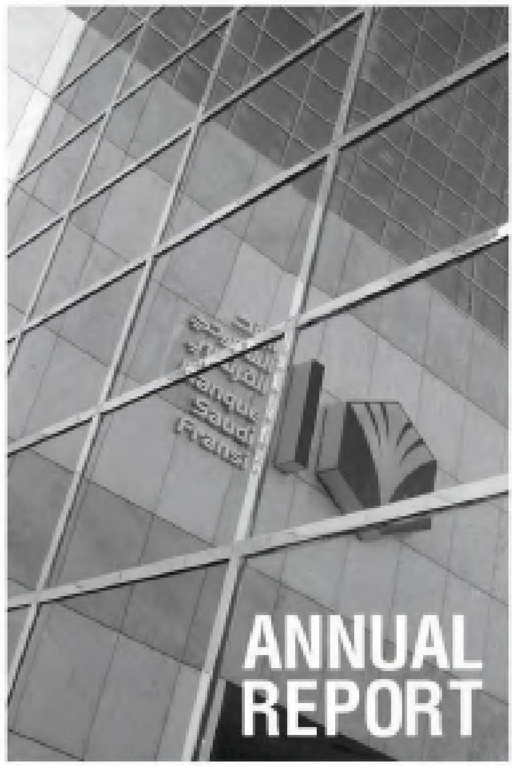

ANNUAL REPORT 2012

البنك السعودي الفرنسي

Banque Saudi Fransi

Banque with a different style

Table of Contents

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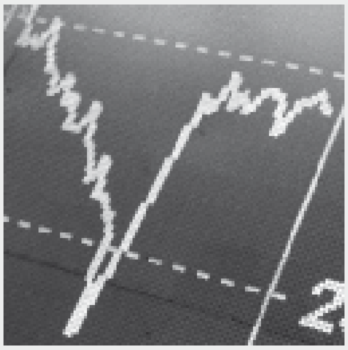
بِسۡمِ ٱللَّهِ ٱلرَّحۡمَٰنِ ٱلرَّحِيمِ

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

HRH Prince
Salman Bin Abdulaziz
Al-Saud
Crown Prince
First Deputy Premier

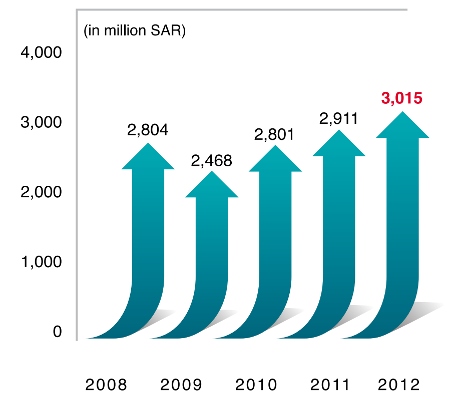


Year at a Glance

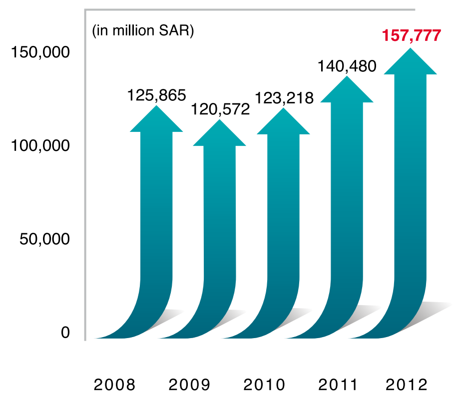
Performance in the year 2012

Net Income	SAR 3,015 million
Total Assets	SAR 157,777 million
Customers' Deposits	SAR 115,572 million
Loans & Advances, net	SAR 102,785 million
Total Equity	SAR 22,687 million

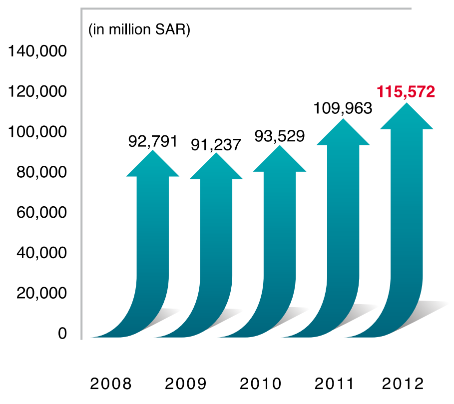
Net Income



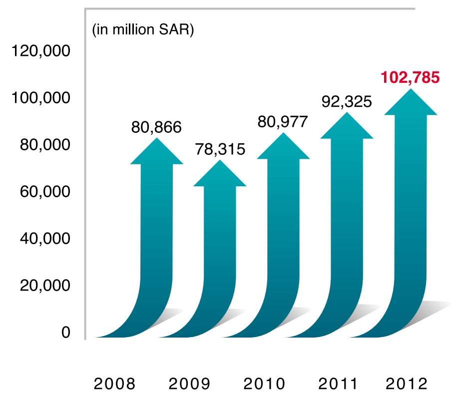
Total Assets



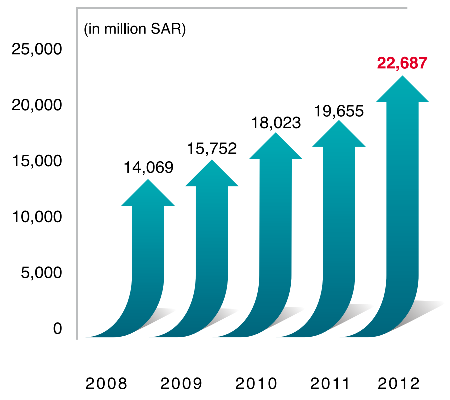
Customers' Deposits



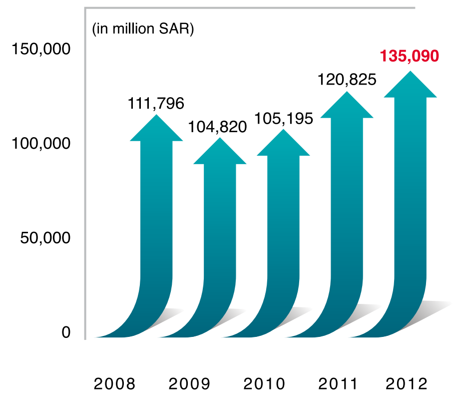
Loan & Advances, net

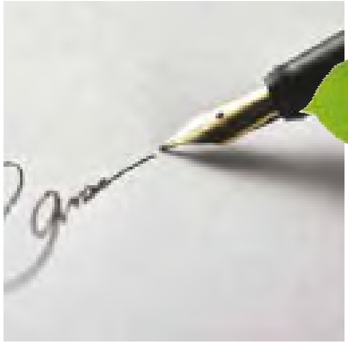


Total Equity



Total Liabilities





The Bank achieved a net profit of 3,015 million Riyals compared to 2,911 million Riyals in 2011 with an increase of 3.6%.

Chairman's Statement

During 2012, the Bank reorganized its administrative structure with the purpose of flexibility in decision-making, eliminating duplication in its various departments and reconsidering its management processes in terms of services and geographic expansion, while emphasizing on the importance of exchanging benefits between all the Bank's departments and units in an effort to increase the income and improve the level of services.

The Bank was thus able to achieve net profits that exceeded, even if slightly, the profits of the previous year, despite the continuing global financial instability and the decrease in interest rates, that had negative effects on international financial institutions. However the balanced policies adopted by the Kingdom of Saudi Arabia helped mitigated these negative impacts and the lessons learned from the financial crises experienced in recent years contributed in raising the awareness and caution of banking leaderships in Saudi Arabia. And despite the continuing decrease in rate of return on loans and financial services offered by the bank, which are considered as a major source of income, the bank was able to achieve the highest net profits in its history, while maintaining the quality of its credit portfolio and preserving its reserves within the high rates, through its adoption of various initiatives with semi-governmental sectors to finance the purchase of houses for the employees of these sectors in support of the State's plans to provide adequate housing for employees. All these initiatives contributed in the increase of the bank's income from regular operations.

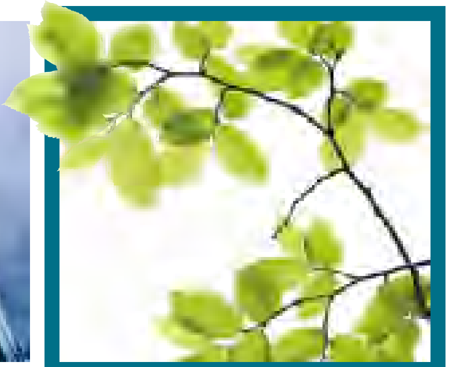
By the end of this year, the Bank achieved a net profit of SAR 3,015 million compared to SAR 2,911 million in 2011 with an increase of 3.6%. This increase in profits results from the development of the bank's traditional services as the loans portfolio increased by 12% to reach SAR 103 billion, whereas deposits reached SAR 116 billion with an increase of 5.5%, investments rose by 64.7% to reach SAR 28 billion, and assets by 12.9% to reach 158 billion riyals, compared to last year. Total shareholders' equity also increased by 15.42% to reach SAR 22,687 million due to the capital increase last year and the growth of the statutory reserves.

Moreover, the Bank kept providing excellent services to its customers, strengthening and upgrading its infrastructure and developing its systems for the purpose of facilitating and expediting operations. The bank also established self-service centers to provide its various services to its customers without having to visit the branches. In addition, the bank invested in its human resources through programs that develop medium and senior management levels, as well as specialized training programs for all functional levels.

At the end, I would like in my name and in the name of my colleagues, members of the Board, to thank the Custodian of the Two Holy Mosques, the Crown Prince, the Second Deputy Premier and the Government for their continued support to the banking sector. I would also like to thank all concerned government agencies for their positive and effective role in supporting the Bank, namely the Ministry of Finance, the Saudi Arabian Monetary Agency, the Ministry of Commerce and Industry, the Saudi Capital Markets Authority and the Saudi Arabian General Investment Authority, as well as the bank's customers for their trust and support and all employees for their positive contribution to these achievements.

I would also like to extend our sincerest gratitude and appreciation to everyone for their confidence and continuous support to the bank, and finally I would like to thank those working in the bank, regardless of their ranks and levels for their distinguished role and effective performance which helped preserving the bank's image, performance and professional services.

Dr. Saleh bin Abdul Aziz Al-Omair
Chairman

The Balance Sheet reached SAR 157,777 million representing an increase of 12.3% over the year driven primarily by a robust loan growth of 11.3%

Managing Director's Statement

It is my pleasure to present Banque Saudi Fransi's performance for the year 2012 where Net Income established at a record SAR 3,015 million showing an increase of 3.6% compared with 2011.

The total Balance Sheet reached SAR 157,777 million representing an increase of 12.3% over the year driven primarily by a robust loan growth of 11.3%.

This sound development of the loan book fed the Total Operating Income which crossed the five billion mark also for the first time reaching SAR 5,010 million for the year, an increase of 9.3% versus 2011.

BSF indeed benefited from the sound economic situation in the Kingdom and supported the numerous financing needs at Corporate and Individual levels. The demand in the infrastructure sector, where BSF holds a leading position, has been particularly strong.

In this environment, the Bank continued to deploy its balanced strategy between its different business lines leveraging on its historical and strong position in the corporate sector to develop its offer across all banking segments and business lines.

BSF has also engaged important efforts to adjust to the evolving market situation, notably the persistent low interest rate, and the modification of the regulatory environment with the implementation of the Basel Accords.

BSF has accordingly adjusted its organization in 2012 to develop systematically cross-selling and transversality across the Bank. This evolution was aimed at optimizing utilization of balance sheet through the development of fees and commissions which grew by a solid 11.8% over the year. This segment was supported by growth in Trade Finance but also by the strong performance of Saudi Fransi Capital which gathers the Brokerage, Asset Management and Investment Banking activities.

With regards to risks, the Non Performing Loan to Total Loans ratio stayed at a low 1.00% confirming the overall sound BSF credit portfolio and prudent risk management. In addition, the Total Provisions to Total Non Performing Loans ratio established at 148% end of 2012.

BSF has also significantly reinforced its Capital Adequacy Ratio (Tier I + Tier II ratio) which stands at 16.49% as of December 2012 compared to 14.52% end 2011. This has notably been achieved through the successful issuance of a SAR 1,900 million subordinated sukuk qualifying as Tier II capital in December 2012. This strong regulatory capital base will allow BSF to pursue its development in line with the market opportunities.

BSF can rely on this solid base going into 2013. BSF will pursue its balanced strategy between Retail and Corporate activities putting an emphasis on cross-selling and return on assets. 2013 will also be the year to set-up a new Medium Term Plan covering 2014-2016 to review the strategy and prepare the Bank for the future.

Once again, I would like to thank all of our clients who have placed trust in BSF and reiterate that all BSF staff are dedicated to their satisfaction.

I also take this opportunity to express my gratitude to the Chairman of the Board, Dr. Saleh A. Al Omair, all Board Members, Executive Committee, Audit Committee and Remuneration & Compensation Committee Members for their strong involvement and continuous support.

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

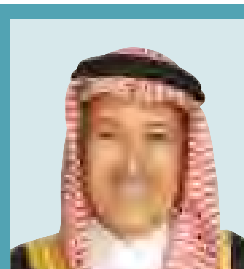
Last, I also want to extend my appreciation to all BSF Staff for their personal commitment and their deep involvement in ensuring that the Bank continue to develop and put excellence at client service.

Patrice Couvegnes
Managing Director

Board of Directors

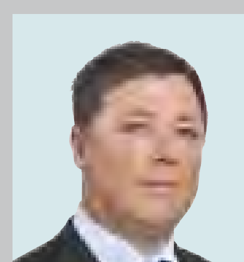
Saleh Bin Abdul Aziz Al-Omair,
Chairman

Mosa Omran Al-Omran,
Member



Abdulaziz Al-Rashid,
Member

Marc Oppenheim,
Member



Ibrahim M. Al-Issa,
Member

Abdulaziz Al-Habdan,
Member

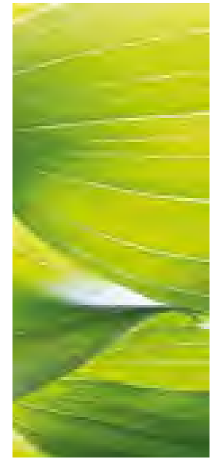
Patrice Couvegnes,
Managing Director

Thierry Simon,
Member

Abdulrahman A. Jawa,
Deputy Managing Director

Dr. Khaled H. Mutabagani,
Member

Management Team



Patrice Couvegnes
Managing Director

Mohamad M. Abdulhadi
Senior Executive Director Business

Riyadh AlSharikh
Assistant Senior Executive Director Business

Adel Malawi
Group Treasury

Abdulrahman Mutabagani
Commercial Banking Division

Abdul Qadeer Mirza
Accounting and Financial Control Division

Abdulaziz Omar Osman
Chief Compliance Officer

Khaled Al-Toukhi
Global Transaction Services Division

Abdulrahman A. Jawa
Deputy Managing Director

Philippe Enjalbal
Senior Executive Director COO

Rene du Lac
Retail Banking Group

Omar Jazzar
Wealth Management Group

Ahmed Al Kassim
Information Technology Division

Amr Al Taher
Corporate Human Resource Division

Abdullah Al Batati
Procurement Division

Nizar Al-Qannas
Secretary General

Julien Maze
Chief Financial officer

Kamal A. Khodr
Corporate Banking Group

Jean-Michel Castelnau
Chief Risk Officer

Ahmad Jawdat
High Net Worth Group

Saadoun Al-Saadoun
Corporate Operations Division

Athar Iqbal
Chief Internal Auditor

Hani Abduldaim
Property Division

Regional Management

Mazen Tamimi
Western Regional Manager

Abdulaziz Al Molhem
Eastern Regional Manager

Abdulaziz I. Al Issa
Central Regional Manager

Specialized Subsidiaries and Joint-Venture Companies

Saudi Fransi Capital
Yasser Al-Rumayyan

Allianz Saudi Fransi
Antoine Issa

Saudi Fransi Leasing
Riyadh Al Sharikh

Financial Management

For the 12 months ended 31 December 2012, Banque Saudi Fransi's key indicators and risk ratios are set out in the table below:

Key Indicators (SAR'000)	12 months ended 31-Dec-10	12 months ended 31-Dec-11	12 months ended 31-Dec-12	% Var 2012 / 2011	% Var 2011 / 2010
Total Balance Sheet	123,218,330	140,479,958	157,777,302	12.31%	14.01%
Total Loans & Advances	80,976,587	92,325,042	102,785,372	11.33%	14.01%
Total Deposits	93,529,251	109,963,411	115,571,767	5.10%	17.57%
Total Equity	18,003,661	19,655,327	22,686,818	15.42%	9.17%
Total Operating Income	4,395,229	4,584,774	5,009,551	9.26%	4.31%
Total Net Income	2,801,287	2,910,942	3,015,136	3.58%	3.91%

Key Ratios	12 months ended 31-Dec-10	12 months ended 31-Dec-11	12 months ended 31-Dec-12	% Var 2012 / 2011	% Var 2011 / 2010
Provisions to Non Performing Loans	146.96%	136.41%	148.59%	12.18%	-10.55%
Non Performing Loans to Total Loans	1.23%	1.20%	1.00%	-0.20%	-0.03%
Loans to Funding Sources	82.27%	80.85%	82.57%	+1.72%	-1.42%
Tier 1 Capital Adequacy	14.18%	13.95%	14.65%	+0.70%	-0.23%
Cost to Income	28.60%	32.70%	30.99%	-1.71%	+4.10%

Total Assets reached SAR 157,777 million as at 31 December 2012, an increase by 12.3% (+SAR 17,298 million) over the year coming primarily from a robust loan growth of 11.3% (+SAR 10,460 million) and an increase in the Investments (+SAR 10,829 million) as the Bank grew its Saudi government treasury bills holdings.

The Saudi economy remained well orientated in 2012 and BSF benefited from the overall sound economic situation and supportive government budget policy to develop.

The loan book as illustrated in the table below:

(SAR'000)	Credit Cards + Consumer Loans	Overdraft & Commercial Loans	Other Loans	Total
2010	7,821,993	66,745,642	6,409,012	80,976,587
2011	10,398,751	75,408,090	6,518,201	92,325,042
2012	10,506,040	85,259,124	7,020,208	102,785,372
% Var 2011 / 2010	32.94%	12.98%	1.70%	14.01%
% Var 2012 / 2011	1.03%	13.06%	7.70%	11.33%

Retail loans grew by 1% over the year as the Bank focused on asset quality, operational efficiency and client segmentation in 2012 to consolidate and strengthen its retail business after several years of very strong growth. Corporate loans recorded a solid year with a 13% growth supported by infrastructure program and development of the private sector.

This increase in the loan book fed the Total Operating Income which reached SAR 5,010 million for the year, an increase of 9.3% versus 2011. A strong performance in commissions and fees (+11.8%) helped balancing persistent low interest rate levels affecting remuneration of liquidity and investments.

Net Income grew 3.6% to a best ever of SAR 3,015 million despite higher provisions in 2012 than 2011 and the low interest rate environment.

Risk profile:

BSF posted SAR 455 million in net impairment charge for credit losses for the year compared with SAR 158 million in 2011. The increase came evenly from Corporate and Retail resulting from a prudent risk policy with the Total Provisions to Total Non Performing Loans ratio standing at 148% end of 2012. In addition, the Non Performing Loan to Total Loans ratio stayed at a low 1.00% confirming the overall sound BSF credit portfolio.

Liquidity position:

BSF has maintained a solid liquidity position throughout 2012. The loan to deposit ratio as per SAMA calculation was staying at 82.6% as of 31 December 2012.

Customers' deposits grew 5.1% with Non Commission Bearing Deposits jumping by 16.9% over the year demonstrating the capacity of BSF to rely on a solid and affordable funding base. Non Commission Bearing Deposits now represent 56.1% of total deposits from 50.5% in 2011.

In addition BSF issued a USD 750 million 5 years sukuk in May 2012 which reinforced further its USD long-term liquidity position.

(SAR'000)	31-Dec-2010	31-Dec- 2011	% Var 2011/2010	31-Dec-2012	% Var 2012/2011
Non Commission Bearing Deposits	46,425,258	55,499,518	19.55%	64,886,471	16.91%
Commission Bearing Deposits	47,103,993	54,463,893	15.62%	50,685,296	-6.94%
Total Customers Deposits	93,529,251	109,963,411	17.57%	115,571,767	5.10%
Non Commission Bearing Deposits as % of Total Customers Deposits	49.64%	50.47%	0.83%	56.14%	5.67%

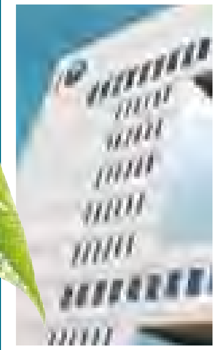
Capital Adequacy:

The paid share capital of the Bank increased to SAR 9,040 million from SAR 7,232 million in accordance with the stock dividend distributed further to the General Assembly which took place on April 7, 2012.

The Capital Adequacy Ratio (Tier I + Tier II ratio) increased significantly from 14.52% as at December 2011 to 16.49% as at December 2012. This increase comes from the successful issuance of a SAR 1,900 million subordinated sukuk qualifying as Tier II capital in December 2012. This strong regulatory capital base will allow BSF to pursue its development in line with the market opportunities.

Ratings	Standard & Poors Ratings Services	Moody's Investors Service	FitchRatings
Long-term ratings	A	Aa3	A
Short-term ratings	A-1	P-1	F1
Outlook / Review	Stable	Stable	Stable
Last Published Credit Opinion	28/09/2012	11/03/2013	20/08/2012





Finance & Strategy Group

The Finance & Strategy Group (FSG) was created in 2012 gathering the Accounting & Financial Control Division (AFCD), the Management Control & Financial Planning Division, the Asset & Liability Management Department and the Corporate Communication Department.

FSG allows bringing under one umbrella the different Finance functions and to ensure coordination and synergies in terms of financial controls, financial risk management and financial planning. The regulatory evolutions related to the implementation of the Basel Accords notably in terms of capital and liquidity management makes it critical to have a well integrated Finance function.

AFCD is more particularly in charge of all the financial and regulatory reporting of the Bank along with ensuring that all required financial controls are in place. In 2012, BSF had the honor to chair the CFO Committee at SAMA. AFCD took this opportunity to play a proactive role in analyzing the impact of important matters such as FATCA and VAT on the KSA Banking Industry.

As for 2013, FSG will be coordinating the preparation of the new Medium Term Plan 2014-2016 setting up new ambition for BSF.

Board of Directors' Report

The Board of Directors is pleased to present its report for the fiscal year 2012

1. Establishment:

Banque Saudi Fransi, Saudi Joint Stock Company, Mathar St., P.O.Box 56006 Riyadh 11554, KSA, was established in accordance with the Royal Decree No. m/ 32 dd 17 Jumada II 1397 (4 June 1977). Following the transfer of Banque Indocine et de Suez operations in Saudi Arabia, Banque Saudi Fransi officially commenced its operations on 1 Muharram 1397 (11 Dec 1977) under CR No. 1010073368 issued on 4 Safar 1410 (5 Sept 1989). Banque Saudi Fransi has a branch network of 86 branches (83 in 2011). The Bank's employees number 2,677 (2,788 in 2011).

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

2. BSF owns:

Saudi Fransi Capital (SFC): BSF owns 99% of the company while 1% is indirectly owned by a director). SFC performs brokerage, asset management and corporate financing.
Saudi Fransi Insurance Agency (SAFIA): BSF owns 100% share capital.
Saudi Fransi Leasing Company: BSF owns 100% share capital.
Sakan Real Estate Company: BSF owns 100% share capital.
All the above entities are established and exist in the Kingdom of Saudi Arabia.
Allianz Saudi Fransi for Cooperative Insurance: BSF owns 32.5% share capital.
Sofinco SF: BSF owns 50% share capital.
During 2012 BSF sold its 20% share capital in Al-Amthal Co.

BSF also owns capital in Saudi Credit Information Co (Simah), Saudi Traveller Checks Co and Saudi Share Registration Co. which is under liquidation after the full transfer of the company to CMA and Tadawul. All the companies mentioned above are existing and established in the Kingdom of Saudi Arabia.

BSF also owns 100% of BSF Sukuk, a company established as SPV and exist in Cayman Islands, 27% of Banque Bemo Saudi Fransi, a joint stock company established in Syria (began its operations on 4.1.2004), and 10% of Banque Bemo Lebanon, Beirut (entered on 1.8.2008).

On 26.11.2011, an announcement was published on Tadawul regarding a decision by BSF Board of Directors to sell its 27% share capital in BBSF, Syria, and 10% share capital in Bemo Lebanon, and to inform its main partners, Bemo Lebanon, about its decision. Presently all legal and statutory steps are being taken to finalize the sale of BSF's share capital in the two banks. BSF is not represented in the board of directors of BBSF Syria and Bemo Lebanon from 26.11.2011. BSF's decision was duly communicated to the major partners.

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

3. The bank's performance during the last 12 months ended on 31.12.2012:

BSF net profit reached SAR 3,015 Million for 12 months 2012 (compared to SAR 2,911 Million in 2011) with an increase of 3.6%. The total Operating Income amounted to SAR 5,010 Million in 2012 (SAR 4,585 Million in 2011), with the increase of 9.3%. While net special commissions income amounted to SAR 3,306 Million (3,137 Million in 2011) with the increase of 5.4%.

Total assets amounted to SAR 158 Billion (140 Billion in 2011) with the increase of 12.9%. Investments amounted to SAR 28 Billion (SAR 17 Billion in 2011) with the increase of 64.7%. Loans and advances amounted to SAR 103 Billion (SAR 92 Billion in 2011) with an increase of 12%.

Customers' deposits amounted to SAR 116 Billion (SAR 110 Billion in 2011) with the increase of 5.5%. Finally earnings per share amounted to SAR 3.34 in 2012 (SAR3.22 in 2011). Earnings per share was recalculated to reflect the impact of the capital increase from 723.2 Million shares to 904 Million shares approved during the extra ordinary shareholders meeting held on 7 April 2012.

4. Consolidated Statement of Financial Position as at 31 December 2012 and 2011

SAR' 000	2012	2011
ASSETS		
Cash and balances with SAMA	15,233,244	18,115,582
Due from banks and other financial institutions	5,435,376	7,009,260
Investments, net	27,497,999	16,669,277
Loans and advances, net	102,785,372	92,325,042
Investment in associates	171,948	170,789
Property and equipment, net	641,305	580,993
Other assets	6,012,058	5,609,015
Total assets	157,777,302	140,479,958
LIABILITIES AND EQUITY		
Liabilities		
Due to banks and other financial institutions	5,662,468	2,063,748
Customers' deposits	115,571,767	109,963,411
Term loans	1,778,306	1,766,850
Debt Securities and Sukuks	7,130,041	2,462,719
Other liabilities	4,947,902	4,567,903
Total liabilities	135,090,484	120,824,631
Equity		
Share capital	9,040,179	7,232,143
Statutory reserve	7,553,621	6,799,837
General reserve	982,857	982,857
Other reserves	892,378	876,023
Retained earnings	3,407,783	3,764,467
Proposed dividend	810,000	-
Total equity	22,686,818	19,655,327
Total liabilities and equity	157,777,302	140,479,958

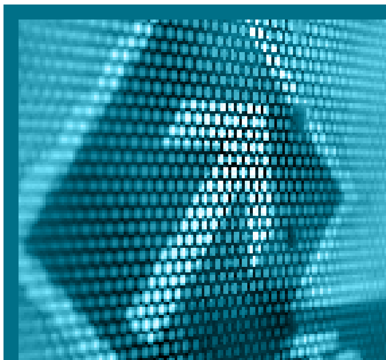
5. Consolidated Income Statement for the Years ended 31 December 2012 and 2011

SAR' 000	2012	2011
Special commission income	4,069,280	3,631,299
Special commission expense	763,503	494,228
Net special commission income	3,305,777	3,137,071
Fee and commission income, net	1,173,483	1,050,052
Exchange income, net	246,519	220,708
Trading income, net	138,034	132,676
Dividend income	21,379	14,244
Gains on non trading investments, net	78,771	-
Other operating income	45,588	30,023
Total operating income	5,009,551	4,584,774
Salaries and employee related expenses	875,686	828,111
Rent and premises related expenses	137,483	120,678
Depreciation and amortization	129,598	130,257
Other general and administrative expenses	406,426	393,337
Impairment charge for credit losses, net	455,175	157,908
Impairment charge for investment, net	(11,250)	-
Other operating expenses	3,098	27,193
Total operating expenses	1,996,216	1,657,484
Net operating income	3,013,335	2,927,290
Share in earnings/ (losses) of associates, net	1,801	(16,348)
Net income for the year	3,015,136	2,910,942
Basic and diluted earnings per share (in SAR)	3.34	3.22

6. Consolidated Statements of Comprehensive Income for the Financial Years ended 31 December 2012 and 2011

SAR' 000	2012	2011
Net incomes of the year	3,015,136	2,910,942
Other comprehensive income (loss):		
Available for sale investments		
Change in fair value, net	41,173	(108,543)
Income transffered to the consolidated income statement	(5,204)	-
Cash flows transffered to hedge		
Changes in fair value, net	566,255	894,048
Income transffered to the consolidated income statement	(585,869)	(656,454)
Total comprehensive income for the year	3,031,491	3,039,993

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

Corporate Banking

Corporate Banking with its strong and diversified client base, continued to play its pivotal role in the overall growth of the Bank's assets and profitability. This could be achieved due to dynamic marketing policy resulting in continued enlarging of the customer base of the bank and capturing large transactions in the field of power generation, Oil and petrochemicals, mining, telecommunication and financing of other major projects and contracts.

The lending portfolio of Corporate Banking has grown by 15 % and overall profitability by 9 % during the year. Bank remained vigilant on the quality of its lending portfolio and achieved this growth without compromising on strict risk approval and implementation criteria.

Leveraging on our strong corporate client base we have been continuously focusing on cross selling of bank's retail, treasury, corporate finance and investment banking franchises.

Accordingly, Senior Bankers have been appointed at the three regional corporate banking divisions to optimize revenue and overall RAROC from the major corporate relationships.

We are committed to the impressive growth plan of the Government of Kingdom of Saudi Arabia, and are in close contact with the key players engaged in the expansion of industrial, infrastructure, contracting, trading and services sectors of the economy.

We are putting substantial emphasis on the contract/trade finance activities of the bank and appropriate strategy is in place for its growth during the coming years.

Structured Finance Division

Banque Saudi Fransi (BSF) continued the momentum in arranging and underwriting of structured and project financing transactions in 2012 with the dedication and hard work of the team and the customary support extended by the management and the board of the bank.

Market activity generally remained modest in terms of number of transactions. While many more are work in process, over a dozen transactions were closed in 2012 by BSF in the syndicated space and with most in leadership and instrumental roles of arranging, agency or documentation. A wide variety of transactions were closed ranging from pure corporate to acquisitions, to structured and green field project financings and refinancings.

Starting the year with the largest corporate financing in the region for Mobily where the bank played a lead role, the bank closed the year with perhaps one of the swiftest refinancings in the project finance sector for Saudi Ethylene and Polyethylene Company. The lead roles demonstrate not only the strength of the bank in its overall service offering but also ensure maximization of revenues through cross sell.

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

It is hoped that the Government will keep its focus on privatization and will further accelerate it during coming years. Private sector involvement in the development of infrastructure across all major sectors, especially energy and transportation, would be critical for sustaining economic growth and to address supply bottlenecks.

During 2012 the bank provided its structuring and financing support to core clients in their bids for Saudi Electricity Company's second independent power project at Rabigh, and Saudi Aramco's cogeneration projects. It also provided its customary support to Saudi Aramco for Sadara, Saudi Aramco's joint venture refinery project. These financings are likely to be signed during 2013 and form the more significant part of the ongoing transactions.

There are new and exciting opportunities expected in 2013 particularly in the renewable energy sector starting with the Makkah municipality solar project and many more to be announced by KA-CARE. 2013 will likely witness the build out for Riyadh and Jeddah metro projects that will provide the bank further opportunities to play its part with innovative financial solutions. The bank will continue to work on these large deals in key sectors of the economy and is well placed to lead many new major financings which are to be unveiled in 2013.

BSF maintained its positioning as the preeminent provider of structured and project finance solutions by continuing to add value to projects through innovative financial structures ensuring bankability as well as competitiveness. The cornerstone of our strategy in this arena is the bank's focus on maintaining and further developing expertise in power, oil and gas, petrochemical and infra-structure sectors and employing sound due diligence techniques.

Islamic Banking

Bank continued to maintain its strong position and growth in Islamic Financing and most of the high profile transactions have been signed under the Shari'ah compliant structures. We owe our progress to the guidance and support of our Shari'ah Board members and would like to thank Sh. Abdullah Al Manie, Dr. Mohammad Elgari, and Dr. Sattar Abu Ghuddah for approving number of Shari'ah compliant products and deals.

Trade Finance and Financial Institutions

The bank has continued to develop its international trade finance activities based on strong relationships with corporate and commercial clients and international correspondent banks as well as support from its partner Credit Agricole CIB. A concerted effort to substantially grow BSF's trade finance business is now underway following a reorganization of our Financial Institutions Department and the expansion of its role to include the marketing and development of trade finance across all client segments of the bank.

Commercial Banking

The main achievement of Commercial Banking Division (CMBD) in 2012 is being the preferred bank for selected business clients through mutually beneficial business relationships. CMBD has completed another successful year and exceeded both the Volume and Profitability Targets budgeted for 2012.

Government Institutions Department as well had a successful year exceeding their targets budgeted for both NCBDs and CBDs. Going forward, all government accounts in BSF would be consolidated and managed by Government Institutions Dept. under CMBD.

CMBD's Internal Operating Guidelines & Procedures were revised and updated in December 2012. The revised document shall be available on BSF Intranet website on January, 2013. SAMA has recently made some changes in the definition of SME's that would require CMBD to re-visit the recently started process of Account Segmentation for the three Regions.

The SME's Account Segmentation and Account Allocation have been completed. Implementation would take place in January, 2013 to align the present structure of BSF as per SAMA requirements. The new SME's criteria for Small and Medium Enterprises are as follows:

Sales Turnover in Saudi Riyals Millions	
Small Enterprises	0 – 30
Medium Enterprises	30 – 100

Treasury

The challenge of 2012 was to sustain the growth of capital market activities and to maintain our leading market position despite the global economic slowdown, Eurozone credit crunch, United States Fiscal cliff, quantitative easing, unemployment, and China's growth. In addition, market volatility disappeared completely as interest rate remained at historical lows.

Despite such market difficulties, Group Treasury enjoyed another strong and profitable year.

Our wide range of Shari'ah-compliant and conventional products allowed Treasury to increase its market share capitalizing on management cross-selling model.

Our regional offices offer value added services to a wider range of corporate and high net worth individuals.

Off balance sheet volumes remain at strong levels highlighting our continued market dominance in this field.

Backed by strong management commitment, a robust front to end risk management approach and the flexibility and freedom to create, BSF capital markets team remain attuned to the changing landscape and consistent in maintaining a leading market share.

Retail Banking

During the period 2008 – 2011, BSF has capitalized on favorable market conditions and has significantly grown its Retail business in terms of customer acquisition.

In January 2012, BSF decided to implement within its Retail Banking business line a transformation plan in order to stabilize its growth and build the foundation for a sustainable and profitable growth.

The objectives of the transformation plan were the following:

- Enhance quality and services in branches
- Streamline processes for better efficiency and performance
- Identify cost cutting opportunities
- Enhance risk portfolio management and collection performance
- Create synergies thanks to cross selling and reorganization of support functions

The business focused on optimizing customer potential, product potential and staff potential while closely managing risk exposure:

Customers

Retail Banking implemented the new Priority program to ensure customer recognition, personalization, understanding of their needs, dedicated financial solutions and fairness. Focus was given on customer quality profile selection to optimize its loan offer to private individuals and customer quality feed back to drive its actions (6,000 calls done). To reinforce transparency, Retail Banking is the first bank in the Kingdom to implement a tariffication leaflet available for all delivery channels.

Network

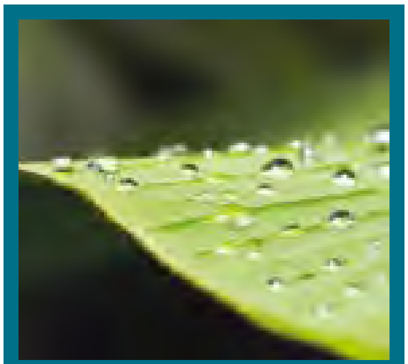
The network has reached 86 main branches from 83 on account of three new locations opened in Al Kharj, Al Wadi, Al Awaly. Retail Banking also refurbished 37 branches to meet customer expected standards. A new organization based on dedicated high quality of service and sales has been implemented in all branches as well. ATM network also expanded to 482 in 164 onsite and 318 offsite locations with 45 new machines installed in 2012. Total POS merchants grew to 5,132 while terminals reached 5,922.

Products

NCBDs remained a core activity and Retail Banking successfully launched deposit gathering campaigns to expand its deposit base. It has also enhanced its cards business performance via the implementation of new products segmentation for Credit and Debit cards that offer customers the best quality. In the process, Retail Banking received from VISA the Top Issuer Performance Trophy for Visa Infinite Credit Cards in Saudi Arabia. Personal loan pricing has been reviewed to balance margin and cost of risk while a special offer for newly hired government employees was marketed as well. For Home Loans, Retail Banking continues to develop its Reaya program and reached an agreement with six major companies.

Risk Mitigation

Retail Banking has implemented a credit risk and operational risk discipline and reinforced collections. These changes give the opportunity to BSF to embark on a new phase of development in 2013.



Wealth Management

The financial crisis finished its fifth year. Interest rates remain at historically low levels. The traditional local Private Banking model, based on personalized servicing and centered on Interest income derived from current account, fixed term deposits and secured loans, has reached its limits.

Increasingly, we see well informed wealthy families and wealthy individuals, seeking to partner with institutions which know how to listen and which can deliver the personalized services coupled with adapted and performing solutions.

BSF Wealth Management's Private Banking Group (WM/PBG) continued to benefit from the strategic shift in the business model undertaken several years ago. All while reducing lending activities by over 18% in 2012, WM/PBG's efforts were concentrated on deposit collection, and deploying our expertise and knowhow in order to add value to our relationships with our clients.

Using insightful and timely solutions, we were able to capitalize successfully on a number of market opportunities, yielding generous returns to our clients, while maintaining risk under strict control.

Working closely with the bank's other business lines, and our subsidiary, Saudi Fransi Capital, and in comparison to 2011 achievements, WM/PBG increased clients' assets by 41%, revenues by +18.3%, with commissions representing 45.5% of total revenues.

Since the start of the financial crisis, WM/PBG has almost tripled clients' assets, and more than doubled revenues. Furthermore, the business is primed to increase its pace of growth, capitalizing on improving market conditions and benefiting from strategic decisions being implemented. As always WM/PBG extends their gratitude to the bank's clients for their trust and loyalty, to the bank's board of directors and its senior management, to all support divisions and subsidiaries, and the group's officers' for their commitment and dedication.

High Net Worth Banking

High Networth Group (HNWG) manages relationships with ultra-rich High Networth individuals providing them with a wide range of customized and personalized high quality banking services and products offered by the bank.

Our dedicated relationship manager keeps close contact with these customers valuing their trust, confidence, discreetness and provide individually tailored solutions for their needs.

HNWG will continue to capitalize on its existing clientele base through its wide network of contacts among family business groups to gain exposure and add new profitable relationships.

This would be achieved through a strong teamwork and vigorous marketing efforts by the Group's relationship officers to promote various Bank's products and services tailored for the High Networth clients, coupled with delivering exceptional service and relationship management of its valued clients.

Risk Management

Portfolio

BSF continued in 2012 the development of its portfolio. Total utilizations reached SAR 162 billion (+SAR 12 bln, +8% vs. 31/12/2011). Funded exposure represents 66.1% of total exposure (vs.64.5%).

Portfolio growth was concentrated on Corporate and SME Business Lines. Wealth Management Business Line utilizations showed a decrease mainly explained by the transfer to Saudi Fransi Capital of the margin trading financings.

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

For BSF, the number of default situations remained limited and the overall quality of the credit portfolio remained good. These very specific files are well provisioned.

A reorganization of Retail Banking has been implemented during 2012, involving notably an additional effort on provisioning.

Gross non performing facilities (funded and non-funded) established at SAR 1,161 million end of December 2012 compared to SAR 1,367 million end of December 2011, and NP facility (funded and unfunded) / total utilizations ratio reduced from 0.91% to 0.74%.

None performing loans NPL net of uncollected interest due has decreased from SAR 1,133 million (1.18% of total loans) to SAR 1,047 (0.98 % of total loans). Net NPL coverage ratio by specific provision established at 74 %.

Balance of the Provisions is collective provisions and provides coverage of net NPLs by total provisions of 143 % (vs.136%).

Risk Management Processes

In line with BSF broader objectives of improving the risk management process, the implementation of a new credit risk work-flow system started in 2010 was finalized in 2011. Adjustments were done during 2012 and will improvement (data warehouse notably) will continue during 2013. This system will allow the bank to improve controls, enhance process efficiencies, and aide the goal of adopting the IRB methodology.

Information Security Department joined the Risk Management Division and was merged with the Operational Risk & Permanent Control Department.

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

Information Security: During the year 2012, Corporate Information Security has achieved significant millstones in Information Security Management, Corporate security governance, security risk management and compliance. Achievement of certification in Payment Card Industry Data Security Standard 2.0 (PCI DSS) this year recognizes the rigorous data security standards that BSF applies in protecting customers' information, reducing credit card fraud and thereby enhancing customer confidence. Maintaining compliance status with ISO 270012005/ certification which is the only auditable internationally recognized standard for Information Security Management Systems represents an unequivocal recognition and clear indication of BSF unyielding commitment to the highest standards of Information Systems Security.

Information Security has also developed a comprehensive Security Risk Management program to identify security risks and control gaps, manage security incidents and assist business areas and project managers in the preparation of security controls this would further ensure proper alignment of information security with business objectives and promote security awareness across the enterprise.

The set-up of local Internal Control Committee within each Business Line and Support Division was revisited with the goal to reinforce the follow-up of controls.

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

Credit Administration: with the current unpredictable economical changes and the financial downturn many businesses are facing, the Bank had to revise and to update all its standard finance and security documents in a proactive approach to align with the changes and to safeguard the Bank and equally its customers interests. The new documents shall be put into use within the first quarter of 2013. This emphasizes the Bank's on-going viability in enhancing its systems and documents and implementing the changes that shall carry the Bank beyond any difficulties.

Portfolio Review and Control Unit: With the merger of these two units in 2012, the union of monitoring and review of portfolios has contributed in strengthening the identification of crucial credit risk factors in order to facilitate circumspect decisions, detection of prospective problem credits for classification and to initiate early remedy processes with an ultimate objective to avoid loan losses.

Basel II

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

In order to improve substantially the procedure of the Rating evaluation, the implementation of the last version of the Rating system and methodologies of CA-CIB / Credit Agricole named ANADEFI was implemented in 2011.

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

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

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

Accounting & Financial Control

The global financial landscape is evolving at a rapid pace. KSA's Banking Industry is not immune to these developments because of its regional and international prominence. A fast developing corporate landscape demands constant attention towards the financial strategy for ensuring competitive advantage. At BSF, AFCD plays a key role in formulation of the Bank's financial strategy.

At AFCD we take pride in our considerable experience in the interpretation and implementation of regulatory and international financial reporting standards. During the year we worked closely with the bank's external auditors to ensure full compliance & maximum disclosure of information in the light of International, (IAS/IFRS) Saudi Arabian (SOCPA) accounting standards and regulatory guidelines (SAMA & CMA). This ensures that our valuable shareholders are always provided with high quality and reliable information on the performance of the Bank.

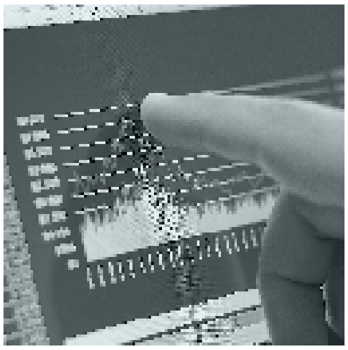
During 2012, BSF had the honour to Chair the CFO Committee at SAMA. AFCD took this opportunity to play a proactive role in analyzing the impact of important matters such as FATCA and VAT on the KSA Banking Industry. This proactive approach ensured that not only BSF fulfills all regulatory obligations in an efficient manner but the Kingdom's Banking Fraternity is also fully geared to face the upcoming challenges.

BSF successfully launched two Sukuks worth USD 750 Million and SAR 1.9 Billion respectively during the year. AFCD played a key role in this project thereby ensuring all affairs involving the Sukuk issuance are negotiated amicably and efficiently. In today's competitive corporate environment, managing expenditures is an arduous and full time task for any financial institution. At BSF, AFCD's dedicated financial oversight role ensures strengthening of internal controls, meticulous expense evaluation and utilization of all cost saving avenues for the Bank.

Throughout the year AFCD extended dedicated support for enabling the introduction of new products & services. Our capacity to integrate new product developments with existing systems increases BSF's confidence in fulfillment of its strategic objectives and provides our customers with an unparallel banking experience.

AFCD's experience in assessing the risks faced by BSF is manifested in the adequate insurance coverage available for safeguarding the Bank's valuable assets. Our ability to constantly evaluate BSF's financial performance with peer banks provides a valuable tool for auditing the impact of strategic decisions made during the year.

AFCD will continue to play its role in fulfillment of BSF's core objectives and ensure that the Bank stands out as one of the most respected financial service provider in Saudi Arabia.



Information Technology

To provide Banque Sausi Fransi with the technology advantage is the vision of ITD for 2012. The year progressed with numerous planned projects being completed.

Open architecture standards were implemented as a strategy to move from the legacy system to flexible infrastructure with integration between applications. This helps the business to achieve higher sales and introduce new features that benefit the Customers.

The year witnessed new product launches, deployment of sales applications and enhancements for existing applications. ITD also ensured that regulatory and compliance related requirements were adhered to. Payment Card Industry (PCI 2.0) certification was renewed until end of 2013.

Business Development

Retail Banking

Offering of products and campaign through FransiPlus – our flagship e-banking channel - was deployed. This was enabled through a centralized system to route the personalized sales through different channels. Payment of bills through credit cards was also enabled.

SADAD services on Automated Teller Machines ATMs were also introduced so as to enable more options to the customers.

Upgrade of credit cards by one higher level (Gold to Platinum and Silver to Gold) was done to provide more services to the Customers. Also the waiting time for card delivery has been decreased significantly by automating the card delivery process.

Global Transaction Services

In a continuous effort to improve the availability of ATMs, connectivity is being migrated from wireless to land line.

As mandated by SAMA, new rules for MasterCard/VISA chip card were implemented. These are required for managing the smart chip cards replacing the magnetic strip cards. The new Credit Cards will enable the Customers to do more innovative ways of using the cards, in years to come. 3D Secure for VISA cards – a secured process for authentication - was also introduced. This enables VISA cards to be authenticated by a third party before being accepted by member establishments.

Corporate Banking

A newly revamped eChannel for BSF Corporate customers is being deployed. The Channel has a lot of new features for the customers to transact business with the Bank, from their workstations, thus avoiding frequent visits to the Bank. This channel has more features for the Customers to use, besides being user friendly.

Back Office Support / Credit Risk Management

Risk Management / Corporate Operations / Treasury

A resilient credit risk management system has been deployed. A comprehensive platform for users to manage credit limits and utilization have been rolled out. Real time information is available to risk managers for quick approvals of loan requests, placement of deposits and documentary credits.

Accounting & Financial Control

Accounting reconciliation system has been upgraded to provide a robust internal control measures.

Business Continuity

It was ensured that the Business Continuity is available in case of disruptions due to any reasons to the established processes within IT, by conducting recovery tests in coordination with business lines. This is a continuous process and dedicated teams are regularly monitoring and updating the systems, processes and data.

Technology Upgrade

Keeping pace with the changes in technology to beat the obsolescence of hardware or devices is a requirement for IT as this provides competitive advantage to business in reaching their goals. Regular replacement of hardware, upgrade to systems and new solution implementations were done.

ITD has devoted efforts on consolidation and virtualization, to achieve cost optimization and performance scalability. High availability of Mission Critical and Critical systems is being ensured by building redundancy in the infrastructure, so that the Customer is able to derive the benefits in an uninterrupted way.

The new Disaster Recovery Center was commissioned. The design is Tier III certified by Uptime Institute - a premier global organization engaged in validating the capability - meaning the data center has facilities that improve the reliability and uninterruptible availability.

IT Security

One of the ITD's primary responsibilities is to provide a sense of assurance to the Customers of the bank, that their information is safe. We undertook efforts to get the certification renewed for another year for the Data Security Standards adopted by the bank, from the Qualified Security Analyst appointed by PCI (Payment Card Industry) organization. The Security measures also were strengthened to protect the data from hackers, applying the updated Antivirus software, anti-malware, setting up firewalls, network segmentation, and host intrusion detections infrastructures etc., with 24/7 monitoring by a dedicated team.

Compliance and Audit

Local Internal Control Committee deliberations continued as well as adherence to external regulatory recommendations. IT Governance process was strengthened by setting up a new entity, to ensure oversight on internal control processes and adherence to regulatory controls.

Corporate Operations

During the year 2012, Corporate Operations Division (COD) focused on the development & implementation of new business operating models for its services with emphasis on cross-selling, operational efficiency and service quality. Initiatives such as process reengineering, procedure streamlining and applications revamp were undertaken by the division in the newly acquired functions, as part of the bank-wide restructuring. These innovative & benchmarking measures yielded some of the most promising results.

Cross-Selling Results

Trade Finance aggressively pursued management's directions to explore and cash on 'Cross-selling' amongst our clients. Sound marketing techniques coupled with dedicated staff's endeavor to excel and the team's ambition to become the best Trade Finance Bank in the Kingdom has attracted business worth around one billion Saudi Riyals with commission income of Saudi Riyals of 1.4 million until the 15th of Nov. 2012.

Success Stories – Projects Accomplishments

With the implementation of applications such as Kondor+ and Kondor+ Trade Processing in Treasury Operations, we now have automated processes integrating front and back offices; covering domains such as loans & deposits, capital market & derivative products. This front to back flow of transactions has enabled treasury with real-time online information, enhanced risk controls, improved turnaround time and increased team capacity. The implementation also has been assisting in decommissioning of WINGS, our legacy core banking application. The automation of collateral management, structured products & cash flow management is underway and expected to be completed next year. Upon successful completion, we expect Treasury Operations to be 80% automated.

Document archive centralization program, which now assures the bank's archive storage requirement for the next eight to ten years, has marked the completion of its first phase. The major achievements during this phase were – central warehouse facility infrastructural setup, automation of document inventory, rationalization, and branch and regional warehouse document movement to the central location.

Improved Operational Efficiency

Payments has been the frontrunner in automation, providing highest standards of straight-through-processing (STP), recording a 24% STP surge in local SARIE payments this year. The division's focused automation has produced outstanding results in the payments area, where a remarkable increase of more than 75% staff productivity was attained. We have also received heartening recognitions in the marketplace from our international correspondents. The awards we have received this year are 'CitiBank Performance Excellence Award for 98% STP', 'Deutsche Bank Euro STP Excellence Award' and 'Commerz Bank STP Award'.

Enhanced Service Quality

ATM Management is one of the most challenging and dynamic services in the banking industry, given its 24x7 operations and the highest service level expectations by the customers. Appreciating such expectations, especially during the holiday seasons, concerted team efforts were made to keep availability of ATMs at 95.8 % and 92.4% this year, compared to 92.6% and 85% in 2011, during Hajj & Ramadan holidays respectively.

In IPO flotation, we have been strongly supporting business augmentation; illustrative is the increase in fee charges by 340% this year, where our role was as a lead manager. Our customer oriented quality services have ensured a 50% increase in fee charges in our participation as a receiving bank. The number of dividend distributing customers has increased multifold from 5 to 21 this year. Some of the key customers this year were Zain RI, Najran Cement, Sahara RI, Saudi Catering and Etihad Atheeb in IPO flotation; Al-Tayyar Group and Madina Cement in IPO receiving.

Service standards in Trade Finance also have shown a marked improvement in the year 2012 resulting from automation of trade finance processing, professional approach by the trade finance teams, staff satisfaction, excellent banker customer relationship and improved coordination with other concerned departments within the bank.

Policies & Procedures were constantly reviewed, revised and updated for SAMA compliance and to enable most stringent controls, mitigating operational risk and improving efficiency. Successful revision of 93% of the identified processes for the year has been completed in line with the new automations.

Industry-wide Benchmarking

The division has led some of the industry-wide proposals such as 'account statement standardization' and 'automation of dividend distributions.' Our proposals were highly appreciated and some of them have been mandated by SAMA for implementation across the banking sector in the Kingdom. The standardization of account statements will provide customers with comprehensive transaction specific narratives, where they would have a single normalized narrative format for all the banks in the Kingdom. The estimated timeline for completion of this project is July 2013.

Partnering with Customers

We have also jointly endeavored with other business lines in delivering solutions to our key customers on various projects. For instance, with the solution suggested to one of our clients, pilgrims will have reduced waiting time through e-ticketing teller machines. The recommended exhaustive solution-model for cash alternatives will empower the company to have controlled cash handling, queue management, stock inventory management, end-to-end process monitoring and automated reconciliation. These customer relationship building initiatives provide BSF potential future banking opportunities with our esteemed clients.

Reorganization Initiatives

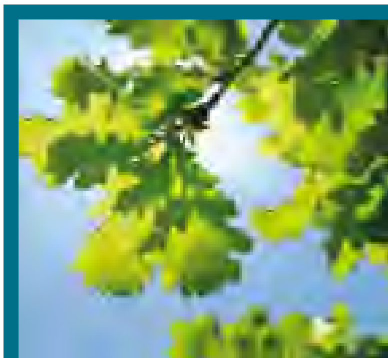
Strategic decisions such as ATM reconciliation centralization and automation; proactive claim management (settlement of historical ATM excesses) are being executed. We have settled for more than seven hundred customers, their unclaimed past-due ATM excesses.

Mail & Security services have also been entrusted to the division along with ATM management, as part of bank wide restructuring.

Newsletters, Seminars & Training Programs

Monthly newsletter, training and seminars on 'International Chamber of Commerce' rules and on the technical interpretation of these rules are being conducted for our clients by Trade Finance team. Such seminars and workshops are also being conducted for trade finance staff while encouraging them to do international exams for certification purposes.

The Corporate Operations Division continues to partner with its customers, building stronger relationships, aligning itself to address their business needs, benchmarking industry standards, keeping trend with market dynamism; and in the process designing and redesigning its operating models to deliver customer-centric quality services!




Compliance

Banque Saudi Fransi (BSF) is bound directly by laws and regulations of the Kingdom of Saudi Arabia and in order to address the potential compliance risks that BSF may be exposed to, Compliance Division (CPD) reviews business practices, policies and compliance framework to ensure that we meet our responsibilities to our employees, shareholders and our most valuable asset, our customers.

BSF management's processes, structures and policies help ensure compliance with laws and regulations and provide clear lines of sight for decision-making and accountability. To this end, BSF Board and Management have created specific committees to oversee various compliance activities of the Bank.

Through these processes and committees, CPD drives a culture of compliance, establishes compliance program, standards and policies; executes, monitors and tests compliance controls; performs risk assessments on the businesses' adherence to laws, rules and standards as well as effectiveness of compliance controls; delivers compliance reports and ensures the identification, escalation, and timely mitigation of emerging and existing compliance risks.

Also, the BSF Code of Conduct is designed to foster a culture of openness, in which healthy debate is encouraged and employees are expected and required to report improper activity. CPD is also responsible for facilitating processes to effectively manage and influence the dynamic regulatory environment and build constructive relationships with regulators.

The Business Lines and Support Divisions are responsible to manage the risks they may be exposed to within their respective areas. To help them fulfill their responsibilities, Compliance Division provides support, training, awareness and takes a number of other steps to foster the culture of compliance in BSF.

BSF Board is fully committed to manage the risks the bank may be exposed and to protect the interest of all the stakeholders. To this end, the Board takes all the steps necessary to set the tone for a culture of integrity and compliance throughout BSF. The senior management of BSF takes all the appropriate steps to ensure that the objectives as set by the Board are met.

Procurement

The creation of the new Procurement Division (PD) on February, 2012 as one of the key initiatives in the bank's re-organization program has improved operational efficiency and yield significant benefits to BSF in terms of cost-savings, control over spending, efficient services etc.

PD's focus is to achieve reduction in expenditures and optimized spending, by procurement of products and services in innovative and collaborative ways in order to make savings without sacrificing quality, and performance.

A key factor that enabled PD in achieving this success was the re-alignment of the division's strategic goals with those of other business lines and support areas of the Bank. The result was PD's partnering with various business lines in providing efficient services to both BSF's internal as well as external customers.

Significant achievements of centralized procurement activities are:

- Re-structured PD has resulted in increased centralization of Procurement functions from 28% to 75%.
- PD has achieved SR 16.7 million bank savings as a result of re-negotiations of contracts, internal control and optimization.
- On-going automation and re-engineering of procurement processes.
- Creation of the new functional procurement departments such as:

  - Administration & Control Department: manage and control the purchases, payments and contracts management sections including tendering management and vendor performance review.

  - Business Services Buyer Department: responsible for contract negotiation, analyzing of vendor services, facilitating market research.

  - Governance and Reporting Department: responsible for automation & re-engineering processes, reporting; formulation of Policies and Procedures – implementation and guidelines including KPIs.

  - IT Buyer Department: Responsible for administering the bank's IT requirements including hardware, software, applications, services and other IT related items.

  - Real Estate & Marketing Department: Oversee demand management, sourcing strategy and specifications for Real Estate and marketing purchases. Responsible for over-all bank's requirements for Real Estates including contract negotiations and finalization.

Global Transaction Services

As one of the key initiatives of BSF reorganization to improve the operational efficiency, quality of service and cross selling, Global Transaction Services (GTS) was established in 2012 and the organizational structure and objectives have been established and agreed.

The mission of GTS is to enable BSF to be the leading provider of alternative delivery channels and electronic banking services that meet all customer needs; through cross selling of highly developed product portfolio and continuously improving the quality and efficiency of operations and services.

The key objectives of GTS include implementing a comprehensive strategy to make alternative and electronic banking channels the main transactional gateway for all BSF customers; and developing and continuously improving solutions that comply with all requirements of regulators and highest security standards.

GTS is composed of: ATMs, Cards and POS Department (managing the card-based products), Contact Center Department (managing the inbound and outbound customer calls), E-Channels Department (developing, managing and administering the e-banking products), Sales Support Department (supporting the business lines in the technical sales of electronic banking products such as B2B and FransiGlobal) and Quality and Control Department (managing the quality and control across GTS).

We are expanding our alternative channel network to get closer and to better service our customers. Currently, we have 482 ATMs; 140 CAMs (Cash Acceptance Machines) and more than 5900 POS terminals. We have improved the ATM availability, especially during the two Eid holidays.

The Contact Center processes has been improved to reduce the waiting time for inbound calls and establish means to better manage the quality of services. The Sales Support team has been empowered to manage the selling of all alternative and electronic banking products including POS terminals, B2B and FransiCorp. We are continuously improving our electronic banking products and have recently started the migration from FransiCorp to FransiGlobal which provide better services and functionality.

To promote and encourage customers to use the alternative and electronic banking channels, the concept of Self-Service Desk at two branches has been evaluated for two months. This desk is responsible for increasing the awareness, educating and supporting the customers with the registration in FransiPlus, FransiMobile and FransiPhone services. This model will be used to increase the customer awareness of these services at other major branches.



Property Management

Property Management Division (PMD) handled major infrastructure projects of BSF in 2012 and the following projects were completed in accordance with the budgetary requirements.

There are 59 new ATMs (24 in Central Region, 22 in Eastern Region and 13 in Western Region) and 11 Cash Acceptance Machines were installed Kingdom-wide.

Five (5) new Branches were constructed (3 in Central Region and 1 each in Eastern and Western Regions).

Dabbab Building was modified to expand the Collection Department along with the Western Region Palestine Branch's relocation of the Collection Team.

Facility Management Department of PMD also has completed a list of projects in 2012 that includes construction, relocation, rehabilitation, maintenance, enhancements, etc...

Central Region

- Investment Center
- Al Kharj Road Warehouse
- SAMA Team Office Space Allocation at the Head Office

- Talent & Hobby Exhibition, 8th floor Head Office
- Relocation of Safia & GTS from 2nd Floor to 3rd Floor – Dabbab Building
- BSF Head Office Canteen expansion
- Relocation of SFL from SOFINCO to 2nd Floor Dabbab Building – 13 Staff
- Smoking Areas for HOB (Mezzanine, 3rd & 6th Floors – Phase 1)
- Demolition of Pizza Hut & Gasoline Station at new property besides HO
- Al Nakheel Plaza KAAS Buraidah – Decommissioning
- Tier III Data Center - HO
- Upgrade Building Management System (BMS) – HO, Dabbab, BBC, SFC, Bugshan & Sofinco
- Spare Parts Module for FMD by ITD – HO
- Timer for A/Cs Installation Project – Central Region Main Buildings & Branches
- Central Region Branches Upkeep Project 2012
- Automatic Fire Fighting System in all 5 Electrical Rooms – HO Basement 1
- DVR Upgrade Project – Branches & ATM's
- Building Access Control Upgrade Project - HOB
- Safety & Security Enhancement Project – HO

Western Region:

Upgrade of the Western Regional Headquarters Building to include Cooling System, New Disaster Recovery Center (DRC) and DRC CCTV and Access Control Project.



Corporate Human Resources

Human Resources focused on the priority areas in accelerated mode to realize the ambitious 2012 reorganization goals. These include the continuous build-up of sustainable pipeline of leaders through a talent management infrastructure, moving at the right track to performance-driven culture through robust performance and rewards management systems under the Board of Directors' direction, and the HR organization framework where all the HR functional areas work more and more on the goal to attract, retain and engage the right talents.

Talent Development

The SMDP (Senior Management Development Program) and the ICDP (Intermediate Career Development Program) infrastructures aimed at building sustainable supply of leaders, took great strides in 2012. A specifically designed high-quality Leadership and Development Training Module was among the sessions attended by over 40 participants of both programs in 2012. The PDP, the program that recruits and trains promising fresh graduates continues to build pipeline of new generations of leaders.

Off-the-catalogue courses designed to pursue critical reorganization goals to drive cross-selling, operational efficiency and quality of service were rolled-out. Among them was the internally-developed Cross-Selling Workshop. This program, custom-designed to boost cross-selling as a corporate culture, were delivered in five (5) fully-booked sessions of 4 days each.

Performance Management

Also to help achieve the 2012 reorganization goals, HR worked with CFO and respective business heads to intervene in the development of key performance indicators or goals aimed at making everyone in the organization focused, aware and engaged to the 2012 re-organization goals. Among them was pursuing the culturally-critical goal to boost and measure cross-selling and cooperation among business lines, make the most of their client relationships and for the Bank's benefits.

Seminars in three regions were conducted to further enhance managers' skills to appraise subordinates, set smart goals, measure and communicate them effectively to their subordinates. Drastic improvements in the performance management system, driven by business lines' feedback a year earlier, were also introduced during the year.

Rewards Management

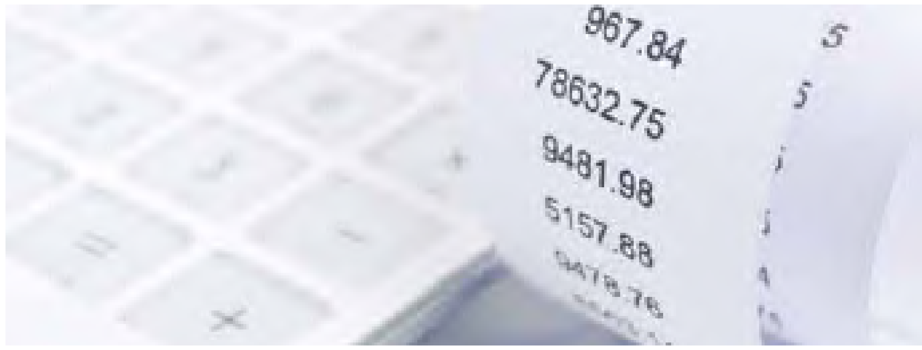
BSF remains to be on track for full implementation of risk adjusted compensation as per SAMA Rules. Following the steps taken since the SAMA rules on compensation, the Management acted on the direction of the Board of Directors' Nomination and Compensation Committee (NCCOM) in the determination and award of bonus pool based on a formula that take into account the year's performance, adjusted to all the possible current and future risks, through a methodology of staff allocation that is aimed at retaining top performers.

Human Capital Oriented Organization

HR structure transformation to a human capital-oriented management structure continues with all components now working to ensure sustainable supply of talents, likewise engaging, retaining, developing and motivating them to ensure the bank's profitability and long-term sustainability. This through concerted efforts of all HR areas towards managing rewards, paying for performance, leadership development and training, recruitment and manpower planning.

Work-Life Balance

As a critical factor to employee engagement, BSF through a committee composed of employees, planned, organized and implemented staff events as a way to enhance employees' physical well-being and work-life balance. Mini Olympics, Sporting Events (Squash, Volleyball, Basketball, Football, Cricket, Chess, Table Tennis, Bowling), Employees Talent and Hobby Exhibition, were among the staff activities held in 2012.



Internal Audit

Audit Division (AD) provides Audit Committee and Management with independent assessment on:

- Adequacy of Internal Controls
- Effectiveness of Risk Management
- Compliance with policies and procedures as well as applicable rules and regulations

AD continued using the same risk-based auditing methodology as Credit Agricole Corporate & Investment Bank (CA-CIB) Paris. It continuously assessed audit universe of BSF and adjusted Audit Plan when needed in order to include any new sector, product range or service introduced by BSF since the last such review. The main purpose of this exercise is to ensure periodic coverage of all auditable objects within audit cycle (3 years maximum) according to a frequency based on risk (high, medium or low) and quality of controls.

Internal Audit Activities

New Chief Internal Auditor (CIA) of BSF arrived for handover on 21 July 2012 and took charge on 5 September 2012. He started an assessment of Internal Audit which happened at the same time as an independent Quality Assurance Review of BSF Audit by Ernst & Young (E&Y). Both reviews led at around October end to similar conclusions on situation as well as on action plan to improve functioning of Audit.

A major overhaul of BSF Audit is therefore taking place with several items already started by shifting focus on improving quality of missions and reports even if it meant completing smaller number of missions. Those changes and this new approach received full support from Audit Committee, Management and Board of Directors. Improvement of quality is being felt not only by auditors but also by sectors being audited and by Management as well.

Audit Plan 2013 has been prepared in a realistic way and steps have also been taken for avoiding significant slippage in its execution.

- Dates and staffing have been assessed for all planned 2013 missions
- Managers are notified that auditors will switch to next mission at planned end of mission
- Debriefing and report writing dates are required to be planned during field work
- Spots have been allocated in calendar for training or simultaneous holidays for auditors

Audit performed two follow-up missions on status of implementation of recommendations which highlighted the need for stronger commitment both from areas in charge of action and Audit. Steps have been taken for changing Audit approach to follow-up in proactive mode with pressure and accountability on sectors in charge of implementation.

Audit published a report of its review of Saudi Fransi Capital performed at end of 2011. A new mission is planned and will start as soon as discussions on access to SFC by BSF Audit are completed.

Many changes have been decided on Audit with a wide range of support and resulting in improvement in quality of Audit will be noticeable in 2013.

Interaction with Regulatory Authorities/External Auditors

Audit has been actively following-up implementation of recommendations following comprehensive SAMA Inspection of BSF in 2008. Most items were implemented by September 2012 and a few are in final stage of completion.

Audit also works closely with External Auditors in particular during their review of BSF quarterly or annual Financial Statements. Audit has been requiring External Auditors to prepare and provide on time their presentation on Financial Statements for Audit Committee meetings.

Activities related to Audit Committees

Chief Internal Auditor who is also Secretary to Audit Committee performs follow-up of Audit Committee deliberations with Executive Management. Audit Committee meets seven times a year which allows not only an in-depth review of quarterly Financial Statements as required by CMA but also a close monitoring of various sectors of BSF. Chief Internal Auditor regularly informed Audit Committee about status of 2012 Audit Plan and implementation of audit recommendations as well as weakness in Risk Management and Internal Controls.

Corporate Communications

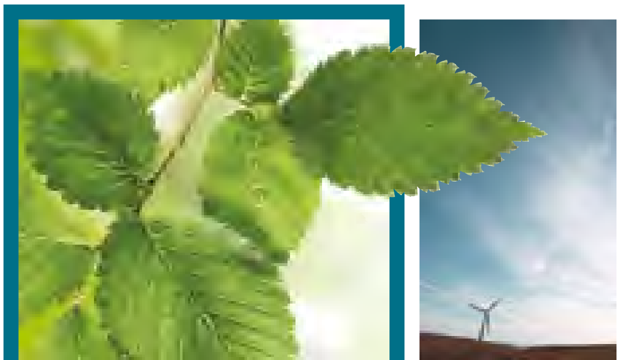
Based on the restructuring of RBG marketing functions that was implemented and adopted in 2012 by the Management, advertising and media tasks and third party relationships are managed by the Corporate Communications Department (CCD). This includes working with the suppliers in order to unify the mission addressed inside and outside the bank, enhance quality and to keep a unified and compatible pattern for the different communication tools issued by Banque Saudi Fransi.

In addition, CCD carries on promoting the bank’s image, supporting communications strategies, promoting the bank›s products and services, and ensuring that procedures comply with the corporate identity and other criteria.

The Corporate Communications Department works on maintaining communications with both the employees and the clients by creating and implementing campaigns in collaboration with the different concerned departments. CCD provides support in preparing and developing ideas, publishing the financial statements, press releases, marketing news, participating in exhibitions, conferences and meetings and representing the bank in many social events.

As part of its social responsibility, the bank invests in many social and charity activities and events, and finances several non-profit organizations and charitable institutions.

Among the primary parties that have benefited this year, we mention the Ministry of Social Affairs along with a big number of charitable institutions such as the Down Syndrome Association (DSCA), the National Home Health Care Foundation, the Disabled Children Association, the Security Forces Hospital, and others.



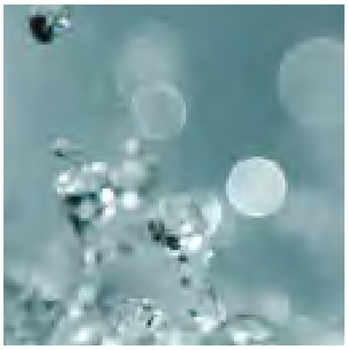
Secretariat General

The Secretariat General provides administrative and legal support to all operating departments of the Bank in addition to BSF companies & subsidiaries . It also participates in the arrangement and preparation of meetings of the Board of Directors and Board committees, updates information with competent authorities and follows up the changes in share capital and composition of boards of directors and boards of managers of affiliates and JVs.

In full coordination with the Compliance Division, the Secretariat General carries out all its work and provides support to the Division and other departments in regard to all government agencies and regulatory authorities in the fields of corporate governance and follow up of customer complaints.

The Secretariat General is in charge of implementation of official directives duly received from regulatory authorities and is keen to acquaint the Chairman and members of the Board of Directors, Internal Audit Committee, relevant departments as well as affiliate companies of the Bank of any new developments in this regard.

Secretariat General also oversees a set of legal files and follows up their developments with competent legal authorities in its endeavor to arrive at final solutions whereof. The Legal Department of the Secretariat General follows up various other issues of the Bank's group of companies. In coordination between the Legal Department of the Secretariat General and the Collection and Follow-up Department, the Secretariat General carries out the risk management function of the other issues brought by the Bank.



Saudi Fransi Capital

Saudi Fransi Capital (SFC) is an investment company licensed by the Capital Market Authority (CMA), License No. (11153/37), C.R. 1010231217 that offers a variety of different products and services in the areas of financial brokerage in the local and global stock markets, investment services, IPO's, mergers and acquisitions, valuation, restructuring, and selling of products and services of asset management to all clients in the Kingdom.

Our in house team is managing our product range with a focus on the local & global markets and Shari'ah-compliant products and will continue launching new products to bring the latest innovations to the financial markets.

SFC exerts the best possible efforts to deliver the best services, strengthen the long-term relationship with its clients, and enhance their role in the investment process and its role as a financial advisor, and it will strive and continue to deliver good investment performance and quality of services to the clients.

Fransi Tadawul (Brokerage and Related Services)

On the Fransi Tadawul front, we had a very good year in 2012. During the year, we enjoyed increased market activity in the Saudi stock market. At the same time, we implemented our new trading system for local brokerage and introduced our revamped Shari'ah-compliant margin product.

The new trading system was a landmark project for us as it improved our infrastructure and the reliability of our service delivery. Now, our clients have two independent platforms to place their orders in the Saudi market electronically making us one of the earliest companies in the region to present such an offering. The implementation of the new trading system comes on the heels of implementing our new international brokerage system.

On the international brokerage side, we took steps to improve our overall profitability while maintaining our service quality. At the same time, we started offering custody services for international bonds.

We believe that our achievements in 2012 place us in a very good position to progress in our continuous drive for service improvement and business development.

Fransi Tharawat (Asset Management and Research & Advisory)

2012 was a banner year for our Fransi Tharawat offerings as our Asset Management Division achieved significant success in the field of Saudi equity fund management with three prestigious awards. Specifically, we won awards from Reuters-Lipper, Dow Jones-Zawya and MENA Fund Manager for “Best Saudi Equities Fund Manager - Islamic Category” over 3 and 5-year periods.

The funds themselves were ranked Top 3 in the market for the second year in a row. Our outstanding performance was a major factor in us being the only major fund manager with net inflows into its Saudi equity funds during 2012 (net of market impact).

At the same time, our performance allowed us to further boost the number and size of Saudi equity portfolios under discretionary portfolio management mandates.

During the year we launched two main products: cash discretionary portfolio management services and the first locally-domiciled fund investing in emerging market debt. Not only that, 2012 witnessed the launch of our sell-side research activities which was another major milestone for us.

We are proud of our achievements in 2012 and believe they’ll give us enough momentum to continue our success in 2013 where we plan several new product launches (public and private) to increase our range of offering to clients.

Fransi Finance (Investment Banking)

The Investment Banking Division in Saudi Fransi Capital ("SFC") has had a very positive year in terms of successfully completing equity and debt capital markets transactions. Not only has it managed to become the number one equity capital markets investment company by advising and lead managing the highest number and value of transactions, but it has also managed to improve and sustain its competitive position in the Saudi Market. In 2012, SFC successfully completed six equity and debt capital market transactions including Etihad Atheeb Telecom and Najran Cement.

One of the major transactions performed in June 2012 where SFC acted as the financial advisor, lead manager, bookrunner and underwriter by executing the SAR 1.3 billion IPO of Saudi Airlines Catering Company which provided SFC with a significant milestone given that it was the first privatized entity and the first premium IPO completed by SFC. Subsequently, in July 2012, SFC completed another important transaction, which was the capital restructuring and the associated SAR 6.0 billion Rights Issue of Zain Telecommunications, which was one of the most complicated capital restructurings in Saudi. In June 2012 and December 2012, SFC completed two BSF Sukuks with a total value of SAR 9.4 billion.

With its positive outlook to the future, SFC's Investment team is keen to deliver long lasting value to ensure its clients' needs are met.

Specialized Services Division

The Specialized Services was developed in order to be the representative of Saudi Fransi Capital to Institutional Clients in addition to which, its responsibilities consist of developing new profitable services with a market demand.

Institutional Sales this year has performed well and has increased the number of relationships both in the region and internationally (via SWAP) despite the turbulent situation of the global equity markets.

Under our new services development objective we have made significant progress in 2012 and have attained four major milestones.

Firstly, we have established ETF Market Making. Seeing the potential growth of market making activity in Saudi Arabia; we are now the first independent market maker in the market for ETF's. Secondly, we have developed and implemented a new service to further penetrate the market for our Institutional Sales.

This service caters to Authorized Persons whereby they can use SFC's brokerage via an E-Brokerage interface whilst maintaining the privacy of their underlying clients.

Thirdly, Specialized Services has begun Proprietary Investments as of 2012, whereby SFC is taking part in the Initial Public Offerings (IPO's) under the institutional tranche to make capital gains on behalf of SFC as principal. Finally, Specialized Services has developed and begun Security Services under which it is currently providing Agency Services and Payment Administration services for Sukuks, such as the recently completed SAR 1.9 bn Sukuk issued by Banque Saudi Fransi and have transactions currently in the pipeline.

In overall 2012 has been a successful year for Specialized Services with large developments and successes, allowing us to enter into the New Year with a strong foothold.

Allianz Saudi Fransi

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

The year 2012 witnessed tough pricing competition in the market particularly from companies that have recently obtained their operating license. In such a challenging market environment, our figures are an impressive testimony to the excellent work of our professional management which led to decrease our operating costs lower than the market average which boosted our market positioning as one of the top market players in the Kingdom of Saudi Arabia. This encouraged us to adopt a new company structure as well as launch new units to handle such a growth and to provide our customers with world-class services and comprehensive solutions. The company transferred its Bancassurance Protection & Savings products in November 2010. To further consolidate our unique relations with Banque Saudi Fransi, we introduced our marine insurance solutions as a new Corporate Bancassurance Product, cross selling our corporate marine products will enhance cross selling through Bancassurance which in turn extends our services beyond our own customer base in a way that suits the benefit of the bank customers.

Last year we moved our TPA (Third Party Administration) of our medical claims to our partner Saudi Nextcare in an effort to improve our services and flexibility of claims management to our customers.

With Allianz Saudi Fransi being a key player in the Saudi Insurance Market, we believe we are a major partner of the local community. In that perspective, 2012 witnessed some major achievements in our Community Engagement Strategy such as the Allianz Saudi Fransi Blood Donation Campaign in cooperation with King Fahad Medical City and our employees. And for the first time in Saudi Arabia we launched the Football For Life Internal Campaign to teach teens how football can help them improve their physical, mental and social skills. We gave the opportunity to two teens to join the Allianz Junior Football Camp with more than 62 participants from all over the world to go to Munich and train with FC Bayern Munich coaches. As always, special attention has been paid to our own employees in the form of highly engaging Town Hall Meetings. Technical Insurance Training Sessions were and still are part of the ongoing improvement plan where various departments are training employees about each and every department, its specific function and operations to further enrich our employees' knowledge and credibility about and within the insurance sector.

For 2013 and the subsequent years, we have developed a plan to boost growth and earnings, we will continue our efforts to improve our service in all lines of business as well as on an internal level. We will continue our development and growth in line with our vision and strategy.

Saudi Fransi Financing and Leasing

The restructuring of Sofinco resulted into a substantial improvement in the company's activities and the collection of its dues. Beginning the current year, the leasing activities of the company were suspended as the same activities are being performed in the name of the Saudi Fransi Financing and Leasing (SFFL).

BSF agreed with the foreign partner, Sofinco Paris, to continue the company's activities till 2013 with the exit of the foreign partner. After this, the company's activities will be transferred to the new Saudi Fransi Financing and Leasing which is a fully owned subsidiary of Banque Saudi Fransi (BSF), one of the largest Banks in the Kingdom. At SFFL we follow a single agenda "to be the one stop shop for financial needs in the Kingdom".

We have been in operation from mid 2012, and since then we have dealt with a variety of clients to meet their financial needs. Due to SFFL being linked to BSF (our parent company), we use our team of experts to provide bespoke financial products for our clients Kingdom wide.

Board of Directors' Report (continued)

7. Financial Position and Income Statement For the last 5 Years

SAR' 000	2012	2011	2010	2009	2008
Total assets	157,777,302	140,479,958	123,218,330	120,572,438	125,864,761
Investments, net and investments in associates, net	27,669,947	16,840,066	20,026,343	17,625,570	27,886,882
Loans and advances, net	102,785,372	92,325,042	80,976,587	78,315,196	80,866,475
Total liabilities	135,090,484	120,824,631	105,195,282	104,820,658	111,795,625
Customers' deposits	115,571,767	109,963,411	93,529,251	91,237,118	92,791,281
Shareholders' equity (excluding minority interest)	22,686,818	19,655,327	18,003,661	15,732,673	14,047,219
Total operating income	5,009,551	4,584,774	4,395,229	4,294,907	4,391,641
Total operating expenses	1,996,216	1,657,484	1,597,900	1,799,663	1,600,148
Share in earnings (losses) of associates, net	1,801	(16,348)	3,958	(27,439)	12,443
Net income	3,015,136	2,910,942	2,801,287	2,467,805	2,803,936
Net special commission income	3,305,777	3,137,071	3,065,857	3,050,289	2,820,590
Fees from banking services, net	1,173,483	1,050,052	887,043	840,254	834,480
Provision for loan losses, net	455,175	157,908	339,344	574,621	94,265
Salaries and employees related expenses	875,686	828,111	708,633	642,589	642,223
Number of employees	2,677	2,788	2,594	2,460	2,345

8. Bank's Major Business Lines

In Dec 2011, BSF's board of directors approved a new organizational structure. The new structure is based on Business Sector- Operations to include Corporate, Commercial, Investments, Treasury, RBG, Private Banking and Wealth Management and on Support services which includes Banking Operations, IT, PMD, Procurement, and Premises. Several transfers were carried out among various departments to increase efficiency and prevent duplication. Departments that have joint relationships were retained so that such departments can still have independence while offering their services to both business sectors. Wider autonomy was granted to regional managers for more efficiency and to speed up daily transactions. AFCD was integrated into Financial Planning. To prevent conflicts, the integration of some support divisions is presently being reviewed.

The major business lines of the Bank are determined according to internal reports which are constantly reviewed by the board of directors as the main decision maker of the Bank. Transactions among business lines are processed according to the conditions approved by senior management and are booked according to BSF's internal transfer rates policy. These terms and conditions are consistent with the standard commercial terms. The reported incomes from external parties are measured in a way identical to that recorded in the consolidated income statement. There were no changes on operating sector determination basis or the sectors' profit/ loss measurement basis since 31 Dec 2011.

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

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

The Bank is organized in the following main business lines:

8.1. Retail Banking: incorporates private and small establishment customers› demand accounts, overdrafts, loans, saving accounts, deposits, credit and debit cards, personal loans and certain forex products.

8.2. Corporate Banking: incorporates corporate demand accounts, deposits, overdrafts, loans and other credit facilities and derivative products.

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

8.4. Wealth Management: incorporates services to the HNW customers.

8.5. Brokerage and Investment: incorporates investments and asset management. Though Wealth Management, specialized services are offered to HNW. Additionally, affiliates offer dealing, training, arrangement, advisory and custody services as well as mutual funds, local and international share negotiation, brokerage and insurance services.

9. The Bank's business segments are as follows:

SAR' 000	Retail banking	Corporate banking	Treasury	Investment banking and brokerage	Total
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 earnings 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
Fee 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

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

10. Geographical Distribution

Following is a table showing income per province (Central, Western, Eastern and HO) for 2012.

10.1. BSF and affiliates (excluding SFC)

(SAR Millions)	Eastern	Western	Central	HO	Total
Operating income	872	972	1,315	1,515	4,674
Operating expenses	(133)	(181)	(184)	(901)	(1,399)
Net operating income	739	791	1,131	614	3,275
Impairment charges and other operating expenses	(100)	(36)	(136)	(175)	(447)
Net income	639	755	995	439	2,828

10.2. SFC

(SAR Millions)	Eastern	Western	Central	HO	Total
Operating income	52	70	115	99	336
Operating expenses	-	-	-	(149)	(149)
Net income	52	70	115	(50)	187

10.3. BSF Group

(SAR Millions)	Eastern	Western	Central	HO	Total
Total Operating income	924	1,042	1,430	1,614	5,010
Total Operating expenses	(133)	(181)	(184)	(1,050)	(1,548)
Impairment charges and other operating expenses	(100)	(36)	(136)	(175)	(447)
Net income	691	825	1,110	389	3,015

Following is a brief overview of the different functions of the departments.

11. Retail Banking

During the period 2008–2011, BSF has capitalized on favorable market conditions and has significantly grown its Retail business in terms of customer acquisition. In January 2012, BSF decided to implement within its Retail Banking business line a transformation plan in order to stabilize its growth and build the foundation for a sustainable and profitable growth.

The objectives of the transformation plan were the following:

- Enhance quality and services in branches
- Streamline processes for better efficiency and performance
- Identify cost cutting opportunities
- Enhance risk portfolio management and collection performance
- Create synergies thanks to cross selling and reorganization of support functions

12. Corporate Banking Group

Corporate Banking with its strong and diversified client base, continued to play its pivotal role in the overall growth of the Bank's assets and profitability. This could be achieved due to dynamic marketing policy resulting in continued enlarging of the customer base of the bank and capturing large transactions in the field of power generation, Oil and petrochemicals, mining, telecommunication and financing of other major projects/contracts. The lending portfolio of Corporate Banking has grown by 15 % and overall profitability by 9 % during the year. Bank remained vigilant on the quality of its lending portfolio and achieved this growth without compromising on strict risk approval and implementation criteria.

We are committed to the impressive growth plan of the Government of Kingdom of Saudi Arabia, and are in close contact with the key players engaged in the expansion of industrial, infrastructure, contracting, trading and services sectors of the economy. We are putting substantial emphasis on the contract/trade finance activities of the bank and appropriate strategy is in place for its growth during the coming years.

13. Islamic Banking

Since the second half of 2012 Islamic Banking Division has separated from the Corporate Banking Group and it directly reports to SED-Business. This division continues to actively provide the support to all the Business Lines and Joint Venture entities of the bank for the development and Shari'ah approval process of all the Islamic banking/ Investment products and services.

The growth of Islamic finance continued during 2012 and almost 95% of the Retail consumer finance business and 52% of the Corporate banking business is done under Shari'ah compliant structures. Most of the large structured finance deals during the last 23- years have been approved and financed under Shari'ah compliant Istisna / Ijara and Murabaha structures.

The Legal Committee consists of the following members:

- Sheikh Abdullah Sulaiman Al-Mani (Chairman)
- Dr. Mohammad Ali Al-Qarri
- Dr Abdulsattar Abu Ghuddah

14. Commercial Banking

Commercial Banking Division (CMBD) has completed another successful year and exceeded both the Volume and Profitability Targets budgeted for 2012. Government Institutions of CMBD had a successful year as well exceeding its targets budgeted for both NCBDs and CBDs. Going forward, all government accounts in BSF would be consolidated and managed by Government Institutions Department under CMBD. Moreover, CMBD Internal Operating Guidelines & Procedures were revised and updated in December 2012. CMBD will also review and update its segmentation process in line with the recent changes made by SAMA for SMEs definition and criteria. The implementation of the updated segmentation process will take place in January 2013.

15. Treasury

Group Treasury provides wide range of Shari'ah-compliant and conventional products which allowed Treasury to increase its market share capitalizing on management cross-selling model. GTD regional offices offer value added services to a wider range of corporates and high net worth individuals. Off balance sheet volumes remain at strong levels highlighting our continued market dominance in this field.

Backed by strong management commitment, a robust front to end risk management approach and the flexibility and freedom to create, BSF capital markets team remain attuned to the changing landscape and consistent in maintaining a leading market share.

16. The Investment Portfolio

Investments consist of the following:

16.1. Investment, net

SAR' 000	2012			2011		
	Domestic	International	Total	Domestic	International	Total
1. Investments held as FVIS						
Fixed rate notes	21,438	226,588	248,026	172,702	171,293	343,995
Floating rate notes	53,759	-	53,759	129,308	19,800	149,108
Equities	8,996	-	8,996	-	-	-
Total	84,193	226,588	310,781	302,010	191,093	493,103
2. Investments available for sale						
Fixed rate notes	530,617	614,725	1,145,342	176,698	513,914	690,612
Floating rate notes	1,545,590	90,224	1,635,814	1,314,771	543,637	1,858,408
Equities	595,016	98,278	693,294	704,401	98,235	802,636
Others	3,263,211	-	3,263,211	3,341,961	-	3,341,961
Total	5,934,434	803,227	6,737,661	5,537,831	1,155,786	6,693,617
3. Investments held to maturity						
Fixed rate notes	709,587	-	709,587	1,020,483	-	1,020,483
Total	709,587	-	709,587	1,020,483	-	1,020,483
4. Other investments held at amortized cost, net						
Fixed rate notes	19,654,970	-	19,654,970	8,051,451	410,623	8,462,074
Floating rate notes	85,000	363,750	448,750	-	375,000	375,000
Total	19,739,970	363,750	20,103,720	8,051,451	785,623	8,837,074
Provision for imperment	-	(363,750)	(363,750)	-	(375,000)	(375,000)
Other investments retained at depreciated cost	19,739,970	-	19,739,970	8,051,451	410,623	8,462,074
Net investments	26,468,184	1,029,815	27,497,999	14,911,775	1,757,502	16,669,277

16.2. Breakdown of investments by counterpary

SAR' 000	2012	2011
Government and semi government	21,028,831	10,304,594
Corporate	4,332,682	4,287,709
Banks and other fin institutions	2,061,064	2,011,518
Others	75,422	65,456
Total	27,497,999	16,669,277

16.3. Credit Risk Exposure on Investment

SAR' 000	2012	2011
Saudi government bonds	20,863,854	9,237,118
Investment grade	2,374,474	2,975,843
Non investment grade	-	112,560
Unrated investments	4,259,671	4,343,756
Total	27,497,999	16,669,277

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

Investment grade include, investments having credit exposure equivalent to Standard & Poor's rating of AAA to BBB. The unrated investments include local equities, foreign equities, Musharaka and Mudaraba investments of SAR 3,263 Million (SAR 3,342 Million in 2011).

Investments held as FVIS represent investments held for trading and include Islamic securities of SAR 77 Million (2011: SAR 141 Million).

Available for sale investments include Islamic securities (sukuk) of SAR 1,574 Million (SAR 952 Million in 2011). Other AFS investments include Mudaraba Investments for SAR nil (SAR 4 Million in 2011) which are hedged. It is measured at fair value to the extent of the risk being hedged.

Unquoted investments include Saudi government bonds and treasury bills of SAR 20,864 Million (SAR 9,237 Million in 2011).

17. Term Loans

On 25 June 2008, BSF signed a 5 years long term loan for Euro 100 Million to mature in 2013 for general banking purposes and it was fully withdrawn. BSF signed another term loan agreement on 22 Sept 2008 for USD 525 Million which was fully withdrawn. The three year tranche of the loan amounts to USD 183 Million and the five year tranche amounts to USD 342 Million for general banking purposes. BSF is entitled to repay these loans prior to their maturity dates and subject to the terms and conditions under the respective loan agreements. The three year tranche of the loan matured during the year and it was fully paid.

18. Debt Securities and Sukuks

During the quarter ended 31 March 2010, BSF issued fixed rate unsecured non-convertible bonds of USD 650 Million for 5 years under Euro medium term notes program amounting to 2 Billion Euro. These bonds are listed on London Stock Exchange. The bonds accrue semiannual commission of 4.25% and are used for general banking purposes.

In May 2012, BSF issued 5 years Shari'ah compliant medium term sukuk of USD 750 Million in a USD 2 Billion program listed on the London Stock Exchange. Also in December 2012, BSF issued 7 years unsecured subordinated sukuk of SAR 1.900 Million. The sukuk is settled through the Tadawul depository system. BSF is entitled to repay these subordinated sukuk after 5 years in accordance with the terms and conditions of the agreement subject to SAMA approval.

19. Wealth Management

BSF Wealth Management's Private Banking Group (WMG/PBG) continued to benefit from the strategic shift in the business model undertaken several years ago. All while reducing lending activities by over 18% in 2012; WMG/PBG's efforts were concentrated on deposit collection, using insightful and timely solutions, PBD was able to capitalize successfully on a number of market opportunities, yielding generous returns to its clients, while maintaining risk under strict control.

20 Private Banking

Private banking continues to manage the relationships with HNW customers through the offer of quality services.

It will continue to work with the existing customers through its wide network and get new customers.

21. Operations and Support

21.1.Corporate Operations

During the year 2012, Corporate Operations Division (COD) focused on the development & implementation of new business operating models for its services with emphasis on cross-selling, operational efficiency and service quality. Initiatives such as process reengineering, procedure streamlining and applications revamp were undertaken by the division in the newly acquired functions, as part of the bank-wide restructuring. These innovative & benchmarking measures yielded some of the most promising results!

21.2.Global Transaction Services

Global Transaction Services (GTS) was established in 2012, and its mission is to enable BSF to be the leading provider of alternative delivery channels and electronic banking services that meet all customer needs; through cross selling of highly developed product portfolio and continuously improving the quality and efficiency of operations and services.

The key objectives of GTS include implementing a comprehensive strategy to make alternative and electronic banking channels the main transactional gateway for all BSF customers; and developing and continuously improving solutions that comply with all requirements of regulators and highest security standards.

21.3.Information Technology

The year progressed with numerous planned projects being completed.

Open architecture standards were implemented as a strategy to move from the legacy system to flexible infrastructure with integration between applications. This helps the business to achieve higher sales and introduce new features that benefit the Customers.

The year witnessed new product launches, deployment of sales applications and enhancements for existing applications,. ITD also ensured that regulatory and compliance related requirements were adhered to. Payment Card Industry (PCI 2.0) certification was renewed until end of 2013.

21.4. Corporate Human Resources

Being a company based largely on human factor, CHR focused on the creation of long term value, strengthening pay-for-performance culture, making the best talents available at all time at all levels, and building an organization with increasingly human capital focus, taking into account shareholders' interests.

21.5. Financial Accounting and Control

The global financial landscape is evolving at a rapid pace. KSA's Banking Industry is not immune to these developments because of its regional and international prominence. A fast developing corporate landscape demands constant attention towards the financial strategy for ensuring competitive advantage. At BSF, AFCD plays a key role in formulation of the Bank's financial strategy.

At AFCD we take pride in our considerable experience in the interpretation and implementation of regulatory and international financial reporting standards. During the year we worked closely with the bank's external auditors to ensure full compliance & maximum disclosure of information in the light of International, (IAS/IFRS) Saudi Arabian (SOCPA) accounting standards and regulatory guidelines (SAMA & CMA). This ensures that our valuable shareholders are always provided with high quality and reliable information on the performance of the Bank.

21.6. Compliance

Banque Saudi Fransi (BSF) is bound directly by laws and regulations of the Kingdom of Saudi Arabia and in order to address the potential compliance risks that BSF may be exposed to, Compliance Division (CPD) reviews business practices, policies and compliance framework to ensure that BSF meets its responsibilities towards all stakeholders.

21.7. Secrtariat General

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

21.8. Corporate Communications and Social Responsibility

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

21.9.Property Management

Property Management Division (PMD) handled major infrastructure projects of BSF in 2012 and the following projects were completed in accordance with the budgetary requirements.

59 new ATMs (24 in Central Region, 22 in Eastern Region and 13 in Western Region) and 11 Cash Acceptance Machines were installed Kingdom-wide.

Five (5) new Branches were constructed in Kharj, Makkah and Riyadh.

Investment Center and Al Kharj Road Warehouse were completed.

Upgrade Building Management System (BMS) – HO, Dabbab (Olaya / Oroubah Crossing), BBC, Central REM was completed.

Upgrade of the Western Regional Headquarters Building to include New Disaster Recovery Center (DRC) and DRC CCTV and Access Control Project.

22. Associates

22.1. Saudi Fransi Capital (SFC)

Saudi Fransi Capital (SFC) is an investment company Licensed by the Capital Market Authority (CMA), License No. (1115337/), C.R. 1010231217 that offers a variety of different products and services in the areas of financial brokerage in the local and global stock markets, investment services, IPO's, mergers and acquisitions, valuation, restructuring, and selling of products and services of asset management to all clients in the Kingdom.

22.2. Allianz Saudi Fransi Cooperative Insurance Company

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

The year 2012 witnessed tough pricing competition in the market particularly from companies that have recently obtained their operating license. In such a challenging market environment, our figures are an impressive testimony to the excellent work of our professional management which led to decrease our operating costs lower than the market average which boosted our market positioning as one of the top market players in the Kingdom of Saudi Arabia. This encouraged us to adopt a new company structure as well as launch new units to handle such a growth and to provide our customers with world-class services and comprehensive solutions.

22.3. Sofinco

Sofinco SA offers financing for cars and consumer goods for all individual customers in SA. The company pursues its efforts in improving its performance and organization. The restructuring of the company resulted into a substantial improvement in the company's activities and the collection of its dues. The leasing activities of the company were suspended as the same activities are being performed in the name of the Saudi Fransi Leasing Co. BSF agreed with the foreign partner, Sofinco Paris, to continue the company's activities till 2013 with the exit of the foreign partner. After this, the company's activities will be transferred to the new Saudi Fransi Leasing Company.

23. Investments in Associates

SAR' 000	2012	2011
Opening balance	170,789	185,628
Cost of investment during the year	-	27,886
Sale and transfer of investments	(642)	(26,377)
Share of earnings / (losses)	1,801	(16,348)
Closing balance	171,948	170,789

Investments in associates include 27% share capital in Banque Bemo Saudi Fransi (27%: 2011), a joint stock company established in Syria, 50% share capital in Sofinco Saudi Fransi established in KSA (50%: 2011), and 32.5% in Allianz Saudi Fransi for Cooperative Insurance established in SA (32.5%:2011).

BSF’s share in the associates financial statements

SAR’ 000	BEMO Saudi Fransi Syria		Allianz Saudi Fransi	
	2012	2011	2012	2011
Total Assets	1,105,130	1,428,705	364,241	349,319
Total Liabilities	1,006,740	1,297,807	309,817	297,971
Total Partners Equity	98,390	130,898	54,424	51,348
Total Income	46,413	51,761	128,879	124,422
Total Expenses	38,862	34,984	125,986	124,552

The results of other associate i.e. Sofinco Saudi Fransi is not significant, and are not disclosed in the consolidated financial statements.

24. Risk Management

Portfolio:

BSF continued in 2012 the development of its portfolio. Total utilizations reached SR 162 billion (+SR 12 bln, +8% vs. 312011/12/). Funded exposure represents 66.1% of total exposure (vs.64.5%).

Portfolio growth was concentrated on Corporate and SME Business Lines. Wealth Management Business Line utilizations shown a decrease mainly explained by the transfer to Saudi Fransi Capital of the margin trading financings.

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

For BSF, the number of default situations remained limited and the overall quality of the credit portfolio remained good. These very specific files are well provisioned.

25. Capital Adequacy

The Bank’s objectives when managing capital are represented by complying with SAMA requirements in relation to capital, maintaining the Bank’s ability to continue working as per the Continuity Accounting Standard and ensuring the strength of the capital. Capital adequacy and capital utilization are monitored by the Bank’s management on daily basis. BSF monitors capital adequacy through the use of capital adequacy ratios set by SAMA. Capital adequacy is measured by matching capital items against assets listed in the financial statement, undertakings, derivatives nominal values using the probable balances that reflect their weighted risk.

SAMA requires the Bank to keep minimum statutory capital and for the ratio of the total statutory capital to risk weighted assets to be at or in excess of 8%.

SAR' 000	2012	2011
Credit risk related to risk weighted assets	140,626,870	128,528,591
Operational risk related to risk weighted assets	8,584,137	8,073,838
Market risk related to risk weighted assets	3,300,569	1,913,875
Total risk weighted assets	152,511,576	138,516,304
Basic Capital	22,348,029	19,320,566
Supporting Capital	2,793,700	787,330
Total Capital	25,141,729	20,107,896
Capital Adequacy Ratio		
Basic Capital	14.65%	13.95%
Total Capital	16.49%	14.52%

26. Bank Credit Ratings

BSF Credit ratings

Standard & Poors
Long term issues A
Future outlook: stable
Long term issue in local currency: A
Short term issues: A-1
Short term issue in local currency: A-1

Moodys

Deposits in local foreign currencies: AA3
Deposits in foreign currencies:AA3/ P-1
Financial strength: C+
General outlook: stable

27. Non Performing Loans and Provision for Losses

Non performing loans, net amounted to SAR 1,045 at the end of 2012. Allowance for impairment losses amounted to SAR 1,552 at the end of 2012 with a coverage ratio of 148.52%.

Impairment charges for credit losses, net increased from SAR 158 Million in 2011 to SAR 455 Million due to the increase in the loan portfolio and to the conservative policy BSF pursues in risk management.

28. Future Plans

The Medium Term Plan 2011~2013 that was elaborated by Senior Management and endorsed by Board of Directors in September 2010 will mature end 2013. The overall current framework stays in place but a new Medium Term Plan will accordingly be prepared along 2013 taking into account the evolution of the environment (clients, market, regulation) and preparing the Bank for a new development phase.

28.1. Macro economic perspectives

The Bank's Management considers that the economic environment remains supportive to develop the businesses of the Bank.

In terms of economic environment, overall GDP growth reached 6.8% in 2012 with GDP for private non-oil sector growing at a solid 7.5%. Consensus projects a GDP growth of 3.4% in 2013 mainly due to the projected slowdown in oil production but the non-oil sector is expected to remain well orientated with a GDP growth of 7.4%.

The government's budget for 2013 also remains very supportive with planned expenditures of 820 Bio SAR after hitting an historic high in 2012 of 853 Bio SAR in 2012. Budget will focus on infrastructure, education, health care and social & economic development projects.

We believe that those expenditures will continue to trickle down into the economy at large providing a sound environment to develop Bank's activities. Additionally, the Bank has developed an historical expertise in the project finance area and shall be well positioned to support the infrastructure program.

On the negative side, interest rates levels are expected to stay low in 2013. Low interest rates have an impact on the yield of the investment portfolio and as a matter of fact reduce overall revenues growth capacity.

28.2. Strategy

The strategy of the Bank is geared at developing its activities so that each line of business show a well-balanced contribution to the net profit of the Bank.

BSF has been historically geared toward Corporates holding a leading position in the Corporate Banking sector but it is committed to continue developing its Retail Banking franchise to achieve a well-diversified source of revenues.

In a continuing low interest rate environment, BSF is also giving strong emphasis on the deployment of its assets and a higher contribution of its fee based businesses through systematic cross-selling implementation.

Retail Banking's asset slightly decreased in 2012. After several years of very rapid expansion, Retail's business has indeed focused on market positioning and operational efficiency to consolidate its position. Leveraging on this sound base, we expect Retail Banking to continue its development in 2013 benefiting from positive market momentum.

Corporate Banking will maintain its strong market share in terms of assets and further increase its presence in the project finance sector. Corporate Banking will also be a key driver in the effort to develop a comprehensive and mutually beneficial relationship with BSF's Corporate Clients offering large scope of products and services.

BOD approved and supervised the implementation of BSF strategic directions and objectives, laid down and supervised the internal controls and regulations.

The board of directors approved the following policies and procedures:

1. Lay down, review and supervise the implementation of the company's comprehensive strategy, major work plans, risk management within the MTP which will expire on 2013.
2. Determine the company's ideal capital structure, strategy, fincial objectives and approve the annual budgets.
3. Supervise the company's capital expenses and the acquisition/ disposal of assets.
4. Lay down the performance objectives, control overall control and performance of the company through the approval of the annual budget, MTP and the actual monthly results.
5. The periodical review and approval of the company's organizational structure.
6. Lay down a written policy that organizes conflict of interest and address possible conflict of interest with the directors, executive management and shareholders. This includes the misuse of the company's assets and facilities and misuse resulting from dealing with interested parties.
7. Enusre the soundness of the accounting and financial records including the reporting systems and according to reports received from audit committee.
8. Enusre the implementation of adequate risk management controls through the determination of the general perspective of risks that might encounter the company.
9. The annual audit for the efficiency of the internal audit controls in the company.

29. Shareholders Equity

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

- Secure cash dividend payments as approved
- Attend shareholders general meetings, participate in its deliberations and vote on decisions to be taken
- Shares disposal right
- The right to monitor the board of directors activities and initiate a liability suit against the directors
- Access to information (but not to the detriment of the company's interests and not inconsistently with CMA Act and Regulations).
- In the event of expiry of the company's duration or in case of earlier termination, the extra ordinary general shareholders assembly will, upon the suggestion of the board of directors, decide the method of liquidation, appoint one or more liquidators and define their powers and fees.
- The powers of the board shall cease upon the winding up of the company. However the board will continue to manage the affairs of the company till the appointment of liquidators and the company's departments shall remain operational to an extent not inconsistent with the liquidators' jurisdiction.
- BSF affirms that it did not receive from the certified public accountants any request to hold a meeting of the shareholders during the expired financial year and that such meeting was not held.
- BSF affirms that it did not receive from shareholders holding 5% or more share capital any request to hold a meeting of the shareholders during the expired financial year and that such meeting was not held.
- Announcements confirming dates, meeting places and the agendas of the shareholders meetings were published 20 days before every meeting.
- Invitations were published for the three shareholders meetings held during the year on Tadawul, the official gazette and local press: first meeting- Riyadh 3.3.2012, Al-Youm 4.3.2012, Okaz 5.3.2012, second meeting- Riyadh 16.10.2012, Okaz 16.10.2012 Al-Youm 17.10.2012 and the third meeting- Riyad 13.11.2012, 14.11.2012 Al-Youm 14.11.2012.

30. Profits Distribution Policy (re Article 42 of the articles of association):

The annual net profit arrived at after deducting all general expenditures and other expenses and after constituting such provisions for bad debts, investment loans and for contingencies as Board of Directors shall think fit in accordance with the Banking Control Law, Shall allocated as follows:

30.1 Sums required for payment of the Zakat due on Saudi shareholders and the tax due on non-Saudi shareholders share in the net profit shall be calculated according to the laws and regulations in force in Kingdom of Saudi Arabia. Such sums shall be remitted by the Company to authorities concerned. Zakat piad for the Saudi shareholders shall be deducted from their share in net profit.

30.2. The minimum of 25% of net profits will be transferred to statutory reserve. The deductions will be continuously made untill this reserve equals to the paid up capital of the bank.

30.3 Out of the remainder of the profit after the deduction of the statutory Zakat & Tax reserve a sum not less than 5% of the paid-up capital shall be allocated for paying a dividend to Saudi and non-Saudi shareholders in proportion to the paid-up part of the shares of the Saudi and non-Saudi shareholders as recommended by the board of Directors and approved by General Meeting. In case the remainder is not sufficient for paying such dividend to the shareholders concerned, shareholders shall not be entitled to claim the remainder in the following year or years. No longer dividend shall be declared by the General Meeting that is recommended by the Board of Directors.

30.4 The remainder after the sums set forth in paragraph (1), (2), (3) herein shall be utilized in the manner recommended by the Board of Directors and approved by the General Meeting.

30.5 The respective percentage of shareholding of each of the Saudi and non-Saudi shareholders shall be maintained (observed) when calculating the sum to be allocated as statutory reserve and other reserves out of the net profit (after Zakat and Tax). Each of the two categories of shareholders shall participate in the allocation of such reserves on a pro-rata basis of their shareholding and out of their respective share in the profit after paying Zakat and Tax

31. The Basic and Diluted Earnings Per Share

The share basic and reduced dividend for the two financial years ended 31 Dec 2012 and 2011 were calculated by dividing the year's net income due to the bank's shareholders by 904 Million shares.

31.1. Total Distributable Profits

On 29 Dec 2012, BSF board of directors suggested to pay a net dividend of SAR 0.80 per share (SAR 0.70: 2011) subject to the approval of the shareholders and the concerned authorities. BSF did not suggest to pay any interim dividends in 2012 (SAR 0.70 per share: 2011).

The entitlement to the payment shall be to the shareholders registered in Tadawul share registers at the closing of negotiation on the shareholders meeting to be announced in due course.

Total Distributable Profits SAR' 000	2012	2011
Interim payment	-	542,913
Final payment	810,000	-
Total	810,000	542,913

32. Zakat (re Para 2, Article 42 BSF Articles of Association)

According to the Saudi Zakat and income tax laws, the Zakat and income tax are considered obligations of both the Saudi and non-Saudi shareholders respectively.

Zakat is computed against the Saudi shareholders' part of the shareholders equity and/ or net income according to the principles described in the Zakat laws.

Income tax is computed against the non-Saudi shareholders' part in the annual net income.

a) Zakat. The amount of Zakat owing by the Saudi shareholders in 2012 amounted to SAR 60 Million (SAR 56 Million: 2011). Total net distributions to the Saudi shareholders amounted to SAR 498 Million (SAR 349 Million: 2011).

   BSF received the Zakat/ Tax assessment for 2011 and 2012 which included an objection by the Zakat and Income tax Authority, owing to the exclusion of the long term investment from BSF Zakat pool. BSF in collaboration with its advisors objected to the assessment. In addition, other banks including BSF decided to refer the matter to SAMA for an agreeable solution. It is not possible at this point to give an exact figure as to the BSF's obligation towards Zakat. BSF also received the Zakat assessment for 2005 and 2009 and filed an appeal for these assessments.

b) Income tax. Income tax owing by the foreign partner (CA- CIB) for this year amounted to approximately SAR 186 Million (SAR 183 Million: 2011). The current year net dividend for the foreign shareholders is SAR 66 Million.

The Zakat and incomes tax due on the shareholders are as follows:

SAR' 000	2012	2011
Zakat due by the Saudi shareholders	60,000	56,000
Income tax due by the non- Saudi shareholders (CA- CIB)	186,000	183,000
Total	246,000	239,000

33. Other Payments

Type Of Service SAR' 000	Saudi Offices	Resident Offices	Non Resident	Total
2012				
Administrative	5,439	14	8,477	13,930
Financial	642	-	11,721	12,362
Economic	-	-	63	63
Grand Total	6,081	14	20,261	26,355
2011				
Administrative	3,785	198	4,279	8,252
Financial	600	19	13,486	14,105
Economic	-	350	169	519
Grand Total	4,385	567	17,934	22,876

SAR' 000	2012	2011
GOSI paid memberships	54,766,749,29	51,178,755,27
Delay fines paid to GOSI	38,804,75	24,232,50
Passport Dept	466,150	553,100
Labor Office	166,800	179,200
Visa Office	32,000	38,000
Chamber of Commerce, Ministry of Foreign Affairs	14,381	15,125
Visas	386	5,630
Saudi Engineers Association	6,250	10,000
Traffic Dept	-	1,745
Fines (ATM and others)	371,656	3,800
CMA Fine	-	50,000
Total	55,863,186,07	52,059,587,77

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

BSF's BOD consists of 10 directors. According to BSF's Articles of Association, the Saudi directors are selected by the shareholders for 3 years. Written policies and procedures were laid down and being implemented in relation to the board membership. The principles stated in BSF's articles of association and those laid down by SAMA, as well as in companies act and corporate governance are being complied with.

The present BOD duration extends from 1.1.2010 till 31.12.2012 (voting was conducted as per Article 33 of the articles of association). The present directors were not appointed through accumulative voting method which was not then obligatory. The independent members of the board are now four representing more than one third of the board members.

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

The Saudi Directors

Dr. Saleh Abdulaziz Omair Al-Omair	Chairman (independent)
Mr. Abdulaziz Rashid Al-Abdulrahman Al-Rashid	Member (non-executive)
Mr. Ibrahim Mohammad Ibrahim Al-Issa	Member (independent)
Mr. Abdulaziz Habdan Al-Habdan	Member (non-executive representing GOSI)
Dr. Khaled Hamed Hamed Mutabagani	Member (independent)
Mr. Mousa Omran Mohammad Al-Omran	Member (independent)
Mr. Abdulrahman Amin Jawa	Deputy Managing Director Member (executive)

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

Mr. Francois Patrice Raymond Couvegnes	Managing Director Member (executive)
Mr. Thierry Paul Michel Marie Simon	Member (non-executive)
Mr. Marc Oppenheim	Member (non-executive)

34.1. In 2012, BOD held 4 meetings, at an attendance rate of 100%. Following is the attendance record of the subject meetings:

Name	Status	1st meeting 07.04.2012	2nd meeting 26.05.2012	3rd meeting 15.09.2012	4th meeting 09.12.2012
Saleh Al-Omair	Independent	Attended	Attended	Attended	Attended
Abdulaziz Al-Rashid	Non-executive	Attended	Attended	Attended	Attended
Ibrahim Al-Issa	Independent	Attended	Attended	Attended	Attended
Mousa Al-Omran	Independent	Attended	Attended	Attended	Attended
Khalid Mutabagani	Independent	Attended	Attended	Attended	Attended
Abdulaziz Al-Habdan	Non-executive	Attended	Attended	Attended	Attended
Abdulrahman Jawa	Executive	Attended	Attended	Attended	Attended
Patrice Couvegnes	Executive	Attended	Attended	Attended	Attended
Marc Oppenheim	Non-Executive	Attended	Attended	Attended	Attended
Thierry Simon	Non-executive	Attended	Attended	Attended	Attended

34.2. In 2012, the board of directors approved the following:

1. RBG policies and procedures
2. Wealth Management policies and procedures
3. Internal Audit policies and procedures
4. The extension of TSA with CA CIB to expire on 31.12.2013
5. The appointment of directors to the board of managers of SF Insurance Agency, SF Leasing and SF Capital.
6. Exit from Al-Amthal
7. Issue of subordinated sukuk for SAR 2,500 Million.
8. The approval to sell George V Building Paris
9. BSF capital increase from SAR 7,232,143,000 to SAR 9,040,178,750 and increase of shares from 723,214,300 to 904,017,875 shares.
10. Policy for conflict of interest
11. Policy for disclosure

34.3. Other BOD's in which BSF directors have membership:

Director's Name	Name of other company	Capacity
Dr. Saleh Al-Omair	- Orix Leasing SA - Saico	Chairman Chairman
Abdulaziz Al-Rashid	- Al-Khaleej Training and Education Co (Joint Stock)	Director
Ibrahim Al-Issa	- Taiba Holding - Al-Maraei - Yanbu Cement - Savola Group	Chairman Director Director Director
Abdulaziz Al-Habdan	- STC - Allianz SF (representing BSF)	Director Director
Khaled Mutabagani	-	-
Mousa Al-Omran	- Savola Company - Al-Maraie Co - Arabian Cement	Director Director Director
Abdulrahman A. Jawa	- Allianz SF (representing BSF)	Director
Patrice Couvegnes	-	-
Marc Oppenheim	-	-
Thierry Simon	-	-

35. BSF directors/senior executives, their wives and minor children own the following BSF shares as at 31.12.2012:

35.1. BSF Directors

Name	Shares owned at the start of the year 2012	Ownership percentage at the beginning of the year	Change in Number of shares	Change %	Shares owned at year end 2012	Shares owned at year end percentage
Saleh Al-Omair	159,699	0.02%	-	-	199,623	0.02%
Ibrahim AL-Issa	3,000	0%	-	-	3,750	0%
Abdulaziz Al-Rashid	3,214	0%	-	-	4,017	0%
Abdulrahman A. Jawa and family	20,795	0%	5,008 (an inheritance for wife)	-	25,795	0%
Khalid Mutabagani	35,775	0%	-	-	44,718	0%
Mousa Al-Omran and his family	479,308	0.06%	213,240 (wife's name)	-	599,135	0.06%

The change in the number of shares excludes the increase in the number of shares due to stock dividend.

35.2. BSF Senior Executives

Name	Shares owned at the start of the year	Ownership percentage	Change in Number of shares	Change %	Shares owned at year end	Shares owned at year end percentage
Abdulaziz Omar Othman	3,857	0%	-	-	4,821	0%
Ahmad Jawdat and his family	-	0%	2,082*	-	2,082*	0%
Mazen Tamimi and his family	755,431	0.10%	58,643	02%	696,788	0.08%

The change in the number of shares excludes the increase in the number of shares due to stock dividend.

* The percentage of change was not stated due to being little compared with the total number of shares.

36. Share Ownership

According to Article 30, CMA Listing Rules, BSF top shareholders as at 31.12.2012 are as follows:

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

Name	Shares owned at the start of the year	Ownership percentage	Change in Number of shares	Change %	Shares owned at year end	Shares owned at year end percentage
CA CIB	225,000,000	31.11%	-	-	281,250,000	31.11%
GOSI	92,867,667	12.84%	-	-	116,084,583	12.84%
Rashed Al-Rashid & Sons	71,093,121	9.83%	-	-	88,866,401	9.83%
Masek Holding	-	-	-	-	37,500,000	4.15%
Mohammad I Al-Issa	36,355,000	5.02%	(37,500,000)*	5.02%	7,750,000	0.86%
SAMBA Private Investment Fund 1	14,539,606	2.01%	-	-	18,174,507	2,01%
Omran Al-Omran	13,186,283	1.82%	-	-	16,482,853	1.82%
Adnan Bouqari	10,915,236	1.51%	-	-	13,644,045	1.51%
Ibrahim Al-Touq	9,994,992	1.38%	-	-	12,493,740	1.38%
Hamed Mutabaqani	9,978,732	1.38%	-	-	12,473,415	1.38%
Pension Gen Org	9,979,398	1,38%	422,808	0.05%	12,894,056	1.38%
Al-Olayan Saudi Investment Ltd	7,889,700	1.09%	553,612	0.06%	9,308,513	1.09%

The change in the number of shares excludes the increase in the number of shares due to stock dividend.

* Representing change in the number of shares due to the increase of capital and some transactions made during 2012 (share transfer from M Al-Issa to Masek Holding).

36.2.Assignment of interests by BSF Directors/ Executives / shareholders

BSF is not aware of any arrangements or agreements whereby any director / senior executive / shareholder had assigned interests or rights to dividends.

37. Dealing with Related Parties

During the course of business, BSF deals with related parties. The management and the board of directors see that dealings with related parties were done under the same terms of dealing with other parties. Dealing with related parties is subject to the ratios stated in Banking Act and SAMA directives. The concerned department is committed to providing periodical reports to the EC, BOD and Audit Committee regarding full information about such dealing and securing the necessary approval according to the laws and regulations.

The balances resulting from such dealing as at 31 Dec 2011 and 2012 as reflected in the consolidated financial statements:

SAR' 000	2012	2011
CA – CIB Group		
Balances with Banks and other financial institutions	1,659,860	1,724,413
Balances for Banks and other financial institutions	191,526	36,515
Derivatives at fair value, net	14,371	(173,530)
Undertaking and contingent liabilities	1,905,196	1,761,561
Associate companies		
Investments	171,948	170,789
Loans and advances	* 50,010	65,000
Balances for Banks and other financial institutions	45,023	406,521
Customer deposits	18,065	13,743
Undertaking and contingent liabilities	5,050	44,277
Directors, Auditors and Other Major Shareholders and their affilites **		
Loans and advances	2,541,138	2,202,613
Customer deposits	4,022,698	3,897,601
Derivatives at fair positive value	(68,022)	(13,739)
Undertaking and contingent liabilities	1,129,506	355,631
Mutual Funds		
Investments	66,461	58,350
Derivatives at fair value, net	5,222	5,367
Customer deposits	378,464	956,272

* Associate company - SOFINCO Saudi Fransi
** Other major shareholders (excluding the foreign investor) includes the shareholders holding 5% or more of BSF share capital.

Breakdown of incomes and expense of dealings with related parties as reflected in the consolidated financial statements:

SAR' 000	2012	2011
Special commission income	64,512	51,382
Special commission expenses	44,187	59,464
Income from fees and commissions, net	12,495	6,953
Board of directors remuneration	3,350	3,245
Other general and administrative expenses	1,128	814

The aggregate short term benefits paid to senior officers of the bank during the year amounted to SAR 111 Million (SAR 92 Million: 2010). The senior officers of the bank means those persons who have the powers and responsibility to carry out either directly or indirectly planning, direction and supervision of the bank's activities.

38. Transactions with BSF Directors

All transactions with related parties including those with the Bank's Board of Directors 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. All facilities provided to the related parties are adequately secured in accordance with Bank's strict credit policy.

All related party balances and transactions were properly recorded and, where appropriate, adequately disclosed in the financial statements. BSF higher management affirms that no BSF director or any of their relatives of the first degree or the management senior officers have any relationship with the companies that have contracts with or are doing certain works for BSF.

Aside from the information provided in the Auditor's Report attached with BSF Consolidated Account Statements, BSF did not enter into important contracts involving significant interest for any of the directors or with the executive management or any party connected therewith.

39. Board of Directors and Senior Executive Officers remuneration (bonus and allowances)

SR (000)	Independent	Executives	Non-executives
2012			
Saleh Al-Omair	372	-	-
Khalid Al-Mutabaggani	312	-	-
Mousa Al-Omran	330	-	-
Abdulaziz Al-Rashid	-	-	327
Ilbrahim Al-Issa	327	-	-
Abdulaziz Al-Habdan	-	-	330
Marc Oppenheim	-	-	312
Thierry Simon	-	-	330
Abdulrahman Jawa	-	330	-
Patrice Couvegnes	-	330	-
(Nizar Al-Qannas (Sec to BOD	-	50	-
Total	1,341	710	1,299

40. Five Top Executives including MD, DMD and CFO

Description	(SR 000)
2012	
Salaries and remuneration	7,759
Allowances	5,545
Annual and periodical bonus	14,800
Total	28,104

41.Committees created under BOD

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

41.1. Executive Committee:

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

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

It consists of 7 members and its term runs for 3 years starting from 1.1.2010 to 31.12.2012. Members in the Executive Committee are as follows:

Mr. Patrice Couvegnes	Chairman
Mr. Abdulaziz Al-Rashid	Member
Mr. Ibrahim Al-Issa	Member
Mr. Mousa Al-Omran	Member
Mr. Abdulaziz Al-Habdan	Member
Mr. Abdulrahman A. Jawa	Member
Mr. Thierry Simon	Member

In 2012, EC held 6 meetings at an attendance rate of 95%.

41 .2. Nomination & Compensation:

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

NCCOM duration is 3 years. Membership on the committee members will be extended or others will be appointed on the committee for another 3 years according to BOD decision. Members on the committee do not receive any remuneration. The committee consists of non-executive directors and the executive directors attend the committee meetings as observers on permanent basis.

Nomination and Compensation Committee consists of 4 members as follows:

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

BSF Secretary General also undertakes the position of the committee's secretary general.

In 2012, the committee held 4 meetings at an attendance rate of 100%.

The Committee's Duties:

1. Overseeing the compensation system's design and operation on behalf of the Board of Directors;
2. Evaluating practices by which compensation is paid for potential future revenues whose timing and likelihood remain uncertain;
3. 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;
4. Determination of bonus pool based on risk-adjusted profit of the bank for payment of performance bonus;
5. Reviewing compliance of the Compensation Policy with these Rules and the FSB principles and Standards;
6. Assessing the independency of candidates for membership of the Board in accordance with the Articles of Association and approved policies and standards;
7. Identify the strengths and weaknesses in the board of directors and make recommendations regarding proposed changes;
8. Review the files for board membership and determine their eligibility and ability to work as directors. Recommendations are made through SEG for approval and submission to the competent authorities for approval;
9. Study requests for employment in BSF leading positions and in collaboration with CHR verify consistency with BSF actual needs. The committee also reviews key employment contracts to recommend renewal or replacement and submit recommendations to BOD who will finally authorizes the management to take the final decision.

41.3. Donation and Social Contribution Committee

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

It consists of 4 members as follows

Mr. Saleh Al-Omair	Chairman
Mr. Abdulaziz Al-Rashid	Member
Mr. Abdulrahman Jawa	Member
Mr. Patrice Couvegnes	Member

In 2012, the committee held 2 meeting at an attendance rate of 100%.

BSF management through the committee focused on supporting charitable causes in remote areas. According to the cooperation agreement signed between BSF and Deputy Ministry for Social Welfare, the Minister of Social Affairs received donations to several charitable association. The committee also contributed to several specialized associations such as Down Syndrome, Cancer, Autism, handicapped, diabetes, special needs individuals, Kidney patients, etc. During the year, BSF sponsored several international medical conferences and contributed considerable funds for the relief of the Somali people.

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

41.4. Audit Committee

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

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

SAMA ratified BSF BOD nomination of the Audit Committee for three years from 1.1.2010 to 31.12.2012 and approved of new members as successors to the independent members.

It consists of the following members:

Mr. Khalid Mutabaqqani,	BSF director as Chairman
Mr. Ammar Al-Khudairi,	independent member, managing director and founder of Amwal Al-Khaleej Co., and has extensive experience in financial and banking matters as director
Mr. Jean-Pierre Tremenbert,	head of internal audit in CA-CIB
Mr. Eid Faleh Saif Al-Shammari,	independent member

The committee held 7 meetings with an attendance percentage of 89.39%.

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

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

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

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

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

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

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

Internal Control 2012 Annual Report

a) Review of performance of Internal Audit

Audit Committee assessed the performance of BSF Internal Audit (AD) via the following actions:

- Approved risk based Internal Audit plan for 2012 which is based on a three-year cycle for Banking & IT Audit and a 12 to 18 month cycle for Branch Audit.
- Followed up twice a year the status of completion of the above mentioned Audit Plan.
- Decided in its meeting of 232012/01/ that benchmark of completion of Audit Plan will be 85%. AD has achieved a much lower completion rate mainly due to major overhaul of Audit following assessment by new Chief Internal Auditor and Quality Assurance review by E&Y.
- Followed up rate of implementation of recommendation twice a year and noticed that it was unsatisfactory. It approved suggestion by Audit for performing follow-up in a more proactive and aggressive manner as well as on a continuous basis rather than twice a year.
- Reviewed Internal Audit Activity Report prepared every quarter which contains the list of missions performed together with their rating and a summary of their conclusion.
- Obtained and reviewed:
    - Extracts of monthly SAMA prudential reports
    - Compliance Quarterly Reporting
    - New and important laws and regulations
    - Minutes of Financial Crime & Anti-money Laundering Committee
    - Minutes of Internal Control Committee

b) Review of performance of External Auditors

Audit Committee performed the following actions in order to assess the performance of two External Auditors of BSF (PWC and KPMG):

- Reviewed on a quarterly basis:
    - Scope and effectiveness of work
    - Significant issues highlighted
    - Significant breach of rules identified
    - Material misstatement in financial statements
    - Related & connected party transactions
    - Subsequent material transactions

- Assessed External Auditor presentation during Audit Committee on quarterly Financial Statements in line with Capital Market Authority directive
- Analyzed recommendations highlighted in Management Letter of External Auditors
- Obtained detailed explanation from Head of Accounting and Financial Control Division who prepares Financial Statements in coordination with External Auditors. Audit Committee used these discussions in order to get informed about any material misstatement or significant breach of SAMA rules and regulation. Such meetings were regularly attended by Chief Financial Officer who also briefed Audit Committee on Asset & Liability Management matters.

c) Significant breach of SAMA Rules and Regulations and of Internal Policies and Procedures

Audit Committee interacted on several occasions with various actors through seven meetings a year. These discussions were meant to find out whether any significant breach of SAMA rules and regulations including any weaknesses in internal control setup of BSF had occurred. These discussions took place with areas such as:

- Internal Audit
- Compliance
- Operational Risks and Permanent Control
- External Auditors
- Various sectors of BAF

Audit Committee considers situation satisfactory as Compliance, Internal Audit and External Auditors all confirm absence of significant breach of SAMA rules or regulations.

42. Certified Public Accountants

The shareholders meeting held on 07.04.2012 appointed Messrs. KPMG Al Fozan & Al Sadhan and Messrs. PricewaterhouseCoopers, as the Bank's certified public accountants for the FY 2012 and for one year.

43. Accounting Standards

The financial statements were prepared according to the accounting standards issued by SAMA as well as the international recognized standards. BSF prepares its financial statements consistently with Banking Act and Corporate Act of SA as well as BSF Articles of Association. There has been no major deviation in the accounting standards against those issued by SOCPA.

The accounting policies used are consistent with those used in the preparation of the consolidated financial statements for the FY ended 31.12.2011, except in the application of the following:

IFRS7 Financial Instruments: Disclosures

The IASB issued an amendment to IFRS 7 on 7 October 2010. The amendment provides enhanced disclosures for transferred financial assets that are derecognised in their entirety and Transferred assets that are not derecognised in their entirety. The amendments are designed to ensure that users of financial statements are able to more readily understand transactions involving the transfer of financial assets (for example, securitizations), including the possible effects of any risks that may remain with the entity that transferred the assets. The effective date is for annual periods beginning on or after 1 July 2011.

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

- IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets

- IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopter

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

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

44. Disclosure

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

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

45. Corporate Governance

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

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

Article	Requirements	Reasons for no applying:
Article 6:		
D	The investors, the judicial persons, acting on behalf of others, such as investment funds, must disclose their policies in voting and their actual voting in their annual reports. They must also disclose the way by which they deal with any significant conflict of interest that might impact the exercise of the basic interests of their investments.	BSF has no legal capacity to obligate investors, the judicial persons, acting on behalf of others, such as investment funds, to disclose their policies in voting.
Article 12:		
E	The independent directors must not be less than 2 or one-third of the directors whichever more.	BSF complied with the requirement.

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

Board of Directors

Audit Committee

Chairman	Dr. Khalid Mutabagani, Member of BSF Board of Directors
Members	Mr. Jean-Pierre Tremenbert Head of Inspection Generale CA-CIB Mr. Ammar Alkhudairy Managing Director and founding shareholder of Amwal AlKhaleej Mr. Eid Alshammari Chief Internal Auditor of Saudi Telecommunication Company (STC)
Secretary	Mr. Athar Iqbal BSF Chief Internal Auditor

BSF Chief Compliance Officer is a permanent guest to the meetings of BSF Audit Committee

Saudi Arabian Monetary Agency (SAMA) approved the nomination by the Board of Directors of BSF of the above members of the Audit Committee for a three-year term beginning on 01/01/2010.

Audit Committee meets seven times a year in order to adequately cover all critical risk areas in BSF. It reviews quarterly and annual Financial Statements of BSF with External Auditors and recommends their approval to BSF Board as required by SAMA and CMA.

Deliberations of each Audit Committee meeting were properly recorded and reported to BSF Board of Directors and were adequately followed up by Secretary of Audit Committee with BSF Management.

Audit Committee was extensively involved in assessing according to its risk-based three year work plan the performance of Internal Audit as well as External Auditors. It regularly reviewed main risks related to BSF activities and the quality and adequacy of Internal Controls. Audit Committee members were informed and briefed not only by Chief Internal Auditor and External Auditors but also directly by relevant sectors of BSF as well as subsidiaries or joint venture companies.

Audit Committee is fully involved in selection of External Auditors and in recommending them to Board for approval.

Audit Committee regularly reviewed with Chief Compliance Officer such matters as status of fraud cases, new regulations and pronouncements and significant breach of compliance rules. It is also briefed by Chief Risk Officer on Risk Management and Internal Control setup and is informed of Internal Control Committee deliberations.

Audit Committee continuously supported Internal Audit by providing it with adequate organization, staffing, tools and means for independence. It also followed activities of Audit very closely as well as rate of implementation of recommendations.

Independent Auditors' Report

KPMG Al Fozan & Al Sadhan

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 2012, and the consolidated income statement, statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes from (1) to (43). We have not audited note (40) and the information related to "Basel II Pillar 3 disclosures" cross-referenced therein, which is not required to be within the scope of our audit.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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

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 2012, 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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Abdullah H. Al Fozan
Certified Public Accountant
Registration No. 348

Rabi' I 29,1434H
February 10, 2013

Consolidated Statement of Financial Position

As at December 31, 2012 and 2011

SAR' 000	Notes	2012	2011
ASSETS			
Cash and balances with SAMA	4	15,233,244	18,115,582
Due from banks and other financial institutions	5	5,435,376	7,009,260
Investments, net	6	27,497,999	16,669,277
Loans and advances, net	7	102,785,372	92,325,042
Investment in associates	8	171,948	170,789
Property and equipment, net	9	641,305	580,993
Other assets	10	6,012,058	5,609,015
Total assets		157,777,302	140,479,958
LIABILITIES AND EQUITY			
Liabilities			
Due to banks and other financial institutions	12	5,662,468	2,063,748
Customers' deposits	13	115,571,767	109,963,411
Term loans	14	1,778,306	1,766,850
Debt Securities and Sukuks	15	7,130,041	2,462,719
Other liabilities	16	4,947,902	4,567,903
Total liabilities		135,090,484	120,824,631
Equity			
Share capital	17	9,040,179	7,232,143
Statutory reserve	18	7,553,621	6,799,837
General reserve	18	982,857	982,857
Other reserves	19	892,378	876,023
Retained earnings		3,407,783	3,764,467
Proposed dividend	29	810,000	-
Total equity		22,686,818	19,655,327
Total liabilities and equity		157,777,302	140,479,958

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

Consolidated Income Statement

For the years ended December 31, 2012 and 2011

SAR' 000	Notes	2012	2011
Special commission income	21	4,069,280	3,631,299
Special commission expense	21	763,503	494,228
Net special commission income		3,305,777	3,137,071
Fee and commission income, net	22	1,173,483	1,050,052
Exchange income, net		246,519	220,708
Trading income, net	23	138,034	132,676
Dividend income	24	21,379	14,244
Gains on non trading investments, net	25	78,771	-
Other operating income	26	45,588	30,023
Total operating income		5,009,551	4,584,774
Salaries and employee related expenses		875,686	828,111
Rent and premises related expenses		137,483	120,678
Depreciation and amortization	9	129,598	130,257
Other general and administrative expenses		406,426	393,337
Impairment charge for credit losses, net	7	455,175	157,908
Impairment charge for investment, net		(11,250)	-
Other operating expenses	27	3,098	27,193
Total operating expenses		1,996,216	1,657,484
Net operating income		3,013,335	2,927,290
Share in earnings / (losses) of associates, net	8	1,801	(16,348)
Net income for the year		3,015,136	2,910,942
Basic and diluted earnings per share (in SAR)	28	3.34	3.22

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

Consolidated Statement of Comprehensive Income

For the years ended December 31, 2012 and 2011

SAR' 000	Notes	2012	2011
Net income for the year		3,015,136	2,910,942
Other comprehensive income (loss):			
Available for sale investments			
Changes in the fair value, net	19	41,173	(108,543)
Income transferred to consolidated income statement	19	(5,204)	-
Cash flow hedge			
Changes in the fair value ,net	19	566,255	894,048
Income transferred to consolidated income statement	19	(585,869)	(656,454)
Total comprehensive income for the year		3,031,491	3,039,993

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

Consolidated Statement of Changes in Equity

For the years ended December 31, 2012 and 2011

SAR' 000	Notes	Attributable to equity holders of the Bank								Non controlling interest	Total equity
						Other reserves					
		Share capital	Statutory reserve	General reserve	Retained earnings	Available for sales investments	Cash flow hedges	Proposed dividend	Total		
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	-	19,655,327
Total comprehensive income for the year		-	-	-	3,015,136	35,969	(19,614)	-	3,031,491	-	3,031,491
Transfer to statutory reserve	18	-	753,784	-	(753,784)	-	-	-	-	-	-
Stock dividend	17	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	-	22,686,818
2011											
Balance at the beginning of the year		7,232,143	6,072,101	982,857	2,169,588	44,697	702,275	800,000	18,003,661	19,387	18,023,048
Total comprehensive income for the year		-	-	-	2,910,942	(108,543)	237,594	-	3,039,993	-	3,039,993
Transfer to statutory reserve	18	-	727,736	-	(727,736)	-	-	-	-	-	-
Final dividend paid for 2010		-	-	-	-	-	-	(800,000)	(800,000)	-	(800,000)
Interim gross dividend paid for 2011	29	-	-	-	(542,913)	-	-	-	(542,913)	-	(542,913)
Tax & zakat provision		-	-	-	(45,414)	-	-	-	(45,414)	-	(45,414)
Acquisition of subsidiary		-	-	-	-	-	-	-	-	(19,387)	(19,387)
Balance at the end of the year		7,232,143	6,799,837	982,857	3,764,467	(63,846)	939,869	-	19,655,327	-	19,655,327

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

Consolidated Statement of Cash Flows

For the years ended December 31, 2012 and 2011

SAR' 000	Notes	2012	2011
OPERATING ACTIVITIES			
Net income for the year		3,015,136	2,910,942
Adjustments to reconcile net income to net cash from /(used in) operating activities			
(Accretion of discounts) on non trading investments, net		(54,447)	(28,068)
(Gains) on non trading investments, net		(78,771)	-
Depreciation and amortization		129,598	130,257
(Gains) on disposal of property and equipment, net		(43)	(179)
Impairment charge for credit losses, net		455,175	157,908
Share in losses / (earnings) from associates, net		(1,801)	16,348
Change in fair value of financial instruments		(131,784)	183,547
		3,333,063	3,370,755
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA	4	(661,759)	(789,867)
Investments held as FVIS (trading)		182,322	777,955
Loans and advances,net		(10,908,540)	(11,529,607)
Other assets		(313,779)	8,526
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		3,598,720	(249,158)
Customers' deposits		5,578,776	16,461,851
Other liabilities		392,067	103,775
Net cash from operating activities		1,200,870	8,154,230
INVESTING ACTIVITIES			
Proceeds from sale and maturities of non trading investments		11,022,895	35,855,511
Purchase of non trading investments		(21,864,128)	(33,480,485)
Investments in associates and subsidiary		-	(96,355)
Acquisition of property and equipment		(190,590)	(125,106)
Proceeds from sale of property and equipment		723	339
Net cash (used in) / from investing activities		(11,031,100)	2,153,904
FINANCING ACTIVITIES			
Sukuks		4,712,500	(686,250)
Dividends paid	29	-	(1,342,913)
Net cash from / (used in) financing activities		4,712,500	(2,029,163)
Increase / (decrease) in cash and cash equivalents		(5,117,730)	8,278,971
Cash and cash equivalents at the beginning of the year		19,468,881	11,189,910
Cash and cash equivalents at the end of the year	30	14,351,151	19,468,881
Special commission received during the year		4,079,235	3,495,899
Special commission paid during the year		770,314	345,792
Supplemental non cash information			
Net changes in fair value and transfers to consolidated income statement		16,355	129,051

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

Notes to the Consolidated Financial Statements

For the years ended December 31, 2012 and 2011

1 - General

Banque Saudi Fransi (the Bank) is a Saudi Joint Stock Company established by Royal Decree No. M/23 dated Jumada Al Thani 17, 1397H (corresponding to June 4, 1977). The Bank formally commenced its activities on Muharram 1, 1398H (corresponding to December 11, 1977), by taking over the operations of the Banque de l'Indochine et de Suez in the Kingdom of Saudi Arabia. The Bank operates under Commercial Registration Number. 1010073368 dated Safar 4, 1410H (corresponding to September 5, 1989), through its 86 branches (2011: 83 branches) in the Kingdom of Saudi Arabia, employing 2,677 people (2011: 2,788). 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 Shari'ah 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) having 100% share in equity. The Bank owns Saudi Fransi Financing and 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 has investments in associates and owns 27% shareholding in Banque BEMO Saudi Fransi, incorporated in Syria, 32.5% shareholding in Saudi Fransi Corporative Insurance Company (Allianz Saudi Fransi) and 50% in Sofinco Saudi Fransi incorporated in the Kingdom of Saudi Arabia.

2 - Basis of preparation

a) Statement of compliance

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

b) Basis of measurement

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

c) Functional and presentation currency

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

2 - Basis of preparation (continued)

d) Critical accounting judgments, estimates and assumptions

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

(i) Impairment for credit losses on loans & advances

The Bank reviews its loan portfolios to assess specific and collective impairment on a quarterly basis. In determining whether an impairment loss should be recorded, the Bank makes 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 investments

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

2 - Basis of preparation (continued)

(iv) Classification of held to maturity investments

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

3 - Summary of significant accounting policies

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

a) Change in accounting policies

The accounting policies adopted are consistent with those of the annual consolidated financial statements for the year ended December 31, 2011, as described in those statements except for the adoption of amendments to the existing standards as mentioned below.

IFRS7 Financial Instruments: Disclosures (amendment)

The IASB issued an amendment to IFRS 7 on 7 October 2010. The amendment provides enhanced disclosures for transferred financial assets that are derecognised in their entirety and Transferred assets that are not derecognised in their entirety. The amendments are designed to ensure that users of financial statements are able to more readily understand transactions involving the transfer of financial assets (for example, securitizations), including the possible effects of any risks that may remain with the entity that transferred the assets. The effective date is for annual periods beginning on or after 1 July 2011.

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

- IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets

- IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopter

b) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries i.e. Saudi Fransi Capital, Saudi Fransi Insurance Agency, Saudi Fransi Financing and Leasing ,Sakan real estate financing 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. Classification has been made wherever necessary in the financial statements of the subsidiaries to bring them in line with the Bank’s consolidated financial statements.

3 - Summary of significant accounting policies (continued)

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

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

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

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

c) Investment in associates

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

d) Settlement and trade date accounting

All regular 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 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.

3 - Summary of significant accounting policies (continued)

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

i) Derivatives held for trading

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

ii) Embedded derivatives

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

iii) Hedge accounting

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

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

Fair Value Hedges

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

3 - Summary of significant accounting policies (continued)

Cash flow hedges

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

f) Foreign currencies

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

Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement, except for differences arising on the retranslation of available for sale equity instruments and effective cashflow 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 income statement or in other comprehensive income depending on the underlying financial asset.

Non-monetary assets and liabilities denominated in foreign currencies measured at fair value are translated using the exchange rate at the date when the fair value was determined.

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.

3 - Summary of significant accounting policies (continued)

h) Revenue / expense recognition

Special commission income and expense

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

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

If the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, special commission income continues to be recognised using the original effective yield applied to the new carrying amount.

The calculation of the effective yield takes into account all contractual terms of the financial instruments (prepayment, options etc.) and includes all fees and points paid or received transaction costs, and discounts or premiums that are an integral part of the effective 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 cost, are recognized as an adjustment to the effective yield on the loan. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportionate basis. Fee received on asset management, wealth management, financial planning, custody services and other similar services that are provided over an extended period of time, are recognized over the period when the service is being provided. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period. Other fees and commission expense, which relate mainly to transaction and service fees are expensed as the service, are received.

3 - Summary of significant accounting policies (continued)

Dividend income

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

Trading income

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

Income / (loss) from FVIS financial instruments

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

i) Sale and repurchase agreements

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

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

j) Investments

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

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

3 - Summary of significant accounting policies (continued)

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

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

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

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

ii) Available for sale

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

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

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

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

3 - Summary of significant accounting policies (continued)

iii) Held to maturity

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

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

iv) Other investments held at amortized cost

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

k) Loans and advances

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

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

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

(i) Available for sale

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

(ii) Loans and advances held at amortized cost

Loans and advances originated or acquired by the Bank that are not quoted in an active market and for which the fair value has not been hedged, are stated at amortised cost.

3 - Summary of significant accounting policies (continued)

For loans and advances which are hedged, the related portion of the hedged fair value is adjusted against the carrying amount.

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

l) Due from banks and other financial institutions

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

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

m) Impairment of financial assets

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

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

i) Impairment of available for sale financial assets

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

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

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

For the years ended December 31, 2012 and 2011

3 - Summary of significant accounting policies (continued)

ii) Financial assets carried at amortized cost

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

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

Impairment charge for credit losses is based upon the management›s 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 gradings or external credit ratings allocated to the borrower or group of borrowers, the current economic condition in which the borrowers operate and the experience and historical default patterns that are embedded in the components of the credit portfolio. These internal grading take into consideration factors such as any deterioration in country risk, industry, as well as identified structural weaknesses or deterioration in cash flows.

Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted, and the amount of the loss has been determined. Once a financial asset has been written down to its estimated recoverable amount, special commission income is thereafter recognized based on the rate of special commission that was used to discount the future cash flows for the purpose of measuring the recoverable amount.
When a financial asset is uncollectible, it is written off against the related provision for impairment through 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 income statement in impairment charge for credit losses.

3 - Summary of significant accounting policies (continued)

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

n) Other real estate

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

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

o) Property and equipment

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

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

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

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

p) Liabilities

All money market deposits, placements, customers' deposits and term loans are initially recognized at cost, being the fair value of the consideration received less transaction costs.

Subsequently all commission bearing financial liabilities, where fair values have been hedged, are measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium. Premiums are amortized and discounts are accreted on an effective yield basis to maturity and taken to special commission income or expense.

3 - Summary of significant accounting policies (continued)

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

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

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

q) Provisions

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

r) Accounting for leases

i) Where the Bank is the lessee

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

ii) Where the Bank is the lessor

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

s) Cash and cash equivalents

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

3 - Summary of significant accounting policies (continued)

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 income statement as they are deducted from the dividends paid to the shareholders. If no dividend is declared then zakat is deducted from the retained earnings and tax is deducted from the retained earnings in proportion to foreign shareholding and remaining tax is claimed from the foreign shareholders.

v) Investment management, brokerage and corporate finance services

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

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

w) Islamic banking products

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

High level definitions of Islamic banking products

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

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

3 - Summary of significant accounting policies (continued)

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

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

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

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

4 - Cash and balances with SAMA

SAR' 000	2012	2011
Cash on hand	858,238	788,953
Statutory deposit	6,317,469	5,655,710
Current account	7,593	-
Money market placements	8,049,944	11,670,919
Total	15,233,244	18,115,582

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	2012	2011
Current accounts	888,770	677,532
Money market placements	4,546,606	6,331,728
Total	5,435,376	7,009,260

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	2012			2011		
	Domestic	International	Total	Domestic	International	Total
i) Held as FVIS						
Fixed rate securities	21,438	226,588	248,026	172,702	171,293	343,995
Floating rate securities	53,759	-	53,759	129,308	19,800	149,108
Equities	8,996	-	8,996	-	-	-
Held as FVIS	84,193	226,588	310,781	302,010	191,093	493,103
ii) Available for sale (AFS)						
Fixed rate securities	530,617	614,725	1,145,342	176,698	513,914	690,612
Floating rate securities	1,545,590	90,224	1,635,814	1,314,771	543,637	1,858,408
Equities	595,016	98,278	693,294	704,401	98,235	802,636
Other	3,263,211	-	3,263,211	3,341,961	-	3,341,961
Available for sale	5,934,434	803,227	6,737,661	5,537,831	1,155,786	6,693,617
iii) Held to maturity						
Fixed rate securities	709,587	-	709,587	1,020,483	-	1,020,483
Held to maturity	709,587	-	709,587	1,020,483	-	1,020,483
iv) Other investments held at amortized cost, net						
Fixed rate securities	19,654,970	-	19,654,970	8,051,451	410,623	8,462,074
Floating rate notes	85,000	363,750	448,750	-	375,000	375,000
Other investments held at amortized cost, gross	19,739,970	363,750	20,103,720	8,051,451	785,623	8,837,074
Allowance for impairment	-	(363,750)	(363,750)	-	(375,000)	(375,000)
Other investments held at amortized cost, net	19,739,970	-	19,739,970	8,051,451	410,623	8,462,074
Investments, net	26,468,184	1,029,815	27,497,999	14,911,775	1,757,502	16,669,277

For the years ended December 31, 2012 and 2011

6 - Investments, net (continued)

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

SAR' 000	2012			2011		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Fixed rate securities	1,330,372	20,427,553	21,757,925	1,280,045	9,237,119	10,517,164
Floating rate securities / notes	287,022	1,851,301	2,138,323	1,808,356	574,160	2,382,516
Equities	432,966	269,324	702,290	430,556	372,080	802,636
Other	-	3,263,211	3,263,211	-	3,341,961	3,341,961
	2,050,360	25,811,389	27,861,749	3,518,957	13,525,320	17,044,277
Allowance for impairment	-	(363,750)	(363,750)	-	(375,000)	(375,000)
Investments, net	2,050,360	25,447,639	27,497,999	3,518,957	13,150,320	16,669,277

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	2012				2011			
	Carrying value	Gross unrealized gains	Gross unrealized losses	Fair Value	Carrying value	Gross unrealized gains	Gross unrealized losses	Fair Value
i) Held to maturity								
Fixed rate securities	709,587	12,192	-	721,779	1,020,483	37,097	-	1,057,580
Total	709,587	12,192	-	721,779	1,020,483	37,097	-	1,057,580
ii) Other investments held at amortized cost								
Fixed rate securities	19,654,970	24,642	(3,758)	19,675,854	8,462,074	32,135	(97)	8,494,112
Floating rate notes	448,750	-	-	448,750	375,000	-	-	375,000
Allowance for impairment	(363,750)	-	-	(363,750)	(375,000)	-	-	(375,000)
Total	19,739,970	24,642	(3,758)	19,760,854	8,462,074	32,135	(97)	8,494,112

6 - Investments, net (continued)

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

SAR' 000	2012	2011
Government and quasi government	21,028,831	10,304,594
Corporate	4,332,682	4,287,709
Banks and other financial institutions	2,061,064	2,011,518
Others	75,422	65,456
Total	27,497,999	16,669,277

e) Credit risk exposure on investments

SAR' 000	2012	2011
Saudi government bonds	20,863,854	9,237,118
Investment grade	2,374,474	2,975,843
Non investment grade	-	112,560
Unrated	4,259,671	4,343,756
Total	27,497,999	16,669,277

Saudi government bonds comprise of Saudi government development bonds and treasury bills. Investment grade includes investments having credit exposure equivalent to Standard and Poor's rating of AAA to BBB. Unrated investments include local equities, foreign equities, Musharakah and Mudarabah (2012: SAR 3,263 million (2011: SAR 3,342 million)).

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

SAR' 000	2012	2011
Balance at the beginning of the year	477,000	477,000
Recoveries during the year	(11,250)	-
Balance at the end of the year	465,750	477,000

Investments held as FVIS represent investments held for trading and include Islamic securities of SAR 77 million (2011: SAR 141 million).

Available for sale investments include Islamic securities (Sukuk) of SAR 1,574 million (2011: SAR 952 million). Other AFS includes Mudarabah investments of SAR Nil million (2011: SAR 4 million) which are hedged and measured at fair value to the extent of the risk being hedged.

Unquoted investments include Saudi Government Bonds and treasury bills of SAR 20,864 million (2011: SAR 9,237 million).

6 - Investments, net (continued)

Saudi Istithmar mutual fund SAR 66 million (2011: SAR 58 million) and unquoted equity shares of SAR 203 million (2011: SAR 372 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	Overdraft & Commercial loans	Credit Cards	Consumer Loans	Others	Total
2012					
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
2011					
Performing loans and advances- gross	75,714,916	701,793	9,802,677	6,516,336	92,735,722
Non performing loans and advances, net	852,378	56,103	215,940	3,629	1,128,050
Total loans and advances	76,567,294	757,896	10,018,617	6,519,965	93,863,772
Allowance for impairment	(1,159,204)	(57,050)	(320,712)	(1,764)	(1,538,730)
Loans and advances held at amortised cost, net	75,408,090	700,846	9,697,905	6,518,201	92,325,042

7 - Loans and advances - net (continued)

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

i) Movement in allowance for impairment of credit losses

SAR' 000	Overdraft & Commercial loans	Credit Cards	Consumer Loans	Others	Total
2012					
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
2011					
Balance at beginning of the year	1,201,628	55,092	236,197	-	1,492,917
Provided during the year	66,502	49,886	174,906	1,764	293,058
Written off during the year	(3,480)	(37,412)	(71,203)	-	(112,095)
Recoveries of amounts previously provided	(105,446)	(10,516)	(19,188)	-	(135,150)
Balance at the end of the year	1,159,204	57,050	320,712	1,764	1,538,730

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

The net charge to income (provision net of recoveries) of SAR 455 million (2011: SAR 158 million) in respect of impairment charge for credit losses for the year is net of recoveries of SAR 110 million (2011: SAR 135 million). The allowance for impairment includes SAR 779 million (2011: SAR 679 million) evaluated on collective impairment basis.

Non performing loans and advances are disclosed net of accumulated special commission in suspense of SAR 78 million (2011: SAR 196 million).

For the years ended December 31, 2012 and 2011

7 - Loans and advances - net (continued)

ii) Movement of collective impairment provision:

SAR' 000	2012	2011
Balance at the beginning of the year	679,010	701,810
Provided,net during the year	118,900	(22,800)
Written off during the year	(19,000)	-
Balance at the end of the year	778,910	679,010

c) Credit quality of loans and advances

i) Neither past due nor impaired

SAR' 000	Overdraft & Commercial loans	Credit Cards	Consumer Loans	Others	Total
2012					
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
2011					
Very strong quality including sovereign (A+ to B)	23,592,980	6,375	4,370	2,060,571	25,664,296
Good quality (C+ to C)	22,298,259	8,222	378,133	2,260,132	24,944,746
Satisfactory quality (C- to E +)	26,825,320	616,181	8,167,321	2,132,104	37,740,926
Special mention (E to E -)	1,498,284	1,517	73,877	63,529	1,637,207
Total	74,214,843	632,295	8,623,701	6,516,336	89,987,175

7 - Loans and advances - net (continued)

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

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

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

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

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

SAR' 000	Overdraft & Commercial loans	Credit Cards	Consumer Loans	Others	Total
2012					
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
2011					
From 1 day to 30 days	1,093	24,277	811,484	-	836,854
From 31 days to 90 days	64,897	25,456	253,199	-	343,552
From 91 days to 180 days	94,676	19,765	86,941	-	201,382
More than 180 days	1,339,407	-	27,352	-	1,366,759
Total	1,500,073	69,498	1,178,976	-	2,748,547

Notes to the Consolidated Financial Statements

For the years ended December 31, 2012 and 2011

7 - Loans and advances - net (continued)

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

Loans and advances include Islamic related products of SAR 53,290 million (2011: SAR 44,724 million).

7 - Loans and advances - net (continued)

d) Collateral

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

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

SAR' 000	2012	2011
Gross receivable from finance leases:		
Less than 1 year	-	270,043
1 to 5 years	767,685	452,726
More than 5 years	5,716,052	3,832,534
	6,483,737	4,555,303
Unearned future finance income on finance leases	-	(8)
Net receivable from finance leases	6,483,737	4,555,295

8 - Investment in associates

SAR' 000	2012	2011
Opening balance	170,789	185,628
Cost of investment during the year	-	27,886
Sale and transfer of investments	(642)	(26,377)
Share of earnings / (losses)	1,801	(16,348)
Closing balance	171,948	170,789

Investment in associates represents 27% shareholding in interest in the Banque BEMO Saudi Fransi (2011: 27%) and 32.5% shareholding in Saudi Fransi Cooperative Insurance Company (Allianz Saudi Fransi) (2011: 32.5%) incorporated in the Kingdom of Saudi Arabia. The fair value of the Saudi Fransi Cooperative Insurance Company (Allianz Saudi Fransi) as at December 31,2012 is SAR 344.5 million.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2012 and 2011

8 - Investment in associates (continued)

The Bank's share of associates' financial statements:

SAR' 000	Banque Bemo Saudi Fransi - Syria		Allianz Saudi Fransi	
	2012	2011	2012	2011
Total assets	1,105,130	1,428,705	364,241	349,319
Total liabilities	1,006,740	1,297,807	309,817	297,971
Total equity	98,390	130,898	54,424	51,348
Total income	46,413	51,761	128,879	124,422
Total expenses	38,862	34,984	125,986	124,552

The results of other associate i.e Sofinco Saudi Fransi are not significant and are not disclosed in these consolidated financial statements.

9 - Property and equipment, net

SAR' 000	Land and buildings	Leasehold improvements	Furniture, equipment and vehicles	2012 Total	2011 Total
Cost					
Balance at the beginning of the year	473,043	109,100	697,996	1,280,139	1,249,040
Additions	74,071	38,999	77,520	190,590	125,106
Disposals and retirements	(18)	(33,208)	(47,676)	(80,902)	(94,007)
Balance at the end of the year	547,096	114,891	727,840	1389,827	1,280,139
Accumulated depreciation and amortization					
Balance at the beginning of the year	204,455	1,705	492,986	699,146	662,736
Charge for the year	14,136	34,414	81,048	129,598	130,257
Disposals and retirements	(18)	(33,208)	(46,996)	(80,222)	(93,847)
Balance at the end of the year	218,573	2,911	527,038	748,522	699,146
Net book value as at December 31, 2012	328,523	111,980	200,802	641,305	
Net book value as at December 31, 2011	268,588	107,395	205,010		580,993

Leasehold improvements as at December 31, 2012 include work in progress amounting to SAR 22 million (2011: SAR 17 million) . Furniture, equipment and vehicles include information technology related assets.

10 - Other assets

SAR' 000	2012	2011
Accrued special commission receivable – Banks and other financial institutions	996	875
– Investments	86,321	9,898
– Loans and advances	256,053	342,552
Total accrued special commission receivable	343,370	353,325
Accounts receivable	630,505	355,051
Positive fair value of derivatives (note 11)	4,492,042	4,448,873
Other real estate	4,800	4,800
Others	541,341	446,966
Total	6,012,058	5,609,015

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.

11 - Derivatives (continued)

Held for trading purposes

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

Held for hedging purposes

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

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

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

Cash flow hedges

The Bank is exposed to variability in future commission income cash flows on non-trading assets and liabilities which bear variable commission rate. The Bank uses commission rate swaps as cash flow hedges of these commission rate risks. Also, as a result of firm commitments in foreign currencies, such as its issued foreign currency debt, the Bank is exposed to foreign exchange and commission rate risks which are hedged with cross currency commission rate swaps. Below is the schedule indicating as at 31 December, the periods when the hedged cash flows are expected to occur and when they are expected to affect profit or loss:

11 - Derivatives (continued)

SAR' 000	Within 1 year	1-3 years	3-5 years	Over 5 years
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	808,482	492,178	143,191	7,411
2011				
Cash inflows (assets)	679,146	926,810	358,496	41,338
Cash out flows (liabilities)	(151,042)	(550,359)	(285,358)	(32,684)
Net cash inflow	528,104	376,451	73,138	8,654

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

SAR' 000	2012	2011
Special commission income	923,428	826,379
Special commission expense	(337,559)	(169,925)
Net gain on cash flow hedges transferred to consolidated income statement	585,869	656,454

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.

For the years ended December 31, 2012 and 2011

11 - Derivatives (continued)

Derivative financial instruments SAR' 000	Positive fair value	Negative fair value	Notional amounts by term to maturity					
			Notional amount	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	42,786,669	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
2011								
Held for trading								
Commission rate swaps	2,779,537	2,648,569	121,770,324	12,234,633	19,785,818	81,689,477	8,060,396	184,751,652
Commission rate futures and options	3,796	2,609	18,369,866	800,000	2,238,750	14,301,632	1,029,484	17,164,846
Forward rate agreements	-	-	-	-	-	-	-	-
Forward foreign exchange contracts	126,213	58,217	70,766,488	42,061,777	27,354,716	1,349,995	-	70,869,280
Currency options	14,843	-	39,252,138	8,521,399	22,185,335	8,545,404	-	42,245,165
Others	5,245	-	985,433	184,579	195,011	602,543	3,300	1,101,879
Held as fair value hedges								
Commission rate swaps	178,732	17,407	4,562,924	12,187	7,589	4,279,148	264,000	7,038,749
Held as cash flow hedges								
Commission rate swaps	1,359,518	8,014	27,452,666	1,137,500	3,511,200	21,197,716	1,606,250	27,137,362
Total	4,467,884	2,734,816	283,159,839	64,952,075	75,278,419	131,965,915	10,963,430	350,308,933
Fair value of netting arrangements	(19,011)	(19,011)	(832,452)	(99,374)	(595,578)	(137,500)	-	(59,260,178)
Total after netting (notes 10 and 16)	4,448,873	2,715,805	282,327,387	64,852,701	74,682,841	131,828,415	10,963,430	291,048,755

11 - Derivatives (continued)

Commission rate swaps include the notional amount of SAR 53 million (2011: SAR 832 million) with an aggregate positive fair value and a negative fair value of SAR 2 million (2011: SAR 19 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.

Description of hedged items SAR' 000	Fair value	Cost	Risk	Hedging instrument	Positive fair value	Negative fair value
2012						
Fixed commission rate loans	437,845	415,052	Fair value	Commission rate swap	-	24,027
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
2011						
Fixed commission rate investments	4,142	4,125	Fair value	Commission rate swap	-	17
Fixed commission rate loans	435,165	442,609	Fair value	Commission rate swap	-	17,390
Fixed commission rate deposits	1,833,086	1,678,690	Fair value	Commission rate swap	133,831	-
Fixed commission rate debt securities	2,462,719	2,437,500	Fair value	Commission rate swap	44,901	-
Floating commission rate investments	775,798	773,950	Cash flow	Commission rate swap	32,660	-
Floating commission rate loans	26,704,379	26,678,716	Cash flow	Commission rate swap	1,326,858	8,014

The net losses on the hedging instruments for fair value hedge are SAR 5 million (2011: gains SAR 161 million). The net gains on the hedged item attributable to the hedged risk are SAR 3 million (2011: loss SAR 137 million). The net fair value of the derivatives is SAR 2 million (2011: SAR 24 million).

Approximately 22% (2011: 75%) of the net positive fair values of the Bank's derivatives are entered into with financial institutions and less than 20% (2011: 22%) 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	2012	2011
Current accounts	575,588	400,799
Money market deposits	5,086,880	1,662,949
Total	5,662,468	2,063,748

13 - Customers' deposits

SAR' 000	2012	2011
Demand	61,805,382	51,816,883
Saving	448,802	446,471
Time	50,236,494	54,017,422
Other	3,081,089	3,682,635
Total	115,571,767	109,963,411

Other customers' deposits include SAR1,450 million (2011: SAR 1,171 million) related to margins held for irrevocable commitments.

Time deposits include Islamic related products of SAR 19,214 million (2011: SAR 24,961 million).

Customers' deposits include foreign currency deposits as follows:

SAR' 000	2012	2011
Demand	6,937,729	7,830,909
Saving	12,731	20,541
Time	15,507,740	15,368,697
Other	424,509	451,368
Total	22,882,709	23,671,515

14 - Term loans

The Bank entered into a five year term loan agreement on June 25, 2008 for Euro 100 million (repayable in 2013) for general banking purposes. The loan has been drawn down in full. In addition, the Bank entered into another term loan agreement on September 22, 2008 for USD 525 million, which has also been drawn down in full and comprises a three year tranche (USD 183 million) and a five year tranche (USD 342 million) for general banking purposes. However, the Bank has an option to repay all these loans before their maturity subject to terms and conditions of the respective agreements. A three year tranche term loan (USD183 million) was matured and fully settled in 2011.

15 - Debt securities and Sukuks

During the quarter ended March 31, 2010, the Bank issued USD 650 million in 5 year non-convertible and unsecured fixed rate bonds, under its USD 2 Billion Euro Medium Term Note programme which is listed on the London Stock Exchange. The bonds pay a semi-annual coupon of 4.25% and are to be used for general banking purposes.The Bank also raised fund through medium term shari'ah compliant Sukuk amounted to 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 SAR 1,900 million unsecured Subordinated sukuk in December 2012 for a period of 7 years which is listed on the Saudi Stock Exchange (Tadawul). However, the Bank has a 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	2012	2011
Accrued special commission payable – Banks and other financial institutions	706	271
– customers' deposits	90,416	83,808
– term loans and sukuks	41,351	40,893
– others	272,905	287,217
Total accrued special commission payable	405,378	412,189
Accounts payable and accrued expenses	1,532,892	960,429
Negative fair value of derivatives (note 11)	2,539,997	2,715,805
Others	469,635	479,480
Total	4,947,902	4,567,903

17 - Share capital

The authorised, issued and fully paid share capital of the Bank consists of 904 million shares of SAR 10 each (2011: 723.2 million shares of SAR 10 each). In accordance with the shareholders' resolution passed at the Extra Ordinary General Assembly Meeting held on April 7, 2012, a stock dividend of 180.8 million shares at a nominal value SAR 10 each was issued to existing shareholders, on the basis of 1 stock dividend share for every 4 shares held, through capitalization of retained earnings. Accordingly, share capital of the Bank has increased from SAR 7,232 million to SAR 9,040 million.

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

SAR' 000	%	2012	2011
Saudi shareholders	68.9	6,227,679	4,982,143
Credit Agricole Corporate and Investment Bank (CA-CIB)	31.1	2,812,500	2,250,000
Total	100	9,040,179	7,232,143

For the years ended December 31, 2012 and 2011

18 - Statutory reserves

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

The bank had appropriated SAR 983 million to general reserve from retained earinings.

An amount of SAR 754 million (2011: SAR 728 million) has been transferred from the retained earnings to statutory reserve during the year. This reserve is not available for distribution.

19 - Other reserves

SAR' 000	Cash flow hedges	Available for sale investments	Total
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 income statement	(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
2011			
Balance at beginning of the year	702,275	44,697	746,972
Net change in fair value	894,048	(108,543)	785,505
Transfer to consolidated income statement	(656,454)	-	(656,454)
Net movement during the year	237,594	(108,543)	129,051
Balance at the end of the year	939,869	(63,846)	876,023

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.

19 - Other reserves (continued)

Transfer to consolidated income statement from available for sale reserve represents, gain on disposal of available for sale investments – international amounting to SAR 5 million (2011: Nil). Accordingly, the cumulative gain or loss recognised previously in other comprehensive income and gain or loss on disposal of investments during the year and impairment charges have been transferred to consolidated income statement. For cash flow hedges, the amount shown as balance of reserves as at December 31, 2012 is expected to affect the consolidated income statement in the coming one to five years.

20 - Commitments and contingencies

a) Legal proceedings

As at December 31, 2012 there were 18 (2011: 11) legal proceedings outstanding against the Bank. No material provision has been made as the related professional legal advice indicates that it is unlikely that any significant loss will arise.

b) Capital commitments

As at December 31, 2012 the Bank had capital commitments of SAR 41 million (2011: SAR 70 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.

For the years ended December 31, 2012 and 2011

20 - Commitments and contingencies (continued)

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

SAR' 000	Within 3 months	3-12 months	1-5years	Over 5 years	Total
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
2011					
Letters of credit	8,016,247	4,100,827	1,204,460	2,398	13,323,932
Letters of guarantee	8,365,447	17,720,430	10,513,473	338,838	36,938,188
Acceptances	1,493,430	713,034	76,607	-	2,283,071
Irrevocable commitments to extend credit	49,573	1,980,673	2,612,875	504,596	5,147,717
Total	17,924,697	24,514,964	14,407,415	845,832	57,692,908

The outstanding unused portion of non firm commitments which can be revoked unilaterally at any time by the Bank as at December 31, 2012 is SAR 87,422 million (2011: SAR 72,574 million).

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

SAR' 000	2012	2011
Government and quasi government	1,617,452	1,892,036
Corporate	50,149,208	46,914,339
Banks and other financial institutions	8,697,872	8,653,692
Other	224,102	232,841
Total	60,688,634	57,692,908

20 - Commitments and contingencies (continued)

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	2012	2011
Less than 1 year	6,321	8,106
1 to 5 years	68,357	81,179
Over 5 years	139,991	152,857
Total	214,669	242,142

21 - Special commission income and expense

SAR' 000	2012	2011
Special commission income		
Investments – Available for sale	191,863	194,603
– Held to maturity	29,723	51,276
– Other investments held at amortized cost	110,248	74,897
	331,834	320,776
Due from banks and other financial institutions	47,615	45,013
Loans and advances	3,689,831	3,265,510
Total	4,069,280	3,631,299
Special commission expense		
Due to banks and other financial institutions	12,361	8,741
Customers' deposits	615,548	396,613
Term loans and debt securities	135,594	88,874
Total	763,503	494,228

For the years ended December 31, 2012 and 2011

22 - Fee and commission income, net

SAR' 000	2012	2011
Fees and commission income		
- Share trading, brokerage, fund management and corporate finance	367,704	230,052
- Trade finance	391,374	341,644
- Project finance and advisory	297,476	256,182
- Card products	130,542	134,847
- Other banking services	140,997	217,335
Total fees and commission income	1,328,093	1,180,060
Fees and commission expense		
- Share trading and brokerage	55,184	35,410
- Custodial services	4,869	4,462
- Card products	93,796	88,794
- Other banking services	761	1,342
Total fees and commission expense	154,610	130,008
Fees and commission income, net	1,173,483	1,050,052

23 - Trading income, net

SAR' 000	2012	2011
Foreign exchange gains / (losses), net	866	(1,622)
Investments- held as FVIS (trading), net	24,484	24,331
Derivatives, net	112,684	109,967
Total	138,034	132,676

24 - Dividend income

SAR' 000	2012	2011
Available for sale investments	21,379	14,244

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

SAR' 000	2012	2011
Available for sale	78,771	-

26 - Other operating income

SAR' 000	2012	2011
Gains on disposal of property and equipment	134	297
Others	45,454	29,726
Total	45,588	30,023

27 - Other operating expenses

SAR' 000	2012	2011
Loss on disposal of property and equipment	91	118
Others	3,007	27,075
Total	3,098	27,193

28 - Basic and diluted earnings per share

Basic and diluted earnings per share for the years ended December 31, 2012 and 2011 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 proposed on December 29 2012 a total net dividend of SAR 0.8 (2011: SAR 0.7) per share for the year which is subject to the approval of the shareholders at the Annual General Assembly Meeting and the regulatory agencies. No interim dividend was proposed by the Board of Directors for the year 2012 (2011: SAR 0.7 per share).

Gross dividend

SAR' 000	2012	2011
Interim dividend	-	542,913
Final proposed gross dividend	810,000	-
Total	810,000	542,913

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 60 million (2011: SAR 56 million) which will be deducted from their share of dividend for the year. The net total dividend to Saudi shareholders is SAR 498 million (2011: SAR 349 million)

For the years ended December 31, 2012 and 2011

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

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 assessment 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 186 million (2011: SAR 183 million) which will be deducted from their share of dividend for the year. The current year net dividend for the foreign shareholder is SAR 66 million.

30 - Cash and cash equivalents

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

SAR' 000	2012	2011
Cash and balances with SAMA excluding statutory deposit (note 4)	8,915,775	12,459,872
Due from banks and other financial institutions maturing within ninety days from the date of acquisition	5,435,376	7,009,009
Total	14,351,151	19,468,881

31 - Employees Compensation practices

Categories of employees SAR' 000	Number of employees	Fixed compensation	Variable compensation	Total compensation	Forms of payment
2012					
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	
2011					
Senior executives	18	25,935	34,080	60,015	Cash
Employees engaged in risk taking activities	250	137,416	62,143	199,559	Cash
Employees engaged in control functions	240	75,365	19,714	95,079	Cash
Other employees	2,280	332,014	37,520	369,534	Cash
Total	2,788	570,730	153,457	724,187	

31 - Employees Compensation practices (continued)

Senior executives:

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

Employees engaged in risk taking activities:

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

Employees engaged in control functions:

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

Other employees:

This includes all other employees of the Bank, excluding those already reported under 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;

31 - Employees Compensation practices (continued)

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 period of prosperity and financial crisis. BSF follows strict governance-orientated compensation practices. BSF compensation system promotes meritocracy, controls excessive risk-taking and ensures effective risk management. The compensation policy as recently amended by the NCCOM and approved by the Board, conforms to compensation related corporate governance and supports the SAMA rules and Financial Stability Board (FSB) guidelines. It is structured to meet challenges i.e. attracting, retaining and motivating highly skilled staff, recognizing 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.

31 - Employees Compensation practices (continued)

BSF as part of its reward philosophy aims on the perfect blend of benefits that is externally competitive to retain, motivate and engage. A level playing field has always been an important consideration in our reward strategy. BSF design compensation structure with prudence. Variable pay deferral, for instance, is generally a sound way to encourage long-term commitment. But doing so when most banks, both in the country and in the region, still paying one-time in cash, requires bit of a caution. In the year 2011, the Management and the Board of Directors, through the NCCOM, took a close look to further align its compensation and rewards policy to stockholders' interest and value creation. Full details of the new compensation model per Action Plan has been completed in 2012 for implementation in performance year 2013.

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

32 - Operating segments

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

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

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since December 31, 2011. 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.

For the years ended December 31, 2012 and 2011

32 - Operating segments (continued)

The Bank's total assets and liabilities as at December 31, 2012 and 2011, 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
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 earnings 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
Fee 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
2011					
Total assets	16,802,119	79,965,066	43,282,176	430,597	140,479,958
Investment in associates	-	-	170,789	-	170,789
Total liabilities	45,950,747	64,017,307	10,538,804	317,773	120,824,631
Total operating income	1,557,202	2,154,327	672,166	201,079	4,584,774
Share in losses of associates, net	-	-	(16,348)	-	(16,348)
Total operating expenses	1,067,721	316,591	155,086	118,086	1,657,484
Net income for the year	489,481	1,837,736	500,732	82,993	2,910,942
Results					
Net special commission income	1,224,161	1,573,342	333,946	5,622	3,137,071
Fee and commission income, net	276,029	578,635	(71)	195,459	1,050,052
Exchange income, net	32,564	-	188,144	-	220,708
Trading income, net	-	-	132,676	-	132,676
Impairment charges for credit losses, net	166,835	(8,927)	-	-	157,908
Depreciation and amortization	95,219	22,393	9,617	3,028	130,257

32 - Operating segments (continued)

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

SAR' 000	Retail banking	Corporate banking	Treasury	Total
2012				
Statement of financial position assets	15,819,444	90,763,189	43,683,068	150,265,701
Commitments and contingencies	121,794	27,336,149	79,404	27,537,347
Derivatives	20,235	1,107,711	5,169,286	6,297,232
2011				
Statement of financial position assets	16,332,073	79,812,152	37,356,772	133,500,997
Commitments and contingencies	139,409	25,782,785	68,618	25,990,812
Derivatives	25,926	1,703,074	8,059,108	9,788,108

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.

33 - Credit risk (continued)

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

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

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

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

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

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

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

33 - Credit risk (continued)

Geographical concentration

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

SAR' 000	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	Other Countries	Total
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 & Sukuks	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	23,890,854	227,723	2,342,114	66,162	1,010,494	27,537,347
Derivatives	1,748,796	159,168	3,499,120	836,897	53,251	6,297,232
2011						
Assets						
Cash and balances with SAMA	18,115,582	-	-	-	-	18,115,582
Due from banks and other financial institutions	1,153,750	736,093	4,538,166	576,565	4,686	7,009,260
Investments and investment in associates, net	14,937,616	1,018,764	710,011	147,729	25,946	16,840,066
Loans and advances, net	89,920,884	1,447,045	733,677	31,275	192,161	92,325,042
Total	124,127,832	3,201,902	5,981,854	755,569	222,793	134,289,950
Liabilities						
Due to banks and other financial institutions	85,421	1,620,103	225,870	31,549	100,805	2,063,748
Customers' deposits	109,773,229	47,798	72,666	141	69,577	109,963,411
Term loans	-	-	1,766,850	-	-	1,766,850
Debt securities	-	-	2,462,719	-	-	2,462,719
Total	109,858,650	1,667,901	4,528,105	31,690	170,382	116,256,728
Commitments and contingencies	48,829,896	497,799	4,809,035	212,566	3,343,612	57,692,908
Credit exposure (credit equivalent value)						
Commitments and contingencies	22,172,612	258,663	2,421,164	106,283	1,032,090	25,990,812
Derivatives	2,676,789	277,342	6,118,079	715,898	-	9,788,108

33 - Credit risk (continued)

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

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

SAR ' 000	2012		2011	
	Non performing, net	Allowance for impairment of credit losses	Non performing, net	Allowance for impairment of credit losses
Kingdom of Saudi Arabia	1,044,689	(1,552,295)	1,128,050	1,538,730
Total	1,044,689	(1,552,295)	1,128,050	1,538,730

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.

34 - Market risk (continued)

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, 2012 and 2011 are follows:

SAR ' 000	Foreign exchange rate	Special commission rate risk	Overall Trading
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
2011			
VaR as at December 31, 2011	100	939	968
Average VaR for 2011	102	1,356	1,360
Maximum VaR for 2011	567	2,897	2,950
Minimum VaR for 2011	12	656	670

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 effect either the fair values or the future cash flows of the financial instruments. The Board has established special commission rate gap limits for stipulated periods. The Bank monitors positions daily and uses hedging strategies to ensure maintenance of positions within the established gap limits.

34 - Market risk (continued)

The following table depicts the sensitivity to a reasonable possible change in special commission rates, with other variables held constant, on the Bank's consolidated income statement or equity. The sensitivity of the special commission income is the effect of the assumed changes in special commission rates with a lowest level at 0%, on the net special commission income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at December 31, 2012, 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, 2012 for the effect of assumed changes in special commission rate. The sensitivity of equity is analyzed by maturity of the asset or swap. All the banking book exposures are monitored and analyzed in currency concentrations and relevant sensitivities are disclosed in SAR thousands.

SAR' 000 Currency	BPS change	Sensitivity of special commission income	Sensitivity of Equity				
			6 months or less	Over 6 month to 1 year	Over 1 year to 5 years	Over 5 years	Total
2012							
USD	+100	(125,000)	(1,856)	(1,616)	(5,033)	(960)	(9,465)
	-100	82,000	1,856	1,616	5,033	960	9,465
SAR	+100	240,000	42,626	(29,233)	(1,200,737)	(9,107)	(1,196,451)
	-100	(267,000)	(42,626)	29,233	1,200,737	9,107	1,196,451
2011							
USD	+100	(85,000)	(199)	(1,699)	(17,025)	(1,275)	(20,198)
	-100	81,000	199	1,699	17,025	1,275	20,198
SAR	+100	145,000	21,331	(22,671)	(593,500)	(21,146)	(615,986)
	-100	(200,000)	(21,331)	22,671	593,500	21,146	615,986

Special commission rate sensitivity of assets, liabilities and derivatives

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

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

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

34 - Market risk (continued)

SAR' 000	Within 3 months	3 -12 months	1 -5 years	Over 5 years	Non commission bearing	Total
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	15,398,299	4,363,500	1,197,677	874,238	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 and Sukuk	-	-	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	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	-	-
2011						
Assets						
Cash and balances with SAMA	11,670,919	-	-	-	6,444,663	18,115,582
Due from banks and other financial institutions	6,331,728	-	-	-	677,532	7,009,260
Investments and investment in associates ,net	3,572,147	7,127,564	4,767,829	399,100	973,426	16,840,066
Loans and advances, net	57,512,655	23,262,594	7,523,024	3,758,440	268,329	92,325,042
Property and equipment, net	-	-	-	-	580,993	580,993
Other assets	-	-	-	-	5,609,015	5,609,015
Total assets	79,087,449	30,390,158	12,290,853	4,157,540	14,553,958	140,479,958
Liabilities and shareholders' equity						
Due to banks and other financial institutions	1,662,949	-	-	-	400,799	2,063,748
Customers' deposits	39,134,184	13,247,891	2,154,922	-	55,426,414	109,963,411
Term loans	1,766,850	-	-	-	-	1,766,850
Debt securities	2,462,719	-	-	-	-	2,462,719
Other liabilities	-	-	-	-	4,567,903	4,567,903
Shareholders' equity	-	-	-	-	19,655,327	19,655,327
Total liabilities and shareholders' equity	45,026,702	13,247,891	2,154,922	-	80,050,443	140,479,958
Net gap between assets and liabilities	34,060,747	17,142,267	10,135,931	4,157,540	(65,496,485)	-
Net gap between derivative financial instruments	(23,817,789)	781,857	22,108,859	927,073	-	-
Total commission rate sensitivity gap	10,242,958	17,924,124	32,244,790	5,084,613	(65,496,485)	-
Cumulative commission rate sensitivity gap	10,242,958	28,167,082	60,411,872	65,496,485	-	-

34 - Market risk (continued)

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

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

ii) Currency Risk

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

The table below shows the currencies to which the Bank has a significant exposure as at December 31, 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 income statement (due to the fair value of the currency sensitive non-trading monetary assets and liabilities) and equity (due to change in fair value of commission rate swaps used as cash flow hedges). A positive effect shows a potential increase in the consolidated income statement or equity; whereas a negative effect shows a potential net reduction in the consolidated income statement or equity.

SAR' 000	2012			2011		
Currency Exposures	Change in Currency Rate in %	Effect on Net Income	Effect on Equity	Change in Currency Rate in %	Effect on Net Income	Effect on Equity
USD	+5	(34,114)	1,060	+5	(50,147)	1,513
EUR	-3	(1,620)	-	-3	(2,114)	-

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	2012 (Short) / long	2011 (Short) / long
US Dollar	(446,715)	(443,950)
Euro	53,993	48,042
Pound Sterling	394	(409)
Other	6,941	17,459
Total	(385,387)	(378,858)

34 - Market risk (continued)

iv) Equity Price Risk

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

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

SAR' 000	2012		2011	
Market Indices	Change in equity Price %	Effect on market value	Change in equity Price %	Effect on market value
Tadawul	+5	20,551	+5	24,280
Tadawul	-5	(20,551)	-5	(24,280)

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.

For the years ended December 31, 2012 and 2011

35 - Liquidity risk (continued)

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 and Sukuks	-	-	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
2011						
Assets						
Cash and balances with SAMA	11,670,919	-	-	-	6,444,663	18,115,582
Due from banks and other financial institutions	6,331,728	-	-	-	677,532	7,009,260
Investments and investment in associates, net	1,793,125	7,494,723	5,812,396	766,396	973,426	16,840,066
Loans and advances, net	30,642,502	17,626,314	18,714,260	19,973,243	5,368,723	92,325,042
Property and equipment, net	-	-	-	-	580,993	580,993
Other assets	-	-	-	-	5,609,015	5,609,015
Total assets	50,438,274	25,121,037	24,526,656	20,739,639	19,654,352	140,479,958
Liabilities and shareholders' equity						
Due to banks and other financial institutions	1,662,949	-	-	-	400,799	2,063,748
Customers' deposits	38,090,290	13,247,891	2,455,470	-	56,169,760	109,963,411
Term loans	-	-	1,766,850	-	-	1,766,850
Debt securities	-	-	2,462,719	-	-	2,462,719
Other liabilities	-	-	-	-	4,567,903	4,567,903
Shareholders' equity	-	-	-	-	19,655,327	19,655,327
Total liabilities and shareholders' equity	39,753,239	13,247,891	6,685,039	-	80,793,789	140,479,958

35 - Liquidity risk (continued)

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, 2012 and 2011 based on contractual undiscounted repayment obligations. As special commission payments up to contractual maturity are included in the table, totals do not match with the consolidated statement of financial position. The contractual maturities of liabilities have been determined based on the remaining period at the reporting date to the contractual maturity date and do not take into account the effective expected maturities. The Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not affect the expected cash flows indicated by the Bank›s deposit retention history.

SAR' 000	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	No fixed maturity	Total
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 and Sukuks	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
2011						
Due to banks and other financial institutions	1,663,181	-	-	-	400,799	2,063,980
Customers' deposits	38,420,593	13,321,810	2,296,408	-	56,169,760	110,208,571
Term loans	7,085	21,254	1,785,408	-	-	1,813,747
Debt securities	25,898	77,695	2,700,121	-	-	2,803,714
Total	40,116,757	13,420,759	6,781,937	-	56,570,559	116,890,012
Derivatives:						
Contractual amount payable	(40,548,006)	6,751,606	35,025,901	2,732,915	-	3,962,416
Contractual amount receivable	65,611,291	(7,131,469)	(61,598,014)	(3,819,239)	-	(6,937,431)
Total undiscounted financial liabilities	65,180,042	13,040,896	(19,790,176)	(1,086,324)	56,570,559	113,914,997

36 - Fair values of financial assets and liabilities

Determination of fair value and fair value hierarchy

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

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

Level 2: quoted prices in active markets for similar assets and liailities 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
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
2011				
Financial assets				
Derivative financial instruments	-	4,448,873	-	4,448,873
Financial investments designated at FVIS(trading)	327,919	165,184	-	493,103
Financial investments available for sale	2,780,417	199,159	3,714,041	6,693,617
Total	3,108,336	4,813,216	3,714,041	11,635,593
Financial Liabilities				
Derivative financial instruments negative fair value	-	2,715,805	-	2,715,805
Total	-	2,715,805	-	2,715,805

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

Financial investments available for sale comprise Mudarabah SAR 3,263 million (2011: SAR 3,342 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	2012	2011
Balance at the beginning of the year	3,714,041	3,889,751
Other comprehensive income /(losses)	1,326	(26,349)
Purchases	-	108,363
Issues	1,500,000	1,300,000
Settlements	(1,682,832)	(1,557,724)
Balance at the end of the year	3,532,535	3,714,041

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

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

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

For the years ended December 31, 2012 and 2011

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, 2012 and 2011 resulting from such transactions included in the consolidated financial statements are as follows:

SAR' 000	2012	2011
CA-CIB Group		
Due from banks and other financial institutions	1,659,860	1,724,413
Due to banks and other financial institutions	191,526	36,515
Derivatives at fair value, net	14,371	(173,530)
Commitments and contingencies	1,905,196	1,761,561
Associates		
Investments	171,948	170,789
Loans and advances	50,010	65,000
Due to banks and other financial institutions	45,023	406,521
Customers' deposits	18,065	13,743
Commitments and contingencies	5,050	44,277
Directors, auditors,other major shareholders' and their affiliates		
Loans and advances	2,541,138	2,202,613
Customers' deposits	4,022,698	3,897,601
Derivatives at fair value, net	(68,022)	(13,739)
Commitments and contingencies	1,129,506	355,631
Bank's mutual funds		
Investments	66,461	58,350
Derivatives at fair value, net	5,222	5,367
Customers' deposits	378,464	956,272

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

37 - Related party transactions and balances (continued)

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

SAR' 000	2012	2011
Special commission income		
-CA-CIB group	2,729	3,761
-Directors, auditors, other major shareholders' and their affiliates	60,141	44,522
-Associates	1,580	3,059
-Bank's mutual funds	62	40
Total Special commission income	64,512	51,382
Special commission expense		
-CA-CIB group	155	934
-Directors, auditors, other major shareholders' and their affiliates	40,657	47,068
-Associates	100	292
-Bank's mutual funds	3,275	11,170
Total Special commission expense	44,187	59,464
Fees ,commission income and others, net	12,495	6,953
Directors' fees	3,350	3,245
Other general and administrative expenses	1,128	814

The total amount of short term benefits paid to key management personnel during the year is SAR 111 million (2011: SAR 92 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%.

For the years ended December 31, 2012 and 2011

38 - Capital adequacy (continued)

SAR' 000	2012	2011
Credit Risk RWA	140,626,870	128,528,591
Operational Risk RWA	8,584,137	8,073,838
Market Risk RWA	3,300,569	1,913,875
Total RWA	152,511,576	138,516,304
Tier I Capital	22,348,029	19,320,566
Tier II Capital	2,793,700	787,330
Total Tier I & II Capital	25,141,729	20,107,896
Capital Adequacy Ratio %		
Tier I ratio	14.65%	13.95%
Tier I + Tier II ratio	16.49%	14.52%

39 - Investment management, brokerage and corporate finance services

The Bank offers investment services to its customers through its subsidiary, which include management of certain investment funds in consultation with professional investment advisors as well as brokerage services.Income from the subsidiaries is included in the consolidated income statement under fee and commission income, net.

The financial statements of these funds are not consolidated with the financial statements of the Bank. However, the Bank's share of these funds is included in the available for sale investments and fees earned are disclosed under related party transactions.The value of the mutual funds and other private investment portfolio managed by the bank through its subsidiary is SAR 3,707 million (2011: SAR 3,497 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 totalling SAR 1,777 million (2011: SAR 1,458 million).

40 - BASEL II PILLAR 3 DISCLOSURES

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

41 - Prospective changes in International Financial Reporting Framework

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

IFRS 7 Financial Instruments (amendments) effective date 1 January 2013
IFRS 9 Financial Instruments effective date 1 January 2015
IFRS 10 Consolidated Financial Statements effective date 1 January 2013
IFRS 13 Fair Value Measurement effective date 1 January 2013
IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1
IAS 28 Investments in Associates and Joint Ventures (Revised 2011) effective date January 1, 2013
IAS 32 Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32 effective date January 1, 2014

In addition to the above, the Bank has chosen not to early adopt the amendments to the basis for conclusions on IAS 1, 16, 32, and 34.

The Bank is currently assessing the implication of the above standards and amendments and the timing of adoption.

42 - Comparative figures

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

43 - Board of directors approval

The consolidated financial statements were approved by the Board of Directors on January 26, 2013 corresponding to Rabia 1 14, 1434H

PILLAR 3 - QUALITATIVE DISCLOSURES

Introduction

Banque Saudi Fransi (the Bank) is a Saudi Joint Stock Company established by Royal Decree No. M/23 dated Jumada Al Thani 17, 1397H, corresponding to June 4, 1977. The Bank formally commenced its activities on Muharram 1, 1398H, corresponding to December 11, 1977, by taking over the branches of the Banque de 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 86 branches (2011: 83 branches) in the Kingdom of Saudi Arabia, employing 2,677 people (2011: 2,788). 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 Shari'ah Board. The Bank's Head Office is located at Al Maa'ther Street, P.O. Box 56006, Riyadh 11554, Kingdom of Saudi Arabia.

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

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

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

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

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

Scope of Application

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

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

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

1. Saudi Fransi Capital: This entity is 100% owned by the Bank (99% direct and 1% indirect) and is formed through the mergers of Fransi Tadawul (Brokerage business), Caam SF (Asset Management) and Calyon Saudi Fransi (Corporate Finance).
2. Saudi Fransi Leasing: This entity is incorporated in the Kingdom of Saudi Arabia and is engaged in consumer finance activity.
3. Saudi Fransi Insurance Agency: This entity is incorporated in the Kingdom of Saudi Arabia and is engaged in insurance brokerage services.

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

1. Banque BEMO Saudi Fransi (BBSF): BBSF is incorporated in Syria as a commercial bank. The Bank owns 27% of the ordinary share capital of BBSF.
2. Banque BEMO: This entity is incorporated in Lebanon as a commercial bank. The Bank owns 10% of the ordinary share capital of Banque BEMO.
3. Saudi Fransi Cooperative Insurance Company (Allianz Saudi Fransi): This entity is incorporated in the Kindgom of Saudi Arabia. The Bank owns 32.5% of the ordinary share capital of Allianz Saudi Fransi.

There are no other group entities for regulatory purposes that are neither consolidated nor deducted (i.e. where the investment is risk weighted). There are no restrictions, or other major impediments, on transfer of funds or regulatory capital within the group.

Capital Structure

The authorised, issued and fully paid share capital of the Bank consists of 904 million shares of SAR 10 each as at 31 December, 2012.

The Bank has not issued any capital instruments of innovative, complex, or hybrid nature.

PILLAR 3 - QUALITATIVE DISCLOSURES

CAPITAL STRUCTURE AS AT 31 DECEMBER 2012		
	Components of Capital	Amounts in SAR '000s
A	Core Capital – Tier 1	
	Eligible paid-up share capital	9,040,179
	Eligible reserves	9,456,733
	Minority interests in the equity of subsidiaries	-
	Retained earnings	3,991,753
	IAS type adjustments	(28,637)
	Significant minority investments (50% deduction)	(111,999)
	Total Tier 1	22,348,029
B	Supplementary Capital – Tier 2	
	Qualifying general provisions	1,005,699
	Significant minority investments (50% deduction)	(111,999)
	Subordinated Loan Capital	1,900,000
	Total Tier 2	2,793,700
	Total Eligible Capital (A+B)	25,141,729

Capital Adequacy

The approaches adopted by the Bank for measuring minimum capital requirements under Pillar 1 of the Basel Accord are described in the following sections.

Pillar 1 – Minimum Capital Requirements

Pillar 1 of the Basel II Accord, as adopted and implemented by SAMA, covers the minimum regulatory capital requirement that a bank is expected to maintain to cover credit, market and operational risks stemming from its business operations. It also sets out the basis for consolidation of entities for capital adequacy reporting requirements, the definition and calculations of Risk Weighted Assets (RWA) and the various options given to banks to calculate these Risk Weighted Assets.

The regulatory capital requirements are calculated according to the following formula (expressed as a percentage):

$$\text{Minimum Capital Requirements} = \frac{\text{Capital Base}}{\text{RWA}}$$

Where the Minimum Capital Requirements are to be $\geqslant$ 8%

Credit Risk

The Bank has adopted the Standardized Approach for measuring minimum capital requirement for credit risk. Under this approach, exposures are assigned to portfolio segments based on the type of counterparty. The major portfolios defined are sovereigns, banks, corporate, retail, equity, and others (including high net worth individuals). Each segment has counterparty risk weights ranging from 0% to 150% depending on ratings assigned by qualified external credit assessment agencies, if any.

Initial exposures after application of specific provisions, if any, and / or eligible credit risk mitigants, are multiplied by the specified risk weight of the counterparty to arrive at the Risk Weighted Asset (RWA). Off-balance sheet exposures are adjusted using product type specified Credit Conversion Factors (CCF) before determining the RWAs. Similarly, derivatives are considered at their Credit Equivalent Amount before determining RWAs.

Minimum capital for Credit Risk is calculated as 8% multiplied by the aggregated mitigant adjusted RWAs for the Bank's exposures.

Market Risk

The Bank uses the Standardized Approach to calculate the regulatory capital requirements relating to market risks (covering interest rates, equity, foreign exchange, and commodity prices). The resultant measure of regulatory capital is multiplied by 12.5 (reciprocal of 8%) to provide a comparable risk weighted exposure number for market risks.

Operations Risk

The Bank uses the Standardized Approach for calculation of regulatory capital requirements in terms of operations risk. This approach applies a range of beta coefficients (12%-18%) to the average gross income for the preceding three financial years to each of eight predetermined business lines. The resultant measure of regulatory capital is multiplied by 12.5 (reciprocal of 8%) to provide a comparable risk weighted exposure number for operations risks.

Internal Capital Adequacy Assessment Process (ICAAP)

The oversight for assessment of credit, market, operations, and others risks such as liquidity, concentration, macroeconomic, legal, and reputation risks and the adequacy of capital to meet current and future requirements of the Bank lies with the Executive Committee (EC) of the Bank's Board of Directors.

An ICAAP document was presented to SAMA in 2008 following a bilateral process of discussions. This process is now ingrained into the budget and planning cycle of the Bank.

Risk Management

The management of main risks for the Bank is specifically organized under the Risk Management Division (RMD). This division performs the role of second reading of risk after the business divisions who originate and own the risks. RMD plays a crucial role in policy making. The head of RMD reports directly to the Managing Director and interacts with the EC in presenting and managing matters related to Credit, Market, and Operations Risks.

PILLAR 3 - QUALITATIVE DISCLOSURES

Credit Risk

For measuring minimum capital requirement for credit risk using the Standardized Approach under Basel II, the Bank implemented a dedicated capital measurement system supplied by a leading global vendor. Using this system, exposures are measured at the most granular level so that transaction level data are correctly used for proper calculation of risk weights, credit conversion factors, and allocation of credit risk mitigants.

The credit risk adjudication process in the Bank is materially centralized and significant exposures are routinely reported to the EC. The Bank uses an internal rating methodology for classification of counterparty risk and in the management of the underlying exposures appropriately.

The Bank also follows SAMA's guidelines for asset classification, particularly those relating to past due /non-performing loans. Impairment is recognized at a counterpart level i.e. all dues from the counterpart including full principal amount are included under the amounts shown as impaired. A specific provision is made for past due exposures assessed as impaired at the counterpart level. Specific provision amounts are calculated according to guidelines contained in IAS 39. In addition to specific counterpart level provisions for impaired assets, the Bank also employs methods to determine and make collective provisions on a portfolio level based on certain internal risk grades for counterpart exposures.

For the purpose of determining counterparty risk weights, the Bank uses external credit assessments from Standard and Poors, Moodys, and Fitch. In the context of the Bank's portfolio, external credit assessments are mainly applicable to the banks / financial institutions asset class. A majority of BSF's Corporate asset portfolio is in the Kingdom of Saudi Arabia; not externally rated; and hence in the 100% risk weight category.

The 0% risk weighted assets under Other Assets pertain to Cash and Cash Equivalents and the current replacement costs i.e. mark to market values of derivative exposures where these amounts are already included (under banks & corporate asset classes) in the calculation of credit equivalent amount and RWAs.

The Bank uses a wide range of collaterals in the process of managing its counterparty risks. However, the applicable financial collateral for credit risk mitigation under Basel 2 is restricted to pledge of cash margins and deposits held with the Bank. Guarantees used for risk transfer purposes are mainly bank guarantees that meet the requirements stipulated in the Accord.

A break up of gross credit risk exposures i.e. exposures after off-setting provisions but before application of credit mitigants (including off balance sheet exposures after applying credit conversion factors and derivative exposures at their credit equivalent values) is presented below with their respective risk weights:

GROSS CREDIT EXPOSURES AS AT 31 DECEMBER 2012			
Portfolios	Amount SAR '000s	Risk Weight Buckets	Amount SAR '000s
Sovereigns & Central Banks	35,037,015	0%	34,976,410
		100%	70,360
Banks & securities Firms	7,150,900	20%	6,894,006
		50%	8,114,780
		100%	415,908
Corporates	86,847,095	0%	18,061
		20%	3,229,028
		50%	767,266
		100%	109,865,377
		150%	223,644
Retail Non-mortgages	9,174,645	0%	133
		75%	7,822,688
		100%	994,220
Residential Mortgages	2,274,486	100%	2,274,486
Equity	798,316	(deducted) 0%	198,999
		100%	599,317
Others (including VIP Exposures)	18,574,432	0%	5,330,831
		100%	12,991,144
		150%	37,528
Total	159,856,889		

Market Risk

The market risk for capital market activities in the Bank is managed and monitored using a combination of VAR, stress testing, and sensitivity analysis. The EC has set limits for what constitutes acceptable level of risks in managing the trading book. The Market Risk Department within the Risk Management Division is responsible for measurement and controls involved in management of market risks. Market risk activity at the bank is governed by the bank›s Market Risk Committee which meets regularly, and is closely supervised by a dedicated Market Risk Department that reports independently to the bank›s Chief Risk Officer.

For the measurement of minimum capital requirement for market risks under Pillar 1, the Bank uses the Standardized Approach.

MARKET RISK (Standardized Approach) – 31 DECEMBER 2012	
Category	Capital Requirement Amount SAR '000s
Interest Rate	227,543
Equities	720
Foreign Exchange	35,783
Total	264,046

PILLAR 3 - QUALITATIVE DISCLOSURES

The objectives of the Operations Risk Department within Risk Management Division are to develop a common understanding of operational risks across BSF; ensure that there is a clear understanding of responsibility and accountability in managing and mitigating operational risks; improve internal controls and thereby reduce the probability and potential impact of losses; maintain an operational loss data base; and improve the risk and control awareness across the Bank.

BSF has developed a Risk Mapping methodology in order to identify risk of the processes; identify high frequency and low impact risks (recurring risks); identify rare and high impact risks (exceptional risks); identify the specific controls in place to mitigate the risks; and organize frequent assessment efforts to determine continuing quality of process controls.

The Bank currently uses the Standardized Approach for assessment of minimum capital requirement for operations risk under Pillar 1 of the Accord.

Equity risk

Equity risk represents the risk faces by the bank due to decrease in fair value of equities in the non trading investment portfolio as a result of changes in equity indices and the value of individual stocks. The Bank's nature of the equity risk exposure includes:

- Investment in associates;
- Available for sale equity investment;
- Investment in subsidiaries.

An associate is an entity in which the Bank holds 20% to 50% of the voting power and over which it has significant influence and which is neither a subsidiary nor a joint venture. Accordingly, these investments are classified as investment in associates. Investments in associates are initially recognised at cost and subsequently accounted for under the equity method of accounting. These investments are subject to recurring review and assessment for possible impairment, to the extent that the carrying value of the equity investment must not exceed its recoverable amount.

Where the equity investment is not subject to the significant influence or control, it is recognized as available for sale investment. These securities are initially carried at fair value plus transaction costs. After initial recognition these investments are measured at fair value. For an available for sale equity investment where the fair value has not been hedged, any gain or loss arising from a change in its fair value is recognized directly in 'Other reserves' under shareholders' equity until the investment is derecognized or impaired, at which time the cumulative gain or loss previously recognized in shareholders' equity is included in the consolidated income statement for the year. At the year end, Unrealised loss of 35,500 recognized directly in other reserves due to change in fair value of equities under available for sale investment portfolio.

Fair value of quoted investments in active markets are based on current bid prices and if it not traded in active market then fair value is established by the valuation techniques. If there is any objective evidence of impairment due to significant or prolonged decline in the fair value below its cost then impairment charges are recognized in the consolidated statement of income. The impairment loss cannot be reversed through consolidated statement of income as long as the asset continues to be recognised i.e. any increase in fair value after impairment has been recorded can only be recognised in equity. On derecognition, any cumulative gain or loss previously recognised in equity is included in the consolidated statement of income for the year.

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

The table below shows the carrying value and fair value of equities as of 31st December 2012.

Equity Investment- SAR '000s	Carrying Value	Fair value
Value of publicly traded equities	475,196	475,196
Value of privately held equities	388,742	388,742
Total	863,938	863,938

Interest Rate Risk in the Banking Book

As per BSF policy the interest rate risk positions of all business lines of BSF are transferred to the funding desk of Treasury and Long Term Investment portfolio of Finance Division. The risk on these positions is managed centrally through a limits structure and combination of natural hedges and hedging practices. Format of limits of Treasury is also approved by CA-CIB Paris and ALM policies validated / approved in ALCO meetings. All positions are reported to CA-CIB Paris.

As per Basel II, the change in economic value of a bank's banking book balance sheet when subjected to a 200 bps standardized shock should be below the sum of twenty percent of Tier 1 and Tier 2 capital. For BSF the sum of Tier 1 and Tier 2 capital as of December 31 2012 is SAR 25,142 million and twenty percent this amounts to SAR 5,028 million. As against this limit, the negative change in economic value of banking book of BSF despite a severe shock of 200 bps movement applied as a stress scenario is only SAR 66 million.

INTEREST RATE RISK IN BANKING BOOK – 200 bps rate shock	
Currency	Change in Economic Value SAR '000s
SAR	86,000
USD	(155,000)
Others	3,000
Total	(66,000)