البنك السعودي الفرنسي
Banque Saudi Fransi

BANQUE SAUDI FRANSI

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2013

البنك السعودي الفرنسي
Banque Saudi Fransi
ABDUL QADEER MIRZA
M 002 A

البنك السعودي الفرنسي
Banque Saudi Fransi
PATRICE COUVEGNES
MANAGING DIRECTOR

pwc

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 2013, 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 (44). We have not audited notes (40) and (41), and the information related to "Basel III – Capital structure and Pillar 3 disclosures" cross-referenced therein, which are 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 Bank's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

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MANAGING DIRECTOR

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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 2013, 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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February 9, 2014
9 Rabi Al Akhir 1435H

برايس وترهاوس كوبرز
محاسبون قانونيون
ترخيص رقم ٢٥
PRICEWATERHOUSECOOPERS
CERTIFIED PUBLIC ACCOUNTANTS
LICENSE NO. 25

KPMG

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BANQUE SAUDI FRANSI
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at December 31, 2013 and 2012

SAR' 000	Notes	2013	2012
ASSETS			
Cash and balances with SAMA	4	**18,139,603**	15,233,244
Due from banks and other financial institutions	5	**1,545,091**	5,435,376
Investments, net	6	**34,298,873**	27,497,999
Loans and advances, net	7	**111,306,904**	102,785,372
Investment in associates	8	**166,270**	171,948
Property and equipment, net	9	**619,918**	641,305
Other assets	10	**3,980,015**	6,012,058
Total assets		**170,056,674**	157,777,302
LIABILITIES AND EQUITY			
Liabilities			
Due to banks and other financial institutions	12	**3,667,893**	5,662,468
Customers' deposits	13	**131,601,187**	115,571,767
Term loans	14	**-**	1,778,306
Debt securities and Sukuks	15	**7,130,101**	7,130,041
Other liabilities	16	**4,440,862**	4,947,902
Total liabilities		**146,840,043**	135,090,484
Equity			
Share capital	17	**9,040,179**	9,040,179
Statutory reserve	18	**9,040,179**	7,553,621
General reserve	18	**982,857**	982,857
Other reserves	19	**268,668**	892,378
Retained earnings		**3,884,748**	3,407,783
Proposed dividend	29	**-**	810,000
Total equity		**23,216,631**	22,686,818
Total liabilities and equity		**170,056,674**	157,777,302

The accompanying notes 1 to 44 form an integral part of these consolidated financial statements

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BANQUE SAUDI FRANSI
CONSOLIDATED STATEMENT OF INCOME
For the years ended December 31, 2013 and 2012

SAR' 000	Notes	2013	2012
Special commission income	21	**4,257,050**	4,069,280
Special commission expense	21	**893,747**	763,503
Net special commission income		**3,363,303**	3,305,777
Fees and commission income, net	22	**1,149,565**	1,173,483
Exchange income, net		**281,839**	246,519
Trading income, net	23	**105,712**	138,034
Dividend income	24	**21,423**	21,379
Gains on non trading investments, net	25	**80,184**	78,771
Other operating income	26	**50,509**	45,588
Total operating income		**5,052,535**	5,009,551
Salaries and employee related expenses		**952,546**	875,686
Rent and premises related expenses		**165,707**	137,483
Depreciation and amortization	9	**128,483**	129,598
Other general and administrative expenses		**422,521**	406,426
Impairment charge for credit losses, net	7	**957,420**	455,175
Impairment charge for investment, net		**8,529**	(11,250)
Other operating expenses	27	**15,077**	3,098
Total operating expenses		**2,650,283**	1,996,216
Net operating income		**2,402,252**	3,013,335
Share in earnings of associates, net	8	**3,323**	1,801
Net income for the year		**2,405,575**	3,015,136
Basic and diluted earnings per share (in SAR)	28	**2.66**	3.34

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BANQUE SAUDI FRANSI
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the years ended December 31, 2013 and 2012

SAR' 000	Notes	2013	2012
Net income for the year		**2,405,575**	3,015,136
Other comprehensive income (loss):			
Items that can be recycled back to consolidated statement of income in future			
Available for sale investments			
Net change in the fair value	19	**71,286**	41,173
Net amount transferred to consolidated statement of income	19	**(74,034)**	(5,204)
Cash flow hedge			
Effective portion of change in the fair value	19	**(77,233)**	566,255
Net amount transferred to consolidated statement of income	19	**(543,729)**	(585,869)
Total comprehensive income for the year		**1,781,865**	3,031,491

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BANQUE SAUDI FRANSI
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the years ended December 31, 2013 and 2012

		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
2013									
Balance at the beginning of the year		9,040,179	7,553,621	982,857	3,407,783	(27,877)	920,255	810,000	22,686,818
Total comprehensive income for the year		-	-	-					
Net income for the year		-	-	-	2,405,575	-	-	-	2,405,575
Net change in the fair value	19	-	-	-	-	71,286	(77,233)	-	(5,947)
Net amount transferred to consolidated statement of income	19	-	-	-	-	(74,034)	(543,729)	-	(617,763)
Transfer to statutory reserve	18		1,486,558	-	(1,486,558)	-	-	-	-
Final dividend-2012	29	-	-	-	-	-	-	(810,000)	(810,000)
Tax and Zakat provision	29	-	-	-	(44,242)	-	-	-	(44,242)
Interim gross dividend for 2013	29	-	-	-	(397,810)	-	-	-	(397,810)
Balance at the end of the year		9,040,179	9,040,179	982,857	3,884,748	(30,625)	299,293	-	23,216,631
2012									
Balance at the beginning of the year		7,232,143	6,799,837	982,857	3,764,467	(63,846)	939,869	-	19,655,327
Total comprehensive income for the year									
Net income for the year	19	-	-	-	3,015,136	-		-	3,015,136
Net change in the fair value	19	-	-	-	-	41,173	566,255	-	607,428
Net amount transferred to consolidated statement of income		-	-	-	-	(5,204)	(585,869)	-	(591,073)
Transfer to statutory reserve	18	-	753,784	-	(753,784)	-	-	-	-
Stock dividend		1,808,036	-	-	(1,808,036)	-	-	-	-
Proposed final dividend for 2012	29	-	-	-	(810,000)	-	-	810,000	
Balance at the end of the year		9,040,179	7,553,621	982,857	3,407,783	(27,877)	920,255	810,000	22,686,818

The accompanying notes 1 to 44 form an integral part of these consolidated financial statements

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BANQUE SAUDI FRANSI
CONSOLIDATED STATEMENT OF CASH FLOWS
For the years ended December 31, 2013 and 2012

SAR' 000	Notes	2013	2012
OPERATING ACTIVITIES			
Net income for the year		2,405,575	3,015,136
Adjustments to reconcile net income to net cash from /(used in) operating activities			
Accretion of discounts on non-trading investments, net		(142,556)	(54,447)
Gains on non trading investments, net		(80,184)	(78,771)
Depreciation and amortization		128,483	129,598
Gains on disposal of property and equipment, net		(217)	(43)
Impairment charge for credit losses, net		957,420	455,175
Impairment charge for Investment		46,329	-
Share in earnings from associates, net		(3,323)	(1,801)
Change in fair value of financial instruments		133,463	(131,784)
		3,444,990	3,333,063
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA	4	(1,471,178)	(661,759)
Investments held as FVIS (trading)		(15,390)	182,322
Loans and advances, net		(9,582,214)	(10,908,540)
Other assets		1,385,005	(313,779)
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		(1,994,575)	3,598,720
Customers' deposits		16,025,066	5,578,776
Other liabilities		(544,899)	392,067
Net cash from operating activities		7,246,805	1,200,870
INVESTING ACTIVITIES			
Proceeds from sale and maturities of non trading investments		23,408,742	11,022,895
Purchase of non trading investments		(30,011,562)	(21,864,128)
Acquisition of property and equipment		(107,122)	(190,590)
Proceeds from sale of property and equipment		243	723
Net cash used in investing activities		(6,709,699)	(11,031,100)
FINANCING ACTIVITIES			
Repayment of term loans		(1,784,400)	-
Proceeds from issuance of debt securities and Sukuks		-	4,712,500
Dividends paid	29	(1,207,810)	
Net cash (used in) /from financing activities		(2,992,210)	4,712,500
Decrease in cash and cash equivalents		(2,455,104)	(5,117,730)
Cash and cash equivalents at the beginning of the year		14,351,151	19,468,881
Cash and cash equivalents at the end of the year	30	11,896,047	14,351,151
Special commission received during the year		4,232,016	4,079,235
Special commission paid during the year		686,013	770,314
Supplemental non cash information			
Net changes in fair value and transfers to consolidated statement of income		(623,710)	16,355

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1 General

Banque Saudi Fransi (BSF 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 (2012: 86 branches) in the Kingdom of Saudi Arabia, with 2,988 employees (2012: 2,677). The objective of the Bank is to provide a full range of banking services, including Islamic products, which are approved and supervised by an independent Shariah Board. The Bank's Head Office is located at Al Maa'ther Street, P.O. Box 56006, Riyadh 11554, Kingdom of Saudi Arabia.

The Bank owns a subsidiary, Saudi Fransi Capital (99% direct share in equity and 1% indirect share beneficially held by a director of the Bank) engaged in brokerage, asset management and corporate finance business. The Bank owns Saudi Fransi Insurance Agency (SAFIA), Saudi Fransi Financing & Leasing and Sakan Real Estate Financing having 100% share in equity. These subsidiaries are incorporated in the Kingdom of Saudi Arabia. The Bank also owns BSF Sukuk Limited having 100% share in equity, incorporated in the Cayman Islands. The Bank acquired the additional shareholding in Sofinco Saudi Fransi 50%(previously an associate with 50% share in equity) to achieve 100% shareholding in the company. Sofinco Saudi Fransi's consumer finance business and related net assets have been transferred to Saudi Fransi Financing & Leasing. The shareholders of the Sofinco Saudi Fransi have agreed to liquidate the company after finalizing the transfer of the assets and liabilities and settlement of all legal obligations.

The Bank has investments in associates and owns 27% shareholding in Banque BEMO Saudi Fransi, incorporated in Syria and 32.5% shareholding in Saudi Fransi Corporative Insurance Company (Allianz 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 unless otherwise indicated.

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 portfolio 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.

(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 and debt instruments investments

The Bank exercises judgment to consider impairment on the available-for-sale equity investments. This includes determination of a significant or prolonged decline in the fair value below its cost. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. In assessing whether it is prolonged, the decline is evaluated against the period in which the fair value of the asset has been below its original cost at initial recognition. In making an assessment of whether an investment in debt instruments is impaired, the Group considers the following factors such as market's assessment of creditworthiness as reflected in the bond yields, rating agencies' assessments of creditworthiness, country's ability to access the capital markets for new debt issuance and probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

In making this judgement, the Bank evaluates among other factors, the normal volatility in share/debt price, 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 or requirement 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.

v) Determination of control over investees

The control indicators set out in note 3 (b) are subject to management's judgements that can have a significant effect in the case of the Group's interests in investments funds.

Investment funds

The group acts as Fund Manager to a number of investment funds. Determining whether the group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the Fund (comprising any carried interests and expected management fees) and the investors' rights to remove the

Fund Manager. As a result the Group has concluded that it acts as an agent for the investors in all cases, and therefore has not consolidated these funds.

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 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) & (b) below, the accounting policies adopted in the preparation of these consolidated financial statements are consistent with those used in the previous year.

a) New standards

IFRS 10 Consolidated financial statements: IFRS 10 replaces the requirements previously contained in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation - Special Purpose Entities. The Standard introduces a single consolidation model for all entities based on control; irrespective of the nature of the investee (i.e. whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in 'special purpose entities').

IFRS 11 Joint arrangements: IFRS 11 replaces IAS 31 Interests in Joint Ventures. Requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and then account for those rights and obligations in accordance with that type of joint arrangement.

IFRS 12 Disclosure of Interests in Other Entities: Requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

FRS 13 Fair value measurements: Replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. The IFRS defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value.

b) Amendments to existing standard

Amendments to IAS 1 Presentation of financial statements: amends IAS 1 to revise the way other comprehensive income is presented.

Amendments to IFRS 7 Financial Instruments: Disclosure: Amends the disclosure requirements in IFRS 7 to require information about all recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32 and also require disclosure of information about recognised financial instruments subject to enforceable master netting arrangements and agreements even if they are not set off under IAS 32.

IAS 19 Employee Benefits – Amendments: The amendments to IAS 19 remove the option to defer the recognition of actuarial gains and losses, i.e., the corridor mechanism. All changes in the value of defined benefit plans will be recognised in profit or loss and other comprehensive income.

IAS 27 Separate Financial Statements (2011): now only deals with the requirements for separate financial statements, which have been carried over largely unamended from IAS 27 Consolidated and Separate Financial Statements. Requirements for consolidated financial statements are now contained in IFRS 10 Consolidated Financial Statements.

IAS 28 Investments in Associates and Joint Ventures (2011): The majority of these revisions result from the incorporation of Joint ventures into IAS 28 (2011) and the fundamental approach to accounting for equity accounted investments has not changed.

The IASB has published Annual Improvements to IFRSs: 2009-2011 cycles of improvements that contain amendments to the following standards with consequential amendments to other standards:

IFRS 1 - First time adoption of IFRS: Repeated application of IFRS 1 and borrowing cost exemption;

IAS 1 – Presentation of financial statements: Comparative information beyond minimum requirements and presentation of the opening statement of financial position and related notes;

IAS 16 – Property, plant and equipment: Classification of servicing equipment;

IAS 32 – Financial instruments presentation: Income tax consequences of distributions

IAS 34 – Interim Financial Reporting: Segment assets and liabilities.

b) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries (the Group) i.e. Saudi Fransi Capital, Saudi Fransi Insurance Agency, Saudi Fransi Financing and Leasing, Sakan real estate financing, Sofinco Saudi Fransi and BSF Sukuk Limited. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies. Reclassifications have been made wherever necessary to the financial statements of the subsidiaries to bring them in line with the Bank's consolidated financial statements.

Subsidiaries are investees controlled by the Bank. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:
-Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
-Exposure, or rights, to variable returns from its involvement with the investee, and
-The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:
-The contractual arrangement with the other vote holders of the investee
-Rights arising from other contractual arrangements
-The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. The results of subsidiaries acquired or disposed of during the year, if any, are included in the consolidated statement of income from the effective date of the acquisition or up to the effective date of disposal, as appropriate.

Balances between the Bank and its subsidiaries including 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.

(i) List of significant subsidiaries

The table below provides details of the significant subsidiaries of the group

Name of the subsidiary	Principal place of business	Ownership interest 2013	2012
Saudi Fransi Capital	K.S.A	100%	100%
Saudi Fransi Insurance Agency	K.S.A	100%	100%
Saudi Fransi Financing and Leasing	K.S.A	100%	100%
Sofinco Saudi Fransi	K.S.A	100%	50%
Sakan real estate financing	K.S.A	100%	100%

Apart from the above subsidiaries, the Bank also owns BSF Sukuk Limited having 100% share in equity, incorporated in the Cayman Islands. The acquisition of Sofinco Saudi Fransi has no material impact on the Group financial statements.

(ii) Significant restriction

The group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory frameworks within which banking subsidiaries operate.

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 purchases and sales of financial assets are recognized and derecognized in the consolidated statement of financial position 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 which are recognized from the trade date. Regular purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or follow 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 statement of income 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 statement of income.

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 statement of income. The related portion of the hedged item is adjusted against the carrying amount of the hedged item and is recognized in the consolidated statement of income. 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 statement of income.

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 statement of income. For cash flow hedges affecting future transactions, the gains or losses recognized in other comprehensive income, are transferred to the consolidated statement of income in the same period in which the hedged transaction affects the consolidated statement of income. 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 statement of income 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 denominated in foreign currencies at the year end 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 statement of income, except for differences arising on the retranslation of available for sale equity instruments and effective cash flow hedges in foreign currencies. 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 statement of income 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.

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.

Income and expenses are not offset in the consolidated statement of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

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 statement of income using the effective commission rate basis. The effective commission rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (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 special 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 costs, 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. Fees 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 services are received.

Dividend income

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

Trading income

Results arising from trading activities include all gains and losses from changes in fair values, related special commission income or expense including 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 which also 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 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 statement of income 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 statement of income.

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. AFS are non-derivative investments that are designated as AFS or not classified as another category of financial assets.

Investments which are classified as "available for sale" are subsequently measured at fair value. Unrealised gain or loss arising from a change in an investment's 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 statement of income.

Special commission income is recognised in the consolidated statement of income on an effective yield basis. Dividend income is recognised in the consolidated statement of income 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 statement of income.

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 initially recognised at fair value including direct and incremental transaction costs and 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 statement of income 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 statement of income 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 other reserves is included in the consolidated statement of income 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. They are initially measured at cost, being the fair value of the consideration given.

Following the initial recognition, these 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 such 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:

The Bank considers evidence of impairment for loans and advances and held to maturity investments at both a specific asset and collective level.

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 statement of income.

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 statement of income, the impairment loss is reversed through the consolidated statement of income.

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 statement of income as long as the asset continues to be recognised i.e. any increase in fair value after impairment has been recorded can only be recognised in other comprehensive income. On derecognition, any cumulative gain or loss previously recognised in other comprehensive income is included in the consolidated statement of income 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 statement of income.

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 judgment 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 judgment 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 grading 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 allowance 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 statement of income 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 is 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 statement of income.

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 statement of income. For commission bearing financial liabilities carried at amortized cost, any gain or loss is recognized in the consolidated statement of income when derecognized or impaired.

In the ordinary course of business, the Bank gives financial guarantees, consisting of letter of credit, guarantees and acceptances. Financial guarantees are initially recognised in the 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 statement of income 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 statement of income on a straight line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

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, i.e. 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 statement of income 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.

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) Non-commission based 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 non-commission based 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.

x) Short term employee benefits

Short term employee benefits are measured on an undiscounted basis and are expensed as the related services are provided.

A liability is recognized for the amount expected to be paid under short term cash bonus or profit sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

4 Cash and balances with SAMA

SAR' 000	2013	2012
Cash on hand	**834,328**	858,238
Statutory deposit	**7,788,647**	6,317,469
Current account	**31,693**	7,593
Money market placements	**9,484,935**	8,049,944
Total	**18,139,603**	15,233,244

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 and therefore is not part of cash and cash equivalents.

5 Due from banks and other financial institutions

SAR' 000	2013	2012
Current accounts	**1,276,217**	888,770
Money market placements	**268,874**	4,546,606
Total	**1,545,091**	5,435,376

Balances due from banks and other financial institutions are investment grade. Investment grade includes due from banks and other financial institutions having credit exposure equivalent to Standard and Poor's rating of AAA to BBB.

6 Investments, net

a) These comprise the following:

SAR' 000	2013 Domestic	2013 International	2013 Total	2012 Domestic	2012 International	2012 Total
i) Held as FVIS						
Fixed rate securities	155,158	164,354	319,512	21,438	226,588	248,026
Floating rate securities	1,530	-	1,530	53,759	-	53,759
Equities	5,130	-	5,130	8,996	-	8,996
Held as FVIS	161,818	164,354	326,172	84,193	226,588	310,781
ii) Available for sale (AFS)						
Fixed rate securities	53,624	491,011	544,635	530,617	614,725	1,145,342
Floating rate securities	2,617,852	131,489	2,749,341	1,545,590	90,224	1,635,814
Equities	490,434	56,833	547,267	595,016	98,278	693,294
Other	4,025,936	-	4,025,936	3,263,211	-	3,263,211
Available for sale	7,187,846	679,333	7,867,179	5,934,434	803,227	6,737,661
iii) Held to maturity						
Fixed rate securities	3,639	-	3,639	709,587	-	709,587
Floating rate securities	10,000	-	10,000	-	-	-
Held to maturity	13,639	-	13,639	709,587	-	709,587
iv) Other investments held at amortized cost, net						
Fixed rate securities	26,006,883	-	26,006,883	19,654,970	-	19,654,970
Floating rate notes	85,000	266,250	351,250	85,000	363,750	448,750
Other investments held at amortized cost, gross	26,091,883	266,250	26,358,133	19,739,970	363,750	20,103,720
Allowance for impairment		(266,250)	(266,250)	-	(363,750)	(363,750)
Other investments held at amortized cost, net	26,091,883	-	26,091,883	19,739,970	-	19,739,970
Investments, net	33,455,186	843,687	34,298,873	26,468,184	1,029,815	27,497,999

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

SAR' 000	2013 Quoted	2013 Unquoted	2013 Total	2012 Quoted	2012 Unquoted	2012 Total
Fixed rate securities	741,438	26,133,231	26,874,669	1,330,372	20,427,553	21,757,925
Floating rate securities / notes	716,597	2,395,524	3,112,121	287,022	1,851,301	2,138,323
Equities	327,175	225,222	552,397	432,966	269,324	702,290
Other	-	4,025,936	4,025,936	-	3,263,211	3,263,211
	1,785,210	32,779,913	34,565,123	2,050,360	25,811,389	27,861,749
Allowance for impairment	-	(266,250)	(266,250)	-	(363,750)	(363,750)
Investments, net	1,785,210	32,513,663	34,298,873	2,050,360	25,447,639	27,497,999

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	2013 Carrying value	2013 Gross unrealized gains	2013 Gross unrealized losses	2013 Fair Value	2012 Carrying value	2012 Gross unrealized gains	2012 Gross unrealized losses	2012 Fair Value
i) Held to maturity								
Fixed rate securities	3,639	187	-	3,826	709,587	12,192	-	721,779
Floating rate securities	10,000	-	(87)	9,913				
Total	13,639	187	(87)	13,739	709,587	12,192	-	721,779
ii) Other investments held at amortized cost								
Fixed rate securities	26,006,883	21,961	(14,759)	26,014,085	19,654,970	24,642	(3,758)	19,675,854
Floating rate notes	351,250	-	-	351,250	448,750	-	-	448,750
Allowance for impairment	(266,250)	-	-	(266,250)	(363,750)	-	-	(363,750)
Total	26,091,883	21,961	(14,759)	26,099,085	19,739,970	24,642	(3,758)	19,760,854

The fair value of the fixed rate securities disclosed above is considered as level 2 for fair value hierarchy disclosure purpose.

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

SAR' 000	2013	2012
Government and quasi government	26,809,053	21,028,831
Corporate	5,999,570	4,332,682
Banks and other financial institutions	1,404,300	2,061,064
Others	85,950	75,422
Total	34,298,873	27,497,999

e) Credit risk exposure on investments

SAR' 000	2013	2012
Saudi government bonds	**26,133,231**	20,863,854
Investment grade	**1,764,084**	2,374,474
Non investment grade	-	-
Unrated	**6,401,558**	4,259,671
Total	**34,298,873**	27,497,999

Saudi government bonds comprise 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 and Mudarabah SAR 4,026 million (2012: SAR 3,263 million)).

f) Movement of allowance for impairment of investments and other assets:

SAR' 000	2013	2012
Balance at the beginning of the year	**465,750**	477,000
Provided during the year	**50,944**	
Recoveries during the year	**(46,554)**	(11,250)
Written off during the year	**(59,700)**	
Balance at the end of the year	**410,440**	465,750

Investments held as FVIS represent investments held for trading and include Islamic securities of SAR 40 million (2012: SAR 77 million).

Available for sale investments include Islamic securities (Sukuk) of SAR 1,920 million (2012: SAR 1,574 million).

Unquoted investments include Saudi Government Bonds and treasury bills of SAR 26,133 million (2012: SAR 20,864 million).

Saudi Istithmar Mutual Fund SAR 71 million (2012: SAR 66 million) and unquoted equity shares of SAR 225 million (2012: SAR 203 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:

Other loans and advances held at amortised cost

SAR' 000	2013 Overdraft & Commercial loans	Credit Cards	Consumer Loans	Others	Total
Performing loans and advances - gross	93,833,372	588,391	9,810,808	7,775,266	112,007,837
Non performing loans and advances, net	1,164,505	54,660	297,476	733	1,517,374
Total loans and advances	94,997,877	643,051	10,108,284	7,775,999	113,525,211
Allowance for impairment	(1,748,083)	(54,983)	(414,508)	(733)	(2,218,307)
Loans and advances held at amortised cost, net	93,249,794	588,068	9,693,776	7,775,266	111,306,904

SAR' 000	2012 Overdraft & Commercial loans	Credit Cards	Consumer Loans	Others	Total
Performing loans and advances- gross	85,666,487	681,805	9,924,664	7,020,022	103,292,978
Non performing loans and advances, net	679,851	64,396	298,492	1,950	1,044,689
Total loans and advances	86,346,338	746,201	10,223,156	7,021,972	104,337,667
Allowance for impairment	(1,087,214)	(64,835)	(398,482)	(1,764)	(1,552,295)
Loans and advances held at amortised cost, net	85,259,124	681,366	9,824,674	7,020,208	102,785,372

b) Movement in allowance for impairment of credit losses are classified as follows:

i) Movement in allowance for impairment of credit losses

SAR' 000	2013 Overdraft & Commercial loans	Credit Cards	Consumer Loans	Others	Total
Balance at beginning of the year	1,087,214	64,835	398,482	1,764	1,552,295
Provided during the year	820,999	47,795	234,913	143	1,103,850
Written off during the year	(64,294)	(44,395)	(182,719)	-	(291,408)
Recoveries of amounts previously provided	(95,836)	(13,252)	(36,168)	(1,174)	(146,430)
Balance at the end of the year	1,748,083	54,983	414,508	733	2,218,307

	2012				
SAR' 000	Overdraft & Commercial loans	Credit Cards	Consumer Loans	Others	Total
Balance at beginning of the year	1,159,204	57,050	320,712	1,764	1,538,730
Provided during the year	255,379	59,957	249,422	-	564,758
Written off during the year	(263,017)	(38,584)	(140,009)	-	(441,610)
Recoveries of amounts previously provided	(64,352)	(13,588)	(31,643)	-	(109,583)
Balance at the end of the year	1,087,214	64,835	398,482	1,764	1,552,295

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

The net charge to income (provision net of recoveries) of SAR 957 million (2012: SAR 455 million) in respect of impairment charge for credit losses for the year is net of recoveries of SAR 146 million (2012: SAR 110 million). The allowance for impairment includes SAR 923 million (2012: SAR 779 million) evaluated on a collective impairment basis.

Non performing loans and advances are disclosed net of accumulated special commission in suspense of SAR 121 million (2012: SAR 78 million).

ii) Movement of collective impairment provision:

SAR' 000	**2013**	2012
Balance at the beginning of the year	**778,910**	679,010
Provided during the year	**204,000**	118,900
Written off during the year	**(59,500)**	(19,000)
Balance at the end of the year	**923,410**	778,910

c) Credit quality of loans and advances

i) Neither past due nor impaired

SAR' 000	2013				
	Overdraft & Commercial loans	Credit Cards	Consumer Loans	Others	Total
Very strong quality including sovereign (A+ to B)	32,453,044	2,832	445,705	2,950,478	35,852,059
Good quality (C+ to C)	30,394,222	8,869	697,144	2,290,643	33,390,878
Satisfactory quality (C- to E +)	28,499,331	479,710	8,084,146	2,356,872	39,420,059
Special mention (E to E -)	2,063,949	1,237	52,088	177,273	2,294,547
Total	93,410,546	492,648	9,279,083	7,775,266	110,957,543
SAR' 000	2012				
	Overdraft & Commercial loans	Credit Cards	Consumer Loans	Others	Total
Very strong quality including sovereign (A+ to B)	24,775,966	10,164	39,662	2,377,021	27,202,813
Good quality (C+ to C)	26,662,042	6,429	382,056	2,906,907	29,957,434
Satisfactory quality (C- to E +)	31,793,712	609,585	8,745,979	1,721,908	42,871,184
Special mention (E to E -)	1,748,274	1,877	67,901	14,186	1,832,238
Total	84,979,994	628,055	9,235,598	7,020,022	101,863,669

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	2013				
	Overdraft & Commercial loans	Credit Cards	Consumer Loans	Others	Total
From 1 day to 30 days	23,571	57,971	364,161	-	445,703
From 31 days to 90 days	76,410	18,760	78,254	-	173,424
From 91 days to 180 days	32,116	15,258	71,582	-	118,956
More than 180 days	290,729	3,754	17,728	-	312,211
Total	422,826	95,743	531,725	-	1,050,294

SAR' 000	2012				
	Overdraft & Commercial loans	Credit Cards	Consumer Loans	Others	Total
From 1 day to 30 days	2,626	20,603	491,267	-	514,496
From 31 days to 90 days	202,129	16,797	95,256	-	314,182
From 91 days to 180 days	66,336	16,350	86,597	-	169,283
More than 180 days	415,402	-	15,946	-	431,348
Total	686,493	53,750	689,066	-	1,429,309

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
2013				
Government and quasi Government	**3,626,500**	**-**	**-**	**3,626,500**
Banks and other financial institutions	**1,972,274**	**60,002**	**(56,246)**	**1,976,030**
Agriculture and fishing	**2,595,304**	**17,659**	**(19,458)**	**2,593,505**
Manufacturing	**19,561,299**	**34,086**	**(228,500)**	**19,366,885**
Mining and quarrying	**4,838,882**	**74**	**(12,280)**	**4,826,676**
Electricity, water, gas and health services	**8,659,004**	**-**	**(40,164)**	**8,618,840**
Building and construction	**9,893,273**	**201,248**	**(299,894)**	**9,794,627**
Commerce	**17,160,290**	**596,240**	**(618,088)**	**17,138,442**
Transportation and communication	**7,850,933**	**31,310**	**(117,663)**	**7,764,580**
Services	**14,602,634**	**191,133**	**(214,881)**	**14,578,886**
Consumer loans and credit cards	**10,399,199**	**352,136**	**(469,491)**	**10,281,844**
Others	**10,848,245**	**33,486**	**(141,642)**	**10,740,089**
Total	**112,007,837**	**1,517,374**	**(2,218,307)**	**111,306,904**
2012				
Government and quasi Government	2,723,050	-	-	2,723,050
Banks and other financial institutions	1,595,964	60,003	(40,028)	1,615,939
Agriculture and fishing	2,261,863	8,528	(8,956)	2,261,435
Manufacturing	19,601,989	3,498	(131,584)	19,473,903
Mining and quarrying	1,565,360	2,291	(3,580)	1,564,071
Electricity, water, gas and health services	8,348,518	3,555	(14,098)	8,337,975
Building and construction	12,147,693	50,302	(211,701)	11,986,294
Commerce	13,208,368	226,169	(337,012)	13,097,525
Transportation and communication	8,286,742	12,793	(84,183)	8,215,352
Services	11,883,905	236,545	(141,400)	11,979,050
Consumer loans and credit cards	10,606,469	362,888	(463,317)	10,506,040
Others	11,063,057	78,117	(116,436)	11,024,738
Total	103,292,978	1,044,689	(1,552,295)	102,785,372

Loans and advances include Islamic related products of SAR 62,446 million (2012: SAR 53,290 million).

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 reflected against the relevant exposures at their estimated net realizable values.

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

SAR' 000	2013	2012
Gross receivable from finance leases:		
Less than 1 year	-	-
1 to 5 years	**617,421**	767,685
More than 5 years	**7,010,725**	5,716,052
	7,628,146	6,483,737
Net receivable from finance leases	**7,628,146**	6,483,737

8 Investment in associates

SAR' 000	2013	2012
Opening balance	**171,948**	170,789
Sale / transfer of investments	**24,999**	(642)
Impairment provision	**(34,000)**	-
Share of earnings	**3,323**	1,801
Closing balance	**166,270**	171,948

Investment in associates represents 27% shareholding in interest in the Banque BEMO Saudi Fransi (2012: 27%) and 32.5% shareholding in Saudi Fransi Cooperative Insurance Company (Allianz Saudi Fransi) (2012: 32.5%) incorporated in the Kingdom of Saudi Arabia. The quoted price of the Bank's investment in Saudi Fransi Cooperative Insurance Company (Allianz Saudi Fransi) as at December 31,2013 was SAR 520 million (2012 :SAR 344.5 million).

The Bank's share of associates' financial statements:

SAR' 000	Banque Bemo Saudi Fransi - Syria		Allianz Saudi Fransi	
	2013	2012	2013	2012
Total assets	**833,379**	1,105,130	**477,239**	364,241
Total liabilities	**769,590**	1,006,740	**421,057**	309,817
Total equity	**63,789**	98,390	**56,182**	54,424
Total income	**19,254**	46,413	**122,378**	128,879
Total expenses	**15,653**	38,862	**117,909**	125,986

9 Property and equipment, net

SAR' 000	Land and buildings	Leasehold improvements	Furniture, equipment and vehicles	2013 Total	2012 Total
Cost					
Balance at the beginning of the year	547,096	114,891	727,840	1,389,827	1,280,139
Additions	28,263	15,061	63,798	107,122	190,590
Disposals and retirements	(27)	(35,394)	(37,184)	(72,605)	(80,902)
Balance at the end of the year	575,332	94,558	754,454	1,424,344	1,389,827
Accumulated depreciation and amortization					
Balance at the beginning of the year	218,572	2,911	527,038	748,521	699,146
Charge for the year	14,792	37,634	76,057	128,483	129,598
Disposals and retirements	(24)	(35,394)	(37,160)	(72,578)	(80,222)
Balance at the end of the year	233,340	5,151	565,935	804,426	748,522
Net book value as at December 31, 2013	341,992	89,407	188,519	619,918	
Net book value as at December 31, 2012	328,523	111,980	200,802		641,305

Leasehold improvements as at December 31, 2013 include work in progress amounting to SAR 20 million (2012: SAR 22 million). Furniture, equipment and vehicles include information technology related assets.

10 Other assets

SAR' 000	2013	2012
Accrued special commission receivable – Banks and other financial institutions	349	996
– Investments	86,207	86,321
– Loans and advances	281,848	256,053
Total accrued special commission receivable	368,404	343,370
Accounts receivable	384,794	630,505
Positive fair value of derivatives (note 11)	2,772,572	4,492,042
Other real estate	87,800	4,800
Others	366,445	541,341
Total	3,980,015	6,012,058

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 level 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
2013				
Cash inflows (assets)	**1,113,656**	**1,617,193**	**851,267**	**7,373**
Cash out flows (liabilities)	**(224,829)**	**(1,393,566)**	**(1,147,747)**	**(10,198)**
Net cash inflow	**888,827**	**223,627**	**(296,480)**	**(2,825)**
2012				
Cash inflows (assets)	998,321	1,465,849	663,928	20,502
Cash out flows (liabilities)	(189,839)	(973,671)	(520,737)	(13,091)
Net cash inflow / (outflow)	808,482	492,178	143,191	7,411

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

SAR' 000	2013	2012
Special commission income	**1,026,964**	923,428
Special commission expense	**(483,235)**	(337,559)
Net gain on cash flow hedges transferred to consolidated statement of income	**543,729**	585,869

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
2013								
Held for trading								
Commission rate swaps	1,663,653	1,514,732	127,501,940	12,600,990	18,887,099	87,924,624	8,089,227	125,242,521
Commission rate futures and options	397	-	22,811,569	2,400,000	2,673,000	17,022,319	716,250	29,772,794
Forward rate agreements	-	-	-	-	-	-	-	583,333
Forward foreign exchange contracts	82,196	29,333	42,187,353	32,311,363	9,444,710	431,280	-	42,575,651
Currency options	18,549	-	23,616,374	6,339,206	11,453,907	5,823,261	-	32,460,816
Others	24,709	-	2,704,447	519,946	899,761	1,284,740	-	2,192,146
Held as fair value hedges								
Commission rate swaps	19,514	11,026	5,584,000	-	2,500	5,317,500	264,000	5,616,400
Held as cash flow hedges								
Commission rate swaps	964,240	119,800	54,858,960	2,318,750	5,571,872	46,295,338	673,000	50,679,816
Total	2,773,258	1,674,891	279,264,643	56,490,255	48,932,849	164,099,062	9,742,477	289,123,477
Fair value of netting arrangements	(686)	(686)	(42,500)	(37,500)	(5,000)			(45,000)
Total after netting (notes 10 and 16)	2,772,572	1,674,205	279,222,143	56,452,755	48,927,849	164,099,062	9,742,477	289,078,477

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
2012								
Held for trading								
Commission rate swaps	2,699,878	2,395,956	123,007,139	8,954,564	25,121,913	82,528,853	6,401,809	122,556,249
Commission rate futures and options	10,301	2,757	42,766,669	20,000	8,038,750	33,122,919	1,605,000	34,709,012
Forward rate agreements	-	2,525	1,000,000	-	1,000,000	-	-	458,333
Forward foreign exchange contracts	268,635	98,637	45,664,030	33,529,780	11,023,713	1,110,537	-	52,744,059
Currency options	27,035	-	46,586,105	10,766,295	26,301,708	9,518,102	-	62,745,920
Others	12,295	-	1,340,675	92,775	93,750	1,154,150	-	4,081,056
Held as fair value hedges								
Commission rate swaps	19,450	24,027	5,665,052	-	76,052	5,325,000	264,000	4,735,716
Held as cash flow hedges								
Commission rate swaps	1,455,988	17,635	45,170,454	1,320,000	4,504,750	38,495,704	850,000	39,888,399
Total	4,493,582	2,541,537	311,220,124	54,683,414	76,160,636	171,255,265	9,120,809	321,918,744
Fair value of netting arrangements	(1,540)	(1,540)	(52,500)	-	-	(52,500)	-	(348,530)
Total after netting (notes 10 and 16)	4,492,042	2,539,997	311,167,624	54,683,414	76,160,636	171,202,765	9,120,809	321,570,214

Commission rate swaps include the notional amount of SAR 42 million (2012: SAR 53 million) with an aggregate positive fair value and a negative fair value of SAR 0.7 million (2012: SAR 2 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
2013						
Fixed commission rate loans	**345,663**	**334,000**	Fair value	Commission rate swap	**-**	**11,026**
Fixed commission rate debt securities and sukuk	**5,230,101**	**5,250,000**	Fair value	Commission rate swap	**19,514**	**-**
Floating commission rate investments	**821,393**	**826,250**	Cash flow	Commission rate swap	**1,742**	**6,600**
Floating commission rate loans	**54,882,007**	**54,032,710**	Cash flow	Commission rate swap	**962,498**	**113,200**
2012						
Fixed commission rate loans	437,845	415,052	Fair value	Commission rate swap	-	24,027
Fixed commission rate deposits			Fair value	Commission rate swap		
Fixed commission rate debt securities and Sukuk	5,230,041	5,250,000	Fair value	Commission rate swap	19,450	-
Floating commission rate investments	319,702	318,750	Cash flow	Commission rate swap	8,420	-
Floating commission rate loans	44,929,255	44,851,704	Cash flow	Commission rate swap	1,447,568	17,635

The net gains on the hedging instruments for fair value hedge are SAR 8 million (2012: losses SAR 5 million). The net gains on the hedged item attributable to the hedged risk are SAR 8 million (2012: loss SAR 3 million). The net positive fair value of the derivatives is SAR Nil million (2012: negative fair value SAR 2 million).

Approximately 77% (2012: 22%) of the net positive fair values of the Bank's derivatives are entered into with financial institutions and less than 20% (2012: 20%) 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	2013	2012
Current accounts	**555,407**	575,588
Money market deposits	**3,112,486**	5,086,880
Total	**3,667,893**	5,662,468

13 Customers' deposits

SAR' 000	2013	2012
Demand	**82,924,578**	61,805,382
Saving	**449,120**	448,802
Time	**45,059,599**	50,236,494
Other	**3,167,890**	3,081,089
Total	**131,601,187**	115,571,767

Other customers' deposits include SAR 1,588 million (2012: SAR 1,450 million) related to margins held for irrevocable commitments.

Time deposits include Islamic related products of SAR 21,449 million (2012: SAR 19,214 million).

Customers' deposits include foreign currency deposits as follows:

SAR' 000	2013	2012
Demand	**7,083,524**	6,937,729
Saving	**12,234**	12,731
Time	**14,329,196**	15,507,740
Other	**394,580**	424,509
Total	**21,819,534**	22,882,709

14 Term loans

The five year term loan of Euro 100 million matured and was fully settled during 2013. In addition, the Bank has also settled the five year tranche (USD 342 million) term loan which matured in 2013.

15 Debt securities and Sukuks

In 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. The Bank also raised funds through medium term Sharia compliant sukuk of USD 750 million for 5 years in May 2012, under a USD 2 Billion programme listed on the London Stock Exchange. In addition, the Bank issued a privately placed SAR 1,900 million unsecured subordinated sukuk in December 2012 for a period of 7 years. The sukuk is settled through the Tadawul depository system. However, the Bank has an option to repay the unsecured subordinated sukuk after 5 years, subject to prior approval of SAMA and terms and conditions of the agreement.

16 Other liabilities

SAR' 000	2013	2012
Accrued special commission payable – Banks and other financial institutions	**232**	706
– customers' deposits	**68,476**	90,416
– term loans and sukuks	**46,535**	41,351
– others	**497,869**	272,905
Total accrued special commission payable	**613,112**	405,378
Accounts payable and accrued expenses	**1,826,838**	1,532,892
Negative fair value of derivatives (note 11)	**1,674,205**	2,539,997
Others	**326,707**	469,635
Total	**4,440,862**	4,947,902

17 Share capital

The authorised, issued and fully paid share capital of the Bank consists of 904 million shares of SAR 10 each (2012: 904 million shares of SAR 10 each). The Board of Directors have recommended (meeting held on 09th January 2014) to the shareholders of the Bank, to distribute dividend in shares to increase the share capital from SAR 9,040 million to SAR 12,053 million through the issuance of 1 stock dividend shares for every 3 shares held, by capitalization of reserves. The number of shares will accordingly increase from 904 million shares to 1,205 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	%	2013	2012
Saudi shareholders	68.9	**6,227,679**	6,227,679
Credit Agricole Corporate and Investment Bank (CA-CIB)	31.1	**2,812,500**	2,812,500
Total	100	**9,040,179**	9,040,179

18 Statutory and general reserve

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 1,487 million (2012: SAR 754 million) has been transferred from the retained earnings to statutory reserve during the year. This reserve is not available for distribution.

The Bank had appropriated SAR 983 million to general reserve from retained earnings.

19 Other reserves

SAR' 000	Cash flow hedges	Available for sale investments	Total
2013			
Balance at beginning of the year	**920,255**	**(27,877)**	**892,378**
Net change in fair value	**(77,233)**	**71,286**	**(5,947)**
Transfer to consolidated statement of income	**(543,729)**	**(74,034)**	**(617,763)**
Net movement during the year	**(620,962)**	**(2,748)**	**(623,710)**
Balance at the end of the year	**299,293**	**(30,625)**	**268,668**
2012			
Balance at beginning of the year	939,869	(63,846)	876,023
Net change in fair value	566,255	41,173	607,428
Transfer to consolidated statement of income	(585,869)	(5,204)	(591,073)
Net movement during the year	(19,614)	35,969	16,355
Balance at the end of the year	920,255	(27,877)	892,378

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 statement of income from available for sale reserve represents, gains and losses on disposal of available for sale investments amounting to SAR 74 million (2012: SAR 5 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 statement of income. For cash flow hedges, the amount shown as balance of reserves as at December 31, 2013 is expected to affect the consolidated statement of income in the coming one to five years.

20 Commitments and contingencies

a) Legal proceedings

As at December 31, 2013 there were 20 (2012: 18) 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, 2013 the Bank had capital commitments of SAR 47 million (2012: SAR 41 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
2013					
Letters of credit	**12,780,109**	**2,979,663**	**843,016**	**-**	**16,602,788**
Letters of guarantee	**11,396,466**	**18,302,287**	**16,690,715**	**519,594**	**46,909,062**
Acceptances	**1,564,257**	**892,516**	**199,164**	**-**	**2,655,937**
Irrevocable commitments to extend credit	**161,264**	**452,617**	**3,879,623**	**48,300**	**4,541,804**
Total	**25,902,096**	**22,627,083**	**21,612,518**	**567,894**	**70,709,591**
2012					
Letters of credit	9,039,275	3,693,659	300,951	1,227	13,035,112
Letters of guarantee	11,237,975	16,809,623	12,205,867	452,704	40,706,169
Acceptances	1,194,374	957,404	55,343	-	2,207,121
Irrevocable commitments to extend credit	470,625	1,242,502	2,790,629	236,476	4,740,232
Total	21,942,249	22,703,188	15,352,790	690,407	60,688,634

The outstanding unused portion of non-firm commitments which can be revoked unilaterally at any time by the Bank as at December 31, 2013 is SAR 96,025 million (2012: SAR 87,422 million).

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

SAR' 000	2013	2012
Government and quasi government	43,156	1,617,452
Corporate	58,132,996	50,149,208
Banks and other financial institutions	12,307,279	8,697,872
Other	226,160	224,102
Total	**70,709,591**	60,688,634

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	2013	2012
Less than 1 year	7,896	6,321
1 to 5 years	98,114	68,357
Over 5 years	142,791	139,991
Total	**248,801**	214,669

21 Special commission income and expense

SAR' 000	2013	2012
Special commission income		
Investments		
– Available for sale	187,775	191,863
– Held to maturity	14,259	29,723
– Other investments held at amortized cost	198,622	110,248
	400,656	331,834
Due from banks and other financial institutions	29,964	47,615
Loans and advances	3,826,430	3,689,831
Total	**4,257,050**	4,069,280
Special commission expense		
Due to banks and other financial institutions	12,495	12,361
Customers' deposits	700,226	615,548
Term loans and debt securities	181,026	135,594
Total	**893,747**	763,503

22 Fees and commission income, net

SAR' 000	2013	2012
Fees and commission income		
- Share trading, brokerage, fund management and corporate finance	**266,631**	367,704
- Trade finance	**422,677**	391,374
- Project finance and advisory	**331,633**	297,476
- Card products	**132,846**	130,542
- Other banking services	**149,101**	140,997
Total fees and commission income	**1,302,888**	1,328,093
Fees and commission expense		
- Share trading and brokerage	**45,776**	55,184
- Custodial services	**4,074**	4,869
- Card products	**102,814**	93,796
- Other banking services	**659**	761
Total fees and commission expense	**153,323**	154,610
Fees and commission income, net	**1,149,565**	1,173,483

23 Trading income, net

SAR' 000	2013	2012
Foreign exchange (losses) / gains, net	**(68)**	866
Investments- held as FVIS (trading), net	**7,663**	24,484
Derivatives, net	**98,117**	112,684
Total	**105,712**	138,034

24 Dividend income

SAR' 000	2013	2012
Available for sale investments	**21,423**	21,379

25 Gains on non-trading investments, net

SAR' 000	2013	2012
Available for sale	**80,184**	78,771

26 Other operating income

SAR' 000	2013	2012
Gains on disposal of property and equipment	227	134
Recoveries of written off loans	49,217	45,361
Others	1,065	93
Total	50,509	45,588

27 Other operating expenses

SAR' 000	2013	2012
Loss on disposal of property and equipment	11	91
Others	15,066	3,007
Total	15,077	3,098

28 Basic and diluted earnings per share

Basic and diluted earnings per share for the years ended December 31, 2013 and 2012 are calculated by dividing the net income for the year attributable to equity holders' of the Bank by 904.0 million shares .

29 Gross dividend, zakat and income tax

The Board of Directors has declared interim gross dividend of SAR 398 million (SAR 0.4 net per share). Total gross interim dividend to Saudi shareholders was SAR 274 million and total interim dividend to foreign shareholders was SAR 124 million. No final dividend has been proposed by the Board of Directors for the year 2013 (2012: SAR 0.80).

Gross dividend

SAR' 000	2013	2012
Interim dividend	397,810	-
Final proposed gross dividend	-	810,000
Total	397,810	810,000

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 (2012: SAR 60 million). Zakat included in interim gross dividend amounted to SAR 25 million and estimated Zakat for the second half of 2013 amounted to SAR 31 million which was deducted from retained earnings.

The Bank received Zakat / Tax assessment for the years 2010 and 2011. 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. The Bank also received the Zakat / Tax assessments for the years 2005 to 2009.The Bank has filed an appeal for these assessments.

ii) Income tax

Income tax payable in respect of foreign shareholder – CA-CIB's current year's share of income tax is approximately SAR 154 million (2012: SAR 186 million). Tax deducted from the interim gross dividend amounted to SAR 90 million and estimated tax for the second half of 2013 amounted to SAR 64 million of which SAR 14 million was deducted from the retained earnings in proportion to foreign shareholding and remaining tax of SAR 50 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	2013	2012
Cash and balances with SAMA excluding statutory deposit (note 4)	**10,350,956**	8,915,775
Due from banks and other financial institutions maturing within ninety days from the date of acquisition	**1,545,091**	5,435,376
Total	**11,896,047**	14,351,151

31 Employees compensation practices

SAR' 000	2013				
Categories of employees	**Number of employees**	**Fixed compensation**	**Variable compensation**	**Total compensation**	**Forms of payment**
Senior executives	**18**	**33,903**	**39,610**	**73,513**	Cash
Employees engaged in risk taking activities	**279**	**159,207**	**68,129**	**227,336**	Cash
Employees engaged in control functions	**245**	**77,508**	**19,380**	**96,888**	Cash
Other employees	**2,446**	**412,619**	**47,068**	**459,687**	Cash
Total	**2,988**	**683,237**	**174,187**	**857,424**	

SAR' 000	2012				
Categories of employees	Number of employees	Fixed compensation	Variable compensation	Total compensation	Forms of payment
Senior executives	21	37,167	40,550	77,717	Cash
Employees engaged in risk taking activities	241	142,512	69,751	212,263	Cash
Employees engaged in control functions	249	77,402	20,317	97,719	Cash
Other employees	2,166	349,830	44,425	394,255	Cash
Total	2,677	606,911	175,043	781,954	

Senior executives:

This comprises senior management having responsibility and authority for formulating strategies, directing and controlling the activities of the Bank including MD and DMDs.

Employees engaged in risk taking activities:

This comprises 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, Corporate Governance, Legal, 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 the above categories.

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 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 periods of both 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 that:
a) BSF success heavily depends on the talents and efforts of highly skilled individuals;
b) 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 has designed its 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 are still paying one-time in cash, requires a degree of caution.

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 statement of income.

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since December 31, 2012. 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, certain forex products and auto leasing.

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, 2013 and 2012, 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
2013					
Total assets	**16,006,414**	**98,733,562**	**53,413,201**	**1,903,497**	**170,056,674**
Investment in associates	**-**	**-**	**166,270**		**166,270**
Total liabilities	**66,101,013**	**65,806,674**	**13,230,948**	**1,701,408**	**146,840,043**
Total operating income	**1,450,363**	**2,518,980**	**806,201**	**276,991**	**5,052,535**
Share in earnings of associates, net	**-**	**-**	**3,323**	**-**	**3,323**
Total operating expenses	**1,193,618**	**1,115,353**	**177,096**	**164,216**	**2,650,283**
Net income for the year	**256,745**	**1,403,627**	**632,428**	**112,775**	**2,405,575**
Results					
Net special commission income	**1,166,997**	**1,780,745**	**375,797**	**39,764**	**3,363,303**
Fees and commission income, net	**193,184**	**732,538**	**(13,384)**	**237,227**	**1,149,565**
Exchange income, net	**46,399**	**-**	**235,440**	**-**	**281,839**
Trading income, net	**-**	**-**	**105,712**	**-**	**105,712**
Impairment charges for credit losses, net	**234,883**	**722,537**	**-**	**-**	**957,420**
Depreciation and amortization	**89,738**	**17,074**	**12,047**	**9,624**	**128,483**
2012					
Total assets	15,769,666	90,979,517	49,975,274	1,052,845	157,777,302
Investment in associates	-	-	171,948	-	171,948
Total liabilities	53,797,177	61,828,944	18,583,551	880,812	135,090,484
Total operating income	1,415,054	2,337,384	920,714	336,399	5,009,551
Share in losses of associates, net	-	-	1,801	-	1,801
Total operating expenses	1,111,078	568,851	167,664	148,623	1,996,216
Net income for the year	303,976	1,768,533	754,851	187,776	3,015,136
Results					
Net special commission income	1,151,889	1,656,735	477,435	19,718	3,305,777
Fees and commission income, net	181,962	676,514	(1,674)	316,681	1,173,483
Exchange income, net	39,974	-	206,545	-	246,519
Trading income, net	-	-	138,034	-	138,034
Impairment charges for credit losses, net	226,849	228,326	-	-	455,175
Depreciation and amortization	88,110	18,625	17,206	5,657	129,598

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

SAR' 000	Retail banking	Corporate banking	Treasury	Total
2013				
Statement of financial position assets	15,121,701	98,492,929	49,202,579	162,817,209
Commitments and contingencies	253,457	37,580,607	-	37,834,064
Derivatives	-	225	4,441,349	4,441,574
2012				
Statement of financial position assets	15,819,444	90,763,189	43,683,068	150,265,701
Commitments and contingencies	114,976	32,817,564	-	32,932,540
Derivatives	-	-	6,294,378	6,294,378

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 investing 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 13 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 the 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 notes 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
2013						
Assets						
Cash and balances with SAMA	18,139,603					18,139,603
Due from banks and other financial institutions	225,000	161,967	223,092	900,821	34,211	1,545,091
Investments and investment in associates, net	33,511,261	905,350	41,425	7,106	1	34,465,143
Loans and advances, net	110,005,804	1,094,828	139,794	-	66,478	111,306,904
Total	161,881,668	2,162,145	404,311	907,927	100,690	165,456,741
Liabilities						
Due to banks and other financial institutions	69,790	3,329,409	180,839	30,893	56,962	3,667,893
Customers' deposits	131,271,837	156,857	102,640	376	69,477	131,601,187
Term loans	-	-	-	-	-	-
Debt securities & Sukuks	1,900,000	-	2,417,601	-	2,812,500	7,130,101
Total	133,241,627	3,486,266	2,701,080	31,269	2,938,939	142,399,181
Commitments and contingencies	58,295,349	851,248	5,029,969	163,240	6,369,785	70,709,591
Credit exposure (credit equivalent value)						
Commitments and contingencies	31,296,698	1,363,902	3,634,882	134,247	1,404,335	37,834,064
Derivatives	1,354,933	134,665	2,561,701	390,235	40	4,441,574
2012						
Assets						
Cash and balances with SAMA	15,233,244	-	-	-	-	15,233,244
Due from banks and other financial institutions	1,657,199	67,515	2,668,023	941,731	100,908	5,435,376
Investments and investment in associates, net	26,547,547	890,067	192,767	-	39,566	27,669,947
Loans and advances, net	100,925,432	1,343,199	338,866	26,460	151,415	102,785,372
Total	144,363,422	2,300,781	3,199,656	968,191	291,889	151,123,939
Liabilities						
Due to banks and other financial institutions	400,968	4,757,827	370,842	76,093	56,738	5,662,468
Customers' deposits	115,465,881	6,452	40,532	731	58,171	115,571,767
Term loans	-	-	1,778,306	-	-	1,778,306
Debt securities	1,900,000	-	2,417,265	-	2,812,776	7,130,041
Total	117,766,849	4,764,279	4,606,945	76,824	2,927,685	130,142,582
Commitments and contingencies	51,802,811	477,057	4,696,111	132,324	3,580,331	60,688,634
Credit exposure (credit equivalent value)						
Commitments and contingencies	29,920,523	397,161	1,940,135	26,968	647,753	32,932,540
Derivatives	2,066,437	163,916	3,524,432	539,593	-	6,294,378

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:

	2013		2012	
SAR ' 000	Non performing, net	Allowance for impairment of credit losses	Non performing, net	Allowance for impairment of credit losses
Kingdom of Saudi Arabia	1,517,374	(2,218,307)	1,044,689	(1,552,295)
Total	**1,517,374**	**(2,218,307)**	1,044,689	(1,552,295)

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 (Value at Risk) 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, 2013 and 2012 are follows:

SAR ' 000	Foreign exchange rate	Special commission rate risk	Overall Trading
2013			
VaR as at December 31, 2013	49	3,867	3,873
Average VaR for 2013	123	1,387	1,391
Maximum VaR for 2013	617	4,239	4,247
Minimum VaR for 2013	5	211	287
2012			
VaR as at December 31, 2012	18	2,992	2,990
Average VaR for 2012	151	1,969	1,976
Maximum VaR for 2012	684	4,969	4,990
Minimum VaR for 2012	11	588	565

Overall Trading VaR incorporates compensation effect of positions coming from realized P&L in foreign currencies

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 statement of income 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, 2013, 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, 2013 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

SAR' 000	2013						
Currency	BPS change	Sensitivity of special commission income	Sensitivity of Equity				Total
			6 months or less	Over 6 month to 1 year	Over 1 year to 5 years	Over 5 years	
USD	+100	(123,676)	(650)	(43)	(2,963)	(321)	(3,977)
	-100	37,207	650	43	2,963	321	3,977
SAR	+100	(72,193)	(1,648)	(2,842)	(27,900)	(185,109)	(217,499)
	-100	20,012	1,648	2,842	27,900	185,109	217,499

and analyzed in currency concentrations and relevant sensitivities are disclosed in SAR thousands.

SAR' 000	2012						
Currency	BPS change	Sensitivity of special commission income	Sensitivity of Equity				Total
			6 months or less	Over 6 month to 1 year	Over 1 year to 5 years	Over 5 years	
USD	+100	(127,224)	(1,395)	(255)	(1,987)	(959)	(4,596)
	-100	83,756	1,395	255	1,987	959	4,596
SAR	+100	(39,731)	(3,223)	(60)	-	-	(3,283)
	-100	12,882	3,223	60	-	-	3,283

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
2013						
Assets						
Cash and balances with SAMA	9,484,935	-	-	-	8,654,668	18,139,603
Due from banks and other financial institutions	268,874	-	-	-	1,276,217	1,545,091
Investments and investment in associates ,net	9,079,542	17,585,834	4,496,146	2,584,954	718,667	34,465,143
Loans and advances, net	67,732,058	31,987,376	8,163,981	3,201,012	222,477	111,306,904
Property and equipment, net	-	-	-	-	619,918	619,918
Other assets	-	-	-	-	3,980,015	3,980,015
Total assets	86,565,409	49,573,210	12,660,127	5,785,966	15,471,962	170,056,674
Liabilities and shareholders' equity						
Due to banks and other financial institutions	2,643,736	468,750	-	-	555,407	3,667,893
Customers' deposits	39,117,245	4,995,872	1,960,158	-	85,527,912	131,601,187
Term loans	-	-	-	-	-	-
Debt securities and Sukuk	-	-	5,230,101	1,900,000	-	7,130,101
Other liabilities	-	-	-	-	4,440,862	4,440,862
Shareholders' equity	-	-	-	-	23,216,631	23,216,631
Total liabilities and shareholders' equity	41,760,981	5,464,622	7,190,259	1,900,000	113,740,812	170,056,674
Net gap between assets and liabilities	44,804,428	44,108,588	5,469,868	3,885,966	(98,268,850)	-
Net gap between derivative financial instruments	(50,448,523)	5,710,103	44,183,186	555,234	-	-
Total commission rate sensitivity gap	(5,644,095)	49,818,691	49,653,054	4,441,200	(98,268,850)	-
Cumulative commission rate sensitivity gap	(5,644,095)	44,174,596	93,827,650	98,268,850	-	-
2012						
Assets						
Cash and balances with SAMA	8,057,537	-	-	-	7,175,707	15,233,244
Due from banks and other financial institutions	4,546,606	-	-	-	888,770	5,435,376
Investments and investment in associates ,net	5,836,233	15,396,299	4,363,500	1,197,677	674,238	27,669,947
Loans and advances, net	69,219,103	21,631,033	8,329,230	3,334,703	271,303	102,785,372
Property and equipment, net	-	-	-	-	641,305	641,305
Other assets	-	-	-	-	6,012,058	6,012,058
Total assets	87,659,479	37,029,332	12,692,730	4,532,380	15,863,381	157,777,302
Liabilities and shareholders' equity						
Due to banks and other financial institutions	4,778,928	562,500	-	-	321,040	5,662,468
Customers' deposits	31,415,520	17,146,807	2,301,256	-	64,708,184	115,571,767
Term loans	1,778,306	-	-	-	-	1,778,306
Debt securities	-	-	5,230,041	1,900,000	-	7,130,041
Other liabilities	-	-	-	-	4,947,902	4,947,902
Shareholders' equity	-	-	-	-	22,666,818	22,686,818
Total liabilities and shareholders' equity	37,972,754	17,709,307	7,531,297	1,900,000	92,663,944	157,777,302
Net gap between assets and liabilities	49,686,725	19,320,025	5,161,433	2,632,380	(76,800,563)	-
Net gap between derivative financial instruments	(43,261,361)	5,392,894	37,495,373	373,094	-	-
Total commission rate sensitivity gap	6,425,364	24,712,919	42,656,806	3,005,474	(76,800,563)	-
Cumulative commission rate sensitivity gap	6,425,364	31,138,283	73,795,089	76,800,563	-	-

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, 2013 and 2012 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 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.

SAR' 000	2013			2012		
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	(11,815)	41	+5	(34,114)	1,060
EUR	-3	(731)	-	-3	(1,620)	-

There is no material impact on equity and net income due to change in other foreign currencies.

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	2013 (Short) / long	2012 (Short) / long
US Dollar	(39,497)	(446,715)
Euro	24,359	53,993
Pound Sterling	165	394
Other	4,144	6,941
Total	(10,829)	(385,387)

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	2013		2012	
Market Indices	**Change in equity Price %**	**Effect on market value**	Change in equity Price %	Effect on market value
Tadawul	**+5**	**15,072**	+5	20,551
Tadawul	**-5**	**(15,072)**	-5	(20,551)

There is no material impact on market value due to change in prices of listed international securities.

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 deposits, 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
2013						
Assets						
Cash and balances with SAMA	9,484,935	-	-	-	8,654,668	18,139,603
Due from banks and other financial institutions	268,874	-	-	-	1,276,217	1,545,091
Investments and investment in associates, net	7,723,408	16,222,508	6,109,406	3,691,154	718,667	34,465,143
Loans and advances, net	43,315,298	19,194,683	25,043,762	19,601,421	4,151,740	111,306,904
Property and equipment, net	-	-	-	-	619,918	619,918
Other assets	-	-	-	-	3,980,015	3,980,015
Total assets	60,792,515	35,417,191	31,153,168	23,292,575	19,401,225	170,056,674
Liabilities and shareholders' equity						
Due to banks and other financial institutions	2,643,736	468,750	-	-	555,407	3,667,893
Customers' deposits	37,253,077	4,995,872	2,477,547	25,000	86,849,691	131,601,187
Term loans	-	-	-	-	-	-
Debt securities and Sukuks	-	-	5,230,101	1,900,000	-	7,130,101
Other liabilities	-	-	-	-	4,440,862	4,440,862
Shareholders' equity	-	-	-	-	23,216,631	23,216,631
Total liabilities and shareholders' equity	39,896,813	5,464,622	7,707,648	1,925,000	115,062,591	170,056,674

SAR' 000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
2012						
Assets						
Cash and balances with SAMA	8,057,537	-	-	-	7,175,707	15,233,244
Due from banks and other financial institutions	4,546,606	-	-	-	888,770	5,435,376
Investments and investment in associates, net	4,505,460	15,358,491	5,297,431	1,634,327	874,238	27,669,947
Loans and advances, net	40,132,752	12,998,087	24,825,076	19,673,675	5,155,782	102,785,372
Property and equipment, net	-	-	-	-	641,305	641,305
Other assets	-	-	-	-	6,012,058	6,012,058
Total assets	57,242,355	28,356,578	30,122,507	21,308,002	20,747,860	157,777,302
Liabilities and shareholders' equity						
Due to banks and other financial institutions	4,778,928	562,500	-	-	321,040	5,662,468
Customers' deposits	30,066,026	17,146,807	2,706,145	25,000	65,627,789	115,571,767
Term loans	-	1,778,306	-	-	-	1,778,306
Debt securities	-	-	5,230,041	1,900,000	-	7,130,041
Other liabilities	-	-	-	-	4,947,902	4,947,902
Shareholders' equity	-	-	-	-	22,686,818	22,686,818
Total liabilities and shareholders' equity	34,844,954	19,487,613	7,936,186	1,925,000	93,583,549	157,777,302

b) Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Bank's financial liabilities as at December 31, 2013 and 2012 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 reflect 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
2013						
Due to banks and other financial institutions	**3,112,622**	**1,437**	**-**	**-**	**555,407**	**3,669,466**
Customers' deposits	**37,279,041**	**5,023,762**	**2,554,335**	**28,107**	**86,849,691**	**131,734,936**
Term loans	**-**	**-**	**-**	**-**	**-**	**-**
Debt securities and Sukuks	**56,553**	**169,659**	**5,618,231**	**1,941,720**	**-**	**7,786,163**
Total	**40,448,216**	**5,194,858**	**8,172,566**	**1,969,827**	**87,405,098**	**143,190,565**
Derivatives:						
Contractual amount payable	**(15,010,479)**	**6,041,898**	**10,022,458**	**(847,136)**	**-**	**206,741**
Contractual amount receivable	**71,519,938**	**(14,156,388)**	**(62,140,103)**	**761,010**	**-**	**(4,015,543)**
Total undiscounted financial liabilities	**96,957,675**	**(2,919,632)**	**(43,945,079)**	**1,883,701**	**87,405,098**	**139,381,763**
2012						
Due to banks and other financial institutions	5,341,969	1,117	-	-	321,040	5,664,126
Customers' deposits	30,089,465	17,342,534	2,847,818	26,632	65,627,789	115,934,238
Term loans	5,534	1,787,832	-	-	-	1,793,366
Debt securities	56,553	169,659	5,807,239	1,982,006	-	8,015,457
Total	35,493,521	19,301,142	8,655,057	2,008,638	65,948,829	131,407,187
Derivatives:						
Contractual amount payable	(42,546,032)	8,034,231	34,384,760	3,576,630	-	3,449,589
Contractual amount receivable	92,617,148	(14,781,238)	(80,954,478)	(4,002,488)	-	(7,121,056)
Total undiscounted financial liabilities	85,564,637	12,554,135	(37,914,661)	1,582,780	65,948,829	127,735,720

36 Fair values of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Valuation models

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premium used in estimating discount rates, bond and equity prices and foreign currency exchange rates.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. The Bank uses widely recognized valuation models for determining the fair value of common and simpler financial instruments. Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple over-the-counter derivatives such as interest rate swaps.

Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Valuation models that employ significant unobservable inputs require a higher degree of management judgment and estimation in the determination of fair value. Management judgment and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of the probability of counterparty default and prepayments and selection of appropriate discount rates. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties; to the extent that the Bank believes that a third party market participant would take them into account in pricing a transaction. Fair values aims also to reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank and the counterparty where appropriate.

Valuation Framework

The Bank has an established control framework with respect to the measurement of fair values. This framework includes a Market Risk Department, which is independent of Front Office management and reports to the Chief Risk Officer, and which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements. Specific controls include:

- verification of observable pricing;
- re-performance of model valuations;
- a review and approval process for new models and changes to models involving Risk Division;
- back-testing of models against observed market transactions;
- analysis and investigation of significant daily valuation movements

When third party information, such as broker quotes or pricing services, is used to measure fair value, Market Risk Department assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS. This includes:

-verifying that the broker or pricing service is approved by the Bank for use in pricing the relevant type of financial instrument;

-understanding how the fair value has been arrived at and the extent to which it represents actual market transactions;

-when prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement; and

-if a number of quotes for the same financial instrument have been obtained, then how fair value has been determined using those quotes

Any significant valuation issue is reported at a regular frequency (in addition to whenever deemed necessary) to the Bank Market Risk Committee in order to take appropriate actions accordingly.

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 repackaging)

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
2013				
Financial assets				
Derivative financial instruments	-	2,772,572	-	2,772,572
Financial investments designated at FVIS (trading)	201,932	124,239	-	326,171
Financial investments available for sale	998,169	2,617,853	4,251,158	7,867,180
Total	1,200,101	5,514,664	4,251,158	10,965,923
Financial Liabilities				
Derivative financial instruments negative fair value	-	1,674,205	-	1,674,205
Total	-	1,674,205	-	1,674,205
2012				
Financial assets				
Derivative financial instruments	-	4,492,042	-	4,492,042
Financial investments designated at FVIS(trading)	230,319	80,462	-	310,781
Financial investments available for sale	1,820,041	1,385,085	3,532,535	6,737,661
Total	2,050,360	5,957,589	3,532,535	11,540,484
Financial Liabilities				
Derivative financial instruments negative fair value	-	2,539,997	-	2,539,997
Total	-	2,539,997	-	2,539,997

Financial investments available for sale include Mudarabah SAR 4,026 million (2012: SAR 3,263 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 classified as available for sale (AFS)

SAR' 000	2013	2012
Balance at the beginning of the year	**3,532,535**	3,714,041
Other comprehensive income /(losses)	**(1,000)**	1,326
Issues	**2,440,000**	1,500,000
Settlements	**(1,720,377)**	(1,682,832)
Balance at the end of the year	**4,251,158**	3,532,535

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, debt 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 and balances

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 December 31, 2013 and 2012 resulting from such transactions included in the consolidated financial statements are as follows:

SAR' 000	2013	2012
CA-CIB Group		
Due from banks and other financial institutions	**53,858**	1,659,860
Due to banks and other financial institutions	**119,504**	191,526
Derivatives at fair value, net	**47,675**	14,371
Commitments and contingencies	**3,051,105**	1,905,196
Associates		
Investments	**166,270**	171,948
Loans and advances	-	50,010
Due to banks and other financial institutions	**75,760**	45,023
Customers' deposits	-	18,065
Commitments and contingencies	-	5,050
Directors, auditors, other major shareholders' and their affiliates		
Loans and advances	**2,323,046**	2,541,138
Customers' deposits	**3,991,011**	4,022,698
Derivatives at fair value, net	-	(68,022)
Commitments and contingencies	**561,650**	1,129,506
Bank's mutual funds		
Investments	**70,819**	66,461
Derivatives at fair value, net	-	5,222
Customers' deposits	**234,779**	378,464

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	2013	2012
Special commission income		
-CA-CIB group	1,148	2,729
-Directors, auditors, other major shareholders' and their affiliates	48,145	60,141
-Associates	-	1,580
-Bank's mutual funds	44	62
Total Special commission income	49,337	64,512
Special commission expense		
-CA-CIB group	390	155
-Directors, ,auditors, other major shareholders' and their affiliates	45,140	40,657
-Associates	12	100
-Bank's mutual funds	3,535	3,275
Total Special commission expense	49,077	44,187
Fees ,commission income and others, net	13,985	12,495
Directors' fees	3,852	3,350
Other general and administrative expenses	1,108	1,128

The total amount of short term benefits paid to key management personnel during the year was SAR 113 million (2012: SAR 111 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%.

SAMA has issued the framework and guidance regarding implementation of the capital reforms under Basel III - which are effective from January 1, 2013. Accordingly, the Group's consolidated Risk Weighted Assets (RWA), total capital and related ratios on a consolidated group basis, calculated under the Basel III framework. For the purposes of presentation, the RWAs, total capital and related ratios as at December 31, 2013 are calculated using the framework and the methodologies defined under the Basel III framework. The comparative figures have not been reinstated in line with Basel III accord.

SAR' 000	2013	2012
Credit Risk RWA	**153,855,918**	140,626,870
Operational Risk RWA	**8,979,637**	8,584,137
Market Risk RWA	**3,048,275**	3,300,569
Total RWA	**165,883,830**	152,511,576
Tier I Capital	**23,056,227**	22,348,029
Tier II Capital	**2,793,813**	2,793,700
Total Tier I & II Capital	**25,850,040**	25,141,729
Capital Adequacy Ratio %		
Tier I ratio	**13.90%**	14.65%
Tier I + Tier II ratio	**15.58%**	16.49%

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 statement of income under fees and commission income, net.

Determining whether the Bank controls such an investment fund usually depends on the assessment of the aggregate economic interests of the Bank in the Fund (comprising of its investments, any carried profit and expected management fees) and the investors' rights to remove the Fund Manager. As a result of the above assessment, the Bank has concluded that it acts as an agent for the investors in all cases, and therefore has not consolidated these funds. 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 value of the mutual funds and other private investment portfolio managed by the Bank through its subsidiary was SAR 6,625 million (2012: SAR 3,707 million).

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 as of December 31, 2013 totalling SAR 3,307 million (2012: SAR 1,777 million).

40 BASEL III - Capital Structure

Certain disclosures on the Bank's capital structure are required to be published on Bank's website. These disclosures will be published on the Bank's website www.alfransi.com.sa as required by SAMA. Such disclosures are not subject to review/audit by the external auditors of the Bank.

41 BASEL III Pillar 3 Disclosure

Under Basel III 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.

42 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 but not yet effective for the Bank's accounting years beginning on or after 1 January 2014 and is currently assessing their impact.

IFRS 10 amendment that provides consolidation relief for investments funds applicable from 1 January 2014. This mandatory consolidation relief provides that a qualifying investment entity is required to account for investments in controlled entities as well as investments in associates and joint ventures at fair value through profit or loss provided it fulfils certain conditions with an exception being that subsidiaries that are considered an extension of the investment entity's investing activities.

IAS 32 amendment applicable from 1 January 2014 clarify that a) an entity currently has a legally enforceable right to off-set if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties; and b) gross settlement is equivalent to net settlement if and only if the gross settlement mechanism has features that eliminate or result in insignificant credit and liquidity risk and process receivables and payables in a single settlement process or cycle.

IAS 36 amendment applicable from 1 January 2014 address the disclosure of information about the recoverable amount of impaired assets limiting disclosures requirements if that amount is based on fair value less costs of disposal.

IFRS 9 Financial instruments (2010): revised version of IFRS 9 was originally applicable from 1 January 2015 but the effective date now has been delayed.This incorporates revised requirements for the classification and measurement of financial liabilities and carries over the existing derecognition requirements from IAS 39 Financial Instruments: Recognition and Measurement.

43 Comparative figures

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

44 Board of Directors approval

The consolidated financial statements were approved by the Board of Directors on February 04, 2014 corresponding to 4 Raby' al-Thaany 1435H