BASE PROSPECTUS DATED 17 APRIL 2012

BSF Sukuk Limited

(*incorporated in the Cayman Islands with limited liability*)

U.S.$2,000,000,000

Trust Certificate Issuance Programme

Under the U.S.$2,000,000,000 trust certificate issuance programme described in this Base Prospectus (the **Programme**), BSF Sukuk Limited (in its capacities as issuer and as trustee, the **Trustee**), subject to compliance with all applicable laws, regulations and directives, may from time to time issue trust certificates (the **Certificates**) in any currency agreed between the Trustee and the relevant Dealer (as defined below).

Certificates may only be issued in registered form. The maximum aggregate face amount of all Certificates from time to time outstanding under the Programme will not exceed U.S.$2,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement described herein), subject to increase as described herein.

Each Series (as defined herein) of Certificates issued under the Programme will be constituted by (i) a master trust deed (the **Master Trust Deed**) dated 17 April 2012 entered into between the Trustee, Banque Saudi Fransi (**BSF** or the **Bank**) and Deutsche Trustee Company Limited as delegate of the Trustee (the **Delegate**, which expression shall include any co-Delegate or any successor) and (ii) a supplemental trust deed (the **Supplemental Trust Deed** and, together with the Master Trust Deed, each a **Trust Deed**) in relation to the relevant Series. Certificates of each Series confer on the holders of the Certificates from time to time (the **Certificateholders**) the right to receive certain payments (as more particularly described herein) arising from a *pro rata* interest in the assets of a trust declared by the Trustee in relation to the relevant Series (the **Trust**) over the Trust Assets (as defined below) which will include, *inter alia*, (i) the relevant Wakala Portfolio (as defined herein); and (ii) the Transaction Documents (as defined below).

The Certificates may be issued on a continuing basis to one or more of the Dealers (each a **Dealer** and together the **Dealers**) specified under "*Overview of the Programme*" and any additional Dealer appointed under the Programme from time to time by the Trustee and BSF, which appointment may be for a specific issue or on an ongoing basis. References in this Base Prospectus to the **relevant Dealer** shall, in the case of an issue of Certificates being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Certificates.

The Certificates will be limited recourse obligations of the Trustee. An investment in Certificates issued under the Programme involves certain risks. For a discussion of these risks, see "*Risk Factors*".

Application has been made to the United Kingdom Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the **UK Listing Authority**) for Certificates issued under the Programme during the period of 12 months from the date of this Base Prospectus to be admitted to the official list of the UK Listing Authority (the **Official List**) and to the London Stock Exchange plc (the **London Stock Exchange**) for such Certificates to be admitted to trading on the London Stock Exchange's regulated market. The London Stock Exchange's regulated market is a regulated market for the purposes of Directive 2004/39/EC (the Markets in Financial Instruments Directive). References in this Base Prospectus to Certificates being **listed** (and all related references) shall mean that such Certificates have been admitted to trading on the London Stock Exchange's regulated market and have been admitted to the Official List.

The Programme provides that Certificates may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the Trustee, BSF and the relevant Dealer. The Trustee may also issue unlisted Certificates and/or Certificates not admitted to trading on any market.

This Base Prospectus may not be distributed in the Kingdom of Saudi Arabia except to such persons as are permitted under the Offers of Securities Regulations issued by the Capital Market Authority of the Kingdom of Saudi Arabia (the **Capital Market Authority**). The Capital Market Authority does not make any representations as to the accuracy or completeness of this Base Prospectus, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Base Prospectus. Prospective purchasers of Certificates should conduct their own due diligence on the accuracy of the information relating to the Certificates. If a prospective purchaser does not understand the contents of this Base Prospectus he or she should consult an authorised financial adviser.

This Base Prospectus relates to an Exempt Offer in accordance with the Offered Securities Rules (the **Rules**) of the Dubai Financial Services Authority. This Base Prospectus is intended for distribution only to Persons of a type specified in those Rules. It must not be delivered to, or relied on by, any other person. The Dubai Financial Services Authority has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The Dubai Financial Services Authority has not approved this document nor taken steps to verify the information set out in it, and has no responsibility for it. The Certificates to which this Base Prospectus relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the Certificates offered should conduct their own due diligence on the Certificates. If you do not understand the contents of this Base Prospectus you should consult an authorised financial adviser.

Notice of the aggregate face amount of Certificates and any other terms and conditions not contained herein which are applicable to each Series will be set out in a final terms document (the **applicable Final Terms**) which, with respect to Certificates to be listed on the London Stock Exchange, will be delivered to the UK Listing Authority and the London Stock Exchange.

The Trustee and BSF may agree with any Dealer that Certificates may be issued with terms and conditions not contemplated by the Terms and Conditions of the Certificates herein, in which event a supplemental Base Prospectus, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Certificates.

The Certificates have not been nor will be registered under the United States Securities Act of 1933, as amended (the **Securities Act**) nor with any securities regulatory authority of any state or other jurisdiction of the United States and the Certificates may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons (as defined in Regulation S under the Securities Act (**Regulation S**)) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, Certificates may be offered or sold solely to persons who are not U.S. persons (as defined in Regulation S) outside the United States in reliance on Regulation S. Each purchaser of the Certificates is hereby notified that the offer and sale of Certificates to it is being made in reliance on the exemption from the registration requirements of the Securities Act provided by Regulation S.

The rating of certain Series of Certificates to be issued under the Programme may be specified in the applicable Final Terms. Whether or not each credit rating applied for in relation to, relevant Series of Certificates will be issued by a credit rating agency established in the European Union and registered under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**) will be disclosed in the applicable Final Terms.

The transaction structure relating to the Certificates (as described in this Base Prospectus) has been approved by the Sharia Committee of BSF, the Sharia Supervisory Boards of Citi Islamic Investment Bank and Crédit Agricole CIB and Dr. Hussein Hamed Sayed Hassan. Prospective Certificateholders should not rely on such approvals in deciding whether to make an investment in the Certificates and should consult their own Sharia advisers as to whether the proposed transaction described in such approvals is in compliance with their individual standards of compliance with Sharia principles.

Payments by the Managing Agent (as defined herein) to the Trustee under the Management Agreement (as defined herein) are subject to withholding taxes in the Kingdom of Saudi Arabia. The Managing Agent is, however, obliged to pay additional amounts if there is such a withholding. See "*Summary of the Principal Transaction Documents*" and "*Taxation – Kingdom of Saudi Arabia*".

Names of Lead Arrangers

Citigroup **Crédit Agricole CIB** **Deutsche Bank**

Name of Co-Arranger

Saudi Fransi Capital

Names of Dealers

Citigroup **Crédit Agricole CIB**
Deutsche Bank **Saudi Fransi Capital**

The date of this Base Prospectus is 17 April 2012.

This Base Prospectus comprises a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the **Prospectus Directive**).

Each of the Trustee and BSF accepts responsibility for the information contained in this Base Prospectus. To the best of the knowledge of each of the Trustee and BSF (each having taken all reasonable care to ensure that such is the case) the information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

Certain information under the headings "*BSF Financial Review*", "*Description of BSF*", "*The Kingdom of Saudi Arabia*", "*The Banking Sector in the Kingdom of Saudi Arabia*" and "*Saudi Arabian Banking Regulation and Supervision*" has been extracted from publicly available information and the source of such information is specified where it appears under that heading. Each of the Trustee and BSF confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by the relevant sources referred to, no facts have been omitted which would render the reproduced information inaccurate or misleading.

This Base Prospectus should be read and construed together with any amendments or supplements hereto and, in relation to any Series of Certificates, should be read and construed together with the applicable Final Terms.

Subject as provided in the applicable Final Terms, the only persons authorised to use this Base Prospectus in connection with an offer of Certificates are the persons named in the applicable Final Terms as the relevant Dealer or the Managers, as the case may be.

Copies of Final Terms will be available from the registered office of the Trustee and the specified office set out below of the Principal Paying Agent (as defined below) save that, if the relevant Certificates are neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive, the applicable Final Terms will only be obtainable by a Certificateholder holding one or more Certificates and such Certificateholder must produce evidence satisfactory to the Trustee or, as the case may be, the Principal Paying Agent as to its holding of such Certificates and identity.

No person is or has been authorised by the Trustee or BSF to give any information or to make any representation not contained in or not consistent with this Base Prospectus in connection with the Programme or the Certificates and, if given or made, such information or representation must not be relied upon as having been authorised by the Trustee, BSF, the Dealers (as defined under "*Subscription and Sale*"), the Delegate, the Agents (each as defined herein) or any other person. Neither the delivery of this document nor any sale of any Certificates shall, under any circumstances, constitute a representation or create any implication that the information contained herein is correct as of any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Delegate and the Dealers expressly do not undertake to review the financial condition or affairs of the Trustee or BSF at any point, including during the life of the Programme, or to advise any investor in the Certificates of any information coming to their attention.

None of the Dealers, the Trustee, the Delegate or the Agents has independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by any of them as to the accuracy, adequacy, reasonableness or completeness of the information contained in this Base Prospectus or any other information provided by the Trustee or BSF in connection with the Programme.

Neither this Base Prospectus nor any other information supplied in connection with the Programme or any Certificates is (i) intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Trustee, BSF, the Dealers, the Delegate or the Agents that any recipient of this Base Prospectus should purchase any Certificates. Each investor contemplating purchasing any Certificates should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Trustee and BSF. None of the Dealers, the Trustee, the Delegate or the Agents accepts any liability in relation to the information contained in this Base Prospectus or any other information provided by the Trustee and BSF in connection with the Programme.

The Certificates of any Series may not be a suitable investment for all investors. Each potential investor in Certificates must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(a) have sufficient knowledge and experience to make a meaningful evaluation of the relevant Certificates, the merits and risks of investing in the relevant Certificates and the information contained in this Base Prospectus;

(b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Certificates and the impact the relevant Certificates will have on its overall investment portfolio;

(c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Certificates, including where the currency of payment is different from the potential investor's currency;

(d) understand thoroughly the terms of the relevant Certificates and be familiar with the behaviour of any relevant indices and financial markets; and

(e) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic and other factors that may affect its investment and its ability to bear the applicable risks.

Some Certificates are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Certificates which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Certificates will perform under changing conditions, the resulting effects on the value of the Certificates and the impact this investment will have on the potential investor's overall investment portfolio.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Certificates are legal investments for it, (2) Certificates can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Certificates. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Certificates under any applicable risk-based capital or similar rules.

No comment is made or advice given by the Trustee, BSF, the Dealers, the Delegate or the Agents in respect of taxation matters relating to any Certificates or the legality of the purchase of the Certificates by an investor under any applicable law.

EACH PROSPECTIVE INVESTOR IS ADVISED TO CONSULT ITS OWN TAX ADVISER, LEGAL ADVISER AND BUSINESS ADVISER AS TO TAX, LEGAL, BUSINESS AND RELATED MATTERS CONCERNING THE PURCHASE OF ANY CERTIFICATES.

This Base Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Certificates in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Base Prospectus and the offer or sale of Certificates may be restricted by law in certain jurisdictions. None of the Trustee, BSF, the Dealers, the Delegate or the Agents represents that this Base Prospectus may be lawfully distributed, or that any Certificates may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Trustee, BSF, the Dealers, the Delegate or the Agents which is intended to permit a public offering of any Certificates or distribution of this Base Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Certificates may be offered or sold, directly or indirectly, and neither this Base Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Base Prospectus or any Certificates may come must inform themselves about, and observe, any such restrictions on the distribution of this Base Prospectus and the offering and sale of the Certificates. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Certificates in the United States, the European Economic Area (including the United Kingdom), the Cayman Islands, Japan, the United

Arab Emirates (excluding the Dubai International Financial Centre), the Dubai International Financial Centre, the Kingdom of Saudi Arabia, the Kingdom of Bahrain, Qatar (excluding the Qatar Financial Centre), Singapore, Hong Kong and Malaysia, see "*Subscription and Sale*".

This Base Prospectus has been prepared on the basis that any offer of Certificates in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Certificates. Accordingly any person making or intending to make an offer in that Relevant Member State of Certificates which are the subject of an offering contemplated in this Base Prospectus as completed by Final Terms in relation to the offer of those Certificates may only do so in circumstances in which no obligation arises for the Trustee, BSF or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. None of the Trustee, BSF or any Dealer have authorised, nor do they authorise, the making of any offer of Certificates in circumstances in which an obligation arises for the Trustee, BSF or any Dealer to publish or supplement a prospectus for such offer.

None of the Dealers, the Trustee, BSF or the Delegate makes any representation to any investor in the Certificates regarding the legality of its investment under any applicable laws. Any investor in the Certificates should be able to bear the economic risk of an investment in the Certificates for an indefinite period of time.

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PRESENTATION OF FINANCIAL AND OTHER INFORMATION

PRESENTATION OF FINANCIAL INFORMATION

The financial statements relating to BSF included in this document are as follows:

- audited consolidated financial statements as at and for the financial year ended 31 December 2011 (the **2011 Financial Statements**); and
- audited consolidated financial statements as at and for the financial year ended 31 December 2010 (the **2010 Financial Statements** and, together with the 2011 Financial Statements, the **Financial Statements**).

The Financial Statements have been prepared in accordance with the Accounting Standards for Financial Institutions promulgated by the Saudi Arabian Monetary Authority (**SAMA**) and International Financial Reporting Standards (**IFRS**) issued by the International Accounting Standards Board (the **IASB**). The 2011 Financial Statements have been audited in accordance with International Standards on Auditing by KPMG Al Fozan & Al Sadhan (**KPMG**) and PricewaterhouseCoopers (**PwC**) without qualification. The 2010 Financial Statements have been audited in accordance with International Standards on Auditing by KPMG and Ernst & Young (**E&Y**) without qualification. BSF publishes its financial statements in Saudi Riyals.

PRESENTATION OF OTHER INFORMATION

In this document, references to:

- **Group** are to BSF and its consolidated subsidiaries and associates taken as a whole;
- **Saudi Arabia** and the **Kingdom** are to the Kingdom of Saudi Arabia;
- the **GCC** are to the Gulf Co-operation Council;
- the **MENA region** are to the Middle East and North Africa region;
- **U.S.$** or **U.S. dollars** are to the lawful currency of the United States;
- **euro** and € are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union;
- **SAR**, **SR**, **Saudi Riyal** and **Riyal** are to the lawful currency of the Kingdom of Saudi Arabia and references to **halalah** are to the sub-unit of the Riyal; and
- **Special Commission** are to be construed as broadly equivalent to interest.

Certain figures and percentages included in this Base Prospectus have been subject to rounding adjustments; accordingly figures shown in the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Some statements in this Base Prospectus may be deemed to be "forward-looking statements". Forward-looking statements include statements concerning BSF's plans, objectives, goals, strategies and future operations and performance and the assumptions underlying these forward-looking statements. When used in this Base Prospectus, the words "anticipates", "estimates", "expects", "believes", "intends", "plans", "aims", "seeks", "may", "will", "should" and any similar expressions generally identify forward-looking statements. These forward-looking statements are contained in the sections entitled "*Risk Factors*", "*BSF Financial Review*" and "*Description of BSF*" and other sections of this Base Prospectus. BSF has based these forward-looking statements on the current view of its management with respect to future events and financial performance. Although BSF believes that the expectations, estimates and projections reflected in its forward-looking statements are reasonable, if one or more of the risks or uncertainties materialise, including those identified below or which BSF has otherwise identified in this Base Prospectus, or if any of BSF's underlying assumptions prove to be incomplete or inaccurate, BSF's actual results of operation may vary from those expected, estimated or predicted. Investors are therefore strongly advised to read the sections "*Financial Review*", "*Description of BSF*", "*Risk Factors*" and "*The Banking Sector in the Kingdom of Saudi Arabia*", which include a more detailed description of the factors that might have an impact on BSF's business development and on the industry sector in which BSF operates.

The risks and uncertainties referred to above include:

- **BSF's ability to successfully manage the growth of its business;**
- **credit risks, including the impact of a higher level of credit defaults arising from the economic conditions and the impact of provisions and impairments and concentrations in BSF's loan book;**
- **liquidity risks, including the inability of BSF to meet its contractual and contingent cash flow obligations or the inability to fund its operations;**
- **changes in profit rates and other market conditions, including changes in SIBOR spreads and net profit margins;**
- **economic and political conditions in the Kingdom and the impact of worldwide economic and political conditions on the Kingdom;**
- **the ability of BSF to realise the benefits it expects from the existing and future projects and investments it is undertaking or plans to or may undertake;**
- **changes in the political, legal or economic conditions in the markets in which BSF operates; and**
- **actions taken by BSF's single largest shareholder, Credit Agricolé Corporate and Investment Bank that may not be in accordance with BSF's policies and objectives.**

Additional factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, those discussed under "*Risk Factors*".

These forward-looking statements speak only as at the date of this Base Prospectus. Without prejudice to any requirements under applicable laws and regulations (including, without limitation, the UK Listing Authority's Prospectus Rules, Listing Rules and Disclosure and Transparency Rules), BSF expressly disclaims any obligation or undertaking to disseminate after the date of this Base Prospectus any updates or revisions to any forward-looking statements contained herein to reflect any change in expectations thereof or any change in events, conditions or circumstances on which any forward-looking statement is based.

CREDIT RATING AGENCIES

Each of Standard & Poor's Credit Market Services Europe Limited (**S&P**), Moody's Investors Services Limited (**Moody's**) and Fitch Ratings Limited (**Fitch**) has rated the Kingdom of Saudi Arabia. Each of Fitch, Moody's and Standard and Poor's Credit Market Services France SAS (**S&P SAS**) has rated BSF. These ratings are set out below under "*BSF Financial Review – Credit Ratings*".

Each of S&P and S&P SAS is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended). As such S&P and S&P SAS are both included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with such Regulation.

Fitch is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended). As such Fitch is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with such Regulation.

Moody's is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended). As such Moody's is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with such Regulation.

NOTICE TO UK RESIDENTS

Any Certificates to be issued under the Programme which do not constitute "alternative finance investment bonds" within the meaning of Article 77A of the FSMA as amended by the Financial Services and Markets Act 2000 (Regulated Activities) (Amendment) Order 2010 (*Non-Regulatory AFIBs*) will represent interests in a collective investment scheme (as defined in the FSMA) which has not been authorised, recognised or otherwise approved by the Financial Services Authority. Accordingly, this Base Prospectus is not being distributed to, and must not be passed on to, the general public in the United Kingdom.

The distribution in the United Kingdom of this Base Prospectus, any Final Terms and any other marketing materials relating to the Certificates (A) if effected by a person who is not an authorised person under the FSMA, is being addressed to, or directed at, only the following persons: (i) persons

who are Investment Professionals as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the *Financial Promotion Order*), (ii) persons falling within any of the categories of persons described in Article 49 of the Financial Promotion Order and (iii) any other person to whom it may otherwise lawfully be made in accordance with the Financial Promotion Order and (B) if the Certificates are Non-Regulatory AFIBs and the distribution is effected by a person who is an authorised person under the FSMA, is being addressed to, or directed at, only the following persons: (i) persons falling within one of the categories of Investment Professional as set out in Article 14(5) of the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order 2001 (the *Promotion of CISs Order*), (ii) persons falling within any of the categories of person described in Article 22 of the Promotion of CISs Order and (iii) any other person to whom it may otherwise lawfully be made in accordance with the Promotion of CISs Order. Persons of any other description in the United Kingdom may not receive and should not act or rely on this Base Prospectus, any Final Terms or any other marketing materials in relation to any Certificates.

Potential investors in the United Kingdom in any Certificates which are Non-Regulatory AFIBs are advised that all, or most, of the protections afforded by the United Kingdom regulatory system will not apply to an investment in such Certificates and that compensation will not be available under the United Kingdom Financial Services Compensation Scheme.

Any individual intending to invest in any investment described in this Base Prospectus should consult his professional adviser and ensure that he fully understands all the risks associated with making such an investment and that he has sufficient financial resources to sustain any loss that may arise from such investment.

CAYMAN ISLANDS NOTICE

No invitation may be made to any member of the public of the Cayman Islands to subscribe for any Certificates.

NOTICE TO BAHRAIN RESIDENTS

The Central Bank of Bahrain and the Bahrain Stock Exchange assume no responsibility for the accuracy and completeness of the statements and information contained in this Base Prospectus and expressly disclaim any liability whatsoever for any loss howsoever arising from reliance upon the whole or any part of the contents of this Base Prospectus. Each potential investor residing in Bahrain intending to subscribe for the Certificates (each, a *potential investor*) may be required to provide satisfactory evidence of identity and, if so required, the source of funds to purchase the Certificates within a reasonable time period determined by the Trustee, BSF and the Dealers. Pending the provision of such evidence, an application to subscribe for Certificates will be postponed. If a potential investor fails to provide satisfactory evidence within the time specified, or if a potential investor provides evidence but none of the Trustee, BSF or the Dealers are satisfied therewith, its application to subscribe for Certificates may be rejected in which event any money received by way of application will be returned to the potential investor (without any additional amount added thereto and at the risk and expense of such potential investor). In respect of any potential investors, the Trustee and BSF will comply with Bahrain's Legislative Decree No. (4) of 2001 with respect to Prohibition and Combating of Money Laundering and various Ministerial Orders issued thereunder including, but not limited to, Ministerial Order No. (7) of 2001 with respect to Institutions' Obligations Concerning the Prohibition and Combating of Money Laundering.

NOTICE TO QATARI RESIDENTS

This Base Prospectus is not intended to constitute an offer, sale or delivery of bonds or other debt financing instruments under the laws of Qatar. The Certificates have not been and will not be authorised by the Qatar Financial Markets Authority (*QFMA*), the Qatar Financial Centre (*QFC*) or the Qatar Central Bank (*QCB*) in accordance with their regulations or any other regulations in Qatar. The Certificates and interests therein will not be offered to investors domiciled or resident in Qatar and do not constitute debt financing in Qatar under the Commercial Companies Law No. (5) of 2002 (the *Commercial Companies Law*) or otherwise under any laws of Qatar.

NOTICE TO RESIDENTS OF MALAYSIA

The Certificates may not be offered for subscription or purchase and no invitation to subscribe for or purchase the Certificates in Malaysia may be made, directly or indirectly, and this Base Prospectus or any document or other materials in connection therewith may not be distributed in Malaysia other than to persons falling within the categories set out in Schedule 6 or Section 229(1)(b), Schedule 7 or Section 230(1)(b) and Schedule 8 or Section 257(3) of the Capital Market and Services Act 2007 of Malaysia (*CMSA*).

The Securities Commission of Malaysia shall not be liable for any non-disclosure on the part of the Trustee or BSF and assumes no responsibility for the correctness of any statements made or opinions or reports expressed in this Base Prospectus.

IN CONNECTION WITH THE ISSUE OF ANY SERIES, THE DEALER OR DEALERS (IF ANY) NAMED AS STABILISING MANAGER(S) (OR ANY PERSONS ACTING ON BEHALF OF ANY STABILISING MANAGER(S)) IN THE APPLICABLE FINAL TERMS MAY OVER-ALLOT CERTIFICATES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE CERTIFICATES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE CAN BE NO ASSURANCE THAT THE STABILISING MANAGER (OR ANY PERSON ACTING ON BEHALF OF ANY STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE ISSUE DATE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE CERTIFICATES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE CERTIFICATES. ANY STABILISATION ACTION SHALL BE CONDUCTED IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

RISK FACTORS

The purchase of any Certificates may involve substantial risks and is suitable only for sophisticated investors who have the knowledge and experience in financial and business matters necessary to enable them to evaluate the risks and merits of an investment in the Certificates. Before making an investment decision, prospective purchasers of Certificates should consider carefully, in the light of their own financial circumstances and investment objectives, all of the information in this Base Prospectus.

Each of the Trustee and BSF believes that the factors described below represent the principal risks inherent in investing in Certificates, but the inability of the Trustee to pay any amounts on or in connection with any Certificate may occur for other reasons and none of the Trustee or BSF represents that the statements below regarding the risks of holding any Certificate are exhaustive. There may also be other considerations, including some which may not be presently known to the Trustee or BSF or which the Trustee or BSF currently deems immaterial, that may impact any investment in Certificates.

Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus and reach their own views prior to making any investment decision. Words and expressions defined in "Structure Diagram and Cashflows", "Form of the Certificates" and "Terms and Conditions of the Certificates" shall have the same meanings in this section.

FACTORS THAT MAY AFFECT THE TRUSTEE'S ABILITY TO FULFIL ITS OBLIGATIONS UNDER CERTIFICATES ISSUED UNDER THE PROGRAMME

The Trustee is a newly formed entity and has no operating history. The Trustee will not engage in any business activity other than the issuance of Certificates under the Programme, the acquisition of the Trust Assets as described herein, acting in the capacity as Trustee and other activities incidental or related to the foregoing as required under the Transaction Documents.

The Trustee's only material assets, which will be held on trust for Certificateholders, will be the Trust Assets relating to each Series of Certificates, including its right to receive payments under the relevant Transaction Documents. The ability of the Trustee to pay amounts due on the Certificates of each Series will primarily be dependent upon receipt by the Trustee of all amounts due from BSF under the relevant Transaction Documents. Therefore the Trustee is subject to all the risks to which BSF is subject to the extent that such risks could limit BSF's ability to satisfy in full and on a timely basis their respective obligations under the Transaction Documents to which they are a party. See "*Risks relating to BSF*" below for a further description of these risks.

RISKS RELATING TO BSF

In the course of its business activities, BSF is exposed to a variety of risks, the most significant of which are credit risk, market risk, operational risk and liquidity risk. Investors should note that BSF may fail to identify all risks, particularly those of a novel or unanticipated nature. If risks that BSF has been unable to identify were to materialise, or any failure to adequately control these risks were to occur, this could result in adverse effects on BSF's financial condition, results of operations or prospects. A detailed description of BSF's risk management processes is set out under "*Description of BSF – Risk Management*".

The profitability of BSF's businesses could be adversely affected, as by a worsening of general economic conditions in the Kingdom (macro economic conditions in the Kingdom have historically been heavily influenced by the price of oil). Factors such as interest rates, inflation, investor sentiment, the availability and cost of credit, the liquidity of the global financial markets and the level and volatility of equity prices could also affect the activity level of customers. For example:

(a) an economic downturn in the Kingdom, a worsening of the global or regional economic situation or significantly higher interest rates could adversely affect the credit quality of BSF's on-balance sheet and off-balance sheet assets by increasing the risk that a greater number of BSF's customers would be unable to meet their obligations;

(b) an economic downturn in the Kingdom or worsening of the global or regional economic situation could cause BSF to incur mark to market losses in its trading portfolios;

(c) an economic downturn in the Kingdom or worsening of the global economic situation would be likely to lead to a decline in the volume of transactions that BSF executes for its customers and, therefore, lead to a decline in the income it receives from fees and commissions and interest.

BSF reviews its overall medium term business strategy on a regular basis and, in the event that the business strategy of BSF was to be changed as a result of any such review, there can be no assurance that such revised strategy would be successful.

Competition

All sectors of the Saudi Arabian market for financial and banking services are highly competitive. There are a number of local and international banks that are licensed to conduct banking business in Saudi Arabia. The Saudi Arabian market is increasingly becoming competitive as more licenses are issued by SAMA. This is expected to result in increased competition and may increase the pressure for BSF to improve the range and sophistication of its products and services currently offered. BSF's exposure to competition in its key areas of operation may, among other things, limit BSF's ability to implement its growth strategy, increase its client base and expand its operations; and reduce or reverse its asset growth rate and profit margins on the services it provides. The competitive nature of the Saudi Arabian market may also adversely impact BSF's business and may lead some of BSF's clients to start using competitors instead. There can be no assurance, therefore, that the continuation of existing levels of competition or increased competition will not have a material adverse effect on BSF's business, financial condition, results of operations and prospects.

Credit Risk

Risks arising from adverse changes in the credit quality and recoverability of loans, securities and amounts due from counterparties are inherent in a wide range of BSF's businesses, principally in its lending and investment activities. Credit risks could arise from a deterioration in the credit quality of specific borrowers, issuers and counterparties of BSF, or from a general deterioration in local economic conditions, or from systemic risks within the financial system, which could affect the recoverability and value of BSF's assets and require an increase in BSF's provisions for the impairment of loans, securities and other credit exposures.

BSF is exposed to many different industries and counterparties in the normal course of its business, but its exposure to counterparties in the financial services industry is particularly significant. This exposure can arise through trading, lending, deposit-taking, clearance and settlement and many other activities and relationships. These counterparties include brokers and dealers, commercial banks, investment banks, mutual funds, and other institutional clients. Many of these relationships expose BSF to credit risk in the event of default of a counterparty or client. In addition, BSF's credit risk may be exacerbated when the collateral it holds cannot be realised upon or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure it is due. Many of the hedging and other risk management strategies utilised by BSF also involve transactions with financial services counterparties. The weakness of these counterparties may impair the effectiveness of BSF's hedging and other risk management strategies. BSF has already witnessed increase in payment delays, requests for restructuring and requests for waivers of covenants.

In addition, an economic downturn affecting the Kingdom could adversely affect the credit quality of BSF's assets and could, in turn, have a material adverse affect on BSF's business, financial condition, results of operations and prospects.

Concentration in loan and deposit base

BSF's loan portfolio is concentrated geographically in Saudi Arabia and almost all of BSF's customer deposits were located within Saudi Arabia as at 31 December 2011.

BSF's twenty largest group exposures constituted approximately 29.2 per cent. of BSF's total funded and unfunded exposures as at 31 December 2011. In addition, as at 31 December 2011, the 20 largest depositors accounted for approximately 32.5 per cent. of BSF's customer deposits.

As a result of the concentration of BSF's loan and investment portfolios and deposit base in Saudi Arabia, any deterioration in general economic conditions in Saudi Arabia or any failure of BSF to effectively manage its risk concentrations could have a material adverse effect on its business, results of operations, financial condition and prospects. See also "*Risk Factors Relating to Saudi Arabia*".

Market Risks

The most significant market risks to which BSF is exposed are interest rate, credit spread, and bond and equity price risks associated with its trading, investment and asset and liability management activities. Changes in profit rate levels and spreads may affect the profit rate margin realised between BSF's lending and investment activities and its borrowing costs, and the values of assets that are sensitive to profit rate and spread changes. Changes in foreign exchange rates may affect the values of assets and liabilities denominated in foreign currencies and the income from foreign exchange dealing. Changes in bond and equity prices may also affect the values of BSF's investment and trading portfolios. It is difficult to accurately predict changes in economic and market conditions and to anticipate the effects that such changes could have on BSF's financial performance and business operations.

While BSF is subject to limits on its open currency positions pursuant to SAMA rules and BSF's internal policies, significant movements in currency exchange rates may adversely affect BSF's foreign currency positions.

Liquidity Risks

BSF, like other commercial banks in the Kingdom and elsewhere, is exposed to liquidity risk due to the maturity mismatches between its assets and liabilities. During the global financial crisis, credit markets and residential mortgage markets have experienced severe dislocations and liquidity disruptions. As a result, financial institutions world-wide have been operating, and continue to operate, in a difficult environment characterised by liquidity constraints. Although BSF believes that its level of access to domestic and international inter-bank markets and its liquidity risk management policy allow and will continue to allow BSF to meet its short-term and long-term liquidity needs, any maturity mismatches between BSF's assets and liabilities (including by reason of an unexpected withdrawal of funds by BSF's customers) may have a material adverse effect on BSF's business, financial condition, results of operations or prospects.

The Bank's 20 largest depositors represented 32.50 per cent. of total deposits as at 31 December 2011. These 20 depositors are large Saudi Arabian corporates and financial institutions. A decision by one or more of these depositors to withdraw their deposits or the insolvency of one or more of these depositors could have a material adverse affect on BSF's business, financial condition, results of operations and prospects.

Operational Risks

As a financial services organisation, BSF is exposed to a variety of other risks including those arising from process error, fraud, systems failure, security and physical protection, customer services, staff skills and performance, and product development and maintenance. Any materialisation of such risk may have a material adverse effect on BSF's business, financial condition, results of operations or prospects. Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that any of the Issuer, BSF or the Group will be unable to comply with its obligations as a company with securities admitted to the Official List.

Impact of Regulatory Changes

BSF is subject to the laws, regulations, administrative actions and policies in the Kingdom. These regulations may limit BSF's activities and changes in supervision and regulation particularly within the Kingdom could materially adversely affect BSF's business (such as pursuant to the Basel II and Basel III Accords), the products or services offered, the value of its assets, and its financial condition.

In particular, BSF will adopt the Basel III guidelines as and when SAMA communicates their requirements in this regard. Future changes in regulation, fiscal or other policies which may materially adversely affect BSF's business, financial condition, and results of operations or prospects cannot be predicted and are beyond the control of BSF.

Management of Growth

BSF has experienced significant growth in many of its business segments in recent years. BSF intends to continue its growth in order to meet its strategic objectives, although whether this can be achieved is largely dependent on the performance of the Saudi Arabian economy and, in particular, the price of oil. The management of BSF's growth will require, among other things, continued development of its financial and information management control systems, the ability to integrate new products and services, the ability to attract and retain sufficient numbers of qualified management and other personnel, the continued training of such personnel, the presence of adequate supervision and the maintenance of consistency of customer services. If BSF fails to manage its growth properly, such failure may have a material adverse effect on BSF's business, financial condition, results of operations or prospects.

Dependence on Qualified Personnel

BSF's success will depend, in part, on its ability to continue to attract, retain and motivate qualified and skilled personnel. Competition in the Saudi Arabian banking industry for personnel with relevant expertise is intense, due to the limited number of qualified individuals. BSF's failure to manage its personnel needs successfully could have a material adverse effect on its business, financial condition, results of operations or prospects.

Ownership and Legal Status

BSF is a public listed company and is affiliated with Crédit Agricole Corporate and Investment Bank (**CA-CIB**), which as at 31 December 2011 held a 31.1 per cent. equity interest in BSF. CA-CIB is a wholly-owned subsidiary of Crédit Agricole S.A. and is the corporate and investment banking arm of the Crédit Agricole group. The other majority shareholders of BSF as at 31 December 2011 were: the General Organisation for Social Insurance (12.8 per cent.); Rashed Al Abdularahman Al Rashed & Sons Co. (9.8 per cent.) and Mohammed Ibrahim Al-Issa (5.0 per cent.). The remaining share capital of BSF is held by the public.

BSF operates on a stand-alone basis. However, under the technical service agreement between CA-CIB and BSF, CA-CIB provides support for the operations of BSF in relation to its advisory corporate finance, project finance and loan syndication businesses, and the development of capital markets products. BSF also benefits from the expertise of the wider Crédit Agricole group in retail banking and from CA-CIB which provides risk management methodologies fine-tuned to BSF's business model. BSF has developed its risk management systems in collaboration with CA-CIB using CA-CIB's risk reporting methodologies. Audit assignment teams are also provided by CA-CIB. A large number of members of BSF's senior management team have been seconded from CA-CIB including the Managing Director, the Chief Financial Officer, the Chief Operating Officer, the Chief Risk Officer, and the Inspector Genera and Audit Division Manager. The head of the Retail Banking Group is a secondee from Crédit Agricole (see "*Description of BSF – Senior Management*"). If CA-CIB's shareholding was to decrease and/or the role that CA-CIB play's in BSF management was to decrease, this could have a material adverse effect on BSF's business, financial condition, results of operations and prospects.

RISK FACTORS RELATING TO SAUDI ARABIA

Economic, Political and Related Considerations

BSF has all its operations and the majority of its assets in Saudi Arabia and accordingly its business may be affected by the financial, political and general economic conditions prevailing from time to time in Saudi Arabia and/or the Middle East generally.

Notwithstanding Saudi Arabia's policy of diversification to enhance the contribution of the non-oil sector to its Gross Domestic Product (**GDP**), oil income, which according to a report by Jadwa Investment dated 31 December 2011 was estimated at approximately 47 per cent. of the country's total GDP in the year ended 31 December 2011, will continue to play a pivotal role in its economic planning and development. Consequently, any sustained downturn in oil prices will have a negative impact on Saudi Arabia's overall economy, with adverse effects felt at all levels of the economy, including BSF and the market price of the Certificates.

Like other countries in the Middle East, the Kingdom could be affected by political and social unrest in the region. In particular, since early 2011 there has been ongoing political unrest in a range of countries in the MENA region, including Egypt, Algeria, Libya, Bahrain, Yemen, Syria, Tunisia and Oman. While the political situation in the Kingdom has remained relatively stable, the Government faces a number of challenges, arising mainly from the relatively high levels of population growth and unemployment amongst Saudi Arabian youth and the security threat posed by certain groups of extremists, which could have an adverse effect on the Saudi economy and, as a consequence, BSF's business.

Investors in emerging markets should also be aware that these markets are subject to greater risks than more developed markets, including in some cases significant legal, economic and political risks. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in the light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved.

Uncertainty in the Global Economy and impact on the Kingdom's economy

Since the middle of 2007, global credit markets, particularly in the United States and Europe, have experienced difficult conditions. These challenging market conditions have resulted in reduced liquidity, greater volatility and lack of price transparency in credit markets. The adverse market conditions have impacted investment markets globally including adverse changes and increased volatility in interest rates and exchange rates and decreased returns from securities, property and other investments. There can be no assurance that this will continue. There can be no assurance that continuing or future global economic uncertainty will not have a material adverse effect on the Saudi economy and on BSF's business, financial condition, results of operations and prospects.

FACTORS WHICH ARE MATERIAL FOR THE PURPOSE OF ASSESSING THE MARKET RISKS ASSOCIATED WITH CERTIFICATES ISSUED UNDER THE PROGRAMME

Risks relating to the Wakala Assets

Ownership of the Wakala Assets

In order to comply with the requirements of Sharia, an interest in the Wakala Assets comprised within the relevant Wakala Portfolio will pass to the Trustee under the relevant Purchase Agreement. The Trustee will declare a trust in respect of such Wakala Portfolio and the other Trust Assets in favour of the Certificateholders of the relevant Series pursuant to the relevant Trust Deed. Accordingly, Certificateholders will, through the ownership interest of the Trustee, have an ownership interest in the relevant Wakala Portfolio unless the transfer of the Wakala Portfolio is prohibited by, or ineffective under, any applicable law (see "*Transfer of the Wakala Assets*" below).

No investigation or enquiry will be made and no due diligence will be conducted in respect of any Wakala Assets comprised within any Wakala Portfolio. Such Wakala Assets will be selected by BSF and the Certificateholders, the Trustee and the Delegate will have no ability to influence such selection. Only limited representations will be obtained from BSF in respect of the Wakala Assets of any Series. In particular, the precise terms of the Wakala Assets or the nature of the assets leased, sold or held will not be known (including whether there are any restrictions on transfer or any further obligations required to be performed by BSF to give effect to the transfer of the Wakala Assets). No steps will be taken to perfect the transfer of the ownership interest (including registration) in the Wakala Assets or otherwise give notice to any lessee or obligor in respect thereof.

In addition, if and to the extent that a third party is able to establish a direct claim against the Trustee, the Delegate or any Certificateholders on the basis of any ownership interest in the Wakala Assets of any Series, BSF has agreed in the relevant Trust Deed to indemnify the Trustee, the Delegate and the Certificateholders against any such liabilities. In the event that BSF is unable to meet any such claims then the Certificateholders may suffer losses in excess of the original face amount invested.

Transfer of the Wakala Assets

No investigation has been or will be made as to whether any Wakala Assets may be transferred as a matter of the law governing the contracts (if any) underlying such Wakala Assets, the law of the jurisdiction where such assets are located or any other relevant law. No investigation will be made to determine if the relevant Purchase Agreement will have the effect of transferring the Wakala Assets of the relevant Series of Certificates.

Nevertheless, as indicated earlier, the Certificateholders will not have any rights of enforcement as against the Trust Assets and their rights are limited to enforcement against BSF of its obligation to purchase the Wakala Assets pursuant to the terms of the Purchase Undertaking. Accordingly, any such restriction on the ability of BSF to perfect the sale of the Wakala Assets to the Trustee is likely to be of limited consequence to the rights of the Certificateholders.

By way of further assurance, BSF has covenanted in the Purchase Undertaking that to the extent that any sale and purchase or transfer and assignment of any of the Wakala Assets is not effective in any jurisdiction for any reason, it will make restitution in respect of those Wakala Assets, will fully accept all or any ownership interest the Trustee may have in the relevant Wakala Assets and, if such ownership interest is disputed or challenged, will fully indemnify the Trustee for the purpose of redemption in full or in part, as the case may be, of the relevant Series of Certificates and, accordingly, the amount payable under such indemnity will equal the relevant Exercise Price (see "*Description of the Principal Transaction Documents – Purchase Undertaking*"). In the event that the Wakala Assets are not repurchased by BSF for any reason, the Delegate (on behalf of the

Certificateholders) may, subject to the matters set out in Condition 15 and the terms of the Master Trust Deed, seek to enforce, *inter alia*, the provisions of the Purchase Undertaking against BSF. To the extent that the Delegate obtains an English judgment in its favour, it may seek to enforce that judgment in a Saudi Arabian court (see "– *Risk factors relating to enforcement*" below).

Risks Relating to the Certificates

The Certificates are limited recourse obligations

Certificates to be issued under the Programme are not debt obligations of the Trustee. Instead, the Certificates represent an undivided ownership interest solely in the relevant Trust Assets. Recourse to the Trustee in respect of each Series is limited to the Trust Assets of that Series and proceeds of such Trust Assets are the sole source of payments on the relevant Certificates. Upon the occurrence of a Dissolution Event, the sole rights of each of the Delegate and, through the Delegate, the Certificateholders of the relevant Series will be against BSF to perform its obligations under the Transaction Documents to which it is a party. Certificateholders will have no recourse to any assets of the Trustee or BSF in respect of any shortfall in the expected amounts due under the relevant Trust Assets. BSF is obliged to make certain payments under the Transaction Documents to which it is a party directly to the Trustee, and the Delegate will have direct recourse against BSF to recover such payments due to the Trustee pursuant to the Transaction Documents to which it is a party. In the absence of default by the Delegate, investors have no direct recourse to BSF and there is no assurance that the net proceeds of the realisation of any enforcement action with respect to the Trust Assets (which, as described above, will be by way of enforcing BSF's and the Trustee's respective obligations under the Transaction Documents to which they are a party) will be sufficient to make all payments due in respect of the relevant Certificates. After enforcing or realising the rights in respect of the Trust Assets of a Series (in the manner described above) and distributing the net proceeds of such Trust Assets in accordance with Condition 4.2, the obligations of the Trustee in respect of the Certificates of the relevant Series shall be satisfied and neither the Delegate nor any Certificateholder may take any further steps against the Trustee to recover any further sums in respect of such Certificates and the right to receive any such sums unpaid shall be extinguished. Furthermore, under no circumstances shall the Trustee, the Delegate or any Certificateholder have (i) any right to cause the sale or other disposition of any of the Trust Assets except pursuant to the Transaction Documents or (ii) any other recourse against the Trust Assets except the right to receive distributions derived from the Trust Assets in accordance with the Conditions. The sole right of the Trustee, the Delegate and the Certificateholders against BSF shall be to enforce the obligation of BSF to perform its obligations under the Transaction Documents to which it is a party.

Absence of secondary market/limited liquidity

There is no assurance that a secondary market for the Certificates of any Series will develop or, if it does develop, that it will provide the Certificateholders with liquidity of investment or that it will continue for the life of those Certificates. Accordingly, a Certificateholder may not be able to find a buyer to buy its Certificates readily or at prices that will enable the Certificateholder to realise a desired yield. The market value of Certificates may fluctuate and a lack of liquidity, in particular, can have a material adverse effect on the market value of the Certificates. Accordingly, the purchase of Certificates is suitable only for investors who can bear the risks associated with a lack of liquidity in the relevant Certificates and the financial and other risks associated with an investment in the relevant Certificates. An investor in Certificates must be prepared to hold the relevant Certificates for an indefinite period of time or until their maturity. Application has been made for the listing of certain Series to be issued under the Programme on the London Stock Exchange but there can be no assurance that any such listing will occur or will enhance the liquidity of the Certificates of the relevant Series.

The Certificates may be subject to early redemption

In the event that the amount payable on the Certificates of any Series is required to be increased to include additional amounts in certain circumstances and/or BSF is required to pay additional amounts pursuant to: (i) paragraph (a) of the definition of Certificateholder Put Option Exercise Price and/or paragraph (a) of the definition of Wakala Portfolio Exercise Price (in each case under the Purchase Undertaking) and/or paragraph (a) of the definition of Issuer Call Exercise Price and/or paragraph (a) of the definition of Tax Call Exercise Price (in each case under the Sale Undertaking); or (ii) the Management Agreement (based on a rate in excess of five per cent. of the gross amounts payable under the Management Agreement), in each case as a result of certain changes affecting taxation in the Cayman Islands (in the case of the Trustee) or Saudi Arabia (in the case of BSF), or in each case any political subdivision or any authority thereof or therein having power to tax, the Trustee may redeem all but not some only of the Certificates upon giving notice in accordance with the Terms and Conditions of the relevant Certificates.

If so provided in the applicable Final Terms, a Series may be redeemed early at the option of the Trustee. Any such early redemption feature of any Certificate is likely to limit its market value. During any period when the Trustee may elect to redeem Certificates, the market value of those Certificates generally will not rise substantially above the dissolution amount payable. This also may be true prior to any redemption period. The Trustee may be expected to redeem Certificates when BSF's cost of borrowing is lower than the profit rate on the Certificates. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective profit rate as high as the profit rate on the Certificates being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider re-investment risk in light of other investments available at that time.

Risk factors relating to enforcement

Investors may experience difficulties in enforcing foreign judgments in Saudi Arabia

The payments under the Certificates are dependent upon BSF making payments to the Trustee in the manner contemplated under the Transaction Documents. If BSF fails to do so, it may be necessary to bring an action against BSF to enforce its obligations and/or to claim damages, as appropriate, which may be costly and time consuming. BSF is incorporated in Saudi Arabia and all or a substantial part of its assets are located in Saudi Arabia. Accordingly, there may be insufficient or no assets of BSF located outside Saudi Arabia to satisfy in whole or in part any judgment obtained from a court outside Saudi Arabia against BSF.

In original actions in Saudi courts, liabilities predicated solely upon English law would only be enforceable to the extent such liabilities did not contravene Saudi law and Sharia principles. The courts in Saudi Arabia will not observe the parties' choice of English law as the governing law of any Transaction Document expressed to be governed by that law and will instead apply Saudi law.

The courts in Saudi Arabia are unlikely to enforce an English judgment without re-examining the merits of the claim. A court judgment in respect of a Transaction Document obtained outside Saudi Arabia might be enforced in Saudi Arabia by submitting such judgment to the Saudi Arabian Board of Grievances (the **Grievance Board**), the judicial body in Saudi Arabia empowered to enforce foreign judgments. In considering a request to enforce a foreign judgment, the Grievance Board would ordinarily require the party seeking enforcement to demonstrate: (i) either that Saudi Arabia and the country in which such foreign judgment was issued are parties to a bilateral or multilateral agreement for the reciprocal enforcement of judgments or, in the absence of such agreement, that such country would recognise and enforce a Saudi Arabian judgment in the same manner as a domestic judgment; (ii) that the Saudi Arabian judgment debtor was accorded due process in the foreign proceeding, including due notice and the opportunity to appear in and defend such proceeding; (iii) that such foreign judgment is final in the country where it was issued; and (iv) that such foreign judgment contains nothing that contravenes Sharia law, Sharia principles or public policy of Saudi Arabia. However, the Grievance Board has rarely enforced judgments rendered by courts in jurisdictions other than countries which are members of the League of Arab States, and appears never to have done so in respect of a judgment rendered in the United Kingdom. In addition, if any of the terms of the Transaction Documents (including any provision relating to the payment of profit) were found to be inconsistent with the Grievance Board's interpretation of Sharia, they would not be enforceable by the Grievance Board. If a foreign judgment were not enforced in whole or in part under this procedure, the party which obtained the foreign judgment could proceed by way of a new action instituted in Saudi Arabia before the Grievance Board, the SAMA Committee or the Negotiable Instruments Committee (depending on the subject matter of the action).

Judicial precedents in Saudi Arabia have no binding effect on subsequent decisions. In addition, court decisions in Saudi Arabia are not generally or consistently indexed and collected in a central place or made publicly available. These factors create greater judicial uncertainty.

The interpretation of the compliance of the Transaction Documents with Sharia principles may differ amongst Saudi courts and judicial committees

The Master Purchase Agreement, each Supplemental Purchase Contract and each Sale or Transfer Agreement entered into under the Purchase Undertaking or the Sale Undertaking, as the case may be (together, the **Saudi Law Transaction Documents**), will be governed by, and will be construed in accordance with, the laws of Saudi Arabia. Prospective Certificateholders should note that the various courts and judicial committees of Saudi Arabia applying Saudi law, and in particular the relevant principles of Islamic law are generally construed and applied pursuant to the teachings of the Hanbali school of jurisprudence, which may interpret or enforce, or reinterpret, any Saudi Law Transaction Document other than in accordance with its terms. There are majority and minority views within the Hanbali school of jurisprudence either of which may be applied in any particular case. In this regard, the courts and judicial committees of Saudi Arabia may decline to enforce any contractual or other obligations (including any provisions relating to the payment of profit) if it is their view that the enforcement thereof would be contrary to principles of Sharia.

BSF has agreed in each Transaction Document to which it is a party that the Saudi Arabian Committee for the Resolution of Securities Disputes and the Appeal Panel may have jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which may arise out of or in connection with matters related to those Transaction Documents. Prospective Certificateholders should note that to the best of the Trustee's and BSF's knowledge, no securities of a similar nature to the Certificates have previously been the subject of adjudicatory interpretation or enforcement in Saudi Arabia. Accordingly, it is uncertain exactly how and to what extent the Transaction Documents to which BSF is a party (or any of them), would be enforced by the Committee for the Resolution of Securities Disputes and the Appeal Panel or any other adjudicatory authority in Saudi Arabia.

The Government has approved a restructuring of the judicial system, including the establishment of a Supreme Court as well as commercial, personal status and labour tribunals. The new Judiciary Law and Law of the Grievance Board of Saudi Arabia (the **Grievance Board**) were enacted by Royal Decree No. M/78 dated 1 October 2008 but have not yet been fully brought into force. Under the new judiciary law, the Supreme Court has taken over all the functions other than certain administrative responsibilities of the Supreme Judiciary Council, which currently serves as Saudi Arabia's highest tribunal. The Grievance Board's current jurisdiction over commercial disputes may also pass to a new commercial court as part of the restructuring. It is not clear as at the date of this Base Prospectus what impact this restructuring may have on the Transaction Documents to which BSF is a party or any claim thereunder.

Prospective Certificateholders should note that different Sharia advisers and courts and judicial committees in Saudi Arabia may form different opinions on identical issues and therefore prospective Certificateholders should consult their own legal and Sharia advisers to receive an opinion, as to the compliance or otherwise of the Certificates and the Transaction Documents with Sharia principles (see "– *Sharia rules*" below). Prospective Certificateholders should also note that although the Sharia Committee of BSF has approved the transaction structure relating to the Certificates (as described in this Base Prospectus) and each of the Sharia Supervisory Boards of Citi Islamic Investment Bank and Crédit Agricole CIB and Dr. Hussein Hamed Sayed Hassan have confirmed that the Transaction Documents are in compliance with Sharia principles, such approvals and confirmations would not bind a court or judicial committee in Saudi Arabia, including in the context of any insolvency or bankruptcy proceedings relating to BSF, and any court or judicial committee in Saudi Arabia will have the discretion to make its own determination about whether the Transaction Documents comply with the laws of Saudi Arabia and Sharia principles and therefore are enforceable in Saudi Arabia.

Unilateral promises

Under Islamic law as applied in the Kingdom of Saudi Arabia there are different opinions amongst scholars with respect to the enforceability of a unilateral promise. Such a unilateral promise may not create an obligation which would be enforceable before the courts and judicial committees of Saudi Arabia. The Purchase Undertaking is a unilateral promise from BSF to the Trustee and the Delegate. Accordingly, prospective Certificateholders should be aware that its terms may not be enforceable before the courts and judicial committees of Saudi Arabia.

BSF Events

Prospective Certificateholders should note that the courts and judicial committees of Saudi Arabia may not give effect to any of the BSF Events (as set out in the Purchase Undertaking) other than those BSF Events relating to the non-payment of amounts due under the Transaction Documents.

Penalties and indemnities

Prospective Certificateholders should note that should any provision of the Transaction Documents be construed by a court or judicial committee in Saudi Arabia to be an agreement to pay a penalty rather than a genuine estimate of loss incurred, such provision would not be enforced in Saudi Arabia. Further, any indemnity provided by BSF pursuant to the Transaction Documents or in relation to any Series may not be enforceable under the laws and regulations of Saudi Arabia to the extent that it (a) purports to be effective notwithstanding any judgment or order of a court to the contrary or (b) is contrary to any applicable law or public policy relating thereto.

Compliance with bankruptcy law in Saudi Arabia may affect BSF's ability to perform its obligations under the Transaction Documents to which it is a party

In the event of BSF's insolvency, Saudi Arabian bankruptcy law may adversely affect BSF's ability to perform its obligations under the Transaction Documents to which it is a party and, in turn, affect the Trustee's ability to perform its obligations in respect of the Certificates. Specific performance, injunctive relief and declaratory judgments and remedies are rarely available as judicial and other adjudicative remedies in Saudi Arabia. There is little precedent to predict how claims by or on behalf of the Certificateholders and/or the Delegate would be resolved, and therefore there can be no assurance that Certificateholders will receive repayment of their claims in full or at all in these circumstances.

A court may not grant an order for specific performance

In the event that BSF fails to perform its obligations under any Transaction Document to which it is a party, the potential remedies available to the Trustee and the Delegate include (i) obtaining an order for specific performance of BSF's obligations, or (ii) a claim for damages.

There is no assurance that a court will provide an order for specific performance, as this is generally a matter for the discretion of the relevant court. Specific performance, injunctive relief and declaratory judgements and remedies are rarely available as judicial and other adjudicative remedies in the Kingdom. The amount of damages which a court may award in respect of a breach will depend upon a number of possible factors, including an obligation on the Trustee and the Delegate to mitigate any loss arising as a result of such breach. No assurance is provided on the level of damages which a court may award in the event of a failure by BSF to perform its obligations set out in the Transaction Documents to which it is a party. Damages for loss of profits, consequential damages or other speculative damages are not awarded in Saudi Arabia by the courts or other adjudicatory authorities, and only actual, direct and proven damages are awarded.

The terms of Trust Deeds may not be enforceable in Saudi Arabia

The laws of Saudi Arabia do not recognise the concept of a trust or beneficial interests. Accordingly, there is no certainty that the terms of the Master Trust Deed and any Supplemental Trust Deed (each of which will be governed by English law) would be enforced by the courts of Saudi Arabia and, as such, there can be no assurance that the obligations of the Trustee and/or the Delegate under the Master Trust Deed and any Supplemental Trust Deed to act on behalf of the Certificateholders in accordance with their instructions (given in accordance with the Conditions of the Certificates) are enforceable as a matter of contract under the laws of Saudi Arabia.

Change of law

The structure of each issue of Certificates under the Programme is based on English law, Cayman Islands law, the laws of Saudi Arabia and administrative practices in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible change to, or interpretation of, English, Cayman Islands or Saudi law or administrative practices in such jurisdiction after the date of this Base Prospectus, nor can any assurance be given as to whether any such change could adversely affect the ability of the Trustee to make payments under the Certificates or of BSF, to comply with its obligations under the Transaction Documents to which it is a party.

Additional risk factors

Reliance on Euroclear and Clearstream, Luxembourg procedures

The Certificates of each Series will be represented on issue by a Global Certificate that will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in each Global Certificate, investors will not be entitled to receive Certificates in definitive form. Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the ownership interests in Global Certificates. While the Certificates of any Series are represented by a Global Certificate, investors will be able to trade their ownership interests only through Euroclear and Clearstream, Luxembourg and their respective participants.

While the Certificates of any Series are represented by a Global Certificate, the Trustee will discharge its payment obligations under the Certificates by making payments through the relevant clearing systems. A holder of an ownership interest in a Global Certificate must rely on the procedures of the relevant clearing system and its participants to receive payments under the relevant Certificates. The Trustee has no responsibility or liability for the records relating to, or payments made in respect of, ownership interests in any Global Certificate.

Holders of ownership interests in a Global Certificate will not have a direct right to vote in respect of the relevant Certificates. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

Sharia rules

The Sharia Committee of BSF has approved the transaction structure relating to the Certificates (as described in this Base Prospectus) and each of the Sharia Supervisory Boards of Citi Islamic Investment Bank and Crédit Agricole CIB and Dr. Hussein Hamed Sayed Hassan have confirmed that the Transaction Documents are, in their view, Sharia compliant. However, there can be no assurance that the transaction structure, Transaction Documents or any issue and trading of any Certificates will be deemed to be Sharia compliant by any other Sharia board or Sharia scholars or by any court or adjudicatory authority in Saudi Arabia. None of the Trustee, BSF, the Delegate or the Dealers makes any representation as to the Sharia compliance of any Series and potential investors are reminded that, as with any Sharia views, differences in opinion are possible. Potential investors should obtain their own independent Sharia advice as to the compliance of the Transaction Documents and the issue and trading of any Series with Sharia principles.

In addition, prospective investors are reminded that the enforcement of any obligations of any of the parties would, if in dispute, be the subject of court or judicial committee proceedings under English or Saudi law. In such circumstances, the judge, will first apply the relevant law of the Transaction Document rather than Sharia principles in determining the obligation of the parties. See also "– *The interpretation of the compliance of the Transaction Documents with Sharia principles may differ amongst Saudi courts and judicial committees*" above.

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to the Certificates. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Certificates. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by its assigning rating agency at any time.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). Certain information with respect to the credit rating agencies and ratings will be disclosed in the applicable Final Terms. The list of registered and certified rating agencies published by the European Securities and Markets Authority (**ESMA**) on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and publication of an updated ECMA list.

Certificates which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade

In relation to any issue of Certificates which have a denomination consisting of the minimum Specified Denomination (as defined in the Conditions) plus a higher integral multiple of another smaller amount, it is possible that the Certificates may be traded in amounts in excess of such minimum Specified Denomination that are not integral multiples of such minimum Specified

Denomination. In such a case a Certificateholder who, as a result of trading such amounts, holds a face amount of less than the minimum Specified Denomination would need to purchase an additional amount of Certificates such that it holds an amount equal to at least the minimum Specified Denomination to be able to trade such Certificates. Certificateholders should be aware that Certificates which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

If a Certificateholder holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time such Certificateholder may not receive a definitive Certificate in respect of such holding (should definitive Certificates be printed) and would need to purchase a face amount of Certificates such that its holding amounts to at least a Specified Denomination in order to be eligible to receive a definitive Certificate.

If definitive Certificates are issued, holders should be aware that definitive Certificates which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

Consents to variation of Transaction Documents and other matters

The Conditions of the Certificates contain provisions for calling meetings of Certificateholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Certificateholders including Certificateholders who did not attend and vote at the relevant meeting and Certificateholders who voted in a manner contrary to the majority.

The Master Trust Deed contains provisions permitting the Delegate from time to time and at any time without any consent or sanction of the Certificateholders to make any modification to the Master Trust Deed if, in the opinion of the Delegate, such modification (a) is of a formal, minor or technical nature, or (b) is made to correct a manifest error, or (c) is not materially prejudicial to the interests of the relevant Certificateholders and is other than in respect of a Reserved Matter (as defined in the Master Trust Deed). Unless the Delegate otherwise agrees, any such modification shall as soon as practicable thereafter be notified to the relevant Certificateholders and shall in any event be binding upon the relevant Certificateholders.

European Monetary Union may cause Certificates denominated in certain currencies to be redenominated in euro

If Certificates are issued under the Programme which are denominated in the currency of a country which, at the time of issue, has not adopted the euro as its sole currency and, before the relevant Certificates are redeemed, the euro becomes the sole currency of that country, a number of consequences may follow including, but not limited to: (i) all amounts payable in respect of the relevant Certificates may become payable in euro, (ii) applicable law may allow or require such Certificates to be redenominated into euro and additional measures to be taken in respect of such Certificates and (iii) there may no longer be available published or displayed rates for deposits in such currency used to determine the rates of Periodic Distribution Amount on such Certificates. Any of these or any other consequences could adversely affect the holders of the relevant Certificates.

Exchange rate risks and exchange controls

The Trustee will make all payments on the Certificates. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls which could adversely affect an applicable exchange rate. The Trustee does not have any control over the factors that generally affect these risks, such as economic, financial and political events and the supply and demand for applicable currencies. In recent years, exchange rates between certain currencies have been volatile and volatility between such currencies or with other currencies may be expected in the future. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Certificates, (2) the Investor's Currency equivalent value of the principal payable on the Certificates and (3) the Investor's Currency equivalent market value of the Certificates.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate as well as the availability of a specified foreign currency at the time of any payment of any Periodic Distribution Amount or Dissolution Amount on a Certificate. As a result, investors may receive less amounts under the Certificates than expected, or no such amounts. Even if there are no actual exchange controls, it is possible that the Specified Currency for any particular Certificate may not be available at such Certificate's maturity.

Risk factors relating to taxation

Taxation risks on payments

Payments made by BSF to the Trustee under, or pursuant to, the Management Agreement, the Purchase Undertaking and/or the Sale Undertaking are, and payments by the Trustee in respect of the Certificates could become, subject to taxation. The Management Agreement requires the Managing Agent, each of the Purchase Undertaking and the Sale Undertaking requires BSF, and the Master Trust Deed requires BSF to pay additional amounts in the event that any withholding or deduction is required by applicable law to be made in respect of payments made by it to the Trustee which are intended to fund Periodic Distribution Amounts and Dissolution Amounts. Condition 11 provides that the Trustee is required to pay additional amounts in respect of any such withholding or deduction imposed by Cayman Islands law in certain circumstances. In the event that the Trustee fails to pay any such additional amounts in respect of any such withholding or deduction on payments due in respect of the Certificates to Certificateholders, BSF has unconditionally and irrevocably undertaken (irrespective of the payment of any fee), as a continuing obligation, to pay to the Trustee (for the benefit of the Certificateholders) an amount equal to the liabilities of the Trustee in respect of any and all additional amounts required to be paid in respect of the Certificates pursuant to Condition 11 in respect of any withholding or deduction in respect of any tax as set out in that Condition.

EU Savings Directive

Under EC Council Directive 2003/48/EC (the **Directive**) on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of certain payments paid by a person within its jurisdiction to an individual resident in that other Member State or to certain types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Directive which may, if implemented, amend or broaden the scope of the requirements described above.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Trustee nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Certificate as a result of the imposition of such withholding tax. The Trustee is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Directive.

U.S. Foreign Account Tax Compliance Withholding

The Trustee and other financial institutions through which payments on the Certificates are made may be required to withhold U.S. tax at a rate of 30 per cent. on all, or a portion of, payments made after 31 December 2016 in respect of (i) any Certificates treated as debt for U.S. federal tax purposes that are issued after 31 December 2012 or are materially modified from that date and (ii) any Certificates treated as equity for U.S. federal tax purposes, whenever issued, pursuant to sections 1471 through 1474 of the U.S. Internal Revenue Revenue (**FATCA**) or similar law implementing an intergovernmental approach to FATCA. This withholding tax may be triggered if (i) the Trustee is a foreign financial institution (**FFI**) (as defined in FATCA) which enters into and complies with an agreement with the U.S. Internal Revenue Service (**IRS**) to provide certain information on its account holders (making the Trustee a **Participating FFI**), (ii) the Trustee has a positive "passthru percentage" (as defined in FATCA), and (iii) (a) an investor does not provide information sufficient for the relevant Participating FFI to determine whether the investor is a U.S. person or should otherwise be treated as holding a "United States Account" of such Participating FFI, or (b) any FFI that is an investor, or through which payment on such Certificates is made, is not a participating FFI.

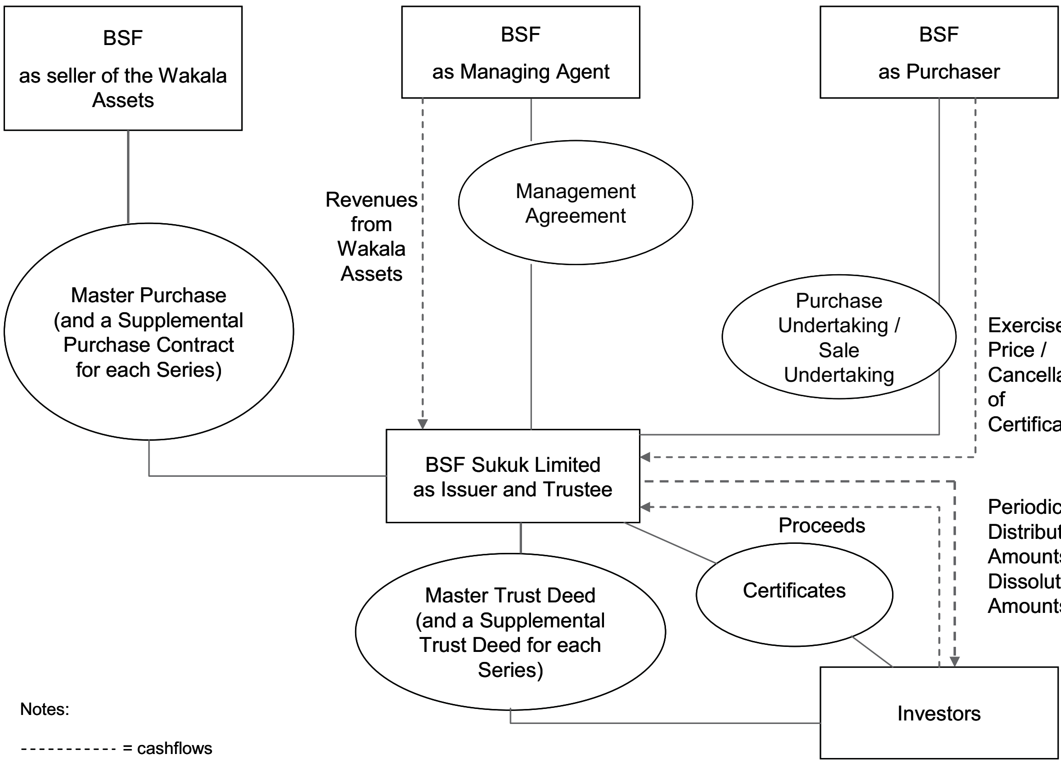
The application of FATCA to profit, principal or other amounts paid with respect to the Certificates is not clear. If an amount in respect of U.S. withholding tax were to be deducted or withheld from profit, principal or other payments on the Certificates, neither the Trustee nor the Delegate nor BSF nor any paying agent nor any other person would, pursuant to the Conditions of the Certificates or any of the Transaction Documents be required to pay additional amounts as a result of the deduction or withholding of such tax. As a result, investors may, if FATCA is implemented as currently proposed by the IRS, receive less profit or principal than expected. Holders of Certificates should consult their own tax advisers on how these rules may apply to payments they receive under the Certificates.

FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on proposed regulations and official guidance that is subject to change. The application of FATCA to Certificates issued after 31 December 2012 (or whenever issued, in the case of Certificates treated as equity for U.S. federal tax purposes) may be addressed in the relevant Final Terms or a Supplement to this Base Prospectus, as applicable.

STRUCTURE DIAGRAM AND CASHFLOWS

Set out below is a simplified structure diagram and description of the principal cash flows underlying each Series issued. Potential investors are referred to the terms and conditions of the Certificates and the detailed descriptions of the relevant Transaction Documents and the Terms and Conditions of the Certificates set out elsewhere in this Base Prospectus for a fuller description of certain cash flows and for an explanation of the meaning of certain capitalised terms used below.

Structure Diagram



Principal cash flows

Payments by the Certificateholders and the Trustee

On the Issue Date of each Series of Certificates, the Trustee will use the proceeds for the relevant Series to purchase from BSF a portfolio (the **Initial Wakala Portfolio**) of (i) income generating *ijara* assets (the **Ijara Assets**) that are subject to ijara contracts (each an **Ijara Contract**) (including any ancillary rights under such Ijara Contracts), and (ii) other income generating Sharia compliant assets (**Other Sharia Compliant Assets**) held or owned by BSF in accordance with Sharia principles as laid down by its Sharia Committee (as that committee is comprised from time to time, the **BSF Sharia Committee**) (including the income generated therefrom, any agreements or documents in relation to such asset and any ancillary rights under such agreements or documents) (each such Ijara Asset and Other Sharia Compliant Asset, a **Wakala Asset** and such Wakala Assets from time to time the **Wakala Portfolio**). As used in this Base Prospectus:

Wakala Asset Contract means an Ijara Contract or the contracts and/or other agreements and/or documents evidencing or otherwise related to or associated with an Other Sharia Compliant Asset; and

Wakala Asset Obligor means a lessee under an Ijara Contract or any person (other than BSF) that is a party to a Wakala Asset Contract.

Periodic Distribution Payments

Prior to each Periodic Distribution Date, the Managing Agent will pay to the Trustee (by way of a payment into the relevant Transaction Account) an amount reflecting returns generated (other than returns in the nature of capital or principal payments) by the relevant Wakala Portfolio (**Wakala Portfolio Income Revenues**) during the relevant Wakala Distribution Period, which is intended to be sufficient to fund the Periodic Distribution Amounts payable by the Trustee under the relevant Series and shall be applied by the Trustee for that purpose.

In the event that the Wakala Portfolio Income Revenues to be paid by the Managing Agent into the relevant Transaction Account on any Wakala Distribution Determination Date are greater than the Required Amount (as defined below) for the relevant Series on the immediately following Periodic Distribution Date, the amount of any excess shall be retained by the Managing Agent as a reserve and credited to a separate book-entry ledger account (in respect of each Series, the **Wakala Income Reserve Collection Account**) maintained by the Managing Agent and the amount to be transferred to the relevant Transaction Account in respect of such Wakala Portfolio Income Revenues shall be reduced accordingly.

If there is a shortfall on any Wakala Distribution Determination Date (after transfer of the Wakala Portfolio Income Revenues into the relevant Transaction Account as described above) between (i) the amounts standing to the credit of the relevant Transaction Account and (ii) an amount (the **Required Amount**) equal to the aggregate of the Periodic Distribution Amounts payable in respect of the relevant Certificates on the immediately following Periodic Distribution Date (a **Shortfall**), the Managing Agent shall first apply the amounts standing to the credit of the relevant Wakala Income Reserve Collection Account (if any) towards such Shortfall by transferring into the relevant Transaction Account from such Wakala Income Reserve Collection Account on that Wakala Distribution Determination Date an amount equal to the Shortfall (or such lesser amount as is then standing to the credit of such Wakala Income Reserve Collection Account). If, having applied such amounts standing to the credit of the relevant Wakala Reserve Collection Account (if any) and after payment to the relevant Transaction Account of all other amounts payable pursuant to any other Transaction Document, any part of the Shortfall still remains, the Managing Agent may provide Sharia compliant funding to the Trustee in the amount required to ensure that there is no Shortfall and on terms that such funding is repayable from Wakala Portfolio Income Revenues in the future or on the date on which the Certificates of the relevant Series are redeemed in full (each a **Liquidity Facility**).

Dissolution Payments

On each Scheduled Dissolution Date, the Trustee will have the right under the Purchase Undertaking to require BSF to purchase all of the Trustee's rights, title, interests, benefits and entitlements in, to and under the relevant Wakala Portfolio. The exercise price payable by BSF is intended to fund the Final Dissolution Amount payable by the Trustee under the relevant Certificates.

The Trust in relation to any Series may be dissolved prior to the relevant Scheduled Dissolution Date for the following reasons: (i) redemption following a Dissolution Event, (ii) an early redemption for tax reasons, (iii) if so specified in the applicable Final Terms, at the option of the Trustee on an Optional Dissolution Date and (iv) if so specified in the applicable Final Terms, at the option of the Certificateholders on any Certificateholder Put Option Date.

In the case of sub-paragraphs (i) to (iii) above inclusive, the amounts payable by the Trustee on the due date for dissolution will be funded in a similar manner as for the payment of the Final Dissolution Amount. Upon the exercise by Certificateholders of the option described in sub-paragraph (iv), the Trustee will redeem the relevant Certificates on the Certificateholder Put Option Date at the Optional Dissolution Amount (Certificateholder Put). Any such redemption shall be funded through the exercise by the Trustee of its right under the Purchase Undertaking to require BSF to purchase all of the Trustee's rights, title, interests, benefits and entitlements in, to and under a portion of the relevant Wakala Portfolio with an aggregate Value (as defined below under "*Summary of the Principal Transaction Documents – Management Agreement*") no greater than the aggregate face amount of the Certificates to be redeemed.

OVERVIEW OF THE PROGRAMME

The following is an overview of the principal features of the Programme. This overview does not contain all of the information that an investor should consider before investing in Certificates and is qualified in its entirety by the remainder of this Base Prospectus and the applicable Final Terms. Each investor should read the entire Base Prospectus and the applicable Final Terms carefully, especially the risks of investing in Certificates issued under the Programme discussed under "Risk Factors".

This overview constitutes a general description of the Programme for the purposes of Article 22.5(3) of Commission Regulation (EC) No. 809/2004 implementing the Prospective Directive.

Words and expressions defined in "Structure Diagram and Cashflows", "Form of the Certificates" and "Terms and Conditions of the Certificates" shall have the same meanings in this overview.

Issuer and Trustee:	BSF Sukuk Limited, a limited liability exempted company incorporated in accordance with the laws of, and formed and registered in, the Cayman Islands with registered number 266482 and its registered office at MaplesFS Limited, P.O. Box 1093, Queensgate House, Grand Cayman KY1-1102, Cayman Islands. The Trustee has been incorporated solely for the purpose of participating in the transactions contemplated by the Transaction Documents (as defined below) to which it is a party.
Seller and Managing Agent:	Banque Saudi Fransi
Risk Factors:	There are certain factors that may affect the Trustee's ability to fulfil its obligations under Certificates issued under the Programme, and BSF's obligations under the Transaction Documents to which it is a party. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Certificates issued under the Programme. Certain of these factors are set out under "*Risk Factors*" above.
Ownership of the Trustee:	The authorised share capital of the Trustee is U.S.$50,000 consisting of 50,000 shares of U.S.$1 each, of which 250 shares are fully paid up and issued. The Trustee's entire issued share capital is held by MaplesFS Limited on trust for charitable purposes.
Administration of the Trustee:	The affairs of the Trustee are managed by MaplesFS Limited (the **Trustee Administrator**), who will provide, amongst other things, certain administrative services for and on behalf of the Trustee pursuant to a Corporate Services Agreement dated 21 March 2012 between the Trustee and the Trustee Administrator (the **Corporate Services Agreement**). The Trustee Administrator's registered office is P.O. Box 1093, Queensgate House, Grand Cayman KY1 – 1102, Cayman Islands.
Lead Arrangers:	Citigroup Global Markets Limited Crédit Agricole Corporate and Investment Bank Deutsche Bank AG, London Branch
Co-Arranger:	Saudi Fransi Capital Limited
Dealers:	Citigroup Global Markets Limited Crédit Agricole Corporate and Investment Bank Deutsche Bank AG, London Branch Saudi Fransi Capital Limited and any other Dealer appointed from time to time either generally in respect of the Programme or in relation to a particular Series of Certificates.
Delegate:	Deutsche Trustee Company Limited Pursuant to the Master Trust Deed, the Trustee shall delegate to the Delegate certain of the present and future duties, powers, trusts, authorities and discretions vested in the Trustee by certain

	provisions of the Master Trust Deed. In particular, the Delegate shall be entitled to (and, in certain circumstances, shall, subject to being indemnified and/or secured and/or pre-funded to its satisfaction, be obliged to) take enforcement action in the name of the Trustee against the Seller and/or the Managing Agent and/or BSF following a Dissolution Event.
Principal Paying Agent:	Deutsche Bank AG, London Branch
Registrar and Transfer Agent:	Deutsche Bank Luxembourg S.A.
Certain Restrictions:	Each Series denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "*Subscription and Sale*"). The proceeds of each Series will not be accepted in the United Kingdom except in compliance with applicable law, including article 5 of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001.
Programme Size:	Up to U.S.$2,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement) outstanding at any time. The Trustee and BSF may increase the size of the Programme in accordance with the terms of the Programme Agreement.
Issuance in Series:	The Certificates will be issued in Series, the specific terms of which will be completed in the applicable Final Terms.
Distribution:	Certificates may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Currencies:	Subject to any applicable legal or regulatory restrictions, any currency agreed between the Trustee, BSF and the relevant Dealer.
Maturities:	The Certificates will have such maturities as may be agreed between the Trustee, BSF and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Trustee or the relevant Specified Currency.
Issue Price:	Certificates may be issued at any price on a fully paid basis, as specified in the applicable Final Terms. The price and amount of Certificates to be issued under the Programme will be determined by the Trustee, BSF and the relevant Dealer at the time of issue in accordance with prevailing market conditions.
Form of Certificates:	The Certificates will be issued in registered form as described in "*Form of the Certificates*". The Certificates of each Series will be represented on issue by ownership interests in a Global Certificate which will be deposited with, and registered in the name of a nominee of, a common depositary for Euroclear and Clearstream, Luxembourg. Ownership interests in each Global Certificate will be shown on, and transfers thereof will only be effected through, records maintained by each relevant clearing system and its participants. See "*Form of the Certificates*". Definitive Certificates evidencing holdings of Certificates will be issued in exchange for interests in a Global Certificate only in limited circumstances.

Clearance and Settlement:	Holders of the Certificates must hold their interest in the relevant Global Certificate in book-entry form through Euroclear or Clearstream, Luxembourg. Transfers within and between Euroclear and Clearstream, Luxembourg will be in accordance with the usual rules and operating procedures of the relevant clearance systems.
Face Amount of Certificates:	The Certificates will be issued in such face amounts as may be agreed between the Trustee, BSF and the relevant Dealer save that the minimum face amount of each Certificate will be such amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, see "*Certain Restrictions*" above, and save that the minimum face amount of each Certificate admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive will be €100,000 (or, if the Certificates are issued in a currency other than euro, the equivalent amount in such currency).
Status of the Certificates:	Each Certificate will evidence an undivided ownership interest of the Certificateholders in the Trust Assets of the relevant Series, will be a direct, unsubordinated, unsecured and limited recourse obligation of the Trustee and will rank *pari passu*, without any preference or priority, with all other Certificates of the relevant Series issued under the Programme. The Trust Assets of the relevant Series will be all of the Trustee's rights, title, interest and benefit, present and future, in, to and under (i) the relevant Wakala Portfolio, (ii) the Transaction Documents (other than (A) in relation to any representations given to the Trustee by BSF pursuant to any of the Transaction Documents and any rights which have been expressly waived by the Trustee in any of the Transaction Documents and (B) the covenant given to the Trustee pursuant to Clause 15.1 of the Master Trust Deed), (iii) all monies standing to the credit of the relevant Transaction Account from time to time, and all proceeds of the foregoing listed (i) to (iii) (the **Trust Assets**), and such Trust Assets will be held upon trust absolutely for the Certificateholders *pro rata* according to the face amount of Certificates held by each Certificateholder for the relevant Series.
Periodic Distributions:	Certificateholders are entitled to receive Periodic Distribution Amounts calculated on the basis specified in the applicable Final Terms.
Redemption of Certificates:	Unless the Certificates are previously redeemed or purchased and cancelled, the Certificates shall be redeemed by the Trustee at the relevant Dissolution Amount and on the relevant Scheduled Dissolution Date specified in the applicable Final Terms and the Trust in relation to the relevant Series will be dissolved by the Trustee.
Dissolution Events:	Upon the occurrence of any Dissolution Event, the Certificates may be redeemed in full on the Dissolution Date at the relevant Dissolution Amount, together with any accrued but unpaid Periodic Distribution Amount and the relevant Return Accumulation Period may be adjusted accordingly. See Condition 14.
Early Dissolution for Tax Reasons:	Where (i) BSF has determined that the Trustee has or will become obliged to pay any additional amounts in respect of the Certificates pursuant to Condition 11 or (ii) BSF has or will become obliged to

	pay any additional amounts in respect of amounts payable under (a) paragraph (a) of the definition of Certificateholder Put Option Exercise Price and/or paragraph (a) of the definition of Wakala Portfolio Exercise Price (in each case under the Purchase Undertaking) and/or paragraph (a) of the definition of Issuer Call Exercise Price and/or paragraph (a) of the definition of Tax Call Exercise Price (in each case under Sale Undertaking); or (b) the Management Agreement (based on a rate in excess of five per cent. of the gross amounts payable under the Management Agreement), in each case as a result of a change in the laws of a Relevant Jurisdiction (as defined in the Conditions) and such obligation cannot be avoided by the Trustee or BSF, as applicable, taking reasonable measures available to it, the Trustee may, following receipt of an exercise notice from BSF pursuant to the Sale Undertaking, redeem the Certificates in whole but not in part at an amount equal to the relevant Early Dissolution Amount (Tax) together with any accrued but unpaid Periodic Distribution Amounts on the relevant Dissolution Date and, if the Floating Periodic Distribution Provisions are specified in the applicable Final Terms as being applicable, the Dissolution Date must be a Periodic Distribution Date.
Optional Dissolution Right:	If so specified in the applicable Final Terms, the Trustee may, following receipt of an exercise notice from BSF pursuant to the Sale Undertaking, redeem in whole but not in part the Certificates of the relevant Series at the relevant Optional Dissolution Amount (Call) on the relevant Optional Dissolution Date and, if the Floating Periodic Distribution Provisions are specified in the applicable Final Terms as being applicable, the Optional Dissolution Date must be a Periodic Distribution Date. If applicable to the relevant Series, the Optional Dissolution Date(s) will be specified in the applicable Final Terms.
Certificateholder Put Option:	If so specified in the applicable Final Terms, Certificateholders may elect to redeem their Certificates on any Certificateholder Put Option Date(s) specified in the applicable Final Terms at an amount equal to the relevant Optional Dissolution Amount (Certificateholder Put) together with any accrued but unpaid Periodic Distribution Amounts in accordance with Condition 10.4. Following the payment by BSF of the relevant exercise price under the Purchase Undertaking, the Trustee will redeem the relevant Certificates on the relevant Certificateholder Put Option Date.
Cancellation of Certificates held by BSF and/or any of its Subsidiaries:	Pursuant to Condition 13, BSF and/or any of its Subsidiaries may at any time purchase Certificates in the open market or otherwise. If BSF wishes to cancel such Certificates purchased by it and/or any of its Subsidiaries, BSF will deliver those Certificates to the Principal Paying Agent for cancellation. BSF may also exercise its option under the Sale Undertaking to require the Trustee to transfer to BSF all of its rights, title, interests, benefits and entitlements in, to and under a portion of the relevant Wakala Portfolio with an aggregate Value no greater than the aggregate face amount of the Certificates so delivered to the Principal Paying Agent for cancellation and, upon such cancellation, the Trustee will transfer those Wakala Assets to BSF.
Wakala Asset Substitution:	The Managing Agent may substitute Wakala Assets in accordance with the relevant provisions of the Management Agreement and the Sale Undertaking, provided that no Dissolution Event has occurred and is continuing, the substitute assets are Wakala Assets and the

Value of such substitute assets shall have an aggregate Value which is not less than the aggregate Value of the Wakala Assets to be so substituted.

Withholding Tax: All payments by BSF under, or pursuant to, the Purchase Undertaking and Sale Undertaking and all payments by the Managing Agent under the Management Agreement shall be made without withholding or deduction for, or on account of, any taxes, levies, imposts, duties, fees, assessments or governmental charges of whatever nature imposed or levied by or on behalf of any Relevant Jurisdiction unless the withholding is required by law. In the event that any such withholding or deduction is made, BSF will be required to pay additional amounts so that the Trustee will receive the full amounts that it would have received in the absence of such withholding or deduction. Under Saudi law, the Managing Agent is required to withhold five per cent. in respect of any payments in the nature of profit made to the Trustee (being resident for tax purposes outside Saudi Arabia) under the Management Agreement. See "*Taxation – Kingdom of Saudi Arabia*".

All payments in respect of Certificates by the Trustee shall be made without withholding or deduction for, or on account of, any taxes, levies, imposts, duties, fees, assessments or governmental charges of whatever nature imposed or levied by or on behalf of any Relevant Jurisdiction. In the event that any such withholding or deduction is made, the Trustee will, save in the limited circumstances provided in Condition 11, be required to pay additional amounts so that the holders of the Certificates will receive the full amounts that they would have received in the absence of such withholding or deduction.

Negative Pledge: The Purchase Undertaking contains a negative pledge given by BSF. See "*Summary of the Principal Transaction Documents – Purchase Undertaking*".

Cross Default: The Purchase Undertaking contains a cross default provision in relation to BSF. See "*Summary of the Principal Transaction Documents – Purchase Undertaking*".

Trustee Covenants: The Trustee has agreed to certain restrictive covenants as set out in Condition 5.

Ratings: The ratings assigned to certain Series to be issued under the Programme will be specified in the applicable Final Terms. A rating is not a recommendation to buy, sell or hold securities, does not address the likelihood or timing of repayment and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency. Whether or not each credit rating applied for in relation to the relevant Series of Certificates will be issued by a credit rating agency established in the European Union and registered under the CRA Regulation will be disclosed in the applicable Final Terms.

Certificateholder Meetings: A summary of the provisions for convening meetings of Certificateholders of each Series to consider matters relating to their interests as such is set out in Condition 18.

Tax Considerations: See "*Taxation*" for a description of certain tax considerations applicable to the Certificates.

Listing and Admission to Trading: Application has been made to the UK Listing Authority for Certificates issued under the Programme during the period of 12 months from the date hereof to be admitted to the Official List and to the London Stock Exchange for such Certificates to be admitted to trading on the London Stock Exchange's regulated market.

Certificates may be listed or admitted to trading, as the case may be, on other or further stock exchanges or markets agreed between the Trustee, BSF and the relevant Dealer in relation to the Series. Certificates which are neither listed nor admitted to trading on any market may also be issued.

The applicable Final Terms will state whether or not the relevant Certificates are to be listed and/or admitted to trading and, if so, on which stock exchanges and/or markets.

Transaction Documents: The Transaction Documents are the Master Trust Deed, each Supplemental Trust Deed, the Agency Agreement, the Master Purchase Agreement, each Supplemental Purchase Contract, the Management Agreement, the Purchase Undertaking and the Sale Undertaking.

Governing Law and Jurisdiction: The Certificates of each Series and any non-contractual obligations arising out of or in connection with the Certificates of each Series will be governed by, and construed in accordance with, English law.

The Master Trust Deed, each Supplemental Trust Deed, the Programme Agreement, the Agency Agreement, the Management Agreement, the Purchase Undertaking, the Sale Undertaking and any non-contractual obligations arising out of or in connection with the same will be governed by English law. Any dispute under any such agreement or deed will be referred to the courts in England (who shall have non-exclusive jurisdiction to settle any dispute arising from such documents). BSF will agree in each such agreement or deed that the Saudi Arabian Committee for the Regulation of Securities Disputes and the Appeal Panel may have jurisdiction to settle any dispute arising from such documents.

Each of the Master Purchase Agreement, each Supplemental Purchase Contract, each Sale Agreement entered into under the Purchase Undertaking and each Sale Agreement or Transfer Agreement entered into under the Sale Undertaking will be governed by the laws of Saudi Arabia, and will be subject to the non-exclusive jurisdiction of the Committee for the Regulation of Securities Disputes and the Appeal Panel.

The Corporate Services Agreement will be governed by the laws of the Cayman Islands and will be subject to the non-exclusive jurisdiction of the courts of the Cayman Islands.

Saudi Companies Law Requirements: Each issuance of Certificates is subject to approval by SAMA.

Waiver of Immunity: To the extent that BSF may claim for itself or its assets or revenues immunity from jurisdiction, enforcement, prejudgment proceedings, injunctions and all other legal proceedings and relief and to the extent that such immunity (whether or not claimed) may be attributed to it or its assets or revenues, BSF will agree in the Transaction Documents to which it is a party not to claim and will irrevocably and unconditionally waive such immunity in relation to any legal proceedings. Further, BSF will irrevocably and unconditionally consent to the giving of any relief or the issue of any legal proceedings, including, without limitation, jurisdiction, enforcement, prejudgment proceedings and injunctions in connection with any legal proceedings.

Limited Recourse: Each Certificate represents solely an undivided ownership interest in the relevant Trust Assets. No payment of any amount whatsoever shall be made in respect of the Certificates except to the extent that funds for that purpose are available for the relevant Trust Assets.

	Certificateholders will otherwise have no recourse to any assets of the Trustee or BSF in respect of any shortfall in the expected amounts due under the relevant Trust Assets to the extent the Trust Assets have been exhausted, following which all obligations of the Trustee shall be extinguished.
Selling Restrictions:	There are restrictions on the distribution of this Base Prospectus and the offer or sale of Certificates in the United States, the European Economic Area (including the United Kingdom), the Cayman Islands, Japan, the United Arab Emirates (excluding the Dubai International Financial Centre), the Dubai International Financial Centre, Kingdom of Saudi Arabia, Kingdom of Bahrain, Qatar (excluding the Qatar Financial Centre), Singapore, Hong Kong and Malaysia.
United States Selling Restrictions:	Regulation S, Category 2.

FORM OF THE CERTIFICATES

The Certificates of each Series will be in registered form. Certificates will be issued outside the United States to persons who are not U.S. persons in reliance on Regulation S.

Each Series will initially be represented by a global certificate in registered form (a **Global Certificate**). Global Certificates will be deposited with a common depositary for Euroclear Bank S.A./N.V. (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**) and will be registered in the name of a nominee for the common depositary. Persons holding ownership interests in Global Certificates will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Certificates in fully registered form.

Payments of any amount in respect of each Global Certificate will, in the absence of any provision to the contrary, be made to the person shown on the relevant Register (as defined in Condition 1.2) as the registered holder of the relevant Global Certificate. None of the Trustee, the Delegate, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in the Global Certificates or for maintaining, supervising or reviewing any records relating to such ownership interests.

Payment of any amounts in respect of Certificates in definitive form will, in the absence of any provision to the contrary, be made to the persons shown on the relevant Register on the relevant Record Date (as defined in Condition 8.1) immediately preceding the due date for payment in the manner provided in the Conditions.

Interests in a Global Certificate will be exchangeable (free of charge), in whole but not in part, for definitive Certificates only upon the occurrence of an Exchange Event. The Delegate will promptly give notice to Certificateholders in accordance with Condition 17 if an Exchange Event occurs. For these purposes, **Exchange Event** means that (i) a Dissolution Event (as defined in Condition 14) has occurred and is continuing, or (ii) the Trustee has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system satisfactory to the Delegate is available. In the event of the occurrence of an Exchange Event, any of the Delegate, the Trustee or Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Global Certificate) may give notice to the Registrar requesting exchange.

In such circumstances, the relevant Global Certificate shall be exchanged in full for Definitive Certificates and the Trustee will, at the cost of the Trustee (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Certificates to be executed and delivered to the Registrar within 15 days following the request for exchange for completion and dispatch to the relevant Certificateholders. A person having an interest in a Global Certificate must provide the Registrar with a written order containing instructions and such other information as the Trustee and the Registrar may require to complete, execute and deliver such Definitive Certificates.

General

For so long as any of the Certificates is represented by a Global Certificate held on behalf of Euroclear and/or Clearstream, Luxembourg each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular face amount of such Certificates in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the face amount of such Certificates standing to the account of any person shall be conclusive and binding for all purposes (save in the case of manifest error) shall be treated by the Trustee, the Delegate and their respective agents as the holder of such face amount of such Certificates for all purposes other than with respect to any payment on such face amount of such Certificates, for which purpose the registered holder of the relevant Global Certificate shall be treated by the Trustee, the Delegate and their respective agents as the holder of such face amount of such Certificates in accordance with and subject to the terms of the relevant Global Certificate and the expressions **Certificateholder** and **holder of Certificates** and related expressions shall be construed accordingly.

Any reference herein to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

FORM OF FINAL TERMS

Set out below is the form of Final Terms which will be completed for each Series issued under the Programme.

[*Date*]

BSF Sukuk Limited
Issue of [*Aggregate Face Amount of Series*] [*Title of Certificates*]
under the
U.S.$2,000,000,000
Trust Certificate Issuance Programme

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 17 April 2012 [and the Supplement to the Base Prospectus dated ●] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**). This document constitutes the Final Terms of the Certificates described herein [for the purposes of Article 5.4 of the Prospectus Directive] and must be read in conjunction with the Base Prospectus[as so supplemented]. Full information on the Trustee and Banque Saudi Fransi and the offer of the Certificates is only available on the basis of a combination of these Final Terms and the Base Prospectus[as so supplemented]. The Base Prospectus is available for viewing during normal business hours at the registered office of the Trustee at P.O. Box 1093, Queensgate House, George Town, Grand Cayman, KY1-1102, Cayman Islands and copies may be obtained from the registered office of the Principal Paying Agent at Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom.

[*Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Final Terms.*]

[*When completing or adding any other final terms or information consideration should be given as to whether such terms or information constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.*]

[*If the Certificates have a maturity of less than one year from the date of their issue, the minimum denomination may need to be £100,000 or its equivalent in any other currency.*]

1.		Issuer and Trustee:	BSF Sukuk Limited
2.		Managing Agent:	Banque Saudi Fransi (**BSF**)
3.		Series Number:	[ ]
4.		Specified Currency:	[ ]
5.		Aggregate Face Amount of Series:	[ ]
6.		Issue Price:	[ ] per cent. of the Aggregate Face Amount
7.	(a)	Specified Denominations: (*this means the minimum integral face amount in which transfers can be made*)	[ ] (*N.B. If an issue of Certificates is (i) NOT admitted to trading on an European Economic Area exchange; and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive, the €100,000 minimum denomination is not required.*)
	(b)	Calculation Amount:	[ ] (*If only one Specified Denomination, insert the Specified Denomination. If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.*)
8.	(a)	Issue Date:	[ ]
	(b)	Return Accrual Commencement Date:	[Issue Date][*specify other*]

9.	Scheduled Dissolution Date:	[*Specify date or (for Floating Periodic Distribution Certificates) Periodic Distribution Date falling in or nearest to the relevant month and year.*]
10.	Periodic Distribution Amount Basis:	[[ ] per cent. Fixed Periodic Distribution Amount] [[*specify reference rate*] +/- [ ] per cent. Floating Periodic Distribution Amount] *(further particulars specified below)*
11.	Dissolution Basis:	Dissolution at par
12.	Change of Periodic Distribution Basis:	[*Specify details of any provision for convertibility of Certificates into the other Periodic Distribution basis.*] [Not Applicable]
13.	Put/Call Options:	[Not Applicable] [Certificateholder Put Option] [Optional Dissolution (Call)] [(*further particulars specified below*)]
14.	(a) Status:	Unsubordinated
	(b) Date SAMA approval for issuance of Certificates obtained:	[ ]
15.	Method of distribution:	[Syndicated/Non-syndicated]

PROVISIONS RELATING TO PERIODIC DISTRIBUTIONS PAYABLE

16.	Fixed Periodic Distribution Provisions:	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(a) Rate[s]:	[ ] per cent. per annum [payable [annually/ semi-annually/quarterly/monthly/*specify other*] in arrear]
	(b) Periodic Distribution Date(s):	[[ ] in each year up to and including the Scheduled Dissolution Date] [*specify other*] (*NB: This will need to be amended in the case of long or short return accumulation periods*)
	(c) Fixed Amount(s):	[ ] per Calculation Amount
	(d) Broken Amount(s):	[ ] per Calculation Amount (*Insert particulars of any initial or final broken Periodic Distribution Amounts which do not correspond with the Fixed Amount(s) specified under paragraph 16(c)*)
	(e) Day Count Fraction:	[30/360 or Actual/Actual (ICMA) or [*specify other*]]
	(f) Determination Date(s):	[ ] in each year (*Insert regular periodic distribution dates, ignoring issue date or scheduled dissolution date in the case of a long or short first or last return accumulation period* *N.B. This will need to be amended in the case of regular periodic distribution dates which are not of equal duration* *N.B. Only relevant where Day Count Fraction is Actual/Actual (ICMA)*)
	(g) Other terms relating to the method of calculating Fixed Periodic Distributions:	[Not Applicable/*give details*]
17.	Floating Periodic Distribution Provisions:	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(a) Specified Periodic Distribution Dates:	[ ] [Not Applicable] (*Specified Period and Specified Periodic Distribution Dates are alternatives. If the Business*

		Day Convention is the Floating Rate Convention, insert "Not Applicable")
(b)	Specified Period:	[ ] [Not Applicable] (*Specified Period and Specified Periodic Distribution Dates are alternatives. A Specified Period, rather than Specified Periodic Distribution Dates, will only be relevant if the Business Day Convention is the Floating Rate Convention. Otherwise, insert "Not Applicable"*)
(c)	Business Day Convention:	[Floating Rate Convention / Following Business Day Convention / Modified Following Business Day Convention / Preceding Business Day Convention / [*specify other*]]
(d)	Additional Business Centre(s):	[Not Applicable/*give details*]
(e)	Manner in which the Rate(s) is/are to be determined:	[Screen Rate Determination (Condition 7.3) applies/*specify other*]
(f)	Screen Rate Determination:	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i) Reference Rate:	[*For example, LIBOR or EURIBOR*]
	(ii) Periodic Distribution Determination Date:	[ ] (*Second London business day prior to the start of each Return Accumulation Period if LIBOR (other than Sterling or euro LIBOR), first day of each Return Accumulation Period if Sterling LIBOR and the second day on which the TARGET2 System is open prior to the start of each Return Accumulation Period if EURIBOR or euro LIBOR*)
	(iii) Relevant Screen Page:	[*For example, Reuters [LIBOR01/EURIBOR01]*] (*In the case of EURIBOR, if not Reuters EURIBOR01, ensure it is a page which shows a composite rate or amend the fallback provisions appropriately*)
	(iv) Relevant Time:	[*For example, 11.00 a.m. London time*]
(g)	Margin:	[+/-][ ] per cent. per annum
(h)	Day Count Fraction:	[Actual/Actual (ISDA) Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 30/360 30E/360 30E/360 (ISDA) *Other*] (*See Condition 7 for alternatives*)
(i)	Calculation Agent:	[Principal Paying Agent] [*specify other*]
(j)	Fallback provisions, rounding provisions and any other terms relating to the method of calculating, if different from those set out in the Conditions, Floating Periodic Distributions:	[Not Applicable] [*give details*]

PROVISIONS RELATING TO DISSOLUTION

18.	Optional Dissolution (Call):	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
(a)	Optional Dissolution Amount (Call):	[[ ] per Calculation Amount]
(b)	Optional Dissolution Amount (Call) Percentage:	[ ] per cent.

	(c) Optional Dissolution Date:	[Any Periodic Distribution Date] [*specify other*] (*N.B. If the Floating Periodic Distribution Provisions are applicable, the Optional Dissolution Date must be a Periodic Distribution Date*)
	(d) Notice period (*if other than as set out in the Conditions*):	[ ] (*N.B. If setting notice periods which are different to those provided in the Conditions, the Trustee is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Trustee and the Principal Paying Agent or Delegate*)
19.	Certificateholder Put Option:	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(a) Optional Dissolution Amount (Certificateholder Put):	[[ ] per Calculation Amount]
	(b) Optional Dissolution Amount (Certificateholder Put) Percentage:	[ ] per cent.
	(c) Certificateholder Put Option Date(s):	[ ]
	(d) Notice Period (*if other than as set out in the Conditions*):	[ ] (*N.B. If setting notice periods which are different to those provided in the Conditions, the Trustee is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Trustee and the Principal Paying Agent or Delegate*)
20.	Final Dissolution Amount:	[[ ] per Calculation Amount] [*Note: this must be par*]
21.	Early Dissolution Amount (Tax):	[[ ] per Calculation Amount] [*Note: this must be par*]
22.	Dissolution Amount pursuant to Condition 14:	[ ] per Calculation Amount [*Note: this must be par*]

GENERAL PROVISIONS APPLICABLE TO THE CERTIFICATES

23.	Form of Certificates:	Global Certificate exchangeable for Certificates in definitive registered form in the limited circumstances specified in the Global Certificate
24.	Additional Financial Centres:	[ ] (*Note that this paragraph relates to the place of payment and not Return Accumulation Period end dates, to which sub-paragraph 17(d) relates*)

PROVISIONS IN RESPECT OF THE TRUST ASSETS

25.	Wakala Assets on the Issue Date:	The Initial Wakala Portfolio as scheduled to the Supplemental Purchase Contract specified below, a copy of which is set out in Annex 1 hereto.
26.	Trust Assets:	[Condition 4.1 applies] [*specify other*]
27.	Details of Transaction Account:	BSF Sukuk Limited Transaction Account No: [ ] with [ ] for Series No.: [1/2/3 etc]
28.	Other Transaction Document Information:	
	(a) Supplemental Trust Deed:	Supplemental Trust Deed dated [ ] between BSF Sukuk Limited, BSF and the Delegate
	(b) Supplemental Purchase Contract:	Supplemental Purchase Contract dated [ ] between BSF Sukuk Limited (as Purchaser) and

	BSF (as Seller)

OTHER FINAL TERMS

29. Other final terms:	[Not Applicable/*give details*] *(When adding any other final terms consideration should be given as to whether such terms constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive)*

DISTRIBUTION

30. (a) If syndicated, names of Managers:	[Not Applicable/*give names*]
(b) Date of Subscription Agreement:	[ ]
31. If non-syndicated, name of relevant Dealer:	[ ]
32. Additional selling restrictions:	[Not Applicable/*give details*]

PURPOSE OF FINAL TERMS

These Final Terms comprise the final terms required for the issue and admission to trading on [*specify relevant regulated market (for example, the London Stock Exchange's regulated market) and, if relevant, admission to an official list (for example, the Official List of the UK Listing Authority)*] of the Certificates described herein pursuant to the U.S.$2,000,000,000 Trust Certificate Issuance Programme of BSF Sukuk Limited.

RESPONSIBILITY

Each of the Trustee and BSF accepts responsibility for the information contained in these Final Terms. To the best of the knowledge and belief of each of the Trustee and BSF (each having taken all reasonable care to ensure that such is the case) the information contained in these Final Terms is in accordance with the facts and does not omit anything likely to affect the import of such information. [[ ] has been extracted from [ ]. Each of the Trustee and BSF confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [ ], no facts have been omitted which would render the reproduced information inaccurate or misleading.]]

Signed on behalf of

BSF SUKUK LIMITED

By: ....

Duly authorised

Signed on behalf of

BANQUE SAUDI FRANSI

By:..

Duly authorised

PART B – OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

(i) Listing and admission to trading:	[Application has been made by the Trustee (or on its behalf) for the Certificates to be admitted to trading on [*specify relevant regulated market (for example, the London Stock Exchange's regulated market) and, if relevant, admission to an official list (for example, the Official List of the UK Listing Authority)*] with effect from [ ].] [Application is expected to be made by the Trustee (or on its behalf) for the Certificates to be admitted to trading on [*specify relevant regulated market (for example, the London Stock Exchange's regulated market) and, if relevant, listing on an official list (for example, the Official List of the UK Listing Authority)*] with effect from [ ].] [Not Applicable.]
(ii) Estimate of total expenses related to admission to trading:	[ ]

2. RATINGS

Ratings:	[The Certificates to be issued [[have been]/[are expected to be]] rated [*insert details*] by [*insert the legal name of the relevant credit rating agency entity(ies)*].] [*Need to include a brief explanation of the meaning of the ratings if this has previously been published by the rating provider.*] *(The above disclosure should reflect the rating allocated to Certificates of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)* [[*Insert the legal name of the relevant credit rating agency entity*] is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended).] [[*Insert the legal name of the relevant non-EU credit rating agency entity*] is not established in the European Union and is not registered in accordance with Regulation (EC) No. 1060/2009 (as amended).] [[*Insert the legal name of the relevant non-EU credit rating agency entity*] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). However, the application for registration under the CRA Regulation of [*insert the legal name of the relevant EU credit rating agency entity that applied for registration*], which is established in the European Union and is registered under the CRA Regulation, disclosed the intention to endorse credit ratings of [*insert the legal name of the relevant non-EU credit rating agency entity*]. While notification of the corresponding final endorsement decision has not yet been provided by the relevant competent authority, the European Securities and Markets Authority has indicated that ratings issued in third countries may continue

to be used in the EU by relevant market participants for a transitional period ending on 30 April 2012.]
[[*Insert the legal name of the relevant non-EU credit rating agency entity*] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). The ratings [[have been]/[are expected to be]] endorsed by [*insert the legal name of the relevant EU-registered credit rating agency entity*] in accordance with the CRA Regulation. [*Insert the legal name of the relevant EU-registered credit rating agency entity*] is established in the European Union and registered under the CRA Regulation.]
[[*Insert the legal name of the relevant non-EU credit rating agency entity*] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**), but it [is]/[has applied to be] certified in accordance with the CRA Regulation.]
[[*Insert the legal name of the relevant non-EU credit rating agency entity*] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). However, the application for registration under the CRA Regulation of [*insert the legal name of the relevant EU credit rating agency entity that applied for registration*], which is established in the European Union, disclosed the intention to endorse credit ratings of [*insert the legal name of the relevant non-EU credit rating agency entity*.]]

3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save for any fees payable to the [Managers/Dealer], so far as each of the Trustee and BSF is aware, no person involved in the issue of the Certificates has an interest material to the offer – *Amend as appropriate if there are other interests*.]

[(*When adding any other description, consideration should be given as to whether such matters described constitute ''significant new factors'' and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.*)]

4. [PROFIT OR RETURN (*Fixed Periodic Distribution Certificates only*)

Indication of profit or return:	The profit or return is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future profit or return.]

5. OPERATIONAL INFORMATION

(i) ISIN Code:	[ ]
(ii) Common Code:	[ ]
(iii) Any clearing system(s) other than Euroclear and Clearstream, Luxembourg and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s)*]
(iv) Delivery:	Delivery [against/free of] payment
(v) Names and addresses of additional Paying Agent(s) (if any):	[ ]

ANNEX 1

INITIAL WAKALA PORTFOLIO

[*to be inserted from the relevant Supplemental Purchase Contract*]

TERMS AND CONDITIONS OF THE CERTIFICATES

The following is the text of the Terms and Conditions of the Certificates which (subject to modification and except for the text in italics) will be endorsed on each Certificate in definitive form issued under the Programme and will apply to each Global Certificate.

The applicable Final Terms in relation to any Series may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Series.

BSF Sukuk Limited (in its capacities as issuer and trustee, the **Trustee**) has established a programme (the **Programme**) for the issuance of up to U.S.$2,000,000,000 in aggregate face amount of trust certificates. In these Terms and Conditions (the **Conditions**), references to **Certificates** shall be references to the trust certificates which are the subject of the applicable Final Terms and references to the **applicable Final Terms** are to Part A of the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Certificate.

Certificates issued under the Programme are issued in series (each a **Series**). The applicable Final Terms supplement these Conditions and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Conditions, replace or modify these Conditions for the purposes of this Certificate.

Each of the Certificates will represent an undivided ownership interest in the Trust Assets (as defined in Condition 4.1) which are held by the Trustee on trust (the **Trust**) for, *inter alia*, the benefit of the registered holders of the Certificates pursuant to (i) a Master Trust Deed (the **Master Trust Deed**) dated 17 April 2012 and made between the Trustee, Banque Saudi Fransi (**BSF**) and Deutsche Trustee Company Limited (the **Delegate** which expression shall include any co-Delegate or any successor) and (ii) a supplemental trust deed (the **Supplemental Trust Deed** and, together with the Master Trust Deed, the **Trust Deed**) having the details set out in the applicable Final Terms.

Payments relating to the Certificates will be made pursuant to an agency agreement dated 17 April 2012 (the **Agency Agreement**) made between the Trustee, the Delegate, BSF, Deutsche Bank AG, London Branch in its capacities as principal paying agent (in such capacity, the **Principal Paying Agent**, which expression shall include any successor and, together with any further or other paying agents appointed from time to time in accordance with the Agency Agreement, the **Paying Agents**, which expression shall include any successors) and calculation agent (in such capacity, the **Calculation Agent**, which expression shall include any successor) and Deutsche Bank Luxembourg S.A. in its capacities as a registrar (in such capacity, the **Registrar**, which expression shall include any successor) and as transfer agent (in such capacity and together with the Registrar, the **Transfer Agents**, which expression shall include any successors). The Paying Agents, the Calculation Agent and the Transfer Agents are together referred to in these Conditions as the **Agents**.

Words and expressions defined in the Trust Deed and the Agency Agreement or used in the applicable Final Terms shall have the same meanings where used in these Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between any such document and the applicable Final Terms, the applicable Final Terms will prevail. In addition, in these Conditions:

(a) any reference to face amount shall be deemed to include the relevant Dissolution Amount (as defined in Condition 8.1), any additional amounts (other than relating to Periodic Distribution Amounts (as defined in Condition 6.2)) which may be payable under Condition 11, and any other amount in the nature of face amounts payable pursuant to these Conditions;

(b) any reference to Periodic Distribution Amounts shall be deemed to include any additional amounts in respect of profit distributions which may be payable under Condition 11 and any other amount in the nature of a profit distribution payable pursuant to these Conditions;

(c) references to Certificates being ''outstanding'' shall be construed in accordance with the Master Trust Deed; and

(d) any reference to a Transaction Document (as defined below) shall be construed as a reference to that Transaction Document as amended and/or supplemented from time to time.

Subject as set out below, copies of the documents set out below are available for inspection and obtainable free of charge by the Certificateholders during normal business hours at the specified office for the time being of the Principal Paying Agent. The holders of the Certificates (the

Certificateholders) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the documents set out below:

(a) a master purchase agreement between BSF Sukuk Limited (in its capacity as Trustee and in its capacity as purchaser, the **Purchaser**) and BSF (in its capacity as seller, the **Seller**) dated 17 April 2012 (the **Master Purchase Agreement**);

(b) the supplemental purchase contract (the **Supplemental Purchase Contract** and, together with the Master Purchase Agreement, the **Purchase Agreement**) having the details set out in the applicable Final Terms;

(c) the management agreement between the Trustee and BSF (in its capacity as managing agent, the **Managing Agent**) dated 17 April 2012 (the **Management Agreement**);

(d) the purchase undertaking made by BSF for the benefit of the Trustee and the Delegate dated 17 April 2012 (the **Purchase Undertaking**);

(e) the sale undertaking made by the Trustee for the benefit of BSF dated 17 April 2012 (the **Sale Undertaking**);

(f) the Trust Deed;

(g) the Agency Agreement; and

(h) the applicable Final Terms.

The documents listed above are referred to in these Conditions as the **Transaction Documents**. The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed and the Agency Agreement.

Each initial Certificateholder, by its acquisition and holding of its interest in a Certificate, shall be deemed to authorise and direct BSF Sukuk Limited, on behalf of the Certificateholders, (i) to apply the sums paid by it in respect of its Certificates to the Purchaser in accordance with the Purchase Agreement and (ii) to enter into each Transaction Document to which it is a party, subject to the provisions of the Trust Deed and these Conditions.

1. FORM, DENOMINATION AND TITLE

1.1 Form and Denomination

The Certificates are issued in registered form in the Specified Denominations and, in the case of Certificates in definitive form, are serially numbered.

For so long as any of the Certificates is represented by a Global Certificate held on behalf of Euroclear Bank S.A./N.V. (**Euroclear**) and/or Clearstream Banking, société anonyme (**Clearstream, Luxembourg**), each person (other than another clearing system) who is for the time being shown in the records of either such clearing system as the holder of a particular face amount of such Certificates (in which regard any certificate or other document issued by a clearing system as to the face amount of such Certificates standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Trustee, the Delegate, BSF and the Agents as the holder of such face amount of such Certificates for all purposes other than with respect to payment in respect of such Certificates, for which purpose the registered holder of the Global Certificate shall be treated by the Trustee, the Delegate, BSF and any Agent as the holder of such face amount of such Certificates in accordance with and subject to the terms of the relevant Global Certificate and the expressions **Certificateholder** and **holder** in relation to any Certificates and related expressions shall be construed accordingly.

In determining whether a particular person is entitled to a particular face amount of Certificates as aforesaid, the Delegate may rely on such evidence and/or information and/or certification as it shall, in its absolute discretion, think fit and, if it does so rely, such evidence and/or information and/or certification shall, in the absence of manifest error, be conclusive and binding on all concerned.

Each holder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the registered holder of the Global Certificate. References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

1.2 Register

The Registrar will maintain a register (the **Register**) of Certificateholders in respect of the Certificates in accordance with the provisions of the Agency Agreement. In the case of Certificates in definitive form, a definitive Certificate will be issued to each Certificateholder in respect of its registered holding of Certificates.

1.3 Title

The Trustee, the Delegate, BSF and the Agents may (to the fullest extent permitted by applicable laws) deem and treat the person in whose name any outstanding Certificate is for the time being registered (as set out in the Register) as the holder of such Certificate or of a particular face amount of the Certificates for all purposes (whether or not such Certificate or face amount shall be overdue and notwithstanding any notice of ownership thereof or of trust or other interest with regard thereto, and any notice of loss or theft or any writing thereon), and the Trustee, the Delegate, BSF and the Agents shall not be affected by any notice to the contrary.

All payments made to such registered holder shall be valid and, to the extent of the sums so paid, effective to satisfy and discharge the liability for moneys payable in respect of such Certificate or face amount.

2. TRANSFERS OF CERTIFICATES

2.1 Transfers of interests in the Global Certificate

Transfers of interests in the Global Certificate will be effected by Euroclear or Clearstream, Luxembourg, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of transferors and transferees of such interests. An interest in the Global Certificate will, subject to compliance with all applicable legal and regulatory restrictions, be transferable for Certificates in definitive form only in the Specified Denomination or integral multiples thereof and only in accordance with the rules and operating procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be, and in accordance with the terms and conditions specified in the Trust Deed and the Agency Agreement.

2.2 Transfers of Certificates in definitive form

Upon the terms and subject to the conditions set forth in the Trust Deed and the Agency Agreement, a Certificate in definitive form may be transferred in whole or in part (in the Specified Denomination or an integral multiple thereof). In order to effect any such transfer (a) the holder or holders must (i) surrender the definitive Certificate for registration of the transfer thereof (or the relevant part thereof) at the specified office of any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing and (ii) complete and deposit such other certifications as may be required by the relevant Transfer Agent and (b) the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request. Any such transfer will be subject to such regulations as BSF Sukuk Limited, BSF, the Delegate and the Registrar may from time to time prescribe (the initial such regulations being scheduled to the Master Trust Deed).

Subject as provided above, the relevant Transfer Agent will, within five business days (being for this purpose a day on which banks are open for business in the city where the specified office of the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), deliver at its specified office to the transferee or (at the risk of the transferee) send by uninsured mail to such address as the transferee may request a new Certificate in definitive form of a like aggregate face amount to the Certificate (or the relevant part of the Certificate) transferred. In the case of the transfer of part only of a Certificate in definitive form, a new Certificate in definitive form in respect of the balance of the Certificate not transferred will be so delivered or (at the risk of the transferor) sent to the transferor.

No Certificateholder may require the transfer of a Certificate in definitive form to be registered during the period of 15 days ending on a Periodic Distribution Date, the Scheduled Dissolution Date, a Dissolution Date or any other date on which any payment of the face amount or payment of any profit in respect of a Certificate falls due.

2.3 Costs of registration

Certificateholders will not be required to bear the costs and expenses of effecting any registration of transfer as provided above, except for any costs or expenses of delivery other than by regular uninsured mail and except that the Trustee may require the payment of a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation to the registration.

3. STATUS AND LIMITED RECOURSE

3.1 Status

Each Certificate evidences an undivided ownership interest in the Trust Assets, subject to the terms of the Trust Deed and these Conditions, and is a direct, unsubordinated, unsecured and limited recourse obligation of the Trustee. Each Certificate ranks *pari passu*, without any preference or priority, with the other Certificates.

3.2 Limited Recourse

The proceeds of the Trust Assets are the sole source of payments on the Certificates. Save as provided in the next sentence, the Certificates do not represent an interest in or obligation of any of the Trustee, BSF, the Delegate, the Agents or any of their respective affiliates. Accordingly, Certificateholders, by subscribing for or acquiring the Certificates, acknowledge that they will have no recourse to any assets of the Trustee (including, in particular, other assets comprised in other trusts, if any), BSF (to the extent that it fulfils all of its obligations under the Transaction Documents to which it is a party), or the Delegate, or the Agents, or any of their respective affiliates in respect of any shortfall in the expected amounts from the Trust Assets to the extent the Trust Assets have been exhausted following which all obligations of the Trustee shall be extinguished.

BSF is obliged to make certain payments under the Transaction Documents directly to the Trustee (for and on behalf of the Certificateholders), and the Delegate will have direct recourse against BSF to recover such payments.

The net proceeds of realisation of, or enforcement with respect to, the Trust Assets may not be sufficient to make all payments due in respect of the Certificates. If, following the distribution of such proceeds, there remains a shortfall in payments due under the Certificates, subject to Condition 14, no holder of Certificates will have any claim against BSF Sukuk Limited, BSF (to the extent that it fulfils all of its obligations under the Transaction Documents to which it is a party), or the Delegate, or the Agents, or any of their respective affiliates or against any assets (other than the Trust Assets to the extent not exhausted) in respect of such shortfall and any unsatisfied claims of Certificateholders shall be extinguished. In particular, no holder of Certificates will be able to petition for, or join any other person in instituting proceedings for, the reorganisation, liquidation, winding up or receivership of BSF Sukuk Limited, BSF (to the extent that it fulfils all of its obligations under the Transaction Documents to which it is a party), the Delegate, the Agents or any of their respective affiliates as a consequence of such shortfall or otherwise.

The sale by BSF of the rights, title, interests, benefits and entitlements in, to and under the Wakala Assets (as defined below) will not create any security interest in favour of the Trustee, the Delegate or the Certificateholders, and the Certificateholders are not secured creditors of the Trustee and/or BSF or any of its subsidiaries and/or affiliates by reason of their respective undivided ownership in or of the rights, title, interests, benefits and entitlements in, to and under the Trust Assets.

3.3 Agreement of Certificateholders

By purchasing Certificates, each Certificateholder is deemed to have agreed that notwithstanding anything to the contrary contained in these Conditions or any Transaction Document:

(a) no payment of any amount whatsoever shall be made by or on behalf of BSF Sukuk Limited except to the extent funds are available therefor from the Trust Assets and further agrees that no recourse shall be had for the payment of any amount owing hereunder or under any Transaction Document to which it is a party, whether for the payment of any fee or other amount hereunder or any other obligation or claim arising out of or based upon any Transaction Document, against BSF Sukuk Limited to the extent the Trust Assets have been exhausted following which all obligations of BSF Sukuk Limited shall be extinguished;

(b) prior to the date which is one year and one day after the date on which all amounts owing by BSF Sukuk Limited under the Transaction Documents have been paid in full, it will not institute against, or join with any other person in instituting against, BSF Sukuk Limited any bankruptcy, reorganisation, arrangement or liquidation proceedings or other proceedings under any bankruptcy or similar law;

(c) no recourse (whether by institution or enforcement of any legal proceedings or assessment or otherwise) in respect of any breaches of any duty, obligation or undertaking of BSF Sukuk Limited arising under or in connection with these Conditions by virtue of any customary law, statute or otherwise shall be had against any shareholder, officer or director of BSF Sukuk Limited in their capacity as such and any and all personal liability of every such shareholder, officer or director in their capacity as such for any breaches by BSF Sukuk Limited of any such duty, obligation or undertaking is hereby expressly waived and excluded to the extent permitted by law; and

(d) whilst each of the Certificateholders shall have a *pro rata* entitlement to any amounts standing to the credit of the Wakala Income Reserve Collection Account (as defined in the Management Agreement) from time to time, however following payment of all amounts due and payable under the Certificates on the final Dissolution Date, the Certificateholders relinquish any *pro rata* entitlement to any such amounts and the Managing Agent shall be entitled to retain any amounts that remain standing to the credit of the Wakala Income Reserve Collection Account for its own account as an incentive payment for acting as Managing Agent.

4. THE TRUST

4.1 The Trust Assets

Pursuant to the Purchase Agreement, the Seller will sell a portfolio (the **Initial Wakala Portfolio** and, as constituted from time to time, the **Wakala Portfolio**) of certain assets (the **Wakala Assets**) specified in the Supplemental Purchase Contract to the Trustee and the Trustee will purchase the Initial Wakala Portfolio using the proceeds of the issue of the Certificates. The Trustee has entered into the Management Agreement with the Managing Agent as managing agent of the Wakala Portfolio.

BSF has entered into the Purchase Undertaking in favour of the Trustee and the Delegate to purchase all of the Trustee's rights, title, interests, benefits and entitlements in, to and under the Wakala Portfolio on the Scheduled Dissolution Date at the Final Dissolution Amount or, if earlier, on the due date for dissolution determined in accordance with Condition 14 at the Dissolution Amount specified in the applicable Final Terms. If Certificateholder Put Option is specified in the applicable Final Terms as being applicable, the Purchase Undertaking may also be exercised ahead of a Certificateholder Put Option Date (as specified in the applicable Final Terms) to fund the relevant Certificates being redeemed under Condition 10.4 through the purchase by BSF of the Trustee's rights, title, interests, benefits and entitlements in, to and under a portion of the Wakala Portfolio with an aggregate Value (as defined in the Management Agreement) no greater than the aggregate face amount of such Certificates being redeemed.

Pursuant to the Sale Undertaking, subject to the Trustee being entitled to redeem the Certificates early pursuant to Condition 10.2, BSF may, by exercising its option under the Sale Undertaking and serving notice on the Trustee no later than 60 days prior to the Tax Dissolution Date (as defined in Condition 10.2), oblige the Trustee to sell all of its rights, title, interests, benefits and entitlements in, to and under the Wakala Portfolio on the Tax Dissolution Date at the Early Dissolution Amount (Tax). If Optional Dissolution (Call) is specified in the applicable Final Terms as being applicable, BSF may, by exercising its option under the Sale Undertaking and serving notice on the Trustee no later than 60 days prior to the Optional Dissolution Date, oblige the Trustee to sell all of its rights, title, interests, benefits and entitlements in, to and under the Wakala Portfolio on the Optional Dissolution Date.

Following any purchase of Certificates by or on behalf of BSF or any of its Subsidiaries (as defined in Condition 13) pursuant to Condition 13, the Sale Undertaking may also be exercised in respect of the purchase by BSF of the Trustee's rights, title, interests, benefits and entitlements in, to and under a portion of the Wakala Portfolio with an aggregate Value, no greater than the aggregate face amount of the Certificates so purchased against cancellation of such Certificates by the Principal Paying Agent.

Pursuant to the Trust Deed, the Trustee holds the Trust Assets upon trust absolutely for the holders of the Certificates *pro rata* according to the face amount of Certificates held by each holder. Unless otherwise specified in the applicable Final Terms, the term **Trust Assets** means:

(a) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the assets from time to time constituting the Wakala Portfolio;

(b) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the Transaction Documents (other than (i) in relation to any representations given to the Trustee by BSF pursuant to any of the Transaction Documents and any rights which have been expressly waived by the Trustee in any of the Transaction Documents and (ii) the covenant given to the Trustee pursuant to Clause 15.1 of the Master Trust Deed); and

(c) all monies standing to the credit of the Transaction Account specified in the applicable Final Terms (the **Transaction Account**) from time to time,

and all proceeds of the foregoing.

4.2 Application of Proceeds from the Trust Assets

On each Periodic Distribution Date and on the Scheduled Dissolution Date or any earlier Dissolution Date, the monies standing to the credit of the Transaction Account shall be applied in the following order of priority:

(a) *first*, to the Delegate in respect of all amounts owing to it under the Transaction Documents in its capacity as Delegate;

(b) *second*, to the Principal Paying Agent for application in or towards payment *pari passu* and rateably of all Periodic Distribution Amounts due and unpaid;

(c) *third,* only if such payment is made on the Scheduled Dissolution Date or a Dissolution Date, to the Principal Paying Agent for application in or towards payment *pari passu* and rateably of the relevant Dissolution Amount;

(d) *fourth*, only if such payment is made on the Scheduled Dissolution Date or the final Dissolution Date, to the Managing Agent to repay any amounts advanced by way of a Liquidity Facility (as defined in the Management Agreement);

(e) *fifth*, only if such payment is made on the Scheduled Dissolution Date or the final Dissolution Date, to the Managing Agent in or towards payment of any outstanding Management Liability Amounts (as defined in the Management Agreement); and

(f) *sixth*, only after all necessary payments above have been made in full, to BSF.

5. COVENANTS

The Trustee covenants that, for so long as any Certificate is outstanding, it will not (without the prior written consent of the Delegate):

(a) incur any indebtedness in respect of borrowed money whatsoever (whether structured in accordance with the principles of the Sharia or otherwise), or give any guarantee or indemnity in respect of any obligation of any person or issue any shares (or rights, warrants or options in respect of shares or securities convertible into or exchangeable for shares) or any other certificates except, in all cases, as contemplated in the Transaction Documents;

(b) grant or permit to be outstanding any lien, pledge, charge or other security interest upon any of its present or future assets, properties or revenues (other than those arising by operation of law);

(c) sell, lease, transfer, assign, participate, exchange or otherwise dispose of, or pledge, mortgage, hypothecate or otherwise encumber (by security interest, lien (statutory or otherwise), preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever or otherwise) (or permit such to occur or suffer such to exist), any part of its interest in any of the Trust Assets except pursuant to the Transaction Documents;

(d) use the proceeds of the issue of the Certificates for any purpose other than as stated in the Transaction Documents;

(e) amend or agree to any amendment of any Transaction Document to which it is a party (other than in accordance with the terms thereof) or its memorandum and articles of association;

(f) act as trustee in respect of any trust other than a trust corresponding to any other Series issued under the Programme;

(g) have any subsidiaries or employees;

(h) redeem or purchase any of its shares or pay any dividend or make any other distribution to its shareholders;

(i) prior to the date which is one year and one day after the date on which all amounts owing by the Trustee under the Transaction Documents to which it is a party have been paid in full, put to its directors or shareholders any resolution for, or appoint any liquidator for, its winding up or any resolution for the commencement of any other bankruptcy or insolvency proceeding with respect to it; and

(j) enter into any contract, transaction, amendment, obligation or liability other than the Transaction Documents to which it is a party or any permitted amendment or supplement thereto or as expressly permitted or required thereunder or engage in any business or activity other than:

    (i) as provided for or permitted in the Transaction Documents;

    (ii) the ownership, management and disposal of Trust Assets as provided in the Transaction Documents; and

    (iii) such other matters which are incidental thereto.

6. FIXED PERIODIC DISTRIBUTION PROVISIONS

6.1 Application

This Condition is applicable to the Certificates only if the Fixed Periodic Distribution Provisions are specified in the applicable Final Terms as being applicable.

6.2 Periodic Distribution Amount

Subject to Condition 4.2 and Condition 8 and unless otherwise specified in the applicable Final Terms, the Principal Paying Agent shall distribute to holders *pro rata* to their respective holdings, out of amounts transferred to the Transaction Account, a distribution in relation to the Certificates on each Periodic Distribution Date equal to the Periodic Distribution Amount payable in respect of the Return Accumulation Period ending immediately before that Periodic Distribution Date.

In these Conditions:

Periodic Distribution Amount means, in relation to a Certificate and a Return Accumulation Period, the amount of profit distribution payable in respect of that Certificate for that Return Accumulation Period which amount may be a Fixed Amount, a Broken Amount or an amount otherwise calculated in accordance with this Condition 6 or Condition 7; and

Return Accumulation Period means the period from (and including) a Periodic Distribution Date (or the Return Accrual Commencement Date) to (but excluding) the next (or first) Periodic Distribution Date.

6.3 Determination of Periodic Distribution Amount

Except as provided in the applicable Final Terms, the Periodic Distribution Amount payable in respect of each Certificate in definitive form for any Return Accumulation Period shall be the Fixed Amount or, if so specified in the applicable Final Terms, the Broken Amount so specified.

Except in the case of Certificates in definitive form where a Fixed Amount or Broken Amount is specified in the applicable Final Terms, the Periodic Distribution Amount payable in respect of each Certificate shall be calculated by applying the rate or rates (expressed as a percentage per annum) specified in the applicable Final Terms or calculated or determined in accordance with the provisions of these Conditions and/or the applicable Final Terms (the **Rate**) applicable to the relevant Return Accumulation Period to:

(a) in the case of Certificates which are represented by a Global Certificate, the aggregate outstanding face amount of the Certificates represented by such Global Certificate; or

(b) in the case of Certificates in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Certificate in definitive form is a multiple of the Calculation Amount, the amount of profit distribution payable in respect of such Certificate shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

Day Count Fraction means, in respect of the calculation of Periodic Distribution Amount in accordance with this Condition:

(a) if "Actual/Actual (ICMA)" is specified in the applicable Final Terms:

(i) in the case of Certificates where the number of days in the relevant period from (and including) the most recent Periodic Distribution Date (or, if none, the Return Accrual Commencement Date) to (but excluding) the relevant payment date (the **Accrual Period**) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (A) the number of days in such Determination Period and (B) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or

(ii) in the case of Certificates where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:

(A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

(B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

(b) if "30/360" is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Periodic Distribution Date (or, if none, the Return Accrual Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

In these Conditions:

Determination Period means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Return Accrual Commencement Date or the final Periodic Distribution Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

sub-unit means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, one cent.

6.4 Cessation of Profit Entitlement

No further amounts will be payable on any Certificate from and including the Scheduled Dissolution Date or, as the case may be, the relevant Dissolution Date, as a result of the failure of BSF to pay the relevant Exercise Price and enter into a sale agreement in accordance with the terms of the Purchase Undertaking or the Sale Undertaking, as the case may be, unless default is made in the payment of the relevant Dissolution Amount in which case Periodic Distribution Amounts will continue to accrue in respect of the Certificates in the manner provided in this Condition.

7. FLOATING PERIODIC DISTRIBUTION PROVISIONS

7.1 Application

This Condition is applicable to the Certificates only if the Floating Periodic Distribution Provisions are specified in the applicable Final Terms as being applicable.

7.2 Periodic Distribution Amount

Subject to Condition 4.2 and 8 and unless otherwise specified in the applicable Final Terms, the Principal Paying Agent shall distribute to holders *pro rata* to their respective holdings, out of amounts transferred to the Transaction Account, a distribution in relation to the Certificates on either:

(a) the Specified Periodic Distribution Date(s) in each year specified in the applicable Final Terms; or

(b) if no Specified Periodic Distribution Date(s) is/are specified in the applicable Final Terms, each date (each such date, together with each Specified Periodic Distribution Date, a **Periodic Distribution Date**) which falls the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Periodic Distribution Date or, in the case of the first Periodic Distribution Date, after the Return Accrual Commencement Date.

In relation to each Periodic Distribution Date, the distribution payable will be equal to the Periodic Distribution Amount payable in respect of the Return Accumulation Period ending immediately before that Periodic Distribution Date.

If a Business Day Convention is specified in the applicable Final Terms and (x) if there is no numerically corresponding day in the calendar month in which a Periodic Distribution Date should occur or (y) if any Periodic Distribution Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

(A) in any case where Specified Periods are specified in accordance with Condition 7.2(b) above, the Floating Rate Convention, such Periodic Distribution Date (a) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (ii) below shall apply *mutatis mutandis* or (b) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (i) such Periodic Distribution Date shall be brought forward to the immediately preceding Business Day and (ii) each subsequent Periodic Distribution Date shall be the last Business Day in the month which falls in the Specified Period after the preceding applicable Periodic Distribution Date occurred; or

(B) the Following Business Day Convention, such Periodic Distribution Date shall be postponed to the next day which is a Business Day; or

(C) the Modified Following Business Day Convention, such Periodic Distribution Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Periodic Distribution Date shall be brought forward to the immediately preceding Business Day; or

(D) the Preceding Business Day Convention, such Periodic Distribution Date shall be brought forward to the immediately preceding Business Day.

In these Conditions:

Business Day means a day which is both:

(a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and any Additional Business Centre specified in the applicable Final Terms; and

(b) either (i) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than London and any Additional Business Centre) or (ii) in relation to any sum payable in euro, a TARGET Settlement Day; and

TARGET Settlement Day means any day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System (the **TARGET2 System**) is open.

7.3 Screen Rate Determination

If Screen Rate Determination is specified in the applicable Final Terms as the manner in which the rate or rates (expressed as a percentage per annum) specified in the applicable Final Terms or calculated or determined in accordance with the provisions of these Conditions and/or the applicable Final Terms (the **Rate**) is to be determined, the Rate applicable to the Certificates for each Return Accumulation Period will be determined by the Calculation Agent on the following basis:

(a) if the Reference Rate specified in the applicable Final Terms is a composite quotation or customarily supplied by one entity, the Calculation Agent will determine the Reference Rate which appears on the Relevant Screen Page as of the Relevant Time on the relevant Periodic Distribution Determination Date;

(b) in any other case, the Calculation Agent will determine the arithmetic mean of the Reference Rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Periodic Distribution Determination Date;

(c) if, in the case of (a) above, such rate does not appear on that page or, in the case of (b) above, fewer than two such rates appear on that page or if, in either case, the Relevant Screen Page is unavailable, the Calculation Agent will:

  (i) request each of the Reference Banks to provide a quotation of the Reference Rate at approximately the Relevant Time on the Periodic Distribution Determination Date to prime banks in the London or Eurozone interbank market, as the case may be, in an amount that is representative for a single transaction in that market at that time; and

  (ii) determine the arithmetic mean of such quotations; and

(d) if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean of the rates quoted by major banks in the principal financial centre of the Specified Currency, selected by the Calculation Agent, at approximately 11.00 a.m. (local time in the principal financial centre of the Specified Currency) on the first day of the relevant Return Accumulation Period for loans in the Specified Currency to leading European banks for a period equal to the relevant Return Accumulation Period and in an amount that is representative for a single transaction in that market at that time,

and the Rate for such Return Accumulation Period shall be the sum of the Margin and the rate or (as the case may be) the arithmetic mean so determined provided, however, that if the Calculation Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Return Accumulation Period, the Rate applicable to the Certificates during such Return Accumulation Period will be the sum of the Margin and the rate or (as the case may be) the arithmetic mean last determined in relation to the Certificates in respect of a preceding Return Accumulation Period.

In this Condition the following expressions have the following meanings:

Reference Banks means the principal London office of each of four major banks engaged in the London or Eurozone inter-bank market selected by or on behalf of the Trustee with the approval of the Delegate, provided that once a Reference Bank has first been selected by or on behalf of the Trustee, such Reference Bank shall not be changed unless it ceases to be capable of acting as such;

Relevant Screen Page means the page, section or other part of a particular information service specified as the Relevant Screen Page in the applicable Final Terms, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate.

7.4 Cessation of Profit Entitlement

No further amounts will be payable on any Certificate from and including the Scheduled Dissolution Date or, as the case may be, the relevant Dissolution Date, as a result of the failure of BSF to pay the relevant Exercise Price and enter into a sale agreement in accordance with the terms of the Purchase Undertaking or the Sale Undertaking, as the case may be, unless default is made in the payment of the relevant Dissolution Amount in which case Periodic Distribution Amounts will continue to accrue in respect of the Certificates in the manner provided in this Condition.

7.5 Calculation of Periodic Distribution Amount

The Calculation Agent will, as soon as practicable after the time at which the Rate is to be determined in relation to each Return Accumulation Period, calculate the Periodic Distribution Amount payable in respect of each Certificate for such Return Accumulation Period. The Periodic Distribution Amount will be calculated by applying the Rate applicable to the relevant Return Accumulation Period to:

(a) in the case of Certificates which are represented by a Global Certificate, the aggregate outstanding face amount of the Certificates represented by such Global Certificate; or

(b) in the case of Certificates in definitive form, the Calculation Amount;

and, in each case, multiplying the product by the relevant Day Count Fraction and rounding the resultant figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards). Where the Specified Denomination of a Certificate in definitive form is a multiple of the Calculation Amount, the Periodic Distribution Amount payable in respect of such Certificate shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

Day Count Fraction means, in respect of the calculation of a Periodic Distribution Amount in accordance with this Condition:

(a) if "Actual/Actual (ISDA)" or "Actual/Actual" is specified in the applicable Final Terms, the actual number of days in the Return Accumulation Period divided by 365 (or, if any portion of that Return Accumulation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Return Accumulation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Return Accumulation Period falling in a non-leap year divided by 365);

(b) if "Actual/365 (Fixed)" is specified in the applicable Final Terms, the actual number of days in the Return Accumulation Period divided by 365;

(c) if "Actual/365 (Sterling)" is specified in the applicable Final Terms, the actual number of days in the Return Accumulation Period divided by 365 or, in the case of a Periodic Distribution Date falling in a leap year, 366;

(d) if "Actual/360" is specified in the applicable Final Terms, the actual number of days in the Return Accumulation Period divided by 360;

(e) if "30/360" "360/360" or "Bond Basis" is specified in the applicable Final Terms, the number of days in the Return Accumulation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Return Accumulation Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day of the Return Accumulation Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Return Accumulation Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Return Accumulation Period falls;

"D_1" is the first calendar day, expressed as a number, of the Return Accumulation Period, unless such number is 31, in which case D_1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Return Accumulation Period, unless such number would be 31 and D_1 is greater than 29, in which case D_2 will be 30;

(f) if "30E/360" or "Eurobond Basis" is specified in the applicable Final Terms, the number of days in the Return Accumulation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Return Accumulation Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day of the Return Accumulation Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Return Accumulation Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Return Accumulation Period falls;

"D_1" is the first calendar day, expressed as a number, of the Return Accumulation Period, unless such number would be 31, in which case D_1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Return Accumulation Period, unless such number would be 31, in which case D_2 will be 30;

(g) if "30E/360 (ISDA)" is specified in the applicable Final Terms, the number of days in the Return Accumulation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Return Accumulation Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day of the Return Accumulation Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Return Accumulation Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Return Accumulation Period falls;

"D_1" is the first calendar day, expressed as a number, of the Return Accumulation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D_1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Return Accumulation Period, unless (i) that day is the last day of February but not the Scheduled Dissolution Date or (ii) such number would be 31, in which case D_2 will be 30.

7.6 Calculation of Other Amounts

If the applicable Final Terms specifies that any other amount is to be calculated by the Calculation Agent, the Calculation Agent will, as soon as practicable after the time or times at which any such amount is to be determined, calculate the relevant amount. The relevant amount will be calculated by the Calculation Agent in the manner specified in the applicable Final Terms.

7.7 Publication

The Calculation Agent will cause each Rate and Periodic Distribution Amount determined by it, together with the relevant Periodic Distribution Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Trustee, BSF, the Delegate, the Paying Agents and each listing authority, stock exchange and/or quotation system (if any) by which the Certificates have then been admitted to listing, trading and/or quotation as soon as practicable after such determination but (in the case of each Rate, Periodic Distribution Amount and Periodic Distribution Date) in any event not later than the fourth day of the relevant Return Accumulation Period. Notice thereof shall also promptly be given to the Certificateholders. The Calculation Agent will be required to recalculate any Periodic Distribution Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Return Accumulation Period and any such recalculation will be notified to the Trustee, BSF, the Delegate, the Paying Agents, the Certificateholders and each listing authority, stock exchange and/or quotation system (if any) by which the Certificates have then been admitted to listing, trading and/or quotation as soon as practicable after such determination.

7.8 Notifications, etc. to be final

All communications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition by the Calculation Agent will (in the absence of wilful default, bad faith or manifest or proven error) be binding on the Trustee, the Delegate, BSF, the Agents and all Certificateholders and (in the absence of wilful default or bad faith) no liability shall attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions under this Condition.

7.9 Determination by the Delegate

The Delegate shall, if the Calculation Agent defaults at any time in its obligation to determine any Rate, Periodic Distribution Amount and/or Periodic Distribution Date in accordance with the above provisions, determine the relevant Rate, Periodic Distribution Amount and/or Periodic Distribution Date, the former at such rate as, in its absolute discretion (having such regard as it shall think fit to the procedure described above), it shall deem fair and reasonable in all the circumstances and the Periodic Distribution Amount and the Periodic Distribution Date in the manner provided in this Condition and the determinations shall be deemed to be determinations by the Calculation Agent.

8. PAYMENT

8.1 Payments in respect of the Certificates

Subject to Condition 8.2, payment of any Dissolution Amount and any Periodic Distribution Amount will be made by transfer to the registered account of each Certificateholder. Payments of any Dissolution Amount will only be made against surrender of the relevant Certificate at the specified office of any of the Paying Agents. Each Dissolution Amount and each Periodic Distribution Amount will be paid to the holder shown on the Register at the close of business on the relevant Record Date.

For the purposes of this Condition:

(a) **Dissolution Amount** means, as appropriate, the Final Dissolution Amount, the Early Dissolution Amount (Tax), the Optional Dissolution Amount (Call), the Optional Dissolution Amount (Certificateholder Put), the Dissolution Amount for the purposes of Condition 14 or such other amount in the nature of a redemption amount as may be specified in, or determined in accordance with the provisions of, the applicable Final Terms;

(b) **Payment Business Day** means:

  (i) in the case where presentation and surrender of a definitive Certificate is required before payment can be made, a day on which banks in the relevant place of surrender of the definitive Certificate are open for presentation and payment of securities and for dealings in foreign currencies; and

  (ii) in the case of payment by transfer to an account:

    (A) if the currency of payment is euro, a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or

    (B) if the currency of payment is not euro, any day which is a day on which dealings in foreign currencies may be carried on in the principal financial centre of the currency of payment and in each (if any) Additional Financial Centre;

(b) a Certificateholder's **registered account** means the account maintained by or on behalf of such Certificateholder with a bank that processes payments in the Specified Currency, details of which appear on the Register at the close of business on the relevant Record Date;

(c) a Certificateholder's **registered address** means its address appearing on the Register at that time; and

(d) **Record Date** means (i) (where the Certificate is represented by a Global Certificate), at the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg are open for business) before the Periodic Distribution Date, Scheduled Dissolution Date or Dissolution Date, as the case may be; or (ii) (where the Certificate is in definitive form), in the case of the payment of a Periodic Distribution Amount, the date falling on the fifteenth day before the relevant Periodic Distribution Date and, in the case of the payment of a Dissolution Amount, the date falling two Payment Business Days before the Scheduled Dissolution Date or Dissolution Date, as the case may be.

8.2 Payments subject to Applicable Laws

Payments in respect of Certificates are subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in any jurisdiction, but without prejudice to the provisions of Condition 11, and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or any law implementing an intergovernmental approach thereto.

8.3 Payment only on a Payment Business Day

Payment instructions (for value the due date or, if that is not a Payment Business Day, for value the first following day which is a Payment Business Day) will be initiated on the due date for payment or, in the case of a payment of any Dissolution Amount, if later, on the Payment Business Day on which the relevant definitive Certificate is surrendered at the specified office of a Paying Agent for value as soon as practicable thereafter.

Certificateholders will not be entitled to any additional payment for any delay after the due date in receiving the amount due if the due date is not a Payment Business Day or if the relevant Certificateholder is late in surrendering its definitive Certificate (if required to do so).

If the amount of any Dissolution Amount or Periodic Distribution Amount is not paid in full when due, the Registrar will annotate the Register with a record of the amount in fact paid.

9. AGENTS

9.1 Agents of Trustee

In acting under the Agency Agreement and in connection with the Certificates, the Agents act solely as agents of the Trustee and (to the extent provided therein) the Delegate and do not assume any obligations towards or relationship of agency or trust for or with any of the Certificateholders. The Agency Agreement contains provisions permitting any entity into which any Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor agent.

9.2 Specified Offices

The names of the initial Agents and their initial specified offices are set out in the Agency Agreement. The Trustee reserves the right at any time to vary or terminate the appointment of any Agent and to appoint additional or other Agents provided, however, that:

(a) there will at all times be a Principal Paying Agent;

(b) there will at all times be a Registrar;

(c) if a Calculation Agent (other than the Principal Paying Agent) has been appointed in the applicable Final Terms, there will at all times be a Calculation Agent;

(d) so long as any Certificates are admitted to listing, trading and/or quotation on any listing authority, stock exchange and/or quotation system, there will at all times be a Paying Agent, Registrar and a Transfer Agent having its specified office in such place (if any) as may be required by the rules of such listing authority, stock exchange and/or quotation system; and

(e) there will at all times be a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced to conform to, such Directive.

Notice of any termination or appointment and of any changes in specified offices will be given to the Certificateholders promptly by the Trustee in accordance with Condition 17.

10. CAPITAL DISTRIBUTIONS OF THE TRUST

10.1 Scheduled Dissolution

Unless the Certificates are previously redeemed, or purchased and cancelled, in full, the Trustee will redeem each Certificate on the Scheduled Dissolution Date at the Final Dissolution Amount together with any Periodic Distribution Amounts payable. Upon payment in full of such amounts to the Certificateholders, the Trust will terminate, the Certificates shall cease to represent undivided ownership interests in the Trust Assets and no further amounts shall be payable in respect thereof and the Trustee shall have no further obligations in respect thereof.

10.2 Early Dissolution for Tax Reasons

The Certificates may be redeemed by the Trustee in whole, but not in part:

(a) at any time (if the Fixed Periodic Distribution Provisions are specified in the applicable Final Terms as being applicable); or

(b) on any Periodic Distribution Date (if the Floating Periodic Distribution Provisions are specified in the applicable Final Terms as being applicable),

(such date, the **Tax Dissolution Date**) on giving not less than 30 nor more than 60 days' notice to the Certificateholders in accordance with Condition 17 (which notice shall be irrevocable), at the Early Dissolution Amount (Tax) together with any accrued but unpaid Periodic Distribution Amount, if a Tax Event occurs where **Tax Event** means:

(a) the determination by BSF that (1) the Trustee has or will become obliged to pay additional amounts as provided or referred to in Condition 11 as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction (as defined in Condition 11) or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date and (2) such obligation cannot be avoided by the Trustee taking reasonable measures available to it; or

(b) the receipt by the Trustee of notice from BSF that (1) BSF has or will become obliged to pay additional amounts pursuant to the terms of: (i) paragraph (a) of the definition of Certificateholder Put Option Exercise Price and/or paragraph (a) of the definition of Wakala Portfolio Exercise Price (in each case under the Purchase Undertaking) and/or paragraph (a) of the definition of Issuer Call Exercise Price and/or paragraph (a) of the definition of Tax Call Exercise Price (in each case under Sale Undertaking); or (ii) the Management Agreement (based on a rate in excess of five per cent. of the gross amounts payable under the Management Agreement), in each case, as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date and (2) such obligation cannot be avoided by BSF taking reasonable measures available to it,

provided, however, that no such notice of redemption shall be given unless an exercise notice has been received by the Trustee from BSF under the Sale Undertaking and no such notice of redemption shall be given earlier than 60 days prior to the earliest date on which (in the case of (a) above) the Trustee would be obliged to pay such additional amounts if a payment in respect of the Certificates were then due or (in the case of (b) above) BSF would be obliged to pay such additional amounts if a payment to the Trustee under the Management Agreement was then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Trustee shall deliver to the Delegate (i) a certificate signed by one director of the Trustee (in the case of (a) above) or two directors of BSF (in the case of (b) above) stating that the Trustee is entitled to effect such dissolution and redemption and setting forth a statement of facts showing that the conditions precedent in (a) or (b) above to the right of the Trustee so to dissolve have occurred and (ii) an opinion of independent legal advisers of recognised standing to the effect that the Trustee or BSF, as the case may be, has or will become obliged to pay such additional amounts as a result of such change or amendment. The Delegate shall be entitled to accept (without further investigation) any such certificate and opinion as sufficient evidence thereof in which event it shall be conclusive and binding on the Certificateholders. Upon the expiry of any such notice as is referred to in this Condition 10.2, the Trustee shall be bound to redeem the Certificates at the Early Dissolution Amount (Tax) together with any accrued but unpaid Periodic Distribution Amount and, upon payment in full of such amounts to the Certificateholders, the Trust will terminate, the Certificates shall cease to represent undivided ownership interests in the Trust Assets and no further amounts shall be payable in respect thereof and the Trustee shall have no further obligations in respect thereof.

10.3 Dissolution at the Option of the Trustee

If Optional Dissolution (Call) is specified in the applicable Final Terms as being applicable, the Certificates may be redeemed in whole but not in part on any Optional Dissolution Date, which must be a Periodic Distribution Date if the Floating Periodic Distribution Provisions are specified in the applicable Final Terms, at the relevant Optional Dissolution Amount (Call) together with any accrued but unpaid Periodic Distribution Amounts on the Trustee giving not less than 30 nor more than 60 days' notice to the Certificateholders in accordance with Condition 17 (which notice shall be irrevocable and shall oblige the Trustee to redeem the Certificates on the relevant Optional Dissolution Date). Upon such redemption, the Trust will terminate, the Certificates shall cease to represent undivided ownership interests in the Trust Assets and no further amounts shall be payable in respect thereof and the Trustee shall have no further obligations in respect thereof; provided, however, that no such notice of redemption shall be given unless the Trustee has received an exercise notice from BSF under the Sale Undertaking.

10.4 Dissolution at the option of the Certificateholders

If Certificateholder Put Option is specified in the applicable Final Terms as being applicable, upon the holder of any Certificate giving to the Trustee in accordance with Condition 17 not less than 15 nor more than 30 days' notice the Trustee will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Final Terms, such Certificate on the Certificateholder Put Option Date and at the Optional Dissolution Amount (Certificateholder Put) together with any accrued but unpaid Periodic Distribution Amounts. Certificates may be redeemed under this Condition 10.4 in any multiple of their lowest Specified Denomination. It may be that before a Certificateholder Put Option can be exercised, certain conditions and/or circumstances will need to be satisfied. Where relevant, the provisions will be set out in the applicable Final Terms.

To exercise the right to require redemption of this Certificate the holder of this Certificate must, if this Certificate is in definitive form and held outside Euroclear and Clearstream, Luxembourg, deliver, at the specified office of the Registrar at any time during normal business hours of the Registrar falling within the notice period, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from the specified office of the Registrar (a **Put Notice**) and in which the holder must specify a bank account to which payment is to be made under this Condition 10.4 and the face amount thereof to be redeemed and, if less than the full amount of the Certificates so surrendered is to be redeemed, an address to which a new Certificate in respect of the balance of such Certificate is to be sent subject to and in accordance with the provisions of Condition 2.2.

If this Certificate is represented by a Global Certificate or is in definitive form and held through Euroclear or Clearstream, Luxembourg, to exercise the right to require redemption of this Certificate the holder of this Certificate must, within the notice period, give notice to the Principal Paying Agent of such exercise in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on such Certificateholder's instruction by Euroclear, Clearstream, Luxembourg or any depositary for them to the Principal Paying Agent by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time and if this Certificate is represented by a Global Certificate, at the same time present or procure the presentation of the relevant Global Certificate to the Principal Paying Agent for notation accordingly.

Any Put Notice or other notice given in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg by a holder of any Certificate pursuant to this Condition 10.4 shall be irrevocable except where, prior to the due date of redemption, a Dissolution Event has occurred and the Delegate has declared the Certificates to be redeemed pursuant to Condition 14, in which event such holder, at its option, may elect by notice to the Trustee to withdraw the notice given pursuant to this Condition 10.4.

10.5 No other Dissolution

The Trustee shall not be entitled to redeem the Certificates or dissolve the Trust, otherwise than as provided in this Condition, Condition 13 and Condition 14.

10.6 Cancellations

All Certificates which are redeemed, and all Certificates purchased by or on behalf of BSF or any of its Subsidiaries and delivered by BSF to the Principal Paying Agent for cancellation, will forthwith be cancelled and accordingly such Certificates may not be held, reissued or resold.

10.7 Dissolution Date

In these Conditions, the expression **Dissolution Date** means, as the case may be, (a) following the occurrence of a Dissolution Event (as defined in Condition 14), the date on which the Certificates are redeemed in accordance with the provisions of Condition 14, (b) the date on which the Certificates are redeemed in accordance with the provisions of Condition 10.2, (c) any Optional Dissolution Date or (d) any Certificateholder Put Option Date.

11. TAXATION

All payments in respect of the Certificates shall be made free and clear of and without withholding or deduction for, or on account of, any present or future Taxes, unless the withholding or deduction of the Taxes is required by law. In such event, the Trustee will pay additional amounts so that the full amount which otherwise would have been due and payable under the Certificates is received by the parties entitled thereto, except that no such additional amount shall be payable in relation to any payment in respect of any Certificate:

(a) presented for payment (where presentation is required) in a Relevant Jurisdiction; or

(b) the holder of which is liable for such Taxes in respect of such Certificate by reason of having some connection with a Relevant Jurisdiction other than the mere holding of such Certificate; or

(c) presented for payment (where presentation is required) more than 30 days after the Relevant Date (as defined below) except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Business Day; or

(d) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(e) presented for payment (where presentation is required) by or on behalf of a Certificateholder who would be able to avoid such withholding or deduction by presenting the relevant Certificate to another Paying Agent in a different Member State of the European Union.

As used in these Conditions:

Relevant Date means, in relation to any payment, whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received in the principal financial centre of the currency of payment by the Principal Paying Agent on or prior to such due date, the date on which the full amount has been so received and notice to that effect has duly been given to the Certificateholders in accordance with Condition 17;

Relevant Jurisdiction means: (i) in the case of payments to be made by the Trustee, the Cayman Islands; or (ii) in the case of payments to be made by BSF (acting in any capacity), the Kingdom of Saudi Arabia or, in each case, any political subdivision or authority thereof or therein having the power to tax; and

Taxes means any present or future taxes, levies, imposts, duties, fees, assessments or other charges of whatever nature imposed or levied by or on behalf of any Relevant Jurisdiction.

The Purchase Undertaking, the Sale Undertaking and the Management Agreement provide that payments and transfers thereunder by BSF, shall be made free and clear of and without withholding or deduction for, or on account of, any present or future Taxes, unless the withholding or deduction of the Taxes is required by law and, in such case, provide for the payment or transfer, as the case may be, by BSF of additional amounts so that the full amount which would otherwise have been due and payable or transferable, as the case may be, is received by the Trustee.

12. PRESCRIPTION

The right to receive distributions in respect of the Certificates will be forfeited unless claimed within a period of 10 years (in the case of Dissolution Amounts) and a period of five years (in the case of Periodic Distribution Amounts) from the Relevant Date in respect thereof, subject to the provisions of Condition 8.

13. PURCHASE AND CANCELLATION OF CERTIFICATES

13.1 Purchases

BSF or any of its Subsidiaries may at any time purchase Certificates at any price in the open market or otherwise.

For the purposes of these Conditions, **Subsidiary** means, in relation to BSF, any company (i) in which BSF holds a majority of the voting rights or (ii) of which BSF is a member and has the right to appoint or remove the majority of the board of directors or (iii) of which BSF is a member and controls a majority of the voting rights, and includes any company which is a Subsidiary of a Subsidiary of BSF.

13.2 Cancellation of Certificates held by BSF and/or any of its Subsidiaries

Following any purchase of Certificates by or on behalf of BSF or any of its Subsidiaries pursuant to Condition 13.1, the Sale Undertaking may be exercised by BSF in respect of the transfer of the Trustee's rights, title, interests, benefits and entitlements in, to and under a portion of the Wakala Portfolio with an aggregate Value not greater than the aggregate face amount of the Certificates so purchased against cancellation of such Certificates pursuant to Condition 10.6.

14. DISSOLUTION EVENTS

Upon the occurrence and continuation of any of the following events (**Dissolution Events**):

(a) default is made in the payment of any Dissolution Amount or any Periodic Distribution Amount on the due date for payment thereof and such default continues unremedied for a period of seven days; or

(b) the Trustee fails to perform or observe any of its other duties, obligations or undertakings under the Transaction Documents and (except in any case where, in the opinion of the Delegate, the failure is incapable of remedy when no such continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 30 days following the service by the Delegate of a notice on the Trustee requiring the same to be remedied; or

(c) a BSF Event (as defined in the Purchase Undertaking) occurs; or

(d) the Trustee repudiates any Transaction Document or does or causes to be done any act or thing evidencing an intention to repudiate any Transaction Document; or

(e) at any time it is or will become unlawful or impossible for the Trustee to perform or comply with any or all of its obligations under the Transaction Documents to which it is a party or any of the obligations of the Trustee under the Transaction Documents to which it is a party are not or cease to be legal, valid and binding; or

(f) either (i) the Trustee becomes insolvent or is unable to pay its debts as they fall due or (ii) an administrator or liquidator of the whole or substantially the whole of the undertaking, assets and revenues of the Trustee is appointed (or application for any such appointment is made) or (iii) the Trustee takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its indebtedness or any guarantee of any indebtedness given by it or (iv) the Trustee ceases or threatens to cease to carry on all or substantially the whole of its business (otherwise than for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent); or

(g) an order or decree is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Trustee; or

(h) any event occurs which under the laws of the Cayman Islands has an analogous effect to any of the events referred to in paragraphs (f) and (g) above,

the Delegate (subject to it being indemnified and/or secured and/or prefunded to its satisfaction), if notified in writing of the occurrence of such Dissolution Event, shall give notice of the occurrence of such Dissolution Event to the holders of Certificates in accordance with Condition 17 with a request to such holders to indicate if they wish the Certificates to be redeemed and the Trust to be dissolved. If so requested in writing by the holders of at least one-fifth of the then aggregate face amount of the Certificates outstanding or if so directed by an Extraordinary Resolution of the holders of the Certificates (each a **Dissolution Request**), the Delegate shall (subject in each case to being indemnified and/or secured and/or prefunded to its satisfaction) give notice of the Dissolution Request to the Trustee, BSF and all the holders of the Certificates in accordance with Condition 17 whereupon the Certificates shall be immediately redeemed at the Dissolution Amount specified in the applicable Final Terms, together with any accrued but unpaid Periodic Distribution Amounts on the date of such notice. Upon payment in full of such amounts, the Trust will terminate, the Certificates shall cease to represent undivided ownership interests in the Trust Assets and no further amounts shall be payable in respect thereof and the Trustee shall have no further obligations in respect thereof.

For the purpose of (a) above, amounts shall be considered due in respect of the Certificates (including any amounts calculated as being payable under Condition 6, Condition 7 and Condition 10) notwithstanding that the Trustee has, at the relevant time, insufficient funds or Trust Assets to pay such amounts.

15. ENFORCEMENT AND EXERCISE OF RIGHTS

15.1 Enforcement

Upon the occurrence of a Dissolution Event and the giving of notice of a Dissolution Request to the Trustee by the Delegate, to the extent that the amounts payable in respect of the Certificates have not been paid in full pursuant to Condition 14, subject to Condition 15.2 the Delegate shall (subject to being indemnified and/or secured and/or prefunded to its satisfaction), take one or more of the following steps:

(a) enforce the provisions of the Purchase Undertaking and/or the Management Agreement against BSF; and/or

(b) take such other steps as the Delegate may consider necessary in its absolute discretion to protect the interests of the Certificateholders.

Notwithstanding the foregoing but subject to Condition 15.2, the Delegate may at any time, at its discretion and without notice, take such proceedings and/or other steps as it may think fit against or in relation to each of the Trustee and/or BSF to enforce their respective obligations under the Transaction Documents, these Conditions and the Certificates.

15.2 Delegate not obliged to take Action

The Delegate shall not be bound in any circumstances to take any action to enforce or to realise the Trust Assets or take any action against the Trustee and/or BSF under any Transaction Document unless directed or requested to do so (a) by an Extraordinary Resolution or (b) in writing by the holders of at least one-fifth of the then aggregate face amount of the Certificates outstanding and in either case then only if it shall be indemnified and/or secured and/or prefunded to its satisfaction against all liabilities to which it may thereby render itself liable or which it may incur by so doing provided that the Delegate shall not be liable for the consequences of exercising its discretion or taking any such action and may do so without having regard to the effect of such action on individual Certificateholders.

15.3 Direct Enforcement by Certificateholder

No Certificateholder shall be entitled to proceed directly against the Trustee or BSF or provide instructions (not otherwise permitted by the Trust Deed) to the Delegate to proceed against the Trustee and/or BSF under any Transaction Document unless (a) the Delegate, having become bound to proceed pursuant to Condition 15.2, fails to do so within a reasonable period of becoming so bound and such failure is continuing and (b) the relevant Certificateholder (or such Certificateholder together with the other Certificateholders who propose to proceed directly against any of the Trustee or BSF, as the case may be) holds at least one-fifth of the then aggregate face amount of the Certificates outstanding. Under no circumstances shall the Delegate or any Certificateholder have any right to cause the sale or other disposition of any of the Trust Assets (other than pursuant to the Transaction Documents) and the sole right of the Delegate and the Certificateholders against the Trustee and BSF shall be to enforce their respective obligations under the Transaction Documents.

15.4 Limited Recourse

The foregoing paragraphs in this Condition are subject to this paragraph. After enforcing or realising the Trust Assets and distributing the proceeds of the Trust Assets in accordance with Condition 4.2 and the Trust Deed, the obligations of the Trustee in respect of the Certificates shall be satisfied and no holder of the Certificates may take any further steps against the Trustee, the Delegate or any other person to recover any further sums in respect of the Certificates and the right to receive any sums unpaid shall be extinguished. In particular, no holder of the Certificates shall be entitled in respect thereof to petition or to take any other steps for the winding-up of BSF Sukuk Limited.

16. REPLACEMENT OF DEFINITIVE CERTIFICATES

Should any definitive Certificate be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Registrar (and if the Certificates are then admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent or Transfer Agent in any particular place, the Paying Agent or Transfer Agent having its specified office in the place required by such competent authority, stock exchange and/or quotation system), subject to all applicable laws and competent authority, stock exchange and/or quotation system requirements, upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Trustee, BSF, the Registrar, the Paying Agent or the Transfer Agent may require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

17. NOTICES

All notices to Certificateholders will be valid if:

(a) published in a daily newspaper having general circulation in London (which is expected to be the *Financial Times*) approved by the Delegate; or

(b) mailed to them by first class pre-paid registered mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective registered addresses.

The Trustee shall also ensure that notices are duly given or published in a manner which complies with the rules and regulations of any listing authority, stock exchange and/or quotation system (if any) by which the Certificates have then been admitted to listing, trading and/or quotation. Any notice shall be deemed to have been given on the day after being so mailed or on the date of publication or, if so published more than once or on different dates, on the date of the first publication.

Until such time as any definitive Certificates are issued, there may, so long as any Global Certificate representing the Certificates is held on behalf of one or more clearing systems, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to the relevant clearing systems for communication by them to the Certificateholders and, in addition, for so long as any Certificates are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules. Any such notice shall be deemed to have been given to the Certificateholders on the day after the day on which the said notice was given to the relevant clearing systems.

Notices to be given by any Certificateholder shall be in writing and given by lodging the same with the Principal Paying Agent. Whilst any of the Certificates are represented by a Global Certificate held on behalf of one or more clearing systems, such notice may be given by any holder of a Certificate to the Principal Paying Agent through the clearing system in which its interest in the Certificates is held in such manner as the Principal Paying Agent and the relevant clearing system may approve for this purpose.

18. MEETINGS OF CERTIFICATEHOLDERS, MODIFICATION, WAIVER, AUTHORISATION AND DETERMINATION

18.1 The Master Trust Deed contains provisions for convening meetings of Certificateholders to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution of any of these Conditions or the provisions of the Trust Deed. The quorum at any meeting for passing an Extraordinary Resolution will be one or more persons present holding or representing not less than 50 per cent. in the outstanding face amount of the Certificates, or at any adjourned such meeting one or more persons present whatever the outstanding face amount of the Certificates held or represented by him or them, except that any meeting the business of which includes the modification of certain provisions of the Certificates (including modifying the Scheduled Dissolution Date, reducing or cancelling any amount payable in respect of the Certificates or altering the currency of payment of the Certificates or amending Condition 5 and certain covenants given by BSF in the Transaction Documents), the quorum shall be one or more persons present holding or representing not less than two-thirds in the outstanding face amount of the Certificates, or at any adjourned such meeting one or more persons present holding or representing not less than one-third in the outstanding face amount of the Certificates. The expression **Extraordinary Resolution** is defined in the Master Trust Deed to mean any of (i) a resolution passed at a meeting duly convened and held by a majority consisting of not less than 75 per cent. of the votes cast, (ii) a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in face amount of the Certificates or (iii) consent given by way of electronic consents through the relevant clearing system(s) (in a form satisfactory to the Delegate) by or on behalf of not less than 75 per cent. in face amount of the Certificates for the time being outstanding.

18.2 The Delegate may agree, without the consent or sanction of the Certificateholders, to any modification (other than in respect of a Reserved Matter) of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed or the Agency Agreement, or determine, without any such consent or sanction as aforesaid, that any Dissolution Event or an event which, with the giving of notice, lapse of time, determination of materiality or fulfilment of any other applicable condition (or any combination of the foregoing), would constitute a Dissolution Event shall not be treated as such if, in the opinion of the Delegate, (a) such modification is of a formal, minor or technical nature, (b) such modification is made to correct a manifest error or (c) such modification, waiver, authorisation or determination is not, in the opinion of the Delegate, materially prejudicial to the interests of the Certificateholders. No such direction or request will affect a previous consent, waiver, authorisation or determination.

18.3 In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation or determination), the Delegate shall have regard to the general interests of the Certificateholders as a class (but shall not have regard to any interests arising from circumstances particular to individual Certificateholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Certificateholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof) and the Delegate shall not be entitled to require, nor shall any Certificateholder be entitled to claim from the Delegate or any other person, any indemnification or payment in respect of any tax consequence of any such exercise upon individual Certificateholders.

18.4 Any modification, abrogation, waiver, authorisation or determination shall be binding on all the Certificateholders and shall be notified to the Certificateholders as soon as practicable thereafter in accordance with Condition 17.

19. INDEMNIFICATION AND LIABILITY OF THE DELEGATE AND THE TRUSTEE

19.1 The Trust Deed contains provisions for the indemnification of each of the Delegate and the Trustee in certain circumstances and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured and/or prefunded to its satisfaction as well as provisions entitling the Delegate to be paid its costs and expenses in priority to the claims of the Certificateholders.

19.2 Neither the Delegate nor the Trustee makes any representation and assumes no responsibility for the validity, sufficiency or enforceability of the obligations of BSF under the Transaction Documents and shall not under any circumstances have any liability or be obliged to account to the Certificateholders in respect of any payments which should have been made by BSF but are not so made and shall not in any circumstances have any liability arising from or in relation to the Trust Assets other than as expressly provided in these Conditions or in the Trust Deed.

19.3 Each of the Trustee and the Delegate is exempted from (i) any liability in respect of any loss or theft of the Trust Assets or any cash, (ii) any obligation to insure the Trust Assets or any cash and (iii) any claim arising from the fact that the Trust Assets or any cash are held by or on behalf of the Trustee or on deposit or in an account with any depositary or clearing system or are registered in the name of the Trustee or its nominee, unless such loss or theft arises as a result of wilful default by the Trustee or the Delegate, as the case may be.

19.4 The Trust Deed also contains provisions pursuant to which the Delegate is entitled, *inter alia*, (a) to enter into business transactions with BSF and/or any of its Subsidiaries and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to BSF and/or any of its Subsidiaries, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Certificateholders and (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

20. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of these Conditions, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

21. GOVERNING LAW AND SUBMISSION TO JURISDICTION

21.1 The Trust Deed, the Certificates and these Conditions (including the remaining provisions of this Condition 21) and any non-contractual obligations arising out of or in connection with the Trust Deed, the Certificates and these Conditions are governed by, and shall be construed in accordance with, English law.

21.2 Subject to Condition 21.3, the courts of England shall have exclusive jurisdiction to settle any dispute, claim, difference or controversy arising out of, relating to or having any connection with the Trust Deed, the Certificates and these Conditions (including any dispute as to the existence, validity, interpretation, performance, breach or termination of the Trust Deed, the Certificates and these Conditions or the consequences of the nullity of any of them or a dispute relating to any non-contractual obligations arising out of or in connection with them) (a **Dispute**) and, accordingly, the Trustee submits to the exclusive jurisdiction of such courts.

The Trustee agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.

21.3 Condition 21.2 is for the benefit of the Delegate and the Certificateholders only. As a result, the Delegate and any Certificateholder (where permitted so to do) may take proceedings relating to a Dispute (**Proceedings**) in any other courts with jurisdiction. To the extent allowed by law, the Delegate and the Certificateholders may take concurrent Proceedings in any number of jurisdictions.

BSF has in the Trust Deed also submitted to the jurisdiction of the Saudi Arabian Committee for the Resolution of Securities Disputes and the Appeal Panel in respect of Disputes.

21.4 Each of the Trustee and BSF has in the Trust Deed appointed Crédit Agricole Corporate and Investment Bank at its registered office Broadwalk House, 5 Appold Street, London EC2A 2DA as its agent for service of process and has undertaken that, in the event of Crédit Agricole Corporate and Investment Bank ceasing so to act or ceasing to be registered in England, it will appoint another person approved by the Delegate as its agent for service of process in England in respect of any Proceedings or Disputes. Nothing herein shall affect the right to serve proceedings in any matter permitted by law.

21.5 Under the Trust Deed, BSF has agreed that, to the extent that it may claim for itself or its assets or revenues immunity from jurisdiction, enforcement, prejudgment proceedings, injunctions and all other legal proceedings and relief and to the extent that such immunity (whether or not claimed) may be attributed to it or its assets or revenues, it will not claim and has irrevocably and unconditionally waived such immunity in relation to any Proceedings or Disputes. Further, BSF has irrevocably and unconditionally consented to the giving of any relief or the issue of any legal proceedings, including, without limitation, jurisdiction, enforcement, prejudgment proceedings and injunctions in connection with any Proceedings or Disputes.

21.6 Each of the Trustee, the Delegate and BSF has agreed in the Trust Deed that no interest will be payable or receivable under or in connection with the Certificate and in the event that it is determined that any interest is payable or receivable in connection with these Certificates by the Trustee, BSF or the Delegate, whether as a result of any judicial award or by operation of any applicable law or otherwise, the Trustee, BSF and the Delegate will waive any rights it may have to claim or receive such interest and if any such interest is actually received by it, it will promptly donate the same to a registered or otherwise officially recognised charitable organisation.

USE OF PROCEEDS

The net proceeds of each Series issued will be paid by the Trustee (as Purchaser) to the Seller for the purchase from the Seller of all of its rights, title, interests, benefits and entitlements in, to and under the relevant Initial Wakala Portfolio.

DESCRIPTION OF THE TRUSTEE

General

BSF Sukuk Limited, a Cayman Islands exempted company with limited liability, was incorporated on 21 February 2012 under the Companies Law (2011 Revision) of the Cayman Islands with company registration number 266482. The Trustee has been established as a special purpose vehicle for the sole purpose of issuing Certificates under the Programme and entering into the transactions contemplated by the Transaction Documents. The registered office of the Trustee is at MaplesFS Limited, P.O. Box 1093, Queensgate House, Grand Cayman KY1-1102, Cayman Islands and its telephone number is +1 345 945 7099.

The authorised share capital of the Trustee is U.S.$50,000 divided into 50,000 ordinary shares of U.S.$1.00 par value each, 250 of which have been issued. All of the issued shares (the **Shares**) are fully-paid and are held by MaplesFS Limited as share trustee (the **Share Trustee**) under the terms of a trust deed (the **Share Trust Deed**) dated 21 March 2012 under which the Share Trustee holds the Shares in trust until the Termination Date (as defined in the Share Trust Deed). Prior to the Termination Date, the trust is an accumulation trust, but the Share Trustee has the power to benefit Qualified Charities (as defined in the Share Trust Deed). It is not anticipated that any distribution will be made whilst any Certificate is outstanding. Following the Termination Date, the Share Trustee will wind up the trust and make a final distribution to charity. The Share Trustee has no beneficial interest in, and derives no benefit (other than its fee for acting as Share Trustee) from, its holding of the Shares.

Business of the Trustee

The Trustee has no prior operating history or prior business and will not have any substantial liabilities other than in connection with the Certificates to be issued under the Programme. The Certificates are the obligations of the Trustee alone and not the Share Trustee.

The objects for which the Trustee is established are set out in clause 3 of its Memorandum of Association as registered or adopted on 21 February 2012.

Financial Statements

Since the date of its incorporation, no financial statements of the Trustee have been prepared. The Trustee is not required by Cayman Islands law, and does not intend, to publish audited financial statements.

Directors of the Trustee

The Directors of the Trustee are as follows:

Name:	Principal Occupation:
Carlos Farjallah	Senior Vice President of MaplesFS Limited
Cleveland Stewart	Vice President of MaplesFS Limited

The business address of each Director is c/o MaplesFS Limited, P.O. Box 1093, Boundary Hall, Cricket Square, Grand Cayman KY1-1102, Cayman Islands.

There are no potential conflicts of interest between the private interests or other duties of the Directors listed above and their duties to the Trustee.

The Administrator

MaplesFS Limited will also act as the administrator of the Trustee (in such capacity, the **Trustee Administrator**). The office of the Trustee Administrator will serve as the general business office of the Trustee. Through the office, and pursuant to the terms of the Corporate Services Agreement, the Trustee Administrator will perform in the Cayman Islands or such other jurisdiction as may be agreed by the parties from time to time various management functions on behalf of the Trustee and the provision of certain clerical, administrative and other services until termination of the Corporate Services Agreement. The Trustee and the Trustee Administrator will also enter into a registered office agreement (the **Registered Office Agreement**) for the provision of registered office facilities to the Trustee. In consideration of the foregoing, the Trustee Administrator will receive various fees payable by the Trustee at rates agreed upon from time to time, plus expenses. The terms of the Corporate Services Agreement and the Registered Office Agreement provide that either the Trustee or the

Trustee Administrator may terminate such agreements upon the occurrence of certain stated events, including any breach by the other party of its obligations under such agreements. In addition, the Corporate Services Agreement and the Registered Office Agreement provide that either party shall be entitled to terminate such agreements by giving at least three months' notice in writing to the other party with a copy to any applicable rating agency.

The Trustee Administrator will be subject to the overview of the Trustee's Board of Directors.

The Trustee Administrator's principal office is P.O. Box 1093, Boundary Hall, Cricket Square, Grand Cayman KY1-1102, Cayman Islands.

The Directors of the Trustee are all employees or officers of the Trustee Administrator (or an affiliate thereof). The Trustee has no employees and is not expected to have any employees in the future.

SUMMARY OF BSF FINANCIAL INFORMATION

The following information has been derived from, and should be read in conjunction with, and is qualified in its entirety by reference to the Financial Statements and the notes thereto as set out elsewhere in this Base Prospectus.

The following table sets out selected consolidated financial information of BSF for the years ended 31 December 2011 and 2010, as extracted from the Financial Statements. The ratios have been prepared based on management information and information in the Financial Statements. BSF prepares its Financial Statements in accordance with IFRS.

Balance Sheet Data

	As at 31 December	
	2011	**2010**
	(SR' 000)	
ASSETS		
Cash and balances with SAMA	18,115,582	10,864,136
Due from banks and other financial institutions	7,009,260	5,191,617
Investments, net	16,669,277	19,840,715
Loans and advances, net	92,325,042	80,976,587
Investment in associates	170,789	185,628
Property and equipment, net	580,993	586,304
Other assets	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	2,063,748	2,312,906
Customers' deposits	109,963,411	93,529,251
Term loans	1,766,850	2,465,756
Debt Securities	2,462,719	2,428,019
Other liabilities	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	7,232,143	7,232,143
Statutory reserve	6,799,837	6,072,101
General reserve	982,857	982,857
Other reserves	876,023	746,972
Retained earnings	3,764,467	2,169,588
Proposed dividend	–	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**

Income Data

	As at 31 December	
	2011	**2010**
Special commission income	3,631,299	3,537,058
Special commission expense	494,228	471,201
Net special commission income	**3,137,071**	**3,065,857**
Fee and commission income, net	1,050,052	887,043
Exchange income, net	220,708	200,409
Trading income, net	132,676	202,007
Dividend income	14,244	17,472
Gains on non trading investments, net	–	2,349
Other operating income	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 amortisation	130,257	126,241
Other general and administrative expenses	393,337	311,489
Impairment charge for credit losses, net	157,908	339,344
Other operating expenses	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	(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 SR)	4.03	3.87

In the year ended 31 December 2011, the Bank's total assets grew by 14.01 per cent. to SR 140.48 billion. Over the same period, its retail loan book (credit cards and consumer loans combined) grew by 32.94 per cent. to SR 10,398.751 million, while net corporate loans grew by 12.98 per cent. to SR 75.41 billion.

As a significant proportion of the Bank's assets are held in the form of cash and short-term investments (the Bank had a loan to funding sources ratio of 80.85 per cent. as at 31 December 2011), as a result of the unusually low interest rate environment, the Bank has suffered reduced income from its structural excess of cash and working capital.

The non performing loan to total loan ratio decreased from 1.23 per cent. as at 31 December 2010 to 1.20 per cent. as at 31 December 2011, due in part to increased lending by the Bank. The Bank decided to reduce the Total Provisions to Total Non Performing loan ratio from 146.96 per cent. as at 31 December 2010 to 136.41 per cent as at 31 December 2011, a level considered appropriate given the growth in retail loans.

BSF announced a net profit of SR 2,911 million for the year ended 31 December 2011 (representing an increase of 3.9 per cent. compared to a net profit of SR 2,801 million for the year ended 31 December in 2010). Growth in net income was not commensurate with growth in total assets due to the low interest rate environment with interest rates remaining below 2010 levels. Its net special commission income was SR 3,137 million (representing an increase of 2.3 per cent. compared to a net special commission income of SR 3,066 million in 2010). This was due to a significant growth in the Bank's loans and advances portfolio and the careful control of funding costs. The Bank's total operating income for the year ended 31 December in 2011 was SR 4,585 million (representing an increase of 4.3 per cent. compared to SR 4,395 million in 2010), while total operating expenses were SR 1,657 million (representing an increase of 3.7 per cent. from SR 1,598 million for the year ended 31 December in 2010).

Credit-related Commitments and Contingencies

Credit-related commitments include commitments to extend credit, standby letters of credit, guarantees and acceptances which are designed to meet the requirements of the Group's customers. The table below sets out the Group's credit-related commitments as at 31 December 2010 and 2011.

	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
			As at 31 December 2011		
			(SR' 000)		
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**
			As at 31 December 2010		
			(SR' 000)		
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**

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.

Letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are generally collateralised by the underlying shipments of goods to which they relate. 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 authorisations 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. The outstanding unused portion of non firm commitments which can be revoked unilaterally at any time by the Bank as at 31 December 2011 was SR 72,574 million compared to SR 64,738 million as at 31 December 2010.

Related Parties

In the ordinary course of its activities, the Bank transacts business with related parties. 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:

	As at 31 December	
	2011	**2010**
	(SR' 000)	
CA-CIB		
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[(1)] 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

Note:

(1) Other major shareholders' shareholdings of more than 5 per cent. of the Bank's share capital, excluding CA-CIB.

BSF FINANCIAL REVIEW

The following discussion of the consolidated results of operations of the Bank as of 31 December 2011 and for the year ended 31 December 2011 should be read in conjunction with the 2011 Financial Statements and reports and notes thereto included elsewhere in this Base Prospectus.

Overview

BSF is a commercial bank operating in Saudi Arabia under Commercial Registration No. 1010073368 dated 5 September 1989. BSF's head office is located at PO Box 56006, Riyadh 11554, Kingdom of Saudi Arabia. The telephone number of BSF's head office is +966 1 289 9999.

BSF is a full service bank, whose main business lines are corporate banking, retail banking, treasury and investment management services. The Bank offers a full range of domestic and international commercial and Islamic banking products and services to the retail and corporate sector, in addition to investment advisory services, asset management, local and international equity trading, and treasury services.

According to figures published by the Saudi Stock Exchange (''Tadawul''), BSF was the fourth largest listed commercial bank in Saudi Arabia as of 31 December 2011, by total assets, with total assets of SR 140.5 billion as well as by total customer deposits, with total customer deposits of SR 109.9 billion. As at 31 December 2011, BSF enjoyed a 9.1 per cent. market share in Saudi Arabia in terms of total assets and 9.96 per cent. in terms of customer deposits (based on information in SAMA's monthly statistical bulletin for January 2012). BSF's total net income for the financial year ended 31 December 2011 was SR 2.9 billion.

The Bank provides a comprehensive range of banking products and services to retail, corporate, and public customers.

Significant Factors Affecting Results of Operations

Interest rates

In the period from 31 December 2009 to 31 December 2011 the Bank's net income grew by 17.96 per cent., while its total assets grew by 16.51 per cent. Between 31 December 2010 and 31 December 2011, the Bank's net income grew 3.91 per cent, and its total assets grew by 14.01 per cent. These results have been achieved despite unusually low interest rates that have affected the Bank's financial performance, and the Bank's business model and liquidity profile, where structurally the Bank's loan to deposit ratio is well below 100 per cent.

The impact of low interest rates has been mitigated by the significant development of the Bank's core businesses (net loans and advances increased by 17.89 per cent. and deposits by 20.52 per cent. in the period from 31 December 2009 to 31 December 2011 and by 14.01 per cent. and 17.57 per cent respectively in the period from 31 December 2010 to 31 December 2011), stringent cost control measures and a reduction of the cost of risk which has reduced from 0.72 per cent. as at 31 December 2009 to 0.43 per cent. as at 31 December 2010 and 0.18 per cent. as at 31 December 2011. As at 31 December 2009, 2010 and 2011, net impairment charges for credit losses were SR 574.6 million, SR 339.3 millions and SR 157.9 million respectively. The Bank's NPL ratios reduced from 1.27 per cent. as at 31 December 2009, to 1.23 per cent. as at 31 December 2010, and to 1.20 per cent. as at 31 December 2011.

The table below shows the absolute level of interest rates in Saudi Arabia from 31 December 2009 to 31 December 2011 and demonstrates the sharp decrease in long term interest rates.

	SIBOR rate				IRS Curve	
	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years
31 December 2009	0.3263%	0.7675%	1.0500%	1.3225%	2.3200%	3.2900%
30 June 2010	0.3438%	0.7250%	0.8500%	1.0275%	1.5900%	2.4000%
31 December 2010	0.3675%	0.7513%	0.8513%	1.0488%	1.6700%	2.7200%
30 June 2011	0.3450%	0.6381%	0.7013%	0.9013%	1.3200%	2.2800%
31 December 2011	0.5188%	0.7800%	0.8500%	1.0400%	1.3600%	2.1000%

Source: Reuters

Market Conditions in Saudi Arabia

The Bank believes that its business will continue to benefit from the positive macro-economic environment in the Kingdom.

The European sovereign debt crisis has had a limited impact on Saudi Arabia. The Government has increased its investment within the Kingdom, which has resulted in sustained economic growth in the Kingdom.

Even though growth in the Saudi economy was affected by the global economic crisis, the Kingdom's economy continued to grow in 2008 and 2009 as a result of Government support. The Saudi economy grew slowly in 2010 and banks operating in the Kingdom experienced limited balance sheet growth. 2011 proved to be a more dynamic year during which the Saudi financial sector increased its extension of credit to the private sector by 10.65 per cent., year-on-year growth in the years ended 31 December 2010 and 31 December 2009 having been 5.65 per cent. and -0.40 per cent. respectively (*data based on SAMA quarterly statistical bulletin, fourth quarter of 2011, published February 2012*).

In 2011, the Government recorded a budget surplus of SR 306 billion and revenues of SR 1.11 trillion in contrast to a projected deficit of SR 40 billion, chiefly as a result of higher than anticipated oil prices. The high oil prices and increased production of crude oil has resulted in Government revenue doubling from the 2011 budget projection of SR 540 billion. Actual expenditures of SR 804 billion in 2011 were 38.6 per cent. more than the budgeted total of SR 580 billion and 23 per cent. higher than in 2010. The Kingdom has built significant reserves from the recent oil boom which gives BSF's management confidence that the Kingdom's economy will be adequately able to withstand any economic pressure caused by the global recession. The Kingdom has significant spare capacity for oil production, and has filled the 'supply gap' that resulted from political instability in Libya during 2011.

The Government has indicated that 2012 will also see a significant amount of Government spending. For instance, it was announced in a press release in December 2011 that the Government intends to invest SR 690 billion in development projects. The Bank believes that following the issuance of royal decrees issued in February and March 2011, which emphasise the construction of new houses, hospitals, schools, universities and other similar facilities, there will be an increase in Government spending.

The Kingdom's response, in the form of an expansionary fiscal spending policy, to the fall in GDP growth in 2009 (0.1 per cent. increase) resulted in real GDP growth of 4.1 per cent. in 2010. In 2011, the real GDP of the Kingdom increased by 6.8 per cent. according to SAMA's annual report of December 2011. BSF expects the economy of the Kingdom to grow in 2012, including further growth in the non-oil sector. The management of BSF has in part based its assessment on the Saudi Arabian Purchase Managers' Index (**PMI**) which monitors private sector variables, including output, new orders, exports, input prices, output prices, quantity of purchases, stocks and employment. PMI remained broadly stable in 2010 and 2011 and was 61.3 per cent. in December 2010 and 57.7 in December 2011 according to data published by Markit Group Limited and HSBC. BSF's management believes that this trend, if it continues, will be advantageous to BSF.

BSF expects that the reduction in levels of Government spending in 2012 will increase private investment, and will ultimately increase demand for funding from banks. It will also increase fundraising through debt and equity capital markets. Given BSF's extensive lending and investment banking capabilities, its management believes that the Bank is well placed to benefit from these trends.

Key Indicators and Key Ratios

The table below shows the Bank's key indicators for each of the years ended 31 December 2009, 2010 and 2011.

Key Indicators (SR '000)	**12 months ended 31 December 2009**	**12 months ended 31 December 2010**	**12 months ended 31 December 2011**	**% Var 2010/2009**	**% Var 2011/2010**
Total Assets	120,572,438	123,218,330	**140,479,958**	2.19%	14.01%
Total Loans and Advances	78,315,196	80,976,587	**92,325,042**	3.40%	14.01%
Total Deposits	91,237,118	93,529,251	**109,963,411**	2.51%	17.57%
Total Equity	15,732,673	18,003,661	**19,655,327**	14.43%	9.17%
Total Operating income	4,294,907	4,395,229	**4,584,774**	2.34%	4.31%
Total Net income	**2,467,805**	**2,801,287**	**2,910,942**	**13.51%**	**3.91%**

Key Ratios	**12 months ended 31 December 2009 ('000 SR)**	**12 months ended 31 December 2010**	**12 months ended 31 December 2011**	**Changes 2010/2009**	**Changes 2011/2010**
Provisions to total non performing loans	126.60%	146.96%	**136.41%**	20.36%	(10.56)%
Non performing loans to total loans	1.27%	1.23%	**1.20%**	(0.04)%	(0.03)%
Loans to funding sources	81.42%	82.27%	**80.85%**	0.85%	(1.42)%
Tier 1 capital adequacy(1)	13.13%	14.18%	**13.95%**	1.05%	(0.22)%
Total capital adequacy(1)	13.72%	14.73%	**14.52%**	1.01%	(0.21)%
Net interest margin	2.71%	2.76%	**2.62%**	0.05%	(0.14)%
Cost to income(2)	26.96%	28.63%	**32.71%**	1.67%	4.08%
Return on average assets(3)	2.00%	2.30%	**2.21%**	0.30%	(0.09)%
Return on average equity(4)	16.55%	16.59%	**15.45%**	0.04%	(1.14)%

Notes:

(1) Calculated in accordance with SAMA regulations. Represents total capital divided by total risk-weighted assets.

(2) Total operating expenses divided by total operating income.

(3) Net income for the period attributable to equity holders of BSF divided by average total assets.

(4) Profit for the year divided by average shareholders' equity for the year.

In contrast to 2010, during which the Saudi Economy was slow and balance sheet growth was low, 2011 proved to be a more dynamic year, in which the Saudi financial sector increased its extension of credit to the private sector by 10.65 per cent. In contrast year-on-year growth of credit extended to the private sector was 5.65 per cent. in 2010 and 0.4 per cent. in 2009 *(SAMA monthly statistical bulletin, December 2011*).

In this more favourable environment, BSF announced net income of SR 2,910.9 million for the year ended 31 December 2011, an increase of 3.9 per cent. compared to SR 2,801 million for the year ended 31 December 2010. The Bank's net special commission income was SR 3,137 million for the year ended 31 December 2011, an increase of 2.3 per cent. compared to net special commission income of SR 3,066 million for the year ended 31 December 2010. Total operating income for the year ended 31 December in 2011 was SR 4,585 million, an increase of 4.3 per cent. compared to SR 4,395 million for the year ended 31 December in 2010, while total operating expenses were SR 1,657 million for the year ended 31 December in 2011 an increase of 3.7 per cent. from SR 1,598 million for the year ended 31 December 2010.

Growth in operating income and net profit has not been commensurate with the 14.01 per cent. growth in total assets due to the very low interest rate environment within Saudi Arabia, in which interest rates have continued to decrease to below 2010 levels.

The Bank is highly liquid, with a loan to deposit ratio (defined by SAMA as the ratio of total customers' loans to the sum of total customers' deposits and long term stable funding sources) of 80.85 per cent. However, income from its structural excess of cash and working capital has been impacted by the unprecedented low level of interest rates across all maturities.

In a market which was challenging with unprecedented low interest rates, despite positive macro economic indicators, BSF managed to grow its total assets by 14.01 per cent. over the year to SR140,479.958 million as at 31 December 2011. It is of particular note that the Bank's retail loan book (credit cards and consumer loans combined) increased by 32.94 per cent. while corporate net loans grew by 12.98 per cent. in the same period.

On the risk side, notwithstanding a significant increase in the Bank's loans book, the non performing loan to total loan ratio decreased from 1.23 per cent. as at 31 December 2010 to 1.20 per cent. as at 31 December 2011. The management of the Bank has decided to reduce the total provisions to total non performing loan ratio from 147 per cent. to 136 per cent. which the Bank's management still considers to be a sound coverage ratio.

Critical Accounting Policies

Certain accounting policies for the Bank's business involve management estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and the disclosure of contingencies. The most important of these accounting policies are discussed below. For more information on the Bank's accounting policies and the use of estimates in the preparation of the Financial Statements, see Note 2 to the 2011 Financial Statements.

Classification of Investments

BSF's management decides on the categorisation of its investments at the time of their acquisition. Trading investments (being those acquired primarily for the purpose of making a short-term profit) and non-trading investments classified at fair value through the income statement are recorded in the accounts at cost and periodically marked to market with any gains and losses arising on such revaluation being recorded as profit or loss in the income statement. Particularly at times of stock market volatility, this classification can have a material effect on the Bank's investment income.

Impairment of Investments

A financial asset is classified as impaired when there is any 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 an 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 recognised for changes in its carrying amounts.

Impairment of Loans and Advances

All loans and advances are stated at cost, as adjusted for effective hedges, and net of interest in suspense, any amounts written off and any provision for impairment. 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 judgments 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.

The amount of this provision is based on the historical loss pattern for such loans and advances and is adjusted to reflect current economic conditions.

Balance Sheet

The table below shows the Bank's balance sheet as at 31 December 2009, 2010 and 2011.

SR' 000	31 December 2009	31 December 2010	31 December 2011	% Var 2011 / 2010
ASSETS				
Cash and balances with SAMA	12,630,968	10,864,136	**18,115,582**	66.75%
Due from banks and other financial institutions	7,110,607	5,191,617	**7,009,260**	35.01%
Investments, net	17,481,226	19,840,715	**16,669,277**	(15.98)%
Loans and advances, net	78,315,196	80,976,587	**92,325,042**	14.01%
Investment in associates	144,344	185,628	**170,789**	(7.99)%
Property and equipment, net	606,185	586,304	**580,993**	(0.91)%
Other assets	4,283,912	5,573,343	**5,609,015**	0.64%
Total assets	**120,572,438**	**123,218,330**	**140,479,958**	**14.01%**
LIABILITIES AND EQUITY				
Liabilities				
Due to banks and other financial institutions	4,831,799	2,312,906	**2,063,748**	(10.77)%
Customers' deposits	91,237,118	93,529,251	**109,963,411**	17.57%
Other liabilities	4,946,231	4,459,350	**4,567,903**	2.43%
Term loans		2,465,756	**1,766,850**	(28.34)%
Debt Securities	3,805,510	2,428,019	**2,462,719**	1.43%
Total liabilities	**104,820,658**	**105,195,282**	**120,824,631**	**14.86%**
Equity attributable to the equity holders of the Bank				
Share capital	7,232,143	7,232,143	**7,232,143**	0.00%
Statutory reserve	5,371,849	6,072,101	**6,799,837**	11.98%
General reserve	982,857	982,857	**982,857**	0.00%
Other reserves	286,991	746,972	**876,023**	17.28%
Retained earnings	868,833	2,169,588	**3,764,467**	73.51%
Proposed dividend	990,000	800,000		(100.0)%
Total equity attributable to the equity holders of the Bank	**15,732,673**	**18,003,661**	**19,655,327**	**9.17%**
Non controlling interest	19,107	19,387	**0**	(100.00)%
Total equity	**15,751,780**	**18,023,048**	**19,655,327**	**9.05%**
Total liabilities and equity	**120,572,438**	**123,218,330**	**140,479,958**	**14.01%**

Assets

As at 31 December 2011, the Bank's total assets were SR 140,479.96 million, which represents an increase of SR 17,261.63 million (14.01 per cent.) from SR 123,218.33 million as at 31 December 2010. This was mainly due to a significant increase of SR 11,348.46 million in total net loans and advances and an increase of SR 7,251.45 million in cash and balances at SAMA and the increase in customer deposits during the year.

Cash Position

Cash and cash balances with SAMA have increased from SR 10,864.14 million as at 31 December 2010 to SR 18,115.58 million as at 31 December 2011 as the proceeds of matured instruments have been deposited with SAMA and invested in money market instruments (as outlined in the table below) in order to minimise credit risk.

SAMA's regulation on asset ratio requires that 20 per cent. of customers' deposits be invested in Saudi government bonds and/or placed in short term deposits (less than or equal to 30 days) on the interbank market or with SAMA. As long term Saudi government bonds are no longer issued, the Bank's only option is to deposit cash in short term deposits on the interbank market or with SAMA.

The table below shows the change in the cash and the interbank positions as at 31 December 2009, 2010 and 2011:

SR'000	31 December 2009	31 December 2010	% Var 2010/2009	31 December 2011	% Var 2011/2010
Cash and balances with SAMA	12,630,968	10,864,136	(13.99)%	18,115,582	66.75%
Due from banks and other financial institutions	7,110,607	5,191,617	(26.99)%	7,009,260	35.01%

In the year ended 31 December 2011, the Bank reinforced its liquidity position and stock of liquid assets with short term placements at SAMA which increased by SR 7,251.45 million due to increased customer deposits and related reserve requirements, matured bonds (see below) and management of its liquid asset ratio in accordance with SAMA rules. Interbank placements increased by SR 1,817.64 million from SR 5,191.62 million as at 31 December 2010 to SR 7,009.26 million as at 31 December 2011.

The table below shows the Bank's Net Interbank Position as at 31 December 2009, 2010 and 2011:

SR'000	31 December 2009	31 December 2010	% Var 2010/2009	31 December 2011	% Var 2011/2010
			2010/2009		**2011/2010**
Due from banks and other financial institutions	7,110,607	5,191,617	(26.99)%	7,009,260	35.01%
Due to banks and other financial institutions	4,831,799	2,312,906	(52.13)%	2,063,748	(10.77)%
Net Interbank Position	2,278,808	2,878,711	26.33%	4,945,512	71.80%

As at 31 December 2010, the Bank was a net lender of SR 2,878.71 million on the short term interbank market while as at 31 December 2011, its net interbank lending increased to SR 4,945.51 million.

Investments

The Bank maintains an investment portfolio for its own account consisting of fixed income instruments, the purpose of which is two-fold:

- to cater for the Bank's liquidity risk management, ensuring a cushion of assets that the Bank can liquidate easily (either by sale or repurchase agreement) in case of a sudden withdrawal of deposits; and
- to reduce the interest rate mismatch between assets and liabilities.

The Bank maintains a portfolio of investments of high credit quality. The Bank's policy continues to maintain only exposures rated BBB and above (or the equivalent) and the Bank has had no direct or indirect exposure to collateralised debt obligations, structured investment vehicles and other sub-prime related issues. Investment grade investments include investments having credit exposure equivalent to S&P's rating of AAA to BBB. Unrated investments (SR 4,628.55 million as at 31 December 2010 and SR 4,343.76 million as at 31 December 2011) include local equities, foreign equities, Musharakah and Mudarabah.

The Bank's portfolio of investments comprises mainly fixed rate securities (as at 31 December 2011, Saudi government bonds (which comprise Saudi government development bonds, treasury bills and floating rate notes) represented SR 9,237.12 million out of a total of SR 16,669.28 million of net investments). Counterparties are mostly government and quasi-government entities, representing SR 10,304.59 million out of a total of SR 16,669.27 million of net investments as at 31 December 2011.

The table below provides a breakdown of the Bank's investment portfolio as at 31 December 2009, 2010 and 2011:

SR '000	As at 31 December 2009	As at 31 December 2010	As at 31 December 2011
Held as Fair Value through Income Statement (**FVIS**)	759,814	1,271,058	493,103
Available for sale (**AFS**)	5,423,563	6,721,503	6,693,617
Held to maturity	2,542,593	1,423,179	1,020,483
Other investments held at amortised cost	8,755,256	10,424,975	8,462,074
Total investments, net	**17,481,226**	**19,840,715**	**16,669,277**

As at 31 December 2011, available for sale (**AFS**) investments included Islamic securities (sukuk) of SR 952 million. Other AFS investments include Mudarabah investments of SR 4 million as at 31 December 2011, which are hedged and measured at fair value to the extent of the risk hedged. AFS also includes the equity portfolio of SR 802,636 million as at 31 December 2011 compared to SR 971,312 million as at 31 December 2010, consisting mainly of investments in quoted shares resulting from the past settlement of impaired loan, the decrease being due to the marked to market value, there having been no sales during the period. The marked to market value of the equity portfolio is posted through to equity, under the AFS classification.

The liquidity crisis at the end of 2007 triggered a change in the Bank's ALM Policy (see "*Risk Management*") and the Bank has had to explore new ways to manage its interest mismatch in order to protect liquidity without exposing itself to credit risk. From mid 2008, as a consequence of the Government of Saudi Arabia stopping issuing long term bonds, excess cash and working capital has been placed in money market deposits and transformed into long term assets (matching the average duration of liabilities) through interest rate swaps.

The table below shows the composition of the Bank's investment portfolio as at 31 December 2009, 2010 and 2011.

SR'000	31 December 2009	31 December 2010	31 December 2011	% Var 2011/2010
Saudi Govt Bonds and Treasury Bills	11,456,608	12,675,524	9,237,119	(27.13)%
Other Sovereign Bonds	265,094	55,068	430,560	681.86%
Bonds/Sukuk	1,950,872	2,498,701	2,857,001	14.34%
Others (incl. Equity)	706,273	978,417	802,636	(17.97)%
Total Securities	**14,378,846**	**16,207,711**	**13,327,316**	**(17.77)%**
Musharakah and Mudarabah	3,102,380	3,633,004	3,341,961	(8.01)%
Total Investments	**17,481,226**	**19,840,715**	**16,669,277**	**(15.98)%**

As at 31 December 2011, the proprietary investment portfolio was SR 16,669.227 million comprised of Saudi government bonds and treasury bills (55.41 per cent. of total investments) and corporate bonds, with a rating of BBB or higher.

For the year ended 31 December 2011, the Bank's investment portfolio showed a decrease in total investments of 16.0 per cent. (SR 3.171.4 million). The Saudi Government bonds and treasury bill portfolio decreased by SR 3,438.40 million of which SR 1,264.2 million was due to long term Saudi Government bonds maturing. Saudi Government treasury bills, totalling SR 10,150.5 million had matured as at 31 December 2010 and were replaced by SR 7,976.4 million of Saudi Government treasury bills as at 31 December 2011, a decrease of SR 2,174.1 million.

The increase in other sovereign bonds is the result of French Government treasury bills and quasi French Government bonds that the Bank acquired in December 2011, the entirety of which were sold back to the French Government in January 2012.

The Bank's total exposure to European entities amounted to SR 504.4 millions (3.03 per cent. of the portfolio) as at 31 December 2011. As at the end of January 2012, after the sale of the French bonds, the Bank's European exposure represents only 0.58 per cent. of the portfolio.

The increase in the bond/sukuk portfolio was driven by the acquisition of sukuk issued in Saudi Arabia by large well known Saudi corporates.

No default occurred in respect of assets in the investment portfolio during the year to 31 December 2011 and all expected amounts were received in full and when due. No bonds or sukuk issued by a Dubai resident issuer were purchased in the year to 31 December 2011.

The change in the equity portfolio value was due to the marked to market value as no investment was made in shares nor was any investment in unlisted companies undertaken.

As at 31 December 2011, 69.3 per cent. of the Bank's investment portfolio (excluding Musharkah and Mudarabah) consisted of Saudi Government bonds. Other sovereign risks represented 3.23 per cent. of the portfolio. As at 31 December 2011, the French treasury bills which were sold back in January 2012 represented 2.89 per cent. of total investments. Other sovereign risks as at 31 December 2011 consisted of State of Qatar (SR equivalent of 26.6 million) and Emirate of Abu Dhabi (SR equivalent of 19.2 million).

The Bank's bond portfolio is highly liquid as all Saudi Government instruments are capable of being subject to repurchase agreements and the quality of the bond portfolio ensures proper marketability of the investment in the portfolio.

Loans and Advances, net

Total portfolio

The Bank's total loans and advances portfolio (net of provisions) increased 14.01 per cent. by 11,348.455 million from SR 80,976.587 million as at 31 December 2010, to SR 92,325.042 million as at 31 December 2011.

The following table sets out the Bank's loan portfolio as at 31 December 2009, 2010 and 2011:

SR'000	31 December 2009	31 December 2010	% Var 2010/2009	31 December 2011	% Var 2011/2010
Performing Loans	78,583,333	81,453,649	3.65%	92,735,722	**13.85%**
Non Performing Loans	1,008,148	1,015,855	0.76%	1,128,050	11.04%
Total Loans (Gross)	**79,591,481**	**82,469,504**	**3.62%**	**93,863,772**	**13.82%**
Allowance for impairment	(1,276,285)	(1,492,917)	16.97%	(1,538,730)	3.07%
Loans and Advances net	**78,315,196**	**80,976,587**	**3.40%**	**92,325,042**	**14.01%**
Provisions to Total Non Performing Loans ratio[1]	**126.60%**	**146.96%**	20.36%	**136.41%**	(10.56)%
Non Performing Loans to Total Loans ratio[2]	**1.27%**	**1.23%**	-0.04%	**1.20%**	(0.03)%

Total loans and advances (net of provisions) grew 14.01 per cent. in the year to 31 December 2011 compared to growth of 3.40 per cent. in the year to 31 December 2010. This reflects slow business in the corporate sector as a result of general weakness in the global economy throughout the years 2009 and 2010 as illustrated by the table below, which shows a breakdown of the Bank's credit card and consumer loans and overdraft and commercial loans as at 31 December 2009, 2010 and 2011.

1 The movement in allowance for impairments provided during the financial year (see note 7 to the 2011 Financial Statements) divided by the amount of Non Performing Loans in that financial year.

2 The amount of Non Performing Loans divided by the sum of Performing Loans and Non Performing Loans (Total Loans).

Loans and advances, net SR ’000	Credit Cards & Consumers loans	Overdraft & Commercial loans	Other Loans[1]	Total (on Balance Sheet)
as at 31 December 2009	6,026,065	67,198,699	5,090,432	78,315,196
as at 31 December 2010	7,821,933	66,745,642	6,409,012	80,976,587
as at 31 December 2011	10,398,751	75,408,090	6,518,201	92,325,042
% Var 2010/2009	29.80%	(0.67)%	25.90%	3.40%
% Var 2011/2010	32.94%	12.98%	1.70%	14.01%

Note:
(1) Primarily loans made by the Bank’s Wealth Management division.

The increase in performing loans has come primarily from growth in loans in the Corporate Banking segment where commercial loans increased by SR 8,662.45 million in the year ended 31 December 2011 compared to a decrease of SR 453.06 million in the year ended 31 December 2010. The Bank’s Retail segment (credit cards and consumer loans combined) continued to grow at a significant rate, increasing by SR 2,576.82 million to SR 10,398.76 million as at 31 December 2011 from SR 7,821.93 million as at 31 December 2010, an increase of SR 1,795.87 million from SR 6,026.07 million as at 31 December 2009, the result of on-going marketing efforts, a wider range of products and improved turn around times and responsiveness by BSF.

While performing loans increased by SR 11,389.67 million to SR 92,735.72 million as at 31 December 2011, an increase of 14.00 per cent. compared to the year ended 31 December 2010, non-performing loans increased by SR 112.20 million or 11.04 per cent. to SR 1,128.05 million from SR 1,015.86 million as at 31 December 2010. This resulted in the total non-performing loans to total loan ratio reducing from 1.23 per cent. as at 31 December 2010 to 1.20 per cent. as at 31 December 2011, as the performing loans and advances increased at a faster pace than non-performing loans.

In the same period, the Bank increased its provisions for loan losses by SR 45.81 million and hence ensured that it maintained a high total provisions to total non-performing loans ratio of 136.41 per cent. as at 31 December 2011, albeit representing a small reduction from the 146.96 per cent. ratio as at 31 December 2010. *See note 7 to the 2011 Financial Statements which provides a breakdown of these provisions by line of products and note 30(a) which provides a breakdown of these provisions by business lines.*

It is to be noted, as shown in note (6)(e) to the 2011 Financial Statements, that total funded facilities is calculated by taking into account the loans and advances portfolio, as reported above, together with the Islamic investments (Musharakahs/Muradabas which are fully collateralised loans) reported in the Investment Category. In total, funded facilities increased during 2011 by SR 11,057.5 million, from SR 84,609.6 million as at 31 December 2010 to SR 95,667.04 as at 31 December 2011.

Distribution of Loans by Sector

The following table provides a breakdown of the Bank's total loan and advances portfolio by sector as at 31 December 2009, 2010 and 2011:

SR '000	As at 31 December 2009	% of total	As at 31 December 2010	% of total	As at 31 December 2011	% of total
Manufacturing	10,410,422.00	13.29%	9,627,077.00	11.89%	15,772,337.00	17.08%
Commerce	17,289,166.00	22.08%	18,095,449.00	22.35%	14,439,829.00	15.64%
Others	16,885,787.00	21.56%	14,744,767.00	18.21%	13,840,521.00	14.99%
Services	6,114,099.00	7.80%	6,200,111.00	7.66%	9,278,886.00	10.05%
Consumer loans and credit cards	6,026,065.00	7.69%	7,821,933.00	9.66%	9,274,680.00	10.05%
Building and construction	7,120,265.00	9.09%	7,574,569.00	9.35%	9,058,791.00	9.81%
Transportation and communication	6,413,539.00	8.19%	7,299,430.00	9.01%	7,245,448.00	7.85%
Electricity, water, gas and health services	2,341,009.00	2.99%	2,824,648.00	3.49%	5,485,043.00	5.94%
Government and quasi government	1,273,814.00	1.63%	1,899,714.00	2.35%	2,679,776.00	2.90%
Agriculture and fishing	2,278,490.00	2.91%	2,674,591.00	3.30%	2,385,141.00	2.58%
Mining and quarrying	1,411,722.00	1.80%	1,475,648.00	1.82%	1,729,049.00	1.87%
Banks and other financial institutions	750,818.00	0.97%	738,650.00	0.91%	1,135,541.00	1.23%
Total (Net of Provisions)	**78,315,196.00**	**100.00%**	**80,976,587.00**	**100.00%**	**92,325,042.00**	**100.00%**

As shown in the table above, the Bank's lending activity has predominantly been in the Commerce Sector (15.64 per cent. as at 31 December 2011 and 22.35 per cent. as at 31 December 2010) which reflects the development of the Saudi Economy. The second largest industry sector contributing to the Bank's loan portfolio of is "Manufacturing" which groups all companies primarily involved in the oil and hydrocarbon sector and accounted for 17.08 per cent. as at 31 December 2011 and 11.89 per cent. as at 31 December 2010. Other Category groups include wealth management loans, consumer loans, and minor industry sectors.

Loans and advances (net), by Geographical distribution

The table below shows the geographical distribution of the Bank's loans and advances (net) as at 31 December 2009, 2010 and 2011.

SR '000	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	Other Countries	Total
2009	74,217,808.00	1,609,642.00	2,188,548.00	252,262.00	46,936.00	78,315,196.00
2010	77,980,557.00	1 737 178.00	1,011,420.00	36,167.00	211,265.00	80,976,587.00
2011	89,920,884.00	1 447 045.00	733,677.00	31,275.00	192,161.00	92,325,042.00

The table below shows the geographical distribution of the Bank's loans and advances by percentage as at 31 December 2009, 2010 and 2011.

	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	Other Countries	Total
2009	94.77%	2.06%	2.79%	0.32%	0.06%	100.00%
2010	96.30%	2.15%	1.25%	0.04%	0.26%	100.00%
2011	97.40%	1.57%	0.79%	0.03%	0.21%	100.00%

As illustrated by the two tables above, BSF's business is predominantly in Saudi Arabia. Being a large corporate bank, its strategy is to continue expanding in Saudi Arabia, particularly through increasing its project finance business. This is why less than 3 per cent. of the total loans and advances portfolio was exposed to borrowers outside the Kingdom in the year ended 31 December 2011.

Exposure to European entities accounted for 2.79 per cent. of the total loans and advances portfolio as at 31 December 2009 and has been reduced to 0.79 per cent. as at 31 December 2011. As a result, the Bank has not been directly impacted by the economic crisis that has been developing since 2009 in Europe.

The Bank's Credit Committee has decided that no provisions were required in respect of European risks in the year ended 31 December 2011, but continues to actively monitor the situation.

The Bank systematically hedges its foreign currency risks on its European assets.

Islamic Loans

The Bank's loan and advances portfolio contains a high proportion of Islamic products. Islamic loans and advances have seen a significant increase in the last three years, from SR 30,468 million 39 per cent. of loans and advances net as at 31 December 2009 to SR 33,248 million 41 per cent. of loans and advances, net as at 31 December 2010 to SR 44,724 million 48 per cent. of loans and advances, net as at 31 December 2011.

Classification Process for Non Performing Loans

The Bank's asset classification policy reflects SAMA's directives. Broadly it applies 90-180-360 day triggers with provisioning requirements of a minimum of 25 per cent., 50 per cent. and 100 per cent. respectively. The Bank's provisioning policy for consumer credit loans is more conservative, with 100 per cent. provisioning after 180 days of past due.

The Bank's internal grading system for corporate loans, adopted from CA-CIB, is a 14-grade system. Non-performing Loans (**NPLs**) are recorded in three categories (standard, doubtful, loss) and three corresponding codes (F, Y and Z), depending on the number of days the debt has been overdue.

The following table shows the Bank's credit quality of loans and advances neither past due nor impaired as at 31 December 2011:

	2011				
SR '000	**Commercial loans & overdrafts**	**Credit Cards**	**Consumer Loans**	**Others**	**Total**
Very strong quality including sovereign (A+toB)	23,592,980	6,375	4,370	2,060,571	25,664,296
Good quality (C+toC)	22,298,259	8,222	378,133	2,260,132	29,944,746
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**

Apart from Retail Banking loans, where loans are written off after 360 days of past due, the Bank writes off its doubtful loans only when all means of recovery have been exhausted. Such write-offs amounted to SR 112 million as at 31 December 2011, compared to SR 123 million as at 31 December 2010.

The table below shows the distribution by geographical concentration of non-performing loans and advances and impairment for credit losses for the years ended 31 December 2010 and 2011:

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

The table below shows the movement of allowance for impairment of investments and other receivables as at 31 December 2009, 2010 and 2011.

SR '000	**31 December 2009**	**31 December 2010**	**31 December 2011**
Balance at the beginning of the year	410,000	477,000	477,000
Provided during the year	67,000	—	—
Balance at the end of the year	**477,000**	**477,000**	**477,000**

Cost of Risk

The cost of risk is calculated as the ratio between total net specific credit provisions for a year and average funded credit facilities (on the basis of the total loan portfolio) during the period.

During the period 31 December 2009 to 31 December 2011, the Bank's average cost of risk was 0.44 per cent., which reflects the Bank's stringent risk controls, the quality of its credit approval and monitoring process and the favourable economic environment in Saudi Arabia. During that period, provisions were mostly allocated to consumer finance exposure.

As at 31 December 2011, the Bank's cost of risk ratio (the ratio of newly created provisions, as disclosed in the line item "Impairment charge for credit losses (net)", to the average gross loan portfolio) was 0.18 per cent. (SR 157.9 million newly created provisions / SR 88,17 billion average total loans and advances portfolio), compared to 0.42 per cent. for the year ended 31 December 2010. This reduction reflects the improvement in the credit quality of assets in the Corporate segment. While the Bank's Retail Banking assets grew substantially in the year to 31 December 2011, its cost of Risk (Credit Cards and consumer loans) in the Retail Banking segment has been contained at 0.92 per cent. as at 31 December 2011, compared to 0.49 per cent. as at 31 December 2010. *See note 7(a)(i)(i) to the 2011 Financial Statements.*

Although the Bank expects a small increase in its cost of risk in the year to 31 December 2012 in line with projected growth in its retail banking volumes of assets, it does not expect this cost of risk to be material compared to its current level.

The following table shows provisions for credit risk and the cost of risk as at 31 December 2009, 2010 and 2011:

	31 December 2009	**31 December 2010**	**31 December 2011**
Gross loan portfolio as at year end (SR'000)	79,591,481	82,469,504	93,863,772
Average gross loan portfolio (SR'000)	80,652,850	81,030,493	88,166,638
Provisions set up for credit risk (SR'000)	574,621	339,344	157,908
Cost of risk (provisions/average gross loan portfolio) (%)	0.71%	0.42%	0.18%

Coverage Ratio

The coverage ratio is the percentage of coverage of net funded NPLs by total credit provisions (specific and collective). As at 31 December 2011, the ratio was 136.4 per cent., well above the minimum 100 per cent. required by the Central Bank of Saudi Arabia, compared to 147.0 per cent. as at 31 December 2010.

Liabilities

Deposits

The Bank's funding remains well diversified through its pool of customers from its different lines of businesses. In order to mitigate liquidity risk on the liability side, the Bank maintains an investment portfolio, the liquidity of which could counterbalance a sudden withdrawal of up to 15 per cent. of its deposits (which the Bank believes to be a worst case scenario, since, even during the first Gulf War, only 6 per cent. of the Bank's deposits were withdrawn within a month).

Total customers' deposits increased by 17.57 per cent. to SR 109,963.411 million as at 31 December 2011 from SR 93,529.251 million as at 31 December 2010.

Non-interest bearing deposits (demand deposit accounts and other deposits) increased during the year ended 31 December 2011 by 19.55 per cent. to SR 55,499.52 million from SR 46,425.26 million as at 31 December 2010 as a result of concentrated marketing efforts by the Bank's business lines through its expanded network of branches. The Bank has primarily used this increase in non interest bearing deposits to enhance its liquidity position.

Interest bearing deposits (saving and time deposits) increased by 15.62 per cent. during the year ended 31 December 2011 to SR 54,463.893 million from SR 47,103.993 million as at 31 December 2010. This was driven by the strong increase in loans and related need to offset the interest rate risk in the corporate loans segment as these loans are generally floating rate.

The table below shows total customers' deposits as at 31 December 2009, 2010 and 2011:

SR'000	31 December 2009	31 December 2010	% Var 2010/2009	31 December 2011	% Var 2011/2010
Non Interest Bearing Deposits	35,803,557	46,425,258	**29.67%**	55,499,518	19.55%
Interest Bearing Deposits	55,433,561	47,103,993	**17.68%**	54,463,893	15.62%
Total Customers' deposits	**91,237,118**	**93,529,251**	**2.45%**	**109,963,411**	**17.57%**
Non Interest Bearing Deposits as a % of total customers' deposits	**39.24%**	**49.64%**	**(26.50%)**	**50.47%**	**0.83%**

The ratio of non interest bearing deposits to total deposits improved during the year to 50.47 per cent. as at 31 December 2011 from 49.64 per cent. as at 31 December 2010. This improvement was due to promotion of BSF's banking services in all business lines – *see "Description of BSF – Strategy"*.

As per the Bank's assets and liabilities statistical model, the average duration of non-interest bearing deposits (which are categorised as demand deposits) is five years with a stability coefficient of 90.00 per cent. This stability coefficient is computed every quarter (under the ALM policy of the Bank) and validated by CA-CIB's ALM department. This coefficient has been at this level for the last 25 years and tested through the worst conditions, such as the two Gulf wars and the oil crisis at the end of the 1990s.

Loan to Funding Sources (including Deposits) Ratio

Throughout the year ended 31 December 2011, BSF maintained a loan to deposit ratio (defined by SAMA as the ratio of total customers' loans to the sum of total customers' deposits and long term stable funding sources.) below 85.00 per cent. As at 31 December 2011, the ratio was 80.85 per cent., compared to 82.27 per cent. as at 31 December 2010 and 81.40 per cent. as at 31 December 2009.

The table below shows the ratio of loans to total funding sources for each of the years ended 31 December 2007, 2008, 2009, 2010 and 2011 and demonstrates that the loan to deposit ratio has been managed in order to ensure a sound liquidity profile:

SR'000	31 December 2007	31 December 2008	31 December 2009	31 December 2010	31 December 2011
Loans and advances, net (SR'000)	59,849,952	80,866,475	78,315,196	80,976,587	92,325,042
Customers' deposits (SR'000)	74,007,251	92,791,281	91,237,118	93,529,251	109,963,411
Term loan (SR'000)	2,437,500	4,927,200	4,946,231	2,465,756	1,766,850
Debt Securities	—	—	—	2,428,019	2,462,719
Loans to total funding sources (%)	78.29%	82.75%	81.42%	82.27%	80.85%

The level of concentration of deposits has not changed significantly since 2009 with the 20 largest depositors representing 32.50 per cent. of total deposits as at 31 December 2011. The level of stability of these deposits is extremely high with an average stability ratio of 90.00 per cent. over the last 5 years. These 20 depositors are large Saudi Corporates and financial institutions, the two largest being a Government-owned industrial company and a Government-related financial institution. These deposits are from large companies most of whom have been banking with BSF since their incorporation reflecting the predominantly corporate banking focus of BSF.

Medium Term Borrowings

Syndicated Loans

The Bank took active steps in 2008 to improve its long term liquidity profile in US dollars and Euro. The Bank entered into a five year term bilateral term loan on 25 June 2008 for Euro 100 million (which is repayable in 2013) for general banking purposes. In addition, the Bank entered into a further term loan on 22 September 2008 for USD 525 million (which comprises a three year tranche (USD 183 million) which was repaid in full in September 2011 and a five year tranche (USD 342 million)) for general banking purposes.

All facilities have been drawn down in full and the Bank has an option to repay each of these loans before their maturity subject to the terms and conditions of the respective agreements.

Debt Securities

On 30 March 2010, the Bank issued USD 650 million 4.25 per cent. Notes due 2015, its first US dollar bond issue in the international capital markets under its USD 2,000,000,000 MTN Programme.

The following table shows the sources of the Bank's funding as at 31 December 2009, 2010 and 2011:

SR'000	As at 31 December 2009	As at 31 December 2010	As at 31 December 2011
Due to banks and other financial institutions	4,831,799	2,312,906	2,063,748
Customers' deposits	91,237,118	93,529,251	109,963,411
Term Loans	4,946,231	2,465,756	1,766,850
Debt Securities	—	2,428,019	2,462,719
Other liabilities	3,805,510	4,459,350	4,567,903
Total liabilities	**104,820,658**	**105,195,282**	**120,824,631**
Share capital	7,232,143	7,232,143	7,232,143
Statutory reserve	5,371,849	6,072,101	6,799,837
General reserves	982,857	982,857	982,857
Other reserves	286,991	746,972	876,023
Retained earnings	868,833	2,169,588	3,764,467
Proposed dividend	990,000	800,000	—
Minority interest			
Total equity	**15,732,673**	**18,003,661**	**19,655,327**

Equity

Since the year ended 31 December 2009, the paid-up share capital of the Bank has been maintained at SR 7,232.143 million. Following the April 2009 annual general meeting, the Bank's shareholders approved payment of the 2008 dividend in shares and cash to increase the paid-up capital from SR 5,625 million to SR 7,232.143 million.

In December 2011, the Board of Directors recommended a further increase in the paid-up capital of the Bank from SR 7,232.143 million to SR 9,040.200 million through payment of the 2011 dividend in shares. This increase was approved at the Extraordinary General Assembly of Shareholders held on 7 April 2012, involved issuing one new share for each four existing shares and was funded from the retained earnings accumulated as at 31 December 2011.

The Bank paid an interim net cash dividend of SR 0.70 per share in June 2011 amounting to SR 542.94 million in total.

Total equity increased from SR 18,003.661 million as at 31 December 2010 to SR 19,655.327 million as at 31 December 2011 (an increase of 9.17 per cent.). Total equity has been impacted by the Bank's net income for the 12 month period ended 31 December 2009 (SR 2,910.942 million), the 2010 final cash dividend (SR 800.000 million), the 2011 interim cash dividend (SR 542.94 million), the final Zakat charge (SR 45.414 million) and the change in the marked to market value of instruments held as available for sale and cashflow hedges (SR 129.051 million) for the year ended 31 December 2011.

Capital Adequacy

The Bank maintains an actively managed capital base to cover risks inherent in its business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("Basel II Capital accord") which has been adopted by the Bank's regulator, SAMA. These ratios measure capital adequacy by comparing the Bank's eligible capital with its balance sheet assets, commitments and notional amount of derivatives at a weighted amount to reflect their relative risk. SAMA requires holding a minimum level of regulatory capital and maintaining a ratio of total regulatory capital to the risk-weighted assets (**RWA**) at or above the agreed minimum of 8 per cent.

The combined effect of the 14.01 per cent. increase in the Bank's total assets from 31 December 2010 to 31 December 2011, and in particular the increase in the Bank's loan book (see "*Key ratios and key indicators*" above) albeit with a reduction in the investment portfolio and the 9.17 per cent. increase in the equity base of the Bank, has led to a slight reduction in the Bank's capital adequacy ratios, which nevertheless remain above the international norm of 8 per cent. (*source: Basel II requirement*).

The table below shows the Bank's capital adequacy ratios as at 31 December 2009, 2010 and 2011:

	31 December 2009	31 December 2010	31 December 2011
Tier 1 Capital Adequacy	13.13%	14.18%	13.95%
Total Capital Adequacy	13.72%	14.73%	14.52%

The Bank calculates its risk asset ratio in accordance with the capital adequacy guidelines set out in the Basel II Accord. The Bank has adopted the standardised approach for all its books and intends to migrate to the Internal Rating Based method by the end of 2014. The Bank implemented the new Basel II method for computing its capital adequacy ratio on 1 January 2008.

Results of Operations for the year ended 31 December 2011

Income Statement

The following table sets out the Bank's income statements for the years ended 31 December 2009, 2010 and 2011:

SR '000	31 December 2009	31 December 2010	31 December 2011
Special commission income	4,089,324	3,537,058	**3,631,299**
Special commission expense	1,039,035	471,201	**494,228**
Net special commission income	3,050,289	3,065,857	**3,137,071**
Fee and commission income, net	840,254	887,043	**1,050,052**
Exchange income, net	186,095	200,409	**220,708**
Trading income, net	209,746	202,007	**132,676**
Dividend income	363	17,472	**14,244**
Gains on non trading investments, net	(1,894)	2,349	**0**
Other operating income	10,054	20,092	**30,023**
Total operating income	**4,294,907**	**4,395,229**	**4,584,774**
Salaries and employee related expenses	642,589	708,633	**828,111**
Rent and premises related expenses	90,735	105,563	**120,678**
Depreciation and amortization	113,981	126,241	**130,257**
Other general and administrative expenses	300,699	311,489	**393,337**
Other operating expenses	10,038	6,630	**27,193**
Total operating expenses	**1,158,042**	**1,258,556**	**1,499,576**
Income from operating activities	**3,136,865**	**3,136,673**	**3,085,198**
Impairment charge for credit losses, net	(574,621)	(339,344)	**(157,908)**
Impairment charge for other financial assets	(67,000)		
Share in (losses) / earnings of associates, net	(27,439)	3,958	**(16,348)**
Net income	**2,467,805**	**2,801,287**	**2,910,942**

Overview

The Bank's total operating income for the year ended 31 December 2011 increased by 4.31 per cent. to SR 4,584.774 million compared to SR 4,395.229 million for the year ended 31 December 2010.

The proportion of the total revenue of the Bank derived from non-interest income increased from 30.25 per cent. as at 31 December 2010 to 31.58 per cent. as at 31 December 2011, contributing to an increase in total operating income of 4.31 per cent. in the year to 31 December 2011. Net interest income grew by 2.3 per cent. from 31 December 2010 to 31 December 2011, having been affected by unprecedented low interest rates – see "*Significant Factors Affecting Results of Operations*".

The Bank has also been impacted by one-off expenses, including the special bonus equivalent to two months of salary that the Bank granted to each member of staff at the end of the first quarter of 2011, following the example set by the King of Saudi Arabia, who granted a salary increase of 15 per cent. to government sector employees (*source: Arab News 24 June 2011*). Total operating expenses increased by 19.15 per cent. in the year ended 31 December 2011 compared to the year ended 31 December 2010. The cost to income ratio has increased from 28.63 per cent. as at 31 December 2010 to 32.71 per cent. as at 31 December 2011.

The improvement in asset quality was driven by the reduction of the cost of risk as a result of improved economic conditions, since new provisions (specific and collective) were reduced by 53.47 per cent. from SR 339.344 million as at 31 December 2010 to SR 157.908 million as at 31 December 2011.

Revenues and expenses

The following table shows the Bank's interest income and non-interest income as well as expenses for the years to 31 December 2009, 2010 and 2011:

SR'000	12 months ended 31 December 2009	12 months ended 31 December 2010	12 months ended 31 December 2011	% Var 31 December 2011/31 December 2010	% Var 31 December 2011/ 31 December 2009
Net Interest Income	3,050,289	3,065,857	3,137,071	2.32%	2.85%
Non Interest Income	1,244,618	1,329,372	1,447,703	8.90%	16.32%
Total Operating Income	**4,294,907**	**4,395,229**	**4,584,774**	**4.31%**	**6.75%**
General Expenses	(1,158,042)	(1,258,556)	(1,499,576)	19.15%	29.49%
Provisions	(641,621)	(339,344)	(157,908)	(53.46)%	(75.39)%
Other income	(27,439)	3,958	(16,348)	(513.04)%	(40.42)%
Net Income for the period	**2,467,805**	**2,801,287**	**2,910,942**	**3.91%**	**17.96%**

Net interest income

Net interest income grew 2.32 per cent. in 2011 from SR 3,065.857 million in the year to 31 December 2010 to SR 3,137.071 million in the 12 months to 31 December 2011 as the result of a combination of:

- higher average volumes of assets and liabilities during 2011 compared to 2010;
- a better funding mix (as discussed in the section "*Liabilities – Deposits*"), whereby non interest bearing deposits increased while interest bearing deposits decreased;
- the impact of interest rate levels:
  - reduced return on the excess of Cash and Working Capital suffered as a result of the significant reduction in long-term interest rates throughout the various maturities as shown in the table below:

	31/12/2009	31/12/2010	31/12/2011
3 month SIBOR	0.7675%	0.7513%	0.7800%
5 Years IRS	3.2900%	2.7200%	2.1000%

(Source: Reuters)

  - total loans and non interest bearing deposits increased by 14.01 per cent. and 19.55 per cent. respectively in the period to 31 December 2011 while net interest revenue increased by 2.66 per cent.;
  - interest expenses were maintained at a low level (SR 494.228 million) in the year to 31 December 2011, an increase of SR 23.027 million compared to the year to 31 December 2010, notwithstanding that the Bank had to fund an additional SR 11,348 million of new loans; and
  - net interest margins decreased from 2.76 per cent. to 2.62 per cent.

Non-interest income

The Bank's non interest related income increased by 8.90 per cent. in the year to 31 December 2011. The following table sets out the fees and commissions generated from activities comprised in non-interest income for each of the three years to 31 December 2011:

SR'000	12 months ended 31 December 2009	12 months ended 31 December 2010	12 months ended 31 December 2011	% Var 31 December 2011 / 31 December 2009	% Var 31 December 2011 / 31 December 2010
Fee and commission income, net	840,254	887,043	1,050,052	24.96%	18.37%
Exchange income, net	186,095	200,409	220,708	18.59%	10.13%
Trading income, net	209,746	202,007	132,676	(36.74)%	(34.32)%
Dividend income	363	17,472	14,244	3823.97%	(18.48)%
Gains (losses) on non trading investments, net	(1,894)	2,349	—	—%	—%
Other operating income	10,054	20,092	30,023	198.62%	49.43%
Total	**1,244,618**	**1,329,372**	**1,447,703**	**16.32%**	**8.90%**

Fee and commission income

Fee and commission income increased by 18.37 per cent. in the year ended 31 December 2011 to SR 1,050.052 million from SR 887.043 million as at 31 December 2010.

Fee and commission income is generated from the management of the following product lines and entities:

- Brokerage and asset management (through Saudi Fransi Capital);
- Trade finance, project finance and advisory;
- Card products; and
- Loans processing fees.

The table below shows a breakdown of the Bank's banking services fees for each of the years ended 31 December 2009, 2010 and 2011.

SR'000	12 months ended 31 December 2009	12 months ended 31 December 2010	12 months ended 31 December 2011	% Var 31 December 2011 / 31 December 2009	% Var 31 December 2011 / 31 December 2010
Share trading – Asset Management.	182,670	133,458	190,180	4.11%	42.50%
Trade finance	258,962	307,063	341,644	31.93%	11.26%
Project finance and advisory	236,187	251,252	256,182	8.46%	1.96%
Card products	46,629	33,091	46,053	(1.24)%	39.17%
Other banking services	115,806	162,179	215,993	86.51%	33.18%
Total fees and commission net income	**840,254**	**887,043**	**1,050,052**	**24.97%**	**18.38%**

The 42.50 per cent. increase in brokerage and asset management income to SR 190.180 million recorded in the year ended 31 December 2011 followed a 26.94 per cent. decrease from SR 182.670 million in the year ended 31 December 2009 to SR 133.458 million in the year ended 31 December 2010. Saudi Fransi Capital has maintained a market share of 9 per cent. (by volume) in the local equity market *(source: Saudi Stock Exchange ("Tadawul") Monthly Statistics*) which has seen its daily turnover improve from the low levels of 2010.

Trade finance increased by 11.26 per cent. to SR 341.644 million in the year ended 31 December 2011 compared to SR 307.063 million for the year ended 31 December 2010, due to the significant contribution of the corporate banking sector, notably medium sized corporates.

Project finance and advisory activities generated 1.96 per cent. additional revenue increasing from SR 251.252 million for the year ended 31 December 2010 to SR 256.182 million for the year ended 31 December 2011. This was a result of the Bank increasing the scope of projects in which it had an advisory role and increase of the number of syndications in which it had an arranger role.

The 33.18 per cent. increase to SR 215.993 million recorded under other banking services in the year ended 31 December 2011 is primarily derived from loan processing fees and penalty fees and is commensurate with the number of credit files implemented by the Bank. This is directly correlated with the 32.94 per cent. increase in loans extended by the Retail Banking segment (see "Loans and advances") and the 12.98 per cent. increase in the Loan Book of the Corporate Banking Segment over the same period.

Exchange income

Exchange income is income arising from foreign exchange gains. Net exchange income increased by 10.13 per cent. in the year ended 31 December 2011 to SR 220.708 million from SR 200.409 million in the year ended 31 December 2010.

The crisis in the global economy has created significant volatility in the exchange rate market, as a result of which the Bank has experienced higher demand for hedging exchange rate risks, particularly from the Bank's corporate clients. Accordingly, the Bank has been able to sell more foreign exchange related risk management instruments to its clients. In the retail segment, an increased customer flow has also helped the generation of revenues from this activity.

Trading income

Trading income decreased by 34.32 per cent. in the year ended 2011 to SR 132.67 million from SR 202.01 million in the year ended 31 December 2010.

Worldwide conditions in the capital markets from 2010 to 2011, and in particular the virtual disappearance of volatility in interest rate curves, accounted for the negative growth of trading income from the Bank's capital market activity for the year to 31 December 2011.

General Expenses

General Expenses increased by 19.15 per cent. to SR 1,499.576 million in the year ended 31 December 2011 compared to SR 1,258.566 million for the year ended 31 December 2010.

Although significant, the increase in operating expenses has been kept under control and is in line with the investment strategy of the Bank.

The increase is also partly due to exceptional items such as the special bonus the Bank granted its staff at the end of the first quarter of 2011. Following the example set by the King of Saudi Arabia, who granted a salary increase of 15 per cent. to government sector employees, the Bank, as one of the largest financial institutions in the Kingdom decided to award a special allowance equivalent to two months of salary to each member of staff.

Rent and premises costs increased by 14.32 per cent. in the year ended 31 December 2011, due to the opening of new branches and the installation of Saudi Fransi Capital in its own building in a prime location in Riyadh.

Key Performance Ratios

Net Interest Margin

The following tables show the Bank's net interest income and its net interest margin for the years ended 31 December 2009, 2010 and 2011.

Balance Sheet (audited) – SR'000	**31 December 2009**	**31 December 2010**	**31 December 2011**
1 – Cash and balances with SAMA	12,630,968	10,864,136	18,115,582
1.a – Cash on hand	479,787	639,987	788,953
1.b – Statutory deposit	4,407,347	4,865,843	5,655,710
1.c – Current account	57,941	162,378	0
1.d – Money market placements	7,685,893	5,195,928	11,670,919
2 – Due from banks and other financial institutions	7,110,607	5,191,617	7,009,260
3 – Investments net	17,481,226	19,840,715	16,669,277
4 – Loans and advances net	78,315,196	80,976,587	92,325,042
5 – Investment in associates	144,344	185,628	170,789
6 – Fixed assets net	606,185	586,304	580,993
7 – Other assets	4,283,912	5,573,343	5,609,015
Total assets	**120,572,438**	**123,218,330**	**140,479,958**
Interest Earning Assets (1.c + 1.d + 2 + 3 + 4)	110,650,863	111,367,225	127,674,498
Average Interest Earning Assets	112,401,233	111,009,044	119,520,862
Net Interest Income	3,050,289	3,065,857	3,137,071
Net Interest Margin	**2.71%**	**2.76%**	**2.62%**

As seen above, in the year to 31 December 2011, the net interest margin has been impacted by low interest rates and consequent low level of income from excess cash placed with the SAMA or on the interbank market.

Notwithstanding the significant reduction in interest rates from 2009 to 2011 and the increase in cash and interbank placements as a proportion of total assets (in the years ended 31 December 2010 and 31 December 2011, cash and interbank placements accounted for 13.03 per cent. and 17.89 per cent. respectively), the net interest margin as at 31 December 2011 has been stabilised at 2.62 per cent. as a result of high additional volumes of loans.

Cost to Income Ratio

SR'000	**31 December 2009**	**31 December 2010**	**31 December 2011**
Total operating income	4,294,907	4,395,229	4,584,774
Total operating expenses (excl.Loan Loss Provisions)	1,158,042	1,258,556	1,499,576
Income from operating activities	**3,136,865**	**3,136,673**	**3,085,198**
Cost to Income Ratio	**26.96%**	**28.63%**	**32.71%**

Although the cost to income ratio has been impacted in the year ended 31 December 2011 by one-off items (*see: General Expenses*), the Bank has implemented stringent cost controls throughout its activities to maintain and position itself in due course to reduce its cost to income ratio.

Performance – Business Segments

To report its published financial performance by business activities, the Bank uses the format (the **SAMA Format)** imposed by **SAMA**. The SAMA Format applies unilaterally across the financial sector in Saudi Arabia for comparison purposes. The word "segment" refers to regulatory disclosure while "business line" designates an activity run by a business unit or separate legal entity specific to the Bank's own organisation. The business segments below are described in a manner consistent with the disclosure within the notes to the 2011 Financial Statements. A business segment is a group of assets and operations engaged in providing products or services that are subject to the risks and returns that are distinct from those other business segments.

The description of the business segments set out under "*Description of BSF – Business Segments and Organisation*" does not reflect the SAMA Format of the business segments described therein. Accordingly, the classification in the table below is used to provide financial reporting in relation to operations of each business line within the Bank.

The following table below shows the Bank's internal organisation and the way each of its business line's performance is reported in the SAMA Format (corresponding to the Bank's internal organisation and business segments as dictated by the SAMA Format):

Business Model and Bank's Internal Organisation		**Business Segment as per the SAMA Format**
Business Model	**Business Lines**	**Reported in**
Wholesale Banking *Corporate and Institutional Clients*	– Corporate Banking Group – Small and Medium Sized Establishment and Mid Cap Companies – Government Related Entities	Corporate Banking
Treasury and Capital Market Activities	– Treasury, Funding – Money Market and Trading – Market Making – Sales of Risk Management products and risk advisory solutions	Treasury Banking
Retail Banking *Retail, Individual Customers*	– Retail Banking Group	Retail Banking
Wealth Management	– Private Banking Division – High Net Worth Division	Retail Banking Retail Banking
Saudi Fransi Capital	– Local and international brokerage – Asset management – Corporate Finance	Investment Banking and Brokerage

The table below shows the Bank's net income by business segment following the reporting format published in the Bank's financial statements for the years ended 31 December 2009, 2010 and 2011:

Business segment Net income (SR '000)	**31 December 2009**	**31 December 2010**	**31 December 2011**
Retail Banking	476,536	426,728	489,481
Corporate Banking	1,295,632	1,584,012	1,837,736
Treasury Banking	617,258	769,258	500,732
Investment Banking and Brokerage	78,379	21,289	82,993
Total	**2,467,805**	**2,801,287**	**2,910,942**

The following is a summary explanation of the Bank's net income per business segment:

Retail Banking (an increase of 14.71 per cent. year on year from the year ended 31 December 2010 to the year ended 31 December 2011) – Retail Banking's net income (Retail Banking Group and Wealth Management Group) has been affected by the low interest rate environment where the excess of deposits versus assets invested in risk free instruments, has generated less profit. However, consumer assets, in particular credit cards and personal loans where margins are high, have increased and partially offset the lack of revenue derived from non interest deposits, which generate no interest.

Corporate and Commercial Banking (an increase of 16.02 per cent. year on year from the year ended 31 December 2010 to the year ended 31 December 2011) – this segment includes the Corporate Banking Group (large corporate and financial institutions clients) and the Commercial Banking Division (small and medium size establishments).

Treasury Banking (a decrease of 34.91 per cent. year on year from the year ended 31 December 2010 to the year ended 31 December 2011) – this segment includes the capital market activities of the Bank and the performance of its investment portfolio. 2010 provided many opportunities for the Bank's trading desk to generate profit, taking advantage of the volatility in the interest rate and foreign exchange markets. In the year ended 31 December 2011, the Bank's trading income (compared to the year ended 31 December 2010) decreased by 34.32 per cent. as the interest rate yield curve was kept at a low level with no volatility and consequently less recourse to risk hedging and less appetite for structured products on the part of the Bank's sophisticated customers.

Investment Banking and Brokerage (an increase of 289.84 per cent. year on year from the year ended 31 December 2010 to the year ended 31 December 2011) – this segment includes the Bank's asset management and brokerage activities. These activities, which are fee based, were significantly affected by the fall of the stock market index in Saudi Arabia and the low volume on the Saudi Stock Exchange experienced from 2006 to 2011. On the brokerage and asset management side, the Bank generated total gross commissions of SR 166.3 million as at 31 December 2010 and SR 230.1 million as at 31 December 2011, in part due to the recovery in the domestic stock market from mid 2011. The stock market index in Saudi Arabia decreased from 6,620.75 as at 31 December 2010 to 6,417.73 as at 31 December 2011 *(source: the Saudi Stock Exchange (Tadawul))*.

Credit Ratings

BSF

BSF is rated by S&P SAS, Moody's and Fitch. The tables below show the Bank's credit ratings as at the date of this document:

	Long Term Bank	Bank Outlook	Long Term Local Currency Bank	Short Term Bank	Short Term Local Currency Bank	Date
S&P SAS	A	Stable	A	A-1	A-1	14 December 2011

	Long Term Deposit	Deposit Outlook	Financial Strength	Short Term Bank	Date
Moody's	Aa3	Stable	C+	P-1	22 December 2011

	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 June 2011

All ratings of the Bank were reaffirmed in 2011 and as at the date of this document, the Bank enjoys investment grade status.

Saudi Arabia

On 16 July 2007, S&P revised the sovereign rating for the Kingdom, raising it from A+ to AA-, while on 9 July 2008 Fitch upgraded the Kingdom's long-term local and foreign currency issuer ratings to AA- from A+ and on 15 February 2010 Moody's upgraded the country from A1 to Aa3. On 9 November 2011, S&P reviewed its banking industry country risk assessment of the Kingdom to "group 2" from "group 3", giving the banking sector of the Kingdom the lowest risk rating of that in any country in the Middle East, and placing the Kingdom in the same group as countries such as Germany, Hong Kong, Singapore, Norway and Finland.

The current sovereign ratings of the Kingdom as of 31 December 2011 are AA- (S&P) AA-, Aa3 (Moody's) Aa3, and AA- (Fitch) AA-.

DESCRIPTION OF BSF

OVERVIEW

Banque Saudi Fransi is a commercial bank operating in Saudi Arabia under Commercial Registration No. 1010073368 dated 5 September 1989. BSF's head office is located at PO Box 56006, Riyadh 11554, Kingdom of Saudi Arabia. The telephone number of BSF's head office is +966 1 289 9999.

BSF is a full service bank, whose main business lines are corporate banking, retail banking, treasury and investment management services. The Group offers a full range of domestic and international commercial and Islamic banking products and services to the retail and corporate sector, in addition to investment advisory services, asset management, local and international equity trading, and treasury services.

According to the Saudi Stock Exchange (Tadawul), BSF was ranked as the fourth largest listed commercial bank in Saudi Arabia as of 31 December 2011 in terms of total assets, with total assets of SR 140.5 billion and total customer deposits of SR 109.7 billion. BSF has an approximate 10 per cent. share of the Saudi banking market by total assets and total deposits (see "*Financial Review – Overview*"). BSF's total net income for the financial year ended 31 December 2011 was SR 2.9 billion.

As at 31 December 2011, BSF had a network of 83 branches (that include twelve Islamic branches offering exclusively Islamic banking services), 18 ladies' sections attached to existing branches and ten "Fransi Connection" self-service branches that are accessible 24 hours a day. As at 31 December 2011, BSF had more than 437 automated teller machines (**ATMs**), 104 cash acceptance machines (**CAMs**) and an increasing range of Internet banking services.

Through a combination of active marketing and investment in its distribution channels, BSF had built a retail customer base of approximately 700,000 individuals as of 31 December 2011. BSF has also witnessed steady growth in corporate customers (including small and medium size enterprises through its Corporate Banking Division and Commercial Banking Division) having grown in the last five years to 5,200 customers as at 31 December 2011. The Bank's Corporate Banking and Commercial Banking Divisions had approximately 3,500 and 1,700 corporate clients respectively as at 31 December 2011.

The Bank also benefits from the support and expertise of its 31.1 per cent. foreign shareholder CA-CIB, whose business model focuses on corporate and investment banking. As a result, the Bank enjoys long-standing relationships with many large corporations, and offers a broad range of services to its corporate customers, with particular strength in its corporate advisory and syndication business.

The Bank actively supports the local community in Saudi Arabia by sponsoring various non-profit organisations. In 2011, it received the Ministry of Social Affairs Trophy in recognition of its various philanthropic contributions to charitable organisations in Saudi Arabia.

HISTORY

BSF is the successor to Banque de l'Indochine, which established a branch in Jeddah in 1949.

BSF was formed in accordance with regulations adopted by Saudi Arabia in the mid-1970s, under which foreign companies were required to sell majority equity interests to Saudi Arabian nationals. As a result, Banque Indosuez, the entity that succeeded Banque de l'Indochine in 1975, had to form a new company with local partners in 1977. Royal Decree No. M/23 dated 4 June 1977 established BSF as a Saudi Arabian joint stock company.

BSF is affiliated with CA-CIB, which holds a 31.1 per cent. equity interest in the Bank. CA-CIB is a wholly-owned subsidiary of Crédit Agricole S.A. and is the corporate and investment banking arm of the Crédit Agricole group.

Since 1982, BSF has maintained a technical service agreement with CA-CIB which is renewed every five years (the last renewal was in March 2007). The technical services agreement will be renewed upon expiry.

BUSINESS SEGMENTS AND ORGANISATION

The Bank's business model encompasses four business segments: Retail Banking, Wholesale Banking, Capital Markets and Investment Banking, which in turn break down into seven different business lines discussed in more detail below. For accounting purposes financial institutions in Saudi Arabia are required to report published financial performance in the SAMA Format. For details of the ways in which each of its business lines is reported in the SAMA Format, please see "*Financial Review – Performance – Business Segments*").

The following table sets out the business segments of BSF and the divisions of which they consist:

Business Segment	Division/Entity
Wholesale Banking	• Corporate Banking • Commercial Banking • Government Relationship Unit
Retail Banking	• Retail Banking Division • Private Banking Division (encompassing High Net Worth and Private Banking) • Bank assurance (*via* Allianz Saudi Fransi, a joint venture with Allianz) • Consumer Finance (*via* SOFINCO-Saudi Fransi, a joint venture with Sofinco)
Capital Markets	• Funding • Sales of Risk Management solutions • Proprietary trading, market making
Investment Banking (*provided through Saudi Fransi Capital*)	• Asset Management • Corporate Finance • Brokerage

Wholesale Banking

BSF's Wholesale Banking segment has three business lines namely Corporate Banking, Commercial Banking and the Government Relationship Unit, serving corporate and institutional clients and public sector clients. Wholesale Banking focuses on the Bank's large corporate and institutional clients (those with a turnover/net worth above SR 300 million through its Corporate Banking Division. Other businesses with a turnover under SR 300 million are dealt with through its Commercial Banking Division and government and public sector entities through the Government Relationship Unit. Its strategy is to (i) provide a full range of products and senior relationship officers to cater for the needs of corporate and commercial customers across all business lines; (ii) support the sale of retail banking products using its corporate banking relationships to distribute banking products to their employees; (iii) reinforce the link between the corporate banking, commercial banking, and treasury and capital markets business lines; and (iv) broaden the Bank's product range with a focus on Sharia compliant products.

Retail Banking

The Retail Banking segment is BSF's largest business line in relation to the number of clients and number of employees (comprising 50 per cent. of total employees). It encompasses both the Retail Banking Division and the Private Banking Division. In mid 2011, the Bank introduced its priority clients segment, which targets retail customers according to five defined criteria, but is not driven by existing customer balances. The Bank offers a wide variety of products and services to private and small business customers through its network of 83 branches (including 12 Islamic branches) and 18 ladies' sections attached to existing branches. These services include current accounts, savings accounts, investment funds, insurance programmes, retail lending, commercial lending, Islamic finance and credit card services. For high net worth customers, BSF provides personalised professional services to assist in wealth management, through its Private Banking and High Net Worth Divisions. The main objective of the Private Banking Division is to provide private banking and wealth management services to its clients in co-ordination with the Bank's Capital Markets and Treasury segment and other members of the Group. Retail Banking clients are also offered services through Allianz Saudi Fransi and SOFINCO-Saudi Fransi (see *"– Corporate Structure of the BSF Group" below*). As of 31 December 2011, BSF had 700,000 retail customers, most of whom are Saudi Arabian nationals.

Capital Markets

The Capital Markets segment comprises four main business lines: Money Market and Funding, Market Making and Trading, Risk Advisory and Foreign Exchange. It offers a broad range of structured financial products and is responsible for developing cross-selling opportunities between its core product lines and the various segments of the Bank's customers. Its responsibilities also include managing the short-term funding requirements of the Bank and cross-selling.

Investment Banking

Until the end of 2010, BSF conducted its investment banking business through its subsidiaries, Fransi Tadawul LLC (**Fransi Tadawul**), Caam Saudi Fransi LLC (**Caam Saudi Fransi**) and Calyon Saudi Fransi Limited (**Calyon Saudi Fransi**). In December 2011, Fransi Tadawul, Caam Saudi Fransi and Calyon Saudi Fransi were merged into one company, Saudi Fransi Capital Limited (**Saudi Fransi Capital**), which is licensed as an "Authorised Person" by the CMA and sells and offers for sale securities services, asset management services and investment products, as well as margin lending and activities related to dealing, managing, arranging, advising and custody of securities, retail investment products, and international and local share brokerage services and insurance to all the Bank's customers.

COMPETITIVE STRENGTHS

The Bank's management believes that it enjoys a number of competitive advantages in terms of its capital structure, history, management and shareholders, market presence, financial portfolio and growth and product and services offering, as set out below:

- ***Robust Capital Structure and an Expanding Deposit Base:*** The Bank believes that it has a robust capital structure, as demonstrated by its combined Tier I and Tier II capital ratio of 14.52 per cent. and 14.73 per cent as at 31 December 2011 and 2010 respectively, which is significantly above the eight per cent. requirement imposed by SAMA. Its share capital was SR 7,232 million as at 31 December 2011. The Bank has enjoyed strong growth in its deposit base over the last year, reflecting its strategy of enlarging its deposit base through deepening its relations with existing customers and enlarging its branch network from 81 branches as at 31 December 2010 to 83 branches as at 31 December 2011. Customers' deposits increased by SR 16,434 million or 17.57 per cent. to SR 110.0 billion as at 31 December 2011 from SR 93.53 billion as at 31 December 2010.
- ***Strong Profitability deriving from a High Quality Loan Portfolio and Prudent Risk Management:*** BSF believes that its emphasis on prudent risk management has contributed to its strong profitability. BSF's return on average equity for the years 2011 and 2010 was 15 per cent. and 17 per cent. respectively. Net income attributable to equity holders of the Bank was SR 2,911 million for the year ended 31 December 2011, representing an increase of 3.92 per cent. from SR 2,801 million for the year ended 31 December 2010. The Bank believes that its strong credit culture and prudent risk management approach have supported the growth and contributed to a healthy diversification of its loan portfolio. Credit quality has continued to improve, and according to Market data and banks financial reports, BSF had the lowest NPL ratio of any commercial bank operating in the Kingdom in 2011, with a ratio of 1.20 per cent. as at 31 December 2011, compared to 1.23 per cent. as at 31 December 2010 see – "*Financial Review – Loans and Advances net – Classification Process for Non Performing Loans*".
- ***Experienced management:*** The senior management team of BFS has considerable and diverse experience in the banking industry and extensive skills in the operation of financial institutions in the local, regional and international markets.
- ***Extensive channel distribution network:*** BSF has branch network throughout Saudi Arabia, with a total of 83 branches. BSF's customer service offering is further enhanced by its increasing focus on alternative distribution channels, including a large ATM network, 24/7 call centre, nationwide direct sales unit and internet banking services, which offer traditional banking services and products as well as online local share trading through its FransiTadawul platform.
- ***Strong and influential Shareholder:*** The Bank benefits from its close relationship with its largest single shareholder, CA-CIB, the corporate and investment banking arm of the Crédit Agricole Group, which as at 31 December 2011 held a 31.1 per cent. stake in BSF. As well as offering synergies and referrals between the commercial arms of both banks (particularly on large-scale advisory and capital markets work), BSF also benefits from the technical and managerial

expertise of Crédit Agricole, in terms of the Bank's risk management and audit functions, where Crédit Agricole provides assistance in the formulation and implementation of policies conforming to international banking standards (see "- *Risk Management*" below). A number of key members of the executive team at BSF have been seconded from Crédit Agricole, particularly in the retail banking and risk management fields.

- ***Market Leading Position in Corporate Lending Offering a Platform for Further Growth and Enhanced Opportunities for Cross-Selling:*** BSF is a recognised and strong brand in the Saudi market. The Bank is one of the Kingdom's leading providers of funding to large and medium-sized corporations, with particular expertise in project financing where, according to data prepared by Dealogic, it ranked first in the Kingdom and third in the MENA region in the 2011 financial year. The Bank believes that the inherently more stable risk profile of corporate as opposed to retail or SME lending has contributed to its low overall NPL ratio and strong profitability. As at 31 December 2011, the assets attributable to the Bank's corporate banking segment amounted to SR 79,965 million, or 56.9 per cent. of Bank's total assets, and principally consisted of the corporate loans portfolio. The Bank believes that the ambitious programme of infrastructure spending announced by the government of Saudi Arabia in 2011 will underpin increased activity in the corporate sector and that the Bank is well placed to take advantage of this in forthcoming years – see the "*Banking Sector in Saudi Arabia.*" The Bank's customer relationship management system and dedicated team of senior employees dedicated to cross-selling will assist the Bank in maximising the internal synergies offered by the close relationships the Bank has developed with its key corporate clients. The Bank is well placed to utilise opportunities created by the strong synergies between its Wholesale and Retail banking divisions.
- ***Expanding Presence in Retail Banking:*** BSF's retail banking operations have expanded significantly over the last two years. Total assets in the Bank's retail lending segment (which includes its wealth management operations) increased by SR 2,598 million or 18.29 per cent. in the year ended 31 December 2011 and by SR 1,864 million or 15.01 per cent. in the year ended 31 December 2010. BSF increased its credit cards and consumer loans by 32.94 per cent. in the period from 31 December 2010 to 31 December 2011 while according to the quarterly statistics published on the SAMA's website credit cards and consumer loans increased by 20.65 per cent. during the same period for the whole sector in Saudi Arabia. The Bank believes that its ability to draw upon its existing corporate relationships, its integrated customer relationship management system and the expertise provided by Crédit Agricole SA have enabled it to expand in this segment at a significantly faster rate than its principal competitors.
- ***Effective Cost Management:*** The Bank has maintained a low cost to income ratio when compared to the banking sector in the Kingdom as a whole by maintaining a stringent approach to cost control. Notwithstanding impact of one-off expenses and the growth in the Bank's business, its cost to income ratio has remained low being 32.71% and 28.63per cent. respectively as at 31 December 2011 and 2010.

STRATEGY

- ***Sustainable profitability:*** BSF's primary focus is to achieve consistent and sustainable profitability while employing a cautious assessment of risk and taking a measured approach towards business development, with an emphasis on balanced growth. The Bank intends to diversify its assets and earnings base (see "*–Growth in Retail Banking*", "*–Growth in Wholesale Banking* and "*–Growth in Islamic Banking"*) while maintaining strict adherence to prudent risk management to achieve growth in its core business. This approach, together with relatively favourable economic conditions within Saudi Arabia – notwithstanding the global economic crisis – and a well-defined business strategy, has so far benefited BSF. BSF's management believes that this approach will continue to benefit BSF in the medium-term.
- ***Focus on and Maintain Cost Efficiency:*** the Bank intends to maintain its prudent cost management culture with highly efficient human resources, information technology, marketing and public relations activities.
- ***Innovation and Cross-selling:*** The Bank is constantly innovating and upgrading the range of products and services that it offers customers across its different business lines. It has developed a commercial action plan that includes increasing cross-selling revenues through a proactive referral of clients from one business line to another. For example, the Wholesale Banking Division supports the sale of Retail Banking products using the Bank's Corporate Banking

relationships as a platform to distribute banking products to staff of Corporate Banking customers. The Bank intends to take advantage of its Treasury and Capital Markets Division's expertise in derivatives products to expand its range of products, risk advisory solutions, and increase cross selling activities through business lines and subsidiaries.

The Bank created a new position of Senior Executive Director-Business Development in January 2012 with responsibility for implementing the commercial action plan and exercising oversight of the Bank's business lines in order to ensure that opportunities for cross-selling are maximised.

- ***Customer relationship management:*** The Bank has implemented a customer relationship management system for its corporate and commercial customers that helps the Bank identify the profile of its clients, the quality of the relationship between the Bank and each of its clients, the transaction history of each client, each client's needs and the profitability of the relationship (including for example computation of risk adjusted return on capital per client, relevant market segments of clients, regions). Local branches make two follow up calls to new retail customers to ensure that those customers are satisfied with the level of service provided. Similarly each time a new product is launched, the Bank will use this as an opportunity to contact existing customers. These calls are also used to cross sell other banking products to those customers. BSF also evaluates the needs of all its customers through market research to ensure its services and products it offers are ahead of its competitors.

  BSF uses client segmentation systems to provide its relationship officers with the best range of products for the different types of clients. The Bank believes that detailed customer profiling will enable it to tailor products better to fit client needs and demand, and will assist with the implementation of the commercial action plan by enabling the Bank to identify further cross-selling opportunities and growth potential and by ensuring that its activities across different business lines are fully co-ordinated.

- ***Growth in Retail Banking:*** the Bank intends to grow its Retail Banking operation through investment in people, infrastructure and systems and cross-selling. Its aim is to create long term and personalised partnerships with all its retail customers through its banking expertise, quality of service, as well as innovative and customised financial solutions. The Bank's current strategic development aims in the retail banking division are to:

  - differentiate itself from its competitors through its focus on customer service and in particular by its speed of response to customers;
  - position BSF as the bank for young professionals;
  - work closely with the Crédit Agricole SA in order to gain expertise and speed up the development of its retail division;
  - provide further electronic banking services through ATMs, the Internet, call centres and mobile banking and utilise technology to improve customer service and risk control;
  - expand the Bank's active customer base through refined customer segmentation, namely by utilising data on its existing customers to bring potential customers over to the "My Family" programme and enhancing the "Priority Banking" programme;
  - establish BSF as a leader in personal financial planning by upgrading the "My Family" programme to a fully fledged advisory service (see further "*Operations – Retail Banking*"); and
  - build strong infrastructure to handle the expected rapid growth in retail consumer assets (including processing and collection).

- ***Growth in Wholesale Banking:*** the Bank intends to grow its Wholesale Banking division through the creation of a global range of products and utilisation of senior relationship officers to cater for the needs of corporate and commercial customers across all business lines with an emphasis on specific, rather than general lending. The Bank aims to establish long term banking relationships with its Wholesale Banking clients. In Corporate Banking, the Bank plans to continue to grow market share in terms of assets and presence in the project and bilateral lending sector, with a particular focus on trade finance. The Bank is targeting clients in the contracting sector as well as established clients in the real estate sector. In Commercial Banking, the Bank plans to selectively increase its market share in the SME business segment while avoiding certain sectors that the Bank considers to be higher risk, and to generate new opportunities through its Government Relationship Unit.

- ***Growth in Islamic Banking:*** It is part of the Bank's strategy to increase its portfolio of Islamic products in all areas of banking activities. In order to satisfy the growing demand for Islamic banking products and services, BSF has established a dedicated Islamic banking team to assist with the development of new Sharia compliant financial products and to coordinate Islamic banking activities across all the Bank's business lines. As at 31 December 2011, 95 per cent. of all retail loans (excluding loans provided by the Bank's wealth management division) provided by the Bank are Sharia compliant. BSF continues to grow its network of Islamic retail branches as well as its product range (see "– *Sharia Compliant Products*". The Bank opened two Islamic branches in 2009, two more in 2010 and one in 2011, giving a total of twelve as at the date of this Base Prospectus. These branches only provide Islamic finance products and services.

  In the corporate and investment banking sector, BSF now offers corporate clients both conventional and Islamic capital market products. As of 31 December 2011, 48 per cent. of all loans and advances (both retail and corporate) provided by the Bank were Sharia compliant. In 2011, the volume of BSF's Sharia compliant assets increased by 29 per cent. compared to 2010. On the liability side, the volume of Islamic compliant deposits increased by 51 per cent. between 31 December 2010 and 31 December 2011.

- ***Investment in branch network joint ventures and alternative delivery channels:*** The Bank has grown its branch network to reflect the population growth and demographic evolution of Saudi Arabia. The network is being developed in line with the strategy of the Bank to cater for diverse sections of society (for example, through the introduction of new ladies' sections, and the conversion from conventional to Islamic branches) and to use the best marketing and operating practices to promote business (for example, renovation of existing branches, new product centres and redesigning of marketing areas). The Bank is also developing its branch network into fully fledged sales centres to further penetrate its retail and wealth management markets. The Bank plans to continue to invest in established and new joint ventures, such as Allianz Saudi Fransi to strengthen its presence in different segments such as insurance and consumer finance. In light of the major shift taking place in Saudi Arabia with more and more consumers using the internet, the Bank is investing in alternative delivery channels, in particular to increase sales via the internet as well as migrate customers to e-channels. Since 2005, BSF has significantly increased its share in the market for point of sale terminals used by retailers. The Bank provides point of sale terminals to numerous well-established commercial centres, hypermarkets, restaurants and other vendors. Expanding in this sector is part of the Bank's long term strategy and the Bank intends to continue to build its existing portfolio of relationships where the Bank believes that the relation with the vendor will offer good returns and keep risks at a reasonable level. As at 31 December 2011 BSF had 5,080 POS terminals in operation throughout Saudi Arabia.

COMPETITION

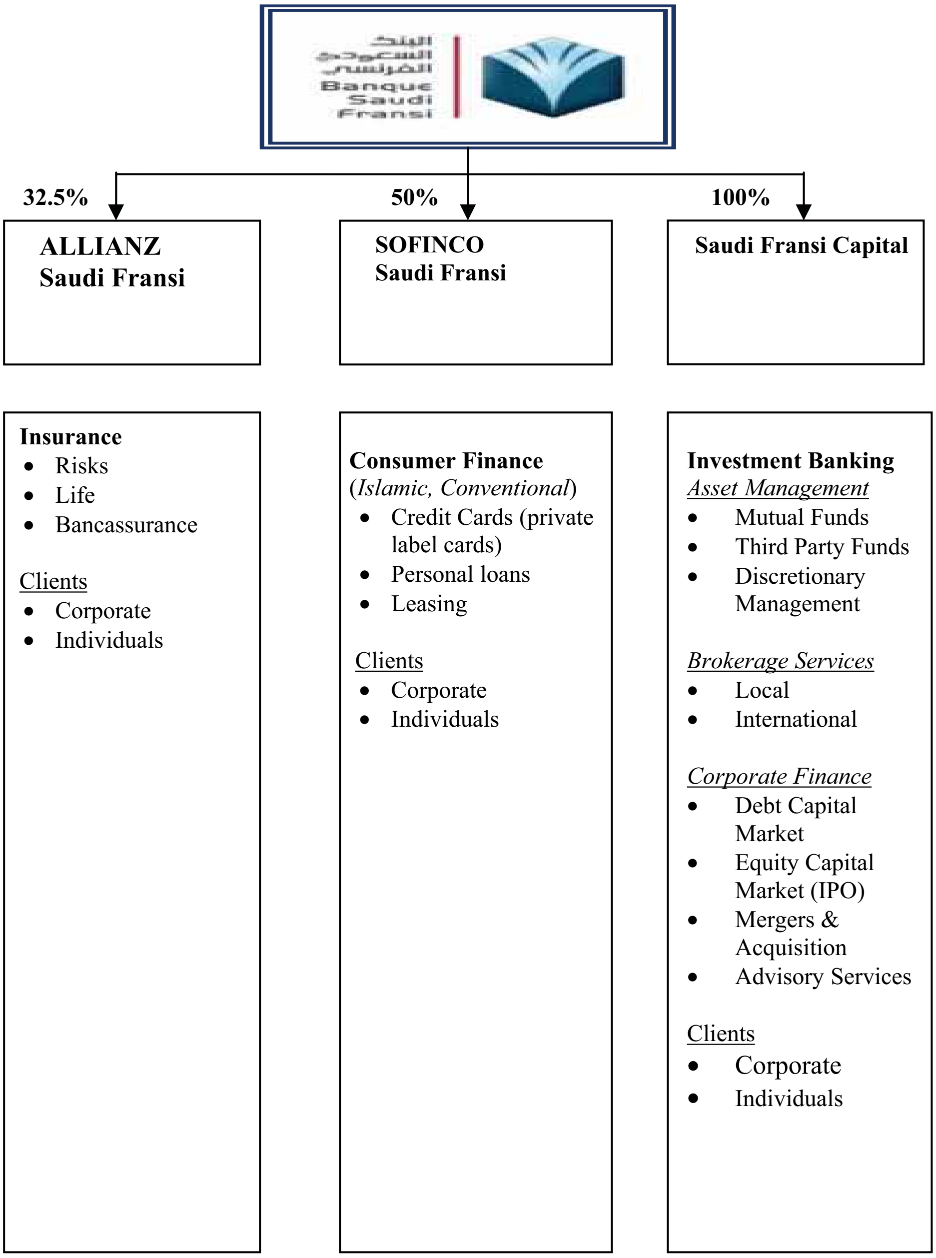
The Bank faces competition from many foreign and domestic banks in each of the different business areas in which it operates. For further details see "*The Banking Sector in Saudi Arabia – General*".

In the corporate banking sector, BSF competes to attract large national corporate clients that can provide significant volumes of business directly and present opportunities to cross sell retail banking services to their employees. BSF considers its primary competitors in this area to be Arab National Bank, Riyad Bank, SABB (formerly Saudi British Bank) and Samba Financial Group.

BSF also competes with the same group of Saudi Banks across its retail products as it does on the corporate side and, in addition, The National Commercial Bank, an unlisted Saudi Bank majority owned by Saudi Government institutions.

CORPORATE STRUCTURE OF THE BSF GROUP

The following structure chart sets out the key operating affiliates and subsidiaries of the Group:



The Group includes the following entities:

"Saudi Fransi Cooperative Insurance Company" also known as "Allianz Saudi Fransi": In 2000, BSF launched a pioneering range of insurance products based on long-term investment instruments. At the time, BSF had a strategic partnership with AGF (Assurances Générales de France), which was subsequently acquired by Allianz, a major German financial institution. The joint venture has been renamed "Allianz Saudi Fransi". BSF intends to capitalise on Allianz's worldwide experience and its brand recognition to expand its offering of insurance products in Saudi Arabia.

The joint-venture company was incorporated on 10 October 2006 and received its license to operate from SAMA in June 2007. The company was listed on the Saudi Arabian stock exchange in July 2007.

Although its business is still developing, Allianz Saudi Fransi, which targets both retail and corporate clients has seen its market share in Saudi Arabia by gross revenue increase from one per cent. in 2008 to four per cent. in 2011, according to figures compiled from the Saudi Stock Exchange (Tadawul) with total gross revenues of SR 383 million in 2011 compared to SR 249 million in 2010.

"SOFINCO – Saudi Fransi" ("SSF"): Sofinco is one of the leading institutions in European consumer finance market. Founded in 1951, it is wholly owned by Crédit Agricole Group and operates in 21 countries.

SSF, which is 50 per cent. owned by BSF and 50 per cent. owned by Sofinco, was incorporated on 13 March 2007. SSF provides Sharia compliant loans to the Bank's retail customers to fund the purchase of cars and household items. SSF supplements the services offered to BSF's clients with a range of leasing products, and clients are referred to it by BSF. SSF's products are not offered through the Bank's branch network, but are made available to clients through car dealership networks and similar distribution channels.

Saudi Fransi Capital Limited: Saudi Fransi Capital Limited is the investment-banking arm of BSF and provides financial brokerage services for investments in both local and international stock markets, advises on public and private offerings, mergers and acquisitions, valuations, restructurings, and investment products and asset management services to clients in Saudi Arabia. Saudi Fransi Capital is wholly owned by BSF.

Since 2003, BSF has invested heavily through Calyon Saudi Fransi and subsequently through Saudi Fransi Capital in systems and services and has developed a successful brokerage business. According to the CMA, it ranked fifth in Saudi Arabia for the year ended 31 December 2011 for local brokerage services and among the top five international brokerage services, during the same year. Building on this success, Saudi Fransi Capital aims to consolidate its position through continued investment in state of the art technology, notably with the integration of on-line trading platforms for all GCC countries.

Saudi Fransi Insurance Agency (**SAFIA**) is BSF's wholly-owned insurance brokerage arm. It commenced commercial operations in January 2011. The Bank also wholly owns Saudi Fransi Leasing, which had not commenced commercial operations as at the date of this Base Prospectus, and Sakan real estate financing (**Sakan**). Both SAFIA and Sakan are marketing entities only and neither has a balance sheet.

Banque Bemo: As at the date of this Base Prospectus, BSF owns a 27 per cent. stake in Banque Bemo Saudi Fransi Syria (**BBSF**), which as at 31 December 2011 operated a retail banking network of 33 branches in the Syrian Arab Republic. On 26 November 2011, the Board of Directors of BSF took the unanimous decision to sell the Bank's 27 per cent. share in BBSF. The Bank has also decided to sell its 10 per cent. participation in Bemo S.A. (a Lebanese Bank), which also held shares in BBSF. The decision to sell these shareholdings was made on the basis that operational risks in the Arab Republic of Syria (**Syria**) do not permit BSF to continue its involvement in the Syrian market. As of 26 November 2011, BSF is no longer represented on the Board of Directors of BBSF and Bemo Lebanon S.A. and has no managerial responsibilities for either company. BSF has asked a reputable auditing firm to value its shares in BBSF and BEMO S.A. and is in negotiations with a number of investors interested in buying such shares. However, the timing of any sale is uncertain and subject to the approval of the Central Banks of Syria and Lebanon respectively.

SHARE CAPITAL AND OWNERSHIP STRUCTURE

Since its establishment, BSF has been listed on the Saudi Stock Exchange (Tadawul) (Reuters Code :<1050.SE>).

As at 31 December 2011, BSF's market capitalisation was SR 30.4 billion, making it the eleventh largest market capitalisation of all companies listed on the Saudi Stock Exchange (Tadawul) and the fifth largest bank in Saudi Arabia, in terms of market capitalisation (*source: Saudi Stock Exchange (Tadawul)*).

As at 31 December 2011, BSF's net equity amounted to SR 19.6 billion.

As at the date of this Base Prospectus, the authorised, issued and fully paid-up share capital of the Bank consists of 904.0 million shares of value SR 10 each.

In December 2011, the Board of Directors of BSF recommended to the shareholders of the Bank that the dividend for the 2011 financial year should be paid by way of shares and the shareholders of the Bank approved that dividend at the extraordinary general meeting held on 7 April 2012. Each shareholder registered in the Bank's shareholders register at the close of business on 7 April 2012 was issued one bonus share for four existing shares. This has increased the Bank's paid-up capital by 25 per cent., from SR 7,232 million to SR 9,040 million. Consequently, the total number of issued shares in the Bank has increased from 723 million to 904 million.

CA-CIB, holds a 31.1 per cent. stake in BSF and is the Bank's only non-Saudi shareholder. The remaining 68.9 per cent. of BSF's shares are held by Saudi Arabian corporations and nationals.

The table below sets out details of the shareholders with an interest of five per cent. or more in the Bank as at 31 December 2011:

Name	Basic Information	Percentage Shareholding
CA- CIB	• Corporate investment banking arm of the Crédit Agricole Group.	31.1 per cent.
General Organisation for Social Insurance (**GOSI**)	• Saudi public government institution established in 1969. • Activity: Insurance cover for private sector employees and labourers.	12.8 per cent.
Rashed Al-Abdularahman Al-Rashed & Sons Co	• Saudi limited partnership owned by the heirs of Rashed Abdul Rahman Al Rashed. • Activity: trade and contracting business.	9.8 per cent.
Mohammed Ibrahim Al-Issa	• Saudi limited partnership. • Activity: trade and contracting business.	5.0 per cent.

THE BANK'S DISTRIBUTION NETWORK

Branches

The Bank has grown its branch network to reflect the population growth and demographic evolution in Saudi Arabia. The network is being developed in line with the strategy of the Bank to cater for diverse sections of society (for example, through the introduction of new ladies' sections and the conversion of conventional branches into Islamic branches) and to use the best marketing and operating practices to promote business (for example, renovation of existing branches, opening of new product centres and redesign of marketing areas within branches).

As at 31 December 2011, the Bank's network of branches consisted of 83 fully operational branches (including 12 Islamic branches) and 18 ladies' sections. This compares to 75 branches at the end of 2008, 77 at the end of 2009 and 81 at the end of 2010.

In addition, BSF has opened 10 fully automated self-service branches (named "Fransi Connection") in shopping malls. The Bank is constantly modernising its infrastructure in order to increase operational efficiency and the quality of service to its customers.

E-Banking

The Bank launched its e-banking platforms dedicated to financial services – "Fransi plus" and on-line trading – "Fransi Tadawul" system in 2003 and 2004, respectively. Since then, new services and functions have been introduced, such as the Fransi Corp system that allows corporate clients to manage their accounts and book online letters of credit and letters of guarantee.

Through "FransiPlus", the Bank also offers retail clients the ability to view accounts and conduct transactions online and through "FransiMobile", the Bank allows retail customers access to their accounts from a mobile device.

The Bank is continuing to invest in state-of-the-art electronic systems in order to maintain its customer base, acquire new relationships, increase the efficiency of delivery of its services and reduce its operational risk. The Bank offers its clients a full range of transactional services over the internet, although Saudi regulatory requirements require contact by the relevant branch to conclude certain types of transaction.

The Bank also offers 24 hour banking services by telephone through its "FransiPhone" service.

OPERATIONS

The Group provides a range of financial services through its Retail Banking, Corporate Banking, Commercial Banking, Treasury, Investment Services, Insurance and Consumer Finance Divisions. Its operations focus primarily on the Saudi domestic market, and apart from its holdings in Banque Bemo and BBSF, which it has decided to sell, it does not have any overseas operations.

Retail Banking

The retail banking group is BSF's largest business line in terms of the number of clients and number of employees (approximately 50 per cent. of total employees as at 31 December 2012).

Retail banking as defined in the IFRS in the Financial Statements operates two main business lines (i) general retail banking; and (ii) wealth management services for high net worth individuals.

In the year to 31 December 2011, BSF's Retail Banking segment increased revenues by 14.71 per cent. to SR 489.5 million (compared to the year to 31 December 2010). As at 31 December 2011, total assets attributable to the Retail Banking Division were SR 16.8 billion.

Retail Banking Division

The Bank offers a wide variety of products, including current accounts, savings accounts, investment funds, insurance programmes, retail lending, commercial lending, Islamic finance and credit card services, through its network of 83 branches (including 12 exclusively Islamic branches) and 18 ladies' sections, which have been created to provide a more private and personalised service for women including tailored banking products for female customers which are separate from the existing bank products and packages. As at 31 December 2011, BSF had 700,000 retail customers, most of whom are Saudi Arabian nationals.

The Bank has implemented a stringent segmentation of its retail and individual customers. This allows the Bank to offer clients in each segment products and services targeted to their needs. For example, customers in the "My Family" Programme are likely to be more interested in products such as housing loans or financing for domestic purchases, while customers in the "Priority Banking" programme may be more interested in investment or asset management products or commercial financing for their business ventures. Using segmentation programmes and client profiling, BSF offers competitive products, rates and relationship value through its "My Family", "Ladies Banking" and "Priority Banking" programmes.

The table below sets out BSF's retail main segmentation programmes:

Programme	Target customers	Objective
"My Family"	Young professionals and their families with minimum income and high potential for development	Provide average clients with complete financial plans made of several products and services
"Ladies Banking"	Ladies	Provide products and services for female clients in a dedicated environment
"Priority Banking"	Higher segment of clientele. Senior executives of companies	Provide wealthy clients with personalised services

The Bank also actively markets its Islamic products to all of its retail customers through its "Tawafuq Islamic Banking" brand.

The Bank's current strategic development aims in the retail division are to:

- Increase market share in Retail Banking through offering a full range of products and services tailored to the lifestyles of its customers and differentiating the Bank from its competitors through its quality of service and speed of response.
- Position BSF as the Bank for young professionals. BSF has historically put a strong emphasis on targeting young professionals and on reinforcing its position in what it believes to be an expanding market segment – The median age in Saudi Arabia is under 30 (*source Central Intelligence Agency*). The Bank believes that young professionals offer an opportunity to increasingly cross sell the Bank's products and services as their careers develop. The Bank has made significant investments in marketing campaigns, which are aimed at young professionals and in state-of the-art banking technology services that is attractive for the consumers in this market sector, for example internet and SMS banking.

- Work closely with CA-CIB in order to gain expertise and speed up the development of its retail division. The current head of retail banking at BSF has been seconded from Crédit Agricole S.A.
- Provide electronic banking services through ATMs, the internet, call centres and mobile banking and utilise technology to improve customer service and risk control.
- Expand the Bank's active customer base and product penetration through refined customer segmentation, for example by using data mining tools to analyse the spending patterns of its existing customers to assign them to one of the Bank's segmentation programmes. This enables the Bank to offer these customers a targeted range of products. For example, young professionals with low incomes but high potential for development are assigned to the "My Family" Programme and can be offered products such as housing loans or financing for the purchase of significant household goods, whereas senior company executives are assigned to the "Priority Banking" programme and targeted with products that may be of particular to interest to them such as asset management and investment products or commercial financing to support their business ventures. The Bank maintains active and regular contact with its customers, both at the time a new customer joins the Bank and when a new product is taken out. It uses these opportunities to contact customers and cross-sell other products to them.
- Build strong infrastructure to handle the expected rapid growth in consumer assets (including processing and collection). In 2010 BSF completed the full automation of its product sale and acquisition system which has helped in accelerating front line decision making and improving the consistency of the Bank's risk control on standard retail products (such as personal loans and credit cards) and improving service levels by ensuring that a customer applying for these standard products would normally receive an in principle response within five minutes calculated on the basis of the risk models embedded in the system. BSF aims to refine the system further on the basis of the information received from its on-going utilisation of the system.

Retail Banking Products

BSF has established a strong portfolio of products and services.

In addition to the various standard services that the Bank offers (such as demand deposit accounts, transfers, travellers' cheques, settlement of utility bills and over-the-counter transactions), the Bank also offers directly or through its subsidiaries:

- Saving Accounts;
- Housing;
- Consumer and Commercial Loans;
- Credit Cards/Electron Cards (Visa, Mastercard);
- Bancassurance (education and retirement plans) (via ALLIANZ Saudi Fransi);
- Brokerage (local and international) (via Saudi Fransi Capital); and
- Investment Funds (via Saudi Fransi Capital).

Sharia Compliant Products and Islamic Retail Banking

BSF offers a comprehensive range of products and services to its retail customers as part of the Tawafuq Islamic banking programme. Islamic loans accounted for 59.9 per cent. of Retail Loans as at 31 December 2011. The products and service offered include:

- Non-Commission Bearing Deposits;
- Personal Loans ("Murabaha" and "Tawarruq") based on commodity trading;
- Investment Funds investing in "Murabaha" and Sharia compliant equity investments;
- Insurance ("Takaful Bancassurance"); and
- Home Financing Products ("Sakan Real Estate Financing").

In order to satisfy customers' growing interest in Islamic finance solutions, BSF has opened or converted twelve branches dedicated solely to Sharia related products since 2006.

BSF coordinates its Islamic banking activities through its Islamic Banking Team (see "– *Islamic Banking Team*"). In 2003, BSF appointed a Sharia Board to ensure that all of its Islamic banking products complied with Sharia requirements (from product specifications to booking method). Each new Islamic product requires the approval of BSF's Sharia Board, which is formalised in a "Fatwa" before launch. The Bank expects this market sector to continue growing, and is therefore, developing additional financial solutions for retail customers in conjunction with prominent Sharia scholars, to cater to this sector including Islamic Credit Cards ("Al Hassan"); and Private Label Cards (PLC) which are "Murabaha" based transactions in the form of a card for use in pre-assigned retail outlets.

Distribution Channels

BSF has enhanced its distribution channels during the last six years in particular by increasing its branch network.

Branches

The following table shows the number of branches (excluding Ladies Sections) operated by the Bank as at 31 December 2006 to 2011:

Year	**Branches (excluding Ladies Sections)**
2006	68
2007	74
2008	75
2009	77
2010	81
2011	83

The Bank's 83 branches are spread across Saudi Arabia and are divided into three Regional Management groups for operational purposes, which reflect the administrative zoning of the country, and comprise:

- Western Region (Jeddah): 33 branches
- Central Region (Riyadh): 29 branches
- Eastern Region (Dammam – Al Khobar): 21 branches

The Bank's focus is not only on increasing the number of branches, but also the modernisation of its network to make the older branches more user-friendly for customers and to improve the Bank's retail product distribution.

All branches are equipped with state of the art ATMs and CAMs, which allow conventional banking operations to be processed directly by customers. In 2011, BSF had 10 fully automated self-service branches ("*Fransi Connection*" branches), which operate 24 hours a day and are located in shopping malls.

Automated Teller Machines (ATMs)

BSF had a network of 437 ATMs as at 31 December 2011. The number of ATMs operated by the Bank has grown steadily over the last four years. The machines are regularly updated with the latest technology in order to enhance their functionality. For example, during the first quarter of 2007, BSF introduced a facility that allows customers to subscribe for Initial Public Offerings (**IPOs**) on the Saudi Stock Exchange (Tadawul) directly from an ATM.

The following table sets out the number of ATMs operated by BSF as at 31 December in each of 2007 to 2011:

Year	**Number of ATMs**
2007	320
2008	274
2009	330
2010	385
2011	437

Point of Sale Terminals (**POS**)

Since 2005, BSF has significantly increased its share in the market for point of sale terminals used by retailers. The Bank provides point of sale terminals to numerous well-established commercial centres, hypermarkets, restaurants and other vendors.

Expanding in this sector is part of the Bank's long term strategy and the Bank intends to continue to build its existing portfolio of relationships where the Bank believes it can maintain good returns and keep risks at a reasonable level. As at 31 December 2011 BSF had 5,080 POS terminals in operation throughout Saudi Arabia, compared to 5,147 as at 31 December 2010.

Outdoor Sales

The Retail Banking Division works with teams of sales personnel that visit clients at their place of business in order to distribute products, offer services or refer them to other product lines within the different companies affiliated with BSF. Customers targeted by the outdoor sales teams have either approached a member of staff in one of BSF's branches and enquired about particular products, or have been identified as potentially suitable by the Bank's data analysis system. At present, BSF's Retail Banking Division has hired approximately 150 individuals working in eight outdoor sales teams.

E-banking

BSF uses e-banking technologies in order to enhance its distribution channels and give it a competitive advantage, where, as in the case of stock brokerage business, its competitors do not offer, or only offer a narrower range of e-banking services.

BSF offers its retail customers a wide range of services via the internet. These include:

- "FransiPlus" and internet cash management solutions, which include the ability to make online payments, obtain cash advances and money transfers;
- "FransiTadawul", an online local share trading system;
- "FransiPhone", which permits clients to execute a choice of phone banking transactions and is coupled with the Bank's 66 person 24 hour call centre located in Riyadh;
- "FransiMobile", introduced in 2008, which allows clients to perform various transactions using their mobile phones, such as on-the-spot credit card information and bill payments;
- interactive SMS, which extends "FransiPhone" services with on demand enquiry services such as balance enquiries, credit card limit, transactions messages and money transfers; and
- online response to customer loan requests, credit card requests and complaint and customer feedback forms.

Competition/positioning

The Bank is operating in a very competitive environment. In that context, it aims to offer a full range of products and services to its retail customers, while differentiating itself from its competitors through quality of service and responsiveness. It has adopted a strategy to increase its share of the Retail banking market in Saudi Arabia by maintaining a significant branch network and using that network to help it reach its target customers.

Wealth Management

BSF provides personalised professional services to assist in wealth management for high net worth individuals, through its Private Banking and High Net Worth Divisions, part of the Retail Banking segment.

The main objective of the Private Banking Division is to provide private banking and wealth management services to its clients in co-ordination with the Bank's Treasury and Capital Markets segment and the asset management arm of Saudi Fransi Capital and other business affiliates.

Consistent with its other lines of business, BSF uses customer segmentation and branding to identify, attract and retain the most profitable clients.

Wealth Management Products

As well as offering all of BSF's products that are available to retail and corporate clients, products offered to private banking clients are mostly tailored to suit their individual investment requirements with support from Asset Management, Treasury and Saudi Fransi Capital.

Distribution Channels

The Bank offers its wealth management services through a dedicated team of private bankers with specialist knowledge of asset management located at its head office and regional offices.

The Bank expects to expand its existing client base by targeting entrepreneurs, building on the relationships it has developed through its wholesale banking activities. The resulting growth will be driven by a mix of value added wealth-management solutions and more traditional banking products (for example, non-interest bearing deposits and loans).

Another key driver of growth is the cross-selling opportunities offered by the new companies and joint-ventures under development that will reinforce BSF's capability to design and market global wealth-management solutions.

Wholesale Banking

The Wholesale Banking segment provides corporate lending and working capital finance and transactional banking services to the Bank's large corporate and institutional customers, small and medium businesses and government entities, primarily in Saudi Arabia. It also works in close co-operation with the Bank's Treasury and Capital Markets segments and Saudi Fransi Capital to provide its clients with capital markets, brokerage and corporate finance services respectively. In accordance with SAMA accounting rules, the Wholesale Banking segment reports its results as the Corporate Banking segment in the IFRS Financials.

In the year to 31 December 2011, BSF's Wholesale Banking Division increased revenues by 16.02 per cent. to SR 1,837.7 million (compared to the year to 31 December 2010). As at 31 December 2011, total assets attributable to the Wholesale Banking Division were SR 79.97 billion.

Wholesale Banking works in co-operation with the following divisions and affiliates of the Bank:

- the Treasury and Capital Markets segment;
- the corporate finance arm of Saudi Fransi Capital;
- the Retail Banking segment; and
- the asset management arm of Saudi Fransi Capital.

The Wholesale Banking segment's strategy is to:

- create a global range of products and provide senior relationship officers to cater for the needs of corporate and commercial customers across all business lines;
- support the sale of Retail Banking products using the Bank's Corporate Banking relationships as a platform to distribute banking products to staff of Corporate Banking customers;
- reinforce the link between the Corporate Banking, Commercial Banking, Treasury and Capital Market business lines;
- focus on specific sectors where it has identified growth opportunities, such as contracting and expanding real estate customers; and
- broaden the Bank's wholesale banking product range with a focus on Sharia compliant products.

Distribution Channels

Corporate and Commercial customers of the Bank benefit from dedicated teams of relationship managers, assigned on the basis of the size and geographical location of the customer. The Bank's relationship managers are based in the head office in Riyadh and each of the Bank's three regional offices. Operational banking requirements are met through the branch network. The Bank also offers its corporate and commercial customers access to the specialist e-banking systems including the "Fransi Corp" which provides cash management services and "Fransi Trade" through which customers can obtain trade finance services such as letters of credit. Certain large corporate customers also have access to bespoke electronic banking systems dedicated to their specific requirements.

Corporate Banking Division

As a result of CA-CIB's longstanding involvement in BSF, the corporate banking division of BSF has been at the forefront in developing innovative solutions for the corporate market segment of Saudi Arabia.

The Corporate Banking Division focuses on providing financial products and services to entities with an annual turnover of at least SR 300 million involved in all sectors of the Saudi economy, including manufacturing, trading, contracting operations, maintenance and information technology. It also provides services to large joint venture companies and multinational companies present in Saudi Arabia. The Corporate Banking Division is increasingly focusing on providing funding for specific identified products, rather than participating in general lending.

The Corporate Banking Division offers its clients a broad array of products, from the most conventional products (including overdrafts, short to long-term bilateral loans, credit facilities, project financing, and leasing) to more complex financial products and services, primarily syndicated loans and a variety of hedging instruments. The Corporate Banking Division also provides a full range of structured loans, structured deposits, balance sheet management and cash management services.

Project and Structured Finance and Syndicated Lending

The corporate banking division has particular expertise in arranging and participating in project finance transactions. BSF considers financing of projects (both green field and brown field) as a key business area for the Bank. According to Dealogic, BSF was ranked first in the league table for project finance debt in Saudi Arabia, and ranked third for the Middle East and African Project Finance Loans for the year 2011. BSF was also one of the leading arrangers and underwriters of Sharia compliant project financing in the region in 2011. The Bank's expertise in project finance is underpinned by the team of specialists it has built, who focus on specific industry sectors.

Over the last twenty years (since the start of major activities in non-recourse and limited recourse project financing in Saudi Arabia), the Bank has been involved in more than 50 such transactions, financing projects in oil and gas, petrochemicals, power, infrastructure, iron and steel, telecommunications, transport, construction and cement. In doing so, BSF has shown its commitment to the industrial growth in Saudi Arabia and has become one of the key players in assisting in the financing of these transactions. BSF has also participated in regional syndicated transactions, which are mostly restricted to the oil, gas and petrochemicals, infrastructure, and power sectors, where government of the relevant country is involved. BSF also participates in financing projects in the GCC countries, or in other countries, if one of the parties involved in the project is a Saudi entity.

BSF has an active business in syndicated transactions within Saudi Arabia, participating in a variety of sectors including power, infrastructure, iron and steel, telecommunications and construction, often in the context of project financings. The Bank has also participated in cross-border syndicated transactions in the region, in the oil, gas and petrochemicals, infrastructure, and power sectors, where there is a deep involvement of the Government. These participations have generally been restricted to the member states of the GCC or to transactions with companies where there is a Saudi shareholding or which benefit the Saudi economy directly.

Some of the recent transactions where BSF was appointed lead arranger or mandated lead arranger include M.T.C telecommunications (SR 1.2 billion) 2009, Zain KSA (SR 18.3 billion, USD 2.5 billion Murabaha, USD 2.6 billion Murabaha, USD 585 million refinancing, and USD 600 million refinancing 2009), Ma'aden Phosphate Company Fertiliser project (USD 3.9 billion) 2008, Rabigh Electricity Company (SR 9.4 billion) 2009, Qurayyah IPP (SR 4.1 billion) 2008, Saudi Kayan (USD 10 billion) 2008, Ma'aden Bauxite and Mining Company (USD 2.2 billion) 2011, and Saudi Acrylic Acid and Monomer Company (USD 1.3 billion) 2011.

BSF has also participated in numerous power plant and water related projects as the lead arranger. These include the Tihama Power Generation Company (a project developed by Saudi Oger and International Power), in February 2004 and its current expansion (2012), where the Bank is acting as the lead arranger, coordinator and documentation bank. BSF was also in charge of the Islamic structuring and documentation work for many Independent Water and Power Projects, such as Al-Dur project in Bahrain (June 2009) and Dhurma Electricity Company (June 2010). BSF acted as the documentation bank in other sectors such as Ma'aden Aluminium Company (2010), Sahara & Ma'aden Petrochemical Company (December 2011), and as a joint documentation bank in Ma'aden Bauxite & Mining Company (2011).

Financial Institutions

Since its inception, BSF has maintained a strong flow of business with other banks in and outside Saudi Arabia.

The three main areas in which BSF deals with financial institutions are:

- Treasury related transactions (loans, deposits, forex, interest rates);
- Incoming and outgoing payments; and
- Trade finance related transactions (letters of credit, letters of guarantee).

The financial institutions team interacts with the other business lines, notably with the syndication team, and also with the different back-offices of the Bank in order to ensure high quality of services provided by the corresponding banking entities.

Islamic Banking for Corporate and Commercial Clients

BSF was one of the first conventional banks to respond to growing local demand for Sharia compliant wholesale banking services in Saudi Arabia. The Bank started offering Islamic banking services in the late 1980s with the formation of the leasing department. At the time, it also offered Islamic financing for auto fleets and industrial machinery to select corporate customers. The leasing department subsequently formed the nucleus of the Islamic Banking Team, which was formed as a separate division of the Bank in 2003, but has remained part of the Wholesale Banking segment.

Currently, BSF offers the following Islamic banking products to its corporate and commercial customers, which are jointly managed by the Islamic Banking Team and by the non-Islamic business lines:

- ''Murabaha'', loans mainly for providing financing for imports;
- ''Tawarruq'', the Bank's fastest growing loan product, used mainly for clients' short and medium term financing needs;
- ''Musharkah'' and auto receivables securitisation;
- ''Murabaha'' investments; and
- Project and structured finance under ''Istisna'', ''Ijarah'' and ''Murabaha'' structures;
- ''Ijarah'', lease finance used for small transactions;

BSF has recently been involved in the following Sharia compliant transactions:

Saudi Arabian Airlines Co Murabaha (2010), Saudi Electricity Company Murabaha (2010), Ma'aden/ Alcoa Aluminum Companies (Ijarah-Istisna).

Government Relationship Unit

In 2010, BSF established a dedicated unit consisting of specialist relationship managers located at head office and across its three regional offices to market to and services to entities connected with the Saudi government. This unit complements the Bank's existing business lines and was established to take advantage of the prominent role played by government of Saudi Arabia in supporting the economy. See ''– *The Banking Sector in Saudi Arabia*''.

The unit primarily offers deposit and account management services to public sector bodies.

Commercial Banking Division

BSF's Commercial Banking Division was established in 1999, having formerly been part of Corporate Banking and offers banking services to the mid-market segment, which includes medium-sized private entities involved in trading and manufacturing services with a turnover of less than SR 300 million.

It offers cash management, payroll processing, payment processing, bilateral financing, e-banking and other banking solutions to meet the needs of this sector of clients. The sector is a particular focus for the Bank as it is anticipated that it will be a key beneficiary of government policies to stimulate growth in the Saudi economy.

The Commercial Banking Division has dedicated specialist teams in the Bank's regional offices to service clients and offers a wide range of conventional and Sharia compliant services and products, which range from current account management and bilateral loans to tailor made risk management solutions structured by the Bank's Capital Market and Treasury Division. Commercial Banking, can also refer clients to other entities of the Group such as Saudi Fransi Capital or Allianz Saudi Fransi.

Competition/positioning

The Bank seeks to develop and maintain longstanding customer relationships and aims to distinguish itself from its competitors through maintaining and developing those relationships as well as through its quality and speed of service. Its focus is increasingly on providing funding for specific projects, rather than general lending. It is targeting the contracting sectors as well as established clients from the retail sector (see – ''*Strategy – Growth in Wholesale Banking*'').

Treasury and Capital Markets segment

BSF's treasury and capital market operations comprise three main businesses: Funding, Market Making and Trading and Risk Advisory and Sales of products to the Bank's clients.

In the year to 31 December 2011, BSF's Treasury and Capital Markets segment revenues represented by 17.20 per cent. of total net income of BSF or SR 500.73 million. As at 31 December 2011, total assets attributable to the Capital Market and Treasury segment were SR 43.28 billion.

Funding

The primary role of the Treasury and Capital Markets segment is to ensure that short-term funding requirements of the Bank (with long-term funding being managed by the ALCO through the Finance Division, see "*Risk Management*") are met. The Group Treasury also manages the short term interest rate position of the Bank. The responsibilities of Group Treasury include managing the loan-to-deposit ratio of the Bank, in accordance with the 85 per cent. recommendation of SAMA.

Market Making and Trading

BSF is also a major participant in the local inter-bank market, taking a prominent role in market-making activities in the Saudi Riyal market for derivatives and debt instruments, including foreign exchange and interest rate related products.

When trading non-linear risk based products such as options, BSF has an internal policy to hedge its non-linear exposure risk by entering into back-to-back arrangements with CA-CIB or other major inter-bank participants.

Risk Advisory and Sales Activities

A significant portion of the activities of the Treasury and Capital Markets segment involves developing cross-selling opportunities between the Bank's core lines of businesses and its various segments of customers. The technical support it receives from CA-CIB enables BSF to offer a wider range of structured deposits and derivatives and more up to date pricing. BSF offers a broad spectrum of structured deposits and derivatives ranging from plain vanilla instruments to more complex products designed for sophisticated investors. These products and services are structured with a primarily focus on assisting the clients in managing their risks, whether short-term or long-term, or on or off balance sheet.

Products

The Bank offers the following products to its customers through its Capital Market and Treasury Division:

- Interest Rate Swaps;
- Foreign Currencies Swaps;
- Interest Rate Futures;
- Forwards;
- Bonds;
- Options on Futures; and
- Structured Products.

BSF also offers an Islamic version of all its capital market products. As a result, new tailor-made Sharia compliant solutions have been added to the catalogue of products offered by the Bank, and include:

- "Sukuk" and debt finance structures; and
- Islamic derivatives.

Saudi Fransi Capital

Until the end of 2010, BSF conducted its investment banking business through its subsidiaries and affiliates, Tadawul, CAAM Saudi Fransi and Calyon Saudi Fransi, which offered brokerage, asset management and corporate finance services, respectively.

For efficiency reasons and to further enhance cross-selling opportunities through the integration of the businesses and their respective IT systems, it was decided in 2010 that the three companies, Fransi Tadawul, Caam Saudi Fransi and Calyon Saudi Fransi, should be merged into a single company, Saudi Fransi Capital, operating in Brokerage, Asset Management and Corporate Finance, with a level of capital that would allow expansion of all three businesses. On 6 December 2011 BSF purchased the shares of the foreign shareholders in CAAM Saudi Fransi and Calyon Saudi Fransi and merged them into Fransi Tadawul, which was wholly owned by BSF. The name of the new entity was then changed to Saudi Fransi Capital. Saudi Fransi Capital is licensed as an "Authorised Person" by the CMA.

In the year to 31 December 2011, BSF's Investment Banking revenues increased by 289.84 per cent. to SR 82.99 million (compared to the year to 31 December 2010). As at 31 December 2011, total assets attributable to the Investment Banking Division were SR 430.60 million.

Investment Banking products and Services

Brokerage

In 2007, BSF separated its brokerage activities to comply with CMA requirements and created a separate legal entity, "Fransi Tadawul" (now a division of Saudi Fransi Capital), which inherited the brokerage and securities custody business and offers brokerage services in respect of both local Saudi securities and international securities.

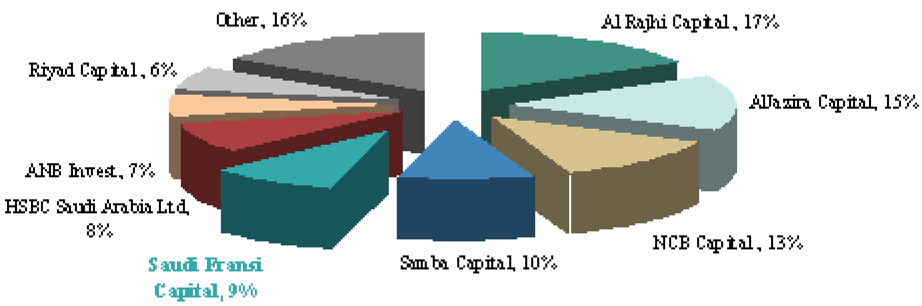
According to the Saudi Stock Exchange (Tadawul) Company, in 2011 Saudi Fransi Capital was the fifth largest local equity broker in Saudi Arabia and during 2011, had an approximate 9 per cent. market share of the Saudi local brokerage market in terms of total turnover. According to the Saudi Stock Exchange (Tadawul) Company, in 2011 Saudi Fransi Capital ranked amongst the top five brokers in Saudi Arabia in terms of total turnover in its international brokerage business.

Saudi Fransi Capital provides a wide trading and price dissemination network, through its online trading system (the "Fransi Tadawul" system), enabling clients to access the Saudi equity markets easily. As at the date of this Base Prospectus, nearly 80 per cent. of trades by volume undertaken by BSF are executed by Fransi Tadawul through its online trading system "Fransi Tadawul".

Saudi Fransi Capital's brokerage customers already have access to a range of tools and services, described further below, which were only accessible to professional securities traders a few years ago. In line with its general strategy, the Bank intends to continue investing in technology to offer wider, more efficient and prompter services to its customers, such as exchange traded funds, and margin lending.

Tools and services to which the customers of Saudi Fransi Capital have access include a trading station with stock prices in real time, search engines, charting tools, technical analysis and news flows from dedicated providers. Saudi Fransi Capital intends to expand its offering of investor services in 2012 to include equity research, and to introduce new product lines such as "Murabaha"- based margin trading facilities.

The chart below sets out the respective market shares in the brokerage business of each of the major participants in the equity brokerage business in Saudi Arabia as of 31 December 2011 in terms of value traded.



(*Source: Saudi Stock Exchange ("Tadawul") Company*)

For non-Saudi equity markets, Saudi Fransi Capital has established a network of brokerage dealing rooms in three regions of Saudi Arabia to which clients have access by telephone. Clients also have access to the Fransi Tadawul platform, which enables them to trade online in GCC, US and European markets.

In 2011, Saudi Fransi Capital signed an agreement with National Technology Group ("Mubasher") which will enable it to launch an updated trading system.

Saudi Fransi Capital also uses latest technologies available to provide multi-market channels to promote trades via mobile phones, the internet and smart devices in order to generate increased electronic trading volumes in the international market by Saudi and GCC investors for Saudi Fransi Capital.

Asset Management

BSF has operated an Asset Management Division since its establishment in 1977. Currently, Saudi Fransi Capital (Asset Management Division) offers a variety of mutual funds and investment solutions for all segments of clients, from retail customers to high-net worth private or corporate clients.

As at the date of this Base Prospectus Saudi Fransi Capital offers 10 mutual funds, seven of which are Sharia compliant:

- Six funds are managed locally: two Saudi equity funds (one Sharia compliant), two money market funds and two Murabaha funds (Sharia compliant); and
- Four funds are managed by international fund managers: these funds cover the principal emerging markets (the Middle East, Asia-Pacific, Brazil, India, Russia and China), as well as Sharia compliant real estate in the Middle East, and all are equity funds.

As at 31 December 2011, total assets under management of mutual funds listed on the Tadawul amounted to SR 3.5 billion (USD 0.9 billion) and, according to the CMA's January 2012 monthly bulletin, Saudi Fransi Capital's share in the Saudi Mutual Fund Market reached 4.2 per cent as at the same date.

In addition, Saudi Fransi Capital currently offers its clients access to 27 third party funds, financial structures and discretionary portfolio management.

Saudi Fransi Capital is developing differentiated, advisory-driven and customised high-performing structured notes and alternative investments targeting the more complex needs of corporate entrepreneurs and high net-worth clients. Products offered include:

- Funds of hedge funds;
- Emerging market debt funds;
- Private Equity; and
- Local and International Discretionary Management.

All these funds and structured products are selected and sourced exclusively from recognised international institutions with proven track-records and ratings.

Saudi Fransi Capital's Asset Management Division has a strong performance record**.** In 2012, the mutual fund business intends to launch a discretionary portfolio management service to manage client investments. This will supplement the services it currently offers and is part of the cross-selling strategy being implemented at the Bank by being targeted at customers of the Wealth Management and Private Banking Division, as well as key clients of the Wholesale Banking segment.

As at the date of this Base Prospectus, Saudi Fransi Capital has its own distribution team of approximately 70 employees, with responsibility for marketing both its asset management and brokerage products and services.

Corporate Finance

Saudi Fransi Capital's Corporate Finance Division is responsible for supplementing the existing services offered by BSF to corporate clients with tailored solutions in the following areas:

- Equity capital markets;
- Private equity placements;
- Debt capital markets; and
- Mergers and acquisitions advisory.

Saudi Fransi Capital acted as financial advisor, lead manager and sole underwriter for the rights issue for Sahara Petrochemical Company that completed in December 2011. In the same year, Saudi Fransi Capital also acted as the joint bookrunner for the pioneering sukuk issued by Arabian Aramco Total Services Company, which was the first transaction in which a private Saudi company had issued a Sukuk into the Saudi domestic market with a tenor of 14 years.

In mergers and acquisitions, Saudi Fransi Capital routinely provides fairness opinions in the context of acquisitions.

BSF has developed a leading position in Saudi Arabia through selective but extensive engagements in high profile debt advisory mandates. In 2007, in order to comply with national regulations BSF transferred its advisory business to Calyon Saudi Fransi, which in 2011 was merged in to SFC.

In October 2006, BSF was appointed financial advisor (jointly with CA-CIB) to Saudi Aramco and Total in the Jubail Export Refinery project (a USD 6 billion project). Calyon Saudi Fransi was also appointed financial advisor in the gas expansion project for National Industrial Gas company in April 2007. In 2009, Calyon Saudi Fransi acted as the financial advisor to Zain KSA for its SR 2.6 billion murabaha facility. In 2010, Calyon Saudi Fransi (jointly with CA-CIB) acted as financial advisor to one of the qualified consortiums for the ongoing construction of Prince Mohammed Bin Abdulaziz Airport, Madinah, the first private airport project in Saudi Arabia.

Competition/positioning

The merger of Fransi Tadawul, Caam Saudi Fransi and Calyon Saudi Fransi into a single company, Saudi Fransi Capital has provided the Group with enhanced cross-selling opportunities through the integration of systems. The merger allows the Group to continue to offer all services offered prior to the integration and in addition expand into new product areas, such as exchange traded funds, margin lending and other products. Over time, the Group anticipates that it will further develop products targeted at specific client segments.

Islamic Banking Team

The Islamic Banking Team is responsible for organising the Islamic banking activities of BSF. For historical reasons (see "– *Islamic Finance for Corporate and Commercial Customers*") it is organised as part of the Wholesale Banking segment, but contributes towards the development of Islamic products and services across all the Bank's business lines. The team serves a support function within the Bank and all the proceeds from the provision of Islamic products and services are attributed to the relevant business line.

In 2002, with a mandate to organise Islamic banking activities and in order to establish market credibility, BSF's Islamic Banking Team engaged one of the leading and internationally renowned Islamic banking scholars, Dr. Mohammed Elgari as BSF's Sharia adviser. Since then Dr. Elgari has assisted BSF in laying down the foundation for Islamic banking governance and the development of Sharia compliant products and services.

In 2003, BSF appointed its Sharia Board to ensure that all its Islamic products were complying with Sharia requirements, from the product specifications to the booking method. Each new Islamic product requires the Sharia Board's approval, which is formalised by the issuance of a "Fatwa" before launch (see – *"Sharia Board"*).

The Bank continues to expand its Islamic banking business and to develop new products and services to meet the increasing demands of its customers, many of whom are gradually moving from conventional finance to Sharia compliant products. It offers a full range of Sharia compliant products to retail customers through its Tawafoq Islamic banking programme. The Bank can now offer Islamic alternatives to most of the conventional products in wholesale, retail banking, investment and treasury services. As at 31 December 2011, 45.7 per cent. of BSF's non-retail loans and advances were made under Sharia compliant structures, with the proportion continuing to increase.

RISK MANAGEMENT

Efficient and timely management of the risks involved in BSF's activities is critical to its financial soundness and profitability. Risk management involves identifying, measuring, monitoring and managing risks on a regular basis. The objective of risk management is to protect BSF's asset values and income streams in order to protect the interests of its shareholders and external fund providers, increase shareholder value and achieve a return on equity that is commensurate with the risks assumed. The risk management framework is integral to the operations and culture of BSF. Risks are proactively managed within the defined risk framework of BSF.

Following best banking practices, areas for risk management have been identified throughout various entities of the Bank, including compliance risks, financial risks (liquidity and interest rate risks), credit risks, market risks, and operational risks. This follows the classification of the Basel Committee.

The Chief Risk Officer (**CRO**), who heads the Risk Management Division (**RMD**), actively manages credit risks, market risks and operational risks. The CRO is responsible for overall implementation of the risk objectives of BSF.

The RMD is divided into five departments: credit risk department, credit administration department, special risk assets department, market risk department, and portfolio review unit. Each department works independently from the business units of the Bank and is responsible for developing policies and procedures to identify measures and mitigate risks on a pre-emptive basis.

The Finance Division manages capital adequacy under the Basel II Rules, while computation of Risk Weighted Assets is conducted independently by the RMD (see "– *Assets and Liability Management*").

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

Assets and Liability Management

The Bank's Assets and Liability Management (**ALM**) policy is intended to manage liquidity and interest rate risk. This is done by monitoring the performance of assets and liabilities against their maturity profiles.

The ALM unit within the Bank's Finance Department has, under the guidance provided by the Bank's Asset and Liability Committee (**ALCO**), devised stringent rules and limits designed to protect the Bank from any liquidity crisis. As such, the Bank has both short and long-term liquidity limits with the Bank's Treasurer being responsible for ensuring that the short-term interest rate risk position is adequate, and the Chief Financial Officer being responsible for ensuring the soundness of the long-term balance sheet.

Short and medium term assets and liabilities are allocated to the Treasury for monitoring while all resources qualifying as long term are monitored from and managed by the Finance Division of BSF. The Bank's capital surplus is transferred to the Bank's proprietary portfolio. The portfolio is intended to return and match the liquidity and interest rate gaps within the limits imposed by the Bank.

The Finance Division is responsible for ensuring that the Bank's capital adequacy ratio complies with international standards and internal policies. It is also responsible for ensuring that the Bank's capital adequacy ratio complies with SAMA requirements. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by SAMA in supervising the Bank. These ratios measure capital adequacy by comparing the Bank's eligible capital with its balance sheet 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 and maintaining a ratio of total regulatory capital to the risk-weighted assets (**RWA**) at or above the agreed minimum of 8 per cent.

BSF has adopted the standardisation approach in all components of Pillar I and Pillar II for the computation of Risk Weighted Assets. It is envisaged that the Bank will adopt an internal rating-based approach in due course.

Although Basel II guidelines recommend a minimum capital adequacy ratio of 8 per cent., BSF aims to maintain a capital adequacy ratio in excess of 13 per cent. Throughout 2011, the Bank's total capital adequacy ratio was above 14 per cent.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT RISK

In common with other financial institutions, BSF faces a range of risks in its business and operations including: (i) credit risk; (ii) market risk; (iii) liquidity risk and (iv) operational risk.

Credit risk

Credit risk represents the potential for financial loss when a borrower or counterparty defaults on its financial or contractual obligations.

The Credit Risk Division is responsible for drawing up credit policies, establishing limits, credit approval authorities and setting concentration limits.

A stringent and cautious approach to risk has helped BSF to build a high quality asset portfolio where cost of Credit Risks has been on average under 0.80 per cent. during the last 5 years (0.18 per cent. in 2011). The cost of credit risk is calculated as the ratio between total newly created credit provisions for a year and average funded credit facilities (on the basis of the total loan portfolio) during the period.

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 fulfil their obligation, and to control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities (see "– *Use of Derivatives*" below).

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

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

Management monitors the market value of collateral, 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.

On an ongoing basis, the Bank continues to improve its organisation 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 submits it to the Credit Committee. The principle of dual signature by the business line and Credit Division applies for all commitments and files are submitted to the Executive Committee for its approval for credit exposures above a certain limit.

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 that comprises of 14 grades and depending on the movement in the qualitative and quantitative elements of a specific customer, its credit rating is adjusted accordingly.

The loans and advances portfolio is reviewed periodically, through the annual credit 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 in accordance with guidelines issue by SAMA and IFRS guidelines. The non performing portfolio is dealt with by the Special Risks Assets Department within the Credit Division. Impairment charge for credit losses are allocated and monitored regularly.

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 both the trading book as well as the non-trading book is managed and monitored using various methodologies and tools provided by CA-CIB such as Value at Risk (**VAR**), stress testing and sensitivity analysis.

Market risk – trading book

In order to manage the market risk in its trading book, the Bank evaluates sensitivity positions against established limits on a daily basis, and also applies 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 the VAR has limitations because it is based on historical correlations and volatilities in market prices and assumes that the future movements will follow a statistical distribution.

The VAR that the Bank measures is an estimate, using a confidence level of 99 per cent. 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 per cent. confidence level depicts that within a one-day horizon, losses exceeding the 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 limitations of VAR and sensitivity analysis 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 ALCO for its review.

Market risk – non-trading book

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

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 financial instruments. The Board of Directors (acting through the Executive Committee) has established special commission rate sensitivity limits for stipulated periods.

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 monitors positions daily and uses hedging strategies to ensure maintenance of positions within the established gap limits.

This policy is in line with the Liquidity Risk management policy (see " – *Liquidity Risk*") inasmuch as the liquidity created by the excess of deposits and working capital over core assets is invested in instruments, the liquidity of which stays within the Bank.

Currency Risk

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Bank's Board of Directors (acting through the Executive Committee) 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 two tables below show the currencies to which the Bank has a significant exposure as at 31 December 2010 and 31 December 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 SR, with all other variables held constant, on the consolidated statement of income (due to the fair value of the currency sensitive non-trading monetary assets and liabilities) and equity (due to change in fair value of commission rate swaps used as cash flow hedges). A positive effect shows a potential increase in the consolidated statement of income or equity, whereas a negative effect shows a potential net reduction in the consolidated statement of income or equity.

(SR'000)	**As at 31 December 2010**			**As at 31 December 2011**		
Currency Exposures	**Change in Currency Rate in %**	**Effect on Net Income**	**Effect on Equity**	**Change in Currency Rate in %**	**Effect on Net Income**	**Effect on Equity**
USD	+5	(65,552)	2,135	**+5**	**(50,147)**	**1,513**
EUR	-3	(2,448)	–	**-3**	**(2,114)**	**–**

In addition, the Bank manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Bank's Board of Directors (acting through the Executive Committee) sets limits on the level of exposure by currency and in total for both overnight and intra day positions, which are monitored daily by the Bank's Market Risk Division in liaison with CA-CIB's Market Risk Division. As at 31 December 2010 and 31 December 2011, the Bank had the following significant net exposures denominated in foreign currencies:

(SR'000)	**31 December 2010 Long (short)**	**31 December 2011 Long (short)**
US Dollar	**(664,332)**	(443,950)
Euro	**55,537**	48,042
Pound Sterling	**100**	(409)
Other	**9,163**	17,459
Total	(599,532)	(378,858)

Within Saudi Arabia's economic context where most exports and imports are settled in US dollars, the largest foreign exchange exposures created by the business flows are in US dollars. These US dollar exposures have a very limited daily variation risk as they benefit from the 3.75 fixed exchange rate between US dollars and SR handled by SAMA through daily transactions with Saudi banks.

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 (acting through the Executive Committee) sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

Management of market risk

The primary focus of the Market Risk Department is to assess, measure and follow-up on the risks that are taken within the trading books managed by the Treasury Department.

The Market Risk Department has access to sophisticated systems to calculate the daily profit and loss of the trading portfolio. At the date of this Base Prospectus, risk limits are only expressed in term of sensitivity. However, the Market Risk Department, in order to enhance its risk assessment methods, also uses the VAR approach. Market Risk publishes a weekly risk report which is circulated to senior management and sent to the Market Risk Department of CA-CIB.

The Market Risk Department has a permanent communication line with the CA-CIB Market Risk Department. There is a three-step process to the creation of trading limits: BSF Treasury formalises a request for new sets of limits to BSF's Market Risk Department. If the request is deemed acceptable by BSF's Market Risk Department, it will support and forward the file to the CA-CIB Market Risk Department that validates the request in order for it to be approved by the Executive Committee.

The Market Risk Department is also responsible for monitoring the risks inherent to the investment portfolio managed by the Finance Division. It is also involved in the investment process (by way of representation on the Investment Committee) where its opinion is required before final approval and processing within the proprietary portfolio.

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, the Bank's management has diversified funding sources and manages its assets with liquidity in mind, maintaining an appropriate balance of cash, cash equivalents and readily marketable securities. BSF's funding gap is closely monitored by the ALM Unit.

In accordance with the Banking Control Law and the Regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7 per cent. of total customers' demand deposits, and 4 per cent. of balances due to banks and other financial institutions (excluding balances due to SAMA and non-resident foreign currency deposits), savings, time deposits, margins of letters of credit and guarantee, excluding all types of repo deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of not less than 20 per cent. 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 per cent. of the nominal value of the securities. In addition, the Bank has repo agreements in place with two banks in order to get liquidity (if needed) from its corporate bond portfolio.

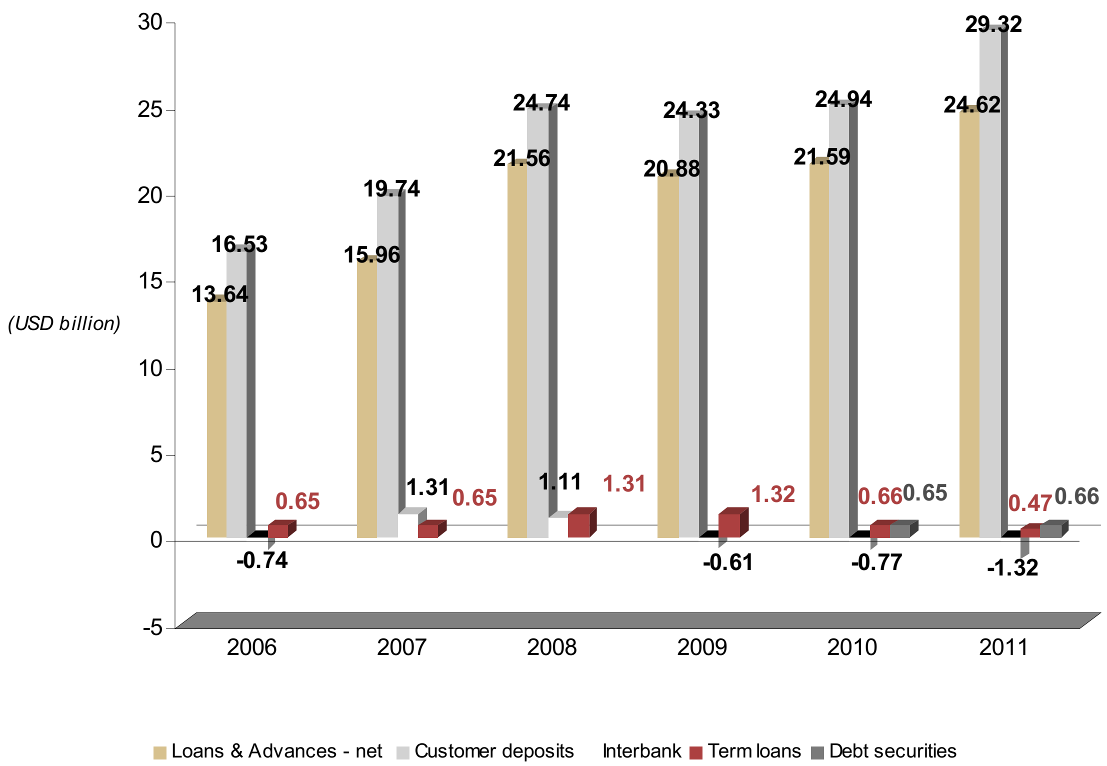
The following table shows the maturity profile of assets, liabilities and shareholders' equity as at 31 December 2011 and 31 December 2010:

SR' 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

SR' 000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
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

In all cases, the expected maturities of assets and liabilities have been determined on the basis of the remaining period at the relevant balance sheet date to the contractual maturity date and do not take account of the effective maturities as indicated by the Bank's deposit retention history. The Bank's management monitors the maturity profile to ensure that adequate liquidity is maintained.

The following table sets out the sources of the Bank's funding for the years from 2006 to 2011:



	2007	2008	2009	2010	2011
Loans to Customers Deposit Ratio	80.9 per cent.	87.1 per cent.	85.8 per cent.	86.6 per cent.	84.0 per cent.
Loans to Total Funding Sources[1]	78.3 per cent.	82.8 per cent.	81.4 per cent.	82.3 per cent.	80.9 per cent.

[1] Total Funding Sources as per SAMA's definition include the long term funding (Term Loans, syndicated borrowings and Debt Securities)

Investment Portfolio

The primary objective of the Bank's proprietary investment portfolio is to assist in closing the interest rate gap between the Bank's assets and liabilities and also acts as a reserve of liquidity for the Bank, as the securities are marketable or are capable of being subject to repurchase agreements.

Under the supervision of the Finance Division, BSF, as of 31 December 2011, managed a proprietary investment portfolio of SR 16.7 billion comprised of bonds (75 per cent.), equity (5 per cent.), and Mudaraba-Musharakah Investments (20 per cent.).

The following table sets out the credit risk exposure of the Bank's investments as at 31 December 2010 and 2011:

	2011	2010
	SR' 000	
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, treasury bills and floating rate notes. Investment grade includes investments having credit exposure equivalent to S&P

rating of AAA to BBB. Unrated investments include local equities, foreign equities, Musharakah and Mudarabah.

Capital Adequacy Management

BSF currently applies the standardised Basel II approach in its calculation of capital ratios. The Finance Division is responsible for ensuring that the Bank's equity is properly calibrated so that it can accommodate the forecasted increase in businesses and related capital consumption.

Every year, the Finance Division, in conjunction with the RMD produces a very detailed plan of the BSF's capital requirements for the next twelve months.

This plan is based on the Basel Committee practice and is called the Internal Capital Adequacy Assessment Plan (the **ICAAP**). The ICAAP focuses on ensuring that even in case of stress, the Bank is adequately capitalised in order to continue developing its activities.

The draft ICAAP is presented for ratification by the Chief Financial Officer to the Executive Committee.

Once validated by the Executive Committee, the ICAAP is officially submitted to SAMA.

Operational risk

Operational risk is the risk of loss arising from system failure, inadequate or failed internal processes, human error or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or lead to financial loss. BSF cannot eliminate all operational risks, but BSF aims to manage risks through an operational risk identification and management framework which includes identification assessment, monitoring, reporting, controlling/mitigating and staff awareness. The framework also includes the use of tools such as segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, internal audits, key risk indicators and data loss management.

The Bank's Operational Risk Department is in charge of developing and implementing procedures and control points in order to minimise the risks pertaining to wrongdoing, unauthorised transactions, human error and other deficiencies linked to systems or external factors.

The department was created in 2005 in order to participate in the implementation of the Basel II rules.

In the context of Basel II (Pillar 1), the Operational Risk Department is in charge of building up a database of operational loss events, implementing a risk management system and developing procedures for the measurement of the operational risk relating to capital.

Use of Derivatives

In the ordinary course of business, the Bank utilises derivative financial instruments for both trading and hedging purposes.

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 favourable 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 an acceptable levels as determined by the Board of Directors (acting through the Executive Committee). 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 and when required) against overall consolidated statement of financial position exposures. Strategic hedging qualifies for cashflow hedge accounting.

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.

DECISION MAKING

Overview

BSF's governance structure is headed by its Board of Directors, which has the overall responsibility for risk management. BSF has a number of Board committees and management committees that, amongst their other responsibilities, oversee and monitor the day-to-day risk management of BSF. These committees are responsible for the overall approval and implementation of BSF's risk management policies, while the formulation, monitoring and reporting of such policies and any exceptions thereto or any required corrective actions is the primary responsibility of the RMD that is headed by the CRO.

Managing risk is a process operated independently of the business units of BSF. BSF aims to reinforce a strong risk management culture through a comprehensive set of processes that are designed to effectively identify, measure, monitor, report, mitigate and control risk exposures effectively.

The Board evaluates risk in co-ordination with BSF's Board committees and management committees. For further information regarding BSF's Board committees and management committees.

Four executive committees are responsible for overseeing the Bank's risk management procedures: the Executive Committee, the Management Credit Committee, the Asset and Liability Committee (the **ALCO**) and the Treasury and Investment Committee (the **TICO**). The Credit Risk Division is responsible for drawing up credit policies, establishing limits, credit approval authorities and setting concentration limits.

A brief description of the four executive committees follows:

The Executive Committee

The Executive Committee is responsible for implementing the Bank's policies, monitoring business performance, managing risks and ensuring the effectiveness of internal controls and the efficient and effective management of the Bank. It is also responsible for considering significant capital expenditure and making a recommendation as appropriate to the Board of Directors. Credit risks and other risk related projects are discussed by the Executive Committee which takes final decisions as to new business opportunities, increases of risk limits and changes in ALM policies.

The Committee acts under the delegated authority of the Board of directors.

The Executive Committee is comprised of the Managing Director, the Deputy Managing Director, and five members selected from amongst members of the Board of Directors. Chaired by the Managing Director, the Executive Committee meets at least four times a year. However, for specific files or matters that need urgent decision, the Executive Committee meets on an ad-hoc basis.

Management Credit Committee

The Management Credit Committee meets every week and is co-chaired by the Managing Director and Deputy Managing Director.

The purpose of this committee is to formalise the view of management on new credit files proposed by the different lines of business, taking into account the analysis performed by the RMD. Credit proposals are discussed by the Management Credit Committee and beyond a certain threshold are referred to the Executive Committee for approval and processing.

Permanent members of the Management Credit Committee are the CRO, the Senior executive Director for business development, the Head of Corporate Banking and the Treasurer.

The Asset and Liability Committee

The ALCO is responsible for formulating and overseeing the implementation of the Bank's asset and liability management strategy. The responsibilities of the ALCO include regular monitoring of the Bank's position with respect to interest rate-sensitive assets and liabilities, monitoring the mismatch of the maturities gap, the Bank's liquidity position, and the characteristics of the loan portfolio, including interest income and expense on various assets and liabilities. The ALCO reviews all matters pertaining to balance sheet items, liquidity risks, interest rate mismatch, new financial risk issues and capital adequacy. The ALCO also monitors conditions in the financial markets, including the foreign currency market. The ALCO also considers new investment proposals submitted by the Chief Financial Officer.

The Managing Director and the Deputy Managing Director chair the ALCO, which meets quarterly and is facilitated by the Chief Financial Officer.

The standardised agenda for meetings of the ALCO includes the following matters:

- Balance sheet evolution: deposits and funding requirements;
- Investment portfolio reporting: performance and compliance with limits;
- Liquidity analysis (all currencies and by currency);
- Concentration analysis;
- Prudential ratios;
- Economical interest rate risk; and
- Capital adequacy reporting and the impact of fair value accounting on equity.

The Treasury and Investment Committee

The TICO is chaired by the Bank's Managing Director and meets every other week to review market conditions and their impact on the balance sheet and profit and loss account of the Bank, the evolution of deposits and the short term liquidity position of the Bank vis-à-vis its limits. The committee also examines market risk indicators for the trading books managed by the Treasury and the sales of capital market products. The TICO also reviews the Treasury's position, the movements in assets and liabilities and the performance of the proprietary investment portfolio.

Credit Risk Division

The Credit Risk Division is organised into four main departments: the Credit Risk Department, the Credit Administration Department, the Special Risk Assets Department, and the Portfolio Review Unit.

Credit Risk Department

The Credit Risk Department is responsible for the second level review of a customer's file (the first level is dealt with by the relevant business line). The Credit Risk Department formalises an opinion on a credit file. Files with a positive opinion are approved by delegated authority within the business line. Where a file carries a negative opinion, these are elevated to the CRO and higher level of delegated authority in the business line. Credit proposals are discussed at the level of the Management Credit Committee and beyond a certain threshold are sent to the Executive Committee for approval and processing.

Credit Administration Department

The Credit Administration Department is responsible for implementing approved customer facilities on completion of securities, documents, and conditions precedent specified in the approval conveyed by the Credit Risk Department, the Management Credit Committee and the Executive Committee, as the case may be.

Portfolio Review Unit

The Portfolio Review Unit conducts routine as well as ad-hoc post approval review of credit exposures. The Unit is responsible to report to the CRO on deviations from the Bank's credit processes as well as any deterioration in credit quality that have not been addressed in the regular credit process of the Bank.

Special Risk Assets Department

The Special Risk Asset Department is responsible for following up on non-performing loans and taking the necessary measures in order to reduce exposures on defaults and optimise potential recoveries from failing parties.

Governance and Credit Approval

Each month, the CRO produces reports measuring portfolio risks for senior management. Monitoring involves analysing the Bank's overall portfolio by geographical location, by risk grade, by business type and by industry. Senior management use these reports to inform their credit decisions.

CREDIT APPROVAL PROCEDURES

Overview

For credits above specified amounts, two committees are convened before a credit decision is finalised, the Management Credit Committee and the Executive Committee.

BSF requires credit approvals in compliance with SAMA regulations and the Board-approved credit procedures for both consumer and wholesale products. BSF applies different credit limits and approval criteria depending on the types of products, customers and industry sectors.

Retail credit approval procedures

BSF has developed a comprehensive retail credit policy and procedures manual, which establishes the retail banking division's overall risk management framework. The manual establishes operating policies and procedures relating to credit approval and verification, collections, risk mitigation, repossession and foreclosure management and fraud. The policy acts as a guideline for the formulation of individual product credit policy and procedures manuals.

For retail loans, the Board has delegated its authority to the head of Retail Banking Group who relies on the Retail Credit Risk Manager under the risk policy approved by Credit Risk Division. This division applies a tiered hierarchy of delegated approval authorities based on the value of the credit commitment sought. Such authorities are set out in authority matrices which must be approved by appropriate internal committees. Credit parameters for retail lending include the following steps:

- Identification of the potential client "Know Your Customer" through access to the Saudi Ministry of Interior individual identification cards database "Al Yaqeen";
- Verification of the potential client's credit history through the Saudi Credit Bureau ("**Simha**") which is a database of all Saudi banks retail customers; and
- Salary certificate, to ensure that the potential client has a fixed source of income.

New retail borrowers are sourced through BSF's sales channels, including direct sales agents and the Bank's retail branch network. The time required for the approval of consumer credit applications is dependent on the size of the exposure, type of product and the credit profile of the applicant. The performance and the monitoring of the retail loan portfolio is reviewed once every month through the Retail Credit Risk Committee which includes the Retail Credit Risk Manager, the CRO, the Head of Retail Banking, and the Head of Audit Division.

Most retail consumer lending is tied to electronic salary assignments.

Wholesale credit approval procedures

The Management Credit Committee has delegated authority that is linked to the customer internal rating and is capped at the limits established by BSF for each customer rating. These ratings are internal ratings for customers given by BSF to each customer based on BSF's credit policy.

Wholesale credit commitments that fall under the mandate of the Management Credit Committee are addressed by the Risk Management Division's "functional delegated lending authorities" approved by the Executive Committee. Certain cases can be escalated to the Management Credit Committee based on the recommendation of the CEO, the CRO or the head of the credit division. The CEO or the head of the credit division may also further sub-delegate "specific delegated lending authorities" that are generally limited to short-term commitments (i.e. a maximum of one year). In addition to categorising wholesale credit commitments by value, BSF also divides its wholesale commitments into the following main product categories: loans, overdraft and syndicated Borrowings.

BSF applies specific standards of review for each category of credit commitment, which enables BSF to examine both the credit risk of the borrower as well as BSF's overall lending exposure per product category. The credit department also complies with product specific policy manuals.

Analysing applications by product category also allows BSF to respond to market developments. This approach allows the credit department to apply different credit approval procedures of BSF to different clients as required.

New wholesale borrowers are sourced through BSF's sales channels including its relationship managers at the wholesale client divisions such as the business banking division, financial institutions division and strategic clients and government banking divisions as well as through BSF's local branch network. Once a new wholesale customer has been identified, the relationship manager prepares a due diligence report on the client as part of the approval process. This due diligence report is based on BSF's review of all relevant information and generally includes: (i) borrower information (including its legal constitution, ownership structure, organisational structure and financial strength); (ii) management (including a list of directors, key officers and their qualifications and affiliations); (iii) industry sector and market information; (iv) relationship with BSF and other banks; (v) financial analysis of the borrower (turnover and profitability, EBITDA, return on equity and other financial ratios); (vi) sources of repayment; and (vii) appropriateness of certain covenants to be included in loan documents. BSF also reviews the borrower's payment history with BSF or other banks, competitive strengths, levels of collateral and other factors to reach its credit decision. This due diligence report is then validated independently by the Credit Risk Department, which prepares a brief assessment of the reports summarising its salient features and recommendation for approval at the appropriate delegated lending authority.

The Risk Management Division also uses a risk grading and security categorisation system to assess and monitor the credit quality of credit applicants as well as existing borrowers. In accordance with BSF's rating matrices, wholesale banking clients are assigned credit grades based on various qualitative and quantitative factors including financial strength of the borrower, industry risk factors, management quality, operational efficiency and company standing. These credit grades are used by BSF to decide the maximum lending amount per customer group and to set minimum pricing thresholds. The risk grading system attempts to grade a borrower based solely on the borrower's characteristics, and therefore does not take into consideration any security provided by the borrower. In addition to facilitating loan approval decision making, credit scores are also used by BSF to set credit facility limits for specific clients. The credit quality of the client and the guarantor, the fair value of security interests and other relevant factors are all considered prior to setting the terms of the facility agreement (including the payment period, processing fee and interest rate).

It can take up to four weeks to approve new loans for wholesale clients from the submission of the initial application including all required documents. However, in practice, approval times tend to be three days based upon service level agreements between the business and credit divisions. The Portfolio Review Unit reviews the credit limits of its wholesale customers at least once each year.

COLLECTION PROCEDURES

Retail banking collection procedures

If a retail banking loan is in arrears, it is processed in accordance with standard operating procedures whereby the loan is considered to be past due one day after it has become delinquent. The account is recorded as watchful debt after 90 days past due.

A loan account becomes delinquent when no payment or instalment is made for 180 days. The following procedures apply to consumer loans, Mastercard /Visa cards, and housing loans:

- On the 181st day, all funded debts become remedial, are downgraded to code "Y" from code "N" (see "*Financial Review – Classification Process for Non Performing Loans*") and provisioned 100 per cent.
- When the account is downgraded to code "Y" from ""'N", the account becomes debit blocked.
- A remedial loan is written off after 360 days from the time the loan is downgraded.

The following procedures apply to consumer loans, Visa cards, and housing loans:

- For Visa cards, interest ceases when the account is downgraded (or becomes non-performing).
- For loans, interest continues where OD interest (Base rate + spread) is applied from date of downgrade.

The collection and fraud unit, which reports to the Head of Retail Banking, pursues all avenues available to collect the outstanding amount from a debtor and/or its guarantor, among other methods, filing a claim with the court and starting a court proceeding to foreclose on relevant collateral.

Wholesale banking collection procedures

If a wholesale banking group loan is in arrears, the CRD is responsible for taking the initial steps to determine if the default can be remedied. If: (i) the loan remains in default for more than 90 days (and is thereby recorded as a NPL as per Basel II requirements); or (ii) negative information about the debtor surfaces, which makes collection of the outstanding loan unlikely, then the credit department refers the loan to the Special Risks Asset Department.

Initially, the Special Risks Asset Department contacts the borrower to discuss repayment of the amount of the loan outstanding. If the borrower is unable to repay the amount outstanding under the original terms of the loan, the remedial risk department may attempt to reschedule interest and principal payments or otherwise restructure the loan in conjunction with the debtor and its advisors. As part of such restructuring, the Special Risks Asset Department may request additional collateral, increase applicable interest rates or accelerate payment schedules. Restructuring plans negotiated by the Special Risks Asset department with the borrower must be approved by the recoveries committees under the Management Credit Committee.

The Special Risks Asset department can review and recommend settlements relating to NPLs with the final approval for any settlements being obtained through the Management Credit Committee or the Executive Committee, as the case may be. If the foregoing measures do not result in payment, the remedial risk department will pursue all other avenues available to collect the outstanding amount from the debtor and/or its guarantor by, among other methods, filing a claim with the court and starting a court proceeding to foreclose on relevant collateral.

Related Party Exposure

BSF enters into transactions with major shareholders, directors, executive management and their related concerns in the ordinary course of its business and at commercial interest and commission rates. Significant loans to related parties are fully secured (100 per cent. collateral). In addition to this, the Bank ensures that all customers' related exposures comply with the Saudi Banking Regulations' single lender's limit which provides that no single borrower may borrow more than an amount equal to 25 per cent. of the Bank's equity.

Business Continuity Plan

With the continuing growth in BSF's banking activities, BSF recognises its obligation to clients, shareholders and staff to ensure the continuity of its business, in line with its commitment to safety, quality and commercial best practices. Business Continuity Management (**BCM**) was established in 2005 as a separate department. BCM works to ensure that internal BSF business groups are able to continue operations through any type of disruption, working across different BSF sites throughout the Kingdom to develop, test, and maintain business continuity.

The introduction of BCM means that the risk of business interruption has been reduced significantly, following the implementation of a full redundancy policy. In addition to its main data centre at its head office building in Riyadh, BSF has established a back-up data centre in its central region office building. This facility is an active and live data centre for most of the Bank's critical systems, applications and network connectivity. During each day, production is shared between the two data centres in Riyadh. Another remote back-up centre and disaster recovery data centre has been established at the Bank's regional office building in Jeddah (Western Region).

Automated file system backups are undertaken regularly and transmitted on high speed communication links to the back-up centres.

Internal Audit

The Bank follows a risk-based audit methodology, which is approved by the Audit Committee (see "*The Audit Committee*") and the Board of Directors. A quarterly report is prepared and discussed with the Audit Committee highlighting key risk issues.

BSF has an independent internal Audit Division. The head of the Audit Division, the Chief Internal Auditor, is seconded from CA-CIB and approved by the Board of Directors. He primarily reports to the Audit Committee and submits the findings of the Audit Division to it for discussion. The Audit Committee also validates the audit plan of BSF Internal Audit, including its policies and procedures, its quality standards and the rationale for future assignments during the year.

BSF's Chief Internal Auditor is the secretary of the Audit Committee and maintains a direct line of communication with CA-CIB in order to ensure the consistency of audit procedures between CA-CIB and BSF or to follow up on inspection missions that have been conducted by CA-CIB's internal audit team during the year.

An "Internal Audit Charter", co-signed by the Chairman of the Audit Committee and the Managing Director, establishes the Internal Audit Division's independence from the rest of the Bank and sets out the role and the powers of the Internal Audit Division.

Compliance and Anti-Money Laundering Control

In view of international consensus on the need for increased transparency, monitoring of financial transactions and in line with the move of Saudi and international banks to strengthen the compliance function in banks, an independent Compliance Division (the **CPD**) was established in 2003 in order properly to organise compliance activities in BSF. This division, headed by the Chief Compliance Officer (**CCO**), has a mandate to assess and update the Bank's obligations in the area of compliance and ethics and to specify operational principles and procedures that must be adhered to by all BSF's groups and divisions.

As such, the CPD helps to ensure that all business lines, divisions, and employees of BSF comply with laws and regulations relating to banking and financial activities, professional and ethical standards and the practices in the BSF Code of Conduct.

The CCO convenes and facilitates the following committees:

- New Activities and Products Committee – chaired by the Managing Director, the purpose of this committee is to formalise the process and approval of new activities and products in order to achieve better control of the risks related to them. The Chief Compliance Officer acts as secretary to the committee.
- Compliance Management Committee (**CMC**) – this committee meets on a quarterly basis under the leadership of the Managing Director – Deputy Managing Director. The CMC draws its membership from BSF risk and control professionals, all business lines, support divisions, and regional managers. The Compliance Management Committee's mandate is to implement the compliance culture throughout the organisation. It focuses on the macro compliance environment of BSF and discusses major compliance issues with respect to local laws, regulations, and BSF's ethical policies. The Compliance Management also reviews progress on ongoing compliance tasks or projects.
- New Relations Approval Committee – this committee, headed by the Managing Director, is comprised of the Deputy Managing Director, the **Chief Compliance Officer** and the head of the business line concerned. Its objective is to approve all new high risk customer relationships and to ratify existing high risk relationships on a periodic basis.

BSF complies with the Saudi Anti Money Laundering Laws and SAMA Rules Governing Anti Money Laundering and Combating Terrorist Financing and the Circulars relating to money laundering. See further "*Saudi Arabian Banking Supervision and Regulation – Anti Money Laundering and Counter-Terrorist Financing*". It is the obligation of the Bank and its employees to notify relevant parties of any suspected money laundering transactions. Staff awareness programmes and integrated systems and procedures are in place to counter money laundering risks. These include transaction monitoring and suspicious transactions reporting.

The Money Laundering Control Function under the Compliance Division is responsible for coordinating the prevention, detection and combating of money laundering activities within the Bank in conjunction with the business units. This function also ensures the development of a "Know Your Customer" culture within the Bank and ensures that procedures and software are both in place to detect unusual transactions.

Anti money laundering training and awareness is provided for all staff in BSF.

Through its Compliance Division, the Bank applies regular checks of its customers in order to verify that it is in compliance with the rules administered by the Office of Foreign Assets Control of the U.S. Department of Treasury and the U.S. Foreign Corrupt Practices Act of 1977. Such checks are made in compliance with international practices and guidelines.

Human Resources and Training

BSF's drive to recruit Saudi Arabian nationals has been of paramount importance. By the end of 2011, the ratio of Saudi Arabian personnel to the total bank staff had risen to over 80 per cent., compared to 79.8 per cent. as at 30 December 2010.

BSF is committed to training its staff to the highest standards and continues to invest heavily in this area. The management training programme or Professional Development Programme underwent a major curriculum reform during 2011. The improvements were a result of survey and interactive sessions held with business line managers and programme graduates.

BSF is committed to creating a healthy, safe and fulfilling working environment. BSF aims to attract and recruit the most talented people and provide the best available training and development facilities to them. It aims to reward its employees with competitive remuneration to encourage them to achieve their best potential within the Bank.

Legal

An independent legal division was established within the Bank in 2009.

The legal division is responsible for providing legal advice on all general and corporate matters. It is also responsible for reviewing, negotiating and drafting bilateral agreements, including but not limited to, conventional and Islamic facilities, treasury documents, trade finance documents, etc, that the Bank may enter into from time. It also, in conjunction with the compliance department, provides advice on regulatory matters. The Bank uses external legal advisers where appropriate.

Information Technology

Organisation

The IT division has 13 non-core IT functions like user support and printing which have been outsourced since 2003, enabling the Bank's available staff to concentrate on banking applications development and maintenance. New development activities currently represent an average of approximately 55 per cent. of the available manpower.

Decision making, collaboration and information are organised through formal committees like the IT Investment Committee and the IT Monthly Committee headed by the MD/DMD, the IT Monthly Production Committee with the participation of users and the Technical Validation Committee. Complete budget reviews are conducted every quarter with an ad-hoc committee.

Production

The Information Technology Division (**ITD**) operates three data centres on a 24/7 basis. The main Data Centre and the Hot Recovery Centre are located in Riyadh. The Cold Recovery Centre is located in Jeddah for security reasons.

ITD operates also three business recovery centres with the necessary number of ready to operate workstations covering the main critical functions in case of disaster.

Centres, branches and offices are connected through a high bandwidth backbone. Every location has a secondary line, using different technology and a different provider, to ensure availability of uninterrupted services. In the same way as for systems, the Bank has adopted a multi vendor policy of communication services to ensure competiveness in maintaining the service level and also to reduce the risk of failure.

Information Technology Security

Since the introduction of on-line banking in 2001, the Bank has dedicated considerable investment and effort towards the development and improvement of its systems security. These efforts were recognised in 2009 when the Bank achieved the ISO 27001/2005 certification which represents an unequivocal recognition and a clear indication of the Bank's unyielding commitment to the highest standards of information systems security. ISO represent the only auditable internationally recognised standard regarding the requirements for Information Security Management Systems (**ISMS**). The Bank is the second bank in the Kingdom and one of the few in the entire region to have obtained this prestigious certificate.

The Bank has put in place several safeguards to ensure that only authorised individuals obtain access to its systems. The Bank is the first bank in the Kingdom to have implemented a biometric Single Sign On solution that provides both strong authentication and ease of use. The Bank is also the first bank in the Kingdom to have set up a Password Auto Repository system (**PAR**) to prevent sharing of administrative passwords. The Bank has put in place a users' identity management system to ensure that requests to systems resources undergo an adequate approval process. To ensure that suspicious behaviours are monitored, detected and acted upon on a timely manner, the Bank has implemented numerous monitoring and detection controls.

The Bank has set up safeguards to ensure the integrity of its data and system resources. The Bank is one of the few banks in the Kingdom to have implemented Tripwire, a change tracking system which monitors data integrity of IT assets by detecting any change across the Bank's entire IT infrastructure.

To measure and improve security effectiveness and minimise security breaches, the Bank has established a Corporate Security Incident Forum (**CSIF**). The Bank has also laid the foundations for a proactive 24/7 incident management system and established a dedicated Security Operations Centre that takes a pro-active approach to security a reality.

The Bank has established a dedicated ongoing awareness program to ensure that its staff remain vigilant when it comes to protecting the Bank's information assets.

To ensure continuous and thorough verification of systems security, the Bank has implemented a four-tier system, including an application risk assessment system to ensure the early identification and mitigation of system risks. The Bank has dedicated considerable efforts towards compliance to the industry's standards and best practices regarding security, for instance, the deployment of automated firewall rules analysers and reviewers.

Insurance

In order to protect itself against various risks that might affect its business, the Bank has taken out the following insurance policies covering the following risks:

Name of Insurance Provider	Nature of Insurance	Interest Insured	Cover
Allianz Saudi Fransi	Property policy (all risks policy)	Building contents, furniture, micro computers, mainframe equipment, ATM, POS, software, professional fees, loss of rent	All risks covered (unless specifically excluded): fire and lightning, earthquake impact, flood, water damage, hail, weather perils (storm, tempest, rain), breakage of windows, explosion, burglary, accidental damage, rental expenses, temporary removal, professional
Saudi Arabian Cooperative Insurance Co	Electronic equipment (all risks policy)	microcomputers, mainframe equipment, POS, ATM, communications equipment, software, increased working costs	Material damage cover (computers), data and media, debris removal
Saudi Arabian Cooperative Insurance Co	Public Liability	Third party liability	Accidental bodily injury (including death / disease), accidental loss or damage to material property
Saudi Arabian Cooperative Insurance Co	Terrorism policy	All BSF buildings and infrastructures	Riots, strike and civil commotion, vandalism, sabotage, terrorism
Saudi Arabian Cooperative Insurance Co	Banker blanket bond, BBB-electronic and computer Crime	Theft – counterfeiting – fraud	Fraud by employee, forged cheques and alteration, forged securities, counterfeit currency, damage to offices and contents, computer system fraud, computer crime, internet banking cover

Litigation

The Bank delivers a statement of pending litigation to its auditors on a quarterly basis.

All outstanding claims submitted to the auditors for their annual review at the end of 2011 are old and of relatively small amounts and, as such, the Bank believes that such claims are not material. No significant new claim has been made against the Bank in the period since 31 December 2011. Progress on these claims is very slow due to the slowness of courts in Saudi Arabia. All major cases are typically solved through compromises and amicable settlements.

Employees and Geographical Breakdown

As at 31 December 2011, the Bank had 2,788 employees, broken down into the following three main geographical regions of the Kingdom:

- Central Region (Riyadh): 1,869 employees (the higher number of staff since the Bank's Head Office is in Riyadh)
- Western Region (Jeddah): 511 employees
- Eastern Region (Al Khobar): 408 employees

The Board of Directors

The Board of Directors is comprised of 10 members selected and elected by the shareholders, namely, eight non-executive members of the Bank (including two representatives of CA-CIB and Credit Agricole S.A.) and the Managing Director and Deputy Managing Director of BSF.

The table below sets out the current members of the Board of Directors:

Name/Residence	Relationship with BSF	Positions outside the Bank
Dr. Saleh A. Al Omair Riyadh, Saudi Arabia	Chairman of the Board of Directors	– Chairman of Credit Suisse Saudi Arabia – Chairman of Saudi Orix Leasing Company – Chairman of Arabia Insurance Cooperative Company
Patrice Couvegnes Riyadh, Saudi Arabia	Managing Director, Chairman of the Executive Committee	– CA-CIB seconded staff
Marc Oppenheim Paris, France	Board member	– Head of International Retail Banking Credit Agricole SA
Thierry Simon Paris, France	Board and Executive Committee member	– Head of Coverage and Investment Banking CA-CIB
Abdulaziz Al Rashed Riyadh, Saudi Arabia	Board and Executive Committee member	– Chairman of Al Rashed Group – Board member Al-Khalej and Education Co.
Ibrahim Al-Issa Riyadh, Saudi Arabia	Board and Executive Committee member	– Chairman and owner of Al-Issa Group – Chairman of Taiba Holding – Board member of Savola group – Board member of Al Marai – Board member of Yanbu Cement
Dr. Khalid Al Mutabagani Riyadh, Saudi Arabia	Member of the Board and Audit Committee	– Board member of Jeddah National Hospital
Mousa Omran Al Omran Riyadh, Saudi Arabia	Board and Executive Committee member	– Board member of Savola group – Board member of Al-Marai group – Board member of Arabian Cement
Abdulaziz H. Al Habdan Riyadh, Saudi Arabia	Board and Executive Committee member	– GOSI representative – Board member STC
Abdulrahman Jawa Riyadh, Saudi Arabia	Deputy Managing Director and Executive Committee member	– Chairman of Saudi Travelers Cheque – Board member of Saudi Fransi Coop Insurance

The Board of Directors meets four times a year. Matters reserved to the Board of Directors comprise agreements on strategy and budgets, review and follow-up on the Bank's financial performance, approvals of major capital expenditures, policies covering treasury, finance and acknowledgement of the conclusions rendered by the Audit Committee.

As at the date of this Base Prospectus, the members of the Board of Directors referred to above have no potential or actual conflicts of interest between their duties to BSF and their private interests or other duties.

The business address of each of the members of the Board of Directors and the Senior Management is PO Box 56006, Riyadh 11554, Kingdom of Saudi Arabia.

The Executive Committee

The Executive Committee is responsible for implementing the Bank's policies, monitoring business performance, managing risks and ensuring the effectiveness of internal controls and the efficient and effective management of the Bank. It is also responsible for considering significant capital expenditure and making a recommendation as appropriate to the Board of Directors. Credit risks and other risk related projects are part of the agenda of the Executive Committee which takes final decisions as to new business opportunities, increases of risk limits and changes in ALM policies.

The Committee acts under the delegated authority of the Board.

The Executive Committee is comprised of the Managing Director, the Deputy Managing Director, and five members selected from amongst members of the Board of Directors. Chaired by the Managing Director, the Executive Committee meets at least four times a year. However, for specific files or matters that need urgent decision, the Executive Committee meets on an ad-hoc basis.

The Audit Committee

The Audit Committee is nominated by the Board of Directors and is comprised of a BSF board member and three independent non-executive members chosen among the shareholders of the Bank. One of the members is the Inspector General of CA-CIB.

The Chief Compliance Officer of BSF sits on this committee as an observer.

The Audit Committee assists the Board of Directors in meeting its responsibilities for reviewing the effectiveness of the system of internal control and for approving the accounting policies and financial statements of the Bank. It is scheduled to meet six times a year. The Audit Committee recommends the appointment of external auditors to the Board of Directors. It also reviews the audit policies proposed by the external auditors and the results of their work. The Audit Committee reviews the draft external auditors' report and recommends them to the Board of Directors for final approval.

The Audit Committee also considers the plans and findings of the Internal Audit Division. The Audit Committee recommends the appointment of external auditors and reviews the plans and results of their work. It provides a direct channel of communication between the external auditors and the Board, helping to ensure that the external audit is conducted in a thorough and effective manner and that the recommendations made in the external auditors' reports are acted upon, as appropriate.

Senior Management

The Bank's senior management comprises the following individuals:

Patrice Couvegnes (CA-CIB seconded staff)

Managing Director

Mr. Couvegnes is a French national on secondment from CA-CIB and has held the position of Managing Director at BSF since September 2011. He is also a member of the Board of Directors and the Head of the Executive Committee of BSF. Mr.Couvegnes, a graduate in Economic Sciences, has extensive overseas experience in many countries. Mr. Couvegnes's recent previous positions within the Crédit Agricole group include the following:

– Regional Officer (Hong Kong) at CA-CIB from 2008 to 2011;

– Senior Country Officer for Japan at Calyon from 2005 to 2008;

– Senior Country Officer for South Korea at Calyon from 2000 to 2005; and

– Regional Head of Corporate Banking at Crédit Agricole Indosuez (Singapore) from 1996 to 2000.

Abdulrahman Jawa

Deputy Managing Director

Mr. Jawa is a Saudi national and has held the position of Deputy Managing Director since 1995. He is also a member of BSF's Board of Directors and Executive Committee. Mr. Jawa is a graduate in Business Administration from Ohio University (USA). He has been working with BSF since 1981 and has an extensive knowledge of the Saudi banking sector and its customers. He previously held the positions of Regional Manager of the Central Region and Manager at BSF's Main Branch. Mr. Jawa is currently the Chairman of Saudi Traveller Cheques Co.

Riyad Al Sharikh

Assistant General Manager

Mr. Al-Sharikh is a Saudi national and has held the position of Assistant General Manager of BSF since 2006. Mr. Al-Sharikh manages BSF development in the various ventures and businesses that BSF has initiated or plans to go in. Mr. Al-Sharikh's recent previous positions at BSF include the following:

- Head of Corporate Operations and Service Support from 2003 to 2006;
- Regional Manager for Retail Banking Division from 1998 to 2002; and
- Manager, Banking Operations Division from 1995 to 1998.

Mohamad M. Abdulhadi

Senior Executive Director

Mr. Abdulhadi is a Saudi national and has held the position of Senior Executive Director, with special responsibility for overseeing the Bank's commercial action plan since January 2012. Mr. Abdulhadi holds a Master of Business Administration in Finance and Economics from the University of Detroit (USA). He is a member of the Executive Committee of the CALYON Saudi Fransi Limited joint-venture and also a member of the various Senior Management Committees of BSF. Mr. Abdulhadi has more than twenty years of experience in the Saudi corporate banking sector. Before joining BSF, Mr. Abdulhadi held the following positions:

- Head of Corporate Banking Group at BSF from 2007 to January 2012;
- General Manager of Corporate Banking, Treasury and Investment at Saudi Investment Bank in Riyadh from 2001 to 2007; and
- Deputy Managing Director at Saudi Hollandi Bank in Riyadh from 1995 to 2001.

Philippe Touchard (CA-CIB seconded staff)

Chief Financial Officer

Mr. Touchard is a French national and has held the position of Chief Financial Officer at BSF since 2005. He is a graduate from Essec Business School with an MBA in Finance, Paris (France). Mr.Touchard has extensive experience in control and management of financial risks. Mr. Touchard's recent previous positions among the Group include the following:

- Chief Operating Officer at CALYON South Africa;
- Chief Internal Auditor at AlSaudi AlFransi Bank (now BSF);
- Chief Operating Officer at Indosuez Asset Management (Spin off of the Asset Management Division of Indosuez); and
- Risk Manager for the Money Market and Bond Funds Department.

Jean-Michel Castelnau (CA-CIB seconded staff)

Chief Risk Officer

Mr. Jean Michel Castelnau is a French national and is the Bank's Chief Risk Officer. Mr. Castelnau joined Credit Agricole group in 1982, having held positions with the Credit Agricole Group in France and abroad, with front office positions within the Corporate Banking Department, middle office positions within Commercial Department and Remedial Department, and previously, in charge of counterparty Risk Department in Switzerland for transactional commodities financing and corporate financing.

Philippe Enjalbal (CA-CIB seconded staff)

Senior Executive Director COO

Mr. Philippe Enjalbal is a French national, and has been the Senior Chief Operating Officer of BSF since April 2010. Mr. Enjalbal hold a Master in Engineering, Mechanics, Electronics, and Micro Technologies from the École Nationale Supérieure de Mécanique et des Microtechniques (France). Mr. Enjalbal previously held the following positions:

- Chief Operating Officer, Singapore Branch at Credit Agricole CIB
- Chief Operating Officer, Czech Republic and Slovakia Branches at Calyon

Kamal Khoder

Head of Corporate Banking Group

Mr. Kamal A Khoder is a Saudi national and is the Head of Corporate Banking Division. Mr Khoder holds an MBA in Finance from the University of Liverpool. Mr. Khoder previously held the following positions:

– Head of Credit Risk Department BSF
– Chief Risk Officer at Banque Bemo Saudi Fransi
– Credit Manager at Banque Libanaise pour le Commerce

Rene du Lac (Credit Agricole seconded staff)

Head of Retail Banking Group

Mr. René du Lac is a French citizen on secondment from Crédit Agricole SA, and is the Head of Retail Banking Group. Mr. du Lac holds a Masters Degree in Monetary and Financial Economy from the University of Montpellier 1. Mr. du Lac has extensive experience of Retail Banking and previously held the following positions:

– Deputy Head of Development and Integration Division, Crédit Agricole SA, Paris, France
– Relational Branch Manager CALYON Réunion Island France
– Senior Relationship Officer CALYON Midi Pyrénées

Adel Malawi

Head of Group Treasury

Mr. Adel Mallawi joined the Bank in 1994 and is currently the Head of Treasury Banking Division. Mr. Mallawi has extensive experience in capital markets and held previously the following functions with BSF

– Junior Dealer Money Market Desk
– Senior Dealer Money Market Desk
– Chief Dealer Money Market from 2004 to 2011

Abdulrahman Mutabagani

Commercial Banking Division Manager

Mr. Abdulrahman Salah Mutabagani is a Saudi national, and has been the Head of Commercial Banking Group since 2009. Mr. Mutabagani holds a Bachelor of Science in Systems Industrial Engineering from the King Saudi University (Saudi Arabia). Mr Mutabagani has extensive banking experience and prior to his current functions, held the following positions:

– Senior Corporate Banker in Institutional Banking Group, National Commercial Bank, Riyadh, Saudi Arabia
– Senior Relationship Manager in Corporate Banking Group, Saudi Hollandi Bank.

Omar Jazzar (CA-CIB seconded staff)

Head of Wealth Management Group

Mr. Jazzar is a Syrian and Swiss national on secondment from CA–CIB and has held the position of head of the Wealth Management Group since 2006. Mr. Jazzar graduated in 1982 from the University of Geneva in Political Sciences. He joined Banque Indosuez (CALYON) in 1989 and worked in the private banking sector in Switzerland. From 1998 to 2006, Mr. Jazzar managed the private banking department in Switzerland, covering Saudi Arabia and the GCC.

Abdulaziz Omar Osman

Chief Compliance Officer

Mr. Osman is a Saudi national and has been BSF's Chief Compliance Officer since 2003. Mr. Osman holds a degree in accounting. Mr. Osman's recent previous positions at BSF include the following:

– Corporate Operation Manager from 1999 to 2003; and
– Corporate Human Resources Division Manager from 1992 to 1999.

Amr AlTaher

Corporate Human Resources Manager

Mr. Al-Taher is a Saudi national and has been BSF's Corporate Human Resources Manager since 2006. He holds a BSc Degree (Bio-Chemistry) from King Saud University. Mr. Al-Taher's recent previous positions include the following:

– Human Resources Expert at Arab Bank from 2001 to 2005;
– Human Resources Manager at BSF from 1999 to 2001; and
– Group Vice President, Human Resources, at Olayan Group of Companies from 1997 to 1999.

Francois D. Delagrange (CA-CIB seconded staff)

Inspector General and Audit Division Manager

Mr. Francois Delagrange is a French national on Secondment from CALYON and currently holds the position of Chief Internal Auditor. Mr. Delagrange holds a major in Economics from "Institut d'Etudes Politiques" Bordeaux, France. Prior to his secondment to BSF, Mr. Delagrange held the following positions:

– Regional Audit Coordinator for Calyon Asia Pacific from year 2004 to 2006
– Deputy Chief Auditor, Inspection Générale Paris, France from year 1999 to 2004
– Senior Vice President International Division Paris, France from year 1994 to 1996
– Deputy General Manager, Treasurer, Tokyo, Japan from year 1989 to 1992

Farjallah Hayek

Head of Legal Division

Mr. Farjallah Hayek, attorney at law (member of Beirut Bar) is a Lebanese national. He joined BSF in 2005 and has been the Head of the Legal Division of BSF since 2009. Mr. Hayek holds a Master in Law from the Saint Joseph University, (Lebanon). Mr. Hayek was previously the head of Legal Department of Société Générale de Banque au Liban SAL Beirut Lebanon.

Abdul Qadeer Mirza

Chief Accounting Officer

Mr. Mirza is a Canadian national and has been the head of Accounting and Financial Control since 2004. Mr. Mirza is a Certified Public Accountant (CPA) from the State of California (USA) and is a graduate in Economics. Since he joined BSF in 1976, Mr. Mirza has held the following positions:

– Head of the Finance and Support Services Group from 1998 to 2004; and
– Head of General and Financial Accounting from 1989 to 1998.

As at the date of this Base Prospectus, the Bank's senior management referred to above have no potential or actual conflicts of interest between their duties to BSF and their private interests or other duties.

Sharia Board

The Sharia Board of BSF comprises reputed scholars in Islamic jurisprudence, including:

Sheikh Abdullah Al Manea (chairman), Dr. Mohammed Elgari (member and also BSF Sharia adviser) and Dr. Abdul Sattar A Guddah (Member), each of whom are highly respected in their field. Most of the local banks have either all or two of the above persons in their Sharia committees.

Dr. Elgari and Abdul Sattar A Ghuddah are also members of the CA-CIB Islamic Sharia Committee.

The duties of the Sharia Board include:

- exercising Sharia control and oversight functions over the Islamic banking operations of the Bank;
- exercising Sharia control and oversight over Islamic mutual funds;
- studying samples of contracts and agreements used in connection with all Islamic banking operations, including investment services requested by customers and giving clearances from a Sharia compliance perspective;
- studying documents, forms, procedures and processes followed by the Bank in connection with Islamic banking operations and giving approval from a Sharia compliance perspective; and
- contributing to the enhancement of Islamic banking awareness of the Bank's staff by recommending training courses and programmes on Islamic banking and participating in their implementation.

In the event of the Sharia Board's inability to discharge its duties, it reports the same in a written report to the Board of Directors.

KINGDOM OF SAUDI ARABIA

Introduction

The Kingdom of Saudi Arabia, situated in the southwestern part of Asia, comprises almost four-fifths of the Arabian Peninsula, an area approximately one-third the size of the continental United States. The Kingdom is the largest country in the Gulf Cooperation Council (the **GCC**) and the second-largest Arab country. Its geography is dominated by the Arabian Desert and associated semi-deserts and shrubland. The Kingdom is bordered in the north and northeast by Jordan and Iraq, in the east it is bordered by Kuwait, Qatar and the United Arab Emirates, it is bordered by Oman in the southeast and it is bordered by Yemen in the south. It is connected to Bahrain by the King Fahd causeway.

The modern Kingdom was declared in 1932 by King Abdul Aziz ibn Abdul Rahman Al Saud. The capital of the Kingdom is Riyadh. Since the discovery of oil fields in the eastern region along the coast of the Arabian Gulf in 1938, the Kingdom has experienced rapid growth and is now a leading producer of oil and natural gas, holding more than 20 per cent. of the world's proven oil reserves (source: United States Energy Information Administration (**USEIA**)).

Government and legal framework

The Kingdom is a monarchy with a political system rooted in the traditions and culture of Islam. The King is both the head of state and the head of the government. Its constitution, the Basic Law issued by Royal Decree number A/90 and dated 27/8/1412H (corresponding to 2 March 1992), specifies that the King must be chosen from among the sons of the first King, Abdul-Aziz bin Saud, and their male descendants. In 2006 the Allegiance Council was established, comprised of (i) King Abdul-Aziz bin Saud's surviving sons; (ii) one son of each deceased/disabled son of King Abdul-Aziz bin Saud and (iii) one son of the King and one son of the Crown Prince, both appointed by the King, to determine which member of the royal family will be the next King and the next Crown Prince.

The King controls the legislative, executive, and judicial bodies and royal orders and royal decrees that together form the basis of the Kingdom's legislation. The King is also the Prime Minister, and he presides over the Council of Ministers (*Majlis al-Wuzara*), which was established by Royal Decree in 1953 and comprises the first deputy Prime Minister and 23 Ministers with portfolios and five Ministers of State. The King makes appointments to and dismissals from the Council of Ministers. The Council of Ministers is responsible for, among other things, executive and administrative matters such as foreign and domestic policy, defence, finance, health and education. The King and executive officials at the local, provincial and national levels also hold regular meetings, which are open to members of the public (*majalis*) and where members of the public may discuss issues and raise grievances.

Since the founding of the modern Kingdom in 1932, and as per the Basic Law of Governance in Saudi Arabia adopted by Royal Order in 1992, Sharia (Islamic law) has been the pillar and source of the Kingdom's basic system of government, and is the paramount body of law in the Kingdom.

The Sharia is comprised of a collection of fundamental principles derived from a number of different sources, which include the *Holy Qu'ran* and the *Sunnah* (the witnessed sayings and actions of the Prophet Mohammed). In addition to the Sharia, Saudi Arabian law is also derived from enacted legislation that may not conflict with Sharia principles. Legislation is enacted in various forms, the most common of which are Royal Orders, Royal Decrees, Council of Ministers resolutions, High Orders, ministerial resolutions and ministerial circulars having the force of law. All such laws and regulations are ultimately subject to, and may not conflict with, the Sharia and each Saudi Arabian court or other adjudicatory authority is required to interpret such legislation accordingly.

In 1992, in conjunction with the promulgation of the Basic Law of Governance in Saudi Arabia, the Law of Provinces and the Law of *Majlis Al-Shura* (the Consultative Council) were introduced. The Consultative Council has the authority to draft, review and debate legislation, which is then presented to the Council of Ministers for approval. Legislation approved by the Council of Ministers only acquires the force of law once the King has issued his approval by way of a Royal Decree. However, the Council of Ministers or the relevant government ministry or authority may be delegated the power to enact further "executive regulations" that govern the implementation of such legislation.

In 1993, executive regulations for the Law of the Council of Ministers were introduced and, in 2003, the cabinet approved procedures for the election of half of the members of the municipal councils. In

2011, the King announced that women would be allowed to stand for election to, and vote for the members of, the municipal councils in 2015.

The Kingdom's judicial system is composed of *Shari'a* courts of general jurisdiction, a system of administrative courts known as the Board of Grievances and various adjudicatory or semi-judicial committees with special jurisdiction over such matters as banking transactions, securities regulation, intellectual property, labour disputes, electricity industry disputes and medical malpractice. The Board of Grievances also holds jurisdiction over general commercial disputes. Saudi Arabian judges enjoy wide discretionary power in deciding disputes and many areas of law, including civil and commercial law, remain uncodified. Saudi Arabian judges are not bound by judicial precedent. Though efforts have been made to record and publish selected samples of judicial decisions, the vast majority of court decisions in Saudi Arabia are not published or available to the public.

In 2007, judicial reforms were announced, including the establishment of courts of appeal and two supreme courts as well as the merger of most special adjudicatory committees into the general *Shari'a* courts, though exceptions were made for certain adjudicatory committees. The main committees which were exempted from these reforms are: (i) the Committee for the Resolution of Banking Disputes, which operates under the aegis of the SAMA, (ii) the Committee for the Enforcement of the Banking Control Law, which also operates under the aegis of SAMA, (iii) the Committee for the Resolution of Securities Disputes, which operates under the aegis of the CMAand (iv) the Committee for Resolution of Custom Duties Disputes. The 2007 reforms also included the transfer of jurisdiction over commercial disputes from the Board of Grievances to the general *Shari'a* courts. However, with the exception of the establishment of the courts of appeal and the two supreme courts, most of these reforms are yet to be put into practice.

Population and employment

The population of the Kingdom, based on preliminary estimates of a 2010 census carried out by the Central Department of Statistics and Information of the Ministry of Economy and Planning (**CDSI**), is approximately 27.1 million which represents a growth of 1.8 per cent. from the previous year's estimate of 26.7 million. Of this, Saudis constituted 68.9 per cent. (18.7 million) and non-Saudis 31.1 per cent. (8.4 million). The Kingdom has one of the highest population growth rates globally and estimates show that the Kingdom's population approximately doubled during the last two decades, rising from 15.2 million in 1990 to 27.1 million in 2010 (source: *Forty Seventh Annual Report, The Latest Economic Developments 1432H (2011G), Research and Statistics Department, SAMA* (the **SAMA Report**)).

The Manpower Research of 2009 issued by the CDSI indicated that the total labour force in the Kingdom was 8.6 million, 49.8 per cent. of which consisted of Saudis and 50.2 per cent. of which consisted of non-Saudis (source: the SAMA Report).

Economy

The Kingdom's economy is primarily hydrocarbon based and it is the largest economy in the GCC. In 2009, approximately 75 per cent. of budget revenues and 90 per cent. of export earnings came from the Kingdom's oil industry. The oil industry comprised approximately 45 per cent. of the Kingdom's gross domestic product in 2009, with an additional 40 per cent. derived from the private sector. The Kingdom's proven reserves of oil remained unchanged at 264.5 billion barrels at the end of 2010. However, the Kingdom's proven reserves of natural gas rose by 1.2 per cent. to 283.1 trillion standard cubic feet at the end of 2010 compared to 279.7 trillion standard cubic feet at the end of 2009 (source: the SAMA Report).

The table below shows the Kingdom's crude oil production and exports for each of the years indicated:

	2010	**2009**	**2008**
		(million barrels)	
Total crude oil production	2,980.4	2,987.3	3,366.3
Daily average crude oil production	8.2	8.2	9.2
Total crude oil exports	2,425.1	2,287.7	2,672.4

(Source: the SAMA Report)

Oil prices increased in 2010 and this contributed to an increase in gross domestic product ("**GDP**") at current prices (including import duties) of 18.8 per cent. to SR 1,679.1 billion in 2010. The oil sector's contribution to GDP grew by 31.6 per cent. to SR 837.6 billion, and the GDP contribution of the non-oil sector grew by 7.5 per cent. to SR 792.8 billion. In addition, the GDP contribution of the non-oil private sector grew by 6.3 per cent. to SR 482.6 billion and of the government sector grew by 9.3 per cent. to SR 310.1 billion.

The table below shows the Kingdom's nominal GDP and related growth rates and the GDP at constant 1999 prices and related growth rates for 2008, 2009 and 2010.

	2010	**2009**	**2008**
		(SR billion)	
Nominal GDP	1,679.1	1,412.6	1,786.1
Percentage change in nominal GDP growth rates	18.9	(20.9)	23.8
Real GDP	871.6	836.9	836.1
Percentage change in real GDP growth rates	4.1	0.09	4.2

(Source: the SAMA Report)

The following table shows the contribution by economic sector to the Kingdom's GDP at constant 1999 prices:

	2010(1)		**2009**	**2008**
	(SR millions)	**2010 compared to 2009, % change)**	***(SR millions)***	***(SR millions)***
Industries and other producers (excluding government service producers)				
Agriculture forestry & fishing	39,986	1.1	39,536	39,731
Mining and quarrying	204,559	2.2	200,131	219,065
Crude oil & natural gas	201,433	2.2	197,095	216,104
Other mining & quarrying activities	3,125	2.9	3,036	2,962
Manufacturing industries	109,753	4.4	105,100	103,509
Oil refining	21,886	1.3	21,615	22,354
Other industries	87,867	5.2	83,485	81,154
Electricity, gas & water	16,161	7.9	14,973	14,018
Construction and building	60,382	4.1	57,982	57,629
Wholesale & retail trade & restaurants & hotels.	77,190	5.8	72,992	71,212
Transport & storage & communication	64,745	8.0	59,946	55,822
Finance, insurance, real estate and business services	109,257	1.6	107,517	104,781
House ownership	55,915	1.9	54,875	53,951
Others	53,342	1.3	52,641	50,829
Community & social & personal services	33,865	5.0	32,267	31,028
Minus calculated banking services	16,196	2.1	15,869	15,528
Government service producers	161,801	6.1	152,510	145,210
Total (excluding import duties)	**861,501**	**4.2**	**827,085**	**826,478**
Import duties	10,142	2.9	9.853	9,655
GDP	**871,643**	**4.1**	**836,938**	**836,133**

(1) Preliminary data

Source: Central Department of Statistics and Information, Ministry of Economy and Planning

Domestic stock market

The CMA is the sole regulator and supervisor of the Kingdom's capital markets and issues rules and regulations which are aimed at protecting investors and ensuring fairness and efficiency in the market.

The level of the general share price index of the Tadawul increased from 6,121.8 at 31 December 2009 to 6,620.8 at 31 December 2010. During the same period the total market capitalisation of companies listed on the Tadawul increased from SR 1,196 billion to SR 1,325 billion.

Credit rating

The Kingdom currently has the following credit ratings assigned to by the three main credit rating agencies:

	Moody's	Fitch	S & P
Long-term foreign currency	Aa3	AA-	AA
Outlook	Stable	Stable	Stable

All three rating agencies have the Kingdom under observation.

Foreign investment

The Saudi Arabian Foreign Investment Law requires all foreign investment in the Kingdom to be licensed by the Saudi Arabian General Investment Authority (**SAGIA**). Except for those areas expressly excluded by a list (referred to as the **negative list**) issued by the Supreme Economic Council under its authority in accordance with Article 3 of the Saudi Arabian Foreign Investment Law, foreign investment is permitted in all investment activities. The negative list is regularly updated. As part of its effort to attract foreign investment, the Kingdom acceded to the WTO in December 2005. SAGIA has the jurisdiction to license foreign investment in the Kingdom, in addition to the licensing of particular types of investment which are entrusted to other agencies (e.g., power generation and health care). Minimum investment thresholds for foreign investors may be amended by SAGIA from time to time. Currently, the minimum investment thresholds for obtaining foreign investment licences are set as follows: (i) SR 25 million for agricultural projects; (ii) SR 30 million for real estate projects; (iii) SR 26.6 million for trade projects; and (iv) SR 500,000 for general services.

The government is aiming to increase and encourage foreign investment by focusing on ten key sectors, including petrochemicals, electricity and financial services. Since 2005, there has been a 101 per cent. increase in foreign direct investment (source: SAGIA).

Government development strategy

In 2010, the Kingdom adopted its ninth five-year development plan for 2010 to 2014 (the **Plan**), allocating SR 4,910.5 billion for public expenditure. The Plan has five principle aims: (1) improving and raising the living standards and quality of life of citizens through increasing per capita income; (2) increasing employment rates by improving education and training; (3) improving the infrastructure of the Kingdom to expand the production base of each region in accordance with its development potential and comparative advantages; (4) improving the structure of the Kingdom's economy by further diversifying the production base of the national economy and increasing the contribution of non-oil sectors to GDP; and (5) increasing the competitiveness of the national economy and products and boosting the national economy's capacity to attract national and foreign direct investment (source: the SAMA Report).

The government is keen to increase employment amongst Saudi nationals (particularly, among Saudi youth) and is encouraging the growth of the private sector in order to diversify its economy from its current reliance on oil. Diversification efforts are focusing on power generation, telecommunications, natural gas exploration, and the petrochemical sector. Almost 6 million foreign workers play an important role in the Kingdom's economy, particularly in the oil and service sectors. The government has substantially boosted spending on job training and education, most recently with the opening of the King Abdullah University of Science and Technology, the Kingdom's first co-educational university, and the extension of the King Abdullah Foreign Scholarship Program in 2011 by another five years.

THE BANKING SECTOR IN THE KINGDOM OF SAUDI ARABIA

General

The Kingdom has the largest economy in the GCC region in terms of GDP and as such Saudi banks earn significant weight and influence in these regions. In 2011 the Kingdom had a GDP of approximately SR 2.16 trillion (USD 576.8 billion), which comprised approximately 43 per cent. of the GDP of the entire GCC region (*source: Jadwa Investment report 31 December 2011*). There are at present 23 commercial banks operating in the Kingdom, of which 12 are incorporated in the Kingdom (*source: SAMA monthly statistics, January 2012, published February 2012*). The remaining eleven operating banks are branches of banks based in countries of the GCC other than the Kingdom, namely; Gulf International Bank (**GIB**), Emirates Bank, National Bank of Bahrain, National Bank of Kuwait and Muscat Bank, and 6 international banks; namely JPMorgan Chase, BNP Paribas, T.C. Ziraat Bankası A.Ş., State Bank of India, National Bank of Pakistan and Deutsche Bank. Of the 12 Saudi operating banks, 11 are publicly-listed joint stock companies and their shares are traded on the Saudi Stock Exchange (Tadawul). National Commercial Bank (**NCB**) is currently the only unlisted Saudi bank, and is majority-owned by the Saudi government.

All 12 Saudi banks provide a broad range of retail and wholesale banking products and services. Al Rajhi Bank, Bank Al-Bilad, Bank Al Jazira and Al Inma Bank provide only Sharia compliant products and services. The remaining eight banks provide a combination of Sharia compliant and conventional banking products and services.

In addition to the commercial banks, there are 5 state-run credit institutions, namely the Saudi Industrial Development Fund, the Real Estate Development Fund, the Agricultural Development Fund, the Saudi Credit & Saving Bank and the Public Investment Fund, which provide funds for targeted sectors.

As at 31 December 2011, there were 1,646 bank branches and 11,766 ATMs and 88,793 point of sale (**POS**) terminals in the Kingdom (*source: SAMA monthly statistics, January 2012, published February 2012*).

Key highlights of the trends and outlook for the Saudi banking industry are as follows:

- The combination of growing consumer appetite and renewed demand in the corporate sector has allowed for a strengthening of most banks' balance sheets.
- With the rising sophistication and education of an increasingly young Saudi population, the Bank expects the demand for retail banking services in the Kingdom to continue to expand. The younger generation Saudis are moving away from using cash to using banks for their financial transactions. The Bank expects this to lead to an expansion in the demand for retail services, an area dependent on the ability of Saudi banks to embrace technology. Most banks in the Kingdom have upgraded their automation processes, including offering internet banking, and diversified their retail products to be better positioned to compete more effectively.
- Fee based services and products for retail markets are proliferating, the focus being turned to non-funded business volumes and cross-selling opportunities.
- Islamic banking continues to be an area of growth.

History

The first bank in the Kingdom was the Netherlands Trading Society which was founded in 1926 and is still operating in the Kingdom as the Saudi Hollandi Bank. NCB, established as a partnership in 1950, was the first wholly Saudi-owned bank. Prior to 1976, a number of wholly foreign-owned banks operated branches and subsidiaries in the Kingdom, including The British Bank of the Middle East, whose operations were taken over by SABB in 1978.

In 1976 the government of the Kingdom issued a directive requiring all banks operating within its borders to convert to entities incorporated locally in which at least 60 per cent. of the shares are owned by Saudi nationals.

In 2000, the first branch of a foreign bank authorised in over 40 years was opened in the Kingdom, in connection with changes in GCC countries' policies concerning cross-border banking. The new entrant was GIB, an off-shore bank based in Bahrain and owned by the six GCC states. GIB had been active in the Kingdom for many years, but having a branch allowed it to compete at close hand. More recently, SAMA has granted several banking licences and these new banks will intensify competition.

There are also non-bank competitors in brokerage and personal finance. The Saudi banking sector has seen an accelerating competitive convergence focused on Islamic banking, private and affluent segments, brokerage and investment banking, as well as aggressive investments in new distribution, marketing and technology

Recent Developments

As part of the Saudi government's general initiative to liberalise the Saudi economy and encourage foreign investment, the banking, financial and insurance sector is also being opened up to foreign participation.

SAMA has granted licences to GIB, Emirates NBD P.J.S.C., National Bank of Bahrain, National Bank of Kuwait, Muscat Bank, JPMorgan Chase, BNP Paribas, Deutsche Bank, National Bank of Pakistan, State Bank of India and T.C. Ziraat Bankası A.Ş. to operate branches in the Kingdom. The Saudi government is developing the capital markets sector in the Kingdom and has introduced capital markets legislation with the enactment of the Capital Market Law (issued by Royal Decree No. M/30 dated 2/6/1424H (corresponding to 31/7/2003G). CMA was also established to regulate the capital markets business in the Kingdom. In line with the government's overall desire to develop and boost the capital markets in the Kingdom, it is expected that CMA will encourage the participation of foreign investment banks. Since its establishment, the CMA has licensed more than 80 entities to conduct various types of securities business in the Kingdom (*source: CMA*).

The Corporate Banking Segment

The majority of banking assets in the Kingdom are loans to businesses, which constituted more than 39 per cent. of total banking assets as at 31 December 2011 (*source: SAMA quarterly statistics, fourth quarter 2011, published February 2012*). This has been driven by strong economic growth from the rise in oil prices and increased investment within the Kingdom in various sectors such as electricity, water and health services, building and construction, commerce and government projects in oil and gas, infrastructure and education. Government stimulus to the Saudi economy has contributed to growth in corporate assets.

Though commercial mortgages are a lucrative business in developed countries, Saudi banks have not been very active in this product due to legal and operational hurdles. However, financing is provided for real estate development purposes, which does not fall under commercial mortgages.

Simah provides consumer credit information and is considering introducing commercial credit information services for corporates. This will help the exchange of credit-related information among member banks, giving a broad coverage of the risk profiles of Saudi customers.

Investment banking activities have been growing rapidly in the Kingdom. The CMA has issued licences to more than 80 entities for new businesses to conduct securities business (*source: CMA*).

Project finance has been a strong growth area with several projects taking place during the last two years. This area is expected to continue to grow as a result of planned investments in infrastructure and basic industry.

The Personal Banking Segment

Consumer lending constituted approximately 16 per cent. of total banking assets in the Kingdom, or SR 250 billion, at 31 December 2011 (*source: SAMA quarterly statistics, fourth quarter 2011, published February 2012*). The strong growth in consumer finance has been driven by several factors, including:

- strong economic growth;
- product innovation and a rapidly expanding range of offerings;
- increased credit card penetration; and
- the creation of Simah, whose purpose is to assist in credit risk management.

The value of the credit card loans market was SR 7.8 billion as at 31 December 2011 (*source: SAMA quarterly statistics, fourth quarter 2011, published February 2012*). This credit card growth is expected to continue as a result of the increasing use of electronic forms of payment within the Kingdom. The majority of personal lending is tied to electronic salary assignment, thereby enhancing asset quality and effectively reducing the risk associated with personal lending which, coupled with higher margins than in corporate lending, has made personal finance a particularly attractive segment for banks in the Kingdom.

Simah offers consumer credit information services to respective members in the Kingdom. Simah was established by the commercial banks operating in the Kingdom within the context of the current banking act and regulations issued by SAMA. Simah aggregates credit-related information among participating members to provide credit providers with a more complete risk profile of customers.

Islamic Finance

Islamic finance has been a main growth area for the Saudi financial economy and has been one of the most significant developments in financial markets in recent years. The Kingdom is one of the largest and the fastest growing markets for Islamic banking in the world. The Islamic banking industry in the Kingdom encompasses a blend of institutions of different categories ranging from fully dedicated Islamic banks to conventional banks offering Islamic banking services through separate divisions/windows. Many banks in the Kingdom have Sharia boards opining as to the application of Sharia principles in financing structures and approving all Islamic products.

Currently a wide range of Sharia compliant products are available in the market for corporate and personal banking segments covering credit, deposit, investment and treasury offerings.

The personal banking segment has experienced the strongest demand for Islamic banking products and services with consumer Islamic assets forming the bulk of total consumer assets. In addition to deposit products, Islamic financing solutions include personal finance, home finance and Islamic credit cards. With growing business activity in the real estate sector and a growing population, Sharia compliant home financing is expected to be a major driver of Islamic personal banking asset growth in future.

Credit demand from the corporate banking segment is rapidly growing following the launch of infrastructure projects and increasing interest in manufacturing. Main product offerings include *Ijara* and *Murabaha* and are offered as bilateral facilities as well as through syndications. To cater to this market segment, Islamic banks have also introduced innovative Sharia compliant solutions. In the last two years, there have been several large size Islamic project finance transactions attracting participation from a large number of banks. This has placed the Islamic banking sector in a competitive position *vis-à-vis* its conventional counterpart. Corporations tapping the capital markets, both for debt and equity issues, find it difficult to raise funds if they have conventional financing on their balance sheets. This has led to many companies converting their conventional facilities to Islamic facilities.

The Kingdom has also witnessed rapid development of the sukuk market with a number of new issues being oversubscribed and attracting large investments. Moreover, in June 2009 the Saudi Stock Exchange (Tadawul) launched the new sukuk and bonds market providing many services such as listing, order submission, trade execution, clearing and settlement, and prices information dissemination. The new market will enable investors to diversify their investments by buying and selling sukuk and bonds through existing brokerage firms and by using the same portfolio that is used for trading securities. The Islamic banking segment is expected to continue to grow at the same pace with credit demand anticipated from corporate and consumer segments. It is also expected to be accompanied by simultaneous increase of innovative Islamic product offerings and growing awareness and demand within the general public for sophisticated Sharia compliant solutions.

Treasury

The treasury activities of Saudi banks have increased over the past few years as the financial markets have become more sophisticated with the increased use of financial instruments. Some Saudi banks are able to offer their customers structured products that make use of derivatives and that are also Sharia compliant.

Investment Banking and Asset Management

The activity of investment banking and mutual fund services has seen large growth during the past years. Brokerage services especially flourished during the 2003-2006 period, when Tadawul peaked to all-time highs. Following market corrections in 2006, trading volumes declined considerably and brokerage fees have since decreased noticeably. During the same period the market appetite for mutual fund investments showed a similar pattern (*source: Mutual Funds Net Asset Value published on a daily basis on the Saudi Stock Market (Tadawal)*).

In harmony with the government's drive to develop an efficient capital market platform, a number of banks, including the Bank, embarked on providing corporate finance and equity and debt capital markets advisory services to companies. Since 2003, a number of initial public offerings (“**IPO**”) have been effected, several of which were Government initiatives.

Furthermore, the CMA has issued licenses to several financial institutions to engage as principal or as an agent in equity lead arrangements, equity management arrangements and/or advisory and securities custody services. Following this, a number of Saudi banks have established separate subsidiaries to undertake these activities.

SAUDI ARABIAN BANKING REGULATION AND SUPERVISION

General The Saudi Arabian Monetary Agency

SAMA was established pursuant to Royal Decree No. 30/4/1/1046 dated 25/7/1371H (corresponding to 20/4/1952G). SAMA statutes were issued in accordance with Royal Decree No. 23 dated 23/5/1377H (corresponding to 15/12/1957G). Some of SAMA's major objectives are to:

- issue local currency and support its value inside and outside the Kingdom;
- act as the Government's own bank;
- control commercial banks and money exchange entities;
- manage the Kingdom's foreign exchange reserves;
- implement monetary policy for promoting price and exchange rate stability; and
- promote growth and ensure the soundness of the financial system.

The Banking Control Law (**BCL**) was issued by Royal Decree No. M/5 dated 22/2/1386H (corresponding to 12/6/1966G). The law aims at protecting banks, customers' deposits and shareholders and securing adequate liquidity levels. The law prohibits banks from undertaking any activities that might cause damage to their shareholders and customers. In addition, the law prohibits individuals and companies from using the word "bank" or its synonyms in their names or conducting any banking activities without obtaining a licence from SAMA. The BCL sets out the framework within which banks must operate in the Kingdom and is supplemented by circulars, directives and guidelines issued by SAMA from time to time. These circulars, directives and guidelines are generally not made publicly available outside the banking sector.

CMA

CMA was established by the Capital Market Law, issued by Royal Decree No. (M/30) dated 2/6/1424H (corresponding to 31/7/2003G) (the **CML**). CMA is a governmental organisation with financial, legal and administrative independence.

CMA regulates the Kingdom's capital markets. It issues the required rules and regulations for the implementation of the provisions of the CML aimed at creating an appropriate investment environment. It has CMA to:

- regulate and develop the capital market;
- protect investors and the general public from unfair and unsound practices involving fraud, deceit, cheating, manipulation and insider trading;
- achieve fairness, efficiency and transparency in securities transactions;
- develop measures to reduce the risks pertaining to securities transactions;
- develop, regulate and monitor the issuance of, and trading in, securities;
- regulate and monitor the activities of entities subject to the control of CMA;
- regulate and monitor full disclosure of information related to securities and their issuers; and
- regulate proxy and purchase requests and public share offerings.

Management of Liquidity and Credit Risk

Under the BCL, a bank's deposit liabilities must not exceed 15 times its reserves and paid-up share capital or invested capital. The current percentage specified by SAMA for a statutory deposit is 7 per cent. of total customers' demand deposits, and 4 per cent. of balances due to banks and other financial institutions (excluding balances due to SAMA and non-resident foreign currency deposits), savings, time deposits, margins of letters of credit and guarantee, excluding all types of repo deposits.

In addition to the statutory deposit, each bank in the Kingdom is also required to maintain a liquid reserve of at least 20 per cent. of its total deposit liabilities. The liquid reserve must comprise cash, gold or assets which can be converted into cash within a period not exceeding 30 days in order to comply with the requirements of the BCL.

The BCL also sets a maximum limit on the amount of financial liability that a bank may incur in respect of any one person. Under the BCL, a bank may not grant a loan, extend a credit facility, give a guarantee or incur any other financial liability in respect of any one person in an aggregate amount exceeding 25 per cent. of its total reserves and paid-up or invested capital. SAMA may increase this limit up to a maximum of 50 per cent. if it considers it to be in the public interest.

SAMA also has the power to regulate liquidity and credit risk at a bank by restricting, among other things, the maximum amount of money which may be loaned by a bank, the level of a bank's exposure to single customer and the categories of loans which a bank can make. These restrictions may vary from bank to bank depending on the relevant circumstances and are in addition to the statutory deposit and liquid reserve requirements provided for in the BCL.

SAMA carries out a full review of the operations of each bank every three years and more regular assessments of specific functions within each institution. SAMA has also intervened to support banks that have found themselves in difficulties. It acted to ease the panic that followed the 1990 Iraqi invasion of Kuwait, which directly threatened the Kingdom's own security. Similarly, it allowed distressed banks to benefit from low cost of funding in the 1980s.

Over the years SAMA has developed a reputation as a strict regulator. In 1989, SAMA introduced accounting and disclosure standards for commercial banks in the Kingdom, which essentially comply with IFRS. All banks in the Kingdom are now in compliance with IFRS and the Accounting Standards for Financial Institutions issued by SAMA. The banks also prepare their financial statements to comply with the BCL and the Regulations for Companies promulgated under Royal Decree No. M/6 dated 22/3/1385H. (20 July 1965), as amended (the **Companies Regulations**) in the Kingdom.

Reporting Requirements

Banks are required to submit monthly statements of the consolidated financial position of their domestic and foreign branches. Banks also have to submit quarterly, biannual and annual reports to SAMA. These reports are comprehensive and deal with matters like the maturity schedule of credit facilities, risk concentrations, large exposures, foreign exchange exposure, analysis of specific loan loss reserves and a calculation of the banks risk asset based capital adequacy.

The requirement is for banks to submit their audited annual statements to SAMA within six months of each financial year end. Annual financial statements have to be audited and signed by at least two external auditors, listed joint stock companies have to publish quarterly statements as their stocks are listed on the Saudi Stock Exchange (Tadawul). However, quarterly financial statements are not audited but reviewed by the auditors in accordance with generally accepted standards and are limited in terms of the scope of disclosure. Information such as non-performing loans and the breakdown of customer deposits are not disclosed in quarterly financial statements.

Since SAMA introduced mandatory disclosure standards, there has been an improvement in the level of disclosure by Saudi banks. Banks now publish a breakdown of loans by sector and geography, in addition to loans to the government and related parties. Banks also report doubtful loans, loan loss reserves and write-offs.

Anti Money Laundering and Counter-Terrorist Financing

The Kingdom is a signatory to, and has implemented measures required by, the 1988 United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (the **1988 Vienna Convention**), the International Convention for the Suppression of the Financing of Terrorism (**UNSC 1373**), and various other international conventions and agreements relating to money laundering and terrorist financing.

Money laundering is considered an offence under Sharia law. Over the past 10 years the Kingdom has put into place a relatively comprehensive legislative and regulatory framework that deals with money laundering and terrorist financing. The Kingdom implemented its first customer identification procedure in 1975. Beginning in the mid-1990s, the Kingdom began to put in place a more expansive anti-money laundering regime with the issuance of the 1995 anti-money laundering manual and several other circulars from SAMA and other government agencies.

The Kingdom has comprehensive rules covering know-your-customer (**KYC**) and anti-money laundering and counter-terrorist financing requirements for the banking sector. In April 2003, SAMA issued updated Rules Governing the Opening of Bank Accounts and General Operational Guidelines (SAMA No. 3222/BCI/60: dated 8 April, 2003) (the **Account Opening Rules**). These rules contain comprehensive requirements governing customer identification, the opening and maintenance of bank accounts, the transmission of funds and the deposit of cash and also contain detailed rules controlling the operation of bank accounts for charitable and welfare organisations. In 2008, SAMA revised the

Account Opening Rules by adding additional requirements and providing guidelines on dealing with non-resident individuals, entities and multi-lateral organisations.

The Kingdom's existing anti-money laundering regime was overhauled by SAMA in May 2003 with its issue of Rules Governing Anti-Money Laundering and Combating Terrorist Financing (SAMA No. BCI/122: dated 27 May 2003). These rules govern, among other things, the reporting of suspicious transactions, transaction monitoring, customer and transaction profiling, risk assessment, control systems, compliance programmes, reviews and audits, KYC policies and standards, and record retention. In August 2003, the Kingdom updated its existing anti-money laundering statutes with the enactment of the Anti-Money Laundering Law (pursuant to Royal Decree No. M/39 dated 24 August 2003) and its implementing regulations, (the **Anti-Money Laundering Law**) providing an up-to- date statutory basis for money laundering and terrorist financing offences, establishing a Financial Intelligence Unit, and enabling a greater international exchange of financial information in cases of suspected money laundering and terrorist financing amongst law enforcement agencies and regulators.

In November 2005, SAMA issued a circular (SAMA No. 35185/MAT/539: dated 22 November 2005) requiring all banks and financial institutions operating in the Kingdom to strictly comply with the provisions of the Anti-Money Laundering Law. The Authorised Person Regulations issued by the Board of the Authority pursuant to its Resolution number 1-83-2005, dated 21/5/1426H (corresponding to 28/6/2005G) (the **Authorised Persons Regulations**) also require investment banks to comply with the Anti-Money Laundering Law.

The GCC is in the unique position of being a member of the Financial Action Task Force on Money Laundering (the **FATF**), even though the individual member slates of the GCC are not FATF members. As a member of the GCC, the Kingdom has issued laws and regulations designed to comply with the "*Forty Recommendations on Money Laundering*" and the "*Nine Special Recommendations on Terrorist Financing*" issued by the FATF.

In September 2003, the FATF carried out, in conjunction with the GCC, the mutual evaluation of the Kingdom. This evaluation was the sixth evaluation of the GCC Member States and was performed on the basis of the common anti-money laundering/counter-terrorist financing assessment methodology employed by the FATF. With the approval of the evaluation of the Kingdom in February 2004, all GCC Member States have now undergone a mutual evaluation and the GCC first round of evaluations has been completed. The Mutual Evaluation Report Executive Summary dated 25 June 2010 determined that the Kingdom "*is compliant or largely compliant with most of the FATF 40 + 8 Recommendations*" (see *FATF Annual Report 2003-2004, Annex C, Kingdom of Saudi Arabia dated 25 June 2010: Executive Summary Mutual Evaluation Report for Anti-Money Laundering and Combating the Financing of Terrorism, Table 1*).

External Auditors

As a measure of prudence, SAMA requires all banks in the Kingdom to be audited jointly by two external auditors.

Financial Requirements

SAMA has introduced regulations to ensure that banks do not have disproportionate concentrations of risk in any one sector or client and that sufficient liquidity and capitalisation is maintained to support bank activities. The most significant regulations are summarised below:

(a) Doubtful and Past Due Loans/Loan Loss Reserves

In 2002, SAMA issued regulations regarding the reclassification of assets as well as provisioning norms. The following table sets out the new classifications and the reserves required for prudential regulation purposes.

Classification	*Defined as*	*Reserve Required*
Current	No problems	1 per cent. of outstandings
IA (Special mention)	Potential weakness	1 per cent. of outstandings
II (Substandard)	Inadequate capacity to pay and/ or profit or principal overdue by more than 90 days	25 per cent. of outstandings
III (Doubtful)	Full collection questionable and/ or overdue by more than 180 days	50 per cent. of outstandings
IV (Loss)	Uncollectible and/or overdue by more than 360 days	100 per cent. of oustandings

The provision is made by the Bank in the Audited Financial Statements in accordance with the requirements of International Accounting Standard 39 (*Financial Instruments: Recognition and Measurement*).

(b) Liquidity

Saudi Arabian banks are required to maintain liquid assets of at least 20 per cent. of deposit liabilities. For purposes of this calculation, cash, gold, treasury bills, government bonds, up to one month placements and any asset that can be liquidated within 30 days are included. The breakdown of call deposits, savings accounts and time deposits must also be shown on the balance sheet. The maturity of assets and liabilities has to be disclosed to determine the sensitivity to commission rate risk.

(c) Capital Adequacy

The GCC has introduced a common standard for capital adequacy based on BIS capital adequacy standards (the Basel II Capital Accord). The GCC standard applicable in the Kingdom recommends a minimum 8 per cent. ratio of capital to risk weighted assets, including off-balance sheet risk. Assets are categorised into four risk groups carrying varying risk weights according to the risk assessment of the counterparty. There are also two levels of country risk, one for the GCC and member countries of the Organisation for Economic Cooperation and Development (**OECD**) and others that have special lending arrangements with the International Monetary Fund under its general agreement to borrow, considered a preferred risk. All other countries are considered full risk. In contrast, BIS only counts Saudi Risk and not all of the GCC at par with OECD. The other major difference is that the GCC standards account for mortgage loans as 100 per cent. risk as opposed to 50 per cent. under BIS standards.

Deposit liabilities of banks are limited to 15 times capital and reserves. In cases where this ratio is exceeded, banks have to place interest free deposits of half the excess amount with SAMA. Furthermore, 25 per cent. of net profits have to be transferred to statutory reserves until the reserve balance equals paid-up capital.

SAMA issued a number of circulars relating to the implementation in the Kingdom of the Basel Committee's proposed reforms in late 2010 in respect of capital adequacy requirements for banks.

SUMMARY OF THE PRINCIPAL TRANSACTION DOCUMENTS

The following is a summary of certain provisions of the principal Transaction Documents and is qualified in its entirety by reference to the detailed provisions of the principal Transaction Documents. Copies of the Transaction Documents will be available for inspection at the offices of the Principal Paying Agent (as defined in the Conditions).

Purchase Agreement

The Master Purchase Agreement will be entered into on 17 April 2012 between BSF Sukuk Limited (in its capacities as Trustee and as Purchaser) and BSF (in its capacity as Seller) and will be governed by the laws of Saudi Arabia. A Supplemental Purchase Contract between the same parties will be entered into on the Issue Date of each Series and will also be governed by the laws of Saudi Arabia. Pursuant to the Purchase Agreement, the Seller will sell to the Purchaser, and the Purchaser will buy from the Seller, the relevant Initial Wakala Portfolio together with the transfer and assignment by the Seller to the Purchaser of all of the Seller's rights, title, interests, benefits and entitlements in, to and under the Wakala Assets which comprise the relevant Initial Wakala Portfolio. The relevant Initial Wakala Portfolio will also be identified in the applicable Final Terms.

Management Agreement

The Management Agreement will be entered into on 17 April 2012 between BSF Sukuk Limited (in its capacity Trustee) and BSF (as Managing Agent of each Wakala Portfolio) and will be governed by English law.

Services

Pursuant to the Management Agreement, the Trustee will appoint the Managing Agent to manage the Wakala Portfolio applicable to each Series. In particular, the Managing Agent will, in relation to each Series, perform, amongst other things, the following services (the **Services**) as agent of the Trustee:

(a) it will manage the Wakala Portfolio in accordance with the Wakala Investment Plan set out in the Schedule to the Management Agreement (a copy of which will be scheduled to the relevant Supplemental Purchase Contract, which includes the annual amount of expected Wakala Portfolio Income Revenues (as defined below) of the Wakala Portfolio (the **Expected Wakala Portfolio Income Revenues Amount**), which shall be completed at the time of issue of the Series;

(b) it will ensure that, at all times (including on the Issue Date of a Series), at least 51 per cent. of the Wakala Portfolio is comprised of Ijara Assets (the **Ijara Asset Target**) and in the event that, at any time, the Ijara Asset Target is not met, the Managing Agent will acquire as soon as reasonably practicable thereafter (whether through the substitution, by the exercise of its rights under the Sale Undertaking, of Ijara Assets for Non-Ijara Assets or the acquisition for and on behalf of the Trustee pursuant to paragraph (c) below, of further Ijara Assets through the reinvestment of Wakala Portfolio Principal Revenues) sufficient Ijara Assets to meet the Ijara Asset Target. A breach of this requirement will not, however, constitute a BSF Event;

(c) it will reinvest all Wakala Portfolio Principal Revenues in acquiring or originating, for and on behalf of the Trustee, further Eligible Wakala Assets (as defined in the Master Purchase Agreement) such that the further Eligible Wakala Assets so acquired or originated are included in the Wakala Portfolio (i) the Value (as defined below) of which is (A) in the case of Tangible Wakala Assets, not less than and (B) in the case of Intangible Wakala Assets, equal to, the consideration given for or the amounts otherwise applied in the acquisition or origination of such assets and (ii) in respect of which the representations and warranties in Clause 5.2 of the Master Purchase Agreement can be given by BSF;

(d) it will do all acts and things (including execution of such documents, issue of notices and commencement of any proceedings) that it considers (and without the need for the consent of the Trustee) reasonably necessary to ensure the assumption of, and compliance by each Wakala Asset Obligor with its covenants, undertakings or other obligations under the Wakala Asset Contract to which it is a party in accordance with applicable law and the terms of the Wakala Asset Contract, in each case in respect of the Wakala Assets;

(e) it will discharge or procure the discharge of all obligations to be discharged by BSF (in whatever capacity) in respect of any of the Wakala Assets under all Wakala Asset Contracts, it being acknowledged that the Managing Agent may appoint one or more agents to discharge these obligations on its behalf;

(f) it will pay on behalf of the Trustee any costs, expenses, losses and Taxes (as defined in the Management Agreement) which would otherwise be payable by the Trustee as a result of the Trustee's ownership of the Wakala Portfolio, such costs, expenses, losses and Taxes will be reimbursed in accordance with the Management Agreement;

(g) it will use its best efforts to ensure the timely receipt of all Wakala Portfolio Revenues, investigate non-payment of Wakala Portfolio Revenues and generally use its best efforts to collect or enforce the collection of such Wakala Portfolio Revenues under all Wakala Asset Contracts as and when the same shall become due;

(h) it will use its reasonable efforts to ensure that the Wakala Portfolio Income Revenues are at least equal to the Expected Wakala Portfolio Income Revenues Amount;

(i) it will maintain the Collection Accounts as described further under " – Collection Accounts" below; and

(j) it will obtain all necessary authorisations in connection with any of the Wakala Assets and its obligations under or in connection with the Management Agreement.

For the purposes of the Management Agreement, **Value** means, in respect of any Wakala Asset, the amount in the Specified Currency (following conversion, if necessary, of any relevant amount(s) at the applicable Exchange Rate) determined by BSF on the relevant date as being equal to: (i) in the case of an Ijara Asset or Other Tangible Sharia Compliant Asset, the aggregate of all outstanding fixed rental instalment amounts payable by the lessee (whether then due and unpaid or due and payable on or after such relevant date) or other equivalent fixed instalment amounts payable by the obligor (as the case may be), in each case in the nature of capital or principal payments in respect of the relevant asset, each of which is payable to BSF under or in respect of the related Ijara Contract or Other Tangible Sharia Compliant Asset, as applicable, on such date; or (ii) in the case of an Other Intangible Sharia Compliant Asset, the aggregate of the outstanding amounts payable in respect of such Other Intangible Sharia Compliant Asset (including all amounts in the nature of capital or principal payments, or payments of profit in relation to any relevant assets), on such date.

Records and documents

The Managing Agent will undertake, in relation to each Series, that it will keep and maintain all documents, books, records and other information reasonably necessary or advisable for the collection of all amounts due in respect of the Wakala Assets (including, without limitation, records adequate to permit identification of all amounts received in respect of each Wakala Asset) and, except to the extent it is under any duty or obligation to keep such information confidential (where such duty or obligation arises as a result of any law, regulation or contract), make such documents, books, records and other information available to the Trustee or such other person as the Trustee may reasonably request.

The Managing Agent will agree in the Management Agreement to provide the Services:

(a) in accordance with all applicable laws and regulations;

(b) with the degree of skill and care that it would exercise in respect of its own assets; and

(c) in a manner that complies in all material respects with Sharia principles as laid down by the BSF Sharia Committee.

Management Liabilities Amounts and Fees

The Trustee and the Managing Agent will agree that any Management Liabilities Amounts incurred by the Managing Agent in providing the Services in relation to a Series shall be paid by the Trustee by way of the application of amounts standing to the credit of the Wakala Income Collection Account by the Managing Agent on the Trustee's behalf in payment of such amounts (as described below) or otherwise on the final Dissolution Date. For these purposes, **Management Liabilities Amounts** means, in relation to each Series, the amount of any claims, losses, costs and expenses properly incurred or suffered by the Managing Agent or other payments made by the Managing Agent on behalf of the Trustee (including, without limitation, payments made in respect of Taxes), in each case in providing the Services during a **Wakala Distribution Period** (being a period that corresponds with the relevant Return Accumulation Period under the Certificates), but does not include amounts in respect of Liquidity Facilities.

BSF shall be entitled to receive a fixed fee of U.S.$100 for acting as Managing Agent under the Management Agreement. In addition, following payment of all amounts due and payable under the Certificates of each Series on the final Dissolution Date, the Managing Agent may, subject to the Conditions, be entitled to retain any amounts that remain standing to the credit of the Wakala Income Reserve Collection Account for its own account as an incentive payment for acting as Managing Agent.

Asset Substitutions

In the Management Agreement the Trustee and the Managing Agent will agree that, in relation to each Series and provided no Dissolution Event has occurred and is continuing, the Managing Agent may at any time exercise its rights under the Sale Undertaking to substitute (and, upon any default in respect of any Wakala Asset or upon any Wakala Asset ceasing to be an Eligible Wakala Asset, shall so substitute) any one or more of the Wakala Assets as the Managing Agent may select (subject to any such Substituted Wakala Asset(s) being the defaulting Wakala Asset(s), if applicable) in accordance with the Sale Undertaking. The New Wakala Asset(s) for these purposes will be Wakala Assets of a Value not less than the Value of the Substituted Asset(s) and any such substitution shall otherwise be undertaken on the terms and subject to the conditions of the Management Agreement and the Sale Undertaking.

Collection Accounts

In relation to each Series, the Managing Agent will maintain three ledger accounts (such accounts being the **Wakala Principal Collection Account**, the **Wakala Income Collection Account** and the **Wakala Income Reserve Collection Account**) in its books (each of which shall be denominated in the Specified Currency) in which all revenues from the Wakala Assets (the **Wakala Portfolio Revenues**) will be recorded. The Wakala Portfolio Revenues include all rental and other amounts payable by the relevant Wakala Asset Obligor under the terms of the relevant Wakala Asset Contract, and all sale proceeds or consideration, damages, insurance proceeds, compensation or other sums received by the Managing Agent or BSF in whatever currency in respect of or otherwise in connection with the relevant Wakala Assets. All Wakala Portfolio Revenues in relation to each Series will be recorded:

(a) to the extent that any such amounts comprise amounts in the nature of capital or principal payments (**Wakala Portfolio Principal Revenues**) in the Wakala Principal Collection Account; and

(b) to the extent that any such amounts comprise amounts other than Wakala Portfolio Principal Revenues (**Wakala Portfolio Income Revenues**), in the Wakala Income Collection Account.

In addition, certain amounts may be debited from the Wakala Income Collection Account and credited to the Wakala Income Reserve Collection Account.

Amounts standing to the credit of the Wakala Income Collection Account relating to each Series will be applied by the Managing Agent on each **Wakala Distribution Determination Date** (being the Business Day immediately prior to the relevant Periodic Distribution Date under the Certificates of the relevant Series) in the following order of priority:

(a) *first*, in repayment of any amounts advanced by way of a Liquidity Facility;

(b) *second*, in payment of any Management Liabilities Amounts for the Wakala Distribution Period ending immediately before the immediately following **Wakala Distribution Date** (being the date which corresponds with the relevant Periodic Distribution Date under the Certificates of the relevant Series);

(c) *third*, the Managing Agent will pay into the relevant Transaction Account an amount equal to the lesser of the Required Amount payable on the immediately following Periodic Distribution Date and the balance of the Wakala Income Collection Account; and

(d) any amounts still standing to the credit of the Wakala Income Collection Account immediately following payment of all of the above amounts shall be debited from the Wakala Income Collection Account and credited to the Wakala Income Reserve Collection Account.

For the purposes of the Management Agreement, the **Required Amount** will mean an amount equal to the aggregate of the Periodic Distribution Amounts payable in respect of the relevant Certificates on the immediately following Periodic Distribution Date.

Shortfalls and Liquidity Facilities

If on a Wakala Distribution Determination Date (after (i) payment of the relevant amounts standing to the credit of the Wakala Income Collection Account into the relevant Transaction Account in accordance with paragraph (c) under "– *Collection Accounts*" above and (ii) taking into account any other payments made or to be made into the relevant Transaction Account pursuant to any other Transaction Document) there is a shortfall (a **Shortfall**) between:

(a) the amounts standing to the credit of the relevant Transaction Account; and

(b) the Required Amount payable on the immediately following Periodic Distribution Date,

the Managing Agent will pay into the relevant Transaction Account on that Wakala Distribution Determination Date from the amounts standing to the credit of the Wakala Income Reserve Collection Account (if any) an amount equal to the Shortfall (or such lesser amount as is then standing to the credit of the Wakala Income Reserve Collection Account). If any Shortfall still remains after payment to the relevant Transaction Account of the amounts credited to the Wakala Income Reserve Collection Account (as described in this paragraph) and after payment to the relevant Transaction Account of all other amounts payable pursuant to any other Transaction Document, the Managing Agent may provide Sharia compliant funding, to the extent necessary, by payment of the same into the relevant Transaction Account, on terms that such funding is repayable (i) from Wakala Portfolio Income Revenues in accordance with the Management Agreement or (ii) on the date on which the Certificates of the relevant Series are redeemed in full, to ensure that the Trustee receives on each Wakala Distribution Determination Date the Required Amount payable by it in accordance with the Conditions of the relevant Series on the immediately following Periodic Distribution Date (such funding in relation to a Series, a **Liquidity Facility**).

Payments under the Management Agreement

The Managing Agent will agree in the Management Agreement that all payments by it under the Management Agreement will be made without any deduction or withholding for or on account of tax unless required by law and (save as set out therein) without set-off or counterclaim of any kind and, in the event that there is any deduction or withholding, the Managing Agent shall pay all additional amounts as will result in the receipt by the Trustee of such net amounts as would have been received by it if no such deduction or withholding had been made. The payment obligations of the Managing Agent under the Management Agreement will be direct, unconditional, unsubordinated and (subject to the provisions of the Purchase Undertaking) unsecured obligations of the Managing Agent which rank (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of BSF, from time to time outstanding.

Purchase Undertaking

The Purchase Undertaking will be executed as a deed on 17 April 2012 by BSF in favour of BSF Sukuk Limited (in its capacity as Trustee) and the Delegate, and will be governed by English law.

BSF will, in relation to each Series, irrevocably undertake in favour of the Trustee and the Delegate to purchase all of the Trustee's rights, benefits and entitlements in and to the relevant Wakala Portfolio on the relevant Scheduled Dissolution Date or any earlier Dissolution Date (other than where the Dissolution Date is a Certificateholder Put Option Date, as to which see below) for the relevant Series at the **Wakala Portfolio Exercise Price**, which shall be an amount in the Specified Currency equal to the aggregate of:

(a) the aggregate outstanding face amount of the Certificates of the relevant Series on the relevant Dissolution Date;

(b) an amount equal to all accrued and unpaid Periodic Distribution Amounts (if any) relating to the Certificates of the relevant Series, less any amounts in the Specified Currency held by the Trustee in the relevant Transaction Account for the payment of such Periodic Distribution Amounts on the date on which payment of the Wakala Portfolio Exercise Price is made pursuant to the Purchase Undertaking; and

(c) an amount equal to the sum of any outstanding (i) amounts repayable in respect of any Liquidity Facility and (ii) any Management Liabilities Amounts.

The Trustee will also be entitled to exercise the Purchase Undertaking following any exercise by the Certificateholders of any relevant Series of their right to require the Trustee to redeem their Certificates on a Certificateholder Put Option Date, in which case BSF will be required to purchase a portion of the relevant Wakala Portfolio (such portion to comprise the **Certificateholder Put Option Wakala Assets**) with an aggregate Value no greater than the aggregate face amount of the Certificates to be redeemed. The exercise price (the **Certificateholder Put Option Exercise Price** and, together with the Wakala Portfolio Exercise Price, each an **Exercise Price**) payable for the Certificateholder Put Option Wakala Assets will be an amount in the Specified Currency equal to the aggregate of:

(a) the product of (i) aggregate face amount of the relevant Certificateholder Put Option Certificates and (ii) the Optional Dissolution Amount (Certificateholder Put) Percentage specified in the applicable Final Terms; and

(b) an amount equal to all accrued and unpaid Periodic Distribution Amounts (if any) relating to the relevant Certificateholder Put Option Certificates, less any amounts in the Specified Currency held by the Trustee in the relevant Transaction Account for the payment of such Periodic Distribution Amounts on the date on which payment of the Certificateholder Put Option Exercise Price is made pursuant to the Purchase Undertaking.

If the Delegate exercises any of the options described above, an exercise notice will be required to be delivered by the Delegate under the Purchase Undertaking.

BSF will undertake in the Purchase Undertaking that, to the extent that the sale and purchase or transfer and assignment of any interest in BSF's rights, title, interests, benefits and entitlements in, to and under of the Wakala Portfolio or the Certificateholder Put Option Wakala Assets is not effective in any jurisdiction for any reason, it will in consideration for the payment to it by the Trustee of the purchase price for its interest in the relevant assets, (i) make payment of an amount equal to the purchase price by way of restitution to the Trustee immediately upon request and (ii) indemnify fully the Trustee for any shortfall between the amount in (i) and the amount required for the purpose of redemption in full of the outstanding Certificates of the relevant Series and, accordingly, the amount payable under any such indemnity will equal the relevant Exercise Price.

In addition, if BSF fails to pay all or part of any Exercise Price that is due in accordance with the Purchase Undertaking and provided that no Sale Agreement has been entered into, then BSF will agree in the Purchase Undertaking that it will irrevocably, unconditionally and automatically (without the necessity for any notice or any other action) continue to act as Managing Agent for the provision of the Services in respect of the relevant Wakala Portfolio on the terms and conditions, *mutatis mutandis*, of the Management Agreement.

BSF will expressly declare in the Purchase Undertaking that:

(a) the relevant Exercise Price represents a fair price for the purchase of all of the Trustee's rights, title, interests, benefits and entitlements in, to and under the Wakala Portfolio or the Certificateholder Put Option Wakala Assets, as the case may be;

(b) it shall irrevocably and unconditionally fully accept all or any ownership interest the Trustee may have in the Wakala Portfolio or the Certificateholder Put Option Wakala Assets, as the case may be, and, accordingly, shall not dispute or challenge all or any ownership interest the Trustee may have in any way; and

(c) if it breaches any declaration or undertaking set out in (a) or (b) above or if it or any administrator, liquidator or receiver of it disputes or challenges the rights, benefits and entitlements of the Trustee in, to and under the Wakala Portfolio or the Certificateholder Put Option Wakala Assets, as the case may be, BSF shall (as an independent, severable and separately enforceable obligation) fully indemnify the Trustee for the purpose of redemption in full of the relevant Certificates and, accordingly, the amount payable under any such indemnity claim will equal the relevant Exercise Price.

In the Purchase Undertaking, BSF will undertake that, so long as any of the Certificates remains outstanding, BSF will not, and BSF will procure that none of its Subsidiaries will, create or have outstanding any mortgage, charge, lien, pledge or other security interest (each a **Security Interest**) (other than a Permitted Security Interest) upon, or with respect to, any of its present or future business, undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness or Relevant Sukuk Obligation (each as defined below), unless BSF, in the case of the creation of a Security Interest, before or at the same time and, in any other case, promptly, takes any and all action necessary to ensure that:

(a) all amounts payable by it to the Trustee under the Transaction Documents to which BSF is, in whatever capacity, a party are secured by the Security Interest equally and rateably with the Relevant Indebtedness or Relevant Sukuk Obligation, as the case may be; or

(b) such other Security Interest or other arrangement (whether or not it includes the giving of a Security Interest) is provided as (i) the Delegate shall in its absolute discretion deem not materially less beneficial to the interests of the Certificateholders; or (ii) is approved by an Extraordinary Resolution of the Certificateholders.

For these purposes:

Permitted Security Interest means a Security Interest upon, or with respect to, any present or future assets or revenues or any part thereof which is created pursuant to any asset-based financing or like arrangement (including a securitisation transaction), whereby the payment obligations secured by such Security Interest are to be discharged primarily from such assets or revenues, provided that the aggregate outstanding amount of assets or revenues the subject of such security shall not at any time exceed in aggregate an amount equal to 15 per cent. of the total assets of BSF, as evidenced by its most recent audited financial statements (or, if at any time BSF prepares consolidated financial statements, its most recent audited consolidated financial statements);

Relevant Indebtedness means any indebtedness (whether being principal, premium, profit or other amounts) in the form of or represented by any bond, note, debenture, debenture stock, loan stock, certificate or other instrument which is for the time being or is intended to be listed, quoted or traded on any stock exchange or any securities market (including, without limitation, any over-the-counter market):

(i) denominated, payable or optionally payable in a currency other than Saudi Riyals; and

(ii) not initially distributed primarily to investors inside Saudi Arabia;

Relevant Sukuk Obligation means any undertaking or other obligation to pay any money given in connection with the issue of any certificate or instrument, as the case may be, whether or not in return for consideration of any kind, which certificate or instrument is for the time being or is intended to be listed, quoted or traded on any stock exchange or any securities market (including, without limitation, any over-the-counter market):

(i) denominated, payable or optionally payable in a currency other than Saudi Riyals; and

(ii) not initially distributed primarily to investors inside Saudi Arabia; and

Subsidiary means, in relation to BSF, any company (i) in which BSF holds a majority of the voting rights or (ii) of which BSF is a member and has the right to appoint or remove a majority of the board of directors or (iii) of which BSF is a member and controls a majority of the voting rights, and includes any company which is a Subsidiary of a Subsidiary of BSF.

In addition, BSF has agreed that each of the following events will constitute a BSF Event:

(a) if default is made in the payment of: (A) any Wakala Portfolio Income Revenues (as defined in the Management Agreement) to be paid into the Transaction Account by the Managing Agent in accordance with the terms of the Management Agreement and such default continues for a period of 14 days; or (B) any Exercise Price to be paid by BSF under the Purchase Undertaking or Sale Undertaking, as the case may be, or any Wakala Portfolio Principal Revenues to be paid into the Transaction Account pursuant to clause 6.5 of the Management Agreement and such default continues for a period of seven days; or

(b) BSF (acting in any capacity) fails to perform or observe any of its other obligations under the Transaction Documents to which it is a party and (except in any case where the failure is incapable of remedy when no such continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 30 days next following the service by the Delegate on BSF of notice requiring the same to be remedied; provided, however, that the failure by BSF (acting in its capacity as Managing Agent) to perform or observe the obligations set out in Clause 3.1(b) of the Management Agreement will not constitute a BSF Event; or

(c) (i) any Indebtedness for Borrowed Money (as defined below) of BSF or any of its Principal Subsidiaries (as defined below) becomes capable of being declared due and repayable prematurely by reason of an event of default (however described); (ii) BSF or any of its Principal Subsidiaries fails to make any payment in respect of any Indebtedness for Borrowed Money on the due date for payment or, as the case may be, within any applicable grace period; (iii) any security given by BSF or any of its Principal Subsidiaries for any Indebtedness for Borrowed Money becomes enforceable; or (iv) default is made by BSF or any of its Principal Subsidiaries in making any payment due under any guarantee and/or indemnity given by it in relation to any Indebtedness for Borrowed Money of any other person provided that the amount of Indebtedness for Borrowed Money referred to in this paragraph (c) individually or in the aggregate exceeds U.S.$20,000,000 or its equivalent in any other currency or currencies; or

(d) any order is made by any competent court or resolution passed for the winding up or dissolution of BSF or any of its Principal Subsidiaries, save for the purposes of reorganisation on terms previously approved by an Extraordinary Resolution; or

(e) BSF or any of its Principal Subsidiaries ceases or threatens to cease to carry on the whole or a substantial part of its business, save for the purposes of reorganisation on terms previously approved by an Extraordinary Resolution, or BSF or any of its Principal Subsidiaries stops or threatens to stop payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due, or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent; or

(f) (A) proceedings are initiated against BSF or any of its Principal Subsidiaries under any applicable liquidation, insolvency, composition, reorganisation or other similar laws, or an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to BSF or any of its Principal Subsidiaries or, as the case may be, in relation to the whole or a substantial part of the undertaking or assets of any of them, or an encumbrancer takes possession of the whole or a substantial part of the undertaking or assets of any of them, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or a substantial part of the undertaking or assets of any of them and (B) in any case (other than the appointment of an administrator) is not discharged within 14 days; or

(g) BSF or any of its Principal Subsidiaries initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including the obtaining of a moratorium) or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors); or

(h) BSF or any of its Principal Subsidiaries takes any action for a re-adjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors (including any arrangement under the Saudi Arabian Settlement to Avoid Bankruptcy Law as enacted by Royal Decree M/16 dated 4/9/1416H) or declares a moratorium in respect of any of its indebtedness or any guarantee of indebtedness given by it provided that the amount of Indebtedness for Borrowed Money referred to in paragraph (c) above individually or in the aggregate exceeds U.S.$20,000,000 or its equivalent in any other currency or currencies; or

(i) (A) all or a substantial part of the undertaking, assets and revenues of BSF or any of its Principal Subsidiaries is condemned, seized or otherwise appropriated by any person acting under the authority of any national, regional or local government or (B) BSF or any of its Principal Subsidiaries is prevented by any such person from exercising normal control over all or a substantial part of its undertaking, assets and revenues.

For these purposes:

Indebtedness for Borrowed Money means any indebtedness (whether being principal, premium, profit or other amounts) for or in respect of any notes, bonds, debentures, debenture stock, loan stock or other securities or any borrowed money or any liability under or in respect of any acceptance or acceptance credit; and

Principal Subsidiary means, at any relevant time, a Subsidiary of BSF:

(i) whose total assets or gross revenues (or, where the Subsidiary in question prepares consolidated financial statements, whose total consolidated assets or gross consolidated revenues, as the case may be) represents not less than 10 per cent. of the total consolidated assets or the gross consolidated revenues of BSF and its Subsidiaries, all as calculated by reference to the then latest audited financial statements (or consolidated accounts, as the case may be) of such Subsidiary and the then latest audited consolidated financial statements of BSF; or

(ii) to which is transferred all or substantially all of the assets and undertakings of a Subsidiary which immediately prior to such transfer is a Principal Subsidiary.

References in paragraphs (c) and (h) above to "indebtedness" and "Indebtedness for Borrowed Money", and references to "debts" in paragraph (e) above shall be deemed to include any debt or other financing arrangement issued (or intended to be issued) in compliance with the principles of Sharia, whether entered into directly or indirectly by BSF or a Subsidiary of BSF, as the case may be.

BSF will also agree in the Purchase Undertaking that all payments by it under the Purchase Undertaking will be made without any deduction or withholding for or on account of tax unless required by law and (save as set out therein) without set off or counterclaim of any kind and, in the event that there is any deduction or withholding, BSF shall pay all additional amounts as will result in the receipt by the Trustee of such net amounts as would have been received by it if no such deduction or withholding had been made. The payment obligations of BSF under the Purchase Undertaking will be direct, unconditional, unsubordinated and (subject to the provisions described above) unsecured obligations of BSF which rank (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of BSF, from time to time outstanding.

Sale Undertaking

The Sale Undertaking will be executed as a deed on 17 April 2012 by BSF Sukuk Limited (in its capacity as Trustee) in favour of BSF and will be governed by English law.

Pursuant to the Sale Undertaking and subject to the Trustee being entitled to redeem the Certificates of the relevant Series for tax reasons in accordance with Condition 10.2, BSF will, by exercising its right under the Sale Undertaking and serving an exercise notice on the Trustee no later than 45 days prior to the Tax Redemption Date, be able to oblige the Trustee to sell all of its rights, title, interests, benefits and entitlements in, to and under the relevant Wakala Portfolio at the relevant Exercise Price. In addition, if the Optional Dissolution Right (Call) is specified in the applicable Final Terms as being applicable, BSF will, by exercising its right under the Sale Undertaking and serving an exercise notice on the Trustee no later than 45 days prior to the relevant Optional Dissolution Date, be able to oblige the Trustee to sell all of its rights, title, interests, benefits and entitlements in, to and under the relevant Wakala Portfolio at the relevant Exercise Price.

For these purposes, the **Exercise Price** will be an amount equal to the aggregate of:

(a) (where the Certificates of the relevant Series are to be redeemed for tax reasons in accordance with Condition 10.2) the aggregate outstanding face amount of the Certificates of the relevant Series on the relevant Dissolution Date or (where the Certificates of the relevant Series are to be redeemed in accordance with Condition 10.3) the product of (i) the aggregate outstanding face amount of the Certificates of the relevant Series on the relevant Dissolution Date and (ii) the Optional Dissolution Amount (Call) Percentage specified in the applicable Final Terms;

(b) an amount equal to all accrued and unpaid Periodic Distribution Amounts (if any) relating to the Certificates, less any amounts in the Specified Currency held by the Trustee in the relevant Transaction Account for the payment of such Periodic Distribution Amounts on the date on which payment of the relevant Exercise Price is made pursuant to the Sale Undertaking; and

(c) an amount equal to the sum of any outstanding (i) amounts repayable in respect of any Liquidity Facility and (ii) any Management Liabilities Amounts.

BSF will be able to exercise its rights under the Sale Undertaking to effect the in kind substitution of Wakala Assets, subject to any substitute Wakala Assets being Tangible Wakala Assets of a Value not less than the Value of the Substituted Wakala Assets. BSF will also be able to exercise its rights under the Sale Undertaking (following any purchase of Certificates by BSF or any Subsidiary of BSF pursuant to Condition 13) to provide for the transfer, assignment and conveyance of the Cancellation Wakala Assets (as defined in the Sale Undertaking) together with all of the Trustee's rights, title, interests, benefits and entitlements in, to and under a portion of the relevant Wakala Portfolio with an aggregate Value no greater than the aggregate face amount of the Certificates of the relevant Series so purchased, against cancellation of such Certificates by the Principal Paying Agent pursuant to the Conditions.

Trust Deed

The Master Trust Deed will be entered into on 17 April 2012 between BSF, the Trustee and the Delegate and will be governed by English law. A Supplemental Trust Deed between the same parties will be entered into on the Issue Date of each Series and will also be governed by English law.

Upon issue of the Global Certificate initially representing any Series, the Master Trust Deed and the relevant Supplemental Trust Deed shall together constitute the Trust declared by the Trustee in relation to such Series.

The Trust Assets in respect of each Series comprise (unless otherwise specified in the relevant Supplemental Trust Deed), *inter alia*, the Trustee's rights, title, interest and benefit, present and future, in, to and under the relevant Wakala Portfolio, its rights, title, interest and benefit, present and future, in, to and under the Transaction Documents (other than (i) in relation to any representations given to the Trustee by BSF pursuant to any of the Transaction Documents and any rights which have been expressly waived by the Trustee in any of the Transaction Documents and (ii) the covenant given to the Trustee pursuant to Clause 15.1 of the Master Trust Deed) and any amounts standing to the credit of the relevant Transaction Account.

Each Trust Deed will specify that, on or after the relevant Scheduled Dissolution Date or, as the case may be, Dissolution Date of a Series, the rights of recourse in respect of the relevant Certificates shall be limited to the amounts from time to time available and comprising the Trust Assets of that Series, subject to the priority of payments set out in the Trust Deed, the relevant Certificates and the Conditions. The Certificateholders have no claim or recourse against BSF Sukuk Limited in respect of any amount which is or remains unsatisfied and any unsatisfied amounts will be extinguished.

Pursuant to the Trust Deed, the Trustee will, in relation to each Series, *inter alia*:

(a) hold the relevant Trust Assets on trust absolutely for the relative Certificateholders *pro rata* according to the face amount of Certificates held by each Certificateholder; and

(b) act as trustee in respect of the relevant Trust Assets, distribute the income from the relevant Trust Assets and perform its duties in accordance with the provisions of the Trust Deed.

In the Master Trust Deed, the Trustee by way of security for the performance of all covenants, obligations and duties of the Trustee to the Certificateholders will irrevocably and unconditionally appoint the Delegate to be its attorney and in its name and on its behalf to execute, deliver and perfect all documents and to exercise all the present and future duties, powers, authorities and discretions (including but not limited to the authority to request instructions from any Certificateholders and the power to make any determinations to be made under each Trust Deed) vested in the Trustee by each Trust Deed that the Delegate may consider to be necessary or desirable to perform the present and future duties, powers, authorities and discretions vested in the Trustee by the relevant provisions of each Trust Deed and any of the other Transaction Documents (provided that no obligations, duties, liabilities or covenants of the Trustee pursuant to the Master Trust Deed or any other Transaction Document will be imposed on the Delegate by virtue of such delegation). The appointment of such delegate by the Trustee is intended to be in the interests of the Certificateholders and will not affect the Trustee's continuing role and obligations as trustee.

The Delegate will undertake in the Master Trust Deed that, following it becoming aware of the occurrence of a Dissolution Event in respect of any Series and subject to Condition 14 it shall (a) promptly notify the relevant Certificateholders of the occurrence of such Dissolution Event. Subject to the Delegate being indemnified and/or secured and/or prefunded to its satisfaction against all liabilities to which it may thereby render itself liable or which it may incur by so doing, the Delegate may take all such steps as are necessary to enforce the obligations of BSF (in whatever capacity it is acting) under the relevant Trust Deed and any other Transaction Document to which BSF (in whatever capacity) is a party.

The Master Trust Deed specifies, *inter alia*, that in relation to each Series:

(i) following the distribution of the net proceeds of the Trust Assets in respect of the relevant Series to the Certificateholders in accordance with the Conditions and the relevant Trust Deed the obligations of the Trustee in respect of the Certificates shall be satisfied and the right of the Certificateholders to receive any further sums shall be extinguished and neither the Trustee nor the Delegate shall be liable for any further sums and, accordingly, the relevant Certificateholders may not take any action against the Trustee, the Delegate or any other person to recover any such sum or asset in respect of the relevant Certificates or the relevant Trust Assets;

(ii) no Certificateholder shall be entitled to proceed directly against the Trustee and/or BSF, or provide instructions (not otherwise permitted by the Master Trust Deed) to proceed against the Trustee and/or BSF under any Transaction Document unless (i) the Delegate having become bound so to proceed, fails to do so within a reasonable period of becoming so bound and such failure is continuing and (ii) the relevant Certificateholder (or such Certificateholder together with the other Certificateholders of the relevant Series who propose to proceed directly against the Trustee or BSF, as the case may be) holds at least one-fifth of the then aggregate outstanding face amount of the Certificates of the relevant Series. Under no circumstances shall the Delegate or any Certificateholders have any right to cause the sale or other disposition of any of the relevant Trust Assets (other than pursuant to the Transaction Documents), and the sole right of the Delegate and the Certificateholders against the Trustee and BSF shall be to enforce their respective obligations under the Transaction Documents;

(iii) the Delegate shall not be bound in any circumstances to take any action to enforce or realise the relevant Trust Assets or take any action against the Trustee and/or BSF under any Transaction Document unless directed or requested to do so (a) by an Extraordinary Resolution or (b) in writing by the holders of at least one-fifth of the then aggregate outstanding face amount of the Certificates of the relevant Series and in either case then only if it is indemnified and/or secured and/or prefunded to its satisfaction against all liabilities to which it may thereby render itself liable or which it may incur by so doing provided that the Delegate shall not be held liable for the consequences of exercising its discretion or taking any such action and may do so without having regard to the effect of such action on individual Certificateholders; and

(iv) after enforcing or realising the relevant Trust Assets and distributing the net proceeds of the relevant Trust Assets in accordance with the terms of the relevant Trust Deed, the obligations of the Trustee and the Delegate in respect of the Series shall be satisfied and no Certificateholder may take any further steps against the Trustee and the Delegate to recover any further sums in respect of the relevant Series and the right to receive any such sums unpaid shall be extinguished. In particular, no holder of the Certificates of the relevant Series shall be entitled in respect thereof to petition or to take any other steps for the winding-up of BSF Sukuk Limited.

TAXATION

Kingdom of Saudi Arabia

The following is a general description of certain tax and zakat considerations relating to Certificates issued under the Programme. It does not purport to be a complete analysis of all tax and zakat considerations relating to the Certificates. The summary below is not intended as tax or zakat advice, does not consider any investor's particular circumstances and does not consider tax or zakat consequences other than those arising under Saudi law. Prospective purchasers of any Certificates should consult their tax and zakat advisers (if applicable) as to the consequences under the tax and zakat laws (if applicable) of the country of which they are resident for tax purposes of acquiring, holding and disposing of the relevant Certificates and receiving payments under those Certificates. This summary is based upon the law as in effect on the date of this Base Prospectus and is subject to any prospective or retrospective change in law that may take effect after such date.

Overview of Saudi Tax & Zakat Law

Income Tax

According to Saudi Arabian tax law, a resident capital company (on its foreign partner's (shareholder's) share) and a non-resident who does business in the Kingdom through a Permanent Establishment (as defined below) are subject to corporate income tax in Saudi Arabia at a flat rate of 20 per cent.

Companies which are wholly owned by Saudi nationals are subject to *zakat* instead of income tax. Companies owned jointly by Saudi/GCC and non-Saudi/non-GCC nationals pay tax on the portion of income attributable to the non-Saudi/non-GCC nationals and *zakat* on the portion of income attributable to Saudi nationals. Residents from countries belonging to the GCC (Bahrain, Kuwait, Oman, Qatar and the UAE) and shares held directly by GCC nationals or via other GCC companies (where the shareholding structure does not fall outside of the GCC) in a Saudi capital company are subject to *zakat* and not income tax. In determining the tax/*zakat* profile, the Saudi Tax Authorities apply a "look-through" approach to determine whether the up-stream shareholding structure at any point exists outside of the GCC.

Zakat

The guidance on *zakat* in Saudi Arabia is based on the provisions of Royal Decrees, Ministerial Resolutions, and Department of Z*akat* and Income Tax (**DZIT**) circulars that are in force. In Saudi Arabia, *zakat* is assessed on Saudi and GCC nationals and on Saudi companies wholly owned by such individuals. There are certain rules that apply to the method of calculating the *zakat* liability. In general, *zakat* is levied at a fixed rate of 2.5 per cent. on the higher of the adjusted taxable profits or the *zakat* base which, in general, comprises equity, loans and provisions reduced by deductible investments and fixed assets.

*Withholding Tax (**WHT**)*

The Saudi Arabian tax law provides for actual withholding tax at different rates on payments made to non-resident parties (including those located in the GCC) by a Saudi resident from a source of income in Saudi Arabia. Services are defined to mean anything done for consideration other than the purchase and sale of goods and other property. Loan charges paid to non-residents generally attract five per cent. Saudi WHT.

Withholding tax implications in connection with the transaction

As the Trustee is not a Saudi resident, the payment of Wakala Portfolio Income Revenues by the Managing Agent to the Trustee pursuant to the Management Agreement will be subject to a five per cent. withholding tax.

In accordance with the Income Tax Regulation (as defined below) the Managing Agent will be responsible for withholding and settling the tax with the DZIT on payments of Wakala Portfolio Income Revenues. If such payments are subject to any withholding or deduction on account of tax in Saudi Arabia, the Management Agreement provides for the Managing Agent to pay additional amounts as will result in the Trustee receiving the amounts which would otherwise be receivable.

Payment by BSF of the amounts described in paragraph (a) of the definition of Certificateholder Put Option Exercise Price and/or the amounts described in paragraph (a) of the definition of Wakala Portfolio Exercise Price (in each case under the Purchase Undertaking) and/or the amounts described in paragraph (a) of the definition of Issuer Call Exercise Price and/or the amounts described in paragraph (a) of the definition of Tax Call Exercise Price (in each case under the Sale Undertaking), as applicable, will not be subject to any withholding or deduction on account of tax in Saudi Arabia.

Certain tax and zakat implications for Certificateholders

GCC Certificateholders who are Resident in Saudi Arabia

Certificateholders who are GCC Persons (as defined below) and Resident in Saudi Arabia are not subject to any Saudi Arabian income tax in respect of any profit payment received or gain realised in respect of the Certificates. However, such Certificateholders will be subject to *zakat* in respect of any profit payment received or gain realised in respect of the Certificates. Additionally, the DZIT does not allow an investment in the Certificates to be deducted from the *zakat* base of such a Certificateholder, as stipulated under Ministerial Resolution No. 1005 dated 15 May 2007.

Non-GCC Certificateholders who are Resident in Saudi Arabia

Certificateholders who are non-GCC Persons and Resident in Saudi Arabia will be subject to Saudi Arabian corporate income tax at the rate of 20 per cent. on any profit payment received or gain realised in respect of the Certificates but they will not be subject to any *zakat*.

Certificateholders who are not Resident in Saudi Arabia

Certificateholders, either natural persons or legal entities, who are not Residents in Saudi Arabia (whether such Certificateholders are Saudi Arabian nationals or non Saudi Arabian nationals (including Certificateholders resident in the GCC)) will not be subject to Saudi Arabian withholding tax (as the payments will be received from a Saudi non-resident) or *zakat* on any payments received by them in respect of the Certificates. However, natural persons having the nationality of a GCC country other than Saudi Arabia who are not Resident but have a Permanent Establishment in Saudi Arabia and legal entities established under the laws of a GCC country other than Saudi Arabia with a Permanent Establishment in Saudi Arabia are subject to Saudi Arabian corporate income tax at the rate of 20 per cent. in respect of any profit payment received or gain realised in respect of the Certificates but will not be subject to *zakat*.

For the purposes of this summary:

A person is a **Resident** in Saudi Arabia (as defined in Article 3 of the Income Tax Regulation issued under Royal Decree No. M/1 dated 15/01/1425H (the **Income Tax Regulation**)) if it meets the following conditions:

(a) A natural person is considered a Resident in Saudi Arabia for a taxable year if he meets either of the two following conditions:

  (i) he has a permanent place of abode in Saudi Arabia and is physically present in Saudi Arabia for a total of not less than 30 days in the taxable year; or

  (ii) he is physically present in Saudi Arabia for a period of not less than 183 days in the taxable year.

(b) A company is considered Resident in Saudi Arabia during a taxable year if it meets either of the following conditions:

  (i) it is formed in accordance with the Saudi Companies Regulations; or

  (ii) its place of central control and management is located in Saudi Arabia.

Certificateholders will not be deemed to be Resident in Saudi Arabia solely by reason of holding any Certificates.

A **GCC Person** means (a) a natural persons having the nationality of any of the GCC Countries and (b) any legal entity owned by GCC nationals and established under the laws of a GCC country. A GCC Person will include a company owned by both Saudi/GCC and non-Saudi/(non-GCC) nationals (''mixed companies''), to the extent it is ultimately owned by Saudi/ GCC nationals.

Permanent Establishment consists of the permanent place of activity of a non-Resident person through which it carries out business, in full or in part, including business carried out through an agent.

Cayman Islands

The following is a discussion on certain Cayman Islands income tax consequences of an investment in Certificates to be issued under the Programme. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It is not intended as tax advice, does not consider any investor's particular circumstances and does not consider tax consequences other than those arising under Cayman Islands law.

Under existing Cayman Islands laws payments on Certificates to be issued under the Programme will not be subject to taxation in the Cayman Islands and no withholding will be required on the payments to any holder of Certificates nor will gains derived from the disposal of Certificates be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance or gift tax.

Subject as set out below, no capital or stamp duties are levied in the Cayman Islands on the issue, transfer or redemption of Certificates. An instrument transferring title to any Certificates, if brought to or executed in the Cayman Islands, would be subject to Cayman Islands stamp duty. An annual registration fee is payable by the Trustee to the Cayman Islands Registrar of Companies which is calculated by reference to the nominal amount of its authorised capital. At current rates, this annual registration fee is approximately U.S.$731. The foregoing is based on current law and practice in the Cayman Islands and this is subject to change therein.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income, which may include Periodic Distribution Amounts) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

SUBSCRIPTION AND SALE

The Dealers have, in a programme agreement (the **Programme Agreement**) dated 17 April 2012, agreed with the Trustee and BSF a basis upon which they or any of them may from time to time agree to purchase Certificates. Any such agreement will extend to those matters stated under "*Terms and Conditions of the Certificates*". In the Programme Agreement, each of the Trustee and BSF has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue, offer and sale of Certificates under the Programme.

SELLING RESTRICTIONS

United States

The Certificates have not been nor will be registered under the Securities Act nor any state securities law, and the Certificates may not be offered or sold within the United States or to or for the account or benefit of, any U.S. person except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver Certificates (a) as part of their distribution at any time or (b) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Certificates on a syndicated basis, the relevant lead manager, of all Certificates of the Series of which such Certificates are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Certificates during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Certificates within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Until 40 days after the commencement of the offering of any Series of Certificates, an offer or sale of such Certificates within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Public Offer Selling Restriction under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Certificates which are the subject of the offering contemplated by this Base Prospectus as completed by the final terms in relation thereto to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Certificates to the public in that Relevant Member State:

(a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Trustee for any such offer; or

(c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Certificates referred to above shall require the Trustee, BSF or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an **offer of Certificates to the public** in relation to any Certificates in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Certificates to be offered so as to enable an investor to decide to purchase or subscribe Certificates, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression **Prospectus Directive** means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression **2010 PD Amending Directive** means Directive 2010/73/EU.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) in relation to any Certificates which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Certificates other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Certificates would otherwise constitute a contravention of section 19 of the FSMA by the Trustee;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Certificates in circumstances in which section 21(1) of the FSMA does not apply to the Trustee or BSF; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Certificates in, from or otherwise involving the United Kingdom.

Cayman Islands

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not made and will not make any offer or invitation to the public in the Cayman Islands to subscribe for any Certificates.

Japan

The Certificates have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended; the **FIEA**) and each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer or sell any Certificates, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

United Arab Emirates (excluding the Dubai International Financial Centre)

Each Dealer has represented and agreed, and each Dealer appointed under the Programme will be required to represent and agree, that the Certificates to be issued under the Programme have not been and will not be offered, sold or publicly promoted or advertised by it in the United Arab Emirates other than in compliance with any laws applicable in the United Arab Emirates governing the issue, offering and sale of securities.

Dubai International Financial Centre

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered and will not offer the Certificates to be issued under the Programme to any person in the Dubai International Financial Centre unless such offer is:

(a) an ''Exempt Offer'' in accordance with the Offered Securities Rules of the Dubai Financial Services Authority (the **DFSA**); and

(b) made only to persons who meet the Professional Client criteria set out in Rule 2.3.2 of the DFSA Conduct of Business Module.

Kingdom of Saudi Arabia

Any investor in the Kingdom of Saudi Arabia or who is a Saudi person (a **Saudi Investor**) who acquires Certificates pursuant to any offering should note that the offer of Certificates is a private placement under Article 10 and/or Article 11 of the "Offer of Securities Regulations" as issued by the Board of the Capital Market Authority resolution number 2-11-2004 dated 4 October 2004 and amended by the Board of the Capital Market Authority resolution number 1-28-2008 dated 18 August 2008 (the **KSA Regulations**). Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that any offer of Certificates will not be directed at more than 60 Saudi Investors (excluding "Sophisticated Investors" (as defined in Article 10 of the KSA Regulations)) and the minimum amount payable per Saudi Investor (excluding Sophisticated Investors) will be not less than Saudi Riyal (**SR**) 1 million or an equivalent amount.

Each offer of Certificates shall not therefore constitute a "public offer" pursuant to the KSA Regulations, but is subject to the restrictions on secondary market activity under Article 17 of the KSA Regulations. Any Saudi Investor who has acquired Certificates as a Sophisticated Investor may not offer or sell those Certificates to any person unless the offer or sale is made through an authorised person appropriately licensed by the Saudi Arabian Capital Market Authority and (a) the Certificates are offered or sold to a Sophisticated Investor; (b) the price to be paid for the Certificates in any one transaction is equal to or exceeds SR 1 million or an equivalent amount; or (c) the offer or sale is otherwise in compliance with Article 17 of the KSA Regulations.

Kingdom of Bahrain

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered and will not offer any Certificates to the Public (as defined in Articles 142-146 of the Commercial Companies Law (decree Law No. 21/2001) of Bahrain) in Bahrain.

Qatar (excluding the Qatar Financial Centre)

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold, and will not offer or sell, directly or indirectly, any Certificates in the State of Qatar, except (i) in compliance with all applicable laws and regulations of the State of Qatar; and (ii) through persons or corporate entities authorised and licensed to provide investment advice and/or engage in brokerage activity and/or trade in respect of foreign securities in the State of Qatar.

Singapore

This Base Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Chapter 289 of Singapore (the **SFA**). Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold and that it will not offer or sell any Certificates or cause such Certificates to be made the subject of an invitation for subscription or purchase, nor will it circulate or distribute this Base Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of any Certificates, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor pursuant to Section 274 of the SFA, or (b) to a relevant person, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (c) pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Hong Kong

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Certificates other than (i) to persons whose ordinary business is to buy or sell shares or debentures (whether as principal or agent); or (ii) to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the **SFO**) and any rules made under the SFO; or (iii) in other circumstances which do not result in the document being a ''prospectus'' as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Certificates, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to any Certificates which are or are intended to be disposed of only to persons outside Hong Kong or only to ''professional investors'' as defined in the SFO and any rules made under the SFO.

Malaysia

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) this Base Prospectus has not been registered as a prospectus with the Securities Commission of Malaysia under the Capital Markets and Services Act 2007 of Malaysia (the **CMSA**); and

(b) accordingly, the Certificates have not been and will not be offered, sold or delivered, and no invitation to subscribe for or purchase the Certificates has been or will be made, directly or indirectly, nor may any document or other material in connection therewith be distributed in Malaysia, other than to persons or in categories falling within Schedule 6 (or Section 229(1)(b)), Schedule 7 (or Section 230(1)(b)), and Schedule 8 (or Section 257(3)) of the CMSA, subject to any law, order, regulation or official directive of the Central Bank of Malaysia, the Securities Commission of Malaysia and/or any other regulatory authority from time to time.

Residents of Malaysia may be required to obtain relevant regulatory approvals including approval from the Controller of Foreign Exchange to purchase the Certificates. The onus is on the Malaysian residents concerned to obtain such regulatory approvals and none of the Dealers is responsible for any invitation, offer, sale or purchase of the Certificates as aforesaid without the necessary approvals being in place.

General

Each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, that it will (to the best of its knowledge and belief) comply with all applicable securities laws, regulations and directives in force in any jurisdiction in which it purchases, offers, sells or delivers any Certificates or possesses or distributes this Base Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Certificates under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and none of the Trustee, BSF, the Delegate and any other Dealer shall have any responsibility therefor.

None of the Trustee, BSF, the Delegate and any of the Dealers represents that Certificates may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating any such sale. Persons into whose possession this Base Prospectus or any Certificates may come must inform themselves about, and observe, any applicable restrictions on the distribution of this Base Prospectus and the offering and sale of Certificates.

With regard to each Series, the relevant Dealer will be required to comply with any additional restrictions agreed between the Trustee, BSF and the relevant Dealer and set out in the applicable Final Terms.

GENERAL INFORMATION

Authorisation

The establishment of the Programme and the issue of Certificates have been duly authorised by a resolution of the Board of Directors of the Trustee dated 21 March 2012. The Trustee has obtained all necessary consents, approvals and authorisations in the Cayman Islands in connection with the issue and performance of Certificates to be issued under the Programme and the execution and performance of the Transaction Documents to which it is a party. The entry into of the Transaction Documents to which it is a party relating to the establishment of the Programme has been duly authorised by a resolution of the Board of Directors of BSF dated 6 March 2012.

Each issuance of Certificates and the execution and performance by BSF of each Transaction Document relating to such an issuance is subject to approval by SAMA.

Listing

Application has been made to the UK Listing Authority for Certificates issued under the Programme to be admitted to the Official List and to the London Stock Exchange for such Certificates to be admitted to trading on the London Stock Exchange's regulated market. The listing of the Programme in respect of Certificates is expected to be granted on or before 23 April 2012. It is expected that each Series of Certificates which is to be admitted to the Official List and to trading on the London Stock Exchange's regulated market will be admitted separately, as and when issued, subject only to the issue of the Global Certificate initially representing the Certificates of the relevant Series.

Documents Available

For the period of 12 months following the date of this Base Prospectus, copies (and English translations where the documents in question are not in English) of the following documents will, when published, be available, during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted), for inspection at the offices of the Trustee and the Paying Agent for the time being in London:

(a) the Transaction Documents including each Supplemental Trust Deed and each Supplemental Purchase Contract in relation to each Series (save that any such documents relating to a Series which is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Certificate and such holder must produce evidence satisfactory to the Trustee and the Principal Paying Agent as to its holding of the relevant Certificates and identity);

(b) the Memorandum and Articles of Association of the Trustee and the constitutional documents (with an English translation thereof) of BSF;

(c) the consolidated audited financial statements of BSF in respect of the two financial years ended 31 December 2010 and 31 December 2011 together with the audit reports prepared in connection therewith. BSF currently prepares audited consolidated accounts on an annual basis. The Trustee is not required to, and does not intend to, publish any annual financial statements;

(d) the most recently published unaudited condensed consolidated interim financial statements (if any) of BSF, together with any audit or review reports prepared in connection therewith. BSF currently prepares unaudited consolidated interim accounts on a quarterly basis. The Trustee is not required to, and does not intend to, publish any interim financial statements;

(e) this Base Prospectus; and

(f) any future offering circulars, prospectuses, information memoranda and supplements including Final Terms (save that a Final Terms relating to a Certificate which is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Certificate and such holder must produce evidence satisfactory to the Trustee and the Principal Paying Agent as to its holding of the relevant Certificates and identity) to this Base Prospectus and any other documents incorporated herein or therein by reference.

The Base Prospectus will be published on the website of the Regulatory News Service operated by the London Stock Exchange at www.londonstockexchange.com./en-gb/pricesnews/marketnews.

Clearing Systems

The Certificates have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records).The appropriate Common Code and ISIN for each Series will be specified in the applicable Final Terms.

If the Certificates are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms.

The address of Euroclear is Euroclear Bank S.A./N.V., 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

Significant or Material Change

There has been no significant change in the financial or trading position of the Trustee and no material adverse change in the financial position or prospects of the Trustee, in each case, since the date of its incorporation.

There has been no significant change in the financial or trading position of BSF and its subsidiaries, taken as a whole, since 31 December 2011 and there has been no material adverse change in the financial position or prospects of BSF and its subsidiaries, taken as a whole, since 31 December 2011.

Litigation

None of the Trustee, BSF or any other member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Trustee or BSF is aware) in the 12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position or profitability of the Trustee, BSF or the Group.

Auditors

The Trustee is not required by Cayman Islands law, and does not intend, to publish audited financial statements or appoint any auditors.

The joint auditors of BSF are KPMG and PwC. KPMG, through its partners, is a member of the Saudi Organisation of Certified Public Accountants and had audited BSF's accounts, without qualification, in accordance with the Accounting Standards for Financial Institutions promulgated by SAMA and IFRS for each of the two financial years ended on 31 December 2010 and 31 December 2011. KPMG has no material interest in BSF. PwC, through its partners, is a member of the Saudi Organisation of Certified Public Accountants and had audited BSF's accounts (jointly with KPMG), without qualification, in accordance with the Accounting Standards for Financial Institutions promulgated by SAMA and IFRS for the financial year ended on 31 December 2011. PwC has no material interest in BSF. E&Y is a member of the Saudi Organisation of Certified Public Accountants and had audited BSF's accounts (jointly with KPMG), without qualification, in accordance with the Accounting Standards for Financial Institutions promulgated by SAMA and IFRS for the financial year ended on 31 December 2010. E&Y has no material interest in BSF.

Dealers transacting with BSF

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, BSF (and its affiliates) in the ordinary course of business for which they have received, and for which they may in the future receive, fees.

FINANCIAL INFORMATION

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements 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, statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes from (1) to (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 of these consolidated financial statements in accordance with Accounting Standards for Financial Institutions issued by the Saudi Arabian Monetary Agency ("SAMA"), International Financial Reporting Standards, the provisions of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia, the Bank's Articles of Association , and for such internal controls as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 and presentation of the consolidated financial statements.

PricewaterhouseCoopers

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

Rabi' I 21,1433H
February 13, 2012

BANQUE SAUDI FRANSI
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

BANQUE SAUDI FRANSI
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

BANQUE SAUDI FRANSI
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

BANQUE SAUDI FRANSI
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 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

BANQUE SAUDI FRANSI
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

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.

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.

- 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.

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 an 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.
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.

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.

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 an 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 an objective evidence of impairment based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated income statement.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to credit event occurring after the impairment loss was 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 an 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 condition 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, and the amount of the loss has been determined.Once a financial asset has been written down to its estimated recoverable amount, special commission income is thereafter 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.

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, brokerage and corporate finance 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.

(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 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:

	2011			2010		
SAR' 000	**Domestic**	**International**	**Total**	Domestic	International	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	**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

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

SAR' 000	2011 Quoted	2011 Unquoted	2011 Total	2010 Quoted	2010 Unquoted	2010 Total
Fixed rate securities	**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:

SAR' 000	2011 Carrying value	2011 Gross unrealized gains	2011 Gross unrealized losses	2011 Fair Value	2010 Carrying value	2010 Gross unrealized gains	2010 Gross unrealized losses	2010 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								
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

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 SAR141 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 (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

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

	2010				
SAR' 000	Overdraft & Commercial loans	Credit Cards	Consumer Loans	Others	Total
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

	2011				
SAR' 000	**Overdraft & Commercial loans**	**Credit Cards**	**Consumer Loans**	**Others**	**Total**
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				
SAR' 000	Overdraft & Commercial loans	Credit Cards	Consumer Loans	Others	Total
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

b) Movement in allowance for impairment of credit losses

	2011				
SAR' 000	**Overdraft & Commercial loans**	**Credit Cards**	**Consumer Loans**	**Others**	**Total**
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				
SAR' 000	Overdraft & Commercial loans	Credit Cards	Consumer Loans	Others	Total
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	2011				
	Overdraft & Commercial loans	**Credit Cards**	**Consumer Loans**	**Others**	**Total**
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**

SAR' 000	2010				
	Overdraft & Commercial loans	Credit Cards	Consumer Loans	Others	Total
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

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	**2011**				
	Overdraft & Commercial loans	**Credit Cards**	**Consumer Loans**	**Others**	**Total**
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**

SAR' 000	2010				
	Overdraft & Commercial loans	Credit Cards	Consumer Loans	Others	Total
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	-	3,729,165

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**
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

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 the 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. InSaudi 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 associates' financial statements:

SAR' 000	Banque Bemo Saudi Fransi - Syria		Allianz Saudi Fransi	
	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

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.

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 an 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.

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 / (outflow)	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.

Derivative financial instruments SAR' 000	Positive fair value	Negative fair value	Notional amount total	Notional amounts by term to maturity: Within 3 months	3-12 months	1-5 years	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**

Derivative financial instruments SAR' 000	Positive fair value	Negative fair value	Notional amount total	Notional amounts by term to maturity: Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
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

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 Description of hedged items	Fair value	Cost	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 24,961 million (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.

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).

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:

i) 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 second half of 2011 amounted to SAR 31 million which was deducted from retained earnings.

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.

ii) 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 second 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 is 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	Variable compensation	Total compensation	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.

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.

As 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.

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 the kingdom of 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:

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

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.

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.

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

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:

SAR ' 000	2011 Non performing, net	2011 Allowance for impairment of credit losses	2010 Non performing, net	2010 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.

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.

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.

SAR' 000	2011						
Currency	**BPS change**	**Sensitivity of special commission income**	**Sensitivity of Equity**				**Total**
			6 months or less	**1 year or less**	**1-5 years or less**	**Over 5 years**	
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**

SAR' 000	2010						
Currency	BPS change	Sensitivity of special commission income	Sensitivity of Equity				Total
			6 months or less	1 year or less	1-5 years or less	Over 5 years	
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.

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	-	-

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.

SAR' 000	**2011**			2010		
Currency Exposures	**Change in Currency Rate in %**	**Effect on Net Income**	**Effect on Equity**	Change in Currency Rate in %	Effect on Net Income	Effect on Equity
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)

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:

SAR' 000	**2011**		2010	
Market Indices	**Change in equity Price %**	**Effect on market value**	Change in equity Price %	Effect on market value
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.

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

SAR' 000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
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.

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.

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 3,633 million) 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

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

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

ERNST & YOUNG KPMG Al Fozan & Al Sadhan

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Banque Saudi Fransi (the "Bank") and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statements of income, 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 of these consolidated financial statements in accordance with Accounting Standards for Financial Institutions issued by the Saudi Arabian Monetary Agency, International Financial Reporting Standards, the provisions of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's Articles of Association. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, 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 financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 financial statements.

ERNST & YOUNG | KPMG Al Fozan & Al Sadhan

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

Opinion

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

- present fairly, in all material respects, the financial position of the Bank and its subsidiaries as at 31 December 2010, 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 and presentation of the consolidated financial statements.

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22 Safar 1432H
(26 January 2011)

BANQUE SAUDI FRANSI
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at December 31, 2010 and 2009

SAR' 000	Notes	2010	2009
ASSETS			
Cash and balances with SAMA	4	**10,864,136**	12,630,968
Due from banks and other financial institutions	5	**5,191,617**	7,110,607
Investments, net	6	**19,840,715**	17,481,226
Loans and advances, net	7	**80,976,587**	78,315,196
Investment in associates	8	**185,628**	144,344
Property and equipment, net	9	**586,304**	606,185
Other assets	10	**5,573,343**	4,283,912
Total assets		**123,218,330**	120,572,438
LIABILITIES AND EQUITY			
Liabilities			
Due to banks and other financial institutions	12	**2,312,906**	4,831,799
Customers' deposits	13	**93,529,251**	91,237,118
Term loans	14	**2,465,756**	4,946,231
Debt Securities	15	**2,428,019**	-
Other liabilities	16	**4,459,350**	3,805,510
Total liabilities		**105,195,282**	104,820,658
Equity attributable to the equity holders of the Bank			
Share capital	17	**7,232,143**	7,232,143
Statutory reserve	18	**6,072,101**	5,371,849
General reserve	18	**982,857**	982,857
Other reserves	19	**746,972**	286,991
Retained earnings		**2,169,588**	868,833
Proposed dividend	29	**800,000**	990,000
Total equity attributable to the equity holders of the Bank		**18,003,661**	15,732,673
Non controlling interest		**19,387**	19,107
Total equity		**18,023,048**	15,751,780
Total liabilities and equity		**123,218,330**	120,572,438

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

BANQUE SAUDI FRANSI
CONSOLIDATED INCOME STATEMENT
For the years ended December 31, 2010 and 2009

SAR' 000	Notes	2010	2009
Special commission income	21	**3,537,058**	4,089,324
Special commission expense	21	**471,201**	1,039,035
Net special commission income		**3,065,857**	3,050,289
Fee and commission income, net	22	**887,043**	840,254
Exchange income, net		**200,409**	186,095
Trading income, net	23	**202,007**	209,746
Dividend income	24	**17,472**	363
Gains /(losses) on non trading investments, net	25	**2,349**	(1,894)
Other operating income	26	**20,092**	10,054
Total operating income		**4,395,229**	4,294,907
Salaries and employee related expenses		**708,633**	642,589
Rent and premises related expenses		**105,563**	90,735
Depreciation and amortization	9	**126,241**	113,981
Other general and administrative expenses		**311,489**	300,699
Impairment charge for credit losses, net	7	**339,344**	574,621
Impairment charge for other financial assets		**-**	67,000
Other operating expenses	27	**6,630**	10,038
Total operating expenses		**1,597,900**	1,799,663
Operating income		**2,797,329**	2,495,244
Share in earnings / (losses) of associates, net	8	**3,958**	(27,439)
Net income for the year		**2,801,287**	2,467,805
Attributable to:			
Equity holders of the Bank		**2,801,007**	2,470,615
Non controlling interest income/(loss)		**280**	(2,810)
Net income for the year		**2,801,287**	2,467,805
Basic and diluted earnings per share (in SAR)	28	**3.87**	3.42

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

BANQUE SAUDI FRANSI
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the years ended December 31, 2010 and 2009

SAR'000'	Notes	2010	2009
Net income for the year		2,801,287	2,467,805
Other comprehensive income (loss):			
-Available for sale investments			
Changes in the fair value, net	19	**107,306**	76,112
(Income) / loss transferred to consolidated income statement	19	**(2,349)**	68,894
-Cash flow hedge			
Changes in the fair value ,net	19	**993,488**	247,549
Income transferred to consolidated income statement	19	**(638,464)**	(401,005)
Total comprehensive income for the year		**3,261,268**	2,459,355
Attributable to:			
- Equity holders of the Bank		**3,260,988**	2,462,165
- Non controlling interest income/(loss)		**280**	(2,810)
Total comprehensive income for the year		**3,261,268**	2,459,355

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

BANQUE SAUDI FRANSI
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the years ended December 31, 2010 and 2009

		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
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 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	29	**-**	**-**	**-**	**-**	**-**	**-**	**(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**
2009											
Balance at the beginning of the year		5,625,000	4,754,195	2,590,000	5,872	(205,266)	500,707	776,711	14,047,219	21,917	14,069,136
Total Comprehensive income / (loss) for the year		-	-	-	2,470,615	145,006	(153,456)	-	2,462,165	(2,810)	2,459,355
Transfer to statutory reserve	18	-	617,654	-	(617,654)	-	-	-	-	-	-
Transfer to general reserve	18	1,607,143	-	(1,607,143)		-	-	-	-	-	-
Final Dividend paid for 2008		-	-	-	-	-	-	(776,711)	(776,711)	-	(776,711)
Proposed gross dividend	29	-	-	-	(990,000)	-	-	990,000	-	-	-
Balance at the end 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

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

BANQUE SAUDI FRANSI
CONSOLIDATED STATEMENT OF CASH FLOWS
For the years ended December 31, 2010and 2009

SAR' 000	Notes	2010	2009
OPERATING ACTIVITIES			
Net income for the year		**2,801,287**	2,467,805
Adjustments to reconcile net income to net cash from operating activities			
(Accretion of discounts) on non trading investments, net		**(13,404)**	(326,011)
(Gains)/ losses on non trading investments, net		**(2,349)**	1,894
Depreciation and amortization		**126,241**	113,981
(Gains) / losses on disposal of property and equipment, net		**(277)**	51
Impairment charge for credit losses, net		**339,344**	574,621
Impairment charge for other financial assets		**-**	67,000
Share in (earnings) / losses from associates, net		**(3,958)**	27,439
Change in fair value of financial instruments		**(11,040)**	64,969
		3,235,844	2,991,749
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA	4	**(458,496)**	(417,397)
Investments held as FVIS (trading)		**(511,244)**	1,011,238
Loans and advances		**(3,009,848)**	1,910,525
Other assets		**(885,726)**	1,994,613
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		**(2,518,893)**	(3,570,203)
Customers' deposits		**2,235,817**	(1,506,460)
Other liabilities		**659,286**	(1,779,702)
Net cash (used in) / from operating activities		**(1,253,260)**	634,363
INVESTING ACTIVITIES			
Proceeds from sale and maturities of non trading investments		**26,520,775**	18,778,787
Purchase of non trading investments		**(28,278,424)**	(9,206,688)
Investments in associates		**(40,625)**	-
Dividend received from associates		**3,299**	5,077
Acquisition of property and equipment		**(106,468)**	(129,685)
Proceeds from sale of property and equipment		**385**	113
Net cash (used in) / from investing activities		**(1,901,058)**	9,447,604
FINANCING ACTIVITIES			
Term loan		**(2,437,500)**	-
Debt securities		**2,437,500**	-
Dividends paid	29	**(990,000)**	(776,711)
Net cash used in financing activities		**(990,000)**	(776,711)
(Decrease) / increase in cash and cash equivalents		**(4,144,318)**	9,305,256
Cash and cash equivalents at the beginning of the year		**15,334,228**	6,028,972
Cash and cash equivalents at the end of the year	30	**11,189,910**	15,334,228
Special commission received during the year		**3,611,830**	4,349,437
Special commission paid during the year		**497,753**	1,191,741
Supplemental non cash information			
Net changes in fair value and transfers to consolidated income statement		**(459,981)**	(8,450)

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

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 81 branches (2009: 77 branches) in the Kingdom of Saudi Arabia, employing 2,594people (2009: 2,460). 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.

In accordance with the Capital Market Authority (CMA) directive requiring the spin off of brokerage and asset management activities from the Bank's core business, the Bank has established two subsidiaries, Fransi Tadawul Company (99% direct share in equity and 1% indirect share beneficially held by a director of the Bank) and CAAM Saudi Fransi (60% share in equity), which are incorporated in the Kingdom of Saudi Arabia. The Bank also has stakes in associates, Sofinco Saudi Fransi (50% share in equity) and CALYON Saudi Fransi (45% share in equity), which are incorporated in the Kingdom of Saudi Arabia and involved in consumer lease finance and corporate financial advisory respectively.

The subsidiaries commenced their commercial operations during 2008. Accordingly, effective 1 January 2008 the Bank started consolidating the financial statements of the aforementioned subsidiaries.

The Bank also holds 27% shareholding in an associate Banque BEMO Saudi Fransi, a bank incorporated in Syria, 50% shareholding in InSaudi Insurance Co., incorporated in Kingdom of Bahrain and 32.5% equity share in Saudi Fransi Corporative Insurance Co. (Allianz Saudi Fransi), an associate 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.

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 2009, 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 27 (Revised)- Consolidated and Separate Financial Statements

IAS 39 (Amendment) - Financial Instruments: Recognition and Measurement

IFRIC 18- Transfers of Assets from Customers

b) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries i.e. Fransi Tadawul Company and CAAM Saudi Fransi. 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.

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.

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.

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 net 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.

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. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted, and the amount of the loss has been determined.

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.

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.

v) Investment management and brokerage 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.

(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	2010	2009
Cash on hand	**639,987**	479,787
Statutory deposit	**4,865,843**	4,407,347
Current account	**162,378**	57,941
Money market placements	**5,195,928**	7,685,893
Total	**10,864,136**	12,630,968

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 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	2010	2009
Current accounts	167,871	365,878
Money market placements	5,023,746	6,744,729
Total	5,191,617	7,110,607

6 Investments, net

a) These comprise the following:

SAR' 000	2010			2009		
	Domestic	International	Total	Domestic	International	Total
i) Held as FVIS						
Fixed rate securities	849,600	228,251	1,077,851	347,695	172,709	520,404
Floating rate securities	155,472	37,735	193,207	183,730	48,574	232,304
Other	-	-	-	-	7,106	7,106
Held as FVIS	1,005,072	265,986	1,271,058	531,425	228,389	759,814
ii) Available for sale (AFS)						
Fixed rate securities	168,759	214,749	383,508	-	511,363	511,363
Floating rate securities	1,172,761	553,812	1,726,573	728,374	382,280	1,110,654
Equities	713,934	257,378	971,312	624,060	75,106	699,166
Other	3,633,004	7,106	3,640,110	3,102,380	-	3,102,380
Available for sale, net	5,688,458	1,033,045	6,721,503	4,454,814	968,749	5,423,563
iii) Held to maturity						
Fixed rate securities	1,423,179	-	1,423,179	2,353,657	188,936	2,542,593
Held to maturity	1,423,179	-	1,423,179	2,353,657	188,936	2,542,593
iv) Other investments held at amortized cost						
Fixed rate securities	9,565,889	-	9,565,889	7,228,694	-	7,228,694
Floating rate notes	859,086	375,000	1,234,086	1,526,562	375,000	1,901,562
Other investments held at amortized cost, gross	10,424,975	375,000	10,799,975	8,755,256	375,000	9,130,256
Allowance for impairment	-	(375,000)	(375,000)	-	(375,000)	(375,000)
Other investments held at amortized cost, net	10,424,975	-	10,424,975	8,755,256	-	8,755,256
Total Investments, net	18,541,684	1,299,031	19,840,715	16,095,152	1,386,074	17,481,226

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

	2010			2009		
SAR' 000	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Fixed rate securities	633,989	11,816,438	12,450,427	1,220,703	9,582,351	10,803,054
Floating rate securities / notes	1,919,780	1,234,086	3,153,866	1,342,958	1,901,562	3,244,520
Equities	721,948	249,364	971,312	456,209	242,957	699,166
Other	-	3,640,110	3,640,110	-	3,109,486	3,109,486
	3,275,717	16,939,998	20,215,715	3,019,870	14,836,356	17,856,226
Allowance for impairment	-	(375,000)	(375,000)	-	(375,000)	(375,000)
Investments, net	3,275,717	16,564,998	19,840,715	3,019,870	14,461,356	17,481,226

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:

	2010				2009			
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	1,423,179	71,199	-	1,494,378	2,542,593	81,899	(39)	2,624,453
Total	1,423,179	71,199	-	1,494,378	2,542,593	81,899	(39)	2,624,453
ii) Other investments held at amortized cost								
Fixed rate securities	9,565,889	25,313	(994)	9,590,207	7,228,694	21,080	-	7,249,774
Floating rate notes	1,234,086	592	-	859,679	1,901,562	1,497	-	1,528,059
Allowance for impairment	(375,000)	-	-	-	(375,000)	-	-	-
Total	10,424,975	25,905	(994)	10,449,886	8,755,256	22,577	-	8,777,833

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

SAR' 000	2010	2009
Government and quasi government	13,292,873	12,111,363
Corporate	4,314,648	3,874,644
Banks and other financial institutions	1,997,125	1,444,389
Others	236,069	50,830
Total	19,840,715	17,481,226

e) Credit risk exposure on investments

SAR' 000	2010	2009
Saudi government bonds	**12,675,524**	11,456,608
Investment grade	**2,428,828**	2,207,809
Non investment grade	**107,813**	-
Unrated	**4,628,550**	3,816,809
Total	**19,840,715**	17,481,226

Saudi government bonds comprise of Saudi government development bonds, treasury bills and floating rate notes. 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 SAR 3,633 million (2009: SAR 3,102 million).

f) Movement of allowance for impairment of investments:

SAR' 000	2010	2009
Balance at the beginning of the year	**477,000**	410,000
Provided during the year		
- AFS	**-**	67,000
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 SAR152 million (2009: SAR 155 million).

Available for sale investments include Islamic securities (sukuk) of 965 million (2009: SAR 753 million). Other AFS represents Musharaka investments of SAR 0.5 million (2009: SAR 255 million) and Mudarabah investments of SAR 1, 699 million (2009: SAR 1,726 million) which are hedged and measured at fair value to the extent of the risk being hedged.

Unquoted investments include principally Saudi Government Bonds and notes of SAR12, 676 million (2009: SAR 11,457 million).

Saudi Istithmar mutual fund SAR 58 million (2009: SAR 51 million) and unquoted equity shares of SAR 249 million (2009: SAR 243 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	2010				
	Overdraft & Commercial loans	**Credit Cards**	**Consumer Loans**	**Others**	**Total**
Performing loans and advances- gross	**107,595**	**-**	**-**	**-**	**107,595**
Total loans and advances, available for sale	**107,595**	**-**	**-**	**-**	**107,595**

SAR' 000	2009				
	Overdraft & Commercial loans	Credit Cards	Consumer Loans	Others	*Total*
Performing loans and advances- gross	162,105	-	-	-	162,105
Total loans and advances, available for sale	162,105	-	-	-	162,105

ii) Other loans and advances held at amortised cost

SAR' 000	2010				
	Overdraft & Commercial loans	**Credit Cards**	**Consumer Loans**	**Others**	**Total**
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**

SAR' 000	2009				
	Overdraft & Commercial loans	Credit Cards	Consumer Loans	Others	Total
Performing loans and advances- gross	67,246,740	514,858	5,575,336	5,084,294	78,421,228
Non performing loans and advances, net	810,202	67,824	123,984	6,138	1,008,148
Total loans and advances	68,056,942	582,682	5,699,320	5,090,432	79,429,376
Allowance for impairment	(1,020,348)	(68,251)	(187,686)	-	(1,276,285)
Loans and advances held at amortised cost, net	67,036,594	514,431	5,511,634	5,090,432	78,153,091

b) Movement in allowance for impairment

SAR' 000	**2010**				
	Overdraft & Commercial loans	**Credit Cards**	**Consumer Loans**	**Others**	**Total**
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**

SAR' 000	2009				
	Overdraft & Commercial loans	Credit Cards	Consumer Loans	Others	Total
Balance at beginning of the year	624,416	73,462	149,865	-	847,743
Provided during the year	454,151	56,894	109,653	-	620,698
Written off during the year	(29,085)	(52,957)	(64,037)	-	(146,079)
Recoveries of amounts previously provided	(29,134)	(9,148)	(7,795)	-	(46,077)
Balance at the end of the year	1,020,348	68,251	187,686	-	1,276,285

The net charge to income of SAR 339 million (2009: SAR 575 million) in respect of impairment charge for credit losses for the year is net of recoveries of SAR50 million (2009: SAR: 46 million). The allowance for impairment includes SAR 702 million (2009: SAR: 546 million) evaluated on collective impairment basis.

Non performing loans and advances are disclosed net of accumulated special commission in suspense of SAR 141million (2009: SAR 103 million).

c) Credit quality of loans and advances

i) Neither past due nor impaired

SAR' 000	2010				
	Overdraft & Commercial loans	**Credit Cards**	**Consumer Loans**	**Others**	**Total**
Very strong quality including sovereign (A+ to B and S)	**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**

SAR' 000	2009				
	Overdraft & Commercial loans	Credit Cards	Consumer Loans	Others	Total
Very strong quality including sovereign (A+ to B and S)	12,531,771	3,350	2,585	225,345	12,763,051
Good quality (C+ to C)	14,549,444	4,570	1,641	1,986,661	16,542,316
Satisfactory quality (C- to E +)	38,235,423	455,246	4,762,283	2,867,835	46,320,787
Special mention	1,628,641	1,449	3,296	4,453	1,637,839
Total	66,945,279	464,615	4,769,805	5,084,294	77,263,993

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	**2010**				
	Overdraft & Commercial loans	**Credit Cards**	**Consumer Loans**	**Others**	**Total**
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**	**-**	**3,729,165**

SAR' 000	2009				
	Overdraft & Commercial loans	Credit Cards	Consumer Loans	Others	Total
From 1 day to 30 days	14,067	16,089	667,802	-	697,958
From 31 days to 90 days	168,336	20,061	89,321	-	277,718
From 91 days to 180 days	152,671	14,093	43,535	-	210,299
More than 180 days	128,492	-	4,873	-	133,365
Total	463,566	50,243	805,531	-	1,319,340

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
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**
2009				
Government and quasi Government	1,273,814	-	-	1,273,814
Banks and other financial institutions	695,429	209,809	(154,420)	750,818
Agriculture and fishing	2,281,836	7,304	(10,650)	2,278,490
Manufacturing	10,461,287	4,917	(55,782)	10,410,422
Mining and quarrying	1,411,558	3,595	(3,431)	1,411,722
Electricity, water, gas and health services	2,339,550	3,547	(2,088)	2,341,009
Building and construction	7,155,369	22,037	(57,141)	7,120,265
Commerce	17,318,869	276,568	(306,271)	17,289,166
Transportation and communication	6,367,252	126,115	(79,828)	6,413,539
Services	6,165,240	88,287	(139,428)	6,114,099
Consumer loans and credit cards	6,090,194	191,808	(255,937)	6,026,065
Others	17,022,935	74,161	(211,309)	16,885,787
Total	78,583,333	1,008,148	(1,276,285)	78,315,196

Loans and advances, net include Islamic products of SAR 33,248million (2009: SAR 30,468 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	2010	2009
Gross receivable from finance leases:		
Less than 1 year	**32,725**	397,273
1 to 5 years	**387,229**	584,483
More than 5 years	**2,183,009**	1,127,713
	2,602,963	2,109,469
Unearned future finance income on finance leases	**(1,235)**	(5,171)
Net receivable from finance leases	**2,601,728**	2,104,298

8 Investment in associates

SAR' 000	2010	2009
Opening balance	**144,344**	176,859
Cost of investment during the year	**40,625**	-
Dividend received	**(3,299)**	(5,076)
Share of undistributed profit/ (loss)	**3,958**	(27,439)
Closing balance	**185,628**	144,344

Investment in associates represents 27% shareholding in interest in the Banque BEMO Saudi Fransi (2009: 27%), a bank incorporated in Syria and 50% shareholding in InSaudi Insurance Company (2009: 50%) incorporated in Kingdom of Bahrain and 32.5% shareholding in Saudi Fransi Cooperative Insurance Company (Allianz Saudi Fransi) (2009: 32.5%) incorporated in the Kingdom of Saudi Arabia .

The Bank also owns 50% of Sofinco Saudi Fransi (2009: 50%), which is involved in consumer lease finance and 45% of CALYON Saudi Fransi (2009: 45%), which is involved in corporate financial advisory services.

InSaudi 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:

SAR' 000	Bemo Saudi Fransi		Allianz Saudi Fransi	
	2010	2009	**2010**	2009
Total assets	**2,544,077**	2,332,571	**305,902**	144,111
Total liabilities	**2,436,088**	2,235,831	**254,432**	130,209
Total equity	**107,989**	96,740	**51,470**	13,902
Total income	**60,386**	53,624	**80,765**	13,899
Total expenses	**46,083**	38,268	**83,552**	21,496

The results of other three associates i.e. InSaudi Insurance Company, Sofinco Saudi Fransi and CALYON 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	2010 Total	2009 Total
Cost					
Balance at the beginning of the year	462,271	97,532	645,344	**1,205,147**	1,127,923
Additions	4,679	37,605	64,184	**106,468**	129,685
Disposals and retirements	-	(28,615)	(33,960)	**(62,575)**	(52,461)
Balance at the end of the year	**466,950**	**106,522**	**675,568**	**1,249,040**	1,205,147
Accumulated depreciation and amortization					
Balance at the beginning of the year	175,863	421	422,678	**598,962**	537,278
Charge for the year	8,609	34,735	82,897	**126,241**	113,981
Disposals and retirements	-	(28,615)	(33,852)	**(62,467)**	(52,297)
Balance at the end of the year	**184,472**	**6,541**	**471,723**	**662,736**	598,962
Net book value as at December 31, 2010	**282,478**	**99,981**	**203,845**	**586,304**	
Net book value as at December 31, 2009	283,241	100,336	222,608		606,185

Land and buildings and leasehold improvements as at December 31, 2010 include work in progress amounting to SAR Nil (2009: SAR 1 million) and SAR 10 million (2009: SAR 20 million) respectively. Furniture, equipment and vehicles include information technology related assets.

10 Other assets

SAR' 000	2010	2009
Accrued special commission receivable – banks and other financial institutions	**1,491**	4,294
– investments	**9,480**	14,165
– loans and advances	**223,282**	274,238
Total accrued special commission receivable	**234,253**	292,697
Accounts receivable	**706,311**	129,788
Positive fair value of derivatives (note 11)	**4,254,242**	3,551,030
Other real estate	**4,800**	4,800
Others	**373,737**	305,597
Total	**5,573,343**	4,283,912

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. For cross currency commission rate swaps, principal, fixed and floating commission payments are exchanged in different currencies.

b) Forwards and futures

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

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.

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**
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	**837,927**	**457,394**	**1,895**	**(22,567)**
2009				
Cash inflows (assets)	823,216	1,290,438	668,192	166,909
Cash out flows (liabilities)	(150,483)	(1,102,980)	(710,192)	(177,151)
Net cash inflow	672,733	187,458	(42,000)	(10,242)

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

SAR' 000	**2010**	2009
Special commission income	**827,576**	592,780
Special commission expense	**(189,112)**	(191,775)
Net gain on cash flow hedges reclassified to consolidated income statement	**638,464**	401,005

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.

Derivative financial instruments SAR' 000	Positive fair value	Negative fair value	Notional amounts by term to maturity					
			Notional amount total	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
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**

Derivative financial instruments SAR' 000	Positive fair value	Negative fair value	Notional amounts by term to maturity					
			Notional amount total	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
2009								
Held for trading								
Commission rate swaps	3,321,532	3,092,042	169,517,307	8,307,267	27,855,833	118,866,175	14,488,032	160,561,201
Commission rate futures and options	7,180	2,891	11,258,977	151,500	2,343,750	8,299,250	464,477	9,639,271
Forward rate agreements	-	330	250,000	-	250,000	-	-	187,500
Forward foreign exchange contracts	166,675	101,215	57,988,907	34,387,245	22,071,759	1,529,903	-	57,697,858
Currency options	96,042	31,074	2,490,087	1,061,078	1,354,372	74,637	-	6,433,856
Others	1,095	-	787,727	414,163	118,621	254,943	-	904,323
Held as fair value hedges								
Commission rate swaps	132,080	125,872	7,458,334	11,020	1,128,781	6,210,801	107,732	8,807,999
Held as cash flow hedges								
Commission rate swaps	654,302	35,418	22,893,700	400,000	2,067,000	19,176,700	1,250,000	17,970,263
Total	4,378,906	3,388,842	272,645,039	44,732,273	57,190,116	154,412,409	16,310,241	262,202,271
Fair value of netting arrangements	(827,876)	(827,876)	(54,899,818)	(822,040)	(5,545,562)	(45,816,752)	(2,715,464)	(47,963,935)
Total after netting (notes 10 and 16)	3,551,030	2,560,966	217,745,221	43,910,233	51,644,554	108,595,657	13,594,777	214,238,336

Commission rate swaps include the notional amount of SAR 67,267 million (2009: SAR 54,900 million) with an aggregate positive fair value and a negative fair value of SAR 1,301 (2009: SAR 828 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 **Description of hedged items**	**Fair value**	**Cost**	**Risk**	**Hedging instrument**	**Positive fair value**	**Negative fair value**
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**
2009						
Fixed commission rate investments	1,980,538	1,917,578	Fair value	Commission rate swap	-	60,876
Fixed commission rate loans	1,222,634	1,109,931	Fair value	Commission rate swap	-	64,996
Fixed commission rate deposits	4,548,213	4,421,456	Fair value	Commission rate swap	132,080	-
Floating commission rate investments	2,480,207	2,520,053	Cash flow	Commission rate swap	151,171	-
Floating commission rate loans	20,403,179	20,368,750	Cash flow	Commission rate swap	503,131	35,418

The net gains on the hedging instruments for fair value hedge are SAR 106 million (2009: SAR 6 million). The net losses on the hedged item attributable to the hedged risk are SAR 89 million (2009: gain SAR 49 million). The net fair value of the derivatives is SAR 17 million (2009: SAR 55 million).

Approximately 81% (2009: 76%) of the net positive fair values of the Bank's derivatives are entered into with financial institutions and less than 40% (2009: 27%) 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	**2010**	2009
Current accounts	**338,546**	532,912
Money market deposits	**1,974,360**	4,298,887
Total	**2,312,906**	4,831,799

13 Customers' deposits

SAR' 000	2010	2009
Demand	**43,231,502**	34,005,313
Saving	**367,250**	375,862
Time	**46,736,743**	55,057,699
Other	**3,193,756**	1,798,244
Total	**93,529,251**	91,237,118

Other customers' deposits include SAR 1,247 million (2009: SAR 928 million) related to margins held for irrevocable commitments.

Time deposits include Islamic products of SAR16, 565 million (2009: SAR 17,700 million).

Customers' deposits include foreign currency deposits as follows:

SAR' 000	2010	2009
Demand	**5,699,916**	4,898,405
Saving	**20,665**	19,593
Time	**16,862,212**	24,161,365
Other	**874,262**	381,094
Total	**23,457,055**	29,460,457

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 (USD183 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.

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	2010	2009
Accrued special commission payable – banks and other financial institutions	**704**	672
– customers' deposits	**65,437**	107,344
– term loans	**30,079**	328
– others	**167,533**	181,792
Total accrued special commission payable	**263,753**	290,136
Accounts payable and accrued expenses	**1,128,486**	644,723
Negative fair value of derivatives (note 11)	**2,728,002**	2,560,966
Others	**339,109**	309,685
Total	**4,459,350**	3,805,510

17 Share capital

The authorised, issued and fully paid share capital of the Bank consists of 723.2 million shares of SAR 10 each (2009: 723.2 million shares of SAR 10 each).

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

SAR' 000	%	2010	2009
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 and general reserves

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

An amount of SAR 700 million (2009: SAR 618 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
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**
2009			
Balance at beginning of the year	500,707	(205,266)	295,441
Net change in fair value	247,549	76,112	323,661
Transfer to consolidated income statement	(401,005)	68,894	(332,111)
Net movement during the year	(153,456)	145,006	(8,450)
Balance at the end of the year	347,251	(60,260)	286,991

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 2 million (2009: loss SAR 2 million) and impairment charges amounting to SAR Nil million (2009: SAR 67 million) against available for sale investments-international. 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, 2010 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, 2010 there were 11 (2009: 17) 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, 2010 the Bank had capital commitments of SAR 62 million (2009: SAR 50 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.

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
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**
2009					
Letters of credit	6,618,013	2,290,267	2,711,470	3,753	11,623,503
Letters of guarantee	6,918,932	12,746,089	14,597,094	368,595	34,630,710
Acceptances	1,225,978	626,465	66,839	-	1,919,282
Irrevocable commitments to extend credit	-	-	946,255	970,741	1,916,996
Total	14,762,923	15,662,821	18,321,658	1,343,089	50,090,491

The outstanding unused portion of non firm commitments which can be revoked unilaterally at any time by the Bank as at December 31, 2010 is SAR 64,738 million (2009: SAR 57,146 million).

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

SAR' 000	2010	2009
Government and quasi government	**1,022,443**	383,800
Corporate	**47,054,287**	41,737,576
Banks and other financial institutions	**6,710,081**	7,703,905
Other	**217,363**	265,210
Total	**55,004,174**	50,090,491

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	2010	2009
Less than 1 year	**5,508**	3,729
1 to 5 years	**73,339**	61,769
Over 5 years	**155,307**	180,577
Total	**234,154**	246,075

21 Special commission income and expense

SAR' 000	2010	2009
Special commission income		
Investments		
– Available for sale	**204,695**	197,207
– Held to maturity	**71,928**	121,567
– Other investments held at amortized cost	**98,323**	437,042
	374,946	755,816
Due from banks and other financial institutions	**30,358**	51,716
Loans and advances	**3,131,754**	3,281,792
Total	**3,537,058**	4,089,324
Special commission expense		
Due to banks and other financial institutions	**10,790**	36,917
Customers' deposits	**371,856**	915,050
Term loans	**88,555**	87,068
Total	**471,201**	1,039,035

22 Fee and commission income, net

SAR' 000	2010	2009
Fees and commission income		
- Share trading, brokerage and fund management	**166,335**	232,433
- Trade finance	**307,063**	258,962
- Project finance and advisory	**251,252**	236,187
- Card products	**108,524**	104,297
- Other banking services	**163,177**	116,551
Total fees and commission income	**996,351**	948,430
Fees and commission expense		
- Share trading and brokerage	**27,362**	45,584
- Custodial services	**5,515**	4,179
- Card products	**75,433**	57,668
- Other banking services	**998**	745
Total fees and commission expense	**109,308**	108,176
Fees and commission income, net	**887,043**	840,254

23 Trading income, net

SAR' 000	2010	2009
Foreign exchange (losses)/ gains, net	**(4,971)**	1,961
Investments- held as FVIS (trading), net	**34,717**	26,291
Derivatives, net	**172,261**	181,494
Total	**202,007**	209,746

24 Dividend income

SAR' 000	2010	2009
Available for sale investments	**17,472**	**363**

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

SAR' 000	2010	2009
Available for sale	**2,349**	(1,894)

26 Other operating income

SAR' 000	2010	2009
Gains on disposal of property and equipment	**313**	83
Others	**19,779**	9,971
Total	**20,092**	10,054

27 Other operating expenses

SAR' 000	2010	2009
Loss on disposal of property and equipment	**36**	134
Others	**6,594**	9,904
Total	**6,630**	10,038

28 Basic and diluted earnings per share

Basic and diluted earnings per share for the years ended December 31, 2010 and 2009 are calculated by dividing the net income for the year attributable to equity holders' of the Bank by 723.2 million shares .

29 Proposed gross dividend, zakat and income tax

The Board of Directors has proposed on December 21 2010 a total net dividend of SAR 1.0 (2009: SAR 1.0) per share for the year which is subject to the approval of the shareholders at the Annual General Assembly Meeting and the regulatory agencies. No interim dividend has been proposed by the Board of Directors for the year 2010 (2009: SAR Nil per share).

Gross dividend

SAR' 000	2010	2009
Final proposed gross dividend	**800,000**	990,000
Total	**800,000**	990,000

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

i) Zakat

Zakat attributable to the Saudi shareholders for the year amounted approximately to SAR 53 million (2009: SAR 181 million) which will be deducted from their share of dividend for the year. The net total dividend to Saudi shareholders is SAR 498 million (2009: SAR 498 million)

ii) Income tax

Income tax payable in respect of foreign shareholder – CA-CIB's current year's share of income tax is approximately SAR 180 million (2009: SAR 162 million) which will be deducted from their share of dividend for the year. The current year net dividend for the foreign shareholder is SAR 69 million (2009: SAR 149 million).

30 Cash and cash equivalents

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

SAR' 000	2010	2009
Cash and balances with SAMA excluding statutory deposit – (note 4)	**5,998,293**	8,223,621
Due from banks and other financial institutions maturing within ninety days from the date of acquisition (note 5)	**5,191,617**	7,110,607
Total	**11,189,910**	15,334,228

31 Employees Compensation practices

SAR' 000	2010				
Categories of employees	**Number of employees**	**Fixed compensation**	**Variable compensation**	**Total compensation**	**Forms of payment**
Senior executives	21	28,788	33,982	62,770	Cash
Employees engaged in risk taking activities	189	100,883	42,922	143,805	Cash
Employees engaged in control functions	227	66,196	15,144	81,340	Cash
Other employees	2157	325,382	38,593	363,975	Cash
Total	2,594	521,249	130,641	651,890	

SAMA circular no. 26194/BCS/12580 dated May 3rd 2010 requires disclosing above information with immediate effect and therefore comparative figures are not disclosed.

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.

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.

As a bank in Saudi Arabia, the sole nation in the Middle East represented in the G20, BSF follows a strict governance-orientated compensation practices as mandated by the Saudi Arabian Monetary Agency (SAMA). BSF compensation system promotes meritocracy and effective risk management. The policy as recently amended by the Nomination and Compensation Committee (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 Finance Officer and Human Resources Manager based on the year's performance or net profit adjusted for identifiable risks.

In order not to adversely affect BSF's ability to hire and retain qualified staff, due to the still prevailing market practice of paying in cash, BSF does not currently defer payment of bonus. However, it commits to do so, on a level playing field i.e. if deferral becomes a standard practice in the Kingdom and the Gulf region, and when certain payments, due to inherent risks, need to be adjusted to time horizons.

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. BSF fully implements KPI-based Performance Management System in 2010.

32 Operating segments

The Bank has adopted IFRS 8 Operating Segments with effect from January 1, 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Bank that are regularly reviewed by the chief decision maker in order to allocate resources to the segments and to assess its performance. In contrast, the predecessor standard IAS 14 Segment Reporting required an entity to identify two sets of segments (business and geographical), using a risks and reward approach, with the entity's system of internal financial reporting to key management personnel serving only as a starting point for the identification of such segments.

The Bank's primary business is conducted in Saudi Arabia.

Transactions between the operating segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between operating segments, resulting in funding cost transfers. Special commission charged for these funds is based on intra-bank rates. Transactions between the operating segments are reported according to the Bank's internal transfer pricing policy.

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, and international and local shares brokerage services and insurance.

The Bank's total assets and liabilities as at December 31, 2010 and 2009, 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:

SAR' 000	Retail banking	Corporate banking	Treasury	Investment banking and brokerage	Total
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**
2009					
Total assets	12,340,398	70,625,354	37,592,809	13,877	120,572,438
Investment in associates	-	-	144,344	-	144,344
Total liabilities	39,418,862	52,530,684	12,851,008	20,104	104,820,658
Total operating income	1,310,394	1,980,768	828,303	175,442	4,294,907
Share in losses of associates, net	-	-	(27,439)	-	(27,439)
Total operating expenses	833,858	685,136	183,606	97,063	1,799,663
Net income for the year	476,536	1,295,632	617,258	78,379	2,467,805
Non controlling interest loss	-	-	-	2,810	2,810
Results					
Net special commission income	1,102,651	1,505,590	442,048	-	3,050,289
Fee and commission income, net	185,183	469,684	9,945	175,442	840,254
Exchange income, net	13,188	2,386	170,521	-	186,095
Trading income, net	-	-	209,746	-	209,746
(Loss) on non trading investments, net	-	-	(1,894)	-	(1,894)
Impairment charges for credit losses, net	152,196	418,677	3,748	-	574,621
Impairment charge for other financial assets	-	-	67,000	-	67,000
Depreciation and amortization	79,046	22,333	11,653	949	113,981

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

SAR' 000	Retail banking	Corporate banking	Treasury	Total
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**
2009				
Statement of financial position assets	12,128,102	70,069,342	33,005,111	115,202,555
Commitments and contingencies	47,087	22,470,750	-	22,517,837
Derivatives	25,958	876,574	5,461,347	6,363,879

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.

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.

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
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**
2009						
Assets						
Cash and balances with SAMA	12,630,968	-	-	-	-	12,630,968
Due from banks and other financial institutions	600,400	1,785,321	2,636,728	1,318,624	769,534	7,110,607
Investments and investment in associates net	16,135,988	598,473	576,718	314,391	-	17,625,570
Loans and advances, net	74,217,808	1,609,642	2,188,548	252,262	46,936	78,315,196
Total	103,585,164	3,993,436	5,401,994	1,885,277	816,470	115,682,341
Liabilities						
Due to banks and other financial institutions	2,157,973	2,056,988	362,477	245,386	8,975	4,831,799
Customers' deposits	90,933,518	68,005	92,995	62	142,538	91,237,118
Term loan	-	-	4,946,231	-	-	4,946,231
Total	93,091,491	2,124,993	5,401,703	245,448	151,513	101,015,148
Commitments and contingencies	42,111,608	695,719	4,521,277	94,399	2,667,488	50,090,491
Credit exposure (credit equivalent value)						
Commitments and contingencies	19,002,884	337,857	2,242,697	46,242	888,159	22,517,839
Derivatives	1,656,834	226,408	3,982,484	498,153	-	6,363,879

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:

SAR ' 000	2010 Non performing, net	2010 Allowance for impairment of credit losses	2009 Non performing, net	2009 Allowance for impairment of credit losses
Kingdom of Saudi Arabia	**1,015,855**	**1,492,917**	1,008,148	1,276,285
Total	**1,015,855**	**1,492,917**	1,008,148	1,276,285

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.

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, 2010 and 2009 are follows:

SAR (000)	Foreign exchange rate	Special commission rate risk	Total
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**
2009			
VAR as at December 31, 2009	51	5,889	5,940
Average VAR for 2009	166	7,671	7,837
Maximum VAR for 2009	1,174	14,839	16,013
Minimum VAR for 2009	12	3,163	3,175

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.

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, 2010, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing the fixed rate available for sale financial assets, including the effect of any associated hedges as at December 31, 2010 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.

SAR' 000	2010						
Currency	**BPS change**	**Sensitivity of special commission income**	**Sensitivity of Equity**				**Total**
			6 months or less	**1 year or less**	**1-5 years or less**	**Over 5 years**	
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**

SAR' 000	2009						
Currency	BPS change	Sensitivity of special commission income	Sensitivity of Equity				Total
			6 months or less	1 year or less	1-5 years or less	Over 5 years	
USD	+100	(78,000)	(131)	(2,186)	(31,473)	(4,733)	(38,523)
	-100	41,000	131	2,186	31,473	4,733	38,523
SAR	+100	343,000	18,966	(23,876)	(562,996)	(41,858)	(609,764)
	-100	(299,000)	(18,966)	23,876	562,996	41,858	609,764

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.

SAR' 000	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total	Effective commission rate
2010							
Assets							
Cash and balances with SAMA	**5,195,928**	**-**	**-**	**-**	**5,668,208**	**10,864,136**	**0.25%**
Due from banks and other financial institutions	**5,023,746**	**-**	**-**	**-**	**167,871**	**5,191,617**	**0.34%**
Investments and investment in associates ,net	**12,534,357**	**1,076,574**	**5,075,500**	**182,972**	**1,156,940**	**20,026,343**	**1.79%**
Loans and advances, net	**56,602,201**	**14,480,987**	**8,251,990**	**1,416,665**	**224,744**	**80,976,587**	**4.01%**
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**	**0.26%**
Customers' deposits	**36,289,964**	**9,616,335**	**1,696,818**		**45,926,134**	**93,529,251**	**0.42%**
Other liabilities	**-**	**-**	**-**	**-**	**4,459,350**	**4,459,350**	**-**
Term loans	**2,465,756**	**-**	**-**	**-**	**-**	**2,465,756**	**1.91%**
Debt securities	**2,428,019**	**-**	**-**	**-**	**-**	**2,428,019**	
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**	**-**	**-**	**-**
2009							
Assets							
Cash and balances with SAMA	7,685,893	-	-	-	4,945,075	12,630,968	0.25%
Due from banks and other financial institutions	6,744,729	-	-	-	365,878	7,110,607	0.48%
Investments and investment in associates ,net	10,605,938	1,083,117	4,842,765	242,334	851,416	17,625,570	2.06%
Loans and advances, net	54,089,829	14,746,117	7,700,698	1,500,609	277,943	78,315,196	3.30%
Property and equipment, net	-	-	-	-	606,185	606,185	-
Other assets	-	-	-	-	4,283,912	4,283,912	-
Total assets	79,126,389	15,829,234	12,543,463	1,742,943	11,330,409	120,572,438	
Liabilities and shareholders' equity							
Due to banks and other financial institutions	4,287,049	11,838	-	-	532,912	4,831,799	0.29%
Customers' deposits	42,605,191	9,732,718	3,534,641	-	35,364,568	91,237,118	0.72%
Other liabilities	-	-	-	-	3,805,510	3,805,510	-
Term loans	4,946,231	-	-	-	-	4,946,231	1.11%
Shareholders' equity	-	-	-	-	15,751,780	15,751,780	-
Total liabilities and shareholders' equity	51,838,471	9,744,556	3,534,641	-	55,454,770	120,572,438	-
Net gap between assets and liabilities	27,287,918	6,084,678	9,008,822	1,742,943	(44,124,361)	-	-
Net gap between derivative financial instruments	(21,719,310)	2,198,621	18,034,106	1,486,583		-	
Total commission rate sensitivity gap	5,568,608	8,283,299	27,042,928	3,229,526	(44,124,361)	-	-
Cumulative commission rate sensitivity gap	5,568,608	13,851,907	40,894,835	44,124,361	-	-	-

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, 2010 on its non-trading monetary assets and liabilities and forecasted cash flows. The analysis calculates the effect of reasonable possible movement of the currency rate against SAR, with all other variables held constant, on the consolidated income statement (due to the fair value of the currency sensitive non-trading monetary assets and liabilities) and equity (due to change in fair value of 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.

SAR' 000	**2010**			2009		
Currency Exposures	**Change in Currency Rate in %**	**Effect on Net Income**	**Effect on Equity**	Change in Currency Rate in %	Effect on Net Income	Effect on Equity
USD	**+5**	**(65,552)**	**2,135**	+5	(16,526)	1,741
EUR	**-3**	**(2,448)**	**-**	-3	(3,090)	-

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	**2010 (Short) / long**	2009 Long
US Dollar	**(664,332)**	61,679
Euro	**55,537**	64,493
Pound Sterling	**100**	3,458
Other	**(9,163)**	16,915
Total	**(599,532)**	146,545

iv) Equity Price Risk

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

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

SAR' 000	**2010**		2009	
Market Indices	**Change in equity Price %**	**Effect on market value**	Change in equity Price %	Effect on market value
Tadawul	**+5**	**30,206**	+5	23,110
Tadawul	**-5**	**(30,206)**	-5	(23,110)

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.

SAR' 000	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**No fixed maturity**	**Total**
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**
Other liabilities	**-**	**-**	**-**	**-**	**4,459,350**	**4,459,350**
Term loans	**-**	**686,250**	**1,779,506**	**-**	**-**	**2,465,756**
Debt securities	**-**	**-**	**2,428,019**	**-**	**-**	**2,428,019**
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**

SAR' 000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
2009						
Assets						
Cash and balances with SAMA	7,685,893	-	-	-	4,945,075	12,630,968
Due from banks and other financial institutions	6,744,729	-	-	-	365,878	7,110,607
Investments and investment in associates, net	8,136,418	1,538,141	6,857,261	242,334	851,416	17,625,570
Loans and advances, net	31,133,927	13,376,294	19,211,575	9,712,942	4,880,458	78,315,196
Property and equipment, net	-	-	-	-	606,185	606,185
Other assets	-	-	-	-	4,283,912	4,283,912
Total assets	53,700,967	14,914,435	26,068,836	9,955,276	15,932,924	120,572,438
Liabilities and shareholders' equity						
Due to banks and other financial institutions	4,287,049	11,838	-	-	532,912	4,831,799
Customers' deposits	41,368,760	9,732,718	3,534,641	-	36,600,999	91,237,118
Other liabilities	-	-	-	-	3,805,510	3,805,510
Term loan	-	2,437,500	2,508,731	-	-	4,946,231
Shareholders' equity	-	-	-	-	15,751,780	15,751,780
Total liabilities and shareholders' equity	45,655,809	12,182,056	6,043,372	-	56,691,201	120,572,438

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 2010 and 2009 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.

SAR' 000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
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**
2009						
Due to banks and other financial institutions	4,287,687	11,856	-	-	532,912	4,832,455
Customers' deposits	41,390,983	9,797,046	3,790,608	-	36,600,999	91,579,636
Term loans	11,081	2,463,658	2,577,366	-	-	5,052,105
Total	45,689,751	12,272,560	6,367,974	-	37,133,911	101,464,196
Derivatives:						
Contractual amount payable	(36,806,610)	4,930,597	34,250,654	1,999,946	-	4,374,587
Contractual amount receivable	57,126,255	(5,385,059)	(55,578,536)	(3,298,790)	-	(7,136,130)
Total undiscounted financial liabilities	66,009,396	11,818,098	(14,959,908)	(1,298,844)	37,133,911	98,702,653

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.

SAR' 000	Level 1	Level 2	Level 3	Total
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 positive fair value	-	**2,728,002**	**-**	**2,728,002**
Total	**-**	**2,728,002**	**-**	**2,728,002**
2009				
Financial assets				
Derivative financial instruments	-	3,551,030	-	3,551,030
Financial investments designated at FVIS(trading)	405,013	347,695	7,106	759,814
Financial investments available for sale	2,078,218	-	3,345,345	5,423,563
Total	2,483,231	3,898,725	3,352,451	9,734,407
Financial Liabilities				
Derivative financial instruments negative fair value	-	2,560,966	-	2,560,966
Total	-	2,560,966	-	2,560,966

Financial investments available for sale comprise Musharakah and Mudarabah SAR 3,633 million (2009: SAR 3,102 million) 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	2010	2009
Balance at the beginning of the year	**3,352,451**	3,398,419
Other comprehensive losses	**(23,938)**	(45,786)
Purchases	**500**	172,651
Issues	**1,900,000**	860,000
Settlements	**(1,339,262)**	(1,032,833)
Balance at the end of the year	**3,889,751**	3,352,451

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. The total amount of the changes in fair value recognised in the consolidated income statement, which was estimated using valuation technique is SAR 6 million (2009: SAR 11 million).

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 2010 and 2009 resulting from such transactions included in the consolidated financial statements are as follows:

SAR' 000	**2010**	2009
CA-CIB Group		
Due from banks and other financial institutions	**1,188,464**	951,385
Due to banks and other financial institutions	**25,997**	260,596
Derivatives at fair value, net	**(338,336)**	(73,382)
Commitments and contingencies	**1,509,448**	2,015,872
Associates		
Investments	**185,628**	144,344
Loans and advances	**102,500**	136,250
Due from banks and other financial institutions	**7,312**	-
Due to banks and other financial institutions	**17,545**	39,754
Customers' deposits	**144,901**	161,536
Commitments and contingencies	**47,356**	23,784
Directors, other major shareholders' and their affiliates		
Loans and advances	**2,731,797**	3,335,694
Customers' deposits	**4,698,796**	4,691,118
Derivatives at positive fair value	**(3,233)**	-
Commitments and contingencies	**1,220,425**	199,681
Bank's mutual funds		
Investments	**236,069**	50,830
Derivatives at fair value, net	**7,899**	9,103
Customers' deposits	**1,620,037**	1,923,169

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	2010	2009
Special commission income	**70,589**	93,270
Special commission expense	**76,157**	143,152
Fees and commission income, net	**5,280**	4,507
Directors' fees	**3,227**	2,837
Other general and administrative expenses	**679**	426

The total amount of short term benefits paid to key management personnel during the year is SAR 82 million (2009: SAR 75 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	2010	2009
Credit Risk RWA	**113,924,007**	106,343,889
Operational Risk RWA	**8,017,300**	7,555,325
Market Risk RWA	**3,761,489**	3,675,825
Total RWA	**125,702,796**	117,575,039
Tier I Capital	**17,825,107**	15,441,200
Tier II Capital	**691,334**	689,530
Total Tier I & II Capital	**18,516,441**	16,130,730
Capital Adequacy Ratio %		
Tier I ratio	**14.18%**	13.13%
Tier I + Tier II ratio	**14.73%**	13.72%

39 Investment management and brokerage 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 2,447 million (2009: SAR SAR 2,972 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 2013
IAS24 Related Party Disclosure (Amendment) effective date 1 January 2011

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 24, 2011corresponding to Safar 20, 1432H

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