BANK ALBILAD
(A Saudi Joint Stock Company)

Consolidated Financial Statements
For the year ended December 31, 2012

Ernst & Young

Deloitte & Touche
Bakr Abulkhair & Co.
Deloitte.

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, 2012, the consolidated income statement, statements of 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 34, nor the information related to "Basel II Pillar 3 disclosures" cross referenced therein, which is not required to be within the scope of our audit.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Accounting Standards for Financial Institutions issued by the Saudi Arabian Monetary Agency ("SAMA"), International Financial Reporting Standards, the provisions of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia 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, the auditors consider internal control relevant to the Bank's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

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, 2012, and its financial performance and its cash flows for the year then ended in accordance with Accounting Standards for Financial Institutions in the Kingdom of Saudi Arabia issued by SAMA and with International Financial Reporting Standards; and

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

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(1 Rabi Thani 1434H)
11 February 2013

BANK ALBILAD
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2012 AND 2011

	Notes	**2012 SAR' 000**	2011 SAR' 000
ASSETS			
Cash and balances with SAMA	4	**2,932,369**	5,834,702
Due from banks and other financial institutions, net	5	**6,575,466**	6,454,366
Investments, net	6	**1,537,260**	951,458
Financing, net	7	**18,255,676**	13,779,746
Property and equipment, net	8	**336,225**	328,436
Other assets	9	**140,505**	378,461
Total assets		**29,777,501**	27,727,169
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks and other financial institutions	10	**570,830**	421,837
Customers' deposits	11	**23,741,624**	23,037,934
Other liabilities	12	**1,094,231**	851,148
Total liabilities		**25,406,685**	24,310,919
Shareholders' equity			
Share capital	13	**3,000,000**	3,000,000
Employee share plan	38	**(37,165)**	(41,097)
Statutory reserve	14	**370,104**	134,653
Other reserves	6 (a)&15	**15,066**	6,236
Retained earnings		**1,022,811**	316,458
Total shareholders' equity		**4,370,816**	3,416,250
Total liabilities and shareholders' equity		**29,777,501**	27,727,169

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

BANK ALBILAD
(A Saudi Joint Stock Company)

CONSOLIDATED INCOME STATEMENT
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	Notes	**2012 SAR' 000**	2011 SAR' 000
INCOME:			
Income from investing and financing assets	17	**860,553**	727,934
Return on deposits and financial liabilities	18	**(21,039)**	(24,948)
Net income from investing and financing assets		**839,514**	702,986
Fees and commission income, net	19	**645,300**	458,296
Exchange income, net		**234,004**	189,436
Dividend income	20	**11,717**	10,884
Gains on non-trading investments, net	21	**5,225**	7,396
Other operating income	22	**1,620**	4,510
Total operating income		**1,737,380**	1,373,508
EXPENSES:			
Salaries and employee related benefits	23	**517,357**	448,977
Rent and premises related expenses		**133,983**	111,276
Depreciation and amortization	8	**88,020**	88,689
Other general and administrative expenses		**154,163**	142,699
Impairment charge for financing,net	7(a)	**275,220**	252,242
Total operating expenses		**1,168,743**	1,043,883
Net operating income for the year		**568,637**	329,625
Non-operating income	24	**373,167**	-
Net income for the year		**941,804**	329,625
Basic and diluted earnings per share (Saudi Riyals)	25	**3.14**	1.10

The accompanying notes 1 to 40 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, 2012 AND 2011

	Note	**2012 SAR' 000**	2011 SAR' 000
Net income for the year		**941,804**	329,625
Other comprehensive income:	6(a)		
- Available for sale financial assets			
Net changes in fair value		**14,055**	(9,979)
Net amount transferred to consolidated income statement		**(5,225)**	(7,396)
Total comprehensive income for the year		**950,634**	312,250

The accompanying notes 1 to 40 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, 2012 AND 2011

		SAR' 000					
2012	Notes	**Share capital**	**Employee share plan**	**Statutory reserve**	**Other reserves**	**Retained earnings**	**Total**
Balance at the beginning of the year		**3,000,000**	**(41,097)**	**134,653**	**6,236**	**316,458**	**3,416,250**
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 the end of the year		**3,000,000**	**(37,165)**	**370,104**	**15,066**	**1,022,811**	**4,370,816**
2011							
Balance at the beginning of the year		3,000,000	(42,136)	52,246	23,611	69,240	3,102,961
Total comprehensive income for the year		-	-	-	(17,375)	329,625	312,250
Employee share plan reserve	38	-	1,039	-	-	-	1,039
Transfer to statutory reserve	14	-	-	82,407	-	(82,407)	-
Balance at the end of the year		3,000,000	(41,097)	134,653	6,236	316,458	3,416,250

The accompanying notes 1 to 40 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, 2012 AND 2011

	Note	2012 SAR' 000	2011 SAR' 000
OPERATING ACTIVITIES			
Net income for the year		**941,804**	329,625
Adjustments to reconcile net income to net cash from / (used in) operating activities:			
Gains on non-trading investments, net		**(5,225)**	(7,396)
Gains from disposal of property and equipment, net		**(1,356)**	(2,473)
Depreciation and amortization		**88,020**	88,689
Impairment charge for financing, net		**275,220**	252,242
Non-operating income		**(373,167)**	-
Operating profit before changes in operating assets and liabilities		**925,296**	660,687
Net (increase) / decrease in operating assets:			
Statutory deposits with SAMA		**(363,461)**	(190,350)
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		**(786,469)**	(403,073)
Investments		**(500,168)**	700,486
Financing		**(4,248,108)**	(1,742,161)
Other assets		**(41,919)**	(34,096)
Net increase/ (decrease) in operating liabilities:			
Due to banks and other financial institutions		**148,993**	39,408
Customers' deposits		**703,690**	6,105,519
Other liabilities		**243,083**	152,267
Net cash (used in) from operating activities		**(3,919,063)**	5,288,687
INVESTING ACTIVITIES			
Purchase of non-trading investments		**(264,751)**	(252,559)
Proceeds from sales of non-trading investments		**193,172**	201,555
Purchase of property and equipment		**(96,446)**	(83,635)
Proceeds from sale of property and equipment		**1,993**	10,873
Proceeds from sale of land		**150,000**	-
Net cash used in investing activities		**(16,032)**	(123,766)
FINANCING ACTIVITIES			
shares for employee share plan, net		**3,932**	1,039
Net cash from financing activities		**3,932**	1,039
(Decrease) Increase in cash and cash equivalents		**(3,931,163)**	5,165,960
Cash and cash equivalents at beginning of the year		**9,007,824**	3,841,864
Cash and cash equivalents at end of the year	26	**5,076,661**	9,007,824
Income received from investing and financing assets		**586,299**	703,695
Return paid on deposits and financial liabilities		**13,977**	31,196
<u>Supplemental non cash information</u>			
Net changes in fair value reserve & net amount transferred to consolidated income statement		**8,830**	(17,375)
Financing provided towards sale of land		**503,042**	-

The accompanying notes 1 to 40 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 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 accordance with Islamic Shariah and within the provisions of the Articles and Memorandum of Association, by-laws and the Banking Control Law. The Bank provides these services through 88 banking branches (2011: 82) and 144 exchange and remittance centers (2011: 126) 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 also prepares its consolidated financial statements to comply with the requirements of Banking Control Law and the Regulations of Companies in the Kingdom of Saudi Arabia and the Bank's by- laws

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 functional currency. Except as indicated, financial information presented in SAR has been rounded to the nearest thousand.

d) Critical accounting judgments and estimates

The preparation of 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 losses on financing assets

The Bank reviews its financing portfolio to assess specific and collective impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. 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 unquoted financial instruments

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. Models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable market data, however areas such as credit risk (both own and counter party), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments. Unquoted equity financial instruments are stated at cost.

(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 equity investments

The Bank exercises judgment to consider impairment on the available-for-sale equity investments. This includes determination of a significant or prolonged decline in the fair value below its cost. In making this judgment, the Bank evaluates among other factors, the normal volatility in share 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.

e) Going concern

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these consolidated financial statements are set out below. The accounting policies used in the preparation of these consolidated financial statements are consistent with those of the prior year except for amendments to IFRS 7 – Financial Instruments: Disclosures - Transfers of Financial Assets.
These amendments introduce new disclosure requirements about transfers of financial assets, including disclosures for:

- Financial assets that are not derecognized in their entirety; and
- Financial assets that are derecognized in their entirety but for which the entity retains continuing involvement.

a) Basis of the preparation of the consolidated financial statements

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 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 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.

b) 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 income statement are initially recognized on trade date at which the Bank become a party to the contractual provision of the instrument.

c) 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 income statement.

d) Offsetting

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.

e) Due from banks and other financial institution, Investments and financing

1. Due from banks and other financial institutions

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

2. 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 investments - Available–for–sale investments are non-derivative financial instruments that are either designated as AFS or not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

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

For securities traded in organized financial markets, fair value is determined by reference to exchange quoted market bid prices 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, but where this is not feasible, a degree of judgement 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.

3. **Financing -** Financing comprising of Bei-ajel, installment sales and Musharakah, 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.

f) Impairment of financial assets

Financial assets carried at amortized cost

An assessment is made at the reporting date of each 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 income statement.
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. 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 investment and financing counter-parties as well as their credit ratings, taking into account the current economic climate.
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 recognized in the consolidated income statement in impairment charge. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted.

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 income statement 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 income statement.

g) Revenue recognition

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

Fee and commission are recognized when the service has been provided. Financing commitment fee that are likely to be drawn down are deferred and, together with the related direct cost, are recognized as an adjustment to the effective yield on the financing.

Portfolio and other management advisory and service fee are recognized based on the applicable service contracts, usually on a time-proportionate basis.

Fees received on asset management, wealth management, custody services and other similar services that are provided over an extended period of time, are recognized over the period when the service is being provided. When a financing commitment is not expected to result in the draw-down of a financing, financing commitment fees are recognised on a straight-line basis over the commitment period.
Special commission income against commodity Murabaha with SAMA is recognised in the consolidated income statement on a time proportion basis.

Exchange income/loss is recognized when earned/incurred.

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

h) 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 expires.

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 expired.

i) 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 income statement as it is deducted from the dividends paid to the 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.

j) 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.

k) Contingent assets and liabilities

Contingent assets are not recognized by the Bank, and are also not disclosed unless an inflow of economic benefits is probable and contingent liabilities are not recognized, and are disclosed unless the probability of an outflow of resources embodying economic benefits is remote.

In ordinary course of business, the Bank gives financial guarantees, consisting of letter of credit, guarantees and acceptances. The premium received on financial guarantees is initially recognised in the financial statements at fair value in other liabilities. The premium received is recognised in the consolidated income statement in “Fee and commission income, net" on a straight line basis over the life of the guarantee.
Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most acceptances to be settled simultaneously with the reimbursement from the customers. Acceptances are accounted for as off-financial position transactions and are disclosed as contingent liabilities and commitments.

l) Accounting for leases

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

m) 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 original maturity of three months or less from the date of acquisition.

n) 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	20 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 income statement.

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.

o) 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

p) 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.

q) Income excluded from the consolidated income statement
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 Bank's income for its final disposal.

r) Employee share plan
The bank offers its eligible employees an equity settled share based payment plan as approved by SAMA and CMA. The cost of the plan is measured by reference to the fair value at the date on which the shares are granted. The cost of the plan is recognized over the period in which the service condition is fulfilled on straight line basis, ending on the date at which the relevant employees become fully entitled to the shares (the vesting date). At each reporting date, Management revises its estimates of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in the consolidated income statement over the remaining vesting period, with a corresponding adjustment to the employee share plan reserve.

Under the terms of the plan, the Group has already purchased certain number of Treasury shares for the purposes of the above scheme. As per the approved scheme with the approval of SAMA, primarily for discharging its obligation under share based payment plans and are carried at cost., the custodianship of the above mentioned shares has been given to an independent Investment company ('the custodian"). The custodian shall only keep the shares, along with any benefits accrued there on, during the vesting period and shall have no voting rights during the same period. Upon completion of the vesting period the title of the shares will be transferred to the eligible employees along with any benefits accrued thereon in the shape of dividends, rights, bonus etc.

s) 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 the following:

	Note	**2012 SAR' 000**	2011 SAR' 000
Cash in hand		**1,153,106**	1,115,535
Statutory deposit	4.1	**1,544,269**	1,180,808
Other balances		**234,994**	3,538,359
Total		**2,932,369**	5,834,702

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 Banks' day to day operations and therefore is not part of cash and cash equivalents.

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:

	2012 SAR' 000	2011 SAR' 000
Current accounts	**401,961**	1,302,182
Commodity murabaha placements	**6,269,768**	5,248,447
Provision for impairment on commodity murabaha	**(96,263)**	(96,263)
	6,173,505	5,152,184
Total	**6,575,466**	6,454,366

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

	2012 SAR' 000	2011 SAR' 000
Balance at beginning of the year	**96,263**	96,262
Provided during the year	**-**	1
Balance at end of the year	**96,263**	96,263

6. INVESTMENTS, NET

Investments comprise the following as at December 31:

		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**
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**

		2011	
	Quoted	Unquoted	Total
Available-for-sale investments	SAR' 000	SAR' 000	SAR' 000
Equities	122,296	150,000	272,296
Mutual fund	20,791	-	20,791
Sukuk	58,000	-	58,000
	201,087	150,000	351,087
Held at amortized cost			
Commodity Murabaha with SAMA	-	600,371	600,371
	201,087	750,371	951,458

a) Movement in other reserves is summarized as follows:

	2012 SAR' 000	2011 SAR' 000
Balance at beginning of the year	**6,236**	23,611
Net changes in fair value	**14,055**	(9,979)
Net amount transferred to consolidated income statement	**(5,225)**	(7,396)
Balance at the end of the year	**15,066**	6,236

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

	2012 SAR' 000	**2011** SAR' 000
Corporate	**327,308**	330,296
Banks and other financial institutions	**109,413**	20,791
SAMA	**1,100,539**	600,371

Total	**1,537,260**	951,458

c) Equities reported under available-for-sale investments in the stock market include unquoted shares for SAR 150 million (2011: SAR 150) that are carried at cost, as their fair value cannot be reliably measured.

7. FINANCING, NET

Financing, net as of December 31, comprise the following:

2012	**Performing**	**Non performing**	**Total**	**Provisions**	**Net**
	SAR' 000	**SAR' 000**	**SAR' 000**	**SAR' 000**	**SAR' 000**
Bei ajel	**8,915,846**	**597,065**	**9,512,911**	**(780,261)**	**8,732,650**
Installment sales	**7,680,952**	**69,323**	**7,750,275**	**(209,783)**	**7,540,492**
Ijarah	**529,348**	**-**	**529,348**	**-**	**529,348**
Musharakah	**1,471,247**	**85,914**	**1,557,161**	**(103,975)**	**1,453,186**
Total	**18,597,393**	**752,302**	**19,349,695**	**(1,094,019)**	**18,255,676**
2011					
Bei ajel	7,037,464	601,311	7,638,775	(706,794)	6,931,981
Installment sales	5,597,065	44,847	5,641,912	(127,032)	5,514,880
Ijarah	352,968	-	352,968	-	352,968
Musharakah	991,113	39,057	1,030,170	(50,253)	979,917
Total	13,978,610	685,215	14,663,825	(884,079)	13,779,746

a) Impairment charge for financing:

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

	2012	2011
	SAR' 000	SAR' 000
Balance at beginning of the year	**884,079**	633,029
Provided during the year	**275,220**	252,242
Amounts written off during the year	**(65,280)**	(1,192)
Balance at end of the year	**1,094,019**	884,079

b) The concentration risks and related provision, by major economic sectors as of December 31, are as follows:

2012	**Performing financing SAR' 000**	**Non-performing financing SAR' 000**	**Provisions 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**

2011	Performing financing SAR '000	Non-performing financing SAR '000	Provisions SAR '000	Financing, net SAR '000
Commercial	1,966,850	83,147	(85,388)	1,964,609
Industrial	990,395	358,484	(377,886)	970,993
Building and construction	2,712,422	5,576	(52,055)	2,665,943
Transportation and communication	5,478	-	(94)	5,384
Services	363,029	50,998	(59,273)	354,754
Agriculture and fishing	732,639	1,410	(13,963)	720,086
Personal	5,597,065	44,847	(127,032)	5,514,880
Other	1,610,732	140,753	(168,388)	1,583,097
Total	13,978,610	685,215	(884,079)	13,779,746

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

For presentation purposes, the Bank has categorized its portfolio of financing that are neither past due nor impaired into five sub categories as follows:.

Grades	2012 SAR' 000	2011 SAR' 000
Excellent	**2,350,871**	579,160
Good	**9,177,661**	7,853,733
Satisfactory	**1,804,705**	1,642,804
Fair risk	**4,455,694**	3,340,982
Watch list	**518,998**	432,007
Total	**18,307,929**	13,848,686

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.

d) 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:

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

2011	Bei Ajel SAR' 000	Installment sales SAR' 000	Ijarah SAR' 000	Musharakah SAR' 000	Total SAR' 000
Individually impaired loan	601,311	44,847	-	39,057	685,215
Fair value of collateral	494,964	2,396	-	80,309	577,669

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

2012	Bei Ajel SAR' 000	Installment sales SAR' 000	Ijarah SAR' 000	Musharakah SAR' 000	Total SAR' 000
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**
2011					
1 to 30 days	45,281	15,809	-	-	61,090
31 to 90 days	59,843	8,991	-	-	68,834
91 to 180 days	-	-	-	-	-
Above 180 days	-	-	-	-	-
Total	105,124	24,800	-	-	129,924
Fair value of collateral	639,108	9,123	-	-	648,231

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

f) Collateral

The Bank 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:

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**
Unsecured	**708,563**	**92,353**	**529,348**	**6,273,206**	**7,603,470**
Total	**9,512,911**	**1,557,161**	**529,348**	**7,750,275**	**19,349,695**

2011	Bei Ajel SAR' 000	Musharaka SAR' 000	Ijarah SAR' 000	Installment sales SAR' 000	Total SAR' 000
Real estate	2,989,493	128,335	-	1,450,278	4,568,106
Shares and investment	1,456,285	163,236	-	-	1,619,521
Third party guarantee	2,516,334	663,593	-	-	3,179,927
Unsecured	676,663	75,006	352,968	4,191,634	5,296,271
Total	7,638,775	1,030,170	352,968	5,641,912	14,663,825

8. PROPERTY AND EQUIPMENT, NET

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

SAR' 000	**Lands and building**	**Leasehold improvements**	**Equipment and furniture**	**Computer hardware and software**	**Total 2012**	Total 2011
Cost:						
January 1	**12,304**	**401,239**	**187,989**	**314,608**	**916,140**	856,805
Additions during the year	**-**	**33,583**	**34,660**	**28,203**	**96,446**	83,635
disposal / Adjustments	**-**	**-**	**(7,733)**	**(51,802)**	**(59,535)**	(24,300)
At December 31	**12,304**	**434,822**	**214,916**	**291,009**	**953,051**	916,140
Accumulated depreciation and amortization:						
January 1	**118**	**175,925**	**139,130**	**272,531**	**587,704**	514,915
Charge for the year	**353**	**43,839**	**23,175**	**20,653**	**88,020**	88,689
disposal / Adjustments	**-**	**-**	**(7,659)**	**(51,239)**	**(58,898)**	(15,900)
At December 31	**471**	**219,764**	**154,646**	**241,945**	**616,826**	587,704
Net book value:						
At December 31, 2012	**11,833**	**215,058**	**60,270**	**49,064**	**336,225**	
At December 31, 2011	12,186	225,314	48,859	42,077		328,436

Leasehold improvements include work-in-progress as at December 31, 2012 amounting to SAR 23 Million (2011: SAR 11 million).

9. OTHER ASSETS

Other assets comprise the following as at December 31:

	Note	2012 SAR' 000	2011 SAR' 000
Prepaid rental expenses		**19,362**	15,613
Advances to suppliers		**22,572**	18,712
Management fee receivable		**47,728**	33,359
Other	9.1	**50,843**	310,777
Total		**140,505**	378,461

9.1 Included in "Other" for 2011 is an amount of SAR 280 million representing cost of land purchased by the Bank which was sold in the first quarter 2012 (Note 24).

10. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

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

	2012 SAR' 000	2011 SAR' 000
Current accounts	**76,851**	9,256
Time investments	**493,979**	412,581
Total	**570,830**	421,837

11. CUSTOMERS' DEPOSITS

Customer deposits comprise the following as of December 31:

	Notes	2012 SAR' 000	2011 SAR' 000
Current accounts	11.1	**18,472,482**	18,582,336
AlBilad accounts		**3,121,571**	2,929,251
Customers' time investments		**1,670,237**	1,192,169
Other deposits	11.2	**477,334**	334,178
Total		**23,741,624**	23,037,934

11.1 Current accounts include foreign currency deposits of SAR 346 million (2011: SAR 1,257 million).

11.2 Other deposits include Current accounts on behalf of the Bank's mutual funds of SAR 7 million (2011: SAR 5 million) and margins held for irrevocable commitments of SAR 470 million (2011: SAR 329 million).

12. OTHER LIABILITIES

Other liabilities comprise the following as of December 31:

	2012 SAR' 000	2011 SAR' 000
Accounts payable	**756,576**	516,255
Accrued expenses - Staff	**142,743**	100,510
Accrued operating expenses	**60,045**	89,630
Other	**134,867**	144,753
Total	**1,094,231**	851,148

13. SHARE CAPITAL

The authorized issued and fully paid capital of the Bank consists of 300 million shares of SAR 10 each (2011: 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 235 million (2011: SAR 82 million) has been transferred to the statutory reserve. The statutory reserve is not available for distribution to shareholders.

15. OTHER RESERVE

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

16. COMMITMENTS AND CONTINGENCIES

a) Legal proceedings

There were legal proceedings as at December 31, 2012, 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, 2012, the Bank had capital commitments of SAR 68 million (2011: SAR 88 million) relating to leasehold improvements on leased branches and ATM.

c) Credit related commitments and contingencies

Credit related commitments and contingencies mainly comprise letters of guarantee, standby letters of credit, acceptances and unused commitments to extend credit facilities. The primary purpose of these instruments is to ensure that funds are available to customers as required. Letters of 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.

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

Cash requirements under letters of credit and guarantee 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.

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:

2012 (SAR' 000)	**Less than 3 months**	**From 3 months to 12 months**	**More than one year**	**Total**
Letters of credit	**454,562**	**649,838**	**59,968**	**1,164,368**
Letters of guarantee	**347,038**	**1,086,340**	**937,927**	**2,371,305**
Acceptances	**209,294**	**53,099**	**-**	**262,393**
Total	**1,010,894**	**1,789,277**	**997,895**	**3,798,066**

2011 (SAR' 000)	Less than 3months	From 3 months to 12 months	From 1 to 5 years	Total
Letters of credit	194,761	376,070	48,711	619,542
Letters of guarantee	181,896	701,384	964,188	1,847,468
Acceptances	186,778	91,606	-	278,384
Total	563,435	1,169,060	1,012,899	2,745,394

The outstanding unused portion of commitments, as of December 31, 2012, which can be revoked at any time by the Bank amounts to SAR 4 billion (2011: SAR 3.2 billion).

(ii) The analysis of commitments and contingencies by counter party as of December 31 is as follows :

	2012 SAR' 000	2011 SAR' 000
Corporate	**3,586,654**	2,613,626
Financial institutions (Guarantees)	**164,066**	110,108
Other	**47,346**	21,660
Total	**3,798,066**	2,745,394

d) Operating lease commitments

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

	2012 SAR' 000	2011 SAR' 000
Less than one year	**94,559**	64,731
One year to five years	**234,207**	172,069
Over five years	**140,383**	61,562
Total	**469,149**	298,362

e) Restricted investment accounts

	2012 SAR' 000	2011 SAR' 000
Under Wakalah arrangement	**-**	1,189,256

The Bank accepts restricted investment from customers under Wakalah arrangements. These investments are invested by the Bank in commodity Murabaha with banks and other financial institutions. Management fee are charged on these accounts.

f) 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 difference 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 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, 2012 amounted to SAR 25 million (2011: SAR 10 million). Zakat will be paid by the Bank on behalf of the shareholders and will be deducted from their future dividends.

Zakat base for the years 2009, 2010 and 2011 have been calculated on basis consistent with prior years.

17. INCOME FROM INVESTING AND FINANCING ASSETS

Income from investing and financing assets for the years ended December 31 comprises the following:

	2012	2011
	SAR' 000	SAR' 000
Held at amortized cost		
Investments		
Commodity murabaha with SAMA	**1,834**	3,985
Commodity murabaha with banks and financial institutions	**49,821**	23,457
Profit From Sukuk Investments	**1,094**	206
Financing		
Bei ajel	**392,994**	320,470
Installment sales	**358,306**	331,369
Ijarah	**6,326**	2,943
Mushrakah	**50,178**	45,504
Total	**860,553**	727,934

18. RETURN ON DEPOSITS AND FINANCIAL LIABILITES

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

	2012	2011
	SAR' 000	SAR' 000
AlBilad accounts	**5,892**	3,521
Time investments from customers and financial institutions	**15,147**	21,427
Total	**21,039**	24,948

19. FEES AND COMMISSION INCOME, NET

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

	2012 **SAR' 000**	2011 SAR' 000
Fees and commission income		
ATM and point of sale fee income	**97,904**	82,044
Brokerage commission	**44,726**	29,161
Letter of credit and guarantee fee	**40,369**	15,574
Remittance fee	**424,323**	325,829
Management fee (mutual fund and others)	**31,635**	22,379
Facilities management fee	**47,595**	67,058
Documentation fee	**33,592**	20,138
Others	**13,273**	5,527
Total fees income	**733,417**	567,710
Fees and commission expenses		
ATM and point of sale fee expenses	**76,647**	101,270
Fee paid to brokers	**3,481**	2,840
Others	**7,989**	5,304
Total fees expenses	**88,117**	109,414
Fees and commission income, net	**645,300**	458,296

20. DIVIDEND INCOME

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

	2012 **SAR' 000**	2011 SAR' 000
Available-for-sale investments	**11,717**	10,884

21. GAINS ON NON-TRADING INVESTMENTS, NET

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

	2012 **SAR' 000**	2011 SAR' 000
Available-for-sale investments	**5,225**	7,396

22. OTHER OPERATING INCOME

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

	2012	2011
	SAR' 000	SAR' 000
Gains on sale of property and equipment	**1,356**	2,582
Others	**264**	1,928
Total	**1,620**	4,510

23. SALARIES AND EMPLOYEE RELATED BENEFITS

	Number of Employees		**Fixed compensation SAR 000**		**Variable Compensation Paid**					
					Cash SAR' 000		**Shares SAR' 000**		**Total SAR' 000**	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Senior executives requiring SAMA no objection	**7**	8	**13,349**	10,773	**4,675**	2,938	-	-	**4,675**	2,938
Employees engaged in risk taking activities	**1,869**	1,595	**198,811**	160,775	**21,743**	7,248	-	-	**21,743**	7,248
Employees engaged in control functions	**138**	116	**34,656**	29,037	**2,458**	1,840	-	-	**2,458**	1,840
Other employees	**526**	528	**96,032**	86,679	**8,427**	4,872	-	-	**8,427**	4,872
Outsourced employees	**300**	211	**28,506**	27,180	-	-	-	-	-	-
Total	**2,840**	2,458	**371,354**	314,444	**37,303**	16,898	-	-	**37,303**	16,898
Variable Compensation accrued in 2012			**61,959**	25,039						
Other employee related benefits			**84,044**	109,494						
Total Salaries and employee related expenses			**517,357**	448,977						

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 hinder 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 Remuneration Incentive 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 AlMograirn – Member.
4. Mr. Mohammed bin Abdullah AlGwaiz – Member.
5. Mr. Khaled bin Saleh AlHathaal – 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.

24. NON- OPERATING INCOME

During the year the Bank sold a parcel of land included under other assets at 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.

The Bank issued Bei Ajel facility for the amount of SAR 503 million to Company acquiring the land (the"Company"), which had fully utilized the issued facility. Based on the facility terms, the financed amount is repayable in two installments on February 2013 and August 2013. As a result of the sale, the Bank recognized non-operating income of SAR 373 million, with income per share amounting to SAR 1.2 per share.

The financing is secured by personal guarantee of borrowing Company's shareholders and also the
title of land, which has been retained by the bank pending the collection of the full facility.

25. BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share for the years ended December 31, 2012 and 2011 are calculated by dividing the net income for the year by 300 million shares outstanding as of December 31, 2012 and 2011.

26. CASH AND CASH EQUIVALENTS

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

	2012 **SAR' 000**	2011 SAR' 000
Cash	**1,153,106**	1,115,535
Due from banks and other financial institutions (maturing within ninety days from acquisition)	**3,688,561**	4,353,930
Balances with SAMA (excluding statutory deposit)	**234,994**	3,538,359
Total	**5,076,661**	9,007,824

27. SEGMENTAL INFORMATION

Operating segments, based on customers, groups are identified on the basis of internal reports about components of the Bank 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 Bank's main business is conducted in the Kingdom of Saudi Arabia.

For management purposes, the Bank 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
Dealing with other financial institutions and providing treasury services to all segments.

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 Bank's 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	**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	**343,785**	**444,297**	**51,432**	**-**	**-**	**839,514**
Fee, commission and other income, net	**657,136**	**55,203**	**73,823**	**63,116**	**48,588**	**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	**75,049**	**11,590**	**1,110**	**271**	**-**	**88,020**
Total operating expenses	**733,001**	**370,094**	**32,350**	**33,298**	**-**	**1,168,743**
Net operating income	**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**

SAR' 000	2011					
	Retail Banking	Corporate Banking	Treasury	Investment banking and brokerage	Other	Total
Total assets	7,507,819	9,832,503	9,322,791	791	1,063,265	27,727,169
Capital expenditures	54,149	69	6	188	29,223	83,635
Total liabilities	14,094,315	8,952,875	412,581	3,892	847,256	24,310,919
Net income from investing and financing assets	350,844	321,881	18,581	-	11,680	702,986
Fee, commission and other income, net	444,918	86,274	74,610	42,940	21,780	670,522
Total operating income	795,762	408,155	93,191	42,940	33,460	1,373,508
Impairment charge for financing ,net	81,509	170,733	-	-	-	252,242
Depreciation and amortization	77,181	10,172	965	371	-	88,689
Total operating expenses	650,848	334,907	32,259	25,869	-	1,043,883
Net income for the year	144,914	73,248	60,932	17,071	33,460	329,625

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

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

2011 SAR' 000	Retail banking segment	Corporate	Treasury	Total
Total asset	5,514,880	8,264,866	7,054,737	20,834,483
Commitments and Contingencies	-	1,422,325	-	1,422,325

Bank 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.

28. 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. Exposing to risk centers in the banking business, and these risks are an inevitable consequence of participating in financial markets and products. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance with ultimate objective of enhancing the shareholders value.

The Bank's 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.

Risk management is governed by set of policies that are approved by the Board of directors which are reviewed regularly. Credit and Market risk are managed via identification, measurement and control of financial risks in close co-operation with the Bank's operating units. The most important types of risks identified by the Bank are credit risk, operational risk, liquidity risk and market risk. Market risk includes currency risk, profit rate risk and price risk.

29. CREDIT RISK

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

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

Analysis of investments by counter-party is provided in note 6(b). For details of the composition of financing refer to note 7. For commitments and contingencies refer to note 16. The information on the Bank's maximum credit and credit risk exposure by operating business segment and the total bank level is given in note 27(b).

a) Geographical Concentration

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

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
Customer 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

2011 SAR' 000	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	South East Asia	Other countries	Total
Assets						
Cash and balances with SAMA	5,766,435	12,206	12,102	-	43,959	5,834,702
Due from banks and other financial institutions, net	2,676,210	2,345,248	1,366,223	39,934	26,751	6,454,366
Investments, net	951,458	-	-	-	-	951,458
Financing, net	13,779,746	-	-	-	-	13,779,746
Total	23,173,849	2,357,454	1,378,325	39,934	70,710	27,020,272
Liabilities						
Due to banks and other financial institutions	318,813	100,517	1,682	-	825	421,837
Customer deposits	23,037,934	-	-	-	-	23,037,934
Total	23,356,747	100,517	1,682	-	825	23,459,771
Commitments and contingencies	2,745,394	-	-	-	-	2,745,394
Credit risk (stated at credit equivalent amounts) on Commitments and Contingencies	1,422,325	-	-	-	-	1,422,325

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:

2012 **SAR' 000**	**Kingdom of Saudi Arabia**	**Other GCC and Middle East**	**Europe**	**South East Asia**	**Other countries**	**Total**
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**
2011 SAR' 000						
Non- performing financing assets	685,215	-	-	-	-	685,215
Provision for impairment On financing assets	884,079	-	-	-	-	884,079
Non- performing other financial assets	-	96,263	-	-	-	96,263
Provision for impairment on other financial assets	-	96,263	-	-	-	96,263

30. MARKET RISK

Market risk is the risk that the fair value of 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

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:

	2012		2011	
	Saudi Riyal SAR ' 000	**Foreign Currency SAR ' 000**	Saudi Riyal SAR ' 000	Foreign Currency SAR ' 000
Assets				
Cash and balances with SAMA	**2,806,827**	**125,542**	5,766,435	68,267
Due from banks and other financial institutions, net	**5,749,811**	**825,655**	4,516,649	1,937,717
Investments, net	**1,537,260**	**-**	951,458	-
Financing, net	**17,932,415**	**323,261**	13,426,778	352,968
Property and equipment, net	**336,225**	**-**	328,436	-
Other assets	**140,411**	**94**	378,305	156
Total	**28,502,949**	**1,274,552**	25,368,061	2,359,108
Liabilities and equity				
Due to banks and other financial institutions	**175,266**	**395,564**	4,150	417,687
Customer deposits	**23,320,237**	**421,387**	21,741,182	1,296,752
Other liabilities	**1,082,707**	**11,524**	838,087	13,061
Equity	**4,370,816**	**-**	3,416,250	-
Total	**28,949,026**	**828,475**	25,999,669	1,727,500

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.

(i) Currency Position

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

	2012 SAR' 000 Long/(short)	2011 SAR' 000 Long/(short)
US Dollar	**381,186**	513,133
Kuwaiti Dinar	**6,108**	3,495
Pakistan Rupees	**11,085**	19,591
Qatar Riyal	**11,336**	53,861
UAE Dirham	**17,458**	9,024
Egyptian Pound	**3,617**	8,478
Others	**15,287**	24,026
Total	**446,077**	631,608

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, 2012		**December 31, 2011**	
Market Indices	**Change in equity price %**	**Effect in SAR' 000**	**Change in equity price %**	**Effect in SAR' 000**
Tadawul	± 10	**28,672**	± 10	20,109
Unquoted	± 2	**3,000**	± 2	3,000

31. LIQUIDITY RISK

Liquidity risk is the risk that the Bank will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to 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 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% (2011: 7%) of total demand deposits and 4% (2011: 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:

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

2011 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	4,653,894	-	-	-	-	4,653,894
Statutory deposit with SAMA	-	-	-	-	1,180,808	1,180,808
Due from banks and other financial institutions, net	5,329,915	1,124,451	-	-	-	6,454,366
Investments, net	200,107	400,264	-	-	351,087	951,458
Financing, net	2,719,249	4,454,573	5,694,561	911,363	-	13,779,746
Property and equipment, net	-	-	-	-	328,436	328,436
Other assets	-	-	-	-	378,461	378,461
Total assets	12,903,165	5,979,288	5,694,561	911,363	2,238,792	27,727,169
Liabilities and equity						
Due to banks and other financial institutions	421,837	-	-	-	-	421,837
Customers' deposits	21,868,799	1,167,635	1,500	-	-	23,037,934
Other liabilities	-	-	-	-	851,148	851,148
Shareholders' equity	-	-	-	-	3,416,250	3,416,250
Total liabilities and equity	22,290,636	1,167,635	1,500	-	4,267,398	27,727,169

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

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**
Customer deposits	**22,423,908**	**1,330,083**	**-**	**-**	**-**	**23,753,991**
2011 SAR' 000						
Financial liabilities						
Due to banks and other financial institutions	421,858	-	-	-	-	421,858
Customer deposits	21,868,824	1,177,063	1,509	-	-	23,047,396

32. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and, willing parties, in an arm's length transaction. Consequently, differences can arise between carrying values and fair value estimates.

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.

2012 **SAR' 000**	Level 1	Level 2	Level 3	Total
Financial Assets				
Financial investments available for sale	**286,721**	**-**	**150,000**	**436,721**
2011 SAR' 000				
Financial Assets				
Financial investments available for sale	201,087	-	150,000	351,087

Level 3 investments comprise of unquoted available-for-sale investments that are carried at cost, as their fair value cannot be reliably measured (Note 6 (c)).

The fair values of on-statement of financial position financial instruments are not significantly different from the carrying values included in the financial statements. The fair values of financing due from, 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 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.

33. 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:

	2012	2011
	SAR' 000	SAR' 000
a) Directors, and other major shareholders and their affiliates balances:		
Bei ajel	**1,073,879**	1,601,817
Musharaka	**45,415**	34,663
Commitments and contingencies	**21,441**	67,965
Current accounts	**23,598**	20,726
Al Bilad account	**651**	1,583

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

	2012	2011
	SAR' 000	SAR' 000
b) Bank's Mutual funds:		
These are the outstanding balances with Bank's mutual funds as of December 31:		
Customer deposits	**7,286**	5,274

c) Related party income and expense:

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

	2012 **SAR' 000**	2011 SAR' 000
Income from financing	**62,639**	21,233
Income from commitments and contingencies	**197**	743
Management fees (AlBilad mutual funds)	**13,082**	11,043
Board of Directors' remunerations	**3,729**	4,180
Compensations, remuneration and bonuses and end of service benefits to executive management members	**41,963**	37,304

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

34. CAPITAL ADEQUACY

The Bank's objectives when managing capital are to comply with the capital requirements set by SAMA to safeguard the Bank's ability to continue as a going concern; and to maintain a strong capital base.

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management. SAMA requires to hold minimum level of regulatory capital and maintain a ratio of 8% of total regulatory capital to the risk-weighted assets.

	(Unaudited) **2012** **SAR' 000**	2011 SAR' 000
Credit Risk RWA	**22,005,550**	17,182,708
Operational Risk RWA	**2,629,094**	2,167,026
Market Risk RWA	**451,388**	631,838
Total Pillar-I RWA	**25,086,032**	19,981,572
Tier I Capital	**3,429,012**	3,086,625
Tier II Capital	**1,216,873**	572,528
Total Tier I & II Capital	**4,645,885**	3,659,153
Capital Adequacy Ratio %		
Tier I ratio	**13.67%**	15.45%
Tier I + Tier II ratio	**18.52%**	18.31%

35. 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(2011:five mutual funds) with assets totaling SAR 979 million (2011: SAR 795 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. 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 33).

36. BASEL II PILLAR 3 DISCLOSURES

Certain additional quantitative disclosures are required under Basel II Pillar 3. These disclosures will be made available to the public on the Bank's website (www.bankalbilad.com) as required by SAMA. Such disclosures are not subject to review or audit by the external auditors.

37. ISSUED IFRS' BUT NOT YET EFFECTIVE

I) New or revised IAS/IFRS

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 2013 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 replaces the requirements previously contained in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation - Special Purpose Entities and is applicable from 1 January 2013. 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').

c) **IFRS 11 Joint arrangements:** IFRS 11 replaces IAS 31 Interests in Joint Ventures and is applicable from 1 January 2013. Requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and then account for those rights and obligations in accordance with that type of joint arrangement.

d) **IFRS 12 Disclosure of Interests in Other Entities:** Requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows and is applicable from 1 January 2013.

e) **IFRS 13 Fair value measurements:** Replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard and is applicable from 1 January 2013. 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 and is applicable from 1 January 2013.

II) Amendments to IAS/IFRS

The Bank has chosen not to early adopt the following amendments to existing IAS/IFRS issued by IASB and is currently assessing their impact:

a) **Amendments to IAS 1 Presentation of financial statements:** amends IAS 1 to revise the way other comprehensive income is presented and is applicable from 1 January 2013.

b) **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 and is applicable from 1 January 2013.

c) **Amendments to IAS 32 Financial instruments presentation**: Amends IAS 32 to clarify certain aspects relating to requirements on offsetting and is applicable from 1 January 2014.

d) **IAS 19 Employee Benefits – Amendments:** The amendments to IAS 19 remove the option to defer the recognition of actuarial gains and losses, i.e., the corridor mechanism. All changes in the value of defined benefit plans will be recognised in profit or loss and other comprehensive income. The effective date of the standard is 1 January 2013.

e) **IAS 27 Separate Financial Statements (2011):** revised version of IAS 27 applicable from 1 January 2013 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.

f) **IAS 28 Investments in Associates and Joint Ventures (2011):** revised version of IAS 28 applicable from 1 January 2013. The majority of these revisions result from the incorporation of Joint ventures into IAS 28 (2011) and the fundamental approach to accounting for equity accounted investments has not changed.

g) **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 and interpretations with applicability from 1 January 2013:

- IFRS 1 - First time adoption of IFRS: Repeated application of IFRS 1 and borrowing cost exemption;
- IAS 1 – Presentation of financial statements: Comparative information beyond minimum requirements and presentation of the opening statement of financial position and related notes;
- IAS 16 – Property, plant and equipment: Classification of servicing equipment;
- IAS 32 – Financial instruments presentation: Income tax consequences of distributions
- IAS 34 – Interim Financial Reporting: Segment assets and liabilities.

h) **Investments entities (Amendments to IFRS 10, IFRS 12 and IAS 27) :** The IASB published the above amendments applicable from 1 January 2014 with a mandatory consolidation exception for qualifying investment entity that 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. The only exception would be subsidiaries that are considered an extension of the investment entity's investing activities.

38. Employee share plan (ESP)

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

	2012	2011
Grant date	**12 May 2012**	17th December 2011
Maturity Date	**1 January 2015**	1st January 2014
Number of share offered on the grant date	**319,624**	159,000
Share price on the grant date (SAR)	**28.20**	19.60
Value of shares offered on grant date (SAR' 000)	**9,013**	3,116
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	**2012**	2011
Beginning of the year	**159,000**	-
Granted during the year	**319,624**	159,000
Forfeited	**41,100**	-
Exercised	**-**	-
End of the year	**437,524**	159,000

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. APPROVAL OF THE FINANCIAL STATEMENTS

These consolidated financial statements were approved by the Bank's Board of Directors on 1 Rabi" Al-ALakher 1434H (corresponding to 11 February, 2013).