ANNUAL REPORT 2011

البنك
السعودي
الفرنسي

Banque
Saudi
Fransi

Banque with a different style

TABLE OF CONTENTS

Maather Street | P.O.Box 56006 Riyadh 11554 | Tel: +966 1 289 9999 | Fax: +966 1 404 2311 | Kingdom of Saudi Arabia

Published by: Banque Saudi Fransi, Corporate Communications Department
To get a copy of this Report, please email to communications@alfransi.com.sa or contact: Corporate Communications Dept. at +966 1 289 1648
Concept and Design by: HORIZON DRAFTFCB

800 124 2121 | www.alfransi.com.sa

بسم الله الرحمن الرحيم

King Abdullah
Bin Abdulaziz Al-Saud
Custodian of the
Two Holy Mosques

HRH Prince Nayef
Bin Abdulaziz Al-Saud
Crown Prince

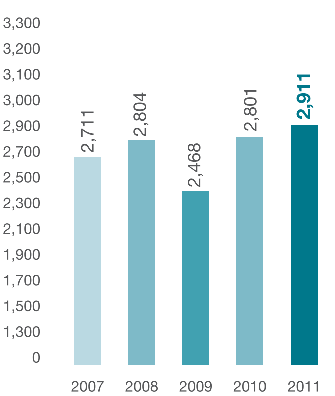
YEAR AT A GLANCE

Performance in the year 2011

Net Income	SAR 2,911 million
Total Assets	SAR 140,480 million
Customers' Deposits	SAR 109,963 million
Loans & Advances, net	SAR 92,325 million
Total Equity	SAR 19,655 million

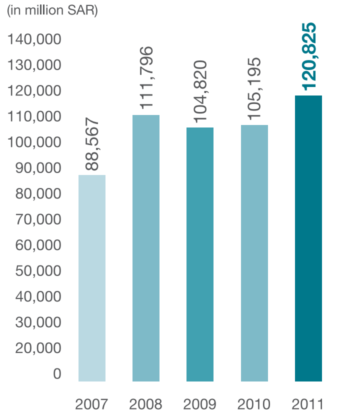
Net Income

(in million SAR)



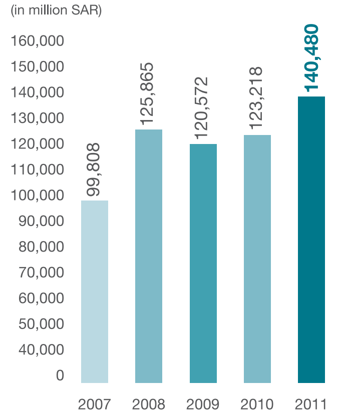
Total Liabilities

(in million SAR)



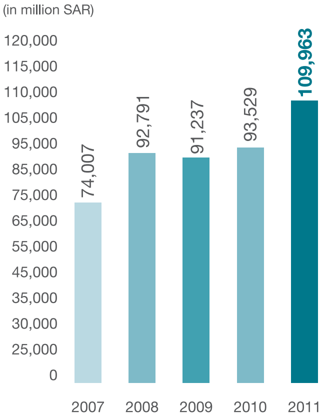
Total Assets

(in million SAR)



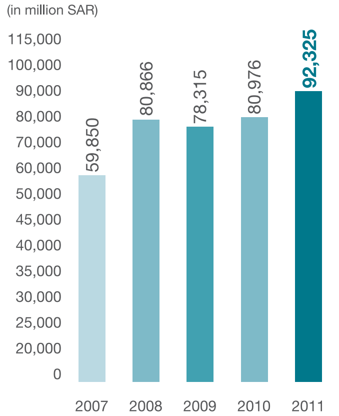
Customers' Deposits

(in million SAR)



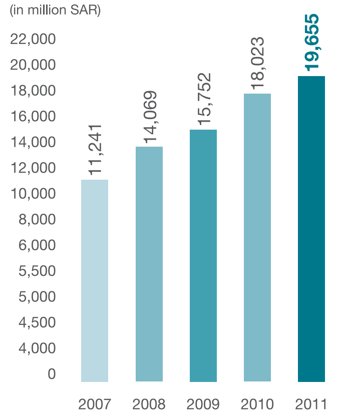
Loans & Advances, net

(in million SAR)



Total Equity

(in million SAR)



CHAIRMAN'S STATEMENT

During the year 2011, Banque Saudi Fransi (BSF) continued its strenuous efforts of improving the performance of its units and branches all over the Kingdom. The Bank maintained a net profit which exceeded (albeit slightly) the amount of profits earned in the prior year. It is worth mentioning that this accomplishment has been achieved despite the continuing financial difficulties that are still encountered by various regions of the world and in particular the aggravated crisis of sovereign debt in certain European countries. This crisis has led to the adoption of stringent austerity measures resulting in a negative impact which the entire international community is still suffering from, on the grounds that all regions of the world are undergoing interrelated economic and financial conditions. However, the prudent policies pursued by the Kingdom have alleviated the negative impact of the global economic crises.

The lessons learned from the subprime mortgage crisis that prevailed in the United States a few years ago also helped enhance the level of awareness and alertness on the part of the leadership of the banking sector in the Kingdom.

Although the most negative effects of the global financial conditions are manifested in the continued low rate of return earned on loans and other financial services (which is the main source of income for any bank), BSF has ultimately realized a reasonable level of profitability as stated earlier.

BSF was more eager to maintain the quality of its credit portfolio through adherence to a prudent policy of preserving its reserves at rates that are considered the highest among local banks. Additionally, BSF was able to increase the volume of loans, attract more deposits and increase the number of customers over prior years. This was realized through a well-coordinated marketing campaign accompanied by remarkable efforts of various units of the bank, vigorous follow-up by senior management, constant support of the Board enhanced by the development and upgrading of technology in a manner consistent with the continuing evolution in this area.

This effort resulted in realizing a net profit of SAR 2,911 million compared to SAR 2,801 million in 2010, marking an increase of 3.9% over 2010. This increase is attributed to the development in the Bank's conventional activities, whereby the loans portfolio rose from SAR 81 billion by the end of 2010 to SAR 92.3 billion as of 31/12/2011, marking an increase of 14% over 2010; client deposits also increased from SAR 93.5 billion by the end of 2010, to SAR 110 billion as at the end of this year, marking an increase of 17.6% over 2010; BSF assets rose to SAR 140.4 billion this year compared to SAR 123.2 billion in 2010, marking an increase of 14% over 2010; and total shareholders' equity rose from SAR (18,023) million in 2010 to SAR (19.655 million) at the end of 2011.

Furthermore, BSF continued to foster the foundations of its infrastructure. In this regard, BSF achieved additional progress in streamlining work flow and investment in human resources through training and development. This year, BSF finalized the formalities of merging three of its subsidiary companies (CAAM Saudi Fransi, Calyon Saudi Fransi, and Fransi Tadawul) into a single company: Saudi Fransi Capital.

Earlier this year, in a move aimed at strengthening administrative links and channels of communication between the various units and departments of BSF, the Board of Directors approved a structural reorganization plan of the Bank. Executive management has embarked on implementing this plan, which, God willing, will have positive results in favor of the Bank's shareholders and customers. We all look forward with a positive and optimistic outlook for this year to achieve further growth and development.

In conclusion, I extend my sincere gratitude and appreciation to the Custodian of the Two Holy Mosques and his rightly-guided government for their continued support to the banking sector, stressing the positive and effective role in supporting the Bank by the various competent government agencies, particularly the Ministry of Finance, Saudi Arabian Monetary Agency, Ministry of Commerce and Industry, Capital Market Authority, and the Saudi Arabian General Investment Authority. I also extend my thanks to the esteemed customers of BSF for their nurtured trust and confidence. Gratitude and appreciation is also extended to our colleague's members of the Board of Directors and members of the sub-committees and other independent units, and all staff members of BSF for their contribution in realizing these positive results.

I ask God to help us in all our endeavors.

Dr. Saleh bin Abdul Aziz Al-Omair
Chairman

MANAGING DIRECTOR'S STATEMENT

It is my pleasure to present Banque Saudi Fransi's performance for the year 2011 where net profit established at SAR 2,910.9 millions showing an increase of 3.9% with a Balance Sheet growth of 14% compared to 2010.

Whereas low interest rates penalized the return on cash placements, the Bank was able to compensate this effect by expanding into its core businesses and reinforce its overall position within the financial sector.

It is remarkable that the Bank increased its loan book by 14%, positioning above the Saudi Banking Sector overall performance (+10.65%), due to a strong increase in all its business segments without compromising on the asset quality and the credit worthiness of the Bank.

As such, BSF has continued to deploy its balanced strategy with Retail Banking customers' assets growing over 30% while the more mature BSF's Corporate Banking book was still able to grow by another 12%.

Aside from asset growth, the bank has reinforced its liquidity position since total customers' deposits increased by 17.6% while the mix between Non Commissions Bearing Deposits and Commissions Bearing Deposit improved from 49.6% to 50.5%.

Whereas Net Special Commission revenue grew by 2.3%, a significant effort has also been made on the fee and commissions based business where non interest related revenues increased by 9%.

Concerning our securities businesses, it is worth mentioning that we have restructured our Brokerage, Asset Management, Investment Banking and Corporate Finance activities by merging our previous three joint ventures and affiliated companies into a single company named Saudi Fransi Capital (SFC). The cost and revenues synergies created have significantly participated to the global achievement in terms of non interest related revenue generation. SFC is also significantly reinforcing the overall product offer made to our clients.

With regards to risks, the Non Performing Loan to Total Loans ratio stayed at a low 1.20% coming from 1.23% in 2010. In addition, we have kept a sound level of coverage with a Total Provisions to Total Non Performing Loans ratio which established at 136% end of 2011.

All these elements combined with solid Capital Adequacy ratios (Tier 1 ratio at 13.95%), a sound and diversified Balance Sheet justify why Banque Saudi Fransi has been reaffirmed its Investment Grade Status by the three rating agencies.

Going into 2012, we will pursue our balanced strategy between Retail and Corporate activities putting an emphasis on return on assets as we expect interest rate environment to remain low. Taking into account the quality and the full commitment of all BSF's teams I am convinced that Banque Saudi Fransi will meet all the future challenges that the banking industry will have to face, be it at the regulatory level or at our customers level.

Once again, I want to thank all of our clients who have placed a lot of trust in BSF and reiterate that BSF will always dedicate itself to their satisfaction.

I also take this opportunity to express my gratitude to the Chairmen of the Board (Mr. Ibrahim Al Touq and Dr. Saleh bin Abdul Aziz Al-Omair), all Board Members, Executive Committee and Audit committee Members for their understanding and their continuous support.

I also wish to thank SAMA and the Capital Market Authority for their help and fruitful ongoing guidance and assistance.

Last, I also want to extend my appreciation to all BSF Staff for their personal commitment and their deep involvement in ensuring that the bank can evolve and meet all its objectives.

Patrice Couvegnes
Managing Director

BOARD OF DIRECTORS & MANAGEMENT TEAM

Senior Management Team

Head Office

Patrice Couvegnes
Managing Director

Philippe Touchard
Chief Financial Officer

Phillippe Enjalbal
Chief Operating Officer

Jean-Michel Castelnau
Chief Risk Officer

Omar Jazzar
Head of Wealth Management

Abdulrahman S. Mutabagani
Head of Commercial Banking

Saadoun Al Saadoun
Corporate Operations Manager

Amr Al Taher
Corporate Human Resources Manager

Abdulaziz Omar Osman
Chief Compliance Officer

Abdulrahman Jawa
Deputy Managing Director

Mohamad Abdulhadi
Head of Corporate Banking

René Du Lac
Head of Retail Banking

Adel Malawi
Head of Treasury

Ahmad Jawdat
Head of High Networth

Ahmad Al Kassim
Information Technology Manager

Abdul Qadeer Mirza
Accounting & Financial Control Manager

François Delagrange
Chief Internal Auditor

Abdullah AlBatati
Services Management Manager (Acting)

Regional Management

Osama Bakhit
Central Regional Manager

Abdulaziz Al Molhem
Eastern Regional Manager

Mazen Tamimi
Western Regional Manager

Specialized Subsidiaries and Joint-Venture Companies

Saudi Fransi Capital
Yasser O. Al Rumayyan

Allianz Saudi Fransi
Antoine Issa

Sofinco Saudi Fransi
Riyadh Al Sharikh

Board of Directors

Standing From Right to Left

Abdul-Rahman A. Jawa: Deputy Managing Director, **Dr. Khaled H. Mutabagani, Abdulaziz Al-Habdan, Marc Oppenheim, Mosa Omran Al-Omran, Ibrahim M. Al-Issa.**

Sitting Form Right to Left

Abdulaziz Al-Rashid, Patrice Couvegnes: Managing Director, **Saleh Bin Abdul Aziz Al-Omair:** Chairman, **Thierry Simon.**

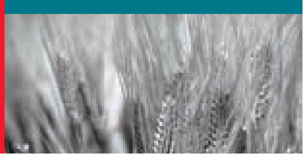
Not Included in the Picture

Nizar Al-Qannas, Secretary General.

** Ibrahim Al-Touq,Chairman until 02/04/2011*

** Jean Marion, Managing Director until 15/09/2011*

FINANCIAL MANAGEMENT



For the 12 month period ended 31 December 2011, the Bank's key indicators and risk ratios are set out in the table below.

Key Indicators (SAR'000)	12 months ended 31-Dec-09	12 months ended 31-Dec-10	12 months ended 31-Dec-11	% Var 31-Dec-11/ 31-Dec-10	% Var 31-Dec-10/ 31-Dec-09
Total Balance Sheet	120,572,438	123,218,330	**140,479,958**	14.01%	2.19%
Total Loans and Advances	78,315,196	80,976,587	**92,325,042**	14.01%	3.40%
Total Deposits	91,237,118	93,529,251	**109,963,411**	17.57%	2.51%
Total Equity	15,732,673	18,003,661	**19,655,327**	9.17%	14.43%
Total Operating Income	4,294,907	4,395,229	**4,584,774**	4.31%	2.34%
Total Net Income	2,467,805	2,801,287	**2,910,942**	3.91%	13.51%

Key Ratios (SAR'000)	12 months ended 31-Dec-09	12 months ended 31-Dec-10	12 months ended 31-Dec-11	Changes 2011/2010	Changes 2010/2009
Provisions to Non Performing Loans	126.60%	146.96%	**136.41%**	-10.56%	+20.36%
Non Performing Loans to Total Loans	1.27%	1.23%	**1.20%**	-0.03%	-0.04%
Loans to Funding Sources	81.42%	82.27%	**80.85%**	-1.42%	+0.85%
Tier 1 Capital Adequacy	13.13%	14.18%	**13.95%**	-0.22%	+1.05%
Cost to Income	26.96%	28.60%	**32.70%**	+4.10%	+1.64%

Total assets increased by SAR 17,261 (14.01%) from SAR 123,218 million as at 31 December 2010 to SAR 140,479 million as at 31 December 2011. This was mainly due to a significant increase in the total net loans and advances (SAR 11,348.5 million) and an increase in the Cash and Balances at SAMA (SAR +7,251.4 million) resulting from the proceeds of maturing securities in the Investment Portfolio (Total Investment Portfolio decreased by SAR 3,171.4 million) and increase of Customers Deposits (SAR 8,585.3 million) during the year.

Unlike 2010 where the Saudi Economy was rather slow and where Balance Sheet growth was low, 2011 proved to be a more dynamic year where the Saudi Financial Sector increased their extension of Credits to the private sector by 10.65% (SAMA monthly statistical bulletin, December 2011) whereas year-on-year growth in 2010 and 2009 established at 5.65% and -0.4% respectively.

Banque Saudi Fransi increased its loan books more than the market as illustrated by the following table.

Loans and Advances, Net	Credit Cards + Consumers Loans	Overdraft & Commercial Loans	Other Loans	Total
2009	6,026,065	67,198,699	5,090,432	78,315,196
2010	7,821,933	66,745,642	6,409,012	80,976,587
2011	**10,398,751**	**75,405,039**	**6,521,252**	**92,325,042**
% Var 2010/ 2009	29.80%	-0.67%	25.90%	3.40%
% Var 2011/ 2010	**32.94%**	**12.97%**	**1.75%**	**14.01%**

Compared to the Market (+10.65%), BSF managed to grow its loan book by 14.01%. It is noteworthy that the Bank's retail loan book (Credit Cards and Consumer Loans combined) increased by 32.94% while Corporate Net Loans grew by 12.97%.

In a context where interest rates have continued to decrease below the 2010 levels, the Bank's net income established at SAR 2,910.9 million for the 12 months ended 31 December 2011, compared to SAR 2,801 million for the 12 months ended 31 December 2010, which represents an increase of 3.9%. The fact that this increase is not commensurate with the increase of the total balance sheet (+14.0%) is directly linked to the low level of interest rates and the maturity of long term Saudi government bonds.

Indeed, the Bank being very liquid (Loan to Deposit Ratio at 80.8%) the remuneration of its structural excess of cash and working capital has been impacted by the absolute level of interest rates (all maturities combined) which sits at unprecedented level.

Source: Reuters	31/12/2009	31/12/2010	31/12/2011
3 Months SIBOR	0.7675%	0.7513%	**0.7800%**
5 Years IRS	3.2900%	2.7200%	**2.1000%**

Risk Profile

While Performing Loans increased by SAR 11,282.1 million during 2011, Non Performing Loans increased by SAR 112.2 million from SAR 1,015.8 million as at 31 December 2010 to SAR 1,128.1 million as at 31 December 2011.

This resulted in a Total Non Performing Loans to Total Loan ratio reducing from 1.23% (as stated end of 2010) to 1.20% end of 2011. In the same period, the Bank made an additional net provision for credit risks of SAR 45.8 million leading the Bank to maintain a high total provisions to total Non Performing Loans ratio of 136.4% (see note 7 of the financial statements)

Liquidity Position

Throughout the 12 months period ended 31 December 2011, the Bank has maintained a loan to deposit ratio (below 85%. As at 31 December 2009, of the ratio established at 80.85% (versus 82.27% end of 2010 and 82.40% end of 2009).

On the liabilities side, total customers' deposits increased by 17.6% to SAR 109,963.4 million as at 31 December 2011.

- Non Commissions Bearing Deposits (Demand Deposit accounts and Other deposits) increased during the year 2011 (+19.60%) as a result of concerted marketing efforts by the Bank's business lines and taking advantage of its expanded network of branches. The Bank has primarily used this increase in non interest bearing deposits to enhance its liquidity position.
- Commission Bearing Deposits increased by 15.6% during the year 2011. This was driven by the strong increase in Corporate loans.

SAR'000	31-Dec-09	31-Dec-10	% Var 2010/2009	31-Dec-11	% Var 2011/2010
Non Interest Bearing Deposits	35,803,557	46,425,258	1.09%	55,499,518	19.55%
Interest Bearing Deposits	55,433,561	47,103,993	1.15%	54,463,893	15.62%
Total Customers Deposits	**91,237,118**	**93,529,251**	**1.13%**	**109,963,411**	**17.57%**
Non Interest Bearing Deposit as a % of Total Customers' Deposits	**39.24%**	**49.64%**	**-0.02%**	**50.47%**	**0.83%**

The ratio of Non Interest Bearing Deposits and Interest Bearing Deposits to Total Deposits has improved during the year from 49.6% to 50.5% (it was at 39.2%, end of 2009). This was due to a successful marketing of the Banks's banking services in all business lines.

Capital Adequacy

During the year 2011, the paid-up share capital of the Bank has been kept at SAR 7,232 million. After the General Assembly of Shareholders that took place on the 7th of April 2012, a decision by the Board of Directors to recommend the payment of the 2011 dividend in shares was approved which resulted in paid-up Capital being increased from SAR 7,232 million to SAR 9,040 million.

Total equity increased from SAR 18.00 billion as at 31 December 2010 to SAR 19.66 billion as at 31 December 2011 (+9.17%).

The combined effect of the 14% increase in the Asset (especially the loan book) albeit some reduction in the investment portfolio and the 9.17% increase in the Equity base of the Bank resulted in a slight reduction of the Capital Adequacy ratios which still establish above the international norm of 8%, as illustrated in the following table:

	31-Dec-09	31-Dec-10	31-Dec-11
Tier 1 Capital Adequacy	13.13%	14.18%	13.96%
Total Capital Adequacy	13.72%	14.73%	14.53%

	Long Term Bank	Bank Outlook	Long Term Local Currency Bank	Short Term Bank	Short Term Local Currency Bank	Date
Standard and Poor's	A	Stable	A	A-1	A-1	14-12-11

		Long Term Deposit	Deposit Outlook	Financial Strength	Short Term Bank	Date
Moody's		Aa3	Stable	C+	P-1	26-12-11

	Long Term Bank	Bank Outlook	Long Term Bank Default (IDR)	Short Term Bank	Bank Individual Support	Bank Support	Date
Fitch	A	Stable	A	F1	B/C	1	13-06-11

ACCOUNTING & FINANCIAL CONTROL

2011 was a year of considerable achievements for BSF and AFCD was at the forefront of all major developments and played an active role in the Kingdom's Financial Services Industry.

We worked closely with the bank's external auditors during the year to ensure full compliance & maximum disclosure of information in the light of International, (IAS/IFRS) Saudi Arabian (SOCPA) accounting standards and regulatory guidelines (SAMA & CMA).

AFCD also played an important role in analyzing the Kingdom's evolving Tax & Zakat regulations and insured that BSF fulfills all regulatory obligations in an efficient and effective manner.

During the year AFCD developed a "Nucleus Group" comprising of Senior Managers within the Division. The objective of this nucleus group was to provide direction and oversight over all important projects. The nucleus group ensures prompt solutions to the requirements of the business lines which in turn secures a value added banking experience for our clients.

The financial reporting horizon is evolving at a rapid pace. Convergence of standards and increased disclosure of information were the main themes in the global accounting arena. The Saudi Arabian financial reporting horizon was active as well; in particular the banking industry achieved a major milestone by finalizing "Saudi Bank's Illustrative Financial Statements". AFCD played a prominent role along with other peer banks & big four audit firms in achieving this objective.

In today's challenging global financial climate, managing expenditure is an arduous task for any financial institution. AFCD successfully completed this responsibility for BSF by strengthening internal controls, conducting rigorous analysis and highlighting cost saving avenues.

Throughout the year AFCD supported our business lines for developing new products & services. Our capacity to integrate new developments with existing systems increases BSF's confidence in providing our clients with an uncompromised banking experience. The division's expertise in mitigating risks faced by BSF is manifested in the ability to provide adequate insurance coverage for safeguarding the assets from uncertainties in the financial services industry.

Conducting regular analysis of BSF's performance provided a valuable tool for auditing the impact of key decisions made during the year. Detailed comparison with the peer banks performance highlighted areas of strength and conversely in need of management review. AFCD looks back at the year 2011 with a sense of pride as we reaffirmed our ability and commitment in fulfillment of the strategic objectives of the bank. All AFCD staff are worthy of praise for working diligently & professionally.

BOARD OF DIRECTORS' REPORT

The Board of Directors is pleased to present its report for the FY 2011

Banque Saudi Fransi, Saudi Joint Stock Company, was established in accordance with the Royal Decree No. m/ 32 dated 17 Jumada II 1397 (4 June 1977).

The objectives of Banque Saudi Fransi include the offer of banking products and services in addition to the offer of Islamic products approved by an independent legal panel.

BSF owns several companies: Fransi Tadawul (BSF directly owns 99%, 1% indirectly owned by a director), to undertake brokerage, asset management, and financial advisory activities. In 2011, BSF acquired the foreign partner's 40% share capital in CAAM Saudi Fransi and the foreign partner's 55% share capital in Calyon Saudi Fransi (previously classified as an affiliate in which BSF owned 45%) to acquire 100% share capital ownership. Subsequent to the acquisition process, BSF merged CAAM Saudi Fransi and Calyon Saudi Fransi into Fransi Tadawul which is in the process of changing its name to Saudi Fransi Capital, which will offer comprehensive financial services. All companies were established and exist in Saudi Arabia, offering financing, advisory, leasing, investment and negotiation. BSF owns 100% of the Saudi Fransi Insurance Products Selling Company, which began performing its activities in insurance brokerage with effect from January 2011.

BSF owns 32.5% of Allianz Saudi Fransi for Cooperative Insurance, 50% of Sofinco Saudi Fransi, 20% of Al-Amthal Co, and shares in Saudi Credit Bureau (Simah), Saudi Traveller Checks Co., and Saudi Share Registration Co.

All the companies mentioned above are existing and established in Saudi Arabia.

BSF also owns 27% of Banque Bemo Saudi Fransi, a joint stock company established in Syria (began its operations on 4/1/2004), and 10% of Banque Bemo Lebanon, Beirut (entered on 1/8/2008). On 26/11/2011, an announcement was published on Tadawul regarding a decision by BSF Board of Directors to sell its 27% share capital in BBSF, Syria, and 10% share capital in Bemo Lebanon, and to inform its main partners, Bemo Lebanon, about its decision. Presently all legal and statutory steps are being taken to finalize the sale of BSF's share capital in the two banks. Effective 26/11/2011, BSF is no longer represented in the board of directors of BBSF Syria and Banque Bemo Lebanon.

Over the years, BSF activities continued to develop, thus supporting its financial strength and leading position in the Saudi market and positioning it as one of the modern and effective financial institutions totally qualified to stand before future challenges. BSF kept working actively on developing shariah-compliant branches, products and services in the areas of retail banking, investment services and treasury.

During the last 12 months ended on 31/12/2011:

BSF net profit reached SAR 2,911 Million for 12 months in 2011 (compared to SAR 2,801 Million in 2010) with an increase of 3.9%.
The total Operating Income amounted to SAR 4,585 Million in 2011 (SAR 4,395 Million in 2010), with the increase of 4.3%.
Net profits from special commissions amounted to SAR 3,137 Million (SAR 3,066 million in 2010) with the increase of 2.3%.
Assets amounted to SAR 140,5 Billion (SAR 123.2 Billion in 2010) with the increase of 14%.
Investments amounted to SAR 16,8 Billion (SAR 20 Billion in 2010) with a decrease of 16%.
Loans and advances amounted to SAR 92,3 Billion (SAR 81 Billion in 2010) with an increase of 14%.
Customers' deposits amounted to SAR 110 Billion (SAR 93,5 Billion in 2010) with the increase of 17.6%.
Profits per share amounted to SAR 4,03 in 2011 (SAR 3,87 in 2010).

Financial position and income statement for the last 5 years (SR. 000)

SAR' 000	**2011**	2010	2009	2008	2007
Total assets	**140,479,958**	123,218,330	120,572,438	125,864,761	99,808,110
Investments, net and investments in affiliates	**16,840,066**	20,026,343	17,625,570	27,886,882	22,500,744
Loans and advances, net	**92,325,042**	80,976,587	78,315,196	80,866,475	59,849,952
Total liabilities	**120,824,631**	105,195,282	104,820,658	111,795,625	88,567,475
Customer deposits	**109,963,411**	93,529,251	91,237,118	92,791,281	74,007,251
Shareholders' equity	**19,655,327**	18,003,661	15,732,673	14,047,219	11,240,635
Total operating income	**4,584,774**	4,395,229	4,294,907	4,391,641	3,694,465
Total operating expenses	**1,657,484**	1,597,900	1,799,663	1,600,148	990,046
Share in the (Losses) Profits of Affiliates, net	**(16,348)**	3,958	(27,439)	12,443	-
Net annual income	**2,910,942**	2,801,287	2,467,805	2,803,936	2,711,110
Net special commission income	**3,137,071**	3,065,857	3,050,289	2,820,590	2,289,398
Fees from banking services, net	**1,050,052**	887,043	840,254	834,480	897,234
Provision for possible loan losses, net	**157,908**	339,344	574,621	94,265	42,011
Salaries and employees related expenses	**828,111**	708,633	642,589	642,223	543,322
Number of employees	**2,788**	2,594	2,460	2,345	2,266

Bank's Major Business Lines

The business lines are the main sector according to which BSF reports its results. It is a group of assets and operations that offer services and products that are subject to risk. Its profits and losses are different from other business lines.

Transactions between various sectors are governed by normal commercial practices. Funds are normally re-allocated within the sectors and accordingly the fund costs are also re-allocated. Special commission is charged to these funds according to interbank rates. Transactions between business segments are reported according to the Bank's internal transfer pricing policy.

The Bank is organized in the following main business lines

Corporate Banking

incorporates corporate demand accounts, deposits, overdrafts, loans and other credit facilities and derivative products.

Commercial Banking

deals with small, medium and large sized emerging corporate companies. Furthermore, a department in Commercial Banking is dedicated to serve the Government Institutions.

The activities of Commercial Banking include offering credit facilities and other banking services such as treasury, trade finance and cash management activities etc.

Retail Banking

incorporates private and small establishment customers' demand accounts, overdrafts, loans, saving accounts, deposits, credit and debit cards, and certain forex products.

Treasury

incorporates treasury services, trading activities, investment securities, money market, Bank's funding operations and derivative products.

Investment Banking and Brokerage

investment and management services and asset management activities related to dealing, managing, arranging, advising and custody of securities, retail investment products, and international and local shares brokerage services and insurance.

The Bank's total assets and liabilities as at December 31, 2011 and 2010, its total operating income and expenses, and its net income for the years then ended by business segments are as follows:

SAR' 000	Retail Banking	Corporate Banking	Treasury Banking	Investment Banking and Brokerage	Total
2011					
Total assets	16,802,119	79,965,066	43,282,176	430,597	140,479,958
Investment in Affiliates	-	-	170,789	-	170,789
Total liabilities	45,950,747	64,017,307	10,538,804	317,773	120,824,631
Total operating income	1,557,202	2,154,327	672,166	201,079	4,584,774
Share in Affiliates, net	-	-	(16,348)	-	(16,348)
Total Operating Expenses	1,067,721	316,591	155,086	118,086	1,657,484
Year Net Income	489,481	1,837,736	500,732	82,993	2,910,942
Results					
Net Income from Special Commission	1,224,161	1,573,342	333,946	5,622	3,137,071
Income from Fees and Commission, net	276,029	578,635	(71)	195,459	1,050,052
Profits from Foreign Exchange, net	32,564	-	188,144	-	220,708
Trading Income, net	-	-	132,676	-	132,676
Provision for the drop in credit losses, net	166,835	(8,927)	-	-	157,908
Depreciation and Amortization	95,219	22,393	9,617	3,028	130,257

SAR' 000	Retail Banking	Corporate Banking	Treasury Banking	Investment Banking and Brokerage	Total
2010					
Total assets	14,203,918	71,821,358	37,111,709	81,345	123,218,330
Investment in Affiliates	-	-	185,628	-	185,628
Total liabilities	40,584,924	53,587,463	11,005,484	17,411	105,195,282
Total operating income	1,349,510	2,037,008	891,039	117,672	4,395,229
Share in Affiliates, net	-	-	3,958	-	3,958
Total Operating Expenses	922,782	452,996	125,739	96,383	1,597,900
Year Net Income	426,728	1,584,012	769,258	21,289	2,801,278
Minority Partners Profit	-	-	-	(280)	(280)
Results					
Net Income from Special Commission	1,078,171	1,506,989	480,697	-	3,065,857
Income from Fees and Commission, net	232,494	528,343	8,534	117,672	887,043
Profits from Foreign Exchange, net	21,499	-	178,910	-	200,409
Trading Income, net	-	-	202,007	-	202,007
Loss of Investments Acquired for Trading Purposes, net	-	-	2,349	-	2,349
Provision for the drop in credit losses, net	183,437	156,956	(1.049)	-	339,344
Depreciation and Amortization	92,273	24,273	8,200	1,495	126,241

Geographical Distribution

Following is a table showing income per province (Central, Western, Eastern and HO) for 2011.

Banque Saudi Fransi

(Millions)	Eastern	Western	Central	HO	Bank
Income	**870**	**1,023**	**1,351**	**1,092**	**4,336**
Expenses	**(124)**	**(171)**	**(168)**	**(841)**	**(1,304)**
Operation Income	**746**	**852**	**1,183**	**251**	**3,032**
Provisions and other P/L	**(68)**	**1**	**(59)**	**(78)**	**(204)**
Net Income	**678**	**853**	**1,124**	**173**	**2,828**

Saudi Fransi Capital, CAAM Saudi Fransi, Calyon Saudi Fransi, Fransi Tadawul

(Millions)	Eastern	Western	Central	HO	Bank
Income	**33**	**59**	**83**	**26**	**201**
Expenses	**-**	**-**	**-**	**(118)**	**(118)**
Net Income	**33**	**59**	**83**	**(92)**	**83**

(Millions)	Eastern	Western	Central	HO	Bank
Total income BSF and affiliates	**711**	**912**	**1,207**	**81**	**2911**

Various business sectors receive support from various other department, following is an account of the functions of these sectors and the supporting departments.

CORPORATE BANKING

Corporate Banking has continued to play an important role in the growth of the bank and its overall profitability.

With our strong market position, we remained the leading institution to large and medium-sized corporate entities, expanding both in terms of coverage and products offered. The bank was able to further entrench its position in this sector with increase in lending portfolio resulting in higher net yield as well as increase in fee-based business.

This growth in business has come by strengthening of relationships with the existing customer-base as well as successful marketing to a number of new and important relationships, without compromising risk rating profile of the debt portfolio.

During 2011, Banque Saudi Fransi ranked first in league tables for arranging and underwriting of structured and project financing in the Middle East.

The bank continued to play key roles in nearly all of the prominent project finance transactions that took place in the Kingdom. The bank took a lead role in the closing of the Ma'aden / Alcoa Refinery Project, which was the largest regional project financing in 2011.

The bank also supported the consortium of ACWA and Samsung for the largest IPP project ever done globally.

The bank also played dominant roles in corporate financing and was an initial MLA / book runner for Mobily's SAR 10 billion and Marafiq's SAR 4.5 billion deals, which are expected to be closed by the first quarter of 2012.

The effect of continued government spending, especially on developments, is expected to positively impact the business of project and structured finance through the next few years. It would directly and indirectly help in investments in industrial, power and infrastructure projects which would be required with the growth in the Saudi economy.

The bank will continue to work on most of the large deals in key sectors of the economy and is expected to lead many new major financing, which would be carried out in the coming years.

The key to our structured and project finance proposition is our constant endeavor to add value to projects through financial structuring to ensure bankability. These services are backed by our expertise in power, oil and gas, petrochemical and infra-structure sectors and sound due diligence techniques.

We maintained our strong position in Shariah compliant banking by providing wide range of financing and Structured Murabaha Investment solutions to our Customers.

Most of the high profile project finance transactions have been signed under Shariah compliant structures and BSF has played an important role in its structuring.

We take this opportunity to thank the members of our Shariah Board:
Sh. Abdullah Al Manie, Dr. Mohammad Elgari, and Dr. Sattar Abu Ghuddah for their continuous guidance and support in the development of Shariah compliant products and transactions.

Support from the CA-CIB network and our strong relationships with international banks and financial institutions have been instrumental in BSF's important role in the Kingdom's fast growing international trade, issuance of major guarantees, and financing of important contracts.

COMMERCIAL BANKING

Commercial Banking Division (CMBD) highlighted its activities and achievements for 2011 as another successful year since its spin-off in March 2009 that exceeded both the Volume and Profitability budgeted Targets.

With the growth and expansion in Government Institution Department under CMBD, two new Government Institution Units in the Western and Central Regions have been established in the first quarter of 2011. Another Unit in the Eastern Region shall be established in the second quarter of 2012.

CMBD Clients Survey (Phase 1) has been completed with selected CMBD clients. The purpose of the survey was to find out client priorities and preferences in each region and the results have shown variation in client priorities in each region. We have completed Phase 2 (analyzing the data); and Phase 3 (implementation that involves fine tuning of our specific strategies per Region) will take place in the next six months.

Enhancement and Re-designing of Customer Relationship Management (CRM) system for CMBD has been completed and is now available for use with the 3 Regional CMBDs. The new CRM is user-friendly and provides reports to each RM to monitor their customer portfolios.

CMBD Internal Operating Guidelines & Procedures were revised and updated and the document is also available on BSF Intranet website.

CMBD / RBG Cross Sell Agreement have been signed with RBG especially for Small and Medium Enterprises involving Saudi Industrial Development Fund (SIDF) Kafala Program, which shall be implemented soon.

TREASURY

Group Treasury's solid result in 2011 was based on the ability to diversify and discover new opportunities.

Despite challenging market conditions, due to the European sovereign debt crises and the Middle Eastern geopolitical tension, Group Treasury maintained its reputable ability to manage the bank's Foreign Exchange and Interest Rate exposure as well as meeting clients' demands.

The Funding team actively managed the bank's liquidity in order to fund commercial core activities at a low cost. The team managed to deploy the bank excess liquidity in an efficient manner while maintaining sound credit risk exposure.

The Trading team continued supporting the Saudi Riyal Derivatives market and maintained a leading position as a market maker. The lack of market volatility, stagnant yield curve and tightening of USD/SAR interest rate differential, led to limited trading results in comparison to last year.

Having the client at the center of our focus, the Sales and Structured Product teams are working closely with other business lines in great synergy to identify our customer needs, and provide multiple tailor-made solutions to each of our customers.

As a result, Treasury Sales and Structured product activities grew significantly in 2011 posting an increase in revenue of 10% and 47.5% respectively.

Our advanced pricing and risk management systems, handled by a team of experts, allowed us to cater rising business demand and provide new unconventional products.

RETAIL BANKING

Retail Banking concentrated its efforts to drive the business, increase market share and performance in 2011. We are proud of our accomplishments as it illustrated a proactive and collaborative effort between the business line and support functions in the achievement of our objectives.

First and foremost was customer perception. Retail Banking has shifted to a customer centric organization, the client being the focal point of attention.

It is vital to our overall systematic approach aimed at improving customer satisfaction and ensuring loyalty/relationship retention through differentiation in pricing, products and services. Recent studies have shown that BSF has made great strides vis-à-vis competition in this arena and the perception of our own clients has vastly improved as well.

It also led to many initiatives which include among others the Priority Banking program revamp, middle management and relationship officers training, branch fusion and a forthcoming project focused on reducing customer attrition.

Also, implemented along these lines was the Account Opening Sales Sequence (AOSS). Through the AOSS, we were able to organize and sustain contacts and sales of the first year relationship for Mass and My Family clients.

Where before customers basically open just current accounts, we now see growth in customer product equipment at the time of account opening.

Capitalizing on our strong brand, we promoted BSF heavily in the marketplace and the rebranding proposition was fully implemented.

We made our presence felt and highly visible by launching strong marketing and communications based on customer needs and most suitable products.

In cooperation with Corporate Communications, above-the-line campaigns that promoted SAKAN, personal loans and credit cards were launched.

We significantly improved the way we contact customers through our Branch relationship officers, Contact Center agents and specialized Branch calling sessions.

Apart from augmenting our human capital, continued investment in a mix of internal and external training was carried out over the course of the year spanning a variety of technical and behavioral courses such as sales and operational excellence.

Thanks to quality studies, sales tools, sequence of contacts and dedicated monitoring, we were able to enhance our quality of service and transparency. In support of deposit generation, RBG launched a campaign of acquisition of Priority Banking customers and collection of deposits. Through these efforts, our deposits grew by 20%.

Our consumer loan portfolio likewise expanded, led by a surge in home loans followed by our personal lending products. Home loans jumped by 144%, personal loans grew by 19% and credit cards by 19% as well. On the other hand, provisions were kept in check despite the growth in assets, again reflecting our strong collection and controlled risk.

BSF to be closer to its customers expanded its contact points by increasing its branches and ATMs. Focused on providing convenient customer access and support, our physical sales distribution network increased by 7 in 2011 to a total of 111 (composed of 83 full-fledged Branches, 18 Ladies Sections and 10 FransiConnection Self Service branches).

New sales outlets opened in 2011 were three Branches (Taawon, Basateen, Aramco) and five FransiConnection Self Service branches (Star Plaza, Panorama Mall, Yasmeen Mall in Riyadh, Andalus in Jeddah and Royal Commission Jubail in the Eastern Region).

ODST and SAKAN offices in Riyadh, Dammam and Jeddah were renovated to accommodate larger sales force while the Collections Team will be provided with new offices in Eastern and Western Region next year.

Growth in the number of sales outlets was complemented with the installation of more ATMs in strategic locations. 55 new ATMs were activated from beginning of the year thus expanding our total ATM network to 437 in 155 onsite and 282 offsite locations. We also have 104 Cash Acceptance Machines (or CAMs) installed in Branches and FransiConnection Self Service branches. Total POS merchants grew to 4,482 while terminals reached 5,080.

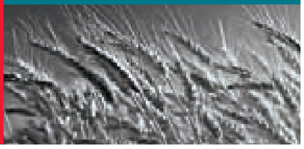
In cooperation with support units of the Bank, RBG continuously reinforces its processing with IT tools such as new or enhanced systems that provides to customers easy, fast and secure transactional and sales processes.

Front-end applications such as Asset Sales Acquisition Tool (ASAT) and BDS financial for transaction processing were upgraded. ASAT is now supporting the growth of our Personal Loans and Credit Card though enhanced efficiency and risk management while BDS has made over-the-counter transactions faster and more convenient to clients while enhancing control.

BSF is the first bank in the Kingdom to launch mobile banking application on the Android market. This new application is expected to increase the number of FransiMobile users, and consequently, its usage.

FransiMobile is also available on Apple products. Due largely to our channel migration strategy, in-branch transactions are on a decline while those on alternative delivery channels such as ATMs, CAM, FransiPlus and FransiMobile are consistently on the upward trend each year.

WEALTH MANAGEMENT



BSF Wealth Management and Private Banking Groups achieved their 2011 targets despite market conditions plagued by the European financial crisis. Client assets grew by 9%, revenues increased by 16% while interest revenues and commissions grew by 10% and 28% respectively.

Working closely with the Bank's Treasury Group and Saudi Fransi Capital, Wealth Management Group's commissions and fees exceeded 40% of total revenues. This is all the more noteworthy when considering that our total revenues reached levels never attained before.

The consolidated achievements of our 3 regions were realised, thanks to our team spirit, all WMG officers' and managers' endeavours, our understanding of our clients and our expertise to identify opportunities in exceptionally challenging markets. Our appreciation goes also to all BSF's support divisions, who allowed us to notably improve the quality and timely delivery of our services.

We are deeply grateful to our valued clients, who have continued to extend their trust, confidence and loyalty to BSF, its affiliates and to Wealth Management Group.

HIGH NETWORTH

In Banque Saudi Fransi all our customers are important to us but we also realize that no two customers are alike and we do all we can to meet each of their banking requirements and needs.

In BSF High Net Worth Group we recognize that customers are different and very special with high expectations. Their profiles characteristically include ultra-rich individuals, often involve family groups and are socially well connected. All of them are used to and expect excellent service.

Our talented Relationship Managers value professionalism, expertise and personal service as much as our clients do. They keep close contact with their customers valuing their trust, confidence, discreetness and provide individually tailored solutions for their needs. They make the customer concerns their concern.

A strong support team backs up the efforts of the front-line Relationship Managers providing them with up to date market research and intelligence. Sophisticated MIS tools are used to analyze information necessary to build a viable financial solution.

Customers in this segment mainly look up to capital preservation and asset protection using safe investment strategies with modest returns and our product offerings are made to fit these objectives.

We are proud that because we value our customers and provide excellent service that is at the core of everything we do for them, our customers choose to remain with us with relationships spanning generations. They also refer us to their peers. As such, our customer base keeps growing, weathering even the most difficult financial situations and toughest competition. In the High Net Worth group customer satisfaction ranks among our biggest achievements.

RISK MANAGEMENT

After a 2009 year showing a contraction of the activity, BSF continued in 2011 the development of its portfolio. Hence, total utilizations increased from SAR 136 billion to SAR 150 billion (+9.9%). Funded exposure represents 64.5% of total exposure (vs. 62.7%).

Portfolio growth has concerned all Business Lines, Retail financing having enhanced its development.

Consequence of world crisis on quality of credit portfolio and provisions

Since end of 2008, priority was to monitor evolution of loan portfolio and identify potential problem situations triggered by the world crisis in order to take as soon as possible all required corrective actions.

Defaults of some troubled family groups in 2008 affected negatively the Saudi banking sector. However, for BSF, the number of default situations remained limited and the overall quality of the credit portfolio remained good. These very specific files are well provisioned.

Gross non performing facilities (funded and non-funded) established at SAR 1,366 million as of end December 2011 compared to SAR 1,227 million as of end December 2010 and gross.

NP facility (Funded and unfunded) ratio remains relatively stable at 0.91%.

None performing loans - NPL - net of uncollected interest due has increased from SAR 1,020 million to SAR 1,133 (+11%). Net NPL coverage ratio by specific provision established at 75.6%.

Balance of the Provisions is collective provisions and provides coverage of net NPLs by total provisions of 136%. Provisions required by Consumer Finance remain stable during the year despite the growth of its portfolio.

Risk Management Process Enhancement

In line with BSF broader objectives of improving the risk management process, the implementation of a new credit risk work-flow system started in 2010 was finalized in 2011. This system will allow the bank to improve controls, enhance process efficiencies, and aid the goal of adopting the IRB methodology.

Operational risk management is gaining prominence feature of sound risk practices in the wake of growing financial activities and sophistication of technology. BSF adopted the risk mapping process for all operational activities. Each essential process of business line and support functions is mapped to the relevant/possible risk types in accordance with SAMA and Basel II risk categories. For each process, an appropriate first and/or second level of control structures are continually assessed and risk mitigation techniques would be developed.

Furthermore, the set-up of local ICC within each Business Line and Support Division was implemented.

Concerning Market Risk monitoring, BSF signed a Service Level Agreement with its Partner CA-CIB for reinforcing its assistance.

Basel II

BSF opted for a phased implementation of the Basel II accord. By the end of 2007, BSF complied with SAMA requirements under the standardized approach for credit, market and operational risks.

In order to improve substantially the procedure of the Rating evaluation, the implementation of the last version of the Rating system and methodologies of CA-CIB / Credit Agricole named ANADEFI was implemented.

The guidance of the local regulator (SAMA) has increased the focus on the preparation of the IRB approach for BASEL II, and the introduction of the concepts for BASEL III.

- BSF, as member of the national initiative for this preparation (SIMAH project) has submitted the consolidated data, which were required for the calibration of selected IRB models (PD calculation).

- Also a phased planning for the IRB project is prepared involving the internal teams and external resources (i.e. consulting support and systems providers).

INFORMATION TECHNOLOGY

The year witnessed completion of many milestones and targets set for new projects.

IT architecture design was completed for moving to non-mainframe platforms from the age old mainframe centered architecture. The IT strategy was revised to build scalable, best-of-breed and business growth enabling applications that will be connected through robust integration architecture and well supported by the back office applications.

ITD took care of business requirements, by deploying enhancements, new product launches and sales applications. In another stream, compliance related activities like Payment Card Industry (PCI) certification obtained and information systems security strengthened.

Business Development

Retail Banking

The opportunity for opening more relationships was enhanced by redefining the account number format. This came in handy during the launch of the 'Hafiz' program by the government which resulted in large number of accounts opened with the Bank.

The completion of the Smart card project was an important milestone. The project required major changes in the software, ATM machines and the support systems. With the launch of smart cards, bank has now set a platform to add more products and user-friendly features while using the cards.

The sales tool to sell the Credit card and Home loan products, exploiting cross selling opportunities to customers was enriched with more features.

New Branch Delivery System was deployed for the relationship managers and the tellers at the branches to serve the customers in a better way. This was the second phase of the project, built in-house, replacing the financial transactions system that existed before.

Customers felt more secure while dealing with the bank, thanks to the implementation of the SMS alerts for any transaction done in their account.

E-Banking customers were provided with more features in FransiPlus and FransiMobile including the e-statement, settlement of credit cards, settlement of BSF Credit card payments through SADAD etc., through the FransiPlus.

FransiMobile was made available in Apple (iPhone) and Android platforms.

Private Banking

Launching of the FransiWealth, a portal for the private banking customers, has added one more channel in the service of our customers.

Corporate Banking

FransiGlobal, the revamped, loaded with new features; friendly look and feel channel has been completed and is ready for deployment. The customer launch of this portal for the corporate and commercial customers will be done in early 2012.

Back office Support / Credit Risk Management

Document Management System to manage the workflow of documents was implemented with appropriate approvals for the Back office, Human Resources, and Secretary General related processes.

This will substantially reduce the work-flow turn-around time and also provide a centralized repository for electronically archived documents.

Credit Risk Management has been made stronger and resilient with the completion of the roll out of the credit limit utilization and administration modules.

Business Continuity

Business continuity is a key objective to ITD and ensuring the readiness of the Disaster Recovery Center (DRC) is a subset of this. Systems in DRC were tested in 2011, to provide the necessary assurance, in association with the Business Continuity Department of the bank.

Technology Upgrade

Another phase of Business Service Management, a model for aligning IT services to the business processes was completed in 2011. The centralized repository for the IT assets was created with the implementation of automatic discovery process, impact management and performance availability management.

Automatic alerts when there is an impending failure of a process, follow up till its corrections were some of the key features of the Business Service Management.

Infrastructure consolidation and upgrade is an ongoing activity. Adding new hardware, replacing the old ones with the latest configurations, strengthening of the e-mail systems, storage upgrade, data center upgrade, bandwidth improvements, virtualization etc., were done to achieve optimum use of the investments.

Compliance and Audit

Through the Local Internal Control Committee deliberations, many new initiatives were undertaken to strengthen the internal control processes. Recommendations from Internal, External and Regulatory audits were complied with to a very great extent while the work is in progress for the rest.

CORPORATE OPERATIONS

Being in charge of processing bank's core activities related to Trade Finance, Treasury Back Office, Payments and Cheques, Operational support, Public offering and Brokerage Operations support, Corporate Operations Division (COD) is striving for the best market practices in providing the efficient yet cost effective solutions.

COD's focus is on internal assets through team building. Enrichment of services in our e-platforms and provide tailor made solutions to the Bank's customer. The enhancement of monitoring and control practices and conduct continuous self-risk Assessment.

COD grosses the proactive role for the main enterprise task initiated inside or outside BSF, aiming at improving the client services through:

- Optimized "Account Servicing Process" across the Bank.
- Standardize "Account Narratives", in customers account statements. By leading this across all Banks (KSA wide) in the workgroup set by SAMA.
- "Local Internal Control Committee" to further boosts its operational controls. Its preventive proactive measures will surely go a long way to ensure business continuity.

Major efforts have been done on Automation of online real-time services with logical controls. This is to give space to the team to concentrate on exceptional handling and resolutions.

Business Support

Trade Finance continues to prosper reaping benefits from its customer-oriented solutions. Consequently, commission charges were increased substantially during the year. Living by its tradition of publishing newsletters, Trade Finance has been empowering both, its internal and external customers, towards better informed financial decision making.

Trade Finance team trained hundreds of corporate customer staff for Trade Finance transactions processing and educate them for all new regulations introduced by UCP600.

BSF was one of the first banks in MENA region, to provide the newly introduced SWIFT services to large Corporates. With SWIFT connectivity to exchange information / actions related to export Letters of Credit, BSF was appraised in the recent international SIBOS forum in Canada.

Automated the Letter of Guarantee authentication is available through online Web services, where all Corporates can verify the issuance of Guarantees independently.

Payments team continues to engage and ensure persistent support to BSF's clients in achieving their business goals by rendering timely and reliable services. COD Payment team was rewarded by STP excellence award among large international banks for exceptional quality of payment messages and STP rate is above 95%.

An automated name search and matching functionality is in place to support and increase our STP rate without compromising "Compliance Rules". The search tool is integrated with the Payment applications and BSF back office systems.

Continuing the success stories of COD, new services are built in Integrated Payment Platform, such as Auto Direct, Lori Cheques Management and SADAD settlements.

Operations Support and Control team's endeavor to have more robust controls resulted in having proofs verification through spot controls. Operations Risk Control Committee is another board working in a similar direction striving for operational excellence.

IPO remains at the focal point of COD's expansion plans. As a result, IPO Project subscription amount rose substantially this year compared to last year.

Treasury back office automation program is in progress. Year 2011 witnessed the successful deployment of infrastructure upgrade and implementation of Forex and Money Market functions on this platform.

Moreover, a tool to monitor a typical transaction's thresholds has been put in place to actively monitor any irregularities.

Users testing are ongoing for Loans and Deposits Sales Portal. Initial phase will be deployed in January 2012, marking major automation endeavor of treasury operations.

Meeting Business Challenges

Customers are looking more fervently, than ever before, for novel on-the-click solutions. Appreciating such expectations, COD are testing a new Internet based Corporate Banking Portal "Fransi Global", as a replacement of existing Corporate Portal "Fransi Corp". It is expected that, new system will place BSF in an advance Market edge.

Archiving Centralization

With an eye on the environmental challenges that we face today, Jeddah flood being one such example, COD planned for the archiving centralization of BSF's information assets.

Given the enormous size of Bank wide artifacts, centralization was a daunting challenge. Turning this adversity into an opportunity, COD redefined the warehouse processes and introduced digitalized capabilities complying with international standards of safekeeping, retention and retrieval.

A new archive has been established this year to accommodate BSF document archiving demands for the next 10 years.

Audit & Compliance

COD continues to comply with the SAMA and Internal Audit frameworks. Our highly experienced team works closely with Audit and Compliance Divisions in implementing SAMA directives.

SERVICES MANAGEMENT

SMD is responsible for the development and the deployment of the Bank's infrastructure.

In 2011, the following projects (Kingdom-wide) were successfully completed:

New Branches (including relocation)	5	completed
New Fransi Connection (Self-Service Banking)	7	completed
New ATMs (including replacement)	55	installed
New Cash Acceptance Machines	11	installed

Major Achievements Included:

Saudi Fransi Capital (SFC), JVs New Corporate Building (Riyadh)
BSF Data Recovery Center (DRC)
Completed miscellaneous modifications & renovations in branches
New Outdoor Sales Office - Jeddah
New Generator & A/C Enhancement installed in Head Office & Central Region Buildings.
UPS Upgrading Project at Dabbab Bldg. & UPS Replacement Project at BBC Bldg.
Established centralized Monitoring of Security Systems via Security Command Center
Security Enhancements in the Branch network & Head Office

CORPORATE HUMAN RESOURCES

Aligning employees' compensation and interest to that of shareholders, creation of long term value, strengthening pay-for-performance culture, making the best talents available at all time at all levels, and building an organization with increasingly human capital focus, all took the epicenter of Human Resources activities during the year.

Compensation and Benefits

The Management and the Board of Directors, notwithstanding the Bank's already prudent, cost-effective and competitive pay and reward infrastructure, still invested valuable time during the year to study and adopt an action plan to further align its compensation and rewards policy to stockholders' interest, all possible risks, long-term share value creation, and transparency. This intensive study takes into consideration the level of controls that Saudi Arabian Monetary Agency and the Financial Stability Board want Banks to adopt. The details of the comprehensive compensation model per Action Plan are set to be completed in 2012 for implementation in performance year 2013.

Pay for Performance

The bank continues to revolutionize the performance review process and make the same a robust and credible measure of pay and rewards. In addition, new features are set to be introduced in performance review in 2012, among them are the cross feedback, separately set qualitative objectives, and competency assessments.

Succession Planning and Leadership Development

Framework is now in place and now being used to identify training and development needs of top talents. This ensures succession planning at all levels of the organization with special emphasis on the top executive positions. Individual Personal Development Plans are in the process of being finalized for senior managers. BSF has completed the "due diligence" of the International Business School proposals and have decided on using two highly ranked international business schools for its "Future Leaders" and "Emerging Leaders Groups."

Human Capital Focused Organization

Robust transition of the HR organization to a Human Capital type continues during the year. Balanced Scorecards, particularly of the HR department managers continue to ensure transformation to human capital mindset particularly to manpower planning and talent management, leadership and development, rewards and retention. In addition, Business Partners, CHR Call Center continue to be streamlined during the year for an efficient and effective servicing of staff-related transactions.

COMPLIANCE

BSF's Compliance Division was created to provide enterprise wide expertise and governance support in the area of compliance with the objective to achieve better compliance controls thoughout the organization. These controls are designed to provide the Board of Directors and the management with reasonable assurance that BSF is in compliance with the regulatory requirements.

Compliance risk (the risk of potential loss of and/or damage to BSF's reputation arising from violation of, or non-compliance with the rules and regulations mandated by the regulatory bodies) is inherent in almost everything we do, and BSF is held to strict compliance standards by the regulators and other authorities.

Compliance Division continuously exerts its efforts to identify, measure, manage, monitor and report on legal and compliance risk. The existing framework to minimize the compliance risk has three layers.

1. The business lines and support divisions are responsible for day-to-day management of their compliance risk in accordance with their policies and procedures.
2. Compliance Division provides advice and carries out various monitoring activities across the bank through its compliance team. We work closely with all the areas in the bank to implement applicable regulatory requirements.
3. Compliance Division maintains a set of policies, which are designed to minimize the compliance risk, and requires the business lines and support divisions to follow them.

All these activities are carried out under the direction of Chief Compliance Officer ("CCO") who periodically files reports on the activities of Compliance Division to the Board of Directors.

The financial services industry is highly regulated, and continues to receive heightened attention as new rules are proposed and enacted as part of worldwide regulatory reform initiatives. We raise compliance awareness in the bank through training, regular communication and annual Compliance Policy Statement issued by the Senior Management, which sets the tone and emphasizes on the importance of compliance in every aspect of BSF's activity. We are committed to work closely with the regulators and contributed in the development of regulatory regime that protects the interest of all the stakeholders of the economy and ensures sustainable growth.

BSF remains committed to fully comply with both in spirit and letter of applicable laws and regulations and to always act with due skill, care and diligence.

INTERNAL AUDIT

The Audit Division (AD) provides management with reasonable assurance about the adequacy of internal controls, the effectiveness of risk management and the compliance with policies and procedures as well as applicable rules and regulations. In order to achieve this, AD continued to use the risk-based auditing methodology of Credit Agricole Corporate & Investment Bank (CA-CIB), Paris by reviewing the audit universe of the Bank and adjusting the audit plan to include any new product and service the Bank may have introduced.

Internal Activities

This year also, like last year, the AD successfully executed its audit plan well above the 80% benchmark level (set by the Audit Committee) despite staff shortage and the larger number of unplanned missions which required more resources than planned.

The Managing Director was actively involved in ensuring that all business lines/support divisions take the necessary action in closing out the audit recommendations. As part of its Service Level Agreements, the AD also audited Saudi Fransi Capital and Sofinco Saudi Fransi, and in line with its quality assurance and improvement program, it carried out a comprehensive "internal quality assessment" within its different departments in order to identify any weaknesses and make changes where necessary for further improvement. AD launched a survey to measure the level of satisfaction of its clients and the feedback was quite positive, with some remarks made that will help AD in improving its act going forward.

Interaction with Regulatory Authorities/External Auditors

After the comprehensive SAMA Inspection of the Bank of 2008, the AD has been actively following up the regulator's recommendations with all entities of the Bank and most of them have now been implemented. Similarly, AD reviewed all recommendations the Capital Market Authority made relating to Saudi Fransi Capital. As customary, the AD works closely with the external auditors in reviewing any control weaknesses and in ensuring a fair reporting of the Bank's balance sheet on a quarterly basis.

Activities related to Audit Committee (for details about Audit Committee, please refer to page # 55)

The Chief Internal Auditor, who is also the Secretary to the Audit Committee, made sure that all deliberations of the Audit Committee were properly addressed by the executive management. The Audit Committee now meets seven times a year. The increase in the number of meetings was necessary to ensure quarterly review of the financial statements, as required by regulators, and better monitoring of the Bank's governance processes. The Chief Internal Auditor reported regularly to the Audit Committee about the status of the 2011 audit plan and the implementation of audit recommendations in order to keep it abreast with any weaknesses in risk management and internal controls. It also assisted the Audit Committee in conducting missions upon its special request.

CORPORATE COMMUNICATIONS

As part of social responsibility, the bank's charitable investment in various communities helped finance the efforts of nonprofit organizations and various charitable institutions including humanitarian causes.

The bank funds donations and sponsorships supporting a broad range of charitable categories, including community economic development, education, health services, culture and arts, and the environment.

This year's major beneficiaries are the Ministry of Social Affairs covering the 49 Ministry-accredited Charitable Organizations, Security Forces Hospital, Down Syndrome Charitable Association, SAUT: The Voice of Down Syndrome Society, Al Nahda Philanthropic Society for Women, National Home Healthcare Foundation, and Disabled Children Association, among others.

Furthermore, Corporate Communications Department (CCD) continued its role, year after year, in enhancing the bank's image, supported all communications strategies of joint venture companies and at the same time promoting their new products and services, and ensuring that any related applications are in accordance with the bank's corporate standards.

SECRETARIAT GENERAL

SEG provides total administrative and legal support to all departments of the Bank, JV's and affiliates. It makes the arrangements for the board of directors and various committees' meetings, updates information with the concerned authorities, and follows up changes related to capital increases and changes BSF board of directors and the boards of managers of affiliates and JV's.

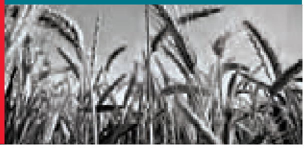
SEG assumes full coordination with CPD in connection with all its activities, and provides support to CPD and other departments of the Bank in respect of all matters related to government entities. It works on the implementation of the Governance Act and follows up customers' inquiries and complaints.

SEG has set up an effective archiving system for all its official documents for future reference in respect of correspondence, laws and directives issued by the concerned authorities or the board of directors. In addition, EC / board of directors meeting minutes since 1978, deliberations and discussions as well as SAMA circulars and directives (11 volumes) were archived.

SEG implements all directives and instructions issued by the concerned government departments. It also ensures that the chairman/ directors, INA, and the concerned departments as well as JV's and affiliates are informed of such directives and instructions.

SEG is in charge of and follows the legal files related to a number of lawsuits and it follows the matter with the legal departments to reach final solutions. The Legal Section within SEG also follows lawsuits of other JV's and affiliates. Coordination is being carried out between SEG Legal Section with Remedial Dept regarding other lawsuits held by the Bank.

SAUDI FRANSI CAPITAL



Asset Management

2011 was a challenging year for the global economy, with the ongoing European sovereign debt crisis in sharp focus for much of the year. This led to heightened volatility in most asset markets resulting in lower risk appetite on the part of investors with respect to investment products.

Despite the difficult circumstances, asset management revenues registered another year of healthy growth, despite a small decline in Assets under Management. This was once again achieved by managing the product mix and capitalizing on the wide choice of funds that we offer across a range of asset classes.

In the domestically domiciled mutual funds segment, SFC's market share towards the year end was 4.3%, ranking it as the 6th largest asset manager in this segment.

Our domestically managed fund performance in the key segments of Saudi equities, murabaha and money markets was extremely strong with all funds in these categories beating their respective benchmarks and our conventional Saudi equity fund (The Istithmar Fund) being provisionally ranked as the second best performing fund in its category as of 30 November 2011.

In 2012, we expect to boost our range of offerings, both within existing and new asset classes to suit expected market conditions and investor appetite.

Brokerage

2011 witnessed an increase in transaction value with around 36% when compared to 2010. Despite challenging market conditions and strong competition from other brokerage firms, we have successfully maintained our market position.

SFC has taken initiatives in:

- International Brokerage where a new order management system has been implemented.
- Local Brokerage where a new order management system is being tested for implementation in the first quarter of 2012.
- Margin financing where the process has been revisited to allow for faster response time
- Online brokerage where continuous improvements were implemented in our online trading portal

Investment Banking

Capital markets activity remained subdued in Saudi Arabia during 2011, driven by uncertain local and global growth prospects which impacted investor appetite. The Saudi stock market, having opened the year at around 6,700 points, was down approximately 5% by December 2011. A total of only eight equity issues were launched during 2011 with a combined value of just over SAR 6 billion. Issuance, in terms of value, was dominated by rights issues and par offerings.

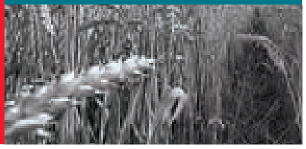
In this market, SFC successfully completed the SAR 1.46 billion rights offering for Sahara Petrochemicals Company in December 2011. The rights offering was very well received by the market as evident from a coverage of 154%.

In debt capital markets ("DCM"), SFC, acting as a joint book runner, completed the pioneering project Sukkuk for Arabian Aramco Total Service Company in October 2011. This is the first time that a Saudi company has issued sukkuk with a tenure of 14 years.

In mergers and acquisitions ("M&A"), SFC provided a fairness opinion to a listed company on the acquisition of minority interests in two subsidiaries. SFC also advised Mobile Telecommunications Company Saudi Arabia ("Zain KSA") on the offer by a consortium for shares in Zain KSA.

SFC expects 2012 to be a landmark year in the number, value and type of equity transactions completed by SFC. SFC is advising on a significant pipeline of equity offerings which are in advanced stages of discussion with the Capital Markets Authority. SFC is also cautiously optimistic about the prospects of the M&A and DCM business in 2012.

ALLIANZ SAUDI FRANSI



Allianz Saudi Fransi was established in 2007 as a joint venture between Allianz Group, one of today's leading global financial services providers and Banque Saudi Fransi.

Allianz Saudi Fransi prefers to take a cautious stance to seek stability, given the high volatility in the market, continuing uncertainty regarding future regulations and accounting rules as well as rapidly changing customer behavior.

We are committed to a culture of change whose objective is to confirm and improve the core value of our business as well as enable us to compete at the highest level locally.

Allianz Saudi Fransi now ranks among the top Insurance Companies in the Kingdom. This achievement was realized in as few as three years in a highly competitive market.

The company also have achieved break-even; a milestone that reflects positively on the Company and its rapid achievements.

In March 2011 the Company successfully renewed a 3 Years Operational license after obtaining all the necessary Regulatory approvals.

And by June 2011 the Company launched its Life Gold Products; The Waad Series Sharia Compliant Products.

In 2011, the Company restructured itself further in line with Allianz Group Target Operating Model (TOM). Although this wasn't easy, yet it ensured that the company did a better job of listening to the customer.

All the employees are sensitized to the needs of the market making operations more efficient and customer-oriented.

As a result of this initiative, the Company created a Customer Complaint Management unit consistently achieving a resolution rate of over 99%.

Conservation Unit was also launched whose role is to reach out to the customers to remind them about their Policy contributions thereby improving the persistency of business and reducing lapsations and cancellations.

In 2010 the company transferred the Bancassurance Portfolio which was written by Banque Saudi Fransi since 2000, and to stabilize it more Allianz Saudi Fransi has been improving the sales quality by launching First Premium Collection, conducting insurance training to BSF staff and finally launching its Motor Comprehensive Product through the BSF Channels.

We continued our focus in 2011 on training and development of young talent offering various staff training initiatives conducted by internal and external trainers on various topic e.g. IFCE, leadership skills, sales skills, soft skills, technical training etc.

In 2012 the Company will continue its rapid expansion plan with the aim to be amongst one of the top Insurance companies in the Kingdom fulfilling Retail and Corporate customer needs with modern and innovative insurance solutions in various lines of business through easy access to customers by various channels of distribution and highly motivated employees.

SOFINCO SAUDI FRANSI & AL AMTHAL

Sofinco Saudi Fransi

The company began its activities in the mid 2007 with focus on small loans for the purchase of cars and household items. Loans are offered to the borrowers under Shariah-compliant regulations.

The capital of Sofinco Saudi Fransi is SAR. 100 Million of which Banque Saudi Fransi owns 50%.

The company offers small loans for the purchase of cars and household items. Loans are offered to the borrowers on easy instalments.

Al Amthal

The bank holds 20% of the total 20 Million paid up capital of the company. Al Amthal Company is in the field of car leasing business.

After the restructuring of the administration, the company had started to bear fruit by generating profit.

The Investment Portfolio

Investments consist of the following:

	2011			2010		
SAR' 000	In Kingdom	Abroad	Total	In Kingdom	Abroad	Total
1. Investments with fair value posted in the income statement						
Fixed rate notes	172,702	171,293	343,995	849,600	228,251	1,077,851
Floating rate notes	129,308	19,800	149,108	155,472	37,735	193,207
Others	-	-	-	-	-	-
Total	302,010	191,093	493,103	1,005,072	265,986	1,271,058
2. Investments available for sale						
Fixed rate notes	176,698	513,914	690,612	168,759	214,749	383,508
Floating rate notes	1,314,771	543,637	1,858,408	1,172,761	553,812	1,726,573
Shares	704,401	98,235	802,636	713,934	257,378	971,312
Others	3,341,961	-	3,341,961	3,633,004	7,106	3,640,110
Total	5,537,831	1,155,786	6,693,617	5,688,458	1,033,045	6,721,503
3. Investments retained till maturity						
Fixed rate notes	1,020,483	-	1,020,483	1,423,179	-	1,423,179
Total	1,020,483	-	1,020,483	1,423,179	-	1,423,179
4. Other investments retained at depreciated cost						
Fixed rate notes	8,051,451	410,623	8,462,074	9,565,889	-	9,565,889
Floating rate notes	-	375,000	375,000	859,086	375,000	1,234,086
Total	8,051,451	785,623	8,837,074	10,424,975	375,000	10,799,975
Provision for the loss of value	-	(375,000)	(375,000)	-	(375,000)	(375,000)
Other investments retained at depreciated cost	8,051,451	410,623	8,462,074	10,424,975	-	10,424,975
Net investments	14,911,775	1,757,502	16,669,277	18,541,684	1,299,031	19,840,715

Breakdown of investments per parties

SAR' 000	2011	2010
Government and semi government	10,304,594	13,292,873
Companies	4,287,709	4,314,648
Banks and other fin institutions	2,011,518	1,997,125
Others	65,546	236,069
Total	16,669,277	19,840,715

Credit Risk Related to Investments

SAR' 000	2011	2010
Saudi government bonds	9,237,118	12,675,524
First class investments	2,975,843	2,428,828
Below first class investments	112,560	107,813
Unclassified investments	4,343,756	4,628,550
Total	16,669,277	19,840,715

The Saudi government bonds include the Saudi government bonds, treasury bonds and floating rate bonds.

First degree notes include the notes that are exposed to credit risks matching the risk stipulated by Standard & Poors from AAA to BBB. The unclassified investments include local and foreign stocks and Musharaka and Mudaraba investments for SAR 3,342 Million (SAR 3,633 Million in 2010).

The investments whose fair value is posted in the income statement are investments retained for trading purposes and they include Islamic notes for SAR 141 Million (SAR 152 Million in 2010).

Sellable investments include share compliant bonds (Sukuk) for SAR 952 Million (SAR 965 Million in 2010). Other sellable investments include Musharaka investment for SAR 0 (SAR 0,5 Million in 2010), and Mudaraba Investments for SAR 4 Million (SAR 1,699 Million in 2010) whose risk was covered. It is measured at fair value to the extent the risk is covered.

Un-quoted investments basically include Saudi government bonds for SAR 9,237 Million (SAR 12,676 Million in 2010).

Term Loans

On 25 June 2008, BSF signed a 5 years long term loan for Euro 100 Million to mature in 2013 for general banking purposes and it was fully withdrawn.

BSF signed another term loan agreement on 22 Sept 2008 for USD 525 Million which was fully withdrawn. The third year tranche of the loan amounts to USD 183 Million and the fifth year tranche amounts to USD 342 Million for general banking purposes.

BSF is entitled to repay these loans prior to their maturity dates and subject to the terms and conditions under the respective loan agreements. In 2011, the third year tranche of the loan matured and it was fully paid.

Debt Notes

During the quarter ended 31 March 2010, BSF issued fixed rate unsecured non-negotiable notes for USD 650 Million for 5 years under Euro medium term notes program amounting to 2 Billion Euro.

These notes are listed on London Stock Exchange. The notes accrue semi-annual commission of 4.25% and are used for general banking purposes.

Internal Investments

Saudi Fransi Capital: (CAAM Saudi Fransi, Calyon Saudi Fransi, Fransi Tadawul)

1. Asset Management: (CAAM Saudi Fransi)

2011 was a difficult year for the international economy, as the European debt crisis continued for the larger part of the year. This led to high fluctuations in most markets and the reluctance on the part of investors in investing in high risk investments.

Despite these conditions. Asset Management Division had another successful year despite the slight decrease in the volumes of assets under management. This was achieved through better management by the group of investment products and funds.

2. Brokerage: (Fransi Tadawul)

2011 saw the increase of 36% in operation value compared to 2010 despite the increase of competition by other brokerage firms. The company was able to maintain its position in these activities.

3. Investments: (Calyon Saudi Fransi)

The capital market was slow in 2011 due to the lack of confidence on the part of investors and the lack of the possibilities of economic recovery. Saudi Fransi Capital completed a priority right offer for SAR 1.4 Billion in favor of Sahara Petrochemicals in Dec 2011. The offer was covered at 154%. In debt market, Saudi Fransi Capital worked as an associate record manager.

Allianz Saudi Fransi Cooperative Insurance Company

- Allianz Saudi Fransi was established in 2007 as a joint venture between Allianz Group, one of today's leading global financial services providers and Banque Saudi Fransi.
- Allianz Saudi Fransi now ranks among the top Insurance Companies in the Kingdom. The Company achievement was realized in as few as three years in a highly competitive market. The company also have achieved break-even during this year; a milestone that reflects positively on the Company and its rapid achievements.

Sofinco Saudi Fransi

Sofinco Saudi Fransi offers financing for cars and consumer goods for all individual customers in Saudi Arabia. The company pursues its efforts in improving its performance and organization. The restructuring of the company resulted into a substantial improvement in the company's activities and the collection of its dues.

Al Amthal

The bank holds 20% of the total 20 Mio paid up capital of the company. Al Amthal Co is in the field of car leasing business.
The company's financial status has greatly improved after the restructuring of its activities.

Investments in Affiliates

SAR' 000	2011	2010
Opening Balance	185,628	144,344
Investment Cost during the year	27,886	40,625
Investment sales and transfers	(26,377)	-
Dividend payments	-	(3,299)
Share in Unpaid (Loss) Profit	(16,348)	3,958
Closing Balance	170,789	185,628

Investments in Affiliates include 27% share capital in Banque Bemo Saudi Fransi (27%: 2010), a joint stock company established in Syria, 50% share capital in Insaudi Insurance (50%: 2010) established in Bahrain, and 32.5% in Allianz Saudi Fransi for Cooperative Insurance established in Saudi Arabia (32.5%:2010).

The sale and transfer of investments include partial proceeds from the sale of Insaudi Insurance and the purchase of Calyon Saudi Fransi and CAAM Saudi Fransi.

BSF also holds 50% of Sofinco Saudi Fransi (50%: 2010) which performs leasing activities.

The activities and net assets of Insaudi Insurance was transferred to Allianz Saudi Fransi after securing SAMA approval. After the completion of the transfer of assets/ liabilities and the discharge of all obligations, the company's partners agreed upon its liquidation.

BSF share in the Affiliates Financial Statements

	Banque BEMO Saudi Fransi		Allianz Saudi Fransi	
SAR' 000	2011	2010	2011	2010
Total Assets	1,428,705	2,544,077	349,319	305,902
Total Liabilities	1,297,807	2,436,088	297,971	254,432
Total Partners Equity	130,898	107,989	51,348	51,470
Total Income	51,761	60,386	124,422	80,765
Total Expenses	34,984	46,083	124,552	83,552

The results of other affiliates (Al-Amthal, Sofinco Saudi Fransi) were insignificant, and accordingly they were not disclosed in the consolidated financial statements. This also applies to BSF shares with Simah, Saudi Travellers Checks Co., and Saudi Share Registration Co.

Basel II

BSF opted for a phased implementation of the Basel II accord. By the end of 2007, BSF complied with SAMA requirements under the standardized approach for credit, market and operational risks.

In order to improve substantially the procedure of the Rating evaluation, the implementation of the last version of the Rating system and methodologies of CA-CIB / Credit Agricole named ANADEFI was implemented.

The guidance of the local regulator (SAMA) has increased the focus on the preparation of the IRB approach for BASEL II, and the introduction of the concepts for BASEL III.

- BSF, as member of the national initiative for this preparation (SIMAH project) has submitted the consolidated data, which were required for the calibration of selected IRB models (PD calculation).
- Also a phased planning for the IRB project is prepared involving the internal teams and external resources (i.e. consulting support and systems providers).

Capital Adequacy

The Bank's objectives in managing capital are represented by compliance with SAMA requirements related to capital, maintaining the Bank's ability to continue working as per the Continuous Accounting Standard and ensuring a strong capital. Capital adequacy and capital utilization are measured daily by the Bank's management. BSF monitors capital adequacy through the use of capital adequacy ratios set by SAMA. Capital adequacy is measured by comparing the capital items against the assets listed in the financial position, undertakings, derivatives nominal amounts using possible balances reflecting their relative risks.

SAMA requires the Bank to keep minimum statutory capital and for the ratio of the total statutory capital to assets exposed to probable risks to be at or more than the agreed minimum limit of 8%.

SAR' 000	2011	2010
Credit risk related to assets exposed to probable risks	128,528,591	113,924,007
Operational risk related to assets exposed to probable risks	8,073,838	8,017,300
Market risk related to assets exposed to probable risks	1,913,875	3,761,489
Total assets exposed to probable risks	138,516,304	125,702,796
Basic Capital	19,320,566	17,825,107
Supporting Capital	787,330	691,334
Total Capital	20,107,896	18,516,441
Capital Adequacy Ratio		
- Basic Capital	13,95%	14,18%
- Total Capital	14,52%	14,73%

Doubtful Debts

Doubtful debts amounted to SAR 1,128,050 at the end of 2011. Provision for doubtful debts amounted to SAR 1,538,730 at coverage rate of 136.41%.

The coverage of all working provisions for all performing loans and doubtful debts decreased from 1.75% in 2010 to 1.64% due to the high level of recovery and nature of the loan portfolio.

Future Plans

The plans of the Bank's senior management which were approved by the board of directors depend upon the Medium Term Strategic Plan that was elaborated by the senior management of the Bank and endorsed by the Board of Directors remains in place based on the following elements.

Macro economic perspective:

The Bank's Management thinks that the economic environment is conducive to develop the businesses of a Bank in many ways.

It is noteworthy that during the years 2008 and 2009, where growth was affected by the consequence of the worldwide crisis, the economy of Saudi Arabia has been proactively supported by the Saudi Government that increased its spending, thus keeping the economy in motion.

2011 was a record year in terms of Government spending since SAR 804 Billion were injected into the economy (+23% compared to 2010) and the Bank takes note that 2012 will see also a significant amount of government spending with a projected SAR 690 Million as announced by the Saudi Finance Ministry as of end of December 2011.

We believe that significant amount of expenditure will continue to trickle down into the economy in the medium term horizon, as a consequence of the royal decrees issued in February and March 2011, notably through capital expenditure pertaining to the construction of new houses, deployment of Hospitals, schools and universities among other facilities.

The government policy has proved right and fruitful as, after witnessing GDP growth reducing to +0.1% in 2009, it grew by 4.1% in 2010 and we expect a strong 2011 year with a real GDP Growth close to 7%. Even if the world economy growth looks weak for 2012, we consider that Saudi Arabia economy will post a healthy growth in 2012.

As a result of sound economic environment, small reduction in the Government spending (-14% in 2012 compared to actual spending in 2011), we expect the Non Oil private sector to grow by 4% in 2012.

Our Assessment is based on the Purchasing Managers Index (PMI) which monitors private sector variables, including output, new orders, exports, input prices, output prices, quantity of purchases, stocks and employment where we noticed that the Index has been increasing from 2010 and kept at a sound level. Last but not least, we took note that the Bank's claims on private sector have increased by 10.8% during the first 11 months of 2011 whereas it grew by 5.7% in 2010 and stayed flat in 2009.

Indeed, we consider that the planned reduction in 2012 Government spending will be conducive to improve the contribution of the private businesses to the economy growth and will imply that Saudi Corporate will request funding from banks or claim funds from Equity and Debt Capital markets..

Strategy:

As announced in 2010, the strategy of the Bank is geared at developing its businesses so that each line of business show a well-balanced contribution to the net profit of the Bank.

In an environment where interest rate are at an unprecedented low level, BSF is giving a strong emphasis on the deployment of assets and a higher contribution of fee based businesses.

Whereas BSF will strive to maintain its strong Market Share in Corporate Banking activities, the Bank will continue to develop its Retail Banking franchise.

Retail Banking relies on investments performed in the recent years in terms of infrastructure, information systems, points of Sales and quality of Staff in order to increase its market share, in Retail asset and hence its contribution to the operating income and the net profit of the Bank. After a 30% increase in its asset portfolio in 2010 Retail Banking achieved another 33% growth during 2011 with a growth of its operating income by 15% contribution. Retail Banking should build up on this momentum and maintain a rate of growth similar to what was achieved in 2010 and 2011.

Corporate Banking will maintain its strong market share in terms of assets and further increase its presence in the project finance sector. It is expected that revenue from Corporate Banking activities be further enhanced through a higher contribution of fee based businesses.

Commercial Banking will develop its market share in the SME's business segment and provide new opportunities through the newly established Government & semi-Government Unit.

Wealth Management should grow through acquisition of new clients, enlargement of its product range and cross marketing operations in conjunction with Corporate Banking/ Commercial Banking.

Treasury/ Capital Market activities of the Bank will capitalize on BSF's strong position in the derivatives products, and will continue to expand its range of products, risk advisory solutions, and foster the development of cross selling activities through business lines and subsidiaries.

The Board of Directors approved and supervised the implementation of BSF strategic directions and objectives, laid down and supervised the internal controls and regulations including but not limited to the following:

1. Laying down, reviewing and direction of the company's overall strategy, work plans and risk management policy.
2. Defining the perfect capital structure of the company its strategies and financial objectives and the approval of the annual balance sheets.
3. Supervising the company's capital expenses, property acquisition and disposition.
4. Laying down the performance objectives, and monitoring the implementation and overall performance of the company.
5. Reviewing periodically and approving the company's organizational and professional structures.
6. Laying down a written policy to organize conflict of interest, and addressing possible conflict of interests by the directors, EC members and shareholders. This includes the misuse of the company's assets and misconduct regarding related party dealing.
7. Ensuring the soundness of the accounting and financial systems including the systems related to financial reporting.
8. Ensuring the application of proper risk management system through the determination of risk profile of the company and presenting it transparently.
9. The annual review for the effectiveness of the internal control procedures in the company.

Shareholders Equity

BSF articles of association ensures the following rights to the shareholders:

- Get cash dividends as approved
- Attend the shareholders general meetings, participate in its deliberations and vote on decisions to be taken
- The right to dispose of shares
- The right to monitor the board of directors activities and initiate a responsibility case against the directors
- The right to inquire and ask for information but not to the detriment of the company's interests and not inconsistently with CMA Act and Regulations.
- In the event of expiry of the company's duration or in case of earlier termination, the extra ordinary general shareholders assembly will, upon the suggestion of the board of directors, decide the method of liquidation, appoint one or more liquidators and define their powers and fees.
- The powers of the board shall cease upon the winding up of the company. However the board will continue managing the affairs of the company till the appointment of the liquidators and the company apparatus shall remain operational to an extent not inconsistent with the liquidators' jurisdiction.
- BSF affirms that it did not receive from the certified public accountants any request to hold a meeting of the shareholders during the expired financial year and that such meeting was not held.
- BSF affirms that it did not receive from shareholders holding 5% or more share capital any request to hold a meeting of the shareholders during the expired financial year and that such meeting was not held.

According to BSF Articles of Association:

- The date, place and agenda of the shareholders meeting was published 20 days before the meeting day.
- The invitation to the shareholders meeting was published on Tadawul website and in the official gazette on 25/3/2011 and in the local press (Riyadh Daily on 3/3/2011 and Al-Hayat on 5/3/2011).

Profits Distribution Policy (re Article 42 of the Articles of Association)

The annual net profits are distributed after the deduction of costs and expenses, the creation of provisions for doubtful debts, investment losses, and the contingent liabilities as may be deemed appropriate by the board in accordance with Banking Act. The distribution shall be made as follows:

The necessary allocations shall be made for the payment of Zakat (for the Saudi shareholders) and income (for the non-Saudi shareholders) according to the laws in force in Saudi Arabia. The company will effect payment of these funds to the concerned authorities. The amount of Zakat due by Saudi shareholders will be deducted from their part of net profit. Likewise the amount of tax due by non-Saudi shareholders will be deducted against their share of net profits.

At least 25% of net profits after the deduction of Zakat and Income as per Item 1 above will be transferred to statutory reserve. The deductions will be continuously made till the amount of the provision becomes equivalent to at least the paid up capital.

After the deduction of statutory reserve, Zakat and income, an amount of profit not less than 5% of paid up capital shall be distributed among the Saudi and non-Saudi shareholders pro rata the paid value of shares of Saudis or non-Saudis as proposed by the board and approved by the shareholders. In the event that the amount of the remaining profits is insufficient to pay to the respective dividend to the concerned shareholders, the shareholders shall not demand the payment of dividends in the coming year(s). The shareholders shall not decide to pay any percentage of profits in excess of the one proposed by the Board of Directors.

The amount that remains after the payments made according to Items 1, 2 and 3 above will be used according to the proposal of the board and decision of the shareholders.

When calculating statutory reserve and other provisions from net profits (after Zakat and tax), the share capital of the Saudi and non-Saudi shareholders shall be maintained.

The two groups of shareholders must contribute to these provisions pro rata their share capital. Their contributions shall be deducted from their respective shares in the net profits.

The basic and low profit of the share

The basic and low profit of the share for the two financial years ended 31 Dec 2011 and 2010 were calculated by dividing the year's net income due to the bank's shareholders by 723.2 Million shares.

Total Distributable Profits, Zakat and Income Tax

On 21 Dec 2011, BSF secured the necessary approval for the board of directors' suggestion to pay a share dividend of 70 Halalas per share (7% of the share nominal value). The entitlement to the payment shall be for the shareholders registered in BSF share registers at the closing of negotiation on 5/8/1432 (6/7/2011). The payment of dividends began from Saturday, 15/8/1432 (16/7/2011).

The interim profits amounted to SAR 543 Million (SAR 0.70 per share). Net payments to the Saudi shareholders amounted to SAR 349 Million and net payments to the non-Saudi shareholders amounted to SAR 78 Million. The board did not propose any dividend payment for the second half of 2011.

SAR' 000	**2011**	**2010**
Total Distributable Profits		
Interim payment	**542,913**	
Final payment	**-**	800,000
Total	**542,913**	800,000

On 8 Safar 1433 (2/1/2012), the board of directors recommended to the extra ordinary shareholders to approve a 25% capital increase (by transfer of SAR 1,808,035,750 from the general reserve) from SAR 7,232,143,000 (723,214,300 shares) to SAR 9,040,178,750 (904,017,875 shares) subject to securing the necessary approvals.

The capital increase will be completed through the grant of one bonus share vs. 4 existing shares to the shareholders registered in BSF share register on the date of the extra ordinary shareholders meeting to be held during the first half of 2012. The capital increase will be used to support the Bank's resources and will give added value to the Bank's shareholders.

Board of Directors (re Article 16 of BSF Articles of Association)

BSF's Board of Directors consists of 10 directors. According to BSF's Articles of Association, the Saudi directors are selected by the shareholders for 3 years. Written policies and procedures were laid down and being implemented in relation to the board membership. The principles stated in BSF's articles of association and those laid down by SAMA, as well as in companies act and corporate governance are being complied with. The present BOD duration extends from 1/1/2010 till 31/12/2012 (voting was conducted as per Article 33 of the articles of association). The present directors were not appointed through accumulative voting method which was not then obligatory. Presently the number of independent board members are three i.e. less than one-third of board members. This matter is presently being addressed to comply with the required percentage.

According to the regulations, the membership shares (1000 shares per director) were booked.

The Saudi Directors

Dr. Saleh Abdulaziz Omair Al-Omair	Chairman (independent) appointed on 2/4/2011 to replace Mr. Ibrahim Al-Touq
Mr. Abdulaziz Rashid Al-Abdulrahman Al-Rashid	Member (non-executive)
Mr. Ibrahim Mohammad Ibrahim Al-Issa	Member (non-executive)
Mr. Abdulaziz Habdan Al-Habdan	Member (non-executive representing GOSI)
Dr. Khaled Hamed Hamed Mutabagani	Member (independent)
Mr. Mousa Omran Mohammad Al-Omran	Member (independent)
Mr. Abdulrahman Amin Jawa	Deputy Managing Director Member (executive)

The Non-Saudi Directors (representing the foreign partner, CA - CIB)

Mr. Francois Patrice Raymond Couvegnes, Managing Director	Member (executive) appointed on 27/9/2011 to replace Mr. Jean Marion
Mr. Thierry Paul Michel Marie Simon	Member (non-executive) appointed on 26/10/2011 to replace Mr. Alain Massierra
Mr. Marc Oppenheim	Member (non-executive)

In 2011, the Board of Directors held 4 meetings, at an attendance rate of 97.5%. Following is the attendance record of the subject meetings:

Name	Status	1st meeting 27/3/11	2nd meeting 5/6/11	3rd meeting 22/10/11	4th meeting 14/12/11
Dr. Saleh Abdulaziz Omair Al-Omair	Independent	-	Attended	Attended	Attended
Mr. Ibrahim Al-Touq (resigned on 2/4/2011)	Independent	Attended	-	-	-
Mr. Abdulaziz Rashid Al-Abdulrahman Al-Rashid	Non-executive	Attended	Attended	Attended	Attended
Mr. Ibrahim Mohammad Ibrahim Al-Issa	Non-executive	Attended	Attended	Attended	Attended
Mr. Mousa Omran Mohammad Al-Omran	Independent	Attended	Attended	Attended	Attended
Dr. Khaled Hamed Hamed Mutabagani	Independent	Attended	Attended	Attended	Attended
Mr. Abdulaziz Habdan Al-Habdan	Non-executive	Attended	Attended	Attended	Attended
Mr. Abdulrahman Amin Jawa	Executive	Attended	Attended	Attended	Attended
Mr. Francois Patrice Raymond Couvegnes	Executive	-	-	Attended	Attended
Mr. Jean Marion (completed his secondment on 15/9/2011)	Executive	Attended	Attended	-	-
Mr. Marc Oppenheim	Non-executive	Attended	Attended	Attended	-
Mr. Allain Massiera (resigned on 15/9/2011 to be replaced by T. Simon)	Non-executive	Attended	Attended	-	-
Mr. Thierry Paul Michel Marie Simon	Non-executive	-	-	Attended	Attended

In 2011, the Board of Directors:

1. Decided to pull out of Bemo Lebanon and Bemo Syria
2. Approved BSF Governance Act
3. Approved BSF Board of Directors Guide
4. Approved CPD Policies and Procedures and the related SAMA Directive Implementation Program

5. Approved CHR Work Plan and Financial Stability Board Systems and Requirements Implementation Timetable related to BSF's policies regarding remunerations and consistency with Governance.
6. Added the responsibilities for compensation rules into the act of Remuneration and Compensation Committee
7. The creation of Saudi Fransi Financing and Leasing with SAR 100 Million capital and appointed the board of managers
8. The review and approval of the facility portfolio with the related parties

Share Ownership

According to Article 30, CMA Listing Rules, BSF top shareholders as at 31/12/2011 are as follows:

Major shareholders, other than directors or senior executives, holding 1% or more:

Name	Shares owned at the start of the year	Ownership percentage	Change Number of shares	Change %	Shares owned at year end	Shares owned at year end percentage
CA - CIB	225,000,000	31.11%	-	-	225,000,000	31.11%
GOSI	92,867,667	12.84%	-	-	92,867,667	12.84%
Rashed Al-Rashid & Sons	71,093,121	9.83%	-	-	71,093,121	9.83%
Mohammad I Al-Issa	36,335,000	5.02%	155,000*	-	36,200,000	5.02%
SAMBA Private Investment Fund 1	14,539,606	2.01%	-	-	14,539,606	2.01%
Omran Al-Omran	13,186,283	1.82%	-	-	13,186,283	1.82%
Adnan Bouqari	10,915,236	1.51%	-	-	10,915,236	1.51%
Ibrahim Al-Touq	9,994,992	1.38%	-	-	9,994,992	1.38%
Hamed Mutabaqani	9,978,732	1.38%	-	-	9,978,732	1.38%
Pension Gen Org	9,979,398	1.38%	-	-	9,979,398	1.38%
Al-Olayan Saudi Investment Ltd	7,889,700	1.09%	-	-	7,889,700	1.09%

* Representing change in the number of shares due to transactions made during 2011.

Committees created under the Board of Directors

In Banque Saudi Fransi ("BSF"), several committees were created under the Board of Directors: Executive Committee, Audit Committee, Nomination and Compensation Committee, and the Donation and Social Contribution Committee. Each committee operates under a written charter or operating policy and procedure. Below is the summary of the key responsibilities of each committee.

1. Executive Committee

Executive Committee supervises the management of risk of BSF and is responsible for establishing long-term goal and succession planning:

- Identify and monitor the key risks of BSF and evaluate their management;
- Approve risk management policies that establish the appropriate approval levels for decisions and other checks and balances to manage risk;
- Satisfy itself that policies are in place to manage the risks to which BSF is exposed, including market, operational, liquidity, credit, insurance, regulatory and legal risks, and reputational risks;
- Critically assess business strategies and plans;
- Recommend to the Board long-term objectives and regularly monitor and measure those objectives;

It consists of 7 members and its term runs for 3 years starting from 1/1/2010 to 31/12/2012. Members in the Executive Committee are as follows:

Mr. Patrice Couvegnes (from 27/9/2011 replacing Mr. J Marion)	Chairman
Mr. Abdulaziz Al-Rashid	Member
Mr. Ibrahim Al-Issa	Member
Mr. Mousa Al-Omran	Member
Mr. Abdulaziz Al-Habdan	Member
Mr. Abdulrahman A. Jawa	Member
Mr. Thierry Simon (from 26/10/2011 replacing Mr. Massiera)	Member

In 2011, EC held 6 meetings at an attendance rate of 100%.

2. Nomination & Compensation

The Board of Directors of BSF, through the Nomination and Compensation Committee (NCCOM) is responsible for the overall design and oversight of the compensation and performance management system. NCCOM duration is 3 years. Membership on the committee members will be extended or others will be appointed on the committee for another 3 years according to the Board of Directors decision. Members on the committee do not receive any remuneration. The committee consists of non-executive directors and the executive directors attend the committee meetings as observers on permanent basis.

NCCOM: Composition

Mr. Mousa Al Omran	Chairman
Mr. Abdulaziz Al Habdan	Member
Mr. Abdulaziz Al Rashid	Member
Mr. Marc Oppenheim	Member

NCCOM: Terms of Reference

1. Overseeing the compensation system's design and operation on behalf of the Board of Directors;
2. Preparing the Compensation Policy and placing it before the Board for approval;
3. Periodically reviewing the Compensation Policy on its own or when advised by the Board, and making recommendations to the Board for amending/ updating the Policy;
4. Periodically evaluating the adequacy and effectiveness of the Compensation Policy to ensure that its stated objectives are achieved;
5. Evaluating practices by which compensation is paid for potential future revenues whose timing and likelihood remain uncertain;
6. Making recommendations to the Board on the level and composition of remuneration of key executives of the bank. The key executives for this purpose will include all those executives whose appointment is subject to no objection by SAMA;
7. Determination of bonus pool based on risk-adjusted profit of the bank for payment of performance bonus;
8. Reviewing compliance of the Compensation Policy with these Rules and the FSB principles and Standards;
9. Performing any other related tasks to comply with the regulatory requirements.
10. Considering the suitability of candidates for membership of the Board in accordance with the Articles of Association and approved policies and standards;
11. Undertaking an annual review of the requirement of suitable skills and qualifications for the membership of the Board;
12. Recommending to the Board criteria for the composition of the Board and its Committees, including the number of Board members, and independence of directors;
13. Conducting an annual evaluation of the independent status of each candidate proposed for election at the General Assembly meeting and reporting the results of such evaluation to the Board;
14. Satisfying itself to the Board and its committees, as applicable, are in compliance with all regulatory requirements, including its composition;
15. Assisting to the Board in reviewing the adequacy of the succession planning process and oversee its implementation;
16. Reviewing the performance and making recommendations to the Board regarding the compensation of the Senior Management of BSF;
17. Reviewing and assessing the adequacy of this Charter every three years and submitting this Charter and any amendments to the Board for approval;
18. Conducting self-evaluation to assess the Committee's contribution and effectiveness in fulfilling its mandate and present it to the Board every three years.

Salient Features of BSF Compensation Policy

Operating in Saudi Arabia the sole Middle Eastern country member of the G20, BSF Management working closely with the Board of Directors has an ingrained culture and track record of running prudent compensation policy during period of prosperity and financial crisis like the one in 2008. BSF follows strict governance-orientated compensation practices. BSF compensation system promotes meritocracy, controls excessive risk-taking and ensures effective risk management. The compensation policy as recently amended by the NCCOM and approved by the Board, conforms to compensation related corporate governance and supports the SAMA rules and Financial Stability Board (FSB) guidelines. It is structured to meet challenges i.e. attracting, retaining and motivating highly skilled staff, recognizing:

a) That BSF success heavily depends on the talents and efforts of highly skilled individuals;

b) That competition within the Kingdom and the Gulf's financial services industry for qualified talents has often been intense.

In line with the Saudi banking industry practices, BSF uses a mix of fixed and variable compensation. The former is driven by job size, responsibility, supply and jobs' relative worth in the market. The latter is driven by performance thus payment is based on meeting pre-agreed targets.

The fixed compensation package is composed of base salary, allowances and fringe benefits. As a standard practice in the Kingdom, the fixed income is driven by a base pay that is regularly benchmarked and compared with competition to ensure competitiveness.

Per Saudi banking industry practice, BSF pays a Performance Bonus, the variable component. As a form of incentive, the Bonus Pool is set by Management and NCCOM working closely with Chief Risk Officer, Chief Financial Officer and Human Resources Manager based on the year's performance or net profit adjusted to the full range of identifiable risks.

BSF as part of its reward philosophy aims on the perfect blend of benefits that is externally competitive to retain, motivate and engage. A level playing field has always been an important consideration in our reward strategy. BSF design compensation structure with prudence. Variable pay deferral, for instance, is generally a sound way to encourage long-term commitment. But doing so when most banks, both in the country and in the region, still paying one-time in cash, requires bit of a caution.

This year, the Management and the Board of Directors, through the NCCOM, took a close look to further align its compensation and rewards policy to stockholders' interest and value creation. Full details of the new compensation model per Action Plan are set to be completed in 2012 for implementation in performance year 2013.

Allocation of Bonus to Groups and Divisions is based on Key Performance Indicator (KPI) target achievements. Distribution of bonus to individual employees is based on review of performance by respective supervisors measured in terms of meeting the KPI target.

General Conditions

The committee work term is 3 years. According to the board of directors' decision, the term for each committee member is determined or others may be nominated for a new term of 3 years.

The committee members do not receive any bonuses. The committee consists of the non-executive directors of the board and the executive directors permanently attend the committee meetings as observers.

3. Donation and Social Contribution Committee

The Donation and Social Contribution Committee meets to lay down the appropriate mechanism for donations and social contributions.

It consists of 4 members as follows

Dr. Saleh Al-Omair (from 2/4/2011 replacing Mr. I Al-Touq)	Chairman
Mr. Abdulaziz Al-Rashid	Member
Mr. Abdulrahman Jawa	Member
Mr. Patrice Couvegnes (from 27/9/2011 replacing Mr. Marion)	Member

In 2011, the committee held 3 meeting at an attendance rate of 100%.

BSF management through the committee focused on supporting charitable causes in remote areas. According to the cooperation agreement signed between BSF and Deputy Ministry for Social Welfare, the Minister of Social Affairs received donations to several charitable association.

The committee also contributed to several specialized associations such as Down Syndrome, Cancer, Autism, handicapped, diabetes, special needs individuals, Kidney patients, etc. During the year, BSF sponsored several international medical conferences and contributed considerable funds for the relief of the Somali people.

The committee holds meetings by deliberation to decide on urgent aid requests.

4. Audit Committee

Audit committee consists of 4 members and it assumes the supervision of the quality and integrity of BSF's financial reporting and oversees control environment of management:

- Oversee reliable, accurate and clear financial reporting to shareholders;
- Oversee internal controls - the necessary checks and balances must be in place;
- Responsible to make recommendation to the board for the appointment, reappointment and removal of the external auditors;
- Review of compliance with applicable rules, laws & regulations;
- Review of the activities of subsidiaries and joint venture companies;
- Review of material litigation and cases, related party transactions, etc.;
- Review the evaluation of insurance coverage;
- Periodically review and assess the adequacy of the charter.

SAMA ratified BSF Board of Directors nomination of the Audit Committee for three years from 1/1/2010 to 31/12/2012 and approved of new members as successors to the independent members.

It consists of the following members:

Dr. Khalid Mutabaqqani,	BSF director as	Chairman
Mr. Ammar Al-Khudairi,	independent member	managing director and founder of Amwal Al-Khaleej Co., and has extensive experience in financial and banking matters as director
Mr. Jean-Pierre Tremenbert,	independent	from 28/12/2011, head of internal audit in CA-CIB in replacement for Mr. Regis Monfront
Mr. Eid Faleh Saif Al-Shamri,	independent	member replacing Mr. Al-Salee effective 11/6/2011.

The committee held 6 meetings with an attendance percentage of 92%.

Head of Internal Audit acts as secretary general to this committee.

Head, CPD, attends audit committee meetings as permanent observer. BSF's inspector general attends the committee meetings as secretary. Mr. Al-Shamri and Mr. Tremenbert have long experience in audit works. Mr. A Al-Khudairi continued as member of the committee for 2 consecutive terms. Audit Committee held 6 meetings during 2011.

Audit Committee reviews the Bank's interim and final accounts in coordination with the external auditors and submits its recommendations to the Board of Directors subject to SAMA and CMA requirements. Deliberations during the committee meetings are recorded and referred to the Board of Directors. Matters of interest are followed up with the secretariat general and the management.

Audit committee has extensively participated in the assessment of the activities of the internal audit department and BSF public accountants. It has regularly reviewed BSF major activities and assessed BSF's internal control systems. To this end, members of the committee are being informed by head of internal audit and when necessary by the business line manager or support department managers of the rules being implemented to protect the Bank's operations against all risks.

Audit committee discussed with CPD officer fraud cases, the regulations and any matters of overstepping of compliance matters. It discussed the matter of internal control with the permanent operation and control risk department and reviewed the deliberations of the Bank's internal control committee.

It has offered permanent support to internal audit to achieve the annual audit plan. To this end, it closely reviewed the activities of audit department and followed the outstanding audit recommendations and laid down the necessary recommendations for their implementation.

BSF affirms that there is no blood relationship between the committee chairman or any of its members with the any of BSF directors or executive officers nor any financial or commercial relationship with board, executive officers or senior officers.

Internal Control

1. Credit and concentration risks:

During the fourth quarter of 2011, The Bank set up a Management Credit Committee (MCC) which meets on a weekly basis to discuss and approve credit proposals and make recommendations to the Executive Committee.

Segregation of duties within Risk Management Division/ Credit Risk Department (RMD/ CRD) has been streamlined further. The Credit Control Unit (CCU) became responsible for credit control and monitoring activities. CRD processes were additionally streamlined with the implantation of 2 new systems whereas credit approval process is now governed by systematic work flow.

Limit implementation process have been improved further through regular follow up. The turnaround time of credit approval process has improved which resulted into significant reduction in the number of cases involving utilization without limit.

The following activities were also performed:

- Formulation of new procedures to monitor the connected and related party exposures in light of SAMA directives.
- Regular monitoring of share coverage shortfalls in relation to funded facilities.
- Initiation of monthly Past Due Annual Review report to accurately identify accounts that require updated financial information.
- Monthly report detailing utilization without limits to identify and recognize the reasons for their non-implementation in the system.
- Bi-weekly monitoring of the financial institutions and Nostri accounts.

2. Portfolio Review

Portfolio Review Unit reviewed 236 credit files/ porfolios that represent almost 80% of total implemented approvals.
In addition other risks like operational risks, sensitive operations and internal account reconciliation were reviewed.

Planned improvements in 2012

1. Local Internal Control Committee will conduct regular meetings in 2012 to ensure all internal controls are sufficient and being strictly complied with.
2. Automate controls and restriction procedures for transactions processed against fax/ phone instructions.
3. Scanning of customers and their authorized representatives' IDs in the signature verification system.
4. TOD Control Unit will be added to enhance the internal control with specific rolls and assignments of checking end of day/ month control to minimize the risk.
5. Deployment of an Anomaly Detection Systems and Browser Integrity Detection to trigger alerts and set-up authentication requirements.

3. Review of Internal Audit's/ External Auditors performance

3.a) Review of Internal Audit's Performance

In order to assess the performance of BSF's internal Audit Division (AD), the Audit Committee:

- Approved BSF's risk based Internal audit plan for 2010, which is still based on a three-year cycle for Banking & IT Audit and - until further notice - a one-year cycle for Branch Audit, in order to cover all the risks that the bank could be exposed to.
- Followed up twice a year the status of compliance of the above mentioned audit plan.
- Decided in its meeting of 07/12/2010 that, as a benchmark, the minimum acceptable percentage of completion of the audit plan will be 80%. AD has achieved 86% of its initial plan despite staffing shortage, carry over some audits due to reasons not in the control of AD, the achievement was 95%.
- Followed up past due audit recommendations (i.e. those that have not been implemented yet as per their initial target dates) twice a year and asked the management to ask appropriate action for their implementation (see Audit Division's last follow up report attached in annex 1).
- Reviewed the Audit Division's quarterly activity reports listing all audits performed, with their rating and a summary of their conclusion.
- Obtained and reviewed:
  - Extracts of monthly SAMA prudential reports
  - BSF Compliance Division's Quarterly Reporting
  - New and important laws and regulations.
  - Minutes of the Financials Crime & Anti-money Laundering committee.
  - Minutes of the Internal Control Committee, etc.

The important of past due audit recommendations has somewhat improved and we expect further improvement with the ongoing involvement of the Managing Director. In this connection, we noted that a majority of the pending issues are related to improving or enhancing the various IT system of the Bank, a point to which the management should continue to give priority.

In view of the above, the audit committee considers the overall performance of BSF internal Audit Division as satisfactory as AD managed to complete most of their audit plan despite the staffing constraints and unplanned missions, in addition to providing the Audit committee and general managements with the necessary support when requested.

3.b) Review of External Auditor's performance.
In order to assess the performance of BSF's two external auditors (Price Waterhouse Coopers (PWC) and KPMG), the Audit Committee:

- Reviewed with them the scope and effectiveness of their work, significant issues they highlighted, any significant breach of rules, material misstatement in the financial statements, related & connected party translations, subsequent material transactions, etc… The Audit Committee reviewed the quarterly financial statement in order to comply with the Capital Market Authority's directive.
- Reviewed the recommendations highlighted in the management letter of external auditors.
- Discussed with the Head of Accounting and Financial Control Division (responsible for preparing the financial statement and coordinating with the external auditors) to ensure that no material misstatement or significant breach of SAMA rules and regulation have occurred. These meetings were regularly attended by the Chief Financial Officer who also briefed the Committee on asset & liability management issues.

After reviewing the above points and since no material risks or internal control issues have been highlighted either by the external Auditors, the Head of AFCD, the CFO or the Internal Audit Division, the Audit Committee confirms that the performance of the external Auditors was satisfactory.

With regards to the renewal or replacement of the external auditors, the Audit Committee agrees with the recommendation of the management to renew the mandate of KPMG & PWC for the years 2012.

3.c) Any significant breach of SAMA Rules and Regulations and of Internal Policies and Procedures
- Pursuant to its three year work plan, the Audit Committee interacted on several occasions with the Internal Audit Division, the Compliance Division, the Operational Risks and Permanent Control Department, the external auditors and various business lines or support divisions through seven meetings a year to find out whether any significant breach of SAMA rules and regulations (including any weaknesses in the internal control system of the Bank) had occurred.

As the Chief Compliance Officer, the Internal Audit Division or the external Auditors of the Bank have not reported to us any significant breach of SAMA rules or regulations, the Audit Committee considers the situation as satisfactory in that respect.

Certified Public Accountants

The shareholders meeting held on 27/3/2011 appointed Messrs. KPMG Al Fozan & Al Sadhan. Price Water House Coopers, as the Bank's certified public accountants for the FY 2011 and for one year.

Accounting standards

The financial statements were prepared according to the accounting standards issued by SAMA as well as the international recognized standards. BSF prepares its financial statements consistently with Banking Act and Corporate Act of SA as well as BSF Articles of Association.

There has been no major deviation in the accounting standards being applied at BSF against SOCPA's accounting standards applied during the FY ended 31/12/2011, except in the application of the following which did not have any impact on the financial statements:
- The international standard No. 24 (amended in 2009)
- The related parties disclosures to financial reporting

The definition of the related party and related party disclosure requirements for government institutions were amended subject to the International Accounting Standard No. 24 (amended)

- Amendments to the International Financial Reporting Standard 2010
- International Financial Reporting Standard No. 7 and the Financial Tools Disclosures

BSF Board of Directors and other interested parties affirm, to the best of its knowledge that:

1. Accounting records were prepared correctly,
2. BSF internal audit system was prepared according to sound principles and was effectively implemented, and
3. The Board hasn't any doubt to mention about the Bank's ability to continue its activities.

Disclosure

BSF management believes that it has in place suitable control system that permits it to prepare interim financial statements consistent with SAMA's accounting and financial standards as well as the international accounting and reporting standards. The present statements were prepared on the basis of this system. The directors were given access to the information covering a period not exceeding one year from the ending date of last year. BSF prepared the Governance Regulations and presented it to the board and it was duly approved.

BSF announces all fundamental changes and development on the Tadawul website. Due to its importance, the matter was entrusted to the DMD and SEG of the Bank and disclosure is made according to CMA Act.

Corporate Governance

BSF operates under its Corporate Governance Regulations which were approved by the Board of Directors and under SAMA rules and directives. BSF continues to comply with CMA's Governance Regulations. In addition, the directors are continuously updated by the chairman regarding matters received from the competent authorities.

BSF complied with Governance clauses which are consistent with the Bank's articles of association in addition to the obligatory clauses referred to under CMA decisions excluding Item (b), (d) and (e) as follows:

Article	Requirements	Reasons for no applying:
Article 6:	Voting Rights	
B	The method of accumulative voting must be followed when voting in the shareholders meetings for the selection of the directors.	BSF Articles of Association stipulate the normal voting rights
D	The investors, the judicial persons, acting on behalf of others, such as investment funds, must disclose their policies in voting and their actual voting in their annual reports. They must also disclose the way by which they deal with any significant conflict of interest that might impact the exercise of the basic interests of their investments.	BSF has no legal capacity to obligate investors, the judicial persons, acting on behalf of others, such as investment funds, to disclose their policies in voting.
Article 12:		
E	The independent directors must not be less than 2 or one-third of the directors whichever more.	Work in progress to comply with this requirement.

In conclusion, the Board of Directors wishes to express deepest gratitude, first and foremost, to the Almighty Allah and then to King Abdullah Bin Abdulaziz and his Crown Prince and second Deputy Premier for their continuous support of banking sector. The Board would like also to thank the Ministry of Finance and to the Saudi Arabian Monetary Agency, the Ministry of Commerce and Industry as well as the Bank customers, staff, committees' members, and correspondents, praying Almighty Allah for continued security and prosperity.

AUDIT COMMITTEE

Chairman	**Dr. Khalid Mutabagani,** Member of the Board of Banque Saudi Fransi
Members	**Mr. Régis Monfront** Head of Credit Agricole Corporate & Investment Bank's Internal Audit and Inspection
	Mr. Ammar Alkhudairy Managing Director and founding shareholder, Amwal AlKhaleej
	Mr. Eid Alshamri Chief Internal Auditor, Saudi Telecommunication Company (STC)
Secretary	**Mr. François Delagrange** Chief Internal Auditor of Banque Saudi Fransi

(In addition, the Bank's Chief Compliance Officer is a permanent guest to the meetings of the Committee).

Saudi Arabian Monetary Agency (SAMA) approved the nomination by the Board of Directors of BSF of the above members of the Audit Committee for a three-year term beginning on 01/01/2010. The Audit Committee now meets seven times a year in order to adequately cover all critical risk areas in the Bank. It now quarterly and annually reviews the financial statements of the Bank with the external auditors and recommends their approval to the Board as required by SAMA and the Capital Market Authority. The deliberations of each meeting were properly recorded and reported to the Board of Directors and were adequately followed up by the Secretary of the Audit Committee with the Bank's management.

Based upon its risk-based three year work plan, the Committee was extensively involved in assessing the achievements of the internal and external auditors and regularly reviewed the main risks related to the Bank's activities and the quality / adequacy of internal controls. To this end, Audit Committee members were informed and briefed not only by the Chief Internal Auditor of the Bank but also, when necessary, directly by the relevant Business and Operational / Support Lines Managers, including subsidiaries or joint venture companies, and by the external auditors.

The Audit Committee is fully involved in the selection of the external auditors and in recommending them to the Board for approval. The Audit Committee regularly reviewed the status of all fraud cases with the Chief Compliance Officer, new regulations and pronouncements, breach of any significant compliance issues, etc. It also discussed risk management and internal control issues and reviewed the deliberations of the Internal Control Committee of the Bank.

The Audit Committee provided a permanent support to the Audit Division in terms of supporting its organization and achievement of the annual audit plan. To this end, it very closely followed the activities of the Audit Division, the follow-up of unimplemented audit recommendations, and other unplanned involvements.

Independent Auditors' Report

PRICEWATERHOUSECOOPERS KPMG KPMG Al Fozan & Al Sadhan

To the shareholders of Banque Saudi Fransi
(A Saudi Joint Stock Company)

We have audited the accompanying consolidated financial statement of Banque Saudi Fransi (the "Bank") and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated income statement, statement of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes from (1) to (43), other than note (40), and 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 and those consolidated financial statement 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, the Bank's Articles of Association, and for such internal controls as management determines is necessary to enable the preparation of consolidated financial statement that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on those consolidated financial statement based on our audit. We conducted our audit in accordance with generally accepted auditing standards in the Kingdome 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 statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statement 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 entity'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.

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

- present fairly, in all material respects, the financial position of the Bank and its subsidiaries as at 31 December 2011, and their financial performance and cash flows for the year then ended in accordance with Accounting Standards for Financial Institutions issued by the Saudi Arabian Monetary Agency 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 of the consolidated financial statements.

PricewaterhouseCoopers
P.O. Box 8282
Riyadh 11482
Kingdom of Saudi Arabia

Mohammed A. Al Obaidi
Certified Public Accountant
Registration NO.367

KMPG AlFozan & Al SADHAN
P.O. Box 92876
Riyadh 11663
Kingdom of Saudi Arabia

Abdullah H. Al Fozan
Certified Public Accountant
Registration NO.348

Rabi' I 21,1433H
February 13, 2012

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2011 and 2010

SAR' 000	Notes	2011	2010
ASSETS			
Cash and balances with SAMA	4	**18,115,582**	10,864,136
Due from banks and other financial institutions	5	**7,009,260**	5,191,617
Investments, net	6	**16,669,277**	19,840,715
Loans and advances, net	7	**92,325,042**	80,976,587
Investment in associates	8	**170,789**	185,628
Property and equipment, net	9	**580,993**	586,304
Other assets	10	**5,609,015**	5,573,343
Total assets		**140,479,958**	123,218,330
LIABILITIES AND EQUITY			
Liabilities			
Due to banks and other financial institutions	12	**2,063,748**	2,312,906
Customers' deposits	13	**109,963,411**	93,529,251
Term loans	14	**1,766,850**	2,465,756
Debt Securities	15	**2,462,719**	2,428,019
Other liabilities	16	**4,567,903**	4,459,350
Total liabilities		**120,824,631**	105,195,282
Equity attributable to the equity holders of the Bank			
Share capital	17	**7,232,143**	7,232,143
Statutory reserve	18	**6,799,837**	6,072,101
General reserve	18	**982,857**	982,857
Other reserves	19	**876,023**	746,972
Retained earnings		**3,764,467**	2,169,588
Proposed dividend	29	**-**	800,000
Total equity attributable to the equity holders of the Bank		**19,655,327**	18,003,661
Non controlling interest		**-**	19,387
Total equity		**19,655,327**	18,023,048
Total liabilities and equity		**140,479,958**	123,218,330

The accompanying notes 1 to 43 form an integral part of these consolidated financial statements

CONSOLIDATED INCOME STATEMENT

For the years ended December 31, 2011 and 2010

SAR' 000	Notes	2011	2010
Special commission income	21	3,631,299	3,537,058
Special commission expense	21	494,228	471,201
Net special commission income		3,137,071	3,065,857
Fee and commission income, net	22	1,050,052	887,043
Exchange income, net		220,708	200,409
Trading income, net	23	132,676	202,007
Dividend income	24	14,244	17,472
Gains on non trading investments, net	25	-	2,349
Other operating income	26	30,023	20,092
Total operating income		4,584,774	4,395,229
Salaries and employee related expenses		828,111	708,633
Rent and premises related expenses		120,678	105,563
Depreciation and amortization	9	130,257	126,241
Other general and administrative expenses		393,337	311,489
Impairment charge for credit losses, net	7	157,908	339,344
Other operating expenses	27	27,193	6,630
Total operating expenses		1,657,484	1,597,900
Operating income		2,927,290	2,797,329
Share in (losses) / earnings of associates, net	8	(16,348)	3,958
Net income for the year		2,910,942	2,801,287
Attributable to:			
Equity holders of the Bank		2,910,942	2,801,007
Non controlling interest income		-	280
Net income for the year		2,910,942	2,801,287
Basic and diluted earnings per share (in SAR)	28	4.03	3.87

The accompanying notes 1 to 43 form an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the years ended December 31, 2011 and 2010

SAR' 000	Notes	2011	2010
Net income for the year		**2,910,942**	2,801,287
Other comprehensive income (loss):			
Available for sale investments			
Changes in the fair value, net	19	**(108,543)**	107,306
Income transferred to consolidated income statement	19	**-**	(2,349)
Cash flow hedge			
Changes in the fair value, net	19	**894,048**	993,488
Income transferred to consolidated income statement	19	**(656,454)**	(638,464)
Total comprehensive income for the year		**3,039,993**	3,261,268
Attributable to:			
- Equity holders of the Bank		**3,039,993**	3,260,988
- Non controlling interest income		**-**	280
Total comprehensive income for the year		**3,039,993**	3,261,268

The accompanying notes 1 to 43 form an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the years ended December 31, 2011 and 2010

		Attributable to equity holders of the Bank									
						Other Reserves					
SAR' 000	Notes	Share capital	Statutory reserve	General reserve	Retained earnings	Available for sales investments	Cash Flow Hedges	Proposed dividend	Total	Non controlling interest	Total equity
2011											
Balance at the beginning of the year		**7,232,143**	**6,072,101**	**982,857**	**2,169,588**	**44,697**	**702,275**	**800,000**	**18,003,661**	**19,387**	**18,023,048**
Total comprehensive income for the year		-	-	-	2,910,942	(108,543)	237,594	-	3,039,993	-	3,039,993
Transfer to statutory reserve	18	-	727,736	-	(727,736)	-	-	-	-	-	-
Final dividend paid for 2010	29	-	-	-	-	-	-	(800,000)	(800,000)	-	(800,000)
Interim gross dividend paid for 2011	29	-	-	-	(542,913)	-	-	-	(542,913)	-	(542,913)
Tax & Zakat provision	29	-	-	-	(45,414)	-	-	-	(45,414)	-	(45,414)
Acquisition of subsidiary		-	-	-	-	-	-	-	-	(19,387)	(19,387)
Balance at the end of the year		**7,232,143**	**6,799,837**	**982,857**	**3,764,467**	**(63,846)**	**939,869**	**-**	**19,655,327**	**-**	**19,655,327**
2010											
Balance at the beginning of the year		7,232,143	5,371,849	982,857	868,833	(60,260)	347,251	990,000	15,732,673	19,107	15,751,780
Total Comprehensive income / (loss) for the year		-	-	-	2,801,007	104,957	355,024	-	3,260,988	280	3,261,268
Transfer to statutory reserve	18	-	700,252	-	(700,252)	-	-	-	-	-	-
Final Dividend paid for 2009		-	-	-	-	-	-	(990,000)	(990,000)	-	(990,000)
Proposed gross dividend	29	-	-	-	(800,000)	-	-	800,000	-	-	-
Balance at the end of the year		7,232,143	6,072,101	982,857	2,169,588	44,697	702,275	800,000	18,003,661	19,387	18,023,048

The accompanying notes 1 to 43 form an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended December 31, 2011and 2010

SAR' 000	Notes	2011	2010
OPERATING ACTIVITIES			
Net income for the year		**2,910,942**	2,801,287
Adjustments to reconcile net income to net cash from /(used in) operating activities			
(Accretion of discounts) on non trading investments, net		**(28,068)**	(13,404)
(Gains) on non trading investments, net		**-**	(2,349)
Depreciation and amortization		**130,257**	126,241
(Gains) on disposal of property and equipment, net		**(179)**	(277)
Impairment charge for credit losses, net		**157,908**	339,344
Share in losses /(earnings) from associates, net		**16,348**	(3,958)
Change in fair value of financial instruments		**183,547**	(11,040)
		3,370,755	3,235,844
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA	4	**(789,867)**	(458,496)
Investments held as FVIS (trading)		**777,955**	(511,244)
Loans and advances, net		**(11,529,607)**	(3,009,848)
Other assets		**8,526**	(885,726)
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		**(249,158)**	(2,518,893)
Customers' deposits		**16,461,851**	2,235,817
Other liabilities		**103,775**	659,286
Net cash from / (used in) operating activities		**8,154,230**	(1,253,260)
INVESTING ACTIVITIES			
Proceeds from sale and maturities of non trading investments		**35,855,511**	26,520,775
Purchase of non trading investments		**(33,480,485)**	(28,278,424)
Investments in associates and subsidiary		**(96,355)**	(40,625)
Dividend received from associates		**-**	3,299
Acquisition of property and equipment		**(125,106)**	(106,468)
Proceeds from sale of property and equipment		**339**	385
Net cash from / (used in) investing activities		**2,153,904**	(1,901,058)
FINANCING ACTIVITIES			
Term loan		**(686,250)**	(2,437,500)
Debt securities		**-**	2,437,500
Dividends paid	29	**(1,342,913)**	(990,000)
Net cash (used in) financing activities		**(2,029,163)**	(990,000)
Increase /(Decrease) in cash and cash equivalents		**8,278,971**	(4,144,318)
Cash and cash equivalents at the beginning of the year		**11,189,910**	15,334,228
Cash and cash equivalents at the end of the year	30	**19,468,881**	11,189,910
Special commission received during the year		**3,495,899**	3,611,830
Special commission paid during the year		**345,792**	497,753
Supplemental non cash information			
Net changes in fair value and transfers to consolidated income statement		**129,051**	459,981

The accompanying notes 1 to 43 form an integral part of these consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2011 and 2010

1. General

Banque Saudi Fransi (the Bank) is a Saudi Joint Stock Company established by Royal Decree No. M/23 dated Jumada Al Thani 17, 1397H (corresponding to June 4, 1977). The Bank formally commenced its activities on Muharram 1, 1398H (corresponding to December 11, 1977), by taking over the operations of the Banque de l'Indochine et de Suez in the Kingdom of Saudi Arabia. The Bank operates under Commercial Registration Number. 1010073368 dated Safar 4, 1410H (corresponding to September 5, 1989), through its 83 branches (2010: 81 branches) in the Kingdom of Saudi Arabia, employing 2,788 people (2010: 2,594). The objective of the Bank is to provide a full range of banking services, including Islamic products, which are approved and supervised by an independent Shariah Board. The Bank's Head Office is located at Al Maa'ther Street, P.O. Box 56006, Riyadh 11554, and Kingdom of Saudi Arabia.

The Bank owns subsidiaries, Fransi Tadawul Company (99% direct share in equity and 1% indirect share beneficially held by a director of the Bank) engaged in brokerage business and CAAM Saudi Fransi (100% share in equity, from 60% share previously) engaged in asset management business. During 2011, the Bank acquired additional shareholding in CAAM Saudi Fransi 40% and Calyon Saudi Fransi 55% (previously an associate with 45% share in equity) to achieve 100% shareholding in companies. Subsequent to the acquisition, the Bank has decided to merge operations of CAAM Saudi Fransi and Calyon Saudi Fransi into Fransi Tadawul Company, which is in the process of being renamed Saudi Fransi Capital and will provide the full array of financial services. The Bank owns Saudi Fransi Insurance Agency (SAFIA) having 100% share in equity. The Company has commenced its commercial operations of insurance brokerage in the month of January 2011. The Bank also owns Saudi Fransi leasing and Sakan real estate financing having 100% share in equity. These Companies have not commenced its commercial operations during the year. These subsidiaries are incorporated in the Kingdom of Saudi Arabia.

The Bank has investments in associates and owns 27% shareholding in Banque BEMO Saudi Fransi, incorporated in Syria, 50% shareholding in InSaudi Insurance Company incorporated in the Kingdom of Bahrain, 32.5% shareholding in Saudi Fransi Corporative Insurance Company (Allianz Saudi Fransi) and 50% in Sofinco Saudi Fransi incorporated in the Kingdom of Saudi Arabia.

2. Basis of preparation

a) Statement of compliance:

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

b) Basis of measurement:

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

2. Basis of preparation (continued)

c) Functional and presentation currency

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

d) Critical accounting judgments, estimates and assumptions

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

(i) Impairment for credit losses on loans & advances

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

(ii) Fair value of unquoted financial instruments

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

(iii) Impairment of available for sale equity investments

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

(iv) Classification of held to maturity investments

The Bank follows the guidance of International Accounting Standard (IAS) 39 “Financial Instruments: Recognition and Measurement” on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity.

3. Summary of significant accounting policies

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

a) Change in accounting policies

The accounting policies adopted are consistent with those of the annual consolidated financial statements for the year ended 31 December 2010, as described in those statements except for the adoption of amendments to the existing standards as mentioned below. The Bank has adopted amendments with retrospective effect which had no impact on the financial position and financial performance.

- IAS 24 Related Party Disclosures (revised 2009)

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

- Improvements to IFRSs 2010 - IFRS 7 Financial Instruments: Disclosures

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

- Improvements to IFRSs 2010 - IAS 1 Presentation of Financial Statements

IAS 1 is amended to clarify that disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income also is required to be presented, but is permitted to be presented either in the statement of changes in equity or in the notes.

- Improvements to IFRSs 2010 - IAS 34 Interim Financial Reporting

These amendments emphasis the principle in IAS 34 that the disclosure about significant events and transactions in interim periods should update the relevant information presented in the most recent annual financial report and clarifies how to apply this principle in respect of financial instruments and their fair values. The amendments add examples to the list of events or transactions that require disclosure under IAS 34 and remove references to materiality in IAS 34 that describes other minimum disclosures.

3. Summary of significant accounting policies (continued)

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

- IFRS 3
- IFRS 7
- IAS 1
- IAS 27
- IAS 32

b) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries i.e. Saudi Fransi Capital (Fransi Tadawul Company ,CAAM Saudi Fransi and Calyon Saudi Fransi) and SAFIA. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies. Adjustments have been made wherever necessary in the financial statements of the subsidiaries to bring them in line with the Bank's consolidated financial statements.

Subsidiaries are all entities over which the Bank has the power to govern the financial and operating policies, so as to obtain benefits from its activities, generally accompanying an ownership interest of more than one half of the voting rights. Where the Bank does not have effective control but has significant influence, the investment in a associate is accounted for under the equity method whereby the consolidated financial statements include the appropriate share of the associate's results and reserves based on its latest available financial statements.

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

Subsidiaries are consolidated from the date on which control is transferred to the Bank and cease to be consolidated from the date on which the control is transferred from the Bank. The results of subsidiaries acquired or disposed of during the year, if any, are included in the consolidated income statement from the effective date of the acquisition or up to the effective date of disposal, as appropriate.

Non controlling interests represent the portion of net income / (loss) and net assets which are not owned, directly or indirectly, by the Bank in its subsidiary and are presented separately in the consolidated income statement and within equity in the consolidated statement of financial position, separately from equity attributable to the equity holders of the Bank.

Balances between the Bank and its subsidiaries, and any income and expenses arising from intra-group transactions, are eliminated in preparing these consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

c) Investment in associates

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

d) Settlement and trade date accounting

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

All other financial assets and liabilities are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

e) Derivatives financial instruments and hedge accounting

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

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

i) Derivatives held for trading

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

ii) Embedded derivatives

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

iii) Hedge accounting

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

3. Summary of significant accounting policies (continued)

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

Fair Value Hedges

In relation to fair value hedges, which meet the criteria for hedge accounting, any gain or loss from re-measuring the hedging instruments to fair value is recognized immediately in the consolidated income statement. The related portion of the hedged item is adjusted against the carrying amount of the hedged item and is recognized in the consolidated income statement. For hedged items measured at amortised cost, where the fair value hedge of a commission bearing financial instrument ceases to meet the criteria for hedge accounting or is sold, exercised or terminated, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the effective commission rate method. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated income statement.

Cash flow hedges

In relation to cash flow hedges which meet the criteria for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized directly in other comprehensive income and the ineffective portion, if any, is recognized in the consolidated income statement. For cash flow hedges affecting future transactions, the gains or losses recognized in other comprehensive income, are transferred to the consolidated income statement in the same period in which the hedged transaction affects the consolidated income statement. Where the hedged forecasted transaction results in the recognition of a non financial asset or a non financial liability, then at the time that the asset or liability is recognized, the associated gains or losses that had previously been recognized in other comprehensive income are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability. Hedge accounting is discontinued when the hedging instrument is expired or sold, terminated or exercised, or no longer qualifies for hedge accounting, or the forecast transaction is no longer expected to occur or the Bank revokes the designation. At that point of time, any cumulative gain or loss on the cash flow hedging instrument that was recognised in other comprehensive income is retained in equity until the forecasted transaction occurs. Where the hedged forecasted transaction is no longer expected to occur, the net cumulative gain or loss recognised in “other comprehensive income” is transferred to the consolidated income statement for the year.

f) Foreign currencies

Transactions in foreign currencies are translated into Saudi Arabian Riyals at exchange rates prevailing at transaction dates. Monetary assets and liabilities at the year end, denominated in foreign currencies, are translated into Saudi Arabian Riyals at the exchange rates prevailing at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year adjusted for effective commission rate and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement, except for differences arising on the retranslation of available for sale equity instruments. Realized and unrealized gains or losses on exchange are credited or charged to exchange income. or when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges. Translation gains or losses on non-monetary items carried at fair value are included as part of the fair value adjustment either in the consolidated income statement or in other comprehensive income depending on the underlying financial asset.

Non-monetary assets and liabilities denominated in foreign currencies measured at fair value are translated using the exchange rate at the date when the fair value was determined. Translation differences on non-monetary items, such as equities at Fair Value through Income Statement (FVIS), are reported as a part of the fair value gain or loss in the consolidated income statement. Translation differences on non-monetary items, such as equities classified as available for sale, are included in the other reserves in shareholders' equity.

g) Offsetting financial instruments

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

h) Revenue/ expense recognition

Special commission income and expense

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

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

If the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, special commission income continues to be recognised using the original effective yield applied to the new carrying amount.The calculation of the effective yield takes into account all contractual terms of the financial instruments (prepayment, options etc.) and 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, issue or disposal of financial asset or liability.

3. Summary of significant accounting policies (continued)

Exchange income / loss

Exchange income / loss is recognised when earned / incurred.

Fees and Commission income

Fees and commissions are recognized when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred and, together with the related direct cost, are recognized as an adjustment to the effective yield on the loan. 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 over the period when the service is being provided. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period. Other fees and commission expense, which relate mainly to transaction and service fees are expensed as the service, are received.

Dividend income

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

Trading income

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

Income / (loss) from FVIS financial instruments

Net income from FVIS financial instruments relates to financial assets and liabilities designated as FVIS and include all realised and unrealised fair value changes, interest, dividends and foreign exchange differences.

i) Sale and repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos), continue to be recognized in the consolidated statement of financial position and are measured in accordance with related accounting policies for investments held as FVIS (held for trading),available for sale, held to maturity and other investments held at amortized cost. The counter-party liability for amounts received under these agreements is included in “Due to banks and other financial institutions” or “Customers deposits”, as appropriate. The difference between sale and repurchase price is treated as special commission expense and is accrued 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 consolidated statement of financial position, as the Bank does not obtain control over the assets. Amounts paid under these agreements are included in “Cash and balances with SAMA”, “Due from banks and other financial institutions” or “Loans and advances”, as appropriate. The difference between purchase and resale price is treated as special commission income and is accrued over the life of the reverse repo agreement, on an effective yield basis.

j) Investments

All investments securities are initially recognized at fair value and with the exception of FVIS investments include acquisition charges associated with the investment. Premiums are amortized and discounts are accreted using the effective yield basis and are taken to special commission income. Amortized cost is calculated by taking into account any discount or premium on acquisition.

For securities that are traded in organized financial markets, fair value is determined by reference to exchange quoted market bid prices at the close of business on the reporting date without deduction for transaction costs. Fair value of managed assets and investments in mutual funds are determined by reference to declared net asset values.

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

Following initial recognition, subsequent transfers between the various categories of investments are not ordinarily permissible. The subsequent period end reporting values for the various categories of investments are determined as follows:

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

Investments held as FVIS are classified as either investment held for trading or those designated as fair value through income statement on initial recognition. Investments classified as trading are acquired principally for the purpose of selling or repurchasing in short term or if designated as such by the management in accordance with criteria laid down in IAS 39. After initial recognition, investments at FVIS are measured at fair value and any change in the fair value is recognised in the consolidated income statement for the year in which it occurs. Transaction costs, if any, are not added to the fair value measurement at initial recognition of FVIS investments. Special commission income, dividend income and gain or loss incurred on financial assets held as FVIS are reflected as trading income or expense in the consolidated income statement.

ii) Available for sale

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

Investments which are classified as “available for sale” are subsequently measured at fair value. Unrealised gain or loss arising from a change in its fair value is recognised in other comprehensive income. On de-recognition, any cumulative gain or loss previously recognized in other comprehensive income is included in the consolidated income statement.

3. Summary of significant accounting policies (continued)

Special commission income is recognised in the consolidated income statement on effective yield basis. Dividend income is recognised in the consolidated income statement when the Bank becomes entitled to the dividend. Foreign exchange gains or loss on available for sale debt security investments are recognised in the consolidated income statement.

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

iii) Held to maturity

Investments which have fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold up to the maturity, other than those classified as "Other investments held at amortised cost", are classified as 'held to maturity'. Held to maturity investments are subsequently measured at amortized cost, less provision for impairment in their value. Amortized cost is calculated by taking into account any discount or premium on acquisition using an effective yield basis. Any gain or loss on such investments is recognized in the consolidated income statement when the investment is de-recognized or impaired.

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

iv) Other investments held at amortized cost

Investments with fixed or determinable payments that are not quoted in an active market are classified as 'other investments held at amortized cost'. Other investments held at amortized cost, where the fair value has not been hedged are stated at amortized cost using the effective yield basis, less provision for impairment. Any gain or loss is recognized in the consolidated income statement when the investment is derecognized or impaired.

k) Loans and advances

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

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

Following the initial recognition subsequent transfers between the various categories of loans and advances is not ordinarily permissible. The subsequent period end reporting values for various classes of loans and advances are determined on the basis as set out in the following paragraphs:

(i) Available for sale

Loans and advances which are not part of a hedging relationship and are available for sale, are subsequently measured at fair value and gains or losses arising from changes in fair value are recognized directly in ‘other reserves’ under shareholders’ equity until the loans or advances are de-recognized or impaired, at which time the cumulative gain or loss previously recognized in shareholders’ equity is included in the consolidated income statement for the year.

(ii) Loans and advances held at amortized cost

Loans and advances originated or acquired by the Bank that are not quoted in an active market and for which the fair value has not been hedged, are stated at amortised 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, impairment charge for credit losses is deducted from loans and advances.

l) Due from banks and other financial institutions

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

Following the initial recognition, due from banks and other financial institutions are stated at cost less any amount written off and provisions for impairment, if any.

m) Impairment of financial assets

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 and that a loss event(s) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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

i) Impairment of available for sale financial assets

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

3. Summary of significant accounting policies (continued)

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

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

ii) Financial assets carried at amortized cost

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

A loan is classified as impaired when, in management's opinion, there has been deterioration in credit quality to the extent that there is no longer reasonable assurance of timely collection of the full amount of principal and special commission income.

Impairment charge for credit losses is based upon the management›s judgement of the adequacy of the provisions. Such assessment takes into account the composition and volume of the loans and advances, the general economic conditions and the collectability of the outstanding loans and advances. Considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the required level of provisions. Such estimates are necessarily based on assumptions about several factors and actual results may differ resulting in future changes in such provisions.

Specific provisions are evaluated individually for all different types of loans and advances, whereas additional provisions are evaluated based on collective impairment of loans and advances, and are created for credit losses where there is objective evidence that the unidentified potential losses are present at the reporting date. The amount of the specific provision is the difference between the carrying amount and the estimated recoverable amount. The collective provision is based upon deterioration in the internal gradings or external credit ratings allocated to the borrower or group of borrowers, the current economic climate in which the borrowers operate and the experience and historical default patterns that are embedded in the components of the credit portfolio. These internal grading take into consideration factors such as any deterioration in country risk, industry, as well as identified structural weaknesses or deterioration in cash flows.

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. When a financial asset is uncollectible, it is written off against the related provision for impairment through provision for impairment account.

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

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

n) Other real estate

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

Subsequent to the initial recognition, such real estate are revalued on a periodic basis and unrealized losses on revaluation, and losses or gains on disposal, are charged or credited to operating income or expense.

o) Property and equipment

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

Buildings	33 years
Leasehold improvements	Over the lease period or 10 years, whichever is shorter
Furniture, equipment and vehicles	4 to10 years

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

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

p) Liabilities

All money market deposits, placements, customers' deposits and term loans are initially recognized at cost, being the fair value of the consideration received less transaction costs. Subsequently all commission bearing financial liabilities, where fair values have been hedged, are measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium. Premiums are amortized and discounts are accreted on an effective yield basis to maturity and taken to special commission income or expense.

Financial liabilities for which there is an associated fair value hedge relationship are adjusted for fair value to the extent of the risk being hedged, and the resultant gain or loss is recognized in the consolidated income statement. For commission bearing financial liabilities carried at amortized cost, any gain or loss is recognized in the consolidated income statement when derecognized or impaired.

3. Summary of significant accounting policies (continued)

In ordinary course of business, the Bank gives financial guarantees, consisting of letter of credit, guarantees and acceptances. Financial guarantees are initially recognised in the consolidated financial statements at fair value in other liabilities, being the value of the premium received. Subsequent to the initial recognition, the bank›s liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligations arising as a result of guarantees.

Fee received is recognised in the consolidated income statement on a straight line basis over the life of the guarantee.

q) Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation arising from past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the costs to settle the obligation can be reliably measured or estimated.

r) Accounting for leases

i) Where the Bank is the lessee

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

ii) Where the Bank is the lessor

When assets are sold under a finance lease including assets under Islamic lease arrangement, the present value of the lease payments is recognized as a receivable and is disclosed under loans and advances. The difference between the gross receivable and the present value of the receivable is recognized as unearned finance income. Lease income is recognized over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

s) Cash and cash equivalents

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

t) De-recognition of financial instruments

A financial asset or a part of financial assets, or a part of group of similar financial assets is derecognized when the contractual rights to the cash flows from the financial asset expires and if the Bank has transferred substantially all the risks and rewards of ownership. Where the Bank has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognised only if the Bank has not retained control of the financial asset. The Bank recognises separately as assets or liabilities any rights and obligations created or retained in the process. A financial liability or a part of a financial liability can only be derecognised when it is extinguished, that is when the obligation specified in the contract is discharged, cancelled or expired.

u) Zakat and income tax

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

Zakat and income tax are not charged to the consolidated income statement as they are deducted from the dividends paid to the shareholders. If no dividend is declared then zakat is deducted from the retained earnings and tax is deducted from the retained earnings in proportion to foreign shareholding and remaining tax is claimed from the foreign shareholders.

v) Investment Management Brokerage and Corporate Finance Services

The Bank offers investment management and brokerage services to its customers, through its subsidiaries, which include management of certain investment funds in consultation with professional investment advisors and brokerage services. The Bank's share of these funds is included in the available for sale investments and fees earned are disclosed under related party transactions.

Income/ (loss) from the subsidiaries are included in the consolidated income statement under fee and commission income, net.

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

w) Islamic Banking Products

In addition to the conventional banking, the Bank offers its customers certain non-commission based banking products, which are approved by its Shariah Board, as follows:

High level definitions of Islamic Banking Products

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

(ii) Mudarabah is an agreement between the Bank and a customer whereby the Bank invests in a specific transaction. The Bank is called "rabb-ul-mal" while the management and work is exclusive responsibility of the customer who is called "mudarib". The profit is shared as per the terms of the agreement but the loss is borne by the Bank.

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

3. Summary of significant accounting policies (continued)

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

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

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

4. Cash and balances with SAMA

SAR' 000	2011	2010
Cash on hand	788,953	639,987
Statutory deposit	5,655,710	4,865,843
Current account	-	162,378
Money market placements	11,670,919	5,195,928
Total	18,115,582	10,864,136

In accordance with the Banking Control Law and regulations issued by the Saudi Arabian Monetary Agency (SAMA), the Bank is required to maintain statutory deposit with the SAMA at stipulated percentages of its demand, saving, time and other deposits, calculated at the end of each month. The statutory deposit with SAMA is not available to finance the Bank's day-to-day operations. Therefore, it is not part of cash and cash equivalents.

Money market placements represent deposits against the purchase of fixed rate bonds with agreement to resell the same at fixed future dates.

5. Due from banks and other financial institutions

SAR' 000	2011	2010
Current accounts	677,532	167,871
Money market placements	6,331,728	5,023,746
Total	7,009,260	5,191,617

6. Investments, net

a) These comprise the following:

SAR' 000	2011 Domestic	2011 International	2011 Total	2010 Domestic	2010 International	2010 Total
i) Held as FVIS						
Fixed rate securities	172,702	171,293	343,995	849,600	228,251	1,077,851
Floating rate securities	129,308	19,800	149,108	155,472	37,735	193,207
Held as FVIS	302,010	191,093	493,103	1,005,072	265,986	1,271,058
ii) Available for sale (AFS)						
Fixed rate securities	176,698	513,914	690,612	168,759	214,749	383,508
Floating rate securities	1,314,771	543,637	1,858,408	1,172,761	553,812	1,726,573
Equities	704,401	98,235	802,636	713,934	257,378	971,312
Other	3,341,961	-	3,341,961	3,633,004	7,106	3,640,110
Available for sale, net	5,537,831	1,155,786	6,693,617	5,688,458	1,033,045	6,721,503
iii) Held to maturity						
Fixed rate securities	1,020,483	-	1,020,483	1,423,179	-	1,423,179
Held to maturity	1,020,483	-	1,020,483	1,423,179	-	1,423,179
iv) Other investments held at amortized cost, net						
Fixed rate securities	8,051,451	410,623	8,462,074	9,565,889	-	9,565,889
Floating rate notes	-	375,000	375,000	859,086	375,000	1,234,086
Other investments held at amortized cost, gross	8,051,451	785,623	8,837,074	10,424,975	375,000	10,799,975
Allowance for impairment	-	(375,000)	(375,000)	-	(375,000)	(375,000)
Other investments held at amortized cost, net	8,051,451	410,623	8,462,074	10,424,975	-	10,424,975
Investments, net	14,911,775	1,757,502	16,669,277	18,541,684	1,299,031	19,840,715

6. Investments, net (continued)

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

	2011			2010		
SAR' 000	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Fixed rate securities	1,280,045	9,237,119	10,517,164	633,989	11,816,438	12,450,427
Floating rate securities / notes	1,808,356	574,160	2,382,516	1,919,780	1,234,086	3,153,866
Equities	430,556	372,080	802,636	721,948	249,364	971,312
Other	-	3,341,961	3,341,961	-	3,640,110	3,640,110
	3,518,957	13,525,320	17,044,277	3,275,717	16,939,998	20,215,715
Allowance for impairment	-	(375,000)	(375,000)	-	(375,000)	(375,000)
Investments, net	3,518,957	13,150,320	16,669,277	3,275,717	16,564,998	19,840,715

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

	2011				2010			
SAR' 000	Carrying value	Gross unrealized gains	Gross unrealized losses	Fair value	Carrying value	Gross unrealized gains	Gross unrealized losses	Fair value
i) Held to maturity								
Fixed rate securities	1,020,483	37,097	-	1,057,580	1,423,179	71,199	-	1,494,378
Total	1020,483	37,097	-	1,057,580	1,423,179	71,199	-	1,494,378
ii) Other investments held at amortized cost, net								
Fixed rate securities	8,462,074	32,135	(97)	8,494,112	9,565,889	25,313	(994)	9,590,208
Floating rate notes	375,000	-	-	375,000	1,234,086	592	-	1,234,678
Allowance for impairment	(375,000)	-	-	(375,000)	(375,000)	-	-	(375,000)
Total	8,462,074	32,135	(97)	8,494,112	10,424,975	25,905	(994)	10,449,886

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

SAR' 000	2011	2010
Government and quasi government	10,304,594	13,292,873
Corporate	4,287,709	4,314,648
Banks and other financial institutions	2,011,518	1,997,125
Others	65,456	236,069
Total	16,669,277	19,840,715

6. Investments, net (continued)

e) Credit risk exposure on investments

SAR' 000	2011	2010
Saudi government bonds	9,237,118	12,675,524
Investment grade	2,975,843	2,428,828
Non investment grade	112,560	107,813
Unrated	4,343,756	4,628,550
Total	16,669,277	19,840,715

Saudi government bonds comprise of Saudi government development bonds and treasury bills. Investment grade includes investments having credit exposure equivalent to Standard and Poor's rating of AAA to BBB. Unrated investments include local equities, foreign equities, Musharakah and Mudarabah (2011: SAR 3,342 million (2010: SAR 3,633 million)).

f) Movement of allowance for impairment of investments and other receivable

SAR' 000	2011	2010
Balance at the beginning of the year	477,000	477,000
Provided during the year	-	-
Balance at the end of the year	477,000	477,000

Investments held as FVIS represent investments held for trading and include Islamic securities of SAR 141 million (2010: SAR 152 million).

Available for sale investments include Islamic securities (Sukuk) of SAR 952 million (2010: SAR 965 million). Other AFS represents Musharaka investments of SAR Nil million (2010: SAR 0.5 million) and Mudarabah investments of SAR 4 million (2010: SAR 1,699 million) which are hedged and measured at fair value to the extent of the risk being hedged.

Unquoted investments include Saudi Government Bonds and treasury bills of SAR 9,237million (2010: SAR 12,676 million). Saudi Istithmar mutual fund SAR 58 million (2010: SAR 58 million) and unquoted equity shares of SAR 372 million (2010: SAR 249 million) which are carried at cost as their fair value cannot be reliably measured, are also included under equities available for sale.

7. Loans and advances - net

a) Loans and advances are classified as follows:

i) Available for sale

SAR' 000	Overdraft & Commercial Loans	Credit Cards	Consumer Loans	Others	Total
2011					
Performing loans and advances-gross	-	-	-	-	-
Total loans and advances, available for sale	-	-	-	-	-
2010					
Performing loans and advances-gross	107,595	-	-	-	107,595
Total loans and advances, available for sale	107,595	-	-	-	107,595

ii) Other loans and advances held at amortised cost

SAR' 000	Overdraft & Commercial Loans	Credit Cards	Consumer Loans	Others	Total
2011					
Performing loans and advances-gross	75,714,916	701,793	9,802,677	6,516,336	92,735,722
Non performing loans and advances, net	852,378	56,103	215,940	3,629	1,128,050
Total loans and advances	76,567,294	757,896	10,018,617	6,519,965	93,863,772
Allowance for impairment	(1,159,204)	(57,050)	(320,712)	(1,764)	(1,538,730)
Loans and advances held at amortised cost, net	75,408,090	700,846	9,697,905	6,518,201	92,325,042
2010					
Performing loans and advances-gross	67,041,079	558,214	7,342,665	6,404,096	81,346,054
Non performing loans and advances, net	798,596	54,896	157,447	4,916	1,015,855
Total loans and advances	67,839,675	613,110	7,500,112	6,409,012	82,361,909
Allowance for impairment	(1,201,628)	(55,092)	(236,197)	-	(1,492,917)
Loans and advances held at amortised cost, net	66,638,047	558,018	7,263,915	6,409,012	80,868,992

7. Loans and advances - net (continued)

b) Movement in allowance for impairment of credit losses

SAR' 000	Overdraft & Commercial Loans	Credit Cards	Consumer Loans	Others	Total
2011					
Balance at beginning of the year	**1,201,628**	**55,092**	**236,197**	**-**	**1,492,917**
Provided during the year	**66,502**	**49,886**	**174,906**	**1,764**	**293,058**
Written off during the year	**(3,480)**	**(37,412)**	**(71,203)**	**-**	**(112,095)**
Recoveries of amounts previously provided	**(105,446)**	**(10,516)**	**(19,188)**	**-**	**(135,150)**
Balance at the end of the year	**1,159,204**	**57,050**	**320,712**	**1,764**	**1,538,730**
2010					
Balance at beginning of the year	1,020,348	68,251	187,686	-	1,276,285
Provided during the year	203,474	46,504	139,443	-	389,421
Written off during the year	(121)	(47,534)	(75,057)	-	(122,712)
Recoveries of amounts previously provided	(22,073)	(12,129)	(15,875)	-	(50,077)
Balance at the end of the year	1,201,628	55,092	236,197	-	1,492,917

The net charge to income of SAR 158 million (2010: SAR 339 million) in respect of impairment charge for credit losses for the year is net of recoveries of SAR 135 million (2010: SAR: 50 million). The allowance for impairment includes SAR 679 million (2010: SAR: 702 million) evaluated on collective impairment basis.

Non performing loans and advances are disclosed net of accumulated special commission in suspense of SAR 196 million (2010: SAR 141 million).

c) Credit quality of loans and advances

i) Neither past due nor impaired

SAR' 000	Overdraft & Commercial Loans	Credit Cards	Consumer Loans	Others	Total
2011					
Very strong quality including sovereign (A+ to B)	**23,592,980**	**6,375**	**4,370**	**2,060,571**	**25,664,296**
Good quality (C+ to C)	**22,298,259**	**8,222**	**378,133**	**2,260,132**	**24,944,746**
Satisfactory quality (C- to E+)	**26,825,320**	**616,181**	**8,167,321**	**2,132,104**	**37,740,926**
Special mention	**1,498,284**	**1,517**	**73,877**	**63,529**	**1,637,207**
Total	**74,214,843**	**632,295**	**8,623,701**	**6,516,336**	**89,987,175**
2010					
Very strong quality including sovereign (A+ to B)	14,880,962	3,484	1,741	1,002,322	15,888,509
Good quality (C+ to C)	16,030,229	4,225	3,344	2,347,333	18,385,131
Satisfactory quality (C- to E+)	33,541,156	486,737	4,545,472	3,028,774	41,602,139
Special mention	1,808,990	1,480	12,568	25,667	1,848,705
Total	66,261,337	495,926	4,563,125	6,404,096	77,724,484

7. Loans and advances - net (continued)

Very strong quality: Capitalization, earnings, financial strength, liquidity, management, market reputation and repayment ability are excellent.

Good quality: Capitalization, earnings, financial strength, liquidity, management, market reputation and repayment ability are good.

Satisfactory quality: Facilities require regular monitoring due to financial risk factors. Ability to repay remains at a satisfactory level.

Special mention: Facilities require close attention of management due to deterioration in the borrowers' financial condition. However, repayment is currently protected.

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

SAR' 000	Overdraft & Commercial Loans	Credit Cards	Consumer Loans	Others	Total
2011					
From 1 day to 30 days	**1,093**	**24,277**	**811,484**	**-**	**836,854**
From 31 days to 90 days	**64,897**	**25,456**	**253,199**	**-**	**343,552**
From 91 days to 180 days	**94,676**	**19,765**	**86,941**	**-**	**201,382**
More than 180 days	**1,339,407**	**-**	**27,352**	**-**	**1,366,759**
Total	**1,500,073**	**69,498**	**1,178,976**	**-**	**2,748,547**
2010					
From 1 day to 30 days	4,198	21,780	2,545,471	-	2,571,449
From 31 days to 90 days	80,958	21,554	168,533	-	271,045
From 91 days to 180 days	498,319	18,954	54,844	-	572,117
More than 180 days	303,862	-	10,692	-	314,554
Total	887,337	62,288	2,779,540	-	3,729,1655

iii) Economic sector risk concentrations for the loans and advances and allowance for impairment losses are as follows:

SAR' 000	Performing	Non Performing, net	Allowance for impairment losses	Loans and advances, net
2011				
Government and quasi government	**2,680,756**	**-**	**(980)**	**2,679,776**
Banks and other financial institutions	**1,123,530**	**202,800**	**(190,789)**	**1,135,541**
Agriculture and fishing	**2,391,124**	**8,585**	**(14,568)**	**2,385,141**
Manufacturing	**15,886,768**	**4,912**	**(119,343)**	**15,772,337**
Mining and quarrying	**1,729,682**	**2,290**	**(2,923)**	**1,729,049**
Electricity, water, gas and health services	**5,494,292**	**3,547**	**(12,796)**	**5,485,043**
Building and construction	**9,129,306**	**18,651**	**(89,166)**	**9,058,791**
Commerce	**14,569,728**	**154,354**	**(284,253)**	**14,439,829**
Transportation and communication	**7,227,299**	**86,540**	**(68,391)**	**7,245,448**
Services	**9,193,636**	**270,215**	**(184,965)**	**9,278,886**
Consumer loans and credit cards	**10,504,470**	**272,043**	**(377,762)**	**10,398,751**
Others	**12,805,131**	**104,113**	**(192,794)**	**12,716,450**
Total	**92,735,722**	**1,128,050**	**(1,538,730)**	**92,325,042**

7. Loans and advances - net (continued)

SAR' 000	Performing	Non Performing, net	Allowance for impairment losses	Loans and advances, net
2010				
Government and quasi government	1,899,714	-	-	1,899,714
Banks and other financial institutions	705,554	204,000	(170,904)	738,650
Agriculture and fishing	2,678,431	12,844	(16,684)	2,674,591
Manufacturing	9,713,259	4,943	(91,125)	9,627,077
Mining and quarrying	1,475,906	2,247	(2,505)	1,475,648
Electricity, water, gas and health services	2,826,784	3,556	(5,692)	2,824,648
Building and construction	7,608,317	26,801	(60,549)	7,574,569
Commerce	18,121,435	274,229	(300,215)	18,095,449
Transportation and communication	7,302,779	87,713	(91,062)	7,299,430
Services	6,246,787	128,774	(175,450)	6,200,111
Consumer loans and credit cards	7,900,879	212,343	(291,289)	7,821,933
Others	14,973,804	58,405	(287,442)	14,744,767
Total	81,453,649	1,015,855	(1,492,917)	80,976,587

Loans and advances include Islamic related products of SAR 44,724 million (2010: SAR 33,248 million).

The impairment charge for credit losses include provisions made against non performing commitments and contingencies.

d) Collateral

The Bank in the ordinary course of lending activities holds collaterals as security to mitigate credit risk in the loans and advances. These collaterals include time, demand and other cash deposits, financial guarantees, local and international equities, real estate and other fixed assets. The collaterals are held mainly against commercial and consumer loans and are managed against relevant exposures at their net realizable values.

e) Loans and advances include finance lease receivables, which are analyzed as follows:

SAR' 000	**2011**	**2010**
Gross receivable from finance leases:		
Less than 1 year	**270,043**	32,725
1 to 5 years	**452,726**	387,229
More than 5 years	**3,832,534**	2,183,009
	4,555,303	2,602,963
Unearned future finance income on finance leases	**(8)**	(1,235)
Net receivable from finance leases	**4,555,295**	2,601,728

8. Investment in associates

SAR' 000	**2011**	**2010**
Opening balance	**185,628**	144,344
Cost of investment during the year	**27,886**	40,625
Sale and transfer of investments	**(26,377)**	-
Dividend received	**-**	(3,299)
Share of (losses)/earnings	**(16,348)**	3,958
Closing balance	**170,789**	185,628

8. Investment in associates (continued)

Investment in associates represents 27% shareholding in interest in the Banque BEMO Saudi Fransi (2010: 27%), a bank incorporated in Syria and 50% shareholding in InSaudi Insurance Company (2010: 50%) incorporated in Kingdom of Bahrain and 32.5% shareholding in Saudi Fransi Cooperative Insurance Company (Allianz Saudi Fransi) (2010: 32.5%) incorporated in the Kingdom of Saudi Arabia. Sale and transfer of investment in associate represent partial proceed from sale of InSaudi Insurance Company and acquisition of Calyon Saudi Fransi.

The Bank also owns 50% of Sofinco Saudi Fransi (2010: 50%), which is involved in consumer lease finance. In Saudi Insurance Company's insurance business and related net assets have been transferred to Saudi Fransi Cooperative Insurance Company after the approval of the Saudi Arabian Monetary Agency (SAMA). Accordingly, after finalizing the transfer of the assets and liabilities and settlement of all legal obligations, the shareholders of the Insaudi Insurance Company have agreed to liquidate the company.

The Bank's share of the associates' financial statements:

	Banque Bemo Saudi Fransi - Syria		Allianz Saudi Fransi	
SAR' 000	**2011**	**2010**	**2011**	**2010**
Total assets	**1,428,705**	2,544,077	**349,319**	305,902
Total liabilities	**1,297,807**	2,436,088	**297,971**	254,432
Total equity	**130,898**	107,989	**51,348**	51,470
Total income	**51,761**	60,386	**124,422**	80,765
Total expenses	**34,984**	46,083	**124,552**	83,552

The results of other two associates i.e. InSaudi Insurance Company and Sofinco Saudi Fransi are not significant and are not disclosed in these consolidated financial statements.

9. Property and equipment, net

SAR' 000	Land and buildings	Leasehold improvements	Furniture, equipment and vehicles	**2011** Total	**2010** Total
Cost					
Balance at the beginning of the year	**466,950**	**106,522**	**675,568**	**1,249,040**	1,205,147
Additions	**6,093**	**33,783**	**85,230**	**125,106**	106,468
Disposals and retirements	**-**	**(31,205)**	**(62,802)**	**(94,007)**	(62,575)
Balance at the end of the year	**473,043**	**109,100**	**697,996**	**1,280,139**	1,249,040
Accumulated depreciation and amortization					
Balance at the beginning of the year	**184,472**	**6,541**	**471,723**	**662,736**	598,962
Charge for the year	**19,983**	**26,730**	**83,544**	**130,257**	126,241
Disposals and retirements	**-**	**(31,566)**	**(62,281)**	**(93,847)**	(62,467)
Balance at the end of the year	**204,455**	**1,705**	**492,986**	**699,146**	662,736
Net book value as at December 31, 2011	**268,588**	**107,395**	**205,010**	**580,993**	
Net book value as at December 31, 2010	282,478	99,981	203,845		586,304

9. Property and equipment, net (continued)

Leasehold improvements as at December 31, 2011 include work in progress amounting to SAR 17 million (2010: SAR 10 million). Furniture, equipment and vehicles include information technology related assets.

10. Other assets

SAR' 000		2011	2010
Accrued special commission receivable	– banks and other financial institutions	875	1,491
	– investments	9,898	9,480
	– loans and advances	342,552	223,282
Total accrued special commission receivable		353,325	234,253
Accounts receivable		355,051	706,311
Positive fair value of derivatives (note 11)		4,448,873	4,254,242
Other real estate		4,800	4,800
Others		446,966	373,737
Total		5,609,015	5,573,343

11. Derivatives

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

a) Swaps

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

b) Forwards and futures

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

c) Forward rate agreements

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

11. Derivatives (continued)

d) Options

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

Held for trading purposes

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

Held for hedging purposes

The Bank has adopted a comprehensive system for the measurement and the management of risk. Part of the risk management process involves managing the Bank's exposure to fluctuations in foreign exchange and commission rates to reduce its exposure to currency and commission rate risks to acceptable levels as determined by the Board of Directors in accordance with the guidelines issued by SAMA. The Board of Directors has established the levels of currency risk by setting limits on counterparty and currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits. The Board of Directors has also established the level of commission rate risk by setting commission rate sensitivity limits. Commission rate exposure in terms of the sensitivity is reviewed on a periodic basis and hedging strategies are used to reduce the exposure within the established limits.

As part of its asset and liability management the Bank uses derivatives for hedging purposes in order to adjust its own exposure to currency and commission rate risks. This is generally achieved by hedging specific transactions as well as strategic hedging against overall consolidated 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 Bank uses forward foreign exchange contracts and currency rate swaps to hedge against specifically identified currency risks. In addition, the Bank uses commission rate swaps and commission rate futures to hedge against the commission rate risk arising from specifically identified fixed commission rate exposures. The Bank 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 details of the hedged items and hedging instrument are formally documented and the transactions are accounted for as fair value or cash flow hedges.

11. Derivatives (continued)

Cash flow hedges

The Bank is exposed to variability in future commission income cash flows on non-trading assets and liabilities which bear variable commission rate. The Bank uses commission rate swaps as cash flow hedges of these commission rate risks. Also, as a result of firm commitments in foreign currencies, such as its issued foreign currency debt, the Bank is exposed to foreign exchange and commission rate risks which are hedged with cross currency commission rate swaps.

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

SAR' 000	Within 1 year	1-3 years	3-5 years	Over 5 years
2011				
Cash inflows (assets)	**679,146**	**926,810**	**358,496**	**41,338**
Cash out flows (liabilities)	**(151,042)**	**(550,359)**	**(285,358)**	**(32,684)**
Net cash inflow	**528,104**	**376,451**	**73,138**	**8,654**
2010				
Cash inflows (assets)	959,555	1,462,151	719,544	161,293
Cash out flows (liabilities)	(121,628)	(1,004,757)	(717,649)	(183,860)
Net cash inflow / (out flow)	837,927	457,394	1,895	(22,567)

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

SAR' 000	2011	2010
Special commission income	**826,379**	827,576
Special commission expense	**(169,925)**	(189,112)
Net gain on cash flow hedges reclassified to consolidated income statement	**656,454**	638,464

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

11. Derivatives (continued)

Derivative Financial instruments				Notional amounts by term to maturity				
SAR' 000	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
2011								
Held for trading								
Commission rate swaps	2,779,537	2,648,569	121,770,324	12,234,633	19,785,818	81,689,477	8,060,396	184,751,652
Commission rate futures and options	3,796	2,609	18,369,866	800,000	2,238,750	14,301,632	1,029,484	17,164,846
Forward rate agreements	-	-	-	-	-	-	-	-
Forward foreign exchange contracts	126,213	58,217	70,766,488	42,061,777	27,354,716	1,349,995	-	70,869,280
Currency options	14,843	-	39,252,138	8,521,399	22,185,335	8,545,404	-	42,245,165
Others	5,245	-	985,433	184,579	195,011	602,543	3,300	1,101,879
Held as fair value hedges								
Commission rate swaps	178,732	17,407	4,562,924	12,187	7,589	4,279,148	264,000	7,038,749
Held as cash flow hedges								
Commission rate swaps	1,359,518	8,014	27,452,666	1,137,500	3,511,200	21,197,716	1,606,250	27,137,362
Total	4,467,884	2,734,816	283,159,839	64,952,075	75,278,419	131,965,915	10,963,430	350,308,933
Fair value of netting arrangements	(19,011)	(19,011)	(832,452)	(99,374)	(595,578)	(137,500)	-	(59,260,178)
Total after netting (notes 10 and 16)	4,448,873	2,715,805	282,327,387	64,852,701	74,682,841	131,828,415	10,963,430	291,048,755
2010								
Held for trading								
Commission rate swaps	4,113,905	3,782,013	183,858,985	9,544,291	26,843,396	131,630,101	15,841,197	183,774,214
Commission rate futures and options	7,166	2,493	15,148,554	-	1,548,750	13,169,405	430,399	15,266,227
Forward rate agreements	743	485	1,137,500	-	1,137,500	-	-	853,125
Forward foreign exchange contracts	109,354	133,490	61,056,389	29,963,200	29,997,349	1,095,840	-	63,769,386
Currency options	14,608	101	8,142,464	5,753,076	1,741,391	647,997	-	14,070,041
Others	2,866	-	718,472	156,146	257,509	304,817	-	868,579
Held as fair value hedges								
Commission rate swaps	180,429	77,118	8,332,341	102,675	1,703,577	6,086,179	439,910	9,181,159
Held as cash flow hedges								
Commission rate swaps	1,125,871	33,002	30,454,229	809,000	3,500,000	23,925,229	2,220,000	28,732,136
Total	5,554,942	4,028,702	308,848,934	46,328,388	66,729,472	176,859,568	18,931,506	316,514,867
Fair value of netting arrangements	(1,300,700)	(1,300,700)	(67,266,810)	(1,823,350)	(7,290,154)	(53,361,486)	(4,791,820)	(66,510,492)
Total after netting (notes 10 and 16)	4,254,242	2,728,002	241,582,124	44,505,038	59,439,318	123,498,082	14,139,686	250,004,375

11. Derivatives (continued)

Commission rate swaps include the notional amount of SAR 832 million (2010: SAR 67,267 million) with an aggregate positive fair value and a negative fair value of SAR 19 million (2010: SAR 1,301 million) which are netted out for credit exposure purposes as the Bank intends to settle these on a net basis.

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

SAR' 000	fair value	Hedge inception value	Risk	Hedging instrument	Positive fair value	Negative fair value
2011						
Fixed commission rate investments	**4,142**	**4,125**	**Fair value**	**Commission rate swap**	**-**	**17**
Fixed commission rate loans	**435,165**	**442,609**	**Fair value**	**Commission rate swap**	**-**	**17,390**
Fixed commission rate deposits	**1,833,086**	**1,678,690**	**Fair value**	**Commission rate swap**	**133,831**	**-**
Fixed commission rate debt securities	**2,462,719**	**2,437,500**	**Fair value**	**Commission rate swap**	**44,901**	**-**
Floating commission rate investments	**775,798**	**773,950**	**Cash flow**	**Commission rate swap**	**32,660**	**-**
Floating commission rate loans	**26,704,379**	**26,678,716**	**Cash flow**	**Commission rate swap**	**1,326,858**	**8,014**
2010						
Fixed commission rate investments	1,699,835	1,666,988	Fair value	Commission rate swap	-	31,417
Fixed commission rate loans	1,048,152	970,211	Fair value	Commission rate swap	13,658	42,990
Fixed commission rate deposits	3,322,706	3,132,026	Fair value	Commission rate swap	155,931	-
Fixed commission rate debt securities	2,428,019	2,437,500	Fair value	Commission rate swap	10,838	-
Floating commission rate investments	1,698,359	1,704,947	Cash flow	Commission rate swap	97,342	-
Floating commission rate loans	28,781,720	28,746,279	Cash flow	Commission rate swap	1,028,529	33,002

The net gains on the hedging instruments for fair value hedge are SAR 161 million (2010: SAR 106 million). The net losses on the hedged item attributable to the hedged risk are SAR 137 million (2010: loss SAR 89 million). The net fair value of the derivatives is SAR 24 million (2010: SAR 17 million).

Approximately 75% (2010: 81%) of the net positive fair values of the Bank's derivatives are entered into with financial institutions and less than 22% (2010: 40%) of the net positive fair values of the derivatives are with any single counterpart group at the reporting date. The derivative activities are mainly carried out under Bank's treasury banking segment.

12. Due to banks and other financial institutions

SAR' 000	2011	2010
Current accounts	**400,799**	338,546
Money market deposits	**1,662,949**	1,974,360
Total	**2,063,748**	2,312,906

13. Customers' deposits

SAR' 000	2011	2010
Demand	51,816,883	43,231,502
Saving	446,471	367,250
Time	54,017,422	46,736,743
Other	3,682,635	3,193,756
Total	109,963,411	93,529,251

Other customers' deposits include SAR 1,171 million (2010: SAR 1,247 million) related to margins held for irrevocable commitments.

Time deposits include Islamic related products of SAR 24,961million (2010: SAR 16,565 million).

Customers' deposits include foreign currency deposits as follows:

SAR' 000	2011	2010
Demand	7,830,909	5,699,916
Saving	20,541	20,665
Time	15,368,697	16,862,212
Other	451,368	874,262
Total	23,671,515	23,457,055

14. Term loans

Bank entered into a five year term loan agreement on June 25, 2008 for Euro 100 million (repayable in 2013) for general banking purposes. The loan has been drawn down in full. In addition, the Bank entered into another term loan agreement on September 22, 2008 for USD 525 million, which has also been drawn down in full and comprises a three year tranche (USD 183 million) and a five year tranche (USD 342 million) for general banking purposes. However, the Bank has an option to repay all these loans before their maturity subject to terms and conditions of the respective agreements. During the year a three year tranche term loan (USD183 million) was matured and fully settled.

15. Debt securities

During the quarter ended March 31, 2010, the Bank issued USD 650 Million in 5 year non-convertible and unsecured fixed rate bonds, under its USD 2 Billion Euro Medium Term Note programme which is listed on the London Stock Exchange. The bonds pay a semi-annual coupon of 4.25% and are to be used for general banking purposes.

16. Other liabilities

SAR' 000		2011	2010
Accrued special commission payable	– banks and other financial institutions	**271**	704
	– customers' deposits	**83,808**	65,437
	– term loans	**40,893**	30,079
	– others	**287,217**	167,533
Total accrued special commission payable		**412,189**	263,753
Accounts payable and accrued expenses		**960,429**	1,128,486
Negative fair value of derivatives (note 11)		**2,715,805**	2,728,002
Others		**479,480**	339,109
Total		**4,567,903**	4,459,350

17. Share capital

The authorised, issued and fully paid share capital of the Bank consists of 723.2 million shares of SAR 10 each (2010: 723.2 million shares of SAR 10 each). The Board of Directors have recommended to the shareholders of the Bank, to distribute dividend in shares to increase the Share Capital from SAR 7,232 million to SAR 9,040 million through the issuance of 1 stock dividend shares for every 4 shares held, by capitalization of general reserves. The number of shares will accordingly increase from 723.2 million shares to 904 million shares. The recommendation on issuance of stock dividend shares is subject to approval of the Bank's shareholders in an extra ordinary shareholders' meeting and the relevant authorities.

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

SAR' 000	%	2011	2010
Saudi shareholders	68.9	**4,982,143**	4,982,143
Credit Agricole Corporate and Investment Bank (CA-CIB)	31.1	**2,250,000**	2,250,000
Total	100	**7,232,143**	7,232,143

18. Statutory reserves

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

An amount of SAR 728 million (2010: SAR 700 million) has been transferred from the retained earnings to statutory reserve during the year. This reserve is not available for distribution.

19. Other reserves

SAR' 000	Cash flow hedges	Available for sale investments	Total
2011			
Balance at beginning of the year	**702,275**	**44,697**	**746,972**
Net change in fair value	**894,048**	**(108,543)**	**785,505**
Transfer to consolidated income statement	**(656,454)**	**-**	**(656,454)**
Net movement during the year	**237,594**	**(108,543)**	**129,051**
Balance at the end of the year	**939,869**	**(63,846)**	**876,023**
2010			
Balance at beginning of the year	347,251	(60,260)	286,991
Net change in fair value	993,488	107,306	1,100,794
Transfer to consolidated income statement	(638,464)	(2,349)	(640,813)
Net movement during the year	355,024	104,957	459,981
Balance at the end of the year	702,275	44,697	746,972

Other reserves represent the net unrealized revaluation gains / (losses) of cash flow hedges and available for sale investments. These reserves are not available for distribution.

Transfer to consolidated income statement from available for sale reserve represents, gain on disposal of available for sale investments – international amounting to SAR Nil million (2010: loss SAR 2 million). Accordingly, the cumulative gain or loss recognised previously in other comprehensive income and gain or loss on disposal of investments during the year and impairment charges have been transferred to consolidated income statement.For cash flow hedges, the amount shown as balance of reserves as at December 31, 2011 is expected to affect the consolidated income statement in the coming one to five years.

20. Commitments and contingencies

a) Legal proceedings

As at December 31, 2011 there were 11 (2010: 11) legal proceedings outstanding against the Bank. No material provision has been made as the related professional legal advice indicates that it is unlikely that any significant loss will arise.

b) Capital commitments

As at December 31, 2011 the Bank had capital commitments of SAR 70 million (2010: SAR 62 million) in respect of buildings and equipment purchases.

c) Credit related commitments and contingencies

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

20. Commitments and contingencies (continued)

Guarantees and standby letters of credit, which represent irrecoverable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans and advances.

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

Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement.

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

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

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

SAR' 000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
2011					
Letters of credit	**8,016,247**	**4,100,827**	**1,204,460**	**2,398**	**13,323,932**
Letters of guarantee	**8,365,447**	**17,720,430**	**10,513,473**	**338,838**	**36,938,188**
Acceptances	**1,493,430**	**713,034**	**76,607**	**-**	**2,283,071**
Irrevocable commitments to extend credit	**49,573**	**1,980,673**	**2,612,875**	**504,596**	**5,147,717**
Total	**17,924,697**	**24,514,964**	**14,407,415**	**845,832**	**57,692,908**
2010					
Letters of credit	7,372,166	3,363,076	1,363,991	2,706	12,101,939
Letters of guarantee	9,429,672	14,614,275	11,448,140	519,219	36,011,306
Acceptances	1,289,868	734,771	74,322	-	2,098,961
Irrevocable commitments to extend credit	78,750	117,606	1,693,410	2,902,202	4,791,968
Total	18,170,456	18,829,728	14,579,863	3,424,127	55,004,174

The outstanding unused portion of non firm commitments which can be revoked unilaterally at any time by the Bank as at December 31, 2011 is SAR 72,574 million (2010: SAR 64,738 million).

20. Commitments and contingencies (continued)

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

SAR' 000	2011	2010
Government and quasi government	1,892,036	1,022,443
Corporate	46,914,339	47,054,287
Banks and other financial institutions	8,653,692	6,710,081
Other	232,841	217,363
Total	57,692,908	55,004,174

d) Operating lease commitments

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

SAR' 000	2011	2010
Less than 1 year	8,106	5,508
1 to 5 years	81,179	73,339
Over 5 years	152,857	155,307
Total	242,142	234,154

21. Special commission income and expense

SAR' 000	2011	2010
Special commission income		
Investments		
– Available for sale	194,603	204,695
– Held to maturity	51,276	71,928
– Other investments held at amortized cost	74,897	98,323
	320,776	374,946
Due from banks and other financial institutions	45,013	30,358
Loans and advances	3,265,510	3,131,754
Total	3,631,299	3,537,058
Special commission expense		
Due to banks and other financial institutions	8,741	10,790
Customers' deposits	396,613	371,856
Term loans and debt securities	88,874	88,555
Total	494,228	471,201

22. Fee and commission income, net

SAR' 000	2011	2010
Fees and commission income		
- Share trading, brokerage , fund management and corporate finance	230,052	166,335
- Trade finance	341,644	307,063
- Project finance and advisory	256,182	251,252
- Card products	134,847	108,524
- Other banking services	217,335	163,177
Total fees and commission income	1,180,060	996,351
Fees and commission expense		
- Share trading and brokerage	35,410	27,362
- Custodial services	4,462	5,515
- Card products	88,794	75,433
- Other banking services	1,342	998
Total fees and commission expense	130,008	109,308
Fees and commission income, net	1,050,052	887,043

23. Trading income, net

SAR' 000	2011	2010
Foreign exchange (losses)/ gains, net	(1,622)	(4,971)
Investments- held as FVIS (trading), net	24,331	34,717
Derivatives, net	109,967	172,261
Total	132,676	202,007

24. Dividend income

SAR' 000	2011	2010
Available for sale investments	14,244	17,472

25. Gains / (losses) on non-trading investments, net

SAR' 000	2011	2010
Available for sale	-	2,349

26. Other operating income

SAR' 000	2011	2010
Gains on disposal of property and equipment	297	313
Others	29,726	19,779
Total	30,023	20,092

27. Other operating expenses

SAR' 000	2011	2010
Loss on disposal of property and equipment	118	36
Others	27,075	6,594
Total	27,193	6,630

28. Basic and diluted earnings per share

Basic and diluted earnings per share for the years ended December 31, 2011 and 2010 are calculated by dividing the net income for the year attributable to equity holders' of the Bank by 723.2 million shares.

29. Gross dividend, zakat and income tax

The Board of Directors has declared interim gross dividend of SAR 543 million (SAR 0.7 Net per share). Net total interim dividend to Saudi shareholders was SAR 349 million and Net total interim dividend to foreign shareholders was SAR 78 million. No final dividend has been proposed by the Board of Directors for the year 2011.

Gross dividend

SAR' 000	2011	2010
Interim dividend	542,913	-
Final proposed gross dividend	-	800,000
Total	542,913	800,000

The zakat and income tax, attributable to Saudi and foreign shareholders are as follows:

a) Zakat

Zakat attributable to the Saudi shareholders for the year amounted approximately to SAR 56 million (2010: SAR 53 million). Zakat included in interim gross dividend amounted to SAR 25 million and estimated Zakat for the 2nd half of 2011 amounted to SAR 31 million which was deducted from retained earnings.

29. Gross dividend, zakat and income tax (continued)

The Bank received Zakat/Tax assessment for the year 2010. This assessment is primarily due to the disallowance of certain long-term investments from the Zakat base of the Bank. The Bank, in consultation with its advisors, has contested the assessment, and the Saudi banking industry has raised this issue with the regulator for a satisfactory resolution. At the current stage, a reasonable estimation of the exposure cannot be determined reliably.

b) Income tax

Income tax payable in respect of foreign shareholder - CA-CIB's current year's share of income tax is approximately SAR 183 million (2010: SAR 180 million). Tax deducted from the interim gross dividend amounted to SAR 91 million and estimated tax for the 2nd half of 2011 amounted to SAR 92 million out of which 14 million was deducted from the retained earnings in proportion to foreign shareholding and remaining tax of SAR 78 million will be claimed from the foreign shareholders.

30. Cash and cash equivalents

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

SAR' 000	**2011**	**2010**
Cash and balances with SAMA excluding statutory deposit - (note 4)	**12,459,872**	5,998,293
Due from banks and other financial institutions maturing within ninety days from the date of acquisition	**7,009,009**	5,191,617
Total	**19,468,881**	11,189,910

31. Employees Compensation practices

SAR' 000	**2011**				
Categories of employees	Number of employees	Fixed compensation SAR' 000	Variable compensation SAR' 000	Total compensation SAR' 000	Forms of payment
Senior executives	**18**	**25,935**	**34,080**	**60,015**	**Cash**
Employees engaged in risk taking activities	**250**	**137,416**	**62,143**	**199,559**	**Cash**
Employees engaged in control functions	**240**	**75,365**	**19,714**	**95,079**	**Cash**
Other employees	**2,280**	**332,014**	**37,520**	**369,534**	**Cash**
Total	**2,788**	**570,730**	**153,457**	**724,187**	

SAMA circular no. 26194/BCS/12580 dated May 3rd 2010 requires disclosing above information.

Senior executives:

This comprises senior management having responsibility and authority for formulating strategies, directing and controlling the activities of the Bank. This covers the MD, DMD and all direct reports to these two positions.

31. Employees Compensation practices (continued)

Employees engaged in risk taking activities:

This comprises of managerial staff within the business lines (Corporate, Retail, Treasury and Investment banking and Brokerage), who are responsible for executing and implementing the business strategy on behalf of the Bank. This includes those involved in recommending and evaluating credit limits and credit worthiness, pricing of loans, undertaking and executing business proposals, treasury dealing activities, investment management and brokerage services.

Employees engaged in control functions:

This refers to employees working in divisions that are not involved in risk taking activities but engaged in review functions (Risk Management, Compliance, Internal Audit, Finance and Accounting). These functions are fully independent from risk taking units.

Other employees:

This includes all other employees of the Bank, excluding those already reported under category 1 - 3.

Governance of Compensation

The Board of Directors of BSF, through the Nomination and Compensation Committee (NCCOM) is responsible for the overall design and oversight of the compensation and performance management system.

NCCOM: Terms of Reference

a. Overseeing the compensation system's design and operation on behalf of the Board of Directors;
b. Preparing the Compensation Policy and placing it before the Board for approval;
c. Periodically reviewing the Compensation Policy on its own or when advised by the Board, and making recommendations to the Board for amending/updating the Policy;
d. Periodically evaluating the adequacy and effectiveness of the Compensation Policy to ensure that its stated objectives are achieved;
e. Evaluating practices by which compensation is paid for potential future revenues whose timing and likelihood remain uncertain;
f. Making recommendations to the Board on the level and composition of remuneration of key executives of the bank. The key executives for this purpose will include all those executives whose appointment is subject to no objection by SAMA;
g. Determination of bonus pool based on risk-adjusted profit of the bank for payment of performance bonus;
h. Reviewing compliance of the Compensation Policy with these Rules and the FSB principles and Standards;
i. Performing any other related tasks to comply with the regulatory requirements.
j. Considering the suitability of candidates for membership of the Board in accordance with the Articles of Association and approved policies and standards;
k. Undertaking an annual review of the requirement of suitable skills and qualifications for the membership of the Board;
l. Recommending to the Board criteria for the composition of the Board and its Committees, including the number of Board members, and independence of directors;
m. Conducting an annual evaluation of the independent status of each candidate proposed for election at the General Assembly meeting and reporting the results of such evaluation to the Board;
n. Satisfying itself to the Board and its committees, as applicable, are in compliance with all regulatory requirements, including its composition;

o. Assisting to the Board in reviewing the adequacy of the succession planning process and oversee its implementation;

p. Reviewing the performance and making recommendations to the Board regarding the compensation of the Senior Management of BSF;

q. Reviewing and assessing the adequacy of this Charter every three years and submitting this Charter and any amendments to the Board for approval;

r. Conducting self-evaluation to assess the Committee's contribution and effectiveness in fulfilling its mandate and present it to the Board every three years.

Salient Features of BSF Compensation Policy

Operating in Saudi Arabia the sole Middle Eastern country member of the G20, BSF Management working closely with the Board of Directors has an ingrained culture and track record of running prudent compensation policy during period of prosperity and financial crisis. BSF follows strict governance-orientated compensation practices. BSF compensation system promotes meritocracy, controls excessive risk-taking and ensures effective risk management. The compensation policy as recently amended by the NCCOM and approved by the Board, conforms to compensation related corporate governance and supports the SAMA rules and Financial Stability Board (FSB) guidelines. It is structured to meet challenges i.e. attracting, retaining and motivating highly skilled staff, recognizing:

a. That BSF success heavily depends on the talents and efforts of highly skilled individuals;

b. That competition within the Kingdom and the Gulf's financial services industry for qualified talents has often been intense.

In line with the Saudi banking industry practices, BSF uses a mix of fixed and variable compensation. The former is driven by job size, responsibility, supply and jobs' relative worth in the market. The latter is driven by performance thus payment is based on meeting pre-agreed targets.

The fixed compensation package is composed of base salary, allowances and fringe benefits. As a standard practice in the Kingdom, the fixed income is driven by a base pay that is regularly benchmarked and compared with competition to ensure competitiveness.

Per Saudi banking industry practice, BSF pays a Performance Bonus, the variable component. As a form of incentive, the Bonus Pool is set by Management and NCCOM working closely with Chief Risk Officer, Chief Financial Officer and Human Resources Manager based on the year's performance or net profit adjusted to the full range of identifiable risks.

BSF as part of its reward philosophy aims on the perfect blend of benefits that is externally competitive to retain, motivate and engage. A level playing field has always been an important consideration in our reward strategy. BSF design compensation structure with prudence. Variable pay deferral, for instance, is generally a sound way to encourage long-term commitment. But doing so when most banks, both in the country and in the region, still paying one-time in cash, requires bit of a caution. This year, the Management and the Board of Directors, through the NCCOM, took a close look to further align its compensation and rewards policy to stockholders' interest and value creation. Full details of the new compensation model per Action Plan are set to be completed in 2012 for implementation in performance year 2013.

31. Employees Compensation practices (continued)

Allocation of Bonus to Groups and Divisions is based on Key Performance Indicator (KPI) target achievements. Distribution of bonus to individual employees is based on review of performance by respective supervisors measured in terms of meeting the KPI target.

32. Operating segments

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

Transactions between operating segments are approved by the management as per agreed terms and are reported according to the Bank's internal transfer pricing policy. These terms are in line with normal commercial terms and conditions. The revenue from external parties report to the Board is measured in a manner consistent with that in the consolidated income statement.

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since 31 December 2010. The Bank's primary business is conducted in Saudi Arabia.

a) The Bank's reportable segments under IFRS 8 are as follows:

Retail Banking

incorporates private and small establishment customers' demand accounts, overdrafts, loans, saving accounts, deposits, credit and debit cards, consumer loans, and certain forex products.

Corporate Banking

incorporates corporate and medium establishment customers' demand accounts, deposits, overdrafts, loans and other credit facilities and derivative products.

Treasury

incorporates treasury services, trading activities, investment securities, money market, Bank's funding operations and derivative products.

Investment banking and brokerage

Investment management services and asset management activities related to dealing, managing, arranging, advising and custody of securities, retail investments products, corporate finance and international and local shares brokerage services and insurance.

The Bank's total assets and liabilities as at December 31, 2011 and 2010, its total operating income and expenses, share in earnings / (losses) of associates and its net income attributable to equity holders of the Bank for the years then ended by operating segments, are as follows:

32. Operating segments (continued)

SAR' 000	Retail banking	Corporate banking	Treasury	Investment banking and brokerage	Total
2011					
Total assets	**16,802,119**	**79,965,066**	**43,282,176**	**430,597**	**140,479,958**
Investment in associates	**-**	**-**	**170,789**	**-**	**170,789**
Total liabilities	**45,950,747**	**64,017,307**	**10,538,804**	**317,773**	**120,824,631**
Total operating income	**1,557,202**	**2,154,327**	**672,166**	**201,079**	**4,584,774**
Share in losses of associates, net	**-**	**-**	**(16,348)**	**-**	**(16,348)**
Total operating expenses	**1,067,721**	**316,591**	**155,086**	**118,086**	**1,657,484**
Net income for the year	**489,481**	**1,837,736**	**500,732**	**82,993**	**2,910,942**
Results					
Net special commission income	**1,224,161**	**1,573,342**	**333,946**	**5,622**	**3,137,071**
Fee and commission income, net	**276,029**	**578,635**	**(71)**	**195,459**	**1,050,052**
Exchange income, net	**32,564**	**-**	**188,144**	**-**	**220,708**
Trading income, net	**-**	**-**	**132,676**	**-**	**132,676**
Impairment charges for credit losses, net	**166,835**	**(8,927)**	**-**	**-**	**157,908**
Depreciation and amortization	**95,219**	**22,393**	**9,617**	**3,028**	**130,257**
2010					
Total assets	14,203,918	71,821,358	37,111,709	81,345	123,218,330
Investment in associates	-	-	185,628	-	185,628
Total liabilities	40,584,924	53,587,463	11,005,484	17,411	105,195,282
Total operating income	1,349,510	2,037,008	891,039	117,672	4,395,229
Share in earnings of associates, net	-	-	3,958	-	3,958
Total operating expenses	922,782	452,996	125,739	96,383	1,597,900
Net income for the year	426,728	1,584,012	769,258	21,289	2,801,287
Non controlling interest (income)	-	-	-	(280)	(280)
Results					
Net special commission income	1,078,171	1,506,989	480,697	-	3,065,857
Fee and commission income, net	232,494	528,343	8,534	117,672	887,043
Exchange income, net	21,499	-	178,910	-	200,409
Trading income, net	-	-	202,007	-	202,007
Gains on non trading investments, net	-	-	2,349	-	2,349
Impairment charges for credit losses, net	183,437	156,956	(1,049)	-	339,344
Depreciation and amortization	92,273	24,273	8,200	1,495	126,241

32. Operating segments (continued)

b) The Bank's credit exposure by operating segments is as follows:

SAR' 000	Retail banking	Corporate banking	Treasury	Total
2011				
Statement of financial position assets	**16,332,073**	**79,812,152**	**37,356,772**	**133,500,997**
Commitments and contingencies	**139,409**	**25,782,785**	**68,618**	**25,990,812**
Derivatives	**25,926**	**1,703,074**	**8,059,108**	**9,788,108**
2010				
Statement of financial position assets	13,507,712	71,647,096	31,263,888	116,418,696
Commitments and contingencies	65,092	24,800,628	55,267	24,920,987
Derivatives	20,985	964,393	6,602,505	7,587,883

Credit exposure comprises the carrying value of consolidated statement of financial position assets excluding cash, property and equipment, other assets and credit equivalent value of commitments, contingencies and derivatives. The credit equivalent value of commitments, contingencies and derivatives are calculated as per the Saudi Arabian Monetary Agency (SAMA) guidelines.

33. Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and will cause the other party to incur a financial loss. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities. There is also credit risk on credit related commitments and contingencies and derivatives.

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

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

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

33. Credit risk (continued)

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

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

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

On an ongoing basis, the Bank continues to improve its organization and resources in order to achieve strict, prudent and exhaustive risk management. The Risk Department is set up in such a way so as to assure independence of the Credit Division from the business lines. Common risk management procedures are adapted to the changes in the Bank's activities and updated on a regular basis. Business lines submit the credit applications to the Credit Division which in turn acts as Secretary of the Credit Committee. The principle of dual signature by the business line and Credit Division applies for all commitments. Above a certain limit, the files are submitted to the Executive Committee for their approval.

Risk rating is used to classify borrowing customers according to the Bank's assessment of the intrinsic risk quality of a customer. The Bank uses an automated rating system to assign the rating of customers, which takes into consideration the quantitative financial data as well as qualitative elements assigned by the business lines. The system uses a scale of 14 grades and allows comparison with ratings of international rating agencies. Corporate and commercial customers are assigned specific ratings accordingly.

The loans and advances portfolio is reviewed periodically, with the annual credit application review, which assists to maintain and improve the quality of assets. When a customer defaults on commission payment or repayment of principal, the customer is downgraded to the non performing portfolio. The non performing portfolio is dealt with by the Remedial Department within the Credit Division. Impairment charge for credit losses are allocated and monitored regularly.

The debt securities included in investment portfolio are mainly sovereign risk. For analysis of investments by counterparty and the details of the composition of investments, and loans and advances, refer to note 6 and 7, respectively. Information on credit risk relating to derivative instruments is provided in note 11 and for commitments and contingencies in note 20.

33. Credit risk (continued)

Geographical concentration

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

SAR' 000	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	Other Countries	Total
2011						
Assets						
Cash and balances with SAMA	18,115,582	-	-	-	-	18,115,582
Due from banks and other financial institutions	1,153,750	736,093	4,538,166	576,565	4,686	7,009,260
Investments and investment in associates net	14,937,616	1,018,764	710,011	147,729	25,946	16,840,066
Loans and advances, net	89,920,884	1,447,045	733,677	31,275	192,161	92,325,042
Total	124,127,832	3,201,902	5,981,854	755,569	222,793	134,289,950
Liabilities						
Due to banks and other financial institutions	85,421	1,620,103	225,870	31,549	100,805	2,063,748
Customers' deposits	109,773,229	47,798	72,666	141	69,577	109,963,411
Term loans	-	-	1,766,850	-	-	1,766,850
Debt securities	-	-	2,462,719	-	-	2,462,719
Total	109,858,650	1,667,901	4,528,105	31,690	170,382	116,256,728
Commitments and contingencies	48,829,896	497,799	4,809,035	212,566	3,343,612	57,692,908
Credit exposure (credit equivalent value)						
Commitments and contingencies	22,172,612	258,663	2,421,164	106,283	1,032,090	25,990,812
Derivatives	2,676,789	277,342	6,118,079	715,898	-	9,788,108
2010						
Assets						
Cash and balances with SAMA	10,864,136	-	-	-	-	10,864,136
Due from banks and other financial institutions	900,000	426,101	3,804,440	18,053	43,023	5,191,617
Investments and investment in associates net	18,615,967	904,260	171,888	334,228	-	20,026,343
Loans and advances, net	77,980,557	1,737,178	1,011,420	36,167	211,265	80,976,587
Total	108,360,660	3,067,539	4,987,748	388,448	254,288	117,058,683
Liabilities						
Due to banks and other financial institutions	677,510	1,280,616	146,709	132,286	75,785	2,312,906
Customers' deposits	93,267,237	71,740	96,661	75	93,538	93,529,251
Term loans	-	-	2,465,756	-	-	2,465,756
Debt securities	-	-	2,428,019	-	-	2,428,019
Total	93,944,747	1,352,356	5,137,145	132,361	169,323	100,735,932
Commitments and contingencies	48,084,595	742,390	4,224,606	64,079	1,888,504	55,004,174
Credit exposure (credit equivalent value)						
Commitments and contingencies	21,799,207	327,927	2,120,145	32,040	641,668	24,920,987
Derivatives	1,894,615	228,890	4,935,575	528,803	-	7,587,883

33. Credit risk (continued)

Credit equivalent amounts reflect the amounts that result from translating the Bank's credit related commitments and contingencies and derivatives liabilities into the risk equivalent of loans using credit conversion factors prescribed by SAMA. Credit conversion factor is meant to capture the potential credit risk related to the exercise of the commitment.

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

	2011		2010	
SAR' 000	Non performing net	Allowance for impairment of credit losses	Non performing net	Allowance for impairment of credit losses
Kingdom of Saudi Arabia	**1,128,050**	**1,538,730**	1,015,855	1,492,917
Total	**1,128,050**	**1,538,730**	1,015,855	1,492,917

Allowance for impairment of credit losses includes specific and collective provisions.

34. 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 Bank classifies exposures to market risk into either trading or non-trading or banking-book.

The market risk for the trading book is managed and monitored using VAR methodology. Market risk for non-trading book is managed and monitored using a combination of VAR, stress testing and sensitivity analysis.

a) Market risk - Trading book:

The Board 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 Bank applies on a daily basis a VAR methodology in order to assess the market risk positions held and also to estimate the potential economic loss based on a set of assumptions and changes in market conditions.

A VAR methodology estimates the potential negative change in market value of a portfolio at a given confidence level and over a specified time horizon. The Bank uses 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 distribution.

34. Market risk (continued)

The VAR that the Bank 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 Bank 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 Bank's ALCO committee for their review.

The Bank's VAR related information for the year ended December 31, 2011 and 2010 are follows:

SAR' 000	Foreign exchange rate	Special commission rate risk	Total
2011			
VAR as at December 31, 2011	**100**	**939**	**1,039**
Average VAR for 2011	**102**	**1,356**	**1,458**
Maximum VAR for 2011	**567**	**2,897**	**3,464**
Minimum VAR for 2011	**12**	**656**	**668**
2010			
VAR as at December 31, 2010	23	926	949
Average VAR for 2010	47	2,243	2,290
Maximum VAR for 2010	287	7,057	7,344
Minimum VAR for 2010	-	734	734

b) Market risk non- trading book

Market risk on non-trading book 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 Board has established special commission rate gap limits for stipulated periods. The Bank monitors positions daily and uses hedging strategies to ensure maintenance of positions within the established gap limits.

34. Market risk (continued)

The following table depicts the sensitivity to a reasonable possible change in special commission rates, with other variables held constant, on the Bank's consolidated income statement or equity. The sensitivity of the special commission income is the effect of the assumed changes in special commission rates with a lowest level at 0%, on the net special commission income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at December 31, 2011, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing the fixed rate available for sale financial assets, including the effect of any associated hedges as at December 31, 2011 for the effect of assumed changes in special commission rate. The sensitivity of equity is analyzed by maturity of the asset or swap. All the banking book exposures are monitored and analyzed in currency concentrations and relevant sensitivities are disclosed in SAR thousands.

			Sensitivity of Equity				
SAR' 000	BPS change	Sensitivity of special commission income	6 months or less	1 year or less	1-5 years or less	Over or less	Total
2011							
Currency							
USD	**+100**	**(85,000)**	**(199)**	**(1,699)**	**(17,025)**	**(1,275)**	**(20,198)**
	-100	**81,000**	**199**	**1,699**	**17,025**	**1,275**	**20,198**
SAR	**+100**	**145,000**	**21,331**	**(22,671)**	**(593,500)**	**(21,146)**	**(615,986)**
	-100	**(200,000)**	**(21,331)**	**22,671**	**593,500**	**21,146**	**615,986**
2010							
Currency							
USD	+100	(98,000)	600	(1,489)	(27,641)	(3,491)	(32,021)
	-100	75,000	(600)	1,489	27,641	3,491	32,021
SAR	+100	180,000	20,279	(34,741)	(684,627)	(61,784)	(760,873)
	-100	(243,000)	(20,279)	34,741	684,627	61,784	760,873

Special commission rate sensitivity of assets, liabilities and derivatives

The Bank manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market special commission rates on its financial position and cash flows. The Board sets limits on the level of mismatch of special commission rate re-pricing that may be undertaken, which is monitored daily by the Bank's Treasury.

The table below summarises the Bank's exposure to special commission rate risks. Included in the table are the Bank's financial instruments at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

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

34. Market risk (continued)

SAR' 000	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total
2011						
Assets						
Cash and balances with SAMA	11,670,919	-	-	-	6,444,663	18,115,582
Due from banks and other financial institutions	6,331,728	-	-	-	677,532	7,009,260
Investments and investment in associates ,net	3,572,147	7,127,564	4,767,829	399,100	973,426	16,840,066
Loans and advances, net	57,512,655	23,262,594	7,523,024	3,758,440	268,329	92,325,042
Property and equipment, net	-	-	-	-	580,993	580,993
Other assets	-	-	-	-	5,609,015	5,609,015
Total assets	79,087,449	30,390,158	12,290,853	4,157,540	14,553,958	140,479,958
Liabilities and shareholders' equity						
Due to banks and other financial institutions	1,662,949	-	-	-	400,799	2,063,748
Customers' deposits	39,134,184	13,247,891	2,154,922	-	55,426,414	109,963,411
Term loans	1,766,850	-	-	-	-	1,766,850
Debt securities	2,462,719	-	-	-	-	2,462,719
Other liabilities	-	-	-	-	4,567,903	4,567,903
Shareholders' equity	-	-	-	-	19,655,327	19,655,327
Total liabilities and shareholders' equity	45,026,702	13,247,891	2,154,922	-	80,050,443	140,479,958
Net gap between assets and liabilities	34,060,747	17,142,267	10,135,931	4,157,540	(65,496,485)	-
Net gap between derivative financial instruments	(23,817,789)	781,857	22,108,859	927,073	-	-
Total commission rate sensitivity gap	10,242,958	17,924,124	32,244,790	5,084,613	(65,496,485)	-
Cumulative commission rate sensitivity gap	10,242,958	28,167,082	60,411,872	65,496,485	-	-
2010						
Assets						
Cash and balances with SAMA	5,195,928	-	-	-	5,668,208	10,864,136
Due from banks and other financial institutions	5,023,746	-	-	-	167,871	5,191,617
Investments and investment in associates ,net	12,534,357	1,076,574	5,075,500	182,972	1,156,940	20,026,343
Loans and advances, net	56,602,201	14,480,987	8,251,990	1,416,665	224,744	80,976,587
Property and equipment, net	-	-	-	-	586,304	586,304
Other assets	-	-	-	-	5,573,343	5,573,343
Total assets	79,356,232	15,557,561	13,327,490	1,599,637	13,377,410	123,218,330
Liabilities and shareholders' equity						
Due to banks and other financial institutions	1,962,422	11,938	-	-	338,546	2,312,906
Customers' deposits	36,289,964	9,616,335	1,696,818	-	45,926,134	93,529,251
Term loans	2,465,756	-	-	-	-	2,465,756
Debt securities	2,428,019	-	-	-	-	2,428,019
Other liabilities	-	-	-	-	4,459,350	4,459,350
Shareholders' equity					18,023,048	18,023,048
Total liabilities and shareholders' equity	43,146,161	9,628,273	1,696,818	-	68,747,078	123,218,330
Net gap between assets and liabilities	36,210,071	5,929,288	11,630,672	1,599,637	(55,369,668)	-
Net gap between derivative financial instruments	(28,691,853)	4,010,777	22,705,991	1,975,085	-	-
Total commission rate sensitivity gap	7,518,218	9,940,065	34,336,663	3,574,722	(55,369,668)	-
Cumulative commission rate sensitivity gap	7,518,218	17,458,283	51,794,946	55,369,668	-	-

34. Market risk (continued)

Net gap between derivative financial instruments represents the net notional amounts of these financial instruments, which are used to manage the special commission rate risk.

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

ii) Currency Risk

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

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

	2011			2010		
SAR' 000	Change in Currency Rate in %	Effect on Net Income	Effect on Equity	Change in Currency Rate in %	Effect on Net Income	Effect on Equity
Currency Exposures						
USD	+5	(50,147)	1,513	+5	(65,552)	2,135
EUR	-3	(2,114)	-	-3	(2,448)	-

iii) Currency position

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

SAR' 000	2011 (Short)/long	2010 (Short)/long
US Dollar	(443,950)	(664,332)
Euro	48,042	55,537
Pound Sterling	(409)	100
Other	17,459	9,163
Total	(378,858)	(599,532)

34. Market risk (continued)

iv) Equity Price Risk

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

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

	2011		2010	
SAR' 000	Change in equity Price %	Effect on market value	Change in equity Price %	Effect on market value
Market Indices				
Tadawul	**+5**	**24,280**	+5	30,206
Tadawul	**-5**	**(24,280)**	-5	(30,206)

35. Liquidity risk

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

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

In accordance with the Banking Control Law and the Regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% of total customers' demand deposits, and 4% of due to banks and other financial institutions (excluding balances due to SAMA and non-resident foreign currency deposits), saving, time deposits, margins of letters of credit and guarantee, excluding all type of repo deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of not less than 20% of its deposit liabilities, in the form of cash, Saudi Government securities or assets which can be converted into cash within a period not exceeding 30 days. The Bank can also raise additional funds through repo facilities available with SAMA against its holding of Saudi Government securities up to 75% of the nominal value of securities.

a) Maturity analysis of assets and liabilities

The table below summarizes the maturity profile of the Bank's assets and liabilities. The expected maturities of assets and liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date and do not take into account of the effective maturities as indicated by the Bank's deposit retention history. Management monitors the maturity profile to ensure that adequate liquidity is maintained.

35. Liquidity risk (continued)

SAR' 000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
2011						
Assets						
Cash and balances with SAMA	11,670,919	-	-	-	6,444,663	18,115,582
Due from banks and other financial institutions	6,331,728	-	-	-	677,532	7,009,260
Investments and investment in associates, net	1,793,125	7,494,723	5,812,396	766,396	973,426	16,840,066
Loans and advances, net	30,642,502	17,626,314	18,714,260	19,973,243	5,368,723	92,325,042
Property and equipment, net	-	-	-	-	580,993	580,993
Other assets	-	-	-	-	5,609,015	5,609,015
Total assets	50,438,274	25,121,037	24,526,656	20,739,639	19,654,352	140,479,958
Liabilities and shareholders' equity						
Due to banks and other financial institutions	1,662,949	-	-	-	400,799	2,063,748
Customers' deposits	38,090,290	13,247,891	2,455,470	-	56,169,760	109,963,411
Term loans	-	-	1,766,850	-	-	1,766,850
Debt securities	-	-	2,462,719	-	-	2,462,719
Other liabilities	-	-	-	-	4,567,903	4,567,903
Shareholders' equity	-	-	-	-	19,655,327	19,655,327
Total liabilities and shareholders' equity	39,753,239	13,247,891	6,685,039	-	80,793,789	140,479,958
2010						
Assets						
Cash and balances with SAMA	5,195,928	-	-	-	5,668,208	10,864,136
Due from banks and other financial institutions	5,023,746	-	-	-	167,871	5,191,617
Investments and investment in associates, net	10,364,573	1,395,760	6,750,620	358,450	1,156,940	20,026,343
Loans and advances, net	34,347,493	10,699,210	19,283,283	11,075,587	5,571,014	80,976,587
Property and equipment, net	-	-	-	-	586,304	586,304
Other assets	-	-	-	-	5,573,343	5,573,343
Total assets	54,931,740	12,094,970	26,033,903	11,434,037	18,723,680	123,218,330
Liabilities and shareholders' equity						
Due to banks and other financial institutions	1,962,422	11,938	-	-	338,546	2,312,906
Customers' deposits	34,792,787	9,616,335	1,997,366		47,122,763	93,529,251
Term loans	-	686,250	1,779,506	-	-	2,465,756
Debt securities	-	-	2,428,019	-	-	2,428,019
Other liabilities	-	-	-	-	4,459,350	4,459,350
Shareholders' equity	-	-	-	-	18,023,048	18,023,048
Total liabilities and shareholders' equity	36,755,209	10,314,523	6,204,891	-	69,943,707	123,218,330

b) Analysis of financial liabilities by remaining contractual maturities

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

35. Liquidity risk (continued)

SAR' 000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
2011						
Due to banks and other financial institutions	**1,663,181**	**-**	**-**	**-**	**400,799**	**2,063,980**
Customers' deposits	**38,420,593**	**13,321,810**	**2,296,408**	**-**	**56,169,760**	**110,208,571**
Term loans	**7,085**	**21,254**	**1,785,408**	**-**	**-**	**1,813,747**
Debt securities	**25,898**	**77,695**	**2,700,121**	**-**	**-**	**2,803,714**
Total	**40,116,757**	**13,420,759**	**6,781,937**	**-**	**56,570,559**	**116,890,012**
Derivatives:						
Contractual amount payable	**(40,548,006)**	**6,751,606**	**35,025,901**	**2,732,915**	**-**	**3,962,416**
Contractual amount receivable	**65,611,291**	**(7,131,469)**	**(61,598,014)**	**(3,819,239)**	**-**	**(6,937,431)**
Total undiscounted financial liabilities	**65,180,042**	**13,040,896**	**(19,790,176)**	**(1,086,324)**	**56,570,559**	**113,914,997**
2010						
Due to banks and other financial institutions	1,962,808	11,990	-	-	338,546	2,313,344
Customers' deposits	34,813,169	9,682,041	2,195,094	-	47,122,763	93,813,067
Term loans	8,029	708,520	1,821,883	-	-	2,538,432
Debt securities	25,898	77,695	2,770,454	-	-	2,874,047
Total	36,809,904	10,480,246	6,787,431	-	47,461,309	101,538,890
Derivatives:						
Contractual amount payable	(40,107,769)	7,047,535	34,219,587	2,862,600	-	4,021,953
Contractual amount receivable	70,378,661	(11,696,858)	(61,877,282)	(4,281,352)	-	(7,476,831)
Total undiscounted financial liabilities	67,080,796	5,830,923	(20,870,264)	(1,418,752)	47,461,309	98,084,012

36. Fair values of financial assets and liabilities

Determination of fair value and fair value hierarchy

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

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

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

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

36. Fair values of financial assets and liabilities (continued)

SAR' 000	Level 1	Level 2	Level 3	Total
2011				
Financial assets				
Derivative financial instruments	**-**	**4,448,873**	**-**	**4,448,873**
Financial investments designated at FVIS (trading)	**327,919**	**165,184**	**-**	**493,103**
Financial investments available for sale	**2,780,417**	**199,159**	**3,714,041**	**6,693,617**
Total	**3,108,336**	**4,813,216**	**3,714,041**	**11,635,593**
Financial Liabilities				
Derivative financial instruments positive fair value	**-**	**2,715,805**	**-**	**2,715,805**
Total	**-**	**2,715,805**	**-**	**2,715,805**
2010				
Financial assets				
Derivative financial instruments	-	4,254,242	-	4,254,242
Financial investments designated at FVIS(trading)	443,689	827,369	-	1,271,058
Financial investments available for sale	2,831,752	-	3,889,751	6,721,503
Total	3,275,441	5,081,611	3,889,751	12,246,803
Financial Liabilities				
Derivative financial instruments negative fair value	-	2,728,002	-	2,728,002
Total	-	2,728,002	-	2,728,002

Financial investments available for sale comprise Musharakah and Mudarabah SAR 3,342 million (2010: SAR 3,633million) which are classified as level 3.

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:

Financial investments designated at FVIS and available for sale

SAR' 000	2011	2010
Balance at the beginning of the year	**3,889,751**	3,352,451
Other comprehensive losses	**(26,349)**	(23,938)
Purchases	**108,363**	500
Issues	**1,300,000**	1,900,000
Settlements	**(1,557,724)**	(1,339,262)
Balance at the end of the year	**3,714,041**	3,889,751

36. Fair values of financial assets and liabilities (continued)

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

The fair values of on - statement of financial position financial instruments, except for held to maturity and other financial instruments held at amortized 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, debts securities, due from and due to banks which are carried at amortized cost, are not significantly different from the carrying values included in the consolidated financial statements, since the current market commission rates for similar financial instruments are not significantly different from the contracted rates, and due to the short duration of due from and due to banks.

The estimated fair values of the held to maturity investments and other investments held at amortized cost, are based on quoted market prices when available or pricing models when used in the case of certain fixed rate bonds. Consequently, differences can arise between carrying values and fair value estimates. The fair values of these investments are disclosed in note 6. The fair values of derivatives are based on the quoted market prices when available or by using the appropriate valuation technique.

37. Related party transactions

In the ordinary course of its activities, the Bank transacts business with related parties. In the opinion of the management and the Board, the related party transactions are carried out on an arm's length basis. The related party transactions are governed by limits set by the Banking Control Law and Regulations issued by SAMA. The balances as at 31 December 2011 and 2010 resulting from such transactions included in the consolidated financial statements are as follows:

SAR' 000	2011	2010
CA-CIB Group		
Due from banks and other financial institutions	1,724,413	1,188,464
Due to banks and other financial institutions	36,515	25,997
Derivatives at fair value, net	(173,530)	(338,336)
Commitments and contingencies	1,761,561	1,509,448
Associates		
Investments	170,789	185,628
Loans and advances	65,000	102,500
Due from banks and other financial institutions	-	7,312
Due to banks and other financial institutions	406,521	17,545
Customers' deposits	13,743	144,901
Commitments and contingencies	44,277	47,356
Directors, other major shareholders' and their affiliates		
Loans and advances	2,202,613	2,731,797
Customers' deposits	3,897,601	4,698,796
Derivatives at fair value, net	(13,739)	(3,233)
Commitments and contingencies	355,631	1,220,425
Bank's mutual funds		
Investments	58,350	236,069
Derivatives at fair value, net	5,367	7,899
Customers' deposits	956,272	1,620,037

37. Related party transactions (continued)

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

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

SAR' 000	2011	2010
Special commission income	51,382	70,589
Special commission expense	59,464	76,157
Fees ,commission income and others, net	6,953	5,280
Directors' fees	3,245	3,227
Other general and administrative expenses	814	679

The total amount of short term benefits paid to key management personnel during the year is SAR 92 million (2010: SAR 82 million). The key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly.

38. Capital adequacy

The Bank's objectives when managing capital are, to comply with the capital requirements set by SAMA; to safeguard the Bank's ability to continue as a going concern; and to maintain a strong capital base. Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management.

The Bank monitors the adequacy of its capital using ratios established by SAMA. These ratios measure capital adequacy by comparing the Bank's eligible capital with its statement of financial position assets, commitments and notional amount of derivatives at a weighted amount to reflect their relative risk. SAMA requires holding the minimum level of the regulatory capital of and maintaining a ratio of total regulatory capital to the risk-weighted asset (RWA) at or above the agreed minimum of 8%.

SAR' 000	2011	2010
Credit Risk RWA	128,528,591	113,924,007
Operational Risk RWA	8,073,838	8,017,300
Market Risk RWA	1,913,875	3,761,489
Total RWA	138,516,304	125,702,796
Tier I Capital	19,320,566	17,825,107
Tier II Capital	787,330	691,334
Total Tier I & II Capital	20,107,896	18,516,441
Capital Adequacy Ratio %		
Tier I ratio	13.95%	14.18%
Tier I + Tier II ratio	14.52%	14.73%

39. Investment Management Brokerage and Corporate Finance Services

The Bank offers investment services to its customers through its subsidiary, which include management of certain investment funds in consultation with professional investment advisors as well as brokerage services.

Income from the subsidiaries is included in the consolidated income statement under fee and commission income, net.

The financial statements of these funds are not consolidated with the financial statements of the Bank. However, the Bank's share of these funds is included in the available for sale investments and fees earned are disclosed under related party transactions.

The Bank through its subsidiary offers Islamic investment management services to its customers, which include management of certain investment funds in consultation with professional investment advisors, having net asset values totalling SAR 1,458 million (2010: SAR 2,447 million).

40. Basel II Pillar 3 Disclosures

Under Basel II pillar 3, certain quantitative and qualitative disclosures are required, and these disclosures will be made available on the Bank's website www.alfransi.com.sa and the annual report, respectively as required by the Saudi Arabian Monetary Agency.

41. Prospective changes in International Financial Reporting Framework

The Bank has chosen not to early adopt the following amendments to existing standards and newly issued Standards:

IFRS 9 Financial Instruments effective date 1 January 2015
IFRS 10 Consolidated Financial Statements effective date 1 January 2013
IFRS 13 Fair Value Measurement effective date 1 January 2013
IFRS 7 Financial Instruments (amendments) effective date 1 January 2013

42. Comparative figures

Prior year figures have been reclassified wherever necessary to conform to current year presentation.

43. Board of directors approval

The consolidated financial statements were approved by the Board of Directors on January 23, 2012 corresponding to Safar 29, 1433H.

Basel II PILLAR 3 - QUALITATIVE DISCLOSURES

31 December 2011

Introduction

Banque Saudi Fransi (the Bank) is a Saudi Joint Stock Company established by Royal Decree No. M/23 dated Jumada Al Thani 17, 1397H, corresponding to June 4, 1977. The Bank formally commenced its activities on Muharram 1, 1398H, corresponding to December 11, 1977, by taking over the branches of the Banque de I'Indochine et de Suez in the Kingdom of Saudi Arabia. The Bank operates under Commercial Registration Number. 1010073368 dated Safar 4, 1410H, corresponding to September 5, 1989, through its 83 branches (2010: 81 branches) in the Kingdom of Saudi Arabia, employing 2,788 people (2010: 2,594). The objective of the Bank is to provide a full range of banking services, including Islamic products, which are approved and supervised by an independent Shariah Board. The Bank's Head Office is located at Al Maa'ther Street, P.O. Box 56006, Riyadh 11554, Kingdom of Saudi Arabia.

In March 2008, the Saudi Arabian Monetary Agency (SAMA) issued a circular allowing banks in the Kingdom of Saudi Arabia to report their capital requirements according to the new Basel II guidelines. Basel II is an international initiative allowing national regulators around the world to implement a more risk-sensitive framework for the assessment of risks and the calculation of minimum regulatory capital i.e. the minimum capital that banks must hold.

SAMA's Basel II framework describes the following three pillars which are designed to be mutually re-enforcing and are meant to ensure a capital base which corresponds to the overall risk profile of the bank:

- **Pillar 1:** calculation of minimum capital requirements and the capital adequacy ratio based on charges for credit, market, and operations risk stemming from the bank's operations;
- **Pillar 2:** the Supervisory Review process which includes the Internal Capital Adequacy Assessment Process (ICAAP) to assess risks not covered under Pillar 1 and the adequacy of capital to cover these risks as well as Pillar 1 requirements for current and future activities of the bank;
- **Pillar 3:** Market discipline through public disclosures that are designed to provide transparency on capital structures, risk exposures, risk mitigation and the risk management process.

This report is a part of the Pillar 3 process under SAMA's Basel II guidelines. The information provided in this report has not been subject to an external audit.

An explanation of approaches adopted by the Bank for measuring minimum capital requirement for various Pillar 1 risks as well the Internal Capital Adequacy Assessment Process (ICAAP) under Pillar 2 are discussed in subsequent sections of this report.

Scope of Application

The name of the top corporate entity in the group, to which these regulations apply, is Banque Saudi Fransi (the Bank).

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

The following entities of the group are fully consolidated with the results of Banque Saudi Fransi for regulatory purposes:

1. Fransi Tadawul Company: This entity is 99% owned by the Bank. It is regulated by the Capital Market Authority (CMA) in the Kingdom of Saudi Arabia and undertakes local and international brokerage services in the capacity of a principal agent in securities and its custody, in addition to IPO Floatation Management.
2. Caam Saudi Fransi: This entity is 100% owned by the Bank. It is regulated by the Capital Market Authority (CMA) in the Kingdom of Saudi Arabia and provides asset management & related services.
3. Calyon Saudi Fransi: This entity is incorporated in the Kingdom of Saudi Arabia and provides corporate financial advisory services. The Bank owns 100% of the ordinary shares of Calyon Saudi Fransi.
4. Saudi Fransi Insurance Agency: This entity is incorporated in the Kingdom of Saudi Arabia and is engaged in insurance brokerage services.

During 2011, the Bank acquired additional shareholding in CAAM Saudi Fransi 40% and Calyon Saudi Fransi 55% (previously an associate with 45% share in equity) to achieve 100% shareholding in companies. Subsequent to the acquisition, the Bank has decided to merge operations of CAAM Saudi Fransi and Calyon Saudi Fransi into Fransi Tadawul Company, which is in the process of being renamed Saudi Fransi Capital and will provide the full array of financial services.

Investments in the following entities associated with the group are deducted from consolidated capital (50% from Tier 1 and 50% from Tier 2) for regulatory purposes:

1 Banque BEMO Saudi Fransi (BBSF): BBSF is incorporated in Syria as a commercial bank. The Bank owns 27% of the ordinary share capital of BBSF.

2 Banque BEMO: This entity is incorporated in Lebanon as a commercial bank. The Bank owns 10% of the ordinary share capital of Banque BEMO.

3 Saudi Fransi Cooperative Insurance Company (Allianz Saudi Fransi): This entity is incorporated in the Kindgom of Saudi Arabia. The Bank owns 32.5% of the ordinary share capital of Allianz Saudi Fransi.

4 Sofinco Saudi Fransi: This entity is incorporated in the Kingdom of Saudi Arabia and is engaged in consumer finance activity. The Bank owns 50% of the ordinary shares of Sofinco Saudi Fransi.

5 Al Amthal Leasing Co. Ltd.: This entity is incorporated in the Kingdom of Saudi Arabia and operates in financing car sales. The Bank owns 20% of the ordinary shares of Al Amthal Leasing Co. Ltd.

There are no other group entities for regulatory purposes that are neither consolidated nor deducted (i.e. where the investment is risk weighted). There are no restrictions, or other major impediments, on transfer of funds or regulatory capital within the group.

Capital Structure

The authorised, issued and fully paid share capital of the Bank consists of 723.2 million shares of SAR 10 each as at 31 December, 2011.

The Bank has not issued any capital instruments of innovative, complex, or hybrid nature.

Capital Structure as at 31 December 2011

	Components of Capital	Amounts in SAR '000s
A	Core Capital – Tier 1	
	Eligible paid-up share capital	7,232,143
	Eligible reserves	8,722,562
	Minority interests in the equity of subsidiaries	-
	Retained earnings	3,542,926
	IAS type adjustments	(63,845)
	Significant minority investments (50% deduction)	(113,220)
	Total Tier 1	19,320,566
B	Supplementary Capital – Tier 2	
	Qualifying general provisions	900,550
	Significant minority investments (50% deduction)	(113,220)
	Total Tier 2	787,330
	Total Eligible Capital (A+B)	20,107,896

Capital Adequacy

The approaches adopted by the Bank for measuring minimum capital requirements under Pillar 1 of the Basel Accord are described in the following sections.

Pillar 1 – Minimum Capital Requirements

Pillar 1 of the Basel II Accord, as adopted and implemented by SAMA, covers the minimum regulatory capital requirement that a bank is expected to maintain to cover credit, market and operational risks stemming from its business operations. It also sets out the basis for consolidation of entities for capital adequacy reporting requirements, the definition and calculations of Risk Weighted Assets (RWA) and the various options given to banks to calculate these Risk Weighted Assets.

The regulatory capital requirements are calculated according to the following formula (expressed as a percentage):

$$\text{Minimum Capital Requirements} = \frac{\text{Capital Base}}{\text{RWA}}$$

Where the Minimum Capital Requirements are to be $\geqslant$ 8%

Credit Risk

The Bank has adopted the Standardized Approach for measuring minimum capital requirement for credit risk. Under this approach, exposures are assigned to portfolio segments based on the type of counterparty. The major portfolios defined are sovereigns, banks, corporate, retail, equity, and others (including high net worth individuals). Each segment has counterparty risk weights ranging from 0% to 150% depending on ratings assigned by qualified external credit assessment agencies, if any.

Initial exposures after application of specific provisions, if any, and / or eligible credit risk mitigants, are multiplied by the specified risk weight of the counterparty to arrive at the Risk Weighted Asset (RWA). Off-balance sheet exposures are adjusted using product type specified Credit Conversion Factors (CCF) before determining the RWAs. Similarly, derivatives are considered at their Credit Equivalent Amount before determining RWAs.

Minimum capital for Credit Risk is calculated as 8% multiplied by the aggregated mitigant adjusted RWAs for the Bank's exposures.

Market Risk

The Bank uses the Standardized Approach to calculate the regulatory capital requirements relating to market risks (covering interest rates, equity, foreign exchange, and commodity prices). The resultant measure of regulatory capital is multiplied by 12.5 (reciprocal of 8%) to provide a comparable risk weighted exposure number for market risks.

Operations Risk

The Bank uses the Standardized Approach for calculation of regulatory capital requirements in terms of operations risk. This approach applies a range of beta coefficients (12%-18%) to the average gross income for the preceding three financial years to each of eight predetermined business lines. The resultant measure of regulatory capital is multiplied by 12.5 (reciprocal of 8%) to provide a comparable risk weighted exposure number for operations risks.

Internal Capital Adequacy Assessment Process (ICAAP)

The oversight for assessment of credit, market, operations, and others risks such as liquidity, concentration, macroeconomic, legal, and reputation risks and the adequacy of capital to meet current and future requirements of the Bank lies with the Executive Committee (EC) of the Bank's Board of Directors.

An ICAAP document was presented to SAMA in 2008 following a bilateral process of discussions. This process is now ingrained into the budget and planning cycle of the Bank.

Capital Adequacy as at 31 December 2011

Category	RWA Amount SAR' 000s	Minimum Capital Requirement SAR '000s
Credit Risk - Standardized Approach	128,528,591	10,282,287
Market Risk - Standardized Approach	1,913,875	153,110
Operations Risk - Standardized Approach	8,073,838	645,907
Total Capital Ratio	14.52%	
Tier 1 Capital Ratio	13.95%	

Risk Management

The management of main risks for the Bank is specifically organized under the Risk Management Division (RMD). This division performs the role of second reading of risk after the business divisions who originate and own the risks. RMD plays a crucial role in policy making. The head of RMD reports directly to the Managing Director and interacts with the EC in presenting and managing matters related to Credit, Market, and Operations Risks.

Credit Risk

For measuring minimum capital requirement for credit risk using the Standardized Approach under Basel II, the Bank implemented a dedicated capital measurement system supplied by a leading global vendor. Using this system, exposures are measured at the most granular level so that transaction level data are correctly used for proper calculation of risk weights, credit conversion factors, and allocation of credit risk mitigants.

The credit risk adjudication process in the Bank is materially centralized and significant exposures are routinely reported to the EC. The Bank uses an internal rating methodology for classification of counterparty risk and in the management of the underlying exposures appropriately.

The Bank also follows SAMA's guidelines for asset classification, particularly those relating to past due /non-performing loans. Impairment is recognized at a counterpart level i.e. all dues from the counterpart including full principal amount are included under the amounts shown as impaired. A specific provision is made for past due exposures assessed as impaired at the counterpart level. Specific provision amounts are calculated according to guidelines contained in IAS 39. In addition to specific counterpart level provisions for impaired assets, the Bank also employs methods to determine and make collective provisions on a portfolio level based on certain internal risk grades for counterpart exposures.

For the purpose of determining counterparty risk weights, the Bank uses external credit assessments from Standard and Poors, Moodys, and Fitch. In the context of the Bank's portfolio, external credit assessments are mainly applicable to the banks / financial institutions asset class. A majority of BSF's Corporate asset portfolio is in the Kingdom of Saudi Arabia; not externally rated; and hence in the 100% risk weight category.

The 0% risk weighted assets under Other Assets pertain to Cash and Cash Equivalents and the current replacement costs i.e. mark to market values of derivative exposures where these amounts are already included (under banks & corporate asset classes) in the calculation of credit equivalent amount and RWAs.

The Bank uses a wide range of collaterals in the process of managing its counterparty risks. However, the applicable financial collateral for credit risk mitigation under Basel II is restricted to pledge of cash margins and deposits held with the Bank. Guarantees used for risk transfer purposes are mainly bank guarantees that meet the requirements stipulated in the Accord.

A break up of gross credit risk exposures i.e. exposures after off-setting provisions but before application of credit mitigants (including off balance sheet exposures after applying credit conversion factors and derivative exposures at their credit equivalent values) is presented below with their respective risk weights:

Gross Credit Exposures as at 31 December 2011

Portfolios	Amount SAR '000s	Risk Weight Buckets	Amount SAR '000s
Sovereigns & Central Banks	26,845,789	0%	26,484,213
		100%	382,263
Banks & securities Firms	8,921,341	20%	9,981,592
		50%	7,200,453
		100%	461,873
Corporates	74,563,302	20%	2,046,262
		50%	1,025,284
		100%	97,348,062
		150%	199,559
Retail Non-mortgages	8,433,691	75%	8,167,690
Residential Mortgages	2,119,887	100%	2,119,887
Equity	914,654	0% (deducted)	201,017
		100%	713,637
Others (including VIP Exposures)	19,712,151	0%	5,198,392
		100%	13,957,007
		150%	59,409
Total	**141,510,815**		

Market Risk

The market risk for capital market activities in the Bank is managed and monitored using a combination of VAR, stress testing, and sensitivity analysis. The EC has set limits for what constitutes acceptable level of risks in managing the trading book. The Market Risk Department within the Risk Management Division is responsible for measurement and controls involved in management of market risks.

For the measurement of minimum capital requirement for market risks under Pillar 1, the Bank uses the Standardized Approach.

Market Risk (Standardized Approach) – 31 December 2011

Category	Capital Requirement Amount SAR '000s
Interest Rate	112,855
Equities	4,361
Foreign Exchange	35,894
Total	**153,110**

Operations Risk

The objectives of the Operations Risk Department within Risk Management Division are to develop a common understanding of operational risks across BSF; ensure that there is a clear understanding of responsibility and accountability in managing and mitigating operational risks; improve internal controls and thereby reduce the probability and potential impact of losses; maintain an operational loss data base; and improve the risk and control awareness across the Bank.

BSF has developed a Risk Mapping methodology in order to identify risk of the processes; identify high frequency and low impact risks (recurring risks); identify rare and high impact risks (exceptional risks); identify the specific controls in place to mitigate the risks; and organize frequent assessment efforts to determine continuing quality of process controls.

The Bank currently uses the Standardized Approach for assessment of minimum capital requirement for operations risk under Pillar 1 of the Accord.

Equity risk

Equity risk represents the risk faces by the bank due to decrease in fair value of equities in the non trading investment portfolio as a result of changes in equity indices and the value of individual stocks. The Bank's nature of the equity risk exposure includes:

- Investment in associates;
- Available for sale equity investment;
- Investment in subsidiaries.

An associate is an entity in which the Bank holds 20% to 50% of the voting power and over which it has significant influence and which is neither a subsidiary nor a joint venture. Accordingly, these investments are classified as investment in associates. Investments in associates are initially recognised at cost and subsequently accounted for under the equity method of accounting. These investments are subject to recurring review and assessment for possible impairment, to the extent that the carrying value of the equity investment must not exceed its recoverable amount.

Where the equity investment is not subject to the significant influence or control, it is recognized as available for sale investment. These securities are initially carried at fair value plus transaction costs. After initial recognition these investments are measured at fair value. For an available for sale equity investment where the fair value has not been hedged, any gain or loss arising from a change in its fair value is recognized directly in 'Other reserves' under shareholders' equity until the investment is derecognized or impaired, at which time the cumulative gain or loss previously recognized in shareholders' equity is included in the consolidated income statement for the year. At the year end, Unrealised loss of 26,971recognized directly in other reserves due to change in fair value of equities under available for sale investment portfolio.

Fair value of quoted investments in active markets are based on current bid prices and if it not traded in active market then fair value is established by the valuation techniques. If there is any objective evidence of impairment due to significant or prolonged decline in the fair value below its cost then impairment charges are recognized in the consolidated statement of income. The impairment loss cannot be reversed through consolidated statement of income as long as the asset continues to be recognised i.e. any increase in fair value after impairment has been recorded can only be recognised in equity. On derecognition, any cumulative gain or loss previously recognised in equity is included in the consolidated statement of income for the year.

Subsidiaries are all entities over which the Bank has the power to govern the financial and operating policies, so as to obtain benefits from its activities, generally accompanying an ownership interest of more than one half of the voting rights. Where the Bank does not have effective control but has significant influence, the investment in a subsidiary is accounted for under the equity method and the consolidated financial statements include the appropriate share of the subsidiary's results, reserves and accumulated losses based on its latest available financial statements.

The table below shows the carrying value and fair value of equities as of 31st December 2011.

Equity Investment - SAR' 000	Carrying Value	Fair value
Value of publicly traded equities	481,764	481,764
Value of privately held equities	491,661	491,661
Total	**973,425**	**973,425**

Interest Rate Risk in the Banking Book

As per BSF policy the interest rate risk positions of all business lines of BSF are transferred to the funding desk of Treasury and Long Term Investment portfolio of Finance Division. The risk on these positions is managed centrally through a limits structure and combination of natural hedges and hedging practices. Format of limits of Treasury is also approved by CA-CIB Paris and ALM policies validated / approved in ALCO meetings. All positions are reported to CA-CIB Paris.

As per Basel II, the change in economic value of a bank's banking book balance sheet when subjected to a 200 bps standardized shock should be below the sum of twenty percent of Tier 1 and Tier 2 capital. For BSF the sum of Tier 1 and Tier 2 capital as of December 31 2011 is SAR 20,108 million and twenty percent this amounts to SAR 4,022 million. As against this limit, the negative change in economic value of banking book of BSF despite a severe shock of 200 bps movement applied as a stress scenario is only SAR 795 million.

Interest Rate Risk in Banking Book - 200 Bps Rate Shock

Currency	Change in Economic Value SAR million
SAR	(757)
USD	(44)
Others	6
Total	**(795)**