112,327	12,768,223	30,846,509	23,801,011		
Cumulative commission rate sensitivity gap	28,112,327	40,880,550	71,727,059	95,528,070		

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

ii) Foreign Currency Risk

Currency risk represents the risk of change in the value of financial instruments 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. Management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions and hedging strategies, which are monitored daily. At the end of the year, the Group had the following significant net currency exposures:

	2012 (SAR'000) Long (Short)	2011 (SAR'000) Long (Short)
United States Dollar	1,024,363	453,290
United Arab Emirates Dirham	(264,150)	(96,881)
British Pound	16,335	21,578
Pakistan Rupee	308,595	317,351

The table below shows the currencies to which the Group has a significant exposure as at December 31, 2012 and 2011 on its non-trading monetary assets and liabilities and forecasted cash flows. The analysis calculates the effect of reasonable possible movement of the currency rate against SAR, with all other variables held constant, on the statement of consolidated income (due to the fair value of the currency sensitive non-trading monetary assets and liabilities) and equity (due to change in fair value of currency swaps and forward foreign exchange contracts used as cash flow hedges). A positive effect shows a potential increase in statement of consolidated income or equity; whereas a negative effect shows a potential net reduction in statement of consolidated income or equity.

Currency exposures	December 31, 2012		December 31, 2011	
	Change in currency rate	Effect on net income (SAR'000)	Change in currency rate	Effect on net income (SAR'000)
US Dollar	1%	148,017	1%	32,315
Euro	1%	6,408	1%	(3,211)

iii) Equity Price Risk

Equity price risk refers to the risk of decrease in fair values of equities in the Group's non-trading investment portfolio as a result of reasonable possible changes in levels of equity indices and the value of individual stocks. Assuming all other variables are held constant, a 1% increase or decrease in the value of Group's available for sale quoted equity investments at December 31, 2012 would have a corresponding increase or decrease in equity by SR 30.5 million (2011: SR 29.4 million).

30. Liquidity risk

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

In accordance with Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% of total demand deposits and 4% of savings and time deposits (2011: 7% and 4% respectively).

In addition to the statutory deposit, the Bank also maintains liquid reserves of no less than 20% of its deposit liabilities, in the form of cash, gold, Saudi Government securities 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 with SAMA against Saudi Government securities up to 75% of the nominal value of bonds held.

i) Maturity profile of Group's assets, liabilities and equity

The tables below summarize the maturity profile of Group's assets, liabilities and equity based on the contractual maturities as at the reporting date. The amounts of assets and liabilities are based on management's expectations of recovery or settlement as at the reporting date. The management regularly monitors the maturity profile to ensure that adequate liquidity is maintained. For presentation purposes, the demand, saving and other deposits amounting to SAR 99,486 million (2011: SAR 87,774 million) are included under "No fixed maturity" category.

2012 (SAR '000)	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with central banks	21,329,854	-	-	-	9,586,283	30,916,137
Due from banks and other financial institutions	2,228,531	197,850	-	-	1,215,952	3,642,333
Investments, net	10,409,926	8,588,559	13,061,459	16,658,298	3,857,731	52,575,973
Loans and advances, net	29,904,694	30,829,761	26,025,371	17,847,771	178,448	104,786,045
Property and equipment, net	-	-	-	-	1,547,928	1,547,928
Other assets	-	-	-	-	5,755,723	5,755,723
Total Assets	63,873,005	39,616,170	39,086,830	34,506,069	22,142,065	199,224,139
Liabilities and Equity						
Due to banks and other financial institutions	10,150,776	741,133	110,976	-	953,774	11,956,659
Customer deposits	37,079,912	9,201,608	95,904	2,872,804	99,486,140	148,736,368
Other liabilities	11,380	17,312	8,605	-	6,755,028	6,792,325
Total equity	-	-	-	-	31,738,787	31,738,787
Total Liabilities and Equity	47,242,068	9,960,053	215,485	2,872,804	138,933,729	199,224,139

Samba Financial Group

2011 (SAR '000)	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash & balances with central banks	24,631,830	-	-	-	8,876,915	33,508,745
Due from banks and other financial institutions	1,015,885	338,791	-	-	1,377,123	2,731,799
Investments, net	18,922,431	7,809,724	11,961,199	18,118,749	3,362,618	60,174,721
Loans and advances, net	38,555,044	21,983,244	18,129,840	10,270,182	173,119	89,111,429
Property and equipment, net	-	-	-	-	1,169,432	1,169,432
Other assets	-	-	-	-	6,077,764	6,077,764
Total Assets	83,125,190	30,131,759	30,091,039	28,388,931	21,036,971	192,773,890
Liabilities and Equity						
Due to banks and other financial institutions	19,816,303	153,820	92,122	-	566,048	20,628,293
Customer deposits	38,549,960	7,735,633	351,904	2,844,994	87,774,373	137,256,864
Other liabilities	9,551	100,969	-	-	6,520,851	6,631,371
Total equity	-	-	-	-	28,257,362	28,257,362
Total Liabilities and Equity	58,375,814	7,990,422	444,026	2,844,994	123,118,634	192,773,890

ii) Analysis of undiscounted financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of Group's financial liabilities at December 31, based on contractual undiscounted repayment obligations. The totals in this table do not match with the statement of consolidated financial position as special commission payments with contractual maturities are included in the table on an undiscounted basis. The contractual maturities of financial liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date. The table below does not reflect the expected cash flows indicated by the deposit retention history of the Group.

2012 (SAR '000)	Within 3 months	3-12 months	1-5 Years	Over 5 years	On demand	Total
Due to banks and other financial institutions	10,153,201	744,041	111,086	-	953,774	11,962,102
Customer deposits	37,113,862	9,261,088	98,936	2,872,839	99,486,140	148,832,865
Other liabilities	11,402	17,854	84,872	819,057	6,755,028	7,688,213
Total	47,278,465	10,022,983	294,894	3,691,896	107,194,942	168,483,180

	2011 (SAR'000)					Total
	Within 3 months	3-12 months	1-5 years	Over 5 years	On demand	
Due to banks and other financial institutions	19,820,120	154,292	92,344	-	566,048	20,632,804
Customer deposits	38,861,320	7,780,626	352,351	2,848,995	87,488,351	137,331,643
Other liabilities	9,551	100,969	-	-	8,963,923	9,074,443
Total	58,690,991	8,035,887	444,695	2,848,995	97,018,322	167,038,890

31. Fair values of financial instruments

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1 - Quoted prices in active markets for the same instrument (i.e. without modification or repacking);

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

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

	2012 (SAR '000)			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Financial assets held at FVIS	1,583,008	1,988,727	-	3,571,735
Financial investments available for sale	16,876,950	20,159,966	803,930	37,840,846
Total	18,459,958	22,148,693	803,930	41,412,581
Financial Liabilities				
Financial liabilities designated at FVIS	-	45,235	-	45,235
Total	-	45,235	-	45,235
Derivative financial instruments				
Financial assets	388	4,652,760	-	4,653,148
Financial liabilities	1,389	2,029,388	-	2,030,777
2011 (SAR '000)				
	Level 1	Level 2	Level 3	Total
Financial Assets				
Financial assets held at FVIS	330,074	2,014,518	-	2,344,592
Financial investments available for sale	18,158,754	18,896,038	791,640	37,846,432
Total	18,488,828	20,910,556	791,640	40,191,024
Financial Liabilities				
Financial liabilities designated at FVIS	-	263,941	-	263,941
Total	-	263,941	-	263,941

Derivative financial instruments

Financial assets	-	5,217,868	-	5,217,868
Financial liabilities	-	2,374,602	-	2,374,602

The following table shows a reconciliation from the beginning balances to the ending balances for the fair value measurements in Level 3 of the fair value hierarchy in respect of financial assets held at FVIS and available for sale:

	2012	2011
	SAR '000	SAR '000
Balance at beginning of the year	791,640	865,802
Total gains / (losses) in other comprehensive income	53,811	(107,855)
Purchases	130,937	180,695
Settlements	(172,458)	(147,002)
Balance at the end of the year	803,930	791,640

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

The estimated fair values of held-to-maturity investments and other investments held at amortised cost are based on quoted market prices when available or pricing models when used in the case of certain fixed rate bonds respectively. The fair values of these investments are disclosed in note 5.

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

32. Related party transactions

In the ordinary course of its activities, the Bank transacts business with related parties. The related party transactions are governed by limits set by the Banking Control Law and regulations issued by Central Banks. The year-end balances resulting from such transactions included in the consolidated financial statements are as follows:

	2012	2011
	SAR '000	SAR '000
Directors, other major shareholders and their affiliates:		
Loans and advances	251,607	80,115
Customer deposits	10,209,000	9,887,702
Commitments and contingencies	29,326	37,610
SAMBA's mutual funds:		
Customer deposits	255,625	245,895

Other major shareholders represent shareholdings of more than 5% of the Bank's issued and paid up share capital, as listed on Tadawul. Income and expenses pertaining to transactions with related parties included in the consolidated financial statements are as follows:

	2012 SAR '000	2011 SAR '000
Special commission income	7,881	2,196
Special commission expense	104,888	100,905
Fee and commission income, net	203,286	180,059
Directors' remuneration	3,837	3,891

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

	2012 SAR '000	2011 SAR '000
Short-term employee benefits	54,061	54,446
Post-employment, termination and share-based payments	12,482	15,199

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

33 (a) Capital Adequacy

The Group monitors the adequacy of its capital using the methodology and ratios established by SAMA with a view to maintain a sound capital base to support business development and meet regulatory capital requirement as defined by SAMA. These ratios measure capital adequacy by comparing the Group's eligible capital with its statement of financial position assets, commitments and contingencies, notional amount of derivatives at a weighted amount to reflect their relative risk market risk and operational risk. During the year, the Group has fully complied with regulatory capital requirement.

The management reviews on a periodical basis capital base and level of risk weighted assets to ensure that capital is adequate for risk inherent in business activities. The management also considers Group's business plan along with economic conditions which directly and indirectly affects business environment. The overseas subsidiary manages its own capital as prescribed by local regulatory requirements.

SAMA has issued guidance regarding implementation of the Basel II disclosures which are effective from January 1, 2008. Accordingly, calculated under the Basel II framework, the Group's Risk Weighted Assets (RWA), total capital and related ratios on a consolidated group basis and on a standalone basis for its significant banking subsidiary calculated for the credit, market and operational risks, at December 31 are as follows:

	2012 SR'000	2011 SR'000
Samba Financial Group (consolidated)		
Credit risk RWA	142,000,392	132,691,373
Operational risk RWA	11,733,132	11,925,831
Market risk RWA	12,936,644	11,433,113
Total RWA	166,670,168	156,050,317
Tier I capital	31,714,417	28,231,034
Tier II capital	1,696,695	1,658,642
Total tier I & II capital	33,411,112	29,889,676

Capital adequacy ratio %

Tier I ratio	19.0%	18.1%
Tier I + II ratio	20.0%	19.2%

Capital adequacy ratios for Samba Bank Limited, Pakistan are as follows:

Tier I ratio	45.9%	46.6%
Tier I + II ratio	46.0%	46.7%

Tier I capital comprises the share capital, statutory, general and other reserves, minority interest and retained earnings less any intangible assets of the Bank as at the year-end. Tier II capital comprises of a prescribed amount of eligible provisions.

33 (b) Other pillar 3 disclosure

Certain quantitative disclosures as required by SAMA under pillar 3 of Basel II, have been placed on Bank's official website www.samba.com

34. Investment management services

The investment management services are provided by Samba Capital and Investment Management Company, a 100% owned subsidiary of the Bank. The assets under management outstanding at end of the year including mutual funds and discretionary portfolios amounted to SAR 29,046 million (2011: SAR 29,321 million). This includes funds managed under Shariah-approved portfolios amounting to SAR 13,399 million (2011: SAR 13,377 million).

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

35. Share-based payments

The Bank has following share-based payment plans outstanding at the end of the year. Significant features of these plans are as follows:

Nature of Plan	Long-Term Bonus Plan
Number of outstanding plans	3
Grant Date	Between Nov 2007 and March 2011
Maturity date	Between April 2013 and March 2016
Number of options granted on the grant date, adjusted for bonus share issue and split	6,108,500
Strike price per option at grant date, adjusted for bonus share issue and split	Between SAR 45 and SAR 80
Vesting period	Between 3 and 5 years
Vesting conditions	Participating employees to remain in service
Method of settlement	Equity
Valuation model used	Black-Scholes
Fair value per option on grant date after bonus and stock split adjustment	Between SAR 18 and SAR 31

The movement in weighted average price and in the number of stock options are as follows:

	Weighted average exercise price (SAR)		Number of stock options	
	2012	2011	2012	2011
Beginning of the year	61.17	57.46	8,168,107	8,998,490
Granted during the year	-	45.00	-	1,329,424
Forfeited	(65.56)	(42.82)	(2,320,811)	(17,099)
Exercised / Expired	(47.9)	(35.71)	(137,796)	(2,142,708)
End of the Year	59.71	61.17	5,709,500	8,168,107

The stock options outstanding as of December 31, 2012 have an exercise price in the range of SAR 45 to SAR 80 (2011: SAR 45 to SAR 80) and weighted average contractual life of three years. The weighted average share price at the time of exercise of the option during the year was SAR 56.50 (2011: SAR 55).

The fair value of stock options granted during the year using the Black Scholes model was SAR Nil (2011: SAR 24 million). The inputs used to the model were the share price at the grant date, exercise price, life of the option, expected dividends and annual risk free rate of return. The expected volatility of the share price is based on statistical analysis of daily share price movements.

The stock options are granted only under a service condition with no market condition associated with them. The total amount of expense recognized in these consolidated financial statements in respect of share-based payment plans for the year 2012 is SAR 19 million (2011: SAR 41.4 million).

36. Comparative figures

Certain prior year balances have been reclassified to conform to current year presentation.

37. Accounting Standard issued but not yet effective

The Group has opted not to early adopt the amendments and revisions to the following standards which have been published and are mandatory for compliance for the Group's accounting year beginning after January 1, 2013.

- Amendments to IFRS 7 These amendments require an entity to disclose information about rights to set-off and related arrangements effective for annual periods beginning on or after 1 January 2013.
- IFRS 9 — Financial Instruments — Classification and Measurement of Financial Assets & Financial Liabilities - Effective for annual periods beginning on or after 1 January 2015.
- IFRS 10 – Consolidated Financial Statements, IAS 27 Separate Financial Statements - Effective for annual periods beginning on or after 1 January 2013.
- IFRS 12 – Disclosure of Involvement with Other Entities - Effective for annual periods beginning on or after 1 January 2013.

38. Board of Directors' approval

The consolidated financial statements were approved by the Board of Directors on January 22, 2013 (Rabi'l 10. 1434).
