BANK ALBILAD
(A Saudi Joint Stock Company)

Consolidated Financial Statements
For the year ended December 31, 2013

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Bank AlBilad
(A Saudi Joint Stock Company)

We have audited the accompanying consolidated financial statements of Bank AlBilad (the "Bank") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at December 31, 2013, the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes from 1 to 40. We have not audited note 35, nor the information related to "Basel III - Capital Structure" and "Basel III 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 ("IFRS"), the provisions of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's By-laws. In addition, management is responsible for such internal controls as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether these 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 auditors' 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, auditors' consider internal control relevant to the Group'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 Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

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Opinion

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

- present fairly, in all material respects, the financial position of the Group as at December 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with Accounting Standards for Financial Institutions issued by SAMA and with IFRS; and

- comply with the requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's By-laws in so far as they affect the preparation and presentation of the consolidated financial statements.

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9 Rabi Thani 1435H
(9 February 2014)

BANK ALBILAD
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31

	Notes	**2013 SAR' 000**	2012 SAR' 000
ASSETS			
Cash and balances with SAMA	4	**4,186,998**	2,932,369
Due from banks and other financial institutions, net	5	**6,155,497**	6,575,466
Investments, net	6	**1,667,069**	1,537,260
Financing, net	7	**23,415,423**	18,255,676
Property and equipment, net	8	**762,204**	336,225
Other assets	9	**136,117**	140,505
Total assets		**36,323,308**	29,777,501
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks and other financial institutions	10	**975,616**	570,830
Customers' deposits	11	**29,107,718**	23,741,624
Other liabilities	12	**1,139,085**	1,094,231
Total liabilities		**31,222,419**	25,406,685
Shareholders' equity			
Share capital	13	**4,000,000**	3,000,000
Statutory reserve	14	**552,396**	370,104
Other reserves	6 (a)&16	**43,338**	15,066
Retained earnings		**547,535**	1,022,811
Employee share plan	38	**(42,380)**	(37,165)
Total shareholders' equity		**5,100,889**	4,370,816
Total liabilities and shareholders' equity		**36,323,308**	29,777,501

The accompanying notes 1 to 42 form an integral part of these consolidated financial statements.

BANK ALBILAD
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEARS ENDED DECEMBER 31

	Notes	**2013 SAR' 000**	2012 SAR' 000
INCOME:			
Income from investing and financing assets	18	**974,650**	860,553
Return on deposits and financial liabilities	19	**(28,028)**	(21,039)
Net income from investing and financing assets		**946,622**	839,514
Fee and commission income, net	20	**665,715**	645,300
Exchange income, net		**245,364**	234,004
Dividend income	21	**13,522**	11,717
Gains on non-trading investments, net	22	**21,904**	5,225
Other operating income	23	**24,101**	1,620
Total operating income		**1,917,228**	1,737,380
EXPENSES:			
Salaries and employee related benefits	24	**582,247**	517,357
Rent and premises related expenses		**176,860**	133,983
Depreciation and amortization	8	**88,524**	88,020
Other general and administrative expenses		**170,482**	154,163
Impairment charge for financing, net	7(a)	**175,287**	275,220
Reversal of impairment charge on other financial assets	5(b)	**(5,340)**	-
Total operating expenses		**1,188,060**	1,168,743
Net operating income for the year		**729,168**	568,637
Non-operating income	25	**-**	373,167
Net income for the year		**729,168**	941,804
Basic and diluted earnings per share (Saudi Riyals)	26	**1.82**	2.35

The accompanying notes 1 to 42 form an integral part of these consolidated financial statements.

BANK ALBILAD
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31

	Note	**2013** **SAR' 000**	2012 SAR' 000
Net income for the year		**729,168**	941,804
Other comprehensive income: That can be recycled back to consolidated statement of income in the future			
- Available for sale financial assets	6(a)		
Net changes in fair value		**50,176**	14,055
Net amount transferred to consolidated statement of income		**(21,904)**	(5,225)
Total comprehensive income for the year		**757,440**	950,634

The accompanying notes 1 to 42 form an integral part of these consolidated financial statements.

BANK ALBILAD
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31

2013 **SAR' 000**	**Notes**	**Share capital**	**Statutory reserve**	**Other reserves**	**Retained earnings**	**Employee share plan**	**Total**
Balance at the beginning of the year		**3,000,000**	**370,104**	**15,066**	**1,022,811**	**(37,165)**	**4,370,816**
Changes in the equity for the year							
Net changes in fair value				**50,176**			**50,176**
Net amount transferred to consolidated statement of income				**(21,904)**			**(21,904)**
Net income recognized directly in shareholders' equity				**28,272**			**28,272**
Net income for the year					**729,168**		**729,168**
Total comprehensive income for the year				**28,272**	**729,168**	**-**	**757,440**
Employee share plan reserve	**38**					**(5,215)**	**(5,215)**
Issuance of bonus shares	**15**	**1,000,000**			**(1,000,000)**		**-**
Zakat adjustment					**(22,152)**		**(22,152)**
Transfer to statutory reserve	**14**		**182,292**		**(182,292)**		**-**
Balance at end of the year		**4,000,000**	**552,396**	**43,338**	**547,535**	**(42,380)**	**5,100,889**

2012 SAR' 000	Notes	Share capital	Statutory reserve	Other reserves	Retained earnings	Employee share plan	Total
Balance at the beginning of the year		3,000,000	134,653	6,236	316,458	(41,097)	3,416,250
Changes in the equity for the year							
Net changes in fair value				14,055			14,055
Net amount transferred to consolidated statement of income				(5,225)			(5,225)
Net income recognized directly in shareholders' equity				8,830			8,830
Net income for the year					941,804		941,804
Total comprehensive income for the year				8,830	941,804		950,634
Employee share plan reserve	38					3,932	3,932
Transfer to statutory reserve	14		235,451		(235,451)		-
Balance at end of the year		3,000,000	370,104	15,066	1,022,811	(37,165)	4,370,816

The accompanying notes 1 to 42 form an integral part of these consolidated financial statements.

BANK ALBILAD
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31

	Notes	2013 SAR' 000	2012 SAR' 000
OPERATING ACTIVITIES			
Net income for the year		**729,168**	941,804
Adjustments to reconcile net income to net cash from / (used in) operating activities:			
Gains on non-trading investments, net		**(21,904)**	(5,225)
Gains from disposal of property and equipment, net		**(4,452)**	(1,356)
Depreciation and amortization		**88,524**	88,020
Impairment charge for financing, net		**175,287**	275,220
Reversal of impairment charge on other financial assets		**(5,340)**	-
Non-operating income		**-**	(373,167)
Employee share plan		**7,075**	3,932
Operating profit before changes in operating assets and liabilities		**968,358**	929,228
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA		**(232,448)**	(363,461)
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		**1,056,496**	(786,469)
Investments		**48,380**	(500,168)
Financing		**(5,335,034)**	(4,248,108)
Other assets		**(17,764)**	(41,919)
Net increase/ (decrease) in operating liabilities:			
Due to banks and other financial institutions		**404,786**	148,993
Customers' deposits		**5,366,094**	703,690
Other liabilities		**44,854**	243,083
Net cash from (used in) operating activities		**2,303,722**	(3,915,131)
INVESTING ACTIVITIES			
Purchase of non-trading investments		**(468,774)**	(264,751)
Proceeds from sales of non-trading investments		**340,761**	193,172
Purchase of property and equipment		**(523,015)**	(96,446)
Proceeds from sale of property and equipment		**12,964**	1,993
Proceeds from sale of land		**-**	150,000
Net cash used in investing activities		**(638,064)**	(16,032)
FINANCING ACTIVITIES			
Purchase of shares for employee share plan		**(12,290)**	-
Net cash (used in) from financing activities		**(12,290)**	-
Increase (decrease) in cash and cash equivalents		**1,653,368**	(3,931,163)
Cash and cash equivalents at beginning of the year		**5,076,661**	9,007,824
Cash and cash equivalents at end of the year	27	**6,730,029**	5,076,661
Income received from investing and financing assets		**987,493**	586,299
Return paid on deposits and financial liabilities		**36,837**	13,977
Supplemental non cash information			
Net changes in fair value reserve and net amount transferred to consolidated statement of income		**28,272**	8,830
Financing provided towards sale of land		**-**	503,042
Issuance of bonus shares		**1,000,000**	-
Zakat adjustment		**22,152**	-

The accompanying notes 1 to 42 form an integral part of these consolidated financial statements.

1. GENERAL

a) Incorporation and operation

Bank AlBilad (the "Bank"), a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia, was formed and licensed pursuant to Royal Decree No. M/48 dated 21 Ramadan 1425H (corresponding to November 4, 2004), in accordance with the Counsel of Ministers' resolution No. 258 dated 18 Ramadan 1425H (corresponding to November 1, 2004).

The Bank operates under Commercial Registration No. 1010208295 dated 10 Rabi Al Awal 1426H (corresponding to April 19, 2005) and its Head Office is located at the following address:

Bank AlBilad
P.O. Box 140
Riyadh 11411
Kingdom of Saudi Arabia

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries, 'AlBilad Investment Company and 'AlBilad Real Estate Company' (collectively referred to as "the Group"). The subsidiaries are 100% owned by the Bank and are incorporated in the Kingdom of Saudi Arabia.

The Group's objective is to provide a full range of banking services, financing and investing activities through various Islamic instruments. The activities of the Bank are conducted in compliance with Islamic Shariah and within the provisions of the Articles of Association, and the Banking Control Law. The Bank provides these services through 102 banking branches (2012: 88) and 151 exchange and remittance centers (2012: 144) in the Kingdom of Saudi Arabia.

b) Shariah Authority

The Bank has established a Shariah Authority ("the Authority"). It ascertains that all the Bank's activities are subject to its approvals and control.

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 with International Financial Reporting Standards ("IFRS"). The Bank, in preparation of its consolidated financial statements, complies with the requirements of Banking Control Law and the Regulations of Companies in the Kingdom of Saudi Arabia and the bank Article 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 financial assets and liabilities held at Fair Value through Income Statement (FVIS) and available-for-sale financial assets.

c) Functional and presentation currency

The consolidated financial statements are presented in Saudi Arabian Riyals (SAR), which is the Group's functional currency. The financial information presented in SAR has been rounded to the nearest thousand except otherwise indicated.

d) Critical accounting judgments and estimates

The preparation of these consolidated financial statements in conformity with IFRS requires the use of certain critical accounting judgment 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 estimates, assumptions and judgments 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 uses estimates, assumptions or exercised judgments are as follows:

(i) Impairment for losses on financing assets

The Bank reviews its financing portfolio to assess specific and collective impairment on a regular 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. The evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in the Group.

Management uses estimates based on historical loss experience for financing with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating 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 financial instruments

The Group measures financial instruments at fair value at each statement of financial position date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 3g.

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

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

(iii) Classification of held-to-maturity investments

The Bank follows the guidance of IAS 39 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.

(iv) Impairment of available-for-sale investments

The Bank exercises judgment to consider impairment on the available-for-sale 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 the investment price. In addition, the Bank 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.

(v) Determination of control over investees

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

Investment funds

The Group acts as Fund Manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the Fund (comprising any carried interests and expected management fees) and the investors rights to remove the Fund Manager. As a result the Group has concluded that it acts as an agent for the investors in all cases, and therefore has not consolidated these funds.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Except for the change 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 used in the preparation of these consolidated financial statements are consistent with those of the prior year except for new standards and amendments to the existing standards, as mentioned below, which the bank has adopted:

i- New Standards

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

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

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

ii- Amendments to existing standards

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

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

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

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

- The IASB has published Annual Improvements to IFRSs: 2009 - 2011 cycle of improvements that contain amendments to the following standards with consequential amendments to other standards:
  - IFRS 1 - First time adoption of IFRS: Repeated application of IFRS 1 and borrowing cost exemption;
  - IAS 1 – Presentation of financial statements: Comparative information beyond minimum requirements and presentation of the opening consolidated statements of financial position and related notes;
  - IAS 16 – Property, plant and equipment: Classification of servicing equipment;
  - IAS 34 – Interim Financial Reporting: Segment assets and liabilities.

The adoption of these amendments has no impact on the consolidated financial position or financial performance of the Group.

b) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting year as that of the Bank, using consistent accounting policies.

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

Subsidiaries are all entities over which the Bank has the power directly or indirectly to govern the financial and operating policies, so as to obtain benefits from its activities, generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are consolidated from the date on which the control is transferred to the Bank and cease to be consolidated from the date on which the control is transferred from the Bank.

Albilad Investment Company and AlBilad Real Estate Company are 100% owned by the Bank.

Inter-group balances and any income and expenses arising from intra-group transactions, are eliminated in preparing these consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

c) Trade date accounting

All regular-way purchases and sales of financial assets are recognized and derecognized on the trade date, i.e. the date that the Bank commits to purchase or sell the assets. Regular-way purchases or sales of financial assets require delivery of those assets within the time frame generally established by regulation or convention in the market place.

All other financial asset and liabilities (including assets and liabilities designated at fair value through consolidated statement of income are initially recognized on trade date at which the Group become a party to the contractual provisions of the instrument.

d) Foreign currencies

Transactions in foreign currencies are translated into Saudi Riyals (‘SAR’) at exchange rates prevailing on the dates of the transactions. Monetary assets and liabilities at year-end, denominated in foreign currencies, are translated into SAR at exchange rates prevailing at the reporting date.

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

e) Offsetting financial instrument

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 and when the Group intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

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

f) Due from banks and other financial institution

Due from banks and other financial institution are initially measured at fair value and subsequently measured at amortized cost.

g) Investments

The Bank classifies its investments as follows:

Following initial recognition, subsequent transfers between the various classes of investments and financing are not ordinarily permissible. The subsequent period-end reporting values for each class of investment are determined on the basis set out in the following paragraphs.

Available for sale (AFS) investments - AFS investments are non-derivative financial instruments that are either designated as AFS or not classified as (a) Financing, (b) held-to-maturity investments or (c) financial assets at Fair Value through Income Statement.

Available for sale investments are initially recognized at fair value including acquisition charges associated with the investments and are subsequently measured at fair value.

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

For securities where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the expected cash flows 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, or where this is not possible / feasible, a degree of judgment is required in establishing fair values.

Held to maturity investments - Held to maturity investments are not-derivatives financial assets with fixed and determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold.

Held to maturity investments are initially recognised at fair value including acquisition charges associated with the investments and are subsequently measured at amortized cost less any amount written off and the provision for impairment.

h) Financing

Financing - Financing comprising of Bei-ajel, Installment Sales, Musharakah, and Ijarah originated by the Bank, are initially recognized at fair value including acquisition costs and is subsequently measured at cost less any amounts written off, and provision for impairment, if any. Financing is recognised when cash is advanced to borrowers, and are derecognized when either customer repays their obligations, or the financing are sold or written off, or substantially all the risks and rewards of ownership are transferred.

Bei-ajel and installment sales - These financing contracts are based on Murabaha whereby the Bank sells to customers 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. Bei ajel is used for corporate customers whereas installment sales are used for retail customers.

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

Musharakah 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.

i) Impairment of financial assets

Financial assets carried at amortized cost

An assessment is made at the reporting date of each consolidated statement of financial position to determine whether there is objective evidence that a financial asset or a group of financial assets may be impaired at each reporting date. If such evidence exists, the difference between the asset's carrying amount and the present value of estimated future cash flows is calculated and any impairment loss is recognized for changes in the asset's carrying amount. The carrying amount of the financial assets held at amortized cost, is adjusted either directly or through the use of a provision account, and the amount of the adjustment is included in the consolidated statement of income.

Specific provisions are evaluated individually. Considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- delinquency in contractual payments of principal or profit;
- cash flow difficulties experienced by the customer;
- breach of repayment covenants or conditions;
- initiation of bankruptcy proceedings against the customer;
- deterioration of the customer's competitive position; and
- deterioration in the value of collateral.

When financing amount is uncollectible, it is written-off against the related provision for impairment. Such financing is written-off after all necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the customer's credit rating), the previously recognized impairment loss is reversed by adjusting the provision account. The amount of the reversal is adjusted in the consolidated statement of income in impairment charge. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted.

In addition to the specific provisions described above, the Bank also makes collective impairment provisions, which are evaluated on a portfolio basis and are created for losses, where there is objective evidence that unidentified losses exist at the reporting date. The amount of the provision is estimated based on the historical default patterns of the counter-parties as well as their credit ratings, taking into account the current economic climate.

Available for sale equity investments

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

j) Revenue recognition

i- Income and return on financing assets and liabilities

Income from investing and financing assets is recognized in the consolidated statement of income using the effective yield method on the outstanding balance over the term of the contract.

ii- Fees and commission income

Fees and commission income that are integral to the effective yield are included in the measurement of the relevant assets.

Fees and commission income that are not integral part of the effective yield calculation on a financial asset or liability is recognized when the related service provided as follows:

- 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.

  Performance linked fees or fee components are recognised when the performance criteria are fulfilled.

- Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective yield on the loan. 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 relate mainly to transaction and service fees, which are expensed as the service, are received.

iii- Exchange income/ (loss)

Exchange income/(loss) is recognised as discussed in foreign currencies policy above.

iv- Dividend income

Dividend income from investment in equities is recognized when the right to receive the dividend is established.

v- Gain/ (loss) from non-trading investments

Unrealized gain/ loss for a change in fair value is recognized in “other reserves” under equity. On de-recognition gain/ loss previously recognized in equity is included in the consolidated statement of income.

k) Derecognition of financial instruments

A financial asset (or a part of a financial asset, or a part of a group of similar financial assets) is derecognised, when the contractual rights to receive the cash flows from the financial asset expire.

In instances where the Bank is assessed to have transferred a financial asset, the asset is derecognised if the Bank has transferred substantially all the risks and rewards of ownership. Where the Bank has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognised only if the Bank has not retained control of the financial asset. The Bank recognises separately, as assets or liabilities, any rights and obligations created or retained in the process.

A financial liability (or a part of a financial liability) can only be derecognised when it is extinguished, that is when the obligation specified in the contract is either discharged, cancelled or expire.

l) Zakat and Withholding Tax

Under Saudi Arabian Zakat and Income Tax Regulations, Zakat is the liability of the Saudi shareholders. Zakat is computed on the Saudi shareholders' share of equity or net income using the basis defined under the Zakat Regulations.

Zakat is not charged to the Bank's consolidated statement of income as it is deducted from the dividends paid to the Saudi shareholders.

Withholding tax is withheld from payments made to non-resident vendors for services rendered and goods purchased according to the tax law applicable in Saudi Arabia and are directly paid to the Department of Zakat & Income Tax on a monthly basis.

m) Financial guarantees

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 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. Any increase in the liability relating to the financial guarantee is taken to the consolidated statement of income in "impairment charge for financing, net". The premium received is recognised in the consolidated statement of income in "Fees and commission income, net" on a straight line basis over the life of the guarantee.

n) Provisions

Provisions are recognized when a reliable estimate can be made by the Bank for a present legal or constructive obligation arising as a result of past events and it is more likely that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are reviewed at each statement of financial position date and are adjusted to reflect the current best estimate.

o) Accounting for leases

i) Where the Bank is the lessee

Leases entered into by the Bank are all operating leases. Payments made under operating leases are charged to the consolidated statement of income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty, net of anticipated rental income (if any), is recognised as an expense in the period in which termination takes place.

The Group evaluates non-lease arrangements such as outsourcing and similar contracts to determine if they contain a lease which is then accounted for separately.

ii) Where the Bank is the lessor

When assets are transferred under Ijara Muntahia Bittamleek the present value of the lease payments is recognised as a receivable and disclosed under “Financing”. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Assets subject to operating leases are included in the consolidated financial statements as property and equipment. Income from operating lease is recognised on a straight-line (or appropriate) basis over the period of the lease.

p) 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 and balances with SAMA excluding statutory deposits, and due from banks and other financial institutions with maturities of three months or less from the date of acquisition.

q) Property and equipment

Property and equipment are stated at cost and presented net of accumulated depreciation, amortization and impairment, if any. The cost of property and equipment and other fixed assets are depreciated or amortized using the straight-line method over the estimated useful lives of the assets, as follows:

Building	33 years
Leasehold improvements	10 years or the lease period, whichever is shorter
Equipment and furniture	4 to 6 years
Computer hardware and software	5 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 amounts and are included in the consolidated statement of income.

All assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Any carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

r) Financial liabilities

All customer deposits, due to banks and other financial institution and other financial liabilities are initially recognized at fair value and subsequently are measured at amortized cost

s) Investment 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. The Bank's share of these funds is included in the available-for-sale investment and fee income earned from managing these funds is disclosed under related party transactions.
Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and accordingly, are not included in the Bank's consolidated financial statements.

t) Income excluded from the consolidated statement of income

The Shariah Authority of the Bank conducts from time to time Shariah reviews to ensure compliance of its Shariah decisions. In cases where revenues have been wrongly or inadvertently recognized, the Board of Directors of the Bank shall, at the request of the Chief Executive Officer (CEO), authorize the exclusion of such revenues from the Group income for its final disposal.

u) Employee share plan

The Bank offers its eligible employees an equity-settled share-based payment plan as approved by SAMA. As per the plan, eligible employees of the Bank are offered stock options at a predetermined strike price to be withheld out of their annual bonus payments.

The cost of the plan is measured by reference to the fair value at the date on which the options are granted.

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

The Bank, with the approval from SAMA, has entered into an agreement with an independent third-party for custody of the shares under the plan, plus any benefits accrued there-on.

v) End of service benefits

Benefits payable to employees of the banks at the end of their service are accrued in accordance with the guidelines set by the Saudi Arabian Labor Regulations and included in other liabilities in the consolidated statement of financial position.

4. CASH AND BALANCES WITH SAMA

Cash and balances with SAMA as at December 31 comprise of the following:

	Notes	**2013 SAR' 000**	2012 SAR' 000
Cash in hand		**1,609,797**	1,153,106
Statutory deposit	**4.1**	**1,776,717**	1,544,269
Other balances	**4.2**	**800,484**	234,994
Total		**4,186,998**	2,932,369

4.1 In accordance with the Banking Control Law and Regulations issued by SAMA, the Bank is required to maintain a statutory deposit with 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.

4.2 This includes cash management account with SAMA of SAR 620 million (2012: SAR 90 million)

5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS, NET

a) Due from banks and other financial institutions, net as at December 31, comprise the following:

	2013 SAR' 000	2012 SAR' 000
Current accounts	**266,204**	401,961
Commodity murabaha placements	**5,980,216**	6,269,768
Provision for impairment on commodity murabaha	**(90,923)**	(96,263)
	5,889,293	6,173,505
Total	**6,155,497**	6,575,466

b) Movement of allowance for impairment are summarized as follows:

	2013 SAR' 000	2012 SAR' 000
Balance at the beginning of the year	**96,263**	96,263
Recovery during the year	**(5,340)**	-
Balance at end of the year	**90,923**	96,263

6. INVESTMENTS, NET

Investments in domestic market as at December 31 comprise the following:

	2013		
	Quoted SAR' 000	**Unquoted SAR' 000**	**Total SAR' 000**
Available-for-sale investments			
Equities	**178,689**	**150,000**	**328,689**
Mutual fund	**28,221**	**-**	**28,221**
Floating-rate securities - sukuk	**258,000**	**-**	**258,000**
	464,910	**150,000**	**614,910**
Held at amortized cost			
Commodity murabaha with SAMA	**-**	**1,052,159**	**1,052,159**
Total	**464,910**	**1,202,159**	**1,667,069**

	2012		
	Quoted SAR' 000	Unquoted SAR' 000	Total SAR' 000
Available-for-sale investments			
Equities	138,137	150,000	288,137
Mutual fund	90,584	-	90,584
Floating-rate securities - sukuk	58,000	-	58,000
	286,721	150,000	436,721
Held at amortized cost			
Commodity murabaha with SAMA	-	1,100,539	1,100,539
	286,721	1,250,539	1,537,260

a) Movement in other reserves is as follows:

	2013 SAR' 000	2012 SAR' 000
Balance at the beginning of the year	**15,066**	6,236
Net changes in fair value	**50,176**	14,055
Net amount transferred to consolidated statement of income	**(21,904)**	(5,225)
Balance at end of the year	**43,338**	15,066

b) The analysis of investments by counter-party is as follows:

	2013 SAR' 000	2012 SAR' 000
Corporate	**565,543**	327,308
Banks and other financial institutions	**49,367**	109,413
SAMA	**1,052,159**	1,100,539
Total	**1,667,069**	1,537,260

c) Equities reported under available-for-sale investments in the stock market include unquoted shares for SAR 150 million (2012: SAR 150) that are carried at cost.

7. FINANCING, NET

Financing as at December 31, comprise the following:

SAR' 000	2013				
	Bei ajel	**Installment sales**	**Musharakah**	**Ijarah**	**Total**
Performing	**12,306,085**	**9,486,885**	**1,530,608**	**526,288**	**23,849,866**
Non-performing	**244,258**	**122,945**	**93,665**	**-**	**460,868**
Total	**12,550,343**	**9,609,830**	**1,624,273**	**526,288**	**24,310,734**
Allowance for impairment charge	**(598,813)**	**(148,241)**	**(133,083)**	**(15,174)**	**(895,311)**
Financing, net	**11,951,530**	**9,461,589**	**1,491,190**	**511,114**	**23,415,423**

	2012				
Performing	8,915,846	7,680,952	1,471,247	529,348	18,597,393
Non-performing	597,065	69,323	85,914	-	752,302
Total	9,512,911	7,750,275	1,557,161	529,348	19,349,695
Allowance for impairment charge	(780,261)	(209,783)	(103,975)	-	(1,094,019)
Financing, net	8,732,650	7,540,492	1,453,186	529,348	18,255,676

a) Allowance for impairment charge for financing:

The movement in the impairment provision for financing for the years ended 31 December is as follows:

	2013 SAR' 000	2012 SAR' 000
Balance at beginning of the year	**1,094,019**	884,079
Provided during the year	**196,078**	292,981
Amounts written off during the year	**(373,995)**	(65,280)
Recoveries of amounts previously provided	**(20,791)**	(17,761)
Balance at end of the year	**895,311**	1,094,019

b) Economic sector risk concentration for the financing and allowance for impairment are as follows:

2013	**Performing financing SAR' 000**	**Non-performing financing SAR' 000**	**Allowance for impairment charge SAR' 000**	**Financing, net SAR' 000**
Commercial	**3,215,514**	**73,388**	**(166,163)**	**3,122,739**
Industrial	**2,785,084**	**2,811**	**(83,115)**	**2,704,780**
Building and construction	**3,556,238**	**61,953**	**(159,770)**	**3,458,421**
Transportation and communication	**308,638**	**-**	**(8,899)**	**299,739**
Services	**1,486,388**	**8,981**	**(51,515)**	**1,443,854**
Agriculture and fishing	**669,907**	**-**	**(19,315)**	**650,592**
Personal	**9,486,885**	**122,945**	**(148,241)**	**9,461,589**
Other	**2,341,212**	**190,790**	**(258,293)**	**2,273,709**
Total	**23,849,866**	**460,868**	**(895,311)**	**23,415,423**

2012	Performing financing SAR '000	Non-performing financing SAR '000	Allowance for impairment charge SAR '000	Financing, net SAR '000
Commercial	2,015,389	94,220	(124,074)	1,985,535
Industrial	1,716,791	308,360	(345,843)	1,679,308
Building and construction	3,873,751	35,213	(110,622)	3,798,342
Transportation and communication	1,978	-	(43)	1,935
Services	874,804	54,394	(72,228)	856,970
Agriculture and fishing	702,918	-	(15,346)	687,572
Personal	7,680,952	69,323	(209,783)	7,540,492
Other	1,730,810	190,792	(216,080)	1,705,522
Total	18,597,393	752,302	(1,094,019)	18,255,676

c) Credit quality of portfolio (neither past due nor impaired)

Balances outstanding against each sub-category as at December 31 area as follows:

Excellent:
Strong financial position with excellent liquidity, capitalization, earnings, cash flow, management and capacity to repay are excellent.

Good:
Healthy financial position with good liquidity, capitalization, earnings, cash flow, management and capacity to repay are good.

Satisfactory:
Acceptable financial position with reasonable liquidity, capitalization, earnings, cash flow, management and capacity to repay are good.

Fair risk:
Financial position is fair but volatile. However, capacity to repay remains acceptable.

Watch list:
Cash flow problems may result in delay in payment of profit / installment. Facilities require frequent monitoring, however management considers that full repayment will be received.

The Bank has categorizes its financing portfolio that are neither past due nor impaired into five sub categories as follows:

Grades	**2013** **SAR' 000**	2012 SAR' 000
Excellent	**3,004,926**	2,350,871
Good	**12,020,226**	9,177,661
Satisfactory	**2,499,553**	1,804,705
Fair risk	**5,375,191**	4,455,694
Watch list	**710,768**	518,998
Total	**23,610,664**	18,307,929

d) quality of the portfolio (individually impaired financing)

The table below sets out gross balances of individually impaired financing, together with the fair value of related collaterals held by the Bank as at 31 December, comprise the following:

2013	**Bei Ajel SAR' 000**	**Installment sales SAR' 000**	**Ijarah SAR' 000**	**Musharakah SAR' 000**	**Total SAR' 000**
Individually impaired financing	**244,258**	**122,945**	**-**	**93,665**	**460,868**
Fair value of collateral	**410,238**	**5,980**	**-**	**463,749**	**879,967**

2012	Bei Ajel SAR' 000	Installment sales SAR' 000	Ijarah SAR' 000	Musharakah SAR' 000	Total SAR' 000
Individually impaired financing	597,065	69,323	-	85,914	752,302
Fair value of collateral	608,588	2,905	-	271,783	883,276

e) Credit quality of portfolio (past due but not impaired)

2013	**Bei Ajel SAR' 000**	**Installment sales SAR' 000**	**Ijarah SAR' 000**	**Musharakah SAR' 000**	**Total SAR' 000**
1 to 30 days	**34,301**	**152,512**	**-**	**5,111**	**191,924**
31 to 90 days	**-**	**47,278**	**-**	**-**	**47,278**
91 to 180 days	**-**	**-**	**-**	**-**	**-**
Above 180 days	**-**	**-**	**-**	**-**	**-**
Total	**34,301**	**199,790**	**-**	**5,111**	**239,202**
Fair value of collateral	**51,309**	**17,600**	**-**	**-**	**68,909**
2012					
1 to 30 days	151,572	81,668	-	28,871	262,111
31 to 90 days	918	26,435	-	-	27,353
91 to 180 days	-	-	-	-	-
Above 180 days	-	-	-	-	-
Total	152,490	108,103	-	28,871	289,464
Fair value of collateral	257,201	16,651	-	28,871	302,723

Neither past due nor impaired and past due but not impaired comprise the total performing financing.

f) Collateral

The Group in the ordinary course of its financing activities holds collateral as security to mitigate credit risk. The collateral mostly includes deposits, financial guarantees, local equities and real estate. Collateral is principally held against corporate and real estate facilities and is managed against relevant exposures at their net realizable values.

The financing balances at December 31 as per the type of collateral are as follows:

2013	**Bei Ajel SAR' 000**	**Musharaka SAR' 000**	**Ijarah SAR' 000**	**Installment sales SAR' 000**	**Total SAR' 000**
Real estate	**4,109,875**	**152,772**	-	**1,466,215**	**5,728,862**
Shares and investment	**2,510,176**	**249,225**	-	-	**2,759,401**
Third party guarantee	**4,067,222**	**1,061,822**	-	-	**5,129,044**
Assets under Ijarah	**-**	**-**	**526,288**	**631,000**	**1,157,288**
Unsecured	**1,863,070**	**160,454**	**-**	**7,512,615**	**9,536,139**
Total	**12,550,343**	**1,624,273**	**526,288**	**9,609,830**	**24,310,734**

2012	Bei Ajel SAR' 000	Musharaka SAR' 000	Ijarah SAR' 000	Installment sales SAR' 000	Total SAR' 000
Real estate	4,210,073	168,231	-	1,477,069	5,855,373
Shares and investment	1,922,593	94,470	-	-	2,017,063
Third party guarantee	2,671,682	1,202,107	-	-	3,873,789
Assets under Ijarah	-	-	529,348	-	529,348
Unsecured	708,563	92,353	-	6,273,206	7,074,122
Total	9,512,911	1,557,161	529,348	7,750,275	19,349,695

8. PROPERTY AND EQUIPMENT, NET

Property and equipment, net as at December 31, comprises the following:

SAR' 000	Land and building	Leasehold improvement	Equipment and furniture	Computer hardware and software	Total 2013	Total 2012
Cost:						
At the beginning of the year	**12,304**	**434,822**	**214,916**	**291,009**	**953,051**	916,140
Additions during the year	**411,915**	**29,945**	**36,461**	**44,694**	**523,015**	96,446
Disposal	**-**	**(55)**	**(3,304)**	**(17,757)**	**(21,116)**	(59,535)
At December 31	**424,219**	**464,712**	**248,073**	**317,946**	**1,454,950**	953,051
Accumulated depreciation and amortization:						
At the beginning of the year	**471**	**219,764**	**154,646**	**241,945**	**616,826**	587,704
Charge for the year	**639**	**43,194**	**22,948**	**21,743**	**88,524**	88,020
Disposal	**-**	**(55)**	**(3,290)**	**(9,259)**	**(12,604)**	(58,898)
At December 31	**1,110**	**262,903**	**174,304**	**254,429**	**692,746**	616,826
Net book value:						
At December 31,2013	**423,109**	**201,809**	**73,769**	**63,517**	**762,204**	
At December 31, 2012	11,833	215,058	60,270	49,064		336,225

Leasehold improvements include work-in-progress as at December 31, 2013 amounting to SAR 25 Million (2012: SAR 23 million).

9. OTHER ASSETS

Other assets as at December 31,comprises the following:

	2013 SAR' 000	2012 SAR' 000
Management fee receivable	**41,982**	47,728
Advances to suppliers	**28,159**	22,572
Prepaid rent	**24,862**	19,362
Others	**41,114**	50,843
Total	**136,117**	140,505

10. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

Due to banks and other financial institutions as at December 31, comprise the following:

	2013	2012
	SAR' 000	SAR' 000
Current accounts	**74,560**	76,851
Time investments	**901,056**	493,979
Total	**975,616**	570,830

11. CUSTOMERS' DEPOSITS

Customer deposits as at December 31, comprise the following:

	Notes	**2013**	2012
		SAR' 000	SAR' 000
Demand	11.1	**22,640,801**	18,472,482
Saving		**3,069,358**	3,121,571
Time		**2,755,637**	1,670,237
Others	11.2	**641,922**	477,334
Total		**29,107,718**	23,741,624

11.1 Demand includes foreign currency deposits of SAR 303 million (2012: SAR 346 million).

11.2 Other deposits include deposits on behalf of the Bank's mutual funds of SAR 13.5 million (2012: SAR 7 million) and margins held for irrevocable commitments of SAR 628 million (2012: SAR 470 million).It include foreign currency margin of SAR 66.3 million (2012: SAR 62.2 million)

12. OTHER LIABILITIES

Other liabilities as of December 31, comprise the following:

	2013	2012
	SAR' 000	SAR' 000
Accounts payable	**577,118**	756,576
Accrued expenses - Staff	**159,499**	142,743
Accrued operating expenses	**59,488**	60,045
Others	**342,980**	134,867
Total	**1,139,085**	1,094,231

13. SHARE CAPITAL

The authorized issued and fully paid capital of the Bank consists of 400 million shares of SAR 10 each (2012: 300 million shares of SAR 10 each).

14. STATUTORY RESERVE

In accordance with Article 13 of the Saudi Arabian Banking Control Law, a minimum of 25% of the annual net income is required to be transferred to the statutory reserve until this reserve equals the paid up capital of the Bank. Accordingly, SAR 182 million (2012: SAR 235 million) has been transferred to the statutory reserve. The statutory reserve is not available for distribution to shareholders.

15. BONUS SHARES

The shareholders' of the Bank in their Extra Ordinary General Assembly meeting held on April 9, 2013 approved issuance of bonus shares for the year ended December 31, 2012 of 100 million shares of SAR 10 each.

16. OTHER RESERVES

Other reserves represent the net unrealized revaluation gains / (losses) on available for sale investments. This reserve is not available for distribution to shareholders.

Available for sale Investments	**2013 SAR' 000**	2012 SAR' 000
Balance at beginning of the year	**15,066**	6,236
Net change in fair value	**50,176**	14,055
Transfer to consolidated statement of income	**(21,904)**	(5,225)
Net movement during the year	**28,272**	8,830
Balance at end of the year	**43,338**	15,066

17. COMMITMENTS AND CONTINGENCIES

a) Legal proceedings

There were legal proceedings as at December 31, 2013, outstanding against the Bank. Provisions have been made for some of these legal cases based on the assessment of the Bank's legal advisers

b) Capital commitments

As at December 31, 2013, the Bank had capital commitments of SAR 46 million (2012: SAR 68 million) relating to leasehold improvements for its new branches, remittance center and ATM.

c) Credit related commitments and contingencies

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

Guarantee and standby letters of credit, which represent irrevocable 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 financing. 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.

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

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 portions of authorization to extend credit, principally in the form of financing, guarantees or letters of credit. With respect to credit risk relating to commitments to extend unused credit, the Bank is potentially exposed to a loss in an amount which is equal to the total unused commitments. The amount of any related loss, which cannot be reasonably estimated, is expected to be considerably less than the total unused commitments, since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of these commitments could expire or terminate without being funded.

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

2013 (SAR' 000)	**Less than 3 months**	**From 3 months to 12 months**	**From 1 to 5 Years**	**More than 5 Years**	**Total**
Letters of credit	**371,877**	**590,936**	**584,712**	**-**	**1,547,525**
Letters of guarantee	**285,808**	**1,072,591**	**1,362,849**	**111,963**	**2,833,211**
Acceptances	**262,676**	**50,950**	**-**	**-**	**313,626**
Total	**920,361**	**1,714,477**	**1,947,561**	**111,963**	**4,694,362**

2012 (SAR' 000)	Less than 3months	From 3 months to 12 months	From 1 to 5 Years	More than 5 Years	Total
Letters of credit	454,562	649,838	59,968	-	1,164,368
Letters of guarantee	347,038	1,086,340	877,051	60,876	2,371,305
Acceptances	209,294	53,099	-	-	262,393
Total	1,010,894	1,789,277	937,019	60,876	3,798,066

The outstanding unused portion of commitments, as of December 31, 2013, which can be revoked at any time by the Bank amounts to SAR 1.7 billion (2012: SAR 4 billion).

(ii) Commitments and contingencies by counter party as of December 31 is as follows :

	2013 SAR' 000	2012 SAR' 000
Corporate	**4,427,577**	3,586,654
Financial institutions	**230,155**	164,066
Other	**36,630**	47,346
Total	**4,694,362**	3,798,066

d) Operating lease commitments

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

	2013 SAR' 000	2012 SAR' 000
Less than one year	**112,423**	94,559
One year to five years	**237,504**	234,207
Over five years	**198,929**	140,383
Total	**548,856**	469,149

e) Zakat

The Bank received the Zakat assessments raised by Department of Zakat and Income Tax (DZIT) in respect of years from 2006 to 2008 claiming additional Zakat liability of SR 62, SR 60 and SR 55 million for years 2006, 2007 and 2008 respectively. The differences are primarily due to the disallowance of financing and other financial assets and certain expenses from the Zakat base as calculated by the Bank.

The Bank has filed an appeal with the Preliminary Committee against the DZIT's assessments' for the above mentioned years. The Preliminary Committee upheld the DZIT's assessment for 2006. However, the Bank filed an appeal with the higher Appellate Committee against the Preliminary Committee's ruling.

Further, the Bank in consultation with its advisors has contested the assessment made by DZIT and along with the Saudi banking industry has raised this issue with SAMA for a satisfactory resolution. Accordingly, the Bank did not record the additional zakat liability mentioned above as assessed by DZIT for the years 2006, 2007 and 2008 in the consolidated financial statements.

Zakat payable by the shareholders for the year ended December 31, 2013 amounted to SAR 19.5 million (2012: SAR 24.3 million). Zakat is paid by the Bank on behalf of the shareholders and will be deducted from their future dividends.

Zakat base for the years from 2009 to 2013 have been calculated on basis consistent with prior years.

Pursuant to the issuance of bonus shares, the Bank has adjusted the amount paid to the DZIT from the retained earnings for the assessment years from 2006 to 2011.

18. INCOME FROM INVESTING AND FINANCING ASSETS

Income from investing and financing assets held at amortized cost for the year ended December 31, comprises the following:

	2013	2012
	SAR' 000	SAR' 000
Investments and Due from Banks and other financial institutions		
Commodity murabaha with		
- SAMA	**7,655**	1,834
- Banks and other financial institutions	**47,850**	49,821
Profit from floating rate sukuk	**4,053**	1,094
Financing		
Bei ajel	**443,243**	392,994
Installment sales	**400,438**	358,306
Ijarah	**14,814**	6,326
Mushrakah	**56,597**	50,178
Total	**974,650**	860,553

19. RETURN ON DEPOSITS AND FINANCIAL LIABILITES

Return paid on deposits and financial liabilities for the year ended December 31, comprises of following:

	2013	2012
	SAR' 000	SAR' 000
Due to Banks	**2,863**	1,316
Deposits		
- Saving	**6,655**	5,892
- Time	**18,510**	13,831
Total	**28,028**	21,039

20. FEES AND COMMISSION INCOME, NET

Fees and commission income, net for the year ended December 31, comprise the following:

	2013	2012
	SAR' 000	SAR' 000
Fees and commission income		
ATM and point of sale	**102,735**	97,904
Brokerage income	**32,952**	44,726
Letter of credit and guarantee	**44,200**	40,369
Remittance	**425,653**	424,323
Management fee (mutual fund and others)	**43,463**	31,116
Facilities management fee	**74,857**	47,594
Documentation fee	**33,023**	33,592
Others	**9,517**	13,274
Total fees income	**766,400**	732,898
Fees and commission expenses		
ATM and point of sale	**87,042**	76,647
Brokerage expenses	**2,610**	3,481
Remittance	**3,119**	2,004
Others	**7,914**	5,466
Total fees expenses	**100,685**	87,598
Fees and commission income, net	**665,715**	645,300

21. DIVIDEND INCOME

Dividend income for the year ended December 31, comprise the following:

	2013	2012
	SAR' 000	SAR' 000
Quoted	**7,779**	11,717
Unquoted	**5,743**	-
	13,522	11,717

22. GAINS ON NON-TRADING INVESTMENTS, NET

Gains on non – trading investments for the year ended December 31, comprise the following:

	2013	2012
	SAR' 000	SAR' 000
Available-for-sale investments	**21,904**	5,225

23. OTHER OPERATING INCOME

Other operating income for the year ended December 31, comprise the following:

	2013	2012
	SAR' 000	SAR' 000
Recovery of written-off financing	**16,189**	-
Gains on sale of property and equipment	**4,452**	1,356
Others	**3,460**	264
Total	**24,101**	1,620

24. SALARIES AND EMPLOYEE RELATED BENEFITS

	Number of Employees		Fixed compensation SAR 000		Variable Compensation Paid					
					Cash SAR' 000		Shares SAR' 000		Total SAR' 000	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
Senior executives requiring SAMA no objection	7	7	**13,976**	14,919	**7,243**	5,350	-	-	**7,243**	5,350
Employees engaged in risk taking activities	**99**	87	**32,684**	26,597	**3,694**	2,209	-	-	**3,694**	2,209
Employees engaged in control functions	**246**	212	**54,243**	47,508	**4,722**	3,184	-	-	**4,722**	3,184
Other employees	**2,606**	2,234	**255,481**	239,647	**17,855**	12,231	-	-	**17,855**	12,231
Outsourced employees	**249**	300	**37,598**	28,506	**-**	-	-	-	**-**	-
Total	**3,207**	2,840	**393,982**	357,177	**33,514**	22,974	-	-	**33,514**	22,974
Variable Compensation accrued			**36,034**	61,959						
Other employee related benefits			**152,231**	98,221						
Total Salaries and employee related expenses			**582,247**	517,357						

The Bank has a very comprehensive Compensation Policy, the aim of which is to recruit, train, develop, promote and retain the best available talents who shall contribute to and assist the bank in realizing its business goals and objectives. The aim of this policy is also to ensure that, at all times, The Bank has the adequate number of employees with the right qualifications, skills and traits to perform jobs that will result in achieving short and long-term objectives and goals of the Bank and are align to the overall risk strategy of the Bank. The Bank encourages internal recruitment to provide its existing employees with career enhancement opportunities as long as this does not conflict with or hinderp the plans of the employee's existing unit.

The Compensation Policy in addition to the monthly remuneration and benefits, includes performance incentive scheme for all employees which is based on the performance of the Bank as a whole, performance of the respective Group / Division / Department and the performance of the individual employee. All these factors are assessed on periodical basis and the results are shared with the stakeholders based on which the incentive is announced at the close of each accounting period.

The Board of Directors of the Bank has established a Nominations and Remuneration Committee, comprising of the following members:

1. Mr. Abdulrahman bin Mohammed Ramzi Addas – Chariman.
2. Mr. Nasser bin Mohammed AlSubaie – Member.
3. Mr. Khaled bin Abdulaziz AlMogairen – Member.
4. Mr. Ahmed bin Abdul Aziz Alohali – Member.
5. Mr. Khaled bin Saleh AlHathal – Member.

The mandate of the Committee is to oversee the compensation system design and operation, prepare and periodically review the Compensation Policy and evaluate its effectiveness in line with the industry practice.

25. NON- OPERATING INCOME

During the first quarter of 2012, the Bank sold a parcel of land which was included under other assets with carrying value of SAR 280 million. The Bank acquired the land in 2007 for its own use. The land was sold for a total consideration of SAR 653 million and a gain of SAR 373 million was recognised as non-operating income in 2012.

The Bank granted Bei Ajel facility for the amount of SAR 503 million to the Company acquiring the land (the"Company"), which had fully utilized the issued facility. Based on the facility terms, the financed amount has been fully settled.

26. BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share for the year ended December 31, 2013 and 2012 is calculated by dividing the net income for the year attributable to the equity holders by 400 million shares to give a retroactive effect of change in the number of shares increased as a result of the bonus shares issued which was approved in their Extra Ordinary General Assembly meeting held on April 9, 2013.

27. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the consolidated statement of cash flows as of December 31, comprise the following:

	Note	**2013** **SAR' 000**	2012 SAR' 000
Cash		**1,609,797**	1,153,106
Due from banks and other financial institutions (maturing within ninety days from acquisition)		**4,319,748**	3,688,561
Balances with SAMA (excluding statutory deposit)	4	**800,484**	234,994
Total		**6,730,029**	5,076,661

28. SEGMENTAL INFORMATION

Operating segments, based on customer, groups are identified on the basis of internal reports about components of the Group that are regularly reviewed by the Assets and Liabilities Committee (ALCO), the Chief Operating Decision Maker, in order to allocate resources to the segments and to assess its performance. The Group's main business is conducted in the Kingdom of Saudi Arabia.

For management purposes, the Group is divided into the following five segments:

Retail banking
Services and products to individuals, including deposits, financing, remittances and currency exchange.

Corporate banking
Services and products including deposits, financing and trade services to corporate and commercial customers.

Treasury
Money market, trading and treasury services.

Investment banking and brokerage
Investment management services and asset management activities related to dealing, managing, arranging, advising and custody of securities.

Other
All other support functions.

Transactions between the above segments are under the terms and conditions of the approved Fund Transfer Pricing (FTP) system. The support segments and Head Office expenses are allocated to business segments, based on approved criteria.

a) The Group total assets and liabilities, together with its total operating income and expenses, and net income /(loss), for the years ended December 31, for each segment are as follows:

SAR' 000	2013					
	Retail Banking	Corporate Banking	Treasury	Investment banking and brokerage	Other	Total
Total assets	12,229,036	14,777,653	7,774,105	288,500	1,254,014	36,323,308
Capital expenditures	64,843	108	94	4,024	453,946	523,015
Total liabilities	19,067,695	10,114,583	901,056	121,079	1,018,006	31,222,419
Net income from investing and financing assets	400,802	462,333	43,998	1,104	38,385	946,622
Fee, commission and other income, net	659,284	114,716	74,888	65,566	56,152	970,606
Total operating income	1,060,086	577,049	118,886	66,670	94,537	1,917,228
Impairment charge for financing, net	63,457	111,830	-	-	-	175,287
Reversal of impairment charge on other financial assets, net	-	-	(5,340)	-	-	(5,340)
Depreciation and amortization	81,592	5,983	596	353	-	88,524
Total operating expenses	814,519	308,827	30,016	34,698	-	1,188,060
Net operating income for the year	245,567	268,222	88,870	31,972	94,537	729,168
Non-operating income	-	-	-	-	-	-
Net income for the year	245,567	268,222	88,870	31,972	94,537	729,168

SAR' 000	2012					
	Retail Banking	Corporate Banking	Treasury	Investment banking and brokerage	Other	Total
Total assets	9,780,498	11,572,550	7,567,538	763	856,152	29,777,501
Capital expenditures	35,748	192	66	2,155	58,285	96,446
Total liabilities	16,498,105	7,320,370	493,979	85,762	1,008,469	25,406,685
Net income from investing and financing assets	370,839	405,199	32,972	-	30,504	839,514
Fee, commission and other income, net	630,082	94,301	92,283	63,116	18,084	897,866
Total operating income	1,000,921	499,500	125,255	63,116	48,588	1,737,380
Impairment charge for financing, net	82,751	192,469	-	-	-	275,220
Depreciation and amortization	74,407	12,260	1,082	271	-	88,020
Total operating expenses	733,001	370,094	32,350	33,298	-	1,168,743
Net operating income for the year	267,920	129,406	92,905	29,818	48,588	568,637
Non-operating income	-	-	-	-	373,167	373,167
Net income for the year	267,920	129,406	92,905	29,818	421,755	941,804

(b) The Group credit exposure by business segments is as follows:

2013 SAR' 000	**Retail banking segment**	**Corporate**	**Treasury**	**Total**
Total asset	**9,461,589**	**13,953,834**	**7,207,656**	**30,623,079**
Commitments and Contingencies	**-**	**3,005,530**	**-**	**3,005,530**

2012 SAR' 000				
Total asset	7,540,492	10,715,184	7,676,005	25,931,681
Commitments and Contingencies	-	1,784,664	-	1,784,664

Group credit exposure is comprised of due from bank and other financial institutions, investments and financing. The credit equivalent value of commitments and contingencies are included in credit exposure.

29. FINANCIAL RISK MANAGEMENT

Banking activities involve varieties of financial risks which are assessed by conducting set of analysis, evaluation, acceptance and management of some degree of risk or combination of risks. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Group financial performance with ultimate objective of enhancing the shareholders' value.

The Group risk management policies, procedures and systems are designed to identify and analyze these risks and to set appropriate risk mitigates and controls. The Bank reviews its risk management policies and systems on an ongoing basis to reflect changes in markets, products and emerging best practice.

The Board has appointed the Risk and Compliance Committee which has the responsibility to monitor the overall risk process within the bank. The Risk and Compliance Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is the responsible for managing risk decisions and monitoring risk levels. The Risk and Compliance Committee reports on a regular basis to the Board of Directors.

30. CREDIT RISK

The Group manages exposure to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arrive principally in financing and investment activities. There is also credit risk in off-financial position financial instruments, such as letters of credit, letter of guarantees and financing commitments.

The Bank assesses the probability of default of counterparties using internal rating tools. Also, the Bank uses external ratings of the major rating agencies, where available.

The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and 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. Actual exposures against limits are monitored daily. 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 limiting the duration of exposure.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

The Bank seeks to manage its credit risk exposure through diversification to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or businesses. 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 facilities.

Management, 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 market products and emerging best practice.

Analysis of investments by counter-party is provided in note 6(b). for financing in note 7. For commitments and contingencies in note 17. The information on the Bank's maximum credit and credit risk exposure by operating business segment given in note 28(b).

a) Geographical Concentration

(i) The geographical distribution of major assets, liabilities, commitments and contingencies and credit exposure as of December 31:

2013 SAR' 000	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	South East Asia	Other countries	Total
Assets						
Cash and balances with SAMA	4,186,998	-	-	-	-	4,186,998
Due from banks and other financial institutions, net	3,991,953	1,948,939	93,031	32,482	89,092	6,155,497
Investments, net	1,667,069	-	-	-	-	1,667,069
Financing, net	23,415,423	-	-	-	-	23,415,423
Total	33,261,443	1,948,939	93,031	32,482	89,092	35,424,987
Liabilities						
Due to banks and other financial institutions	188,319	656,682	-	-	130,615	975,616
Customers' deposits	29,107,718	-	-	-	-	29,107,718
Total	29,296,037	656,682	-	-	130,615	30,083,334
Commitments and contingencies	4,694,362	-	-	-	-	4,694,362
Credit risk (stated at credit equivalent amounts) on Commitments and Contingencies	3,005,530	-	-	-	-	3,005,530

2012 SAR' 000	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	South East Asia	Other countries	Total
Assets						
Cash and balances with SAMA	2,932,369	-	-	-	-	2,932,369
Due from banks and other financial institutions, net	4,216,687	1,994,876	255,575	21,330	86,998	6,575,466
Investments, net	1,537,260	-	-	-	-	1,537,260
Financing, net	18,255,676	-	-	-	-	18,255,676
Total	26,941,992	1,994,876	255,575	21,330	86,998	29,300,771
Liabilities						
Due to banks and other financial institutions	193,760	376,573	-	-	497	570,830
Customers' deposits	23,741,624	-	-	-	-	23,741,624
Total	23,935,384	376,573	-	-	497	24,312,454
Commitments and contingencies	3,798,066	-	-	-	-	3,798,066
Credit risk (stated at credit equivalent amounts) on Commitments and Contingencies	1,784,664	-	-	-	-	1,784,664

Credit equivalent amounts reflect the amounts that result from translating the Bank's off-financial position commitments and contingencies into the risk equivalent of financing facilities using credit conversion factors prescribed by SAMA. Credit conversion factor is used to capture the potential credit risk resulting from the Bank meeting its commitments.

ii) The geographical distribution of the impaired investing and financing assets and the impairments provision for investing and financing assets is set out as below:

2013 **SAR' 000**	**Kingdom of Saudi Arabia**	**Other GCC and Middle East**	**Europe**	**South East Asia**	**Other countries**	**Total**
Non- performing financing assets	**460,868**	**-**	**-**	**-**	**-**	**460,868**
Provision for impairment on financing assets	**895,311**	**-**	**-**	**-**	**-**	**895,311**
Non- performing other financial assets	**-**	**90,923**	**-**	**-**	**-**	**90,923**
Provision for impairment on other financial assets	**-**	**90,923**	**-**	**-**	**-**	**90,923**
2012 SAR' 000						
Non- performing financing assets	752,302	-	-	-	-	752,302
Provision for impairment on financing assets	1,094,019	-	-	-	-	1,094,019
Non- performing other financial assets	-	96,263	-	-	-	96,263
Provision for impairment on other financial assets	-	96,263	-	-	-	96,263

31. MARKET RISK

Market risk is the risk that the fair value to future cash flows of the financial instruments will fluctuate due to changes in market variables such as profit rate, foreign exchange rates, and equity prices.

a) Profit rate risk

Cash flow profit rate risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in market profit rates. The Bank does not have any significant exposure to the effects of fluctuations in prevailing level of market profit rates on its future cash flows as a significant portion of profit earning financial assets and profit bearing liabilities are at fixed rates and are carried in the financial statements at amortized cost. In addition to this, a substantial portion of the Bank's financial liabilities are non-interest bearing.

b) Foreign exchange rate risk

(i) The Bank is exposed to the effects of fluctuations in foreign currency exchange rates on both its financial position and on its cash flows. The Bank's management sets limits on the level of exposure by individual currency and in total for intra day positions, which are monitored daily.

The Bank had the following summarized exposure to foreign currency exchange rate risk as at December 31:

	2013		2012	
	Saudi Riyal SAR ' 000	**Foreign Currency SAR ' 000**	Saudi Riyal SAR ' 000	Foreign Currency SAR ' 000
Assets				
Cash and balances with SAMA	**4,003,877**	**183,121**	2,806,827	125,542
Due from banks and other financial institutions, net	**5,526,957**	**628,540**	5,749,811	825,655
Investments, net	**1,667,069**	**-**	1,537,260	-
Financing, net	**23,121,870**	**293,553**	17,932,415	323,261
Property and equipment, net	**762,204**	**-**	336,225	-
Other assets	**104,311**	**31,806**	140,411	94
Total	**35,186,288**	**1,137,020**	28,502,949	1,274,552
Liabilities and equity				
Due to banks and other financial institutions	**82,361**	**893,255**	175,266	395,564
Customer deposits	**28,723,751**	**383,967**	23,320,237	421,387
Other liabilities	**1,129,674**	**9,411**	1,082,707	11,524
Equity	**5,100,889**	**-**	4,370,816	-
Total	**35,036,675**	**1,286,633**	28,949,026	828,475

A substantial portion of the net foreign currency exposure to the Bank is in US Dollars, where the SAR is pegged to the US Dollar. The other currency exposures are not considered significant to the Bank's foreign exchange rate risks and as a result the Bank is not exposed to major foreign exchange rate risks.

(ii) Currency Position

At the end of the year, the Bank had the following significant net exposures denominated in foreign currencies:

	2013 SAR' 000 Long/(short)	2012 SAR' 000 Long
US Dollar	**(558,895)**	381,186
Kuwaiti Dinar	**8,352**	6,108
Pakistan Rupees	**43,134**	11,085
Qatar Riyal	**290,802**	11,336
UAE Dirham	**32,679**	17,458
Egyptian Pound	**4,795**	3,617
Others	**29,520**	15,287
Total	**(149,613)**	446,077

The Bank has performed a sensitivity analysis over one year time horizon for the probability of changes in foreign exchange rates, other than US Dollars, using historical average exchange rates and has determined that there is no significant impact on its net foreign currency exposures.

c) Equity Price Risk

Equity risk refers to the risk of decrease in fair values of equities in the Bank's available-for-sale investment portfolio as a result of reasonable possible changes in levels of equity indices over a one year time horizon 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:

	December 31, 2013		**December 31, 2012**	
Market Indices	**Change in equity price %**	**Effect in SAR' 000**	**Change in equity price %**	**Effect in SAR' 000**
Tadawul	**± 10**	**46,491**	± 10	28,672
Unquoted	**± 2**	**3,000**	± 2	3,000

32. LIQUIDITY RISK

Liquidity risk is the risk that the Bank will not be 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 dry up immediately. To mitigate this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents, and readily marketable securities.

The table below summarises the maturity profile of the Bank's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the consolidated statement of financial position date to the contractual maturity date and do not take account of the effective maturities as indicated by the Bank's deposit retention history. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on expected discounted cash inflows.

Management monitors the maturity profile to ensure that adequate liquidity is maintained. 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 Assets Liability committee (ALCO). Daily reports cover the liquidity position of both the Bank and operating subsidiary. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

In accordance with Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% (2012: 7%) of total demand deposits and 4% (2012: 4%) of time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of no less than 20% of its total deposits, in the form of cash and assets, which can be converted into cash within a period not exceeding 30 days.

The Bank has the ability to raise additional funds through special investment arrangements facilities with SAMA.

a) The maturity profile of assets, liabilities and equity as at December 31 are as follows:

2013 SAR' 000	Within 3 Months	3 months to 1 year	One year to 5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	2,410,281	-	-	-	-	2,410,281
Statutory deposit with SAMA	-	-	-	-	1,776,717	1,776,717
Due from banks and other financial institutions, net	5,442,081	713,416	-	-	-	6,155,497
Investments, net	1,052,159	-	-	-	614,910	1,667,069
Financing, net	6,247,159	8,358,164	8,125,483	684,617	-	23,415,423
Property and equipment, net	-	-	-	-	762,204	762,204
Other assets	-	-	-	-	136,117	136,117
Total assets	15,151,680	9,071,580	8,125,483	684,617	3,289,948	36,323,308
Liabilities and equity						
Due to banks and other financial institutions	787,298	188,318	-	-	-	975,616
Customers' deposits	26,606,667	2,501,051	-	-	-	29,107,718
Other liabilities	-	-	-	-	1,139,085	1,139,085
Shareholders' equity	-	-	-	-	5,100,889	5,100,889
Total liabilities and equity	27,393,965	2,689,369	-	-	6,239,974	36,323,308

2012 SAR'000	Within 3 Months	3 months to 1 year	One year to 5 years	Over 5 Years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	1,388,100	-	-	-	-	1,388,100
Statutory deposit with SAMA	-	-	-	-	1,544,269	1,544,269
Due from banks and other financial institutions, net	5,711,336	864,130	-	-	-	6,575,466
Investments, net	1,100,539	-	-	-	436,721	1,537,260
Financing, net	3,904,315	6,663,250	6,941,791	746,320	-	18,255,676
Property and equipment, net	-	-	-	-	336,225	336,225
Other assets	-	-	-	-	140,505	140,505
Total assets	12,104,290	7,527,380	6,941,791	746,320	2,457,720	29,777,501
Liabilities and equity						
Due to banks and other financial institutions	570,830	-	-	-	-	570,830
Customers' deposits	22,423,692	1,317,932	-	-	-	23,741,624
Other liabilities	-	-	-	-	1,094,231	1,094,231
Shareholders' equity	-	-	-	-	4,370,816	4,370,816
Total liabilities and equity	22,994,522	1,317,932	-	-	5,465,047	29,777,501

b) Analysis of financial liabilities by the remaining contractual maturities as at December 31, are as follows

2013 **SAR' 000**	**Within 3 Months**	**3 months to 1 year**	**One year to 5 years**	**Over 5 Years**	**No fixed Maturity**	**Total**
Financial liabilities						
Due to banks and other financial institutions	**787,380**	**188,836**	**-**	**-**	**-**	**976,216**
Customers' deposits	**26,606,761**	**2,521,020**	**-**	**-**	**-**	**29,127,781**

2012 SAR' 000	Within 3 Months	3 months to 1 year	One year to 5 years	Over 5 Years	No fixed Maturity	Total
Financial liabilities						
Due to banks and other financial institutions	570,921	-	-	-	-	570,921
Customers' deposits	22,423,908	1,330,083	-	-	-	23,753,991

33. FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Consequently, differences may arise between carrying values and fair value estimates.

Determination of fair value and fair value hierarchy

The fair value of on-balance sheet financial instruments are not significantly different from their carrying values included in the consolidated financial statements.

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

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

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

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

2013 SAR' 000	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial Assets				
Financial investments available for sale	**464,910**	**-**	**150,000**	**614,910**

2012 SAR' 000	Level 1	Level 2	Level 3	Total
Financial Assets				
Financial investments available for sale	286,721	-	150,000	436,721

Level 3 investments comprise of unquoted available-for-sale investments that are carried at cost.

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

34. RELATED PARTY BALANCES AND TRANSACTIONS

In the ordinary course of business, the Bank transacts business with related parties. The related party transactions are governed by limits set by the Banking Control Law and the regulations issued by SAMA. The nature and balances of transactions with the related parties for the years ended December 31 are as follows:

	2013 SAR' 000	2012 SAR' 000
a) Directors, and other major shareholders and their affiliates balances:		
Bei ajel	**1,455,432**	1,399,819
Musharaka	**17,529**	74,759
Commitments and contingencies	**12,334**	34,826
Demand	**43,508**	23,598
Saving	**9,320**	651

Major shareholders are those shareholders who own 5% or more of the Bank's issued share capital.

	2013 SAR' 000	2012 SAR' 000
b) Bank's Mutual funds:		
These are the outstanding balances with Bank's mutual funds as of December 31:		
Customers' deposits	**13,529**	7,286

c) Related party income and expense:

The following is an analysis of the related party income and expenses included in the consolidated statement of income for the years ended December 31:

	2013 **SAR' 000**	2012 SAR' 000
Income from financing	**44,110**	48,936
Income from commitments and contingencies	**148**	197
Management fees (AlBilad mutual funds)	**14,758**	13,082
Rent	**5,675**	4,380
Board of Directors' remunerations	**5,266**	3,729
Compensations, remuneration and bonuses and end of service benefits to executive management members	**52,101**	41,963

Executive management members are those who have the authority and responsibility, directly or indirectly, to plan, steer and control the Bank's activities.

35. CAPITAL ADEQUACY

The Group's objectives when managing capital are, to comply with the capital requirements set by SAMA; to safeguard the Group'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 by the Group's management. SAMA requires holding the minimum level of the regulatory capital of and maintaining a ratio of total regulatory capital to the risk-weighted asset at or above the agreed minimum of 8%.

The Group monitors the adequacy of its capital using ratios established by SAMA. These ratios measure capital adequacy by comparing the Group's eligible capital with its consolidated statement of financial position assets and commitments at a weighted amount to reflect their relative risk.

SAMA has issued the framework and guidance regarding implementation of the capital reforms under Basel III - which are effective from January 1, 2013. Accordingly, the Group's consolidated Risk Weighted Assets (RWA), total capital and related ratios on a consolidated group basis, are calculated under the Basel III framework. For the purposes of presentation, the RWAs, total capital and related ratios as at December 31, 2013 is calculated using the framework and the methodologies defined under the Basel III framework. The comparative balances and ratios as at December 31, 2012 is calculated under Basel II and have not been restated.

The following table summarizes the Group's Pillar-I Risk Weighted Assets, Tier I and Tier II Capital and Capital Adequacy Ratios.

	(Unaudited)	
	2013	2012
	SAR' 000	SAR' 000
Credit Risk RWA	**28,053,891**	22,005,550
Operational Risk RWA	**3,142,572**	2,629,094
Market Risk RWA	**612,338**	451,388
Total Pillar-I RWA	**31,808,801**	25,086,032
Tier I Capital	**5,100,889**	3,429,012
Tier II Capital	**350,674**	1,216,873
Total Tier I & II Capital	**5,451,563**	4,645,885
Capital Adequacy Ratio %		
Tier I ratio	**16.04%**	13.67%
Tier I + Tier II ratio	**17.14%**	18.52%

36. INVESTMENT MANAGEMENT AND BROKERAGE SERVICES

The Bank offers investment management services to its customers through its subsidiary, AlBilad Investment Company. These services include the management of six mutual funds (2012: six mutual funds) with assets totaling SAR 1,154 million (2012: SAR 979 million). All of these funds comply with Shariah rules and are subject to Shariah controls on a regular basis. Some of these mutual funds are managed in association with external professional investment advisors.

The Bank also manages private investment portfolios on behalf of its customers amount to SAR 8,234 (2012: SAR 5,341). The financial statements of these funds and private portfolios are not included in the financial statements of the Bank. However, the transactions between the Bank and the funds are disclosed under related party transactions (see Note 34).

37. PROSPECTIVE CHANGES IN THE INTERNATIONAL FINANCIAL REPORTING FRAMEWORK

The Group has chosen not to early adopt the following new standards which have been issued but not yet effective for the Bank's accounting years beginning after 1 January 2014 and is currently assessing their impact.

a) **IFRS 9 Financial instruments (2010):** revised version of IFRS 9 applicable from 1 January 2015. This incorporates revised requirements for the classification and measurement of financial liabilities and carries over the existing derecognition requirements from IAS 39 Financial Instruments: Recognition and Measurement.

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

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

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

38. Employee share plan (ESP)

Significant features of the share based payment plan is as follows:

	2013	2012
Grant date	**4 September 2013**	12 May 2012
Maturity Date	**1 January 2016**	1 January 2015
Number of share offered on the grant date	**251,300**	426,187
Share price on the grant date (SAR)	**31.80**	28.20
Value of shares offered on grant date (SAR' 000)	**7,991**	9,013
Vesting period	**3 years**	3 years
Vesting condition	**Employees to remain in service**	Employees to remain in service
Method of settlement	**Equity**	Equity

The movement in the number of shares is as follows	**2013**	2012
Beginning of the year	**583,407**	212,020
Granted during the year	**251,300**	426,187
Forfeited	**53,070**	54,800
Exercised	**-**	-
End of the year	**781,637**	583,407

The shares are granted only under a service condition with no market condition associated with them.

39. COMPARATIVE FIGURES

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

40. BOARD OF DIRECTORS' APPROVAL

These consolidated financial statements were approved by the Bank's Board of Directors on 9 Rabi" Al-ALakher 1435H (corresponding to 9 February, 2014).

41. BASEL III - CAPITAL STRUCTURE

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

42. BASEL III PILLAR 3 DISCLOSURES

Under Basel III pillar 3, Certain additional quantitative and qualitative disclosures are required and these disclosures will be made available to the public on the Bank's website (www.bankalbilad.com) and the annual report as required by SAMA. Such disclosures are not subject to review or audit by the external auditors.