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In accordance with Regulation 32 of the Overseas Companies Regulations 2009

OS AA01

Statement of details of parent law and other information for an overseas company

Companies House

✓ **What this form is for**
You may use this form to accompany your accounts disclosed under parent law

✗ **What this form is NOT for**
You cannot use this form to an alteration of manner of with accounting requireme

TUESDAY

A38AK1XE
A29 20/05/2014 #201
COMPANIES HOUSE

Part 1 Corporate company name

→ **Filling in this form**
Please complete in typescript or in bold black capitals

All fields are mandatory unless specified or indicated by *

Corporate name of overseas company ❶: ARAB NATIONAL BANK

UK establishment number: B R 0 1 1 7 2 2

❶ This is the name of the company in its home state

Part 2 Statement of details of parent law and other information for an overseas company

A1 Legislation

Please give the legislation under which the accounts have been prepared and, if applicable, the legislation under which the accounts have been audited

Legislation ❷: INTERNATIONAL STANDARDS ON AUDITING

❷ This means the relevant rules or legislation which regulates the preparation and, if applicable, the audit of accounts

A2 Accounting principles

Accounts: Have the accounts been prepared in accordance with a set of generally accepted accounting principles?

Please tick the appropriate box

☐ **No** Go to **Section A3**

☑ **Yes** Please enter the name of the organisation or other body which issued those principles below, and then go to **Section A3**

Name of organisation or body ❸: SAUDI ARABIAN MONETARY AGENCY (SAMA)

❸ Please insert the name of the appropriate accounting organisation or body

A3 Accounts

Accounts: Have the accounts been audited? Please tick the appropriate box

☐ **No** Go to **Section A5**

☑ **Yes** Go to **Section A4**

OS AA01

Statement of details of parent law and other information for an overseas company

A4 Audited accounts

Audited accounts	Have the accounts been audited in accordance with a set of generally accepted auditing standards? Please tick the appropriate box ☐ **No** Go to **Part 3 'Signature'** ☑ **Yes.** Please enter the name of the organisation or other body which issued those standards below, and then go to **Part 3 'Signature'**	❶ Please insert the name of the appropriate accounting organisation or body
Name of organisation or body ❶	ACCOUNTING STANDARDS FOR FINANCIAL INSTITUTIONS ISSUED BY SAMA AND INTERNATIONAL FINANCIAL REPORTING STANDARDS	

A5 Unaudited accounts

Unaudited accounts	Is the company required to have its accounts audited? Please tick the appropriate box ☐ **No.** ☐ **Yes.**

Part 3 Signature

	I am signing this form on behalf of the overseas company
Signature	Signature **X** [signature] **X** 19th may 2014
	This form may be signed by Director, Secretary, Permanent representative

OS AA01

Statement of details of parent law and other information for an overseas company

Presenter information

You do not have to give any contact information, but if you do it will help Companies House if there is a query on the form The contact information you give will be visible to searchers of the public record

Contact name STEPHEN BLYTH

Company name ARAB NATIONAL BANK

Address PO BOX 2LB

35 CURZON STREET

Post town

County/Region

Postcode W1J 7TT

Country

DX

Telephone 0207 297 4610

Checklist

We may return forms completed incorrectly or with information missing

Please make sure you have remembered the following

- [x] The company name and, if appropriate, the registered number, match the information held on the public Register
- [x] You have completed all sections of the form, if appropriate
- [x] You have signed the form

Important information

Please note that all this information will appear on the public record

Where to send

You may return this form to any Companies House address:

England and Wales
The Registrar of Companies, Companies House, Crown Way, Cardiff, Wales, CF14 3UZ
DX 33050 Cardiff

Scotland
The Registrar of Companies, Companies House, Fourth floor, Edinburgh Quay 2, 139 Fountainbridge, Edinburgh, Scotland, EH3 9FF
DX ED235 Edinburgh 1
or LP - 4 Edinburgh 2 (Legal Post)

Northern Ireland
The Registrar of Companies, Companies House, Second Floor, The Linenhall, 32-38 Linenhall Street, Belfast, Northern Ireland, BT2 8BG
DX 481 N R Belfast 1

Further information

For further information, please see the guidance notes on the website at www companieshouse gov uk or email enquiries@companieshouse gov uk

This form is available in an alternative format. Please visit the forms page on the website at www.companieshouse.gov.uk

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Arab National Bank (the "Bank") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at December 31, 2013, the consolidated statements of income, comprehensive income, changes in 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 39, nor the information related to "Basel 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 the consolidated financial statements are free from material misstatement

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements

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

Deloitte & Touche
Bakr Abulkhair & Co.
Deloitte.

EY
Building a better working world

INDEPENDENT AUDITORS' REPORT (continued)

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

Opinion

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

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

Ernst & Young
P O Box 2732
Riyadh 11461
Kingdom of Saudi Arabia

Abdulaziz A. Al-Sowailim
Certified Public Accountant
Registration No 277

Deloitte and Touche
Bakr Abulkhair & Co.
P O Box 213
Riyadh 11411
Kingdom of Saudi Arabia

Al-Mutahhar Y Hamiduddin
Certified Public Accountant
Registration No 296

(Rabi Thani 11, 1435H)
February 11, 2014

Arab National Bank – Saudi Joint Stock Company

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

	Note	2013 SAR' 000	2012 SAR' 000
ASSETS			
Cash and balances with SAMA	4	**14,971,749**	20,334,429
Due from banks and other financial institutions	5	**2,767,181**	2,240,924
Investments, net	6	**28,248,369**	24,323,047
Loans and advances, net	7	**88,456,106**	86,328,608
Investment in associates	8	**466,533**	430,046
Other real estate		**136,634**	319,006
Property and equipment, net	9	**1,647,318**	1,506,311
Other assets	10	**1,241,534**	1,156,905
Total assets		**137,935,424**	136,639,276
LIABILITIES AND EQUITY			
Liabilities			
Due to banks and other financial institutions	12	**7,641,058**	6,549,924
Customers' deposits	13	**106,372,732**	107,560,443
Other liabilities	14	**3,045,720**	2,931,822
Debt securities in issue	15	**1,687,500**	1,687,500
Total liabilities		**118,747,010**	118,729,689
Equity attributed to equity holders of the Bank			
Share capital	16	**8,500,000**	8,500,000
Statutory reserve	17	**7,270,000**	6,630,000
Other reserves		**263,330**	244,618
Retained earnings		**2,622,124**	1,579,657
Proposed dividend	27	**425,000**	850,000
Total equity attributed to equity holders of the Bank		**19,080,454**	17,804,275
Non-controlling interest		**107,960**	105,312
Total equity		**19,188,414**	17,909,587
Total liabilities and equity		**137,935,424**	136,639,276

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

Arab National Bank – Saudi Joint Stock Company

CONSOLIDATED INCOME STATEMENT
For the years ended December 31, 2013 and 2012

	Note	2013 SAR' 000	2012 SAR' 000
Special commission income	19	**3,944,901**	3,748,063
Special commission expense	19	**570,002**	487,634
Net special commission income		**3,374,899**	3,260,429
Fees and commission income, net	20	**1,053,398**	914,842
Exchange income, net		**356,482**	243,662
Income (loss) from FVIS financial instruments, net	21	**3,763**	(149)
Trading income, net	22	**61,625**	58,265
Dividend income	23	**52,894**	35,990
Gains and impairment of non-trading investments, net	24	**74,577**	86,860
Other operating income, net	25	**131,907**	156,922
Total operating income		**5,109,545**	4,756,821
Salaries and employee related expenses	29	**1,189,959**	1,111,642
Rent and premises related expenses		**145,431**	133,328
Depreciation and amortization	9	**187,824**	193,218
General and administrative expenses		**470,687**	453,941
Impairment charges for credit losses, net	7	**626,988**	521,796
Total operating expenses		**2,620,889**	2,413,925
Net operating income		**2,488,656**	2,342,896
Share in earnings of an associate	8	**36,487**	28,129
Net income for the year		**2,525,143**	2,371,025
(Gain) loss attributed to non-controlling interest		**(2,648)**	153
Net income attributed to equity holders of the bank		**2,522,495**	2,371,178
Basic and fully diluted earnings (in SAR per share)	26	**2.97**	2 79

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

Arab National Bank – Saudi Joint Stock Company

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

	2013 SAR' 000	2012 SAR' 000
Net income for the year	**2,525,143**	2,371,025
Other comprehensive income.		
Available for sale investments		
- Net changes in fair value	**64,287**	189,828
- Transfers to consolidated income statement	**(29,376)**	(96,235)
Cash flows hedges.		
- Net changes in fair value	**(4,406)**	2,180
- Transfers to consolidated income statement	**(11,793)**	(28,775)
	18,712	66,998
Total comprehensive income for the year	**2,543,855**	2,438,023
Attributable to:		
Equity holders of the Bank	**2,541,207**	2,438,176
Non-controlling interest	**2,648**	(153)
Total comprehensive income for the year	**2,543,855**	2,438,023

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

Arab National Bank – Saudi Joint Stock Company

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

		Attributable to equity holders of the Bank							
2013	Note	Share capital SAR' 000	Statutory reserve SAR' 000	Other reserves SAR' 000	Retained earnings SAR' 000	Proposed dividend SAR' 000	Total SAR' 000	Non-controlling interest SAR' 000	Total equity SAR' 000
Balance at beginning of the year		8,500,000	6,630,000	244,618	1,579,657	850,000	17,804,275	105,312	17,909,587
Changes in equity for the year									
Net changes in fair value of cash flow hedges				(4,406)	-	-	(4,406)	-	(4,406)
Net changes in fair value of available for sale investments				64,287	-	-	64,287	-	64,287
Transfers to consolidated income statement				(41,169)	-	-	(41,169)	-	(41,169)
Net comprehensive income for the year				18,712	-	-	18,712	-	18,712
Net income for the year				-	2,522,495	-	2,522,495	2,648	2,525,143
Total comprehensive income for the year				18,712	2,522,495	-	2,541,207	2,648	2,543,855
Transfer to statutory reserve	17		640,000	-	(640,000)	-	-	-	-
2012 final dividend	27		-	-	-	(850,000)	(850,000)	-	(850,000)
Proposed dividend	27		-	-	(425,000)	425,000	-	-	-
Zakat	27		-	-	(415,028)	-	(415,028)	-	(415,028)
Balance at end of the year		8,500,000	7,270,000	263,330	2,622,124	425,000	19,080,454	107,960	19,188,414

2012	Note	Share capital SAR' 000	Statutory reserve SAR' 000	Other reserves SAR' 000	Retained earnings SAR' 000	Proposed dividend SAR' 000	Total SAR' 000	Non-controlling interest SAR' 000	Total equity SAR' 000
Balance at beginning of the year		8,500,000	6,030,000	177,620	1,066,440	850,000	16,624,060	105,465	16,729,525
Changes in equity for the year									
Net changes in fair value of cash flow hedges				2,180	-	-	2,180	-	2,180
Net changes in fair value of available for sale investments				189,828	-	-	189,828	-	189,828
Transfers to consolidated income statement				(125,010)	-	-	(125,010)	-	(125,010)
Net comprehensive income for the year				66,998	-	-	66,998	-	66,998
Net income for the year				-	2,371,178	-	2,371,178	(153)	2,371,025
Total comprehensive income for the year				66,998	2,371,178	-	2,438,176	(153)	2,438,023
Transfer to statutory reserve	17		600,000	-	(600,000)	-	-	-	-
2011 final dividend	27		-	-	-	(850,000)	(850,000)	-	(850,000)
Proposed dividend	27		-	-	(850,000)	850,000	-	-	-
Zakat	27		-	-	(407,961)	-	(407,961)	-	(407,961)
Balance at end of the year		8,500,000	6,630,000	244,618	1,579,657	850,000	17,804,275	105,312	17,909,587

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

Arab National Bank – Saudi Joint Stock Company

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

	Notes	2013 SAR' 000	2012 SAR' 000
OPERATING ACTIVITIES			
Net Income for the year		**2,525,143**	2,371,025
Adjustments to reconcile net income to net cash (used in) from operating activities·			
Accretion of discounts of non-trading investments, net		**(52,864)**	(37,385)
Gains and impairment of non-trading investments, net	24	**(74,577)**	(86,860)
Depreciation and amortization	9	**187,824**	193,218
Loss (gain) on disposal of property and equipment	25	**918**	(7)
Share in earnings of an associate	8	**(36,487)**	(28,129)
Impairment charges for credit losses, net	7	**626,988**	521,796
		3,176,945	2,933,658
Net (increase) decrease in operating assets			
Statutory deposit with SAMA	4	**(661,257)**	(624,196)
Due from banks and other financial institutions maturing after ninety days of the acquisition date		**-**	37,500
Investments held at FVIS	6	**60,735**	6,144
Loans and advances		**(2,795,623)**	(14,021,164)
Other real estate		**182,372**	(150,997)
Other assets		**(89,284)**	470,413
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		**1,091,134**	(2,274,537)
Customers' deposits		**(1,187,711)**	19,701,628
Other liabilities		**(428,806)**	127,480
Net cash (used in) from operating activities		**(651,495)**	6,205,929
INVESTING ACTIVITIES			
Proceeds from sale of and matured non-trading investments		**29,060,691**	60,636,528
Purchase of non-trading investments		**(32,733,708)**	(58,665,217)
Investment in associates	8	**-**	(52,500)
Purchase of property and equipment	9	**(329,964)**	(264,967)
Proceeds from sale of property and equipment		**215**	46,844
Net cash (used in) from investing activities		**(4,002,766)**	1,700,688
FINANCING ACTIVITIES			
Dividend paid		**(843,419)**	(843,053)
Net cash used in financing activities		**(843,419)**	(843,053)
(Decrease) increase in cash and cash equivalents		**(5,497,680)**	7,063,564
Cash and cash equivalents at the beginning of the year		**17,304,744**	10,241,180
Cash and cash equivalents at the end of the year	28	**11,807,064**	17,304,744
Special commission received during the year		**3,925,699**	3,828,200
Special commission paid during the year		**579,599**	427,687
Supplemental non-cash information			
Net changes in fair value		**59,881**	192,008

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

1. General

Arab National Bank (a Saudi Joint Stock Company, the Bank) was formed pursuant to Royal Decree No M/38 dated Rajab 18,1399H (corresponding to June 13, 1979) The Bank commenced business on February 2, 1980 by taking over the operations of Arab Bank Limited in the Kingdom of Saudi Arabia The Bank operates under Commercial Registration No 1010027912 dated Rabi Awal 1, 1400H (corresponding to January 19, 1980) through its 150 branches (2012 145 branches) in the Kingdom of Saudi Arabia and one branch in the United Kingdom The address of the Bank's head office is as follows

Arab National Bank
P O Box 56921
Riyadh 11564
Kingdom of Saudi Arabia

The objective of the Bank is to provide a full range of banking services The Bank also provides to its customers non-commission based banking products which are approved and supervised by an independent Shariah Board established by the Bank

The consolidated financial statements comprise the financial statements of the Bank and its following subsidiaries

Arab National Bank Investment Company (ANB Invest)

In accordance with the Capital Market Authority directives, the Bank has established a wholly owned subsidiary "ANB Invest", a Saudi limited liability company, registered in the Kingdom of Saudi Arabia under commercial registration No 1010239908 issued on 26 Shawal 1428 (corresponding to November 7, 2007), to takeover and manage the Bank's investment services and asset management activities related to dealing, managing, arranging, advising and custody of securities regulated by the Capital Market Authority The subsidiary commenced its operations effective on Muharram 3, 1429H (corresponding to January 12, 2008) Accordingly, the Bank started consolidating the financial statements of the above mentioned subsidiary effective January 12, 2008

Arabian Heavy Equipment Leasing Company (AHEL)

A 62 5% owned subsidiary incorporated in the Kingdom of Saudi Arabia, as a Saudi closed joint stock company, under commercial registration no 1010267489 issued in Riyadh dated 15 Jumada 1, 1430H (corresponding to May 10, 2009) The company is engaged in leasing of heavy equipments and operating in compliance with Shariah principles The Bank started consolidating the subsidiary financial statements effective May 10, 2009, the date the subsidiary started its operations

Arabian National Bank Insurance Agency

A Saudi limited liability company, established during 2013 as a wholly owned subsidiary, registered in the Kingdom of Saudi Arabia under the commercial registration no 1010396423 issued in Riyadh dated 28 Muharram, 1435 (corresponding to December 1, 2013) The agency is licensed by the Saudi Arabian Monetary Agency under the license no 341000077525 to perform insurance agent activities The agency is not yet operating and will start its operation after obtaining the approvals of the concerned regulatory parties

2 Basis of preparation

a) Statement of compliance

The consolidated financial statements are prepared in accordance with the Accounting Standards for Financial Institutions promulgated by the Saudi Arabian Monetary Agency (SAMA) and International Financial Reporting Standards (IFRS) The Bank prepares its consolidated financial statements to comply with the requirements of the Banking Control Law, the Provisions of the Regulations for 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 derivatives, financial assets and liabilities held at Fair Value through Income Statement (FVIS) and available for sale In addition, financial assets or liabilities that are hedged in a fair value hedging relationship, and otherwise carried at cost, are adjusted to record changes in fair value attributable to the risk being hedged

c) Functional and presentation currency

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

2. Basis of preparation (continued)

d) Critical accounting judgments, estimates and assumptions

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

(i) Impairment for credit losses on loans and advances

The Bank reviews its loan portfolios to assess specific and collective impairment on a quarterly basis In determining whether an impairment charge should be recorded, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group Management uses estimates based on historical loss experience for loans with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its cash flows The methodology and assumptions used for estimating both the amount and the timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience

In addition to specific allowances against individually significant loans and advances, the Bank also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted This takes into consideration factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows

(ii) Fair value of financial instruments

The Bank measures financial instruments, such as, derivatives, at fair value at each balance sheet date Also, fair values of financial instruments measured at amortized cost are disclosed in Note 6

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

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

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

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities Changes in assumptions about these factors could affect reported fair value of financial instruments

(iii) Impairment of available for sale equity investments

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

2 Basis of preparation (continued)

d) Critical accounting judgments, estimates and assumptions (continued)

(iii) Impairment of available for sale equity investments (continued)

Due to current volatility in the market, 30% or more is used as a reasonable measure for significant decline below cost, irrespective of the duration of the decline, and is recognized in the consolidated income statement under gains and impairment of non-trading investments, net Prolonged decline represents decline below cost that persists for 1 year or longer irrespective of the amount and is, thus, recognized in the consolidated income statement under gains and impairment of non-trading investments, net

(iv) 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 judgement, the Bank evaluates its intention and ability to hold such investments to maturity If the Bank fails to keep these investments to maturity other than in certain specific circumstances – for example, selling close to maturity or an insignificant amount– it will be required to reclassify the entire class as available-for-sale

(v) Determination of control over investees

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

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

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 followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2012 except that the Group has adopted the following new and amended IASB Standards and International Financial Reporting Interpretations Committee which had no impact on the financial position and financial performance of the Group

- IAS 1 Presentation of Items of other comprehensive income – Amendments to IAS 1
- IAS 1 Clarification of the requirement for comparative information (Amendment)
- IAS 34 Interim financial reporting and segment information for total assets and liabilities (Amendment)
- IFRS 7 Financial instruments Disclosures offsetting financial assets and financial liabilities (Amendment)
- IFRS 10 Consolidated financial statements and IAS 27 separate financial statements
- IFRS 12 Disclosure of interests in other entities
- IFRS 13 Fair value measurement

3 Summary of significant accounting policies (continued)

a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries (collectively referred to as the Group) The financial statements of the subsidiaries are prepared for the same reporting year as that of the Bank, using consistent accounting policies Adjustments have been made to the financial statements of the subsidiaries when necessary to align them with the Bank's financial statements
Subsidiaries are investees controlled by the Bank The Bank controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee The financial statements of subsidiaries are include in the consolidated financial statements from the date that control commences until the date that control ceases

Specifically, the Bank controls an investee if and only if the Bank has
- P ower over the investee (i e existing rights that give it the current ability to direct the relevant activities of the investee)
- E xposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Bank has less than a majority of the voting or similar rights of an investee, the Bank considers all relevant facts and circumstances in assessing whether it has power over an investee, including
- T he contractual arrangement with the other vote holders of the investee
- Ri ghts arising from other contractual arrangements
- The Bank's voting rights and potential voting rights

The Bank re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Bank gains control until the date the Bank ceases to control the subsidiary

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Bank and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance When necessary, adjustments are made to the financial statements of subsidiaries to align them with the Bank's financial statements
Non-controlling interests represent the portion of net income or loss and net assets not owned, directly or indirectly, by the Bank and are presented separately in the consolidated income statement and within equity in the consolidated statement of financial position, separately from the equity holders of the bank Any losses applicable to the non controlling interest in excess of the non controlling interest share are allocated against the interests of the Bank Acquisitions of non-controlling interests are accounted for using the purchase method of accounting, whereby, the difference between the cost of acquisition and the fair value of the share of the net assets acquired is recognized as goodwill
All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction

b) Investment in associates

Associates are enterprises in which the Bank generally holds 20% to 50% of the voting power and/or over which it exercises significant influence Investments in associates are initially recorded at cost and subsequently accounted for under the equity method of accounting and are carried in the consolidated statement of financial position at the lower of the equity-accounted or recoverable amount

c) Settlement date accounting

All regular-way purchases and sales of financial assets are recognized and derecognized on the settlement date Regular-way purchases or sales are purchases or sales of financial assets that require delivery of assets within the timeframe generally established by regulation or convention in the market place For financial instruments held at fair value, the Bank accounts for any change in fair values between the trade date and the reporting date

3. Summary of significant accounting policies (continued)

d) Derivative financial instruments and hedge accounting

Derivative financial instruments, including forward foreign exchange contracts, commission rate futures, forward rate agreements, currency and commission rate swaps, currency and commission rate options, are measured at fair value All derivatives are carried at their fair value as assets where the fair value is positive and as liabilities where the fair value is negative Fair values are obtained by reference to quoted market prices, discounted cash flow models and pricing models, as appropriate

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

i) Derivatives held for trading

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

ii) Embedded derivatives

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

iii) Hedge accounting

For the purpose of hedge accounting, hedges are classified into two categories (a) fair value hedges which hedge the exposure to changes in the fair value of a recognized asset or liability and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or to a highly probable forecasted transaction that will affect the reported net gain or loss

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

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

In relation to cash flow hedges which meet the criteria for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized initially in other reserves within other comprehensive income and the ineffective portion, if any, is recognized in the consolidated income statement For cash flow hedges affecting future transactions, the gains or losses recognized in other reserves, are transferred to the consolidated income statement in the same period in which the hedged transaction affects the consolidated income statement Where the hedged forecasted transaction results in the recognition of a non-financial asset or a non-financial liability, then at the time the asset or liability is recognized, the associated gains or losses that had previously been recognized in other reserves are included in the initial measurement of the acquisition and related costs of the asset or liability

Hedge accounting is discontinued when the hedging instrument is expired or sold, terminated or exercised, or no longer qualifies for hedge accounting, or the forecasted transaction is no longer expected to occur or the Bank revokes the designation At that point of time, any cumulative gain or loss on the cash flow hedging instrument that was recognized in other reserves is retained in equity until the forecasted transaction occurs Where the hedged forecasted transaction is no longer expected to occur, the net cumulative gain or loss recognized in "other reserves" is transferred to the consolidated income statement for the year

3 Summary of significant accounting policies (continued)

e) Foreign currencies

Transactions in foreign currencies are translated into Saudi Arabian Riyals at the exchange rates prevailing at transaction dates Monetary assets and liabilities at year end, denominated in foreign currencies, are translated into Saudi Arabian Riyals at the exchange rates prevailing at the consolidated statement of financial position date Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated income statement Exchange differences on monetary items that qualify as hedging instruments in a cash flow hedge are reported initially in other comprehensive income to the extent that the hedge is effective Exchange component of gains or losses on non-monetary items are recognized either in the consolidated income statement or other comprehensive income, in accordance with the treatment of the related gain or loss

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined

The monetary assets and liabilities of overseas branch are translated at the rate of exchange ruling at the consolidated statement of financial position date The statement of income of the overseas branch is translated at the average exchange rates for the year

f) Offsetting financial instruments

Financial assets and liabilities are offset and reported net in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts and when the Group intends to settle on a net basis, or to realize the asset and settle the liability simultaneously
Income and expenses are not offset in the consolidated income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the bank

g) Revenue and expenses recognition

Special commission income and expense for all commission-bearing financial instruments, except for those classified as held for trading or designated at fair value through income statement, including the fees which are considered an integral part of the effective yield of a financial instrument, are recognized in the consolidated income statement on the effective yield basis and include premiums amortized and discounts accreted during the year The effective commission rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial assets or liability

The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective commission rate but not future credit losses Loan commitment fees for loans that are likely to be drawn down are deferred and, together with the related direct cost, are recognized as an adjustment to the effective commission rate on the loan

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

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

Exchange income/loss is recognized when earned/incurred

Fees and commissions are recognized on an accrual basis when the service has been provided Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportionate basis Fee received on asset management, wealth management, financial planning, custody services and other similar services that are provided over an extended period of time, are recognized rateably over the period when the service is being provided

Dividend income is recognized when the right to receive income is established

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

3. Summary of significant accounting policies (continued)

h) Sale and repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognized on the consolidated statement of financial position and are measured in accordance with related accounting policies for investments held as FVIS, available for sale, held to maturity and other investments held at amortized cost The counterparty liability for amounts received under these agreements is included in "Due to banks and other financial institutions" or "Customers' deposits", as appropriate The difference between sale and repurchase price is treated as special commission expense and accrued over the life of the repo agreement on an effective yield basis Assets purchased with a corresponding commitment to resell at a specified future date (reverse repo) are not recognized in the consolidated statement of financial position, as the Bank does not obtain control over the assets Amounts paid under these agreements are included in "Cash and balances with SAMA", "Due from banks and other financial institutions" or "Loans and advances", as appropriate The difference between purchase and resale price is treated as special commission income and accrued over the life of the reverse repo agreement on an effective yield basis

i) Investments

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics

All investment securities are initially recognized at their fair value plus, in the case of all financial assets other than those carried at Fair Value through income statement (FVIS), any directly attributable incremental costs of acquisition Premiums are amortized and discounts accreted on effective yield basis and taken to special commission income

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 without any deduction for transaction costs Fair value of managed assets and investments in mutual funds are determined by reference to declared net asset values

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

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

(i) Held at Fair Value Through Income Statement (FVIS)

Investments in this category include those investments held for trading or those designated as FVIS on initial recognition Investments classified as trading are acquired for the purpose of selling or repurchasing in short term and are recorded in the consolidated statement of financial position at fair value Changes in fair value are recognized in trading income/loss, net An investment may be designated as FVIS if it satisfies the criteria laid down by IAS 39 except for the equity instruments that do not have a quoted price in an active market and whose fair values cannot be reliably measured

After initial recognition, investments held at FVIS are measured at fair value Changes in fair value are recorded in the consolidated income statement in the year in which it arises Special commission income and dividend income received on financial assets held as FVIS are reflected as either trading income or income from FVIS financial instruments in line with the underlying assets in the consolidated income statement

(ii) Available for sale

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

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

Investments which are classified as "available for sale" are subsequently measured at fair value For an available-for-sale investment where the fair value has not been hedged, any gain or loss arising from a change in its fair value is recognized directly in the consolidated statement of comprehensive income On derecognition, any cumulative gain or loss previously recognized in shareholders' equity is transferred in the consolidated income statement for the year

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

3 Summary of significant accounting policies (continued)

i) Investments (continued)

(iii) Held to maturity

Investments having fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity, other than those that meet the definition of "Other investments held at amortized cost", are classified as held to maturity Held to maturity investments are initially recognised at fair value including direct and incremental transaction costs and subsequently measured at amortized cost, less provision for any impairment in value Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees that are an integral part on an effective yield method Any gain or loss on such investments is recognized in the consolidated income statement when the investment is derecognized or impaired

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

(iv) Other investments held at amortized cost

Investment securities with fixed or determinable payments that are not quoted in an active market and other than those that the Bank intends to sell immediately or in the near term, or those designated as "available for sale" are classified as "Other investments held at amortized cost" Such investments where fair values have not been hedged are stated at amortized cost using an effective yield basis, less provision for any impairment Any gain or loss is recognized in the consolidated income statement when the investment is derecognized or impaired

j) Loans and advances

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

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

Loans and advances originated or acquired by the Bank that are not quoted in an active market and for which fair value has not been hedged are classified as loan and advances held at amortized cost and are stated at cost less any amount written off and allowance for impairment

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

For presentation purposes, impairment charges for credit losses are deducted from loans and advances

k) Impairment of financial assets

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

An assessment is made at each consolidated statement of financial position date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired at the statement of financial position date If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognized for changes in its carrying amounts The present value of the estimated future cash flows is discounted at the financial asset's original effective commission rate If an asset has a variable special commission rate, the discount rate for measuring any impairment loss is the current special commission rate

3. Summary of significant accounting policies (continued)

k) Impairment of financial assets (continued)

When a financial asset is uncollectible, it is written off either directly by a charge to consolidated income statement or against the related allowance for impairment account Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted, and the amount of the loss has been determined

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account The amount of the reversal is recognized in the consolidated income statement in impairment charges for credit losses

Once a financial asset has been written down to its estimated recoverable amount, special commission income is thereafter recognized based on the original effective commission rate that was used to discount the future cash flows for the purpose of measuring the recoverable amount

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

In addition to specific impairment charges for credit losses, an allowance for collective impairment is made on a portfolio basis for credit losses where there is an objective evidence that unidentified losses exist at the reporting date This allowance is estimated based on various factors including credit ratings allocated to a borrower or group of borrowers, the current economic conditions, the experience the Bank has had in dealing with a borrower or group of borrowers and available historical default information

i) Impairment of financial assets held at amortized cost

A specific impairment charges for credit losses due to impairment of a loan or any other financial asset held at amortized cost is established if there is objective evidence that the Bank will not be able to collect all amounts due The amount of the specific provision is the difference between the carrying amount and the estimated recoverable amount The estimated recoverable amount is the present value of expected cash flows, including amounts estimated to be recoverable from guarantees and collateral, discounted based on the original effective yield rate

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

ii) Impairment of available for sale financial assets

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

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

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

3 Summary of significant accounting policies (continued)

l) Other real estate

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

Subsequent to initial recognition, any subsequent write down to fair value, less costs to sell, are charged to the consolidated income statement Any subsequent gain in the fair value less costs to sell of these assets to the extent this does not exceed the cumulative write down is recognized as income together with any gain/ loss on disposal

m) Property and equipment

Property and equipment are stated at cost and presented net of accumulated depreciation and amortization Freehold land is not depreciated

The cost of property and equipment is depreciated and amortized on a straight-line method over the estimated useful lives of the assets as follows

Buildings	33 years
Leasehold improvements	over lease period or 10 years, whichever is shorter
Furniture, equipment and vehicles	3 to 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each consolidated statement of financial position date Gains and losses on disposals are determined by comparing proceeds with the carrying amount These 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.

n) Financial liabilities

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

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

Financial liabilities in an effective fair value hedge relationship are adjusted for fair value changes to the extent of the risk being hedged The resultant gain or loss is recognized in the consolidated income statement For financial liabilities carried at amortized cost, any gain or loss is recognized in the consolidated income statement when derecognized

o) Provisions

Provisions other than impairment or credit loss charges are recognized when a reliable estimate can be made by the Bank for a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation

p) Accounting for leases

i) Where the Bank is the lessee

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

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place

3 Summary of significant accounting policies (continued)

p) Accounting for leases (continued)

ii) Where the Bank is the lessor

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

q) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, "cash and cash equivalents" are defined as those amounts included in cash, balances with SAMA excluding statutory deposit, and due from banks and other financial institutions maturing within 90 days of the acquisition date

r) Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances Financial guarantees are initially recognized in the consolidated financial statements at fair value, in 'Other Liabilities', being the premium received Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee

Any increase in the liability relating to financial guarantees is taken to the consolidated income statement in 'impairment charges for credit losses' The premium received is recognized in the consolidated income statement in 'Fees and commission income, net' on a straight line basis over the life of the guarantee

s) 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 derecognized, when the contractual right to the cash flows from the financial asset expires

In instances where the Bank is assessed to have transferred a financial asset, the asset is derecognized 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 derecognized only if the Bank has not retained control of the financial asset The Bank recognizes 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) is derecognized when it is extinguished, that is when the obligation specified in the contract is either discharged, cancelled or expires

t) Zakat and income taxes

Zakat and income taxes are the liabilities of Saudi and foreign shareholders, respectively Zakat is computed on the Saudi shareholders' share of equity or net income using the basis defined under the zakat regulations Income taxes are computed on the foreign shareholders' share of net income for the year

Zakat and income taxes are not charged to the Bank's consolidated income statement as they are payable by the shareholders

(Saudi Riyals in Thousands)

3 Summary of significant accounting policies (continued)

u) Sharia compliant based banking products

In addition to conventional banking, the Bank offers its customers certain non-interest based banking products, which are approved by its Sharia Board

All non-interest based banking products are accounted for using IFRS and are in conformity with the accounting policies described in these consolidated financial statements

v) Prospective changes in accounting policies

Certain new IFRS and amendments and interpretations to existing IFRS, have been published and are mandatory for the Bank's accounting period beginning on or after January 1, 2014 These include

IFRS 9 *Financial Instruments*

On 19 November 2013, the IASB issued a new version of IFRS 9 Financial Instruments (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39) IFRS 9 (2013)) which includes the new hedge accounting requirements and some related amendments to IAS 39 Financial Instruments Recognition and Measurement and IFRS 7 Financial Instruments Disclosures IFRS 9 (2013) also replicates the amendments in IAS 39 in respect of novation The standard does not have a mandatory effective date, but it is available for application now

***Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27)**

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10

IAS 32 *Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32*

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting

IAS 39 *Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39*

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria

IAS 36 - *Amendments*

Address the disclosure of information about the recoverable amount of impaired assets limiting disclosures requirements if that amount is based on fair value less costs of disposal

4 Cash and balances with SAMA

	2013	2012
Cash in hand	**2,000,224**	2,073,327
Statutory deposit	**5,931,866**	5,270,609
Money market placements	**7,021,951**	12,983,910
Other balances	**17,708**	6,583
Total	**14,971,749**	20,334,429

In accordance with the Banking Control Law and regulations issued by Saudi Arabian Monetary Agency (SAMA), the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its demand, savings, time and other deposits, calculated at the end of each month The statutory deposit with SAMA are not available to finance the Bank's day-to-day operations and therefore are not part of cash and cash equivalents (note 28)

(Saudi Riyals in Thousands)

5 Due from banks and other financial institutions

	2013	2012
Current accounts	1,012,277	1,138,288
Money market placements	1,754,904	1,102,636
Total	2,767,181	2,240,924

6 Investments, net

a) Investments are classified as follows:

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

	Domestic		International		Total	
	2013	2012	2013	2012	2013	2012
Mutual funds and others	-	-	17,443	78,178	17,443	78,178
Held at fair value through income statement	-	-	17,443	78,178	17,443	78,178

ii) Available for sale

	Domestic 2013	Domestic 2012	International 2013	International 2012	Total 2013	Total 2012
Fixed rate securities	1,040,152	1,540,519	7,378,712	4,799,702	8,418,864	6,340,221
Floating rate notes	500,627	275,317	391,388	1,340,540	892,015	1,615,857
Equities	984,369	808,762	60,170	63,331	1,044,539	872,093
Other	323,210	271,525	229,121	184,907	552,331	456,432
Available for sale	2,848,358	2,896,123	8,059,391	6,388,480	10,907,749	9,284,603

iii) Other investments held at amortized cost

	Domestic 2013	Domestic 2012	International 2013	International 2012	Total 2013	Total 2012
Fixed rate securities	12,163,227	9,607,624	1,087,988	1,189,146	13,251,215	10,796,770
Floating rate notes	3,621,727	2,708,618	450,235	1,445,503	4,071,962	4,154,121
Other	-	-	-	37,500	-	37,500
Other investments held at amortized cost, gross	15,784,954	12,316,242	1,538,223	2,672,149	17,323,177	14,988,391
Allowance for impairment	-	-	-	(28,125)	-	(28,125)
Other investments held at amortized cost, net	15,784,954	12,316,242	1,538,223	2,644,024	17,323,177	14,960,266
Total investments, net	18,633,312	15,212,365	9,615,057	9,110,682	28,248,369	24,323,047

(Saudi Riyals in Thousands)

6. Investments, net (continued)

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

	2013			2012		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Fixed rate securities	**9,470,675**	**12,199,404**	**21,670,079**	6,681,975	10,455,016	17,136,991
Floating rate notes	**2,684,654**	**2,279,323**	**4,963,977**	3,932,073	1,837,905	5,769,978
Equities	**983,369**	**61,170**	**1,044,539**	807,762	64,331	872,093
Other	**414,775**	**154,999**	**569,774**	348,275	223,835	572,110
Allowance for impairment	-	-	-	-	(28,125)	(28,125)
Investments, net	**13,553,473**	**14,694,896**	**28,248,369**	11,770,085	12,552,962	24,323,047

Unquoted fixed rate securities and floating rate notes are mainly sukuk, treasury bills and Saudi Government Bonds

c) The analysis of unrecognized gains and losses and fair values of other investments held at amortized cost are as follows

	2013				2012			
	Carrying value	Gross unrecognized gains	Gross unrecognized losses	Fair value	Carrying value	Gross unrecognized gains	Gross unrecognized losses	Fair value
i) Other investments held at amortized cost								
Fixed rate securities	**13,251,215**	**131,466**	**47,425**	**13,335,256**	10,796,770	125,031	4,897	10,916,904
Floating rate notes	**4,071,962**	**109,517**	-	**4,181,479**	4,154,121	64,792	1,964	4,216,949
Other	-	-	-	-	37,500	-	28,125	9,375
Allowance for impairment	-	-	-	-	(28,125)	-	-	(28,125)
Total	**17,323,177**	**240,983**	**47,425**	**17,516,735**	14,960,266	189,823	34,986	15,115,103

d) The analysis of investments by counter-party is as follows·

	2013	2012
Government and quasi government	**24,110,960**	19,392,550
Banks and other financial institutions	**2,711,504**	3,615,740
Corporate	**976,921**	980,407
Other	**448,984**	334,350
Total	**28,248,369**	24,323,047

Investments include SAR 1,561 million (2012 SAR 7,494 million), which have been pledged under repurchase agreements with other banks and customers The market value of such investments is SAR 1,561 million (2012 SAR 7,523 million)

e) Movement in the allowance for impairment of investments

	2013	2012
Balance at beginning of the year	**28,125**	18,750
Provided during the year	-	9,375
Recoveries of amounts previously provided	**(28,125)**	-
Balance at end of the year	-	28,125

(Saudi Riyals in Thousands)

7. Loans and advances, net

a) Loans and advances (all held at amortized cost) comprise the following

2013	Credit cards	Consumer loans	Commercial loans and overdrafts	Total
Performing loans and advances, gross	**355,959**	**22,519,724**	**66,630,893**	**89,506,576**
Non-performing loans and advances, net	**3,803**	**41,325**	**958,442**	**1,003,570**
Total loans and advances	**359,762**	**22,561,049**	**67,589,335**	**90,510,146**
Impairment charges for credit losses, net	**(1,951)**	**(83,551)**	**(1,968,538)**	**(2,054,040)**
Loans and advances, net	**357,811**	**22,477,498**	**65,620,797**	**88,456,106**
2012				
Performing loans and advances, gross	392,840	21,839,949	65,479,763	87,712,552
Non-performing loans and advances, net	5,212	30,527	1,279,045	1,314,784
Total loans and advances	398,052	21,870,476	66,758,808	89,027,336
Impairment charges for credit losses, net	(2,674)	(88,968)	(2,607,086)	(2,698,728)
Loans and advances, net	395,378	21,781,508	64,151,722	86,328,608

Loan and advances, net include Shariah compliant based banking products in respect of Murabaha, Tawarruq agreements and Ijarah, which are stated at amortized cost, of SAR 52 8 billion (2012 SAR 49 3 billion)

b) Movements in impairment charges for credit losses are as follows

2013	Credit cards	Consumer loans	Commercial loans and overdrafts	Total
Balance at beginning of the year	**2,674**	**88,968**	**2,607,086**	**2,698,728**
Provided during the year	**9,178**	**196,517**	**421,293**	**626,988**
Bad debts written off	**(9,901)**	**(201,934)**	**(1,059,841)**	**(1,271,676)**
Balance at end of the year	**1,951**	**83,551**	**1,968,538**	**2,054,040**
2012				
Balance at beginning of the year	3,237	75,449	2,526,211	2,604,897
Provided during the year	9,370	172,931	340,973	523,274
Recovery of amounts previously provided	-	(1,478)	-	(1,478)
Bad debts written off	(9,933)	(157,934)	(260,098)	(427,965)
Balance at end of the year	2,674	88,968	2,607,086	2,698,728

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

(Saudi Riyals in Thousands)

7. Loans and advances, net (continued)

d) Economic sector risk concentrations for loans and advances and impairment charges for credit losses are as follows.

	2013	Performing gross	Non performing, net	Impairment charges for credit losses	Loans and advances, net
1	Government and quasi government	14,973	-	-	14,973
2	Banks and other financial institutions	1,449,647	-	-	1,449,647
3	Agriculture and fishing	727,404	-	(2,684)	724,720
4	Manufacturing	11,562,006	5,301	(137,912)	11,429,395
5	Mining and quarrying	2,396,782	-	-	2,396,782
6	Electricity, water, gas and health services	2,888,811	-	-	2,888,811
7	Building and construction	6,489,939	344,353	(474,075)	6,360,217
8	Commerce	15,663,599	585,794	(569,111)	15,680,282
9	Transportation and communication	3,350,790	-	(10,387)	3,340,403
10	Services	2,355,868	10,125	(10,297)	2,355,696
11	Consumer loans and credit cards	22,875,683	45,128	(55,844)	22,864,967
12	Other	19,731,074	12,869	(322,595)	19,421,348
		89,506,576	1,003,570	(1,582,905)	88,927,241
	Allowance for collective impairment	-	-	(471,135)	(471,135)
Total		89,506,576	1,003,570	(2,054,040)	88,456,106

	2012	Performing gross	Non performing, net	Impairment charges for credit losses	Loans and advances, net
1	Government and quasi government	7,727	-	-	7,727
2	Banks and other financial institutions	1,110,875	500,533	(709,016)	902,392
3	Agriculture and fishing	405,140	-	-	405,140
4	Manufacturing	11,585,618	8,742	(172,776)	11,421,584
5	Mining and quarrying	2,070,815	-	-	2,070,815
6	Electricity, water, gas and health services	2,650,965	-	-	2,650,965
7	Building and construction	5,240,412	36,367	(414,584)	4,862,195
8	Commerce	15,200,617	132,914	(128,246)	15,205,285
9	Transportation and communication	6,604,072	-	(26,565)	6,577,507
10	Services	2,250,800	390,687	(397,786)	2,243,701
11	Consumer loans and credit cards	22,232,789	35,739	(61,984)	22,206,544
12	Other	18,352,722	209,802	(316,636)	18,245,888
		87,712,552	1,314,784	(2,227,593)	86,799,743
	Allowance for collective impairment	-	-	(471,135)	(471,135)
Total		87,712,552	1,314,784	(2,698,728)	86,328,608

8 Investment in associates

	2013	2012
Balance at beginning of the year	430,046	349,417
Investment during the year	-	52,500
Share in earnings	36,487	28,129
Total	466,533	430,046

The Bank participated in the setting up of Saudi Home Loans Company (the associate) The Bank's share is 40% of the associate's total equity capital of SAR 2 billion The associate was launched at the end of the fourth quarter of 2007 and is accounted for under the equity method The bank initially paid an amount of SAR 320 million, representing 40% of the issued share capital of the associate

The investment during 2012 represents the Bank's share (30%) in setting up a cooperative insurance company in the Kingdom of Saudi Arabia The company will start providing its services in the cooperative insurance after receiving the approval of the concerned regulatory parties

(Saudi Riyals in Thousands)

9 Property and equipment, net

	Land and buildings	Leasehold improvements	Equipment, furniture and vehicles	Projects under execution	Total 2013	Total 2012
Cost						
Balance at beginning of the year	**1,052,298**	**444,409**	**1,416,739**	**133,785**	**3,047,231**	2,836,715
Additions	**44,862**	**32,029**	**197,120**	**55,953**	**329,964**	264,967
Disposals	**-**	**(3,275)**	**(11,136)**	**-**	**(14,411)**	(54,451)
Balance at end of the year	**1,097,160**	**473,163**	**1,602,723**	**189,738**	**3,362,784**	3,047,231
Accumulated depreciation						
Balance at beginning of the year	**248,471**	**302,046**	**990,403**	**-**	**1,540,920**	1,355,316
Charge for the year	**36,301**	**38,161**	**113,362**	**-**	**187,824**	193,218
Disposals	**-**	**(2,349)**	**(10,929)**	**-**	**(13,278)**	(7,614)
Balance at end of the year	**284,772**	**337,858**	**1,092,836**	**-**	**1,715,466**	1,540,920
Net book value						
As at December 31, 2013	**812,388**	**135,305**	**509,887**	**189,738**	**1,647,318**	
As at December 31, 2012	803,827	142,363	426,336	133,785		1,506,311

10. Other assets

	2013	2012
Accrued special commission receivable - banks and other financial institutions	**249**	202
- investments	**82,519**	84,901
- loans and advances	**328,770**	317,864
- derivatives	**34,069**	20,397
Total accrued special commission receivable	**445,607**	423,364
Positive fair value of derivatives (note 11)	**176,901**	165,357
Prepaid expenses	**285,761**	229,227
Other	**333,265**	338,957
Total	**1,241,534**	1,156,905

11. Derivatives

In the ordinary course of business, the Bank utilizes the following derivative financial instruments for both trading and hedging purposes

a) Swaps

Swaps are commitments to exchange one set of cash flows for another For commission rate swaps, counterparties generally exchange fixed and floating rate commission payments in a single currency without exchanging principal For currency swaps, fixed commission payments and principal are exchanged in different currencies For cross-currency commission rate swaps, principal, fixed and floating commission payments are exchanged in different currencies

b) Forwards and futures

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specified price and date in the future Forwards are customized contracts transacted in the over-the-counter market Foreign currency and commission rate futures are transacted in standardized amounts on regulated exchanges and changes in futures contract values are settled daily

c) Forward rate agreements

Forward rate agreements are individually negotiated commission rate contracts that call for a cash settlement for the difference between a contracted commission rate and the market rate on a specified future date, on a notional principal for an agreed period of time

(Saudi Riyals in Thousands)

11 Derivatives (continued)

d) Options

Options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, to either buy or sell at fixed future date or at any time during a specified period, a specified amount of a currency, commodity or financial instrument at a pre-determined price

Held for trading purposes

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

Held for hedging purposes

The Bank has adopted a comprehensive system for the measurement and management of risk Part of the risk management process involves managing the Bank's exposure to fluctuations in foreign exchange and commission rates to reduce its exposure to currency and commission rate risks to acceptable levels as determined by the Board of Directors within the guidelines issued by SAMA

The Board of Directors has established levels of currency risk by setting limits on counterparty and currency position exposures Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits The Board of Directors has established the level of commission rate risk by setting limits on commission rate gaps for stipulated periods Asset and liability commission rate gaps are reviewed on a periodic basis and hedging strategies are used to reduce commission rate gap within the established limits

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

The Bank uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks In addition, the Bank uses commission rate swaps and commission rate futures to hedge against the commission rate risk arising from specifically identified fixed commission-rate exposures

The Bank also uses commission rate swaps to hedge against the cash flow risk arising on certain floating rate exposures In all such cases, the hedging relationship and objective, including details of the hedged items and hedging instrument are formally documented and the transactions are accounted for as fair value or cash flow hedges

The tables below show the positive and negative fair values of derivative financial instruments, together with the notional amounts, analyzed by the term to maturity and monthly average The notional amounts, which provide an indication of the volumes of the transactions outstanding at the year-end, do not necessarily reflect the amounts of future cash flows involved These notional amounts, therefore, are neither indicative of the Bank's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor market risk

Derivative financial instruments

2013	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3-12 months	1 5 years	Over 5 years	Monthly average
				Notional amounts by term to maturity				
Held for trading								
Commission rate swaps	119,174	114,332	7,786,184	240,000	1,074,611	6,419,894	51,679	7,107,119
Commission rate futures and options	-	-	24,815	-	-	24,815	-	5,344,968
Forward foreign exchange contracts	50,043	21,015	6,310,929	4,890,058	1,417,069	3,802	-	8,685,071
Currency options	2,825	2,820	13,306,210	3,652,580	7,023,594	2,630,036	-	11,144,597
Held as fair value hedges								
Commission rate swaps	4,859	81,171	2,642,222	45,908	93,750	2,476,725	25,839	4,508,978
Held as cash flow hedges								
Commission rate swaps	-	18,092	1,237,500	-	-	1,237,500	-	-
Total	176,901	237,430	31,307,860	8,828,546	9,609,024	12,792,772	77,518	36,790,733

(Saudi Riyals in Thousands)

11. Derivatives (continued)

Derivative financial instruments
Notional amounts by term to maturity

2012	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3-12 months	1 5 years	Over 5 years	Monthly average
Held for trading								
Commission rate swaps	70,566	63,595	6,941,399	225,000	558,750	3,137,061	3,020,588	5,135,403
Commission rate futures and options	-	-	-	-	-	-	-	2,246,887
Forward foreign exchange contracts	82,169	56,295	15,493,676	12,745,327	2,675,161	73,188	-	12,422,049
Currency options	6,632	492	5,896,813	291,624	4,014,199	1,590,990	-	6,806,129
Held as fair value hedges								
Commission rate swaps	5,990	136,934	3,514,880	-	2,436,011	691,995	386,874	3,661,960
Held as cash flow hedges								
Commission rate swaps	-	-	-	-	-	-	-	1,849,375
Total	165,357	257,316	31,846,768	13,261,951	9,684 121	5 493,234	3,407,462	32,121,803

The tables below show a summary of hedged items and portfolios, the nature of the risk being hedged, the hedging instrument and its fair value

Description of hedged items	**Fair value**	**Hedge inception value**	**Risk**	**Hedging instrument**	**Positive fair value**	**Negative fair value**
2013						
Fixed commission rate investments	**2,058,903**	**2,032,089**	Fair value	Commission rate swap	-	**26,225**
Fixed commission rate loans	**660,220**	**610,133**	Fair value	Commission rate swap	**4,859**	**54,946**
Floating commission rate loans	**1,255,592**	**1,237,500**	Cash flow	Commission rate swap	-	**18,092**

Description of hedged items	Fair value	Hedge inception value	Risk	Hedging instrument	Positive fair value	Negative fair value
2012						
Fixed commission rate investments	657,875	617,261	Fair value	Commission rate swap	-	44,329
Fixed commission rate loans	2,984,234	2,897,619	Fair value	Commission rate swap	5,990	92,605

Cash flow hedges

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

2013	Within 1 year	1-3 years	3-5 years
Cash inflows (assets)	13,310	26,598	26,547
Cash out flows (liabilities)	(7,423)	(24,626)	(55,079)
Net cash inflow (outflow)	5,887	1,972	(28,532)
2012			
Cash inflows (assets)	-	-	-
Cash out flows (liabilities)	-	-	-
Net cash inflow (outflow)	-	-	-

(Saudi Riyals in Thousands)

11 Derivatives (continued)

The discontinuation of hedge accounting resulted in reclassification of the associated cumulative losses of SAR 2 5 million from equity to consolidated income statement (2012 cumulative losses of SAR 466 thousands), included in the above numbers

Approximately 15% (2012 31%) of the positive fair value of the Bank's derivatives are entered into with financial institutions and less than 17% (2012 18%) of the positive fair value contracts are with any single counter-party at the consolidated statement of financial position date Derivative activities are mainly carried out under the Bank's treasury banking segment

12 Due to banks and other financial institutions

	2013	2012
Current accounts	169,557	219,267
Money market deposits	7,471,501	6,330,657
Total	**7,641,058**	6,549,924

13. Customers' deposits

	2013	2012
Demand	57,388,751	52,349,494
Saving	104,608	103,598
Time	42,843,203	51,248,571
Other	6,036,170	3,858,780
Total	**106,372,732**	107,560,443

Time deposits include deposits against sale of securities of SAR 923 million (2012 SAR 4,269 million) with agreements to repurchase the same at fixed future dates Other customers' deposits include SAR 3,621 million (2012 SAR 2,705 million) of margins held for irrevocable commitments

The above include foreign currency deposits as follows

	2013	2012
Demand	1,637,820	1,833,412
Saving	3,219	1,304
Time	14,552,080	20,085,439
Other	148,866	182,113
Total	**16,341,985**	22,102,268

14. Other liabilities

	2013	2012
Accrued special commission payable - banks and other financial institutions	813	1,591
- customers' deposits	54,983	57,766
- derivatives	63,670	84,145
- debt securities in issue	4,555	4,774
Total accrued special commission payable	124,021	148,276
Negative fair value of derivatives (note 11)	237,430	257,316
Other	2,684,269	2,526,230
Total	**3,045,720**	2,931,822

(Saudi Riyals in Thousands)

15 Debt securities in issue

During the year ended December 31, 2006, the Bank issued USD 500 million, 10 year subordinated floating rate notes (the notes) under its USD 850 million Euro Medium Term Note program The notes initially carried a special commission rate of Libor plus 83 bps The notes are non-convertible, unsecured and listed on the London stock exchange These notes are callable after 5 years from their date of issuance Effective October 31, 2011 and based on the step-up condition, the commission rate has been adjusted to Libor plus 133 bps

During the year ended December 31, 2009, USD 50 million was purchased from the secondary market and retired

16 Share capital

The authorized, issued and fully paid share capital of the Bank as at December 31, 2013 consists of 850 million shares of SAR 10 each (2012 850 million shares of SAR 10 each) The ownership of the Bank's share capital is as follows

	2013	2012
Saudi shareholders	**60%**	60%
Arab Bank PLC – Jordan	**40%**	40%

At December 31, 2013, the Bank has 850 million shares issued and outstanding

17. Statutory reserve

In accordance with the Saudi Arabian Banking Control Law and the Articles of Association of the Bank, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid up share capital of the Bank Accordingly, SAR 640 million has been transferred from the net income for the year ended December 31, 2013 (2012 SAR 600 million) The statutory reserve is not available for distribution

18. Commitments and contingencies

a) Legal proceedings

As at December 31, 2013 and 2012 there were legal proceedings of a routine nature outstanding against the Bank No material provision has been made as related professional legal advice indicates that it is unlikely that any significant loss will arise

b) Capital commitments

As at December 31, 2013 the Bank had capital commitments of SAR 112 million (2012 SAR 140 million) in respect of building and equipment purchases

c) Credit related commitments and contingencies

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

Guarantees 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 loans and advances

Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement

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

(Saudi Riyals in Thousands)

18. Commitments and contingencies (continued)

c) Credit related commitments and contingencies (continued)

Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers The Bank expects most acceptances to be presented before being reimbursed by the customers

Commitments to extend credit represent the unused portion of authorizations to extend credit, principally in the form of loans and advances, guarantees and letters of credit With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments However, the likely amount of loss, which cannot readily be quantified, is expected to be considerably less than the total unused commitment as most commitments to extend credit are contingent upon customers maintaining specific credit standards The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of these commitments could expire or terminate without being funded

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

2013	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	**3,023,152**	**1,887,049**	**752,766**	**-**	**5,662,967**
Letters of guarantee	**9,959,339**	**8,665,174**	**6,171,460**	**120,865**	**24,916,838**
Acceptances	**1,082,372**	**439,491**	**15,021**	**-**	**1,536,884**
Irrevocable commitments to extend credit	**-**	**236,952**	**1,969,516**	**-**	**2,206,468**
Other	**-**	**-**	**-**	**148,462**	**148,462**
Total	**14,064,863**	**11,228,666**	**8,908,763**	**269,327**	**34,471,619**
2012					
Letters of credit	3,956,422	3,251,609	859,211	-	8,067,242
Letters of guarantee	6,992,166	11,307,291	6,402,406	333,307	25,035,170
Acceptances	1,736,751	728,105	6,840	-	2,471,696
Irrevocable commitments to extend credit	70	159,231	1,148,275	19,565	1,327,141
Other	-	-	-	166,375	166,375
Total	12,685,409	15,446,236	8,416,732	519,247	37,067,624

The unutilized portion of non-firm commitments as at December 31, 2013, which can be revoked unilaterally at any time by the Bank, amounts to SAR 18,773 million (2012 SAR 12,548 million)

ii) The analysis of commitments and contingencies by counter-party is as follows

	2013	2012
Government and quasi government	**220,888**	33,600
Corporate	**26,595,211**	26,404,181
Banks and other financial institutions	**6,799,484**	9,699,351
Other	**856,036**	930,492
Total	**34,471,619**	37,067,624

d) Assets pledged

Securities pledged under repurchase agreements with other banks include government and non government banks Assets pledged as collateral with other financial institutions for security are as follows

	2013		2012	
	Assets	**Related liabilities**	Assets	Related liabilities
Other investments held at amortized cost (note 6)	**1,560,656**	**922,573**	6,742,681	4,268,654
Available for sale investments (note 6)	**-**	**-**	751,501	750,000
Total	**1,560,656**	**922,573**	7,494,182	5,018,654

(Saudi Riyals in Thousands)

18 Commitments and contingencies (continued)

e) Operating lease commitments

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

	2013	2012
Less than 1 year	**96,869**	90,949
1 to 5 years	**231,050**	225,722
Over 5 years	**90,128**	106,391
Total	**418,047**	423,062

19. Net special commission income

Special commission income	2013	2012
Investments		
Available for sale	**124,243**	139,608
Other investments held at amortized cost	**258,721**	259,512
	382,964	399,120
Due from banks and other financial institutions	**21,782**	12,673
Loans and advances	**3,540,155**	3,336,270
Total	**3,944,901**	3,748,063
Special commission expense		
Due to banks and other financial institutions	**13,846**	24,478
Customers' deposits	**527,211**	428,919
Debt securities in issue	**28,945**	34,237
Total	**570,002**	487,634
Net special commission income	**3,374,899**	3,260,429

20 Fees and commission income, net

	2013	2012
Fee income		
Share trading and fund management	**107,643**	128,164
Trade finance	**302,686**	241,000
Credit cards	**113,399**	119,408
Other banking services	**979,246**	831,477
Total	**1,502,974**	1,320,049
Fee expense		
Credit cards	**106,015**	99,825
Custody and brokerage fees	**3,908**	8,997
Other banking services	**339,653**	296,385
Total	**449,576**	405,207
Fees and commission income, net	**1,053,398**	914,842

21. Income (loss) from FVIS financial instruments, net

	2013	2012
Fair value change of financial assets held as FVIS investments	**3,763**	(149)

(Saudi Riyals in Thousands)

22 Trading income, net

	2013	2012
Fixed rate securities	**23,514**	43,126
Derivatives	**38,111**	15,139
Total	**61,625**	58,265

23. Dividend income

	2013	2012
Available for sale investments	**52,894**	35,990

24. Gains and impairment of non-trading investments, net

	2013	2012
Realized gains on available for sale investments	**29,376**	96,235
Realized gains on other investments held at amortized cost	**17,076**	-
Impairment gain (loss) on other investments held at amortized cost	**28,125**	(9,375)
Total	**74,577**	86,860

25 Other operating income, net

	2013	2012
(Loss) gain on disposal of property and equipment	**(918)**	7
Recoveries of loans and advances previously written off	**70,305**	141,312
Gain (loss) on disposal of other real estate	**16,370**	(105)
Other	**46,150**	15,708
Total	**131,907**	156,922

26 Basic and fully diluted earnings per share

Basic earnings per share are calculated by dividing the net income attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the year

The fully diluted earnings per share is the same as the basic earnings per share figure

27. Proposed gross dividend, Zakat and Income Tax

Gross dividend is comprised of the following

	2013	2012
Proposed dividends	**425,000**	850,000
Zakat (including prior year difference)	**415,028**	407,961
Total	**840,028**	1,257,961

At December 15, 2013 the Board of Directors' recommended to pay cash dividends of SAR 425 million and bonus shares by issuing 3 bonus shares for every 17 existing shares The bonus shares will be issued by transferring SAR 1,500 million from the retained earnings These dividends are subject to final approval of the general assembly

The dividends are paid to the Saudi and non-Saudi shareholders after deduction of Zakat and income tax respectively as follows

Zakat

Zakat attributable to Saudi Shareholders for the year amounted to approximately SAR 257 million (2012 SAR 245 million)

Income Tax

Income tax payable by the non-Saudi Shareholder on the current year's share of net income is SAR 208 million (2012 SAR 199 million)

The Bank has submitted its Zakat and income tax returns for the years up to 2012 and received Zakat/Tax assessment in respect of prior years from 2004 to 2008 The bank, in consultation with its advisors, will contest the assessment and file an appeal At the current stage, a reasonable estimation of the exposure cannot be determined reliably

(Saudi Riyals in Thousands)

28 Cash and cash equivalents

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

	2013	2012
Cash and balances with SAMA excluding statutory deposit (note 4)	9,039,883	15,063,820
Due from banks and other financial institutions maturing within ninety days of the acquisition date	2,767,181	2,240,924
Total	11,807,064	17,304,744

29. Compensation practices

In compliance with the rules set out by SAMA, which are consistent with the principles and standards of Financial Stability Board (FSB), the Bank has implemented a "Risk-Based Compensation Policy" The policy is approved by the Bank's Board of Directors (The Board) and gives highest consideration to the alignment of compensation with risk and provides a competitive and balanced package of fixed and variable compensation The policy ensures that compensation takes into account the likelihood and timelines of earnings and its impact on the Bank's capital It also focuses on promoting effective risk management, achieving financial stability and dealing with risks posed by its compensation practices The Bank takes into account all types of existing and potential material risks and ensures a balance between general industry practices and bank-specific factors such as business model, financial condition, operating performance, market perception, business prospects, appropriate managerial judgment etc

The Board of Directors, while determining and approving the bonus pool for the Bank, considers performance in absolute and relative terms, consistency of earnings, long term performance, historical bonus pool, market conditions, and the like Similarly, while allocating the Bank-wide pool to business units, due consideration is given to the type of business transacted, level of risk assumed, relative importance of earnings, distinctive business drivers, historical bonus pool, current performance and the business unit's consistency of performance

The Board has ultimate responsibility for promoting effective governance and sound compensation practices In order to assist in overseeing the Compensation system's design and its operation, the Board has appointed a Nomination & Compensation Committee The Nomination & Compensation Committee comprises of three non-executives members of the Board and is chaired by an independent member of the Board The Committee has full authority on behalf of the Board to review and where considered appropriate propose changes to the Bank's compensation policy and practices and recommend the same to the Board, for its approval, to ensure adequacy and effectiveness of the policy in meeting its intended objectives The Committee also reviews the level and composition of remuneration of key executives of the Bank, and recommends the risk-adjusted bonus pool to the Board, for approval

The governance process ensures that the Compensation Policy is consistently applied within the Bank and operates as intended The Bank has established an oversight mechanism to regularly evaluate the design characteristics of compensation practices and their implementation

S.No	Categories of employees	Number of employees	Fixed compensation	Variable costs paid cash in 2013
1	Senior executive requiring SAMA no objections	20	40,449	22,386
2	Employees engaged in risk taking activities	157	86,407	28,502
3	Employees engaged in control functions	362	98,428	9,614
4	Other employees	4,047	660,044	55,562
5	Outsourced employees engaged in risk taking activities	-	-	-
	Total	4,586	885,328	116,064
	Variable compensation accrued in 2013		105,000	
	Other employment related costs*		199,631	
	Total salaries and employment related expenses		1,189,959	

(Saudi Riyals in Thousands)

29 Compensation practices (continued)

S No	Categories of employees	Number of employees	Fixed compensation	Variable cost paid cash in 2012
1	Senior executive requiring SAMA no objections	21	41,016	22,086
2	Employees engaged in risk taking activities	171	81,674	21,367
3	Employees engaged in control functions	366	91,091	7,187
4	Other employees	4,069	619,498	56,734
5	Outsourced employees engaged in risk taking activities	-	-	-
	Total	4,627	833,279	107,374
	Variable compensation accrued in 2012		90,000	
	Other employment related costs*		188,363	
	Total salaries and employment related expenses		1,111,642	

* Other employment related costs include end of service benefits, GOSI, business travel, training and development, and other employees' benefits

30. Operating segments

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Bank that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess its performance

For management purposes the Group is organized into the following major operating segments

Retail banking

Deposit, credit and investment products for individuals

Corporate banking

Loans and advances, deposits and other credit products for corporate and institutional customers, small to medium sized businesses, and the Bank's London Branch

Treasury banking

Manages the Bank's trading and investment portfolios and the Bank's funding, liquidity, currency and commission risks

Investment and brokerage services

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

Other

Includes income on capital and unallocated costs, assets and liabilities pertaining to the Head Office and other supporting departments

Transactions between the operating segments are reported as recorded in the Group's transfer pricing system Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance

The Group's primary business is conducted in the Kingdom of Saudi Arabia with one international branch in London However, the total assets, liabilities, commitments and results of operations of this branch are not material to the Group's overall consolidated financial statements

(Saudi Riyals in Thousands)

30 Operating segments (continued)

a) The Group's total assets and liabilities as at December 31, 2013 and 2012, its total operating income, expenses and net income for the years then ended, by operating segments, are as follows

2013	**Retail banking**	**Corporate banking**	**Treasury banking**	**Investment and brokerage services**	**Other**	**Total**
Total assets	**32,028,809**	**60,352,931**	**42,676,008**	**77,536**	**2,800,140**	**137,935,424**
Total liabilities	**57,363,915**	**51,321,417**	**9,383,684**	**32,063**	**645,931**	**118,747,010**
Fee and commission income, net	**294,241**	**572,717**	**19,292**	**105,568**	**61,580**	**1,053,398**
Total operating income	**2,093,443**	**1,781,241**	**972,615**	**112,430**	**149,816**	**5,109,545**
Total operating expenses	**1,543,975**	**864,638**	**90,053**	**74,921**	**47,302**	**2,620,889**
Share in earnings of an associate	-	-	-	-	**36,487**	**36,487**
Gain attributed to non-controlling interest	-	-	-	-	**(2,648)**	**(2,648)**
Net income attributed to equity holders of the Bank	**549,468**	**916,603**	**882,562**	**37,509**	**136,353**	**2,522,495**
Impairment charges for credit losses, net	**213,303**	**413,685**	-	-	-	**626,988**
Investment in associates	-	-	-	-	**466,533**	**466,533**
Depreciation and amortization	**136,611**	**2,799**	**3,554**	**6,121**	**38,739**	**187,824**

2012	Retail banking	Corporate banking	Treasury banking	Investment and brokerage services	Other	Total
Total assets	30,819,872	59,315,473	43,420,050	44,194	3,039,687	136,639,276
Total liabilities	51,822,096	57,833,016	8,393,092	35,897	645,588	118,729,689
Fee and commission income, net	307,881	439,743	32,820	123,586	10,812	914,842
Total operating income	2,145,472	1,507,933	873,981	139,804	89,631	4,756,821
Total operating expenses	1,453,112	771,405	72,285	87,586	29,537	2,413,925
Share in earnings of an associate	-	-	-	-	28,129	28,129
Loss attributed to non-controlling interest	-	-	-	-	153	153
Net income attributed to equity holders of the Bank	692,360	736,528	801,696	52,218	88,376	2,371,178
Impairment charges for credit losses, net	194,760	327,036	-	-	-	521,796
Investment in associates	-	-	-	-	430,046	430,046
Depreciation and amortization	156,209	3,354	4,139	7,251	22,265	193,218

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

2013	**Retail banking**	**Corporate banking**	**Treasury banking**	**Investment and brokerage services**	**Other**	**Total**
Consolidated statement of financial position assets	**29,251,462**	**60,024,648**	**42,387,374**	**16,182**	**1,230,048**	**132,909,714**
Commitment and contingencies	**3,309,730**	**12,921,401**	-	**74,231**	-	**16,305,362**
Derivatives	-	**9,809**	**769,833**	-	-	**779,642**
2012						
Consolidated statement of financial position assets	28,063,603	58,888,148	43,064,256	26,185	1,541,534	131,583,726
Commitment and contingencies	3,723,745	13,542,555	-	83,187	-	17,349,487
Derivatives	-	2,917	719,228	-	-	722,145

30 Operating segments (continued)

Credit exposure comprises the carrying value of consolidated statement of financial position assets, excluding cash, property and equipment, other real estate, and other assets The credit equivalent value of commitments, contingencies and derivatives are included in credit exposure (note 32a)

31. 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 arise principally in lending activities that relate to loans and advances, and investment activities There is also credit risk in off-statement of financial position financial instruments, such as loan commitments

The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counter-parties, and continually assessing the creditworthiness of counter-parties The Bank's risk management policies are designed to identify and to set appropriate risk limits and to monitor the risks and adherence to limits In addition to monitoring credit limits, the Bank manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counter-parties in appropriate circumstances, and limiting the duration of exposure In certain cases the Bank may also close out transactions or assign them to other counter-parties to mitigate credit risk The Bank's credit risk for derivatives, represents the potential cost to replace the derivative contracts if counter-parties fail to fulfill their obligation To control the level of credit risk taken, the Bank assesses counter-parties using the same techniques as for its lending activities

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

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

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

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

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

The debt securities included in the investment portfolio are mainly sovereign risk Analysis of investments by counter-party is provided in note 6d Information on credit risk relating to derivative instruments is provided in note 32 and for commitments and contingencies in note 18 The information on banks maximum credit exposure by operating segment is given in note 30 The information on maximum credit risk exposure and their relative risk weights is also provided in note 37

The Bank classifies its exposure into thirteen risk categories Of these, ten categories are for performing and three for non performing Each borrower is rated on an internally developed objective risk rating model that evaluates risk based on financial as well as qualitative factors such as management strength, industry characteristics, account conduct and company type An independent credit review unit reviews the assigned ratings periodically Exposures falling below a certain classification threshold are considered to be impaired, and appropriate specific provisions are made against them by comparing the present value of expected future cash flows for each such exposure with its carrying amount based on the criteria prescribed by IAS 39 Collective impairment is also measured and recognized on a portfolio basis for group of similar credits that are not individually identified as impaired

(Saudi Riyals in Thousands)

31. Credit risk (continued)

a) Credit risk exposures - on- consolidated statement of financial position assets.

	2013	2012
Loans and advances, net·		
Consumer loans		
Credit cards	357,811	395,378
Term loans	22,477,498	21,781,508
Total	22,835,309	22,176,886
Corporate loans		
Syndicated loans	12,881,373	13,843,066
Overdrafts	4,278,923	4,179,317
Term loans	48,372,254	46,107,348
Other	88,247	21,991
Total	65,620,797	64,151,722
Investments, net·		
Fixed-rate securities	21,670,079	17,136,991
Floating-rate notes	4,963,977	5,769,978
Other	1,614,313	1,416,078
Total	28,248,369	24,323,047
Gross Total	116,704,475	110,651,655

b) Credit risk exposures - off- consolidated statement of financial position items

	2013	2012
Loan commitments and other credit related liabilities	2,206,468	1,327,141
Financial guarantees	32,265,151	35,740,483
Total	34,471,619	37,067,624

c) Credit quality of loans and advances

<u>Description</u>	2013	2012
Neither past due nor impaired	87,055,936	84,782,616
Past due but not impaired	841,836	793,539
Impaired (any loan with specific provision)	2,612,374	3,451,181
Total loans and advances	90,510,146	89,027,336
Impairment charges for credit losses, net	(2,054,040)	(2,698,728)
Loans and advances, net	88,456,106	86,328,608

d) Loans and advances that are neither past due nor impaired

	2013	2012
Grades		
Low risk (1-4)	40,873,995	39,009,948
Acceptable risk (5-8)	45,776,392	45,652,090
Watch list (9-10)	405,549	120,578
Total	87,055,936	84,782,616

(Saudi Riyals in Thousands)

31 Credit risk (continued)

Grade 1-4 includes corporate and commercial loans having financial conditions, risk factors and ability to repay that are superior to excellent For retail, it includes loans with salary assignment or real estate collaterals

Grade 5-8 includes corporate and commercial loans having financial conditions, risk factors and ability to repay that are acceptable to good, in addition to other retail loans not included in the above category

Grade 9-10 A credit that is currently protected but has potential weaknesses that deserve management's close attention

e) Loans and advances past due but not impaired

2013	Credit cards	Consumer loans	Commercial loans and overdrafts	Total
Past due up to 30 days	**25,511**	**663,343**	**102,230**	**791,084**
Past due 30 - 60 days	-	-	**43,512**	**43,512**
Past due 60-90 days	-	-	**66**	**66**
Past due more than 90 days	-	-	**7,174**	**7,174**
Total	**25,511**	**663,343**	**152,982**	**841,836**
2012				
Past due up to 30 days	34,934	620,515	119,455	774,904
Past due 30 - 60 days	-	-	3,697	3,697
Past due 60-90 days	-	-	8,857	8,857
Past due more than 90 days	-	-	6,081	6,081
Total	34,934	620,515	138,090	793,539

f) Impaired loans and advances

	2013	2012
Corporate loans	**2,464,441**	3,337,590
Retail loans	**147,933**	113,591
Total	**2,612,374**	3,451,181

g) Credit quality of financial assets (investments)

The credit quality of investments excluding investment in equities is managed using external credit ratings except Structured Investment Vehicles (SIVs), where internal credit ratings are used The table below shows the credit quality by class of asset

	2013	2012
Saudi Government Bonds	**11,831,297**	10,432,957
Investment grade	**15,043,178**	12,449,718
Non Investment grade	**169,769**	131,063
Unrated	**1,204,125**	1,309,309
Total investment, net	**28,248,369**	24,323,047

The Saudi Government Bonds comprise Saudi Government Development Bonds, Floating Rate Notes and Treasury Bills
Investment Grade comprises investments having credit rating equivalent to Standard and Poor's rating of AAA to BBB
The unrated investments comprise mainly mutual funds and investment in equities

h) Collateral

The bank obtained assets by taking possession of collateral held as security, or calling upon other credit enhancements as follows

	2013	2012
Nature of collateral held as security	**Carrying value**	Carrying value
Listed securities	**19,868,153**	14,610,064
Properties	**4,194,305**	3,454,149
Others	**4,404,260**	1,865,434
Total	**28,466,718**	19,929,647

(Saudi Riyals in Thousands)

32. Concentration of risks of financial assets with credit risk exposure and financial liabilities

a) Geographical concentration

The bank's main credit exposure by geographical region is as follows

2013	Saudi Arabia	Other GCC & Middle East	Europe	North America	Latin America	South East Asia	Other Countries	Total
Assets								
Cash and balances with SAMA	14,969,110	-	2,639		-			14,971,749
Due from banks and other financial institutions	1,600,000	263,835	538,701	243,475	-	120,870	300	2,767,181
Investments, net	18,633,312	2,002,802	1,212,383	6,288,272	-	111,600		28,248,369
Investment in associates	466,533	-	-	-	-	-	-	466,533
Loans and advances, net	87,866,065	63,547	396,129	130,365	-	-	-	88,456,106
Total	123,535,020	2,330,184	2,149,852	6,662,112	-	232,470	300	134,909,938
Liabilities								
Due to banks and other financial institutions	93,750	1,611,970	78,730	5,854,451	-	1,641	516	7,641,058
Customers' deposits	105,890,287	132,471	345,151	3,082	-	579	1,162	106,372,732
Debt securities in issue	-	840,000	623,250	-	-	224,250	-	1,687,500
Total	105,984,037	2,584,441	1,047,131	5,857,533	-	226,470	1,678	115,701,290
Commitments and contingencies	21,634,927	4,051,733	3,776,429	386,648	9,653	4,588,103	24,126	34,471,619
Maximum credit exposure (stated at credit equivalent amounts)								
Commitments and contingencies	10,426,588	1,969,578	1,598,523	197,842	5,471	2,100,163	7,197	16,305,362
Derivatives	305,255	35,327	350,040	88,792	228	-		779,642

2012	Saudi Arabia	Other GCC & Middle East	Europe	North America	Latin America	South East Asia	Other Countries	Total
Assets								
Cash and balances with SAMA	20,331,609	-	2,820	-	-	-	-	20,334,429
Due from banks and other financial institutions	775,000	533,136	329,574	414,636	-	187,342	1,236	2,240,924
Investments, net	15,907,281	1,891,551	2,749,548	3,609,321	-	113,497	51,849	24,323,047
Investment in associates	430,046	-	-	-	-	-	-	430,046
Loans and advances, net	85,814,510	34,939	471,265	7,894	-	-	-	86,328,608
Total	123,258,446	2,459,626	3,553,207	4,031,851	-	300,839	53,085	133,657,054
Liabilities								
Due to banks and other financial institutions	1,650,104	3,715,074	436,582	746,526	-	1,478	160	6,549,924
Customers' deposits	107,362,274	28,545	165,782	2,104	127	560	1,051	107,560,443
Debt securities in issue	-	840,000	623,250	-	-	224,250	-	1,687,500
Total	109,012,378	4,583,619	1,225,614	748,630	127	226,288	1,211	115,797,867
Commitments and contingencies	19,868,813	2,291,746	4,935,381	1,366,006	23,223	8,391,887	190,568	37,067,624
Maximum credit exposure (stated at credit equivalent amounts)								
Commitments and contingencies	9,483,590	1,060,578	2,115,458	870,059	7,191	3,723,694	88,917	17,349,487
Derivatives	239,202	7,603	417,037	57,739	564	-	-	722,145

Credit equivalent amounts reflect the amounts that result from translating the Bank's off-consolidated statement of financial position liabilities into the risk equivalent of loans using credit conversion factors prescribed by SAMA Credit conversion factor is meant to capture the potential credit risk related to the exercise of the commitment

(Saudi Riyals in Thousands)

32 Concentration of risks of financial assets with credit risk exposure and financial liabilities (continued)

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

	Non-performing loans, net		Impairment charges for credit losses	
	2013	2012	**2013**	2012
Saudi Arabia	1,003,570	1,314,784	2,054,040	2,698,728

33. Market risk

Market Risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate due to changes in market variables such as commission rates, foreign exchange rates, and equity prices The Bank classifies exposures to market risk into either trading or banking-book

a) Market risk-trading book

The Board has set limits for the acceptable level of risks in managing the trading book In order to manage the market risk in trading book, the Bank periodically applies a VAR (value at risk) methodology to assess the market risk positions held and also to estimate the potential economic loss based on a set of assumptions and changes in market conditions

A VAR methodology estimates the potential negative change in market value of a portfolio at a given confidence level and over a specified time horizon The Bank uses risk models to assess the possible changes in the market value of the trading book based on historical data VAR models are usually designed to measure the market risk in a normal market environment and therefore the use of VAR has limitations because it is based on historical correlations and volatilities in market prices and assumes that the future movements will follow a statistical distribution

The VAR that the bank measures is an estimate, using a confidence level of 99% of the potential loss that is not expected to be exceeded if the current market positions were to be held unchanged for one day The use of 99% confidence level depicts that within a one-day horizon, losses exceeding VAR figure should occur, on average, not more than once every hundred days

The VAR represents the risk of portfolios at the close of a business day, and it does not account for any losses that may occur beyond the defined confidence interval The actual trading results however, may differ from the VAR calculations and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions

Although VAR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following

I A 1-day holding period assumes that it is possible to hedge or dispose of positions within one day horizon This is considered to be a realistic assumption in most of the cases but may not be the case in situations in which there is severe market liquidity for a prolonged period

II A 99 percent confidence level does not reflect losses that may occur beyond this level Even within the model used there is a one percent probability that losses could exceed the VAR

III VAR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day

IV The VAR measure is dependent upon the Bank's position and the volatility of market prices The VAR of an unchanged position reduces if the market price volatility declines and vice versa

The limitations of the VAR methodology are recognized by supplementing VAR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio

(Saudi Riyals in Thousands)

33. Market risk (continued)

a) Market risk-trading portfolio VAR by risk type (continued)

The Bank's VAR related information for the years ended December 31, 2013 and 2012 is as under All the figures are in million SAR

	2013				2012			
	Foreign exchange risk	**Special commission risk**	**Equity price risk**	**Overall risk**	Foreign exchange risk	Special commission risk	Equity price risk	Overall risk
VAR as at December 31	**0.7096**	**0.3334**	**-**	**0.6797**	2.6938	0.2649	-	2.6704
Average VAR	**0.9494**	**2.4853**	**-**	**2.8822**	1.7110	3.0542	-	3.9168

(b) Non-Trading portfolio VAR by risk type

Market risk on non-trading or banking positions mainly arises from the commission rate, foreign currency exposures and equity price changes

i) Commission rate risk

Commission rate risk arises from the possibility that the changes in commission rates will affect either the fair values or the future cash flows of the financial instruments The Board has established commission rate gap limits for stipulated periods The Bank monitors positions daily and uses hedging strategies to ensure maintenance of positions within the established gap limits

The following table depicts the sensitivity to a reasonable possible change in commission rates, with other variables held constant, on the Bank's consolidated income statement or equity The sensitivity of the income is the effect of the assumed changes in commission rates on the special commission income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at December 31, 2013, including the effect of hedging instruments The sensitivity of equity is calculated by revaluing the fixed rate available for sale financial assets, including the effect of any associated hedges as at December 31, 2013 for the effect of assumed changes in commission rates The sensitivity of equity is analyzed by maturity of the asset or swap All the banking book exposures are monitored and analyzed in currency concentrations and relevant sensitivities are disclosed in SAR million

	2013						
Currency	**Increase in basis points**	**Sensitivity of special commission income**	**Sensitivity of equity**				**Total**
			6 months or less	**1 year or less**	**1-5 years or less**	**Over 5 years**	
SAR	**+10**	**33.25**	**(0.04)**	**(0.06)**	**(1.10)**	**(0.21)**	**(1.41)**
USD	**+10**	**(7.66)**	**(0.10)**	**(0.01)**	**(21.73)**	**-**	**(21.84)**
Others	**+10**	**(0.40)**	**(0.04)**	**(0.02)**	**(0.03)**	**(0.02)**	**(0.11)**

	2013						
Currency	**Decrease in basis points**	**Sensitivity of special commission income**	**Sensitivity of equity**				**Total**
			6 months or less	**1 year or less**	**1-5 years or less**	**Over 5 years**	
SAR	**-10**	**(33.25)**	**0.04**	**0.06**	**1.10**	**0.21**	**1.41**
USD	**-10**	**7.66**	**0.10**	**0.01**	**21.73**	**-**	**21.84**
Others	**-10**	**0.40**	**0.04**	**0.02**	**0.03**	**0.02**	**0.11**

(Saudi Riyals in Thousands)

33 Market risk (continued)

(b) Non trading portfolio VAR by risk type (continued)

i) Commission rate risk (continued)

Currency	2012						
	Increase in basis points	Sensitivity of special commission income	Sensitivity of equity				Total
			6 months or less	1 year or less	1-5 years or less	Over 5 years	
SAR	+10	23 68	(0 01)	(0 11)	(0 46)	(0 01)	(0 59)
USD	+10	(12 53)	(0 04)	(0 35)	(11 55)	-	(11 94)
Others	+10	3 96	(0 01)	(0 28)	-	-	(0 29)

Currency	2012						
	Decrease in basis points	Sensitivity of special commission income	Sensitivity of equity				Total
			6 months or less	1 year or less	1-5 years or less	Over 5 years	
SAR	-10	(23 68)	0 01	0 11	0 46	0 01	0 59
USD	-10	12 53	0 04	0 35	11 55	-	11 94
Others	-10	(3 96)	0 01	0 28	-	-	0 29

Commission sensitivity of assets, liabilities and off consolidated statement of financial position items

The Bank manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market commission rates on its financial position and cash flows

The table below summarizes the Group's exposure to commission rate risks Included in the table are the Group's assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates The Group is exposed to commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off consolidated statement of financial position instruments that mature or re-price in a given period The Bank manages this risk by matching the re-pricing of assets and liabilities through risk management strategies

2013	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total
Assets						
Cash and balances with SAMA	7,021,951	-	-	-	7,949,798	14,971,749
Due from banks and other financial institutions	1,754,904	-	-	-	1,012,277	2,767,181
Investments, net	10,688,535	5,927,363	8,721,134	1,295,006	1,616,331	28,248,369
Loans and advances, net	42,909,381	24,551,097	20,314,663	680,965	-	88,456,106
Investment in associates	-	-	-	-	466,533	466,533
Other real estate	-	-	-	-	136,634	136,634
Property and equipment, net	-	-	-	-	1,647,318	1,647,318
Other assets	-	-	-	-	1,241,534	1,241,534
Total assets	62,374,771	30,478,460	29,035,797	1,975,971	14,070,425	137,935,424

(Saudi Riyals in Thousands)

33. Market risk (continued)

(b) Non-trading portfolio VAR by risk type (continued)

Commission sensitivity of assets, liabilities and off consolidated statement of financial position items (continued)

2013	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total
Liabilities and equity						
Due to banks and other financial institutions	6,719,465	752,036	-	-	169,557	7,641,058
Customers' deposits	22,886,792	20,612,892	3,854	-	62,869,194	106,372,732
Other liabilities	-	-	-	-	3,045,720	3,045,720
Debt securities in issue	1,687,500	-	-	-	-	1,687,500
Equity	-	-	-	-	19,188,414	19,188,414
Total liabilities and equity	31,293,757	21,364,928	3,854	-	85,272,885	137,935,424
On-consolidated statement of financial position gap	31,081,014	9,113,532	29,031,943	1,975,971	(71,202,460)	
Off-consolidated statement of financial position gap	749,748	507,082	(1,230,990)	(25,840)	-	
Total commission rate sensitivity gap	31,830,762	9,620,614	27,800,953	1,950,131	(71,202,460)	
Cumulative commission rate sensitivity gap	31,830,762	41,451,376	69,252,329	71,202,460	-	

2012	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total
Assets						
Cash and balances with SAMA	12,983,910	-	-	-	7,350,519	20,334,429
Due from banks and other financial institutions	1,102,636	-	-	-	1,138,288	2,240,924
Investments, net	10,386,380	4,637,196	6,833,181	1,067,107	1,399,183	24,323,047
Loans and advances, net	44,377,458	20,719,730	20,535,840	695,580	-	86,328,608
Investment in associates	-	-	-	-	430,046	430,046
Other real estate	-	-	-	-	319,006	319,006
Property and equipment, net	-	-	-	-	1,506,311	1,506,311
Other assets	-	-	-	-	1,156,905	1,156,905
Total assets	68,850,384	25,356,926	27,369,021	1,762,687	13,300,258	136,639,276
Liabilities and equity						
Due to banks and other financial institutions	5,700,657	630,000	-	-	219,267	6,549,924
Customers' deposits	33,231,227	20,554,168	29,489	-	53,745,559	107,560,443
Other liabilities	-	-	-	-	2,931,822	2,931,822
Debt securities in issue	1,687,500	-	-	-	-	1,687,500
Equity	-	-	-	-	17,909,587	17,909,587
Total liabilities and equity	40,619,384	21,184,168	29,489	-	74,806,235	136,639,276
On-consolidated statement of financial position gap	28,231,000	4,172,758	27,339,532	1,762,687	(61,505,977)	
Off-consolidated statement of financial position gap	2,975,933	(1,797,468)	(803,465)	(375,000)	-	
Total commission rate sensitivity gap	31,206,933	2,375,290	26,536,067	1,387,687	(61,505,977)	
Cumulative commission rate sensitivity gap	31,206,933	33,582,223	60,118,290	61,505,977	-	

(Saudi Riyals in Thousands)

33. Market risk (continued)

The off-consolidated statement of financial position gap represents the net notional amounts of derivative financial instruments, which are used to manage the commission rate risk

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

ii) Currency risk

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

The table below shows the currencies to which the Bank has a significant exposure as at December 31, 2013 on its non-trading monetary assets and liabilities and forecasted cash flows The analysis calculates the effect of reasonable possible movement of the currency rate against SAR, with all other variables held constant, on the consolidated income statement (due to the fair value of the currency sensitive non-trading monetary assets and liabilities) and equity (due to change in fair value of currency swaps used as cash flow hedges) A positive effect shows a potential increase in consolidated income statement or equity, whereas a negative effect shows a potential net reduction in consolidated income statement or equity

	2013		2012	
Currency risk exposures	**Changes in currency rate in %**	**Effect on net income**	Changes in currency rate in %	Effect on net income
US Dollar	**+5**	**(23.486)**	-5	(23 463)
Euro	**-3**	**(0 153)**	-3	(3 566)
Pound Sterling	**-3**	**(0.085)**	-3	(12 207)

iii) Currency position

The Bank manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily At the end of the year, the Bank had the following significant net exposures denominated in foreign currencies

	Long (short) 2013	Long (short) 2012
US Dollar	**(469,711)**	(158,670)
Euro	**5,112**	2,917
Pound Sterling	**2,824**	13,407

iv) Equity price risk

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

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

Market indices	**2013**		2012	
	Change in index %	**Effect in SAR'000**	Change in index %	Effect in SAR'000
Tadawul	**+5**	**50,640**	+5	41,354

(Saudi Riyals in Thousands)

34. 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

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

The Bank has the ability to raise additional funds through repo facilities with SAMA against Saudi Government Development Bonds up to 75% of the nominal value of bonds held

i) Analysis of undiscounted financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Bank's financial liabilities at 31 December 2013 and 2012 based on contractual undiscounted repayment obligations As special commission payments up to contractual maturity are included in the table, totals do not match with the consolidated statement of financial position The contractual maturities of liabilities have been determined based on the remaining period at the statement of financial position date to the contractual maturity date and do not take into account the effective expected maturities The Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not affect the expected cash flows indicated by the Bank's deposit retention history

2013	Within 3 months	3-12 months	1-5 years	Above 5 years	No fixed maturity	Total
Financial liabilities						
Due to banks and other financial institutions	6,719,642	754,201	-	-	169,557	7,643,400
Customers' deposits	22,665,118	23,306,438	228,558	-	61,017,840	107,217,954
Derivative financial instruments						
Contractual amounts payable	21,156	104,373	479,320	4,802	-	609,651
Contractual amounts receivable	(15,949)	(74,479)	(420,162)	(5,351)	-	(515,941)
Debt securities in issue	11,260	20,091	1,741,297	-	-	1,772,648
Total financial liabilities	29,401,227	24,110,624	2,029,013	(549)	61,187,397	116,727,712

2012	Within 3 months	3-12 months	1-5 years	Above 5 years	No fixed maturity	Total
Financial liabilities						
Due to banks and other financial institutions	6,189,785	631,711	-	-	219,267	7,040,763
Customers' deposits	32,604,852	21,100,450	29,390	-	54,676,011	108,410,703
Derivative financial instruments						
Contractual amounts payable	15,495	93,641	326,042	16,444	-	451,622
Contractual amounts receivable	(18,411)	(54,991)	(246,534)	(6,798)	-	(326,734)
Debt securities in issue	7,073	25,292	1,767,450	-	-	1,799,815
Total financial liabilities	38,798,794	21,796,103	1,876,348	9,646	54,895,278	117,376,169

(Saudi Riyals in Thousands)

34. Liquidity risk (continued)

ii) Maturity profile of Bank's assets, liabilities and equity

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled See note (i) above for the Bank's contractual undiscounted financial liabilities

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 subsidiaries and foreign branch A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO

2013	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**No fixed maturity**	**Total**
Assets						
Cash and balances with SAMA	7,021,951	-	-	-	7,949,798	14,971,749
Due from banks and other financial institutions	1,754,904	-	-	-	1,012,277	2,767,181
Investments, net	6,987,403	5,304,934	10,850,143	3,489,558	1,616,331	28,248,369
Loans and advances, net	30,005,449	21,101,588	31,461,956	5,132,663	754,450	88,456,106
Investment in associates	-	-	-	-	466,533	466,533
Other real estate	-	-	-	-	136,634	136,634
Property and equipment, net	-	-	-	-	1,647,318	1,647,318
Other assets	-	-	-	-	1,241,534	1,241,534
Total assets	45,769,707	26,406,522	42,312,099	8,622,221	14,824,875	137,935,424
Liabilities and equity						
Due to banks and other financial institutions	6,719,465	752,036	-	-	169,557	7,641,058
Customers' deposits	22,118,181	23,036,044	200,667	-	61,017,840	106,372,732
Other liabilities	-	-	-	-	3,045,720	3,045,720
Debt securities in issue	-	-	1,687,500	-	-	1,687,500
Equity	-	-	-	-	19,188,414	19,188,414
Total liabilities and equity	28,837,646	23,788,080	1,888,167	-	83,421,531	137,935,424

2012	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	12,983,910	-	-	-	7,350,519	20,334,429
Due from banks and other financial institutions	1,102,636	-	-	-	1,138,288	2,240,924
Investments, net	5,785,399	4,564,130	9,976,477	2,597,858	1,399,183	24,323,047
Loans and advances, net	29,731,336	20,079,890	28,654,269	3,964,772	3,898,341	86,328,608
Investment in associates	-	-	-	-	430,046	430,046
Other real estate	-	-	-	-	319,006	319,006
Property and equipment, net	-	-	-	-	1,506,311	1,506,311
Other assets	-	-	-	-	1,156,905	1,156,905
Total assets	49,603,281	24,644,020	38,630,746	6,562,630	17,198,599	136,639,276
Liabilities and equity						
Due to banks and other financial institutions	5,700,657	630,000	-	-	219,267	6,549,924
Customers' deposits	32,300,775	20,554,168	29,489	-	54,676,011	107,560,443
Other liabilities	-	-	-	-	2,931,822	2,931,822
Debt securities in issue	-	-	1,687,500	-	-	1,687,500
Equity	-	-	-	-	17,909,587	17,909,587
Total liabilities and equity	38,001,432	21,184,168	1,716,989	-	75,736,687	136,639,276

(Saudi Riyals in Thousands)

35 Fair values of financial assets and liabilities

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

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

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

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

2013	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Financial assets designated at FVIS	-	17,443	-	17,443
Financial investments available for sale	8,941,166	1,870,982	95,601	10,907,749
Derivative financial instruments	50,043	126,858	-	176,901
Total	8,991,209	2,015,283	95,601	11,102,093
Financial Liabilities				
Derivative financial instruments	21,015	216,415	-	237,430
Total	21,015	216,415	-	237,430

2012	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets designated at FVIS	-	78,178	-	78,178
Financial investments available for sale	7,472,794	1,739,186	72,623	9,284,603
Derivative financial instruments	82,169	83,188	-	165,357
Total	7,554,963	1,900,552	72,623	9,528,138
Financial Liabilities				
Derivative financial instruments	56,295	201,021	-	257,316
Total	56,295	201,021	-	257,316

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

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

The estimated fair values of held-to-maturity investments and other investments held at amortized cost are based on quoted market prices when available or pricing models when used in the case of certain fixed rate bonds (respectively) The fair values of these investments are disclosed in note 6

The fair values of derivatives and other off-consolidated statement of financial position financial instruments are based on the quoted market prices when available or by using the appropriate valuation technique The total amount of the changes in fair value recognized in the consolidated income statement, which was estimated using valuation technique, is SAR 42 million (2012 SAR 92 million)

(Saudi Riyals in Thousands)

36 Related party transactions

In the ordinary course of its activities, the Bank transacts business with related parties In the opinion of the management and the Board of Directors, the related party transactions are performed on an arm's length basis The related party transactions are governed by limits set by the Banking Control Law and regulations issued by SAMA

a) The balances as at December 31 resulting from such transactions included in the consolidated financial statements are as follows:

	2013	2012
Arab Bank PLC		
Due from banks and other financial institutions	**126,290**	395,363
Due to banks and other financial institutions	**454,102**	1,097,762
Commitments and contingencies	**4,178,568**	6,608,299
Derivatives (at fair value)	**21,998**	-
Directors, key management personnel, other major shareholders and their affiliates		
Loans and advances	**2,714,866**	2,742,818
Customers' deposits	**4,719,715**	4,574,918
Commitments and contingencies	**1,610,335**	861,357
Bank's mutual funds.		
Investments	**414,776**	348,276
Loans and advances	**1,340**	275
Customers' deposits	**770,966**	677,489
Associate		
Loans and advances	**2,454,729**	1,380,681
Customers' deposits	**104,090**	10,231

Other major shareholders represent shareholdings (excluding the non-Saudi shareholder) of more than 5% of the Bank's issued share capital

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

	2013	2012
Special commission income	**159,213**	177,818
Special commission expense	**45,563**	38,426
Fees and commission income	**24,886**	19,770
Directors' remuneration	**4,245**	4,424

c) The total amount of compensation paid to key management personnel during the year is as follows

	2013	2012
Short-term employee benefits (Salaries and allowances)	**59,015**	58,615
Post-employment benefits (End of service indemnity and social security)	**6,711**	6,674

Key management personnel are those persons, including an executive director, having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly

(Saudi Riyals in Thousands)

37. Capital Adequacy

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

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

SAMA has issued the framework and guidance regarding implementation of the capital reforms under Basel III – which are effective starting January 1, 2013 Accordingly, the Group's pillar I consolidated Risk Weighted Assets (RWA), total capital and related ratios on a consolidated group basis, are as follows
The increase of the regulatory capital in the year is mainly due to the contribution of the current-year profit

	2013	2012
Credit Risk RWA	**112,994,422**	111,543,836
Operational Risk RWA	**9,852,558**	8,828,346
Market Risk RWA	**931,221**	1,866,856
Total Pillar-I RWA	**123,778,201**	122,239,038
Tier I Capital	**18,655,454**	16,813,075
Tier II Capital	**1,146,135**	1,237,123
Total Tier I & II Capital	**19,801,589**	18,050,198
Capital Adequacy Ratio %		
Tier I ratio	**15 07%**	13 75%
Tier I + Tier II ratio	**16 00%**	14 77%

The Group maintains an actively managed capital base to cover risks inherent in the business The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by the Saudi Arabian Monetary Agency in supervising the Bank

For the purposes of presentation, the RWAs, total capital and related ratios as at December 31, 2013 are calculated using the framework methodologies defined under the Basel III framework The comparative balances and ratios as at December 31, 2012 are calculated under Basel II and have not been restated

38. Investment management services

The Group offers investment services to its customers, which include management of investment funds with assets totaling SAR 4,293 million (2012 SAR 3,482 million)

The financial statements of these funds are not consolidated with these consolidated financial statements However, the Group's share of these funds is included in available-for-sale investments and fees earned are disclosed under related party transactions

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

39. Basel disclosures

Under Basel II pillar 3 and Basel III capital structure disclosures, certain quantitative and qualitative disclosures are required, and these disclosures will be made available on the Bank's website www anb com sa, as required by the Saudi Arabian Monetary Agency Such disclosures are not subject to audit by the external auditors

40 Board of directors' approval

The consolidated financial statements were approved by the Board of Directors at February 11, 2014 (11 Rabi Thani 1435)