

ALINMA BANK
(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS
(AUDITED)
FOR THE YEAR ENDED
DECEMBER 31, 2013



**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
ALINMA BANK
(A Saudi Joint Stock Company)**

We have audited the accompanying consolidated financial statements of Alinma Bank and its subsidiaries (the "Bank"), which comprise the consolidated statement of financial position as at December 31, 2013, the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes from 1 to 38. We have not audited note 34, nor the information related to "BASEL III Pillar 3 and Capital Structure disclosures" cross referenced therein, which are not required to be within the scope of our audit.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the 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.

Opinion

In our opinion, the consolidated financial statements:

- present fairly, in all material respects, the financial position of the Bank as at December 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with Accounting Standards for Financial Institutions issued by SAMA and with IFRS; and
- comply with the requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's Articles of Association in so far as they affect the preparation and presentation of the consolidated financial statements.

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2 Rabi Al Akhir 1435H
February 2, 2014



ALINMA BANK
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at December 31

	Notes	2013 SAR'000	2012 SAR'000
ASSETS			
Cash and balances with Saudi Arabian Monetary Agency	4	4,972,467	2,764,956
Due from banks and other financial institutions	5	4,972,181	9,007,813
Investments	6	5,399,466	1,960,243
Financing, net	7	44,923,623	37,186,500
Property and equipment, net	8	1,474,912	1,447,824
Other assets	9	1,258,583	1,647,117
TOTAL ASSETS		63,001,232	54,014,453
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Due to banks and other financial institutions	10	200,736	2,414,532
Customers' deposits	11	42,762,623	32,213,612
Other liabilities	12	3,205,942	2,722,112
TOTAL LIABILITIES		46,169,301	37,350,256
SHAREHOLDERS' EQUITY			
Share capital	13	15,000,000	15,000,000
Statutory reserve	14	697,448	446,259
Net change in fair value of 'available for sale' investments		80,862	33,784
Other reserves		10,250	-
Retained earnings		1,197,992	1,338,775
Treasury shares	15	(154,621)	(154,621)
TOTAL SHAREHOLDERS' EQUITY		16,831,931	16,664,197
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		63,001,232	54,014,453

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME
For the year ended December 31

	Notes	2013 SAR'000	2012 SAR'000
Income from investments and financing	17	2,020,699	1,635,370
Return on time investments	17	(185,864)	(118,243)
Income from investment and financing activities, net	17	1,834,835	1,517,127
Fees from banking services, net	18	272,598	242,855
Exchange income, net		30,829	21,417
Income from FVIS financial instruments, net		16,734	2,837
Gain on sale of available for sale investments, net		94,951	30,174
Dividend income		21,707	11,253
Other operating income		7,421	391
Total operating income		2,279,075	1,826,054
Salaries and employee related expenses	19	492,591	472,261
Rent and premises related expenses		92,083	81,226
Depreciation and amortization	8	154,141	150,254
Other general and administrative expenses		250,843	221,268
Charge for impairment of assets		274,224	154,373
Total operating expenses		1,263,882	1,079,382
Net operating income		1,015,193	746,672
Share of loss from associate	6.3	(10,436)	(13,513)
Net income for the year		1,004,757	733,159
Basic and diluted earnings per share (SAR)	20	0.68	0.49

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

ALINMA BANK
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31

	<u>2013</u>	<u>2012</u>
	<u>SAR'000</u>	<u>SAR'000</u>
Net income for the year	1,004,757	733,159
Other comprehensive income to be reclassified to consolidated statements of income in subsequent periods:		
Net change in fair value of 'available for sale' investments	142,029	67,191
Net gain realized on 'available for sale' investments	<u>(94,951)</u>	<u>(30,174)</u>
Total comprehensive income for the year	<u>1,051,835</u>	<u>770,176</u>

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

ALINMA BANK
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended December 31

SAR'000

2013	Notes	Share capital	Statutory reserve	Net change in fair value of 'available for sale' investments	Other reserves	Retained earnings	Treasury shares	Total
Balance at the beginning of the year	13	15,000,000	446,259	33,784	-	1,338,775	(154,621)	16,664,197
Net income for the year		-	-	-	-	1,004,757	-	1,004,757
Net change in fair value of 'available for sale' investments		-	-	142,029	-	-	-	142,029
Net amount realized on 'available for sale' investments		-	-	(94,951)	-	-	-	(94,951)
Total comprehensive income		-	-	47,078	-	1,004,757	-	1,051,835
Transfer to statutory reserve	14	-	251,189	-	-	(251,189)	-	-
Zakat	9.1	-	-	-	-	(894,351)	-	(894,351)
Employee share plan reserve		-	-	-	10,250	-	-	10,250
Balance at the end of the year		15,000,000	697,448	80,862	10,250	1,197,992	(154,621)	16,831,931

SAR'000

2012	Notes	Share capital	Statutory reserve	Net change in fair value of 'available for sale' investments	Other reserves	Retained earnings	Treasury shares	Total
Balance at the beginning of the year	13	15,000,000	262,969	(3,233)	-	788,906	(154,621)	15,894,021
Net income for the year		-	-	-	-	733,159	-	733,159
Net change in fair value of 'available for sale' investments		-	-	67,191	-	-	-	67,191
Net amount realized on 'available for sale' investments		-	-	(30,174)	-	-	-	(30,174)
Total comprehensive income		-	-	37,017	-	733,159	-	770,176
Transfer to statutory reserve	14	-	183,290	-	-	(183,290)	-	-
Balance at the end of the year		15,000,000	446,259	33,784	-	1,338,775	(154,621)	16,664,197

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended December 31

	Notes	2013 SAR' 000	2012 SAR' 000
OPERATING ACTIVITIES			
Net income for the year		1,004,757	733,159
Adjustments to reconcile net income to net cash from / (used in) operating activities:			
Depreciation and amortization	8	154,141	150,254
Loss on disposal of property and equipment, net		3,932	-
Charge for impairment of assets		274,224	154,373
Income from FVIS financial instruments, net		(16,734)	(2,837)
Employees share based plan reserve		10,250	-
Share of loss from associate	6.3	10,436	13,513
		<u>1,441,006</u>	<u>1,048,462</u>
Net (increase)/decrease in operating assets:			
Statutory deposit with SAMA	4	(503,389)	(668,745)
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		1,506,340	692,690
Investments		(3,385,847)	1,494,379
Financing		(7,970,143)	(12,080,965)
Other assets		(450,389)	(161,989)
Net increase/(decrease) in operating liabilities:			
Due to banks and other financial institutions		(2,213,796)	(28,344)
Customers' deposits		10,554,420	14,437,328
Other liabilities		481,789	2,046,356
Net cash from /(used) in operating activities		<u>(540,009)</u>	<u>6,779,172</u>
INVESTING ACTIVITIES			
Acquisition of property and equipment		(219,120)	(218,833)
Proceeds from disposal of property and equipment		33,959	-
Net cash used in investing activities		<u>(185,161)</u>	<u>(218,833)</u>
FINANCING ACTIVITIES			
Zakat paid		(100,000)	(179,734)
Net cash used in financing activity		<u>(100,000)</u>	<u>(179,734)</u>
Net (decrease)/ increase in cash and cash equivalents		<u>(825,170)</u>	<u>6,380,605</u>
Cash and cash equivalents at the beginning of the year		6,865,902	485,297
Cash and cash equivalents at the end of the year	22	<u>6,040,732</u>	<u>6,865,902</u>
Income received from investments and financing		1,917,476	1,521,450
Return paid on time investments		147,456	116,594
Dividend received		21,707	11,253
Supplemental non-cash information:			
Net changes in fair value less realized gain on 'available for sale' investments		47,078	37,017

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

ALINMA BANK
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2013 and 2012

1. General

a) Incorporation

Alinma Bank, a Saudi Joint Stock Company, was formed and licensed pursuant to Royal Decree No. M/15 dated 28 Safar 1427H (corresponding to March 28, 2006), in accordance with the Council of Ministers' Resolution No. 42 dated 27 Safar 1427H (corresponding to March 27, 2006). The Bank operates under Ministerial Resolution No.173 and Commercial Registration No.1010250808 both dated 21/05/1429H (corresponding to May 26, 2008) and provides banking services through 55 branches (2012: 49) in the Kingdom of Saudi Arabia. The address of the Bank's head office is as follows:

Alinma Bank
Head Office
King Fahad Road
P.O. Box 66674
Riyadh 11586
Kingdom of Saudi Arabia

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

Subsidiary	Bank ownership	Establishment date
Alinma Investment Company	100%	07 Jumada II 1430H (corresponding to May 31, 2009)
Al-Tanweer Real Estate Company	100%	24 Sha'aban 1430H (corresponding to August 15, 2009)

The Bank provides a full range of banking and investment services through products and instruments that are in accordance with Shariah, the Articles of Association and within the provisions of laws and regulations applicable to banks in the kingdom of Saudi Arabia.

b) Shariah Board

The Bank has established a Shariah Board in accordance with its commitment to comply with Islamic Shariah Laws. Shariah Board ascertains that all the Bank's activities are subject to its review and approval.

2. Basis of preparation

a) Statement of compliance

These consolidated financial statements have been prepared:

- i) in accordance with the Accounting Standards for Financial Institutions promulgated by the Saudi Arabian Monetary Agency (“SAMA”) and International Financial Reporting Standards (“IFRS”); and
- ii) in compliance with the provisions of the Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and the Articles of Association of the Bank.

b) Basis of measurement

The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of the financial instruments held at fair value through income statement (“FVIS”), available for sale (AFS) investments and employees share based programs.

c) Functional and presentation currency

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

d) Critical accounting judgments, estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting judgments, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgment in the process of applying the Bank’s accounting policies. Such judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advices and expectations of future events that are believed to be reasonable under the circumstances. Significant areas where management has used estimates, assumptions or exercised judgments are the impairment of financial assets (note 3h), depreciation/amortization of property and equipment (3i), assessment of control over investees and fair valuation of financial instruments (3v) and actuarial valuation (3s).

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.

3. Summary of significant accounting policies

The accounting policies adopted are consistent with those described in the annual consolidated financial statements for the year ended December 31, 2012, except for the accounting policies described at paragraph 3(j), 3(r) and the adoption of the following relevant new standards and amendments to the existing standards that are applicable to the Bank during 2013:

Standards and amendments	Effective date	Brief description of changes
IFRS 10 "Consolidated Financial Statements"	January 01, 2013	IFRS 10 introduces a new approach to determining which investees should be consolidated and provides a single model to be applied in the control analysis for all investees.
IFRS 12 "Disclosure of Interests in Other Entities"	January 01, 2013	IFRS 12 requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.
IFRS 13 "Fair Value Measurement"	January 01, 2013	IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines, a framework and sets out disclosure requirements for fair value measurement. It explains how to measure fair value when it is required or permitted by other IFRSs. It does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.
Amendments to IAS 1 "Presentation of financial statements"	January 01, 2013	Amendments to IAS 1 Presentation of financial statements: amends IAS 1 to revise the way other comprehensive income is presented.
Amendments to IFRS 7 Financial Instruments: Disclosures	January 01, 2013	Amendments require information about all recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32 and also require disclosure of information about recognised financial instruments subject to enforceable master netting arrangements and agreements even if they are not set off under IAS 32.

These adoptions have no material impact on the consolidated financial statements other than certain additional disclosures.

The Bank has chosen not to early adopt the amendments and revisions to the International Financial Reporting Standards which have been published and are mandatory for compliance by the Bank's for the accounting years beginning on or after January 1, 2014 (note 37).

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

a) Basis of consolidation

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

Subsidiaries are the entities that are controlled by the Bank. The Bank controls an entity when, it is exposed, or has a right, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over that entity.

When the Bank has less than a majority of the voting or similar rights of an investee entity, it considers relevant facts and circumstances in assessing whether it has power over the entity, including:

- The contractual arrangement with the other voters of the investee entity
- Rights arising from other contractual arrangements
- Bank's current and potential voting rights

The Bank re-assesses whether or not it controls an investee entity if facts and circumstances indicate that there are changes to one or more elements of control.

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

The consolidated financial statements have been prepared using uniform accounting policies and valuation methods for like transactions and other events in similar circumstances. The accounting policies adopted by the subsidiaries are consistent with that of Bank's accounting policies. Adjustments, if any, are made to the financial statements of the subsidiaries to align with the Bank's financial statements.

Since the subsidiaries are fully owned by the Bank, there is no non-controlling interest to be disclosed.

Inter-group balances and any income and expenses arising from inter-group transactions, are eliminated in preparing these consolidated financial statements.

b) Trade date accounting

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

All other financial assets and liabilities are also initially recognized on the trade date at which the Bank becomes a party to the contractual provision of the instrument.

c) Foreign currencies

Transactions in foreign currencies are translated into Saudi Arabian Riyals at the spot 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 reporting date. Realized and unrealized gains or losses on exchange are recognized in the consolidated statement of income.

d) **Offsetting**

Financial assets and liabilities are offset and reported net in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts and when the Bank intends to settle on a net basis, or to realize the asset and to settle the liability simultaneously.

Income and expenses are not offset in the consolidated statement of income unless required by any accounting standard.

e) **Revenue/expenses recognition**

Income from investments and financing

Revenue and expenses related to profit bearing financial instruments are recognized in the consolidated statement of income on the effective yield basis. The effective yield is the rate that exactly discounts the estimated future cash flows through the expected life of the financial asset or liability (or where appropriate, a short period) to its carrying amount. When calculating the effective yield the Bank estimates future cash flows considering all contractual terms including all fees, transaction costs, discounts that are an integral part of the effective yield but does not include the future financing losses. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of financial asset or liability.

The carrying amount of the financial asset or liability is adjusted if the Bank revises its estimates of payments or receipts. The change in carrying amount is recorded as income/expense.

Exchange income/loss

Exchange income/loss is recognized when earned/incurred.

Fees from banking services, net

Fees from banking services that are not an integral part of the effective yield calculation on the financial assets are recognized when the related service is provided. Management, Administration, Advisory and Arrangement fees are recognized based on the applicable service contracts.

Fees and commission expense relate mainly to transaction and service fees, and are expensed as the services are received.

Dividend income

Dividend income is recognized when the right to receive income is established. Dividends from FVIS investments are reflected as a component of income from FVIS financial instruments, net.

Income / (Loss) from FVIS financial instruments

Net income from FVIS financial instruments relates to financial assets designated as FVIS and include all realized and unrealized fair value changes, profit, dividends and foreign exchange differences.

f) **Investments**

All investment securities are initially recognized at fair value and are subsequently accounted for depending on their classification as either held to maturity, FVIS, available for sale or other investments held at amortised cost. Except for investments held as FVIS, incremental direct transaction cost is also added to the fair value of investment upon initial recognition. Premiums are amortised and discounts accreted using the effective yield basis and charged to consolidated statement of 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 reporting date. Fair value of managed assets and investments in mutual funds are determined by reference to declared net asset values.

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

Following initial recognition, subsequent transfers between the various classes of investments are permissible only if certain conditions are met. The subsequent period-end reporting values for each class of investment are determined on the basis as set out in the following paragraphs.

Held as FVIS

Investments in this category are classified as either investment held for trading or those designated as FVIS on initial recognition. Investments classified as trading are acquired principally for the purpose of selling in short term.

Investments at FVIS are recorded in the consolidated statement of financial position at fair value. Changes in the fair value are recognized in the consolidated income statement for the year in which it arises. Transaction costs, if any, are not added to the fair value measurement at initial recognition of FVIS investments and are expensed through consolidated statement of income. Dividend income on financial assets held as FVIS is reflected as "Income from FVIS financial instruments, net" in the consolidated income statement.

Available for sale

These are investments that are intended to be held for an unspecified period of time, which may be sold in response to needs for liquidity, changes in profit rates or changes in equity prices. Available for sale investments are subsequently measured at fair value. Unrealized gain or loss arising from a change in its fair value is recognized in other comprehensive income (OCI). On de-recognition, any cumulative gain or loss previously recognized in OCI is charged to income in the consolidated statement of income.

Investments held at amortized cost

These are commodity Murabahas held at amortized cost. These are initially recognized at cost, including associated acquisition charges representing the fair value of amounts paid. Subsequently these are measured at amortized cost net of impairment, if any.

Investments in associates

An associate is an entity where the Bank holds significant influence (but not control) over its financial and operating policies and which is neither a subsidiary nor a joint venture. Investments in associates are accounted for under the equity method whereby investment is initially recognized at cost and adjusted

thereafter for the post-acquisition change in the Bank's share of net assets in the associate, less impairment in the value of investments if any.

The Bank's share of its associate's post-acquisition profits or losses is recognized in the consolidated statement of income, and its share of movements in other comprehensive income is recognized in reserves.

When the Bank's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables (if applicable), the Bank does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

g) **Financing**

Financing assets are originated or acquired by the Bank with fixed or determinable payments. These are recognized upon actual disbursements. Financing assets are derecognized upon repayment, or when sold or written off, or upon transfer of substantial control.

All financing are initially measured at fair value including the associated acquisition charges. Subsequently these are measured at amortized cost less impairment (if any).

Financing primarily includes Murabaha, Ijarah, Musharaka and Bei Ajel products. A brief description of these products is as follows:

Murabaha: is an agreement whereby the Bank sells to a customer certain commodity or an asset, which the Bank has initially purchased on behalf of the customer. The selling price comprises of cost plus an agreed profit margin.

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

Musharaka: is an agreement between the Bank and the customer to contribute to a certain investment enterprise or property and concludes by transferring the full ownership of the underlying investment to the customer. The profit or loss is shared as per the terms of the agreement.

Bei Ajel: is an agreement whereby the Bank sells to a customer certain commodity or an asset on a negotiated price.

h) **Impairment of financial assets**

A financial asset or group of financial assets 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 financial asset or group of financial assets and that 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 for impairment is made on regular basis.

Impairment of financial assets held at amortised cost

A specific provision for losses due to impairment of a financing or any other financial asset held at amortized cost is recognized 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.

In addition to a specific provision for losses, an additional portfolio provision for collective impairment is made on a portfolio basis for losses where there is objective evidence that unidentified losses exist at the reporting date. The provision is estimated based on various factors including obligor's credit rating, probability of default, structural weaknesses or deterioration in cash flows.

When a financial asset is uncollectible, it is written off against the related allowance for impairment or directly by a charge to income in the consolidated statement of income. 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 (such as an improvement in the obligor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the consolidated statement of income, under charge for impairment on financing.

Impairment of available for sale financial assets

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

For sukuks and like instruments having fixed or determinable maturities, 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 these instruments increases and the increase can be objectively related to credit event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the consolidated income statement.

i) Property and equipment

Property and equipment are measured at cost and presented net of accumulated depreciation/ amortization and impairment loss if any. Land is not depreciated. The cost of other property and equipment is depreciated and amortized on the straight-line method over the estimated useful lives of the assets as follows:

Buildings	33 years
Furniture, equipment	5-10 years
Leasehold improvements	the shorter of lease period or 10 years

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Depreciation is charged from the month of addition and up till the month preceding disposal.

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

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

j) Other real estate

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

Subsequent to initial recognition, any write down to fair value, less costs to sell, are charged to the consolidated statement of income. Any subsequent revaluation gain in the fair value less costs to sell of these assets to the extent this does not exceed the cumulative write down is recognised in the consolidated statement of income. Gains or losses on disposal are recognised in the consolidated statement of income.

k) Financial Liabilities

All customer deposits and amount due to banks and other financial institutions are initially recognized at fair value.

Subsequently, all profit-bearing financial liabilities 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 charged to consolidated statement of income.

l) Guarantees

In ordinary course of business, the Bank gives financial guarantees, consisting of letter of credit, guarantees, standby letter of credits and acceptances. Financial guarantees are initially recognized in the consolidated financial statements at fair value being the value of the premium received. Subsequent to the initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligations arising as a result of guarantees. Any increase in the liability relating to the financial guarantee is recognized as "charge for impairment", in the consolidated statement of income.

The commission received is recognised in the consolidated statement of income under "Fees from banking services, net" on a straight line basis over the life of the guarantee.

m) Provisions

Provisions 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.

n) Accounting for Ijarah (leases)

Where the Bank is the lessor

When assets are leased under (Ijarah), the present value of the lease payments is recognised as a receivable and disclosed under "Financing". Lease income is recognized over the term of the lease on net investment basis, using the effective yield method, which reflects a constant periodic rate of return.

Where the Bank is the lessee

Payments made under operating leases are charged to the consolidated statement of income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any additional payment required to be made is recognized as an expense in the period in which termination takes place.

o) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, “cash and cash equivalents” are defined as amounts included in cash, balances with SAMA excluding statutory deposits, and due from banks and other financial institutions with an original maturity of ninety days or less from the date of acquisition.

p) De-recognition 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 contractual rights to receive the cash flows from the financial asset expire.

In instances where the Bank is assessed to have transferred a financial asset, the asset is 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 part of a financial liability) can only be derecognized when it is extinguished, that is when the obligation specified in the contract is either discharged, cancelled or expired.

q) Short term employee benefits

Short term employee benefits are measured on an undiscounted basis and are expensed as the related services are provided. A liability is recognized for the amount expected to be paid under short term cash bonus or share based plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided to the Bank and the obligation can be estimated reliably.

r) Share-based payments

The Bank offers its eligible employees two types of plans (the “Plans”). Brief description of the Plans as approved by SAMA is as follows:

Employee Share Participation Scheme (ESPS)

Under the terms of ESPS, the eligible employees are offered shares at a pre-determined strike price on the grant date. Deductions are made on a monthly basis from the employee salary over the vesting period of three years. On the completion of the vesting period, should the employees decide not to exercise their options, they will be entitled to receive their contribution along with any profit earned thereon.

Employee Share Grant Scheme (ESGS)

Under the terms of ESGS, eligible employees are granted shares with a vesting period of 3-5 years. At the maturity of the vesting period, the Bank delivers the underlying allotted shares to the employee.

The cost of shares in the schemes is measured by reference to the fair value at the grant date. The management is of the view that the fair value at grant date approximates its market value.

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

s) **End of Service benefits**

Benefits payable to the employees of the Bank at the end of their services are accrued based on actuarial valuation in accordance with Saudi Arabian Labor laws. These are included in other liabilities in the consolidated statement of financial position.

t) **Zakat**

Zakat is calculated in accordance with the Zakat rules and regulations applicable in the Kingdom of Saudi Arabia and is considered as a liability of the shareholders to be deducted from retained earnings/future dividends and hence not charged to the consolidated statement of income. Zakat is recorded as and when paid.

u) **Treasury Shares**

These are recorded at cost and presented as a deduction from the equity as adjusted for any transaction cost, dividends and gains or losses on sale of such shares. Subsequent to their acquisition, these are carried at the amount equal to consideration paid.

v) **Investment management services**

The Bank provides investment management services to its customers, through its subsidiary which includes management of certain mutual funds. Determining whether the Bank controls such an investment fund usually depends on the assessment of the aggregate economic interests of the Bank in the Fund (comprising of its investments, any carried profit and expected management fees) and the investors rights to remove the Fund Manager.

As a result of the above assessment, the Bank has concluded that it acts as an agent for the investors in all cases, and therefore has not consolidated these funds. Fee earned are disclosed in consolidated statement of income. The Bank's share of investments is included under 'available for sale' investments in the consolidated statement of financial position.

4. Cash and balances with Saudi Arabian Monetary Agency (SAMA)

	2013 SAR'000	2012 SAR'000
Cash in hand	987,697	689,227
Statutory deposit	2,175,612	1,672,223
Cash management account with SAMA	1,700,000	270,000
Current accounts	1,944	112
Others	107,214	133,394
Total	4,972,467	2,764,956

In accordance with the Banking Control Law and regulations issued by SAMA, the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its customers' deposits as calculated at the end of each month. The statutory deposit is not available to finance the Bank's day to day operations and therefore does not form part of cash and cash equivalents.

5. Due from banks and other financial institutions

	2013 SAR'000	2012 SAR'000
Current accounts	151,080	23,963
Murabahas with banks and other financial institutions	4,821,101	8,983,850
Total	4,972,181	9,007,813

6. Investments

	Notes	2013 SAR'000	2012 SAR'000
Murabahas with SAMA, (at amortized cost)		3,550,000	900,000
Available for sale investments	6.1	1,708,007	987,979
Held as FVIS investments	6.2	107,908	28,277
Investment in associate	6.3	33,551	43,987
Total	6.4	5,399,466	1,960,243

6.1 Available for sale investments

	2013 SAR'000	2012 SAR'000
Sukuks	1,087,117	334,167
Equities	228,783	418,077
Others	392,107	235,735
Total	1,708,007	987,979

The above investments are mainly in quoted securities and include investment amounting to SAR 261.7 million (2012: SAR 98.3 million) in funds operating outside the Kingdom of Saudi Arabia.

6.2 Held as FVIS investments

These are investments in quoted equities of domestic market.

6.3 Investment in associate

Investment in associate represents the Bank's share of investment (28.75%) in Alinma Tokio Marine (a cooperative insurance company). The company has a paid up share capital of SAR 200 million. It has been established under Commercial Registration No.1010342537 dated 28 Rajab 1433H (corresponding to June 18, 2012).

	<u>2013</u> <u>SAR'000</u>	<u>2012</u> <u>SAR'000</u>
Opening balance	43,987	57,500
Share of accumulated loss	(10,436)	(13,513)
	<u>33,551</u>	<u>43,987</u>

6.4 Analysis of investments by type

	<u>2013</u> <u>SAR'000</u>	<u>2012</u> <u>SAR'000</u>
Fixed-rate investments	3,550,000	900,000
Floating-rate investments	1,087,117	334,167
Equities	315,155	446,355
Others	447,194	279,721
Total	<u>5,399,466</u>	<u>1,960,243</u>

6.5 Analysis of investments by counter-parties

	<u>2013</u> <u>SAR'000</u>	<u>2012</u> <u>SAR'000</u>
Government and quasi government	3,661,440	1,189,821
Corporate	1,738,026	770,422
Total	<u>5,399,466</u>	<u>1,960,243</u>

6.6 Analysis of investments by credit quality

	<u>2013</u> <u>SAR'000</u>	<u>2012</u> <u>SAR'000</u>
Investment Grade	4,637,117	1,234,167
Equities and others	762,349	726,076
Total	<u>5,399,466</u>	<u>1,960,243</u>

7. Financing, net (at amortized cost)

					SAR'000
	Performing	Non-performing	Total	Allowance for impairment	Net
2013					
Retail	9,386,549	190,653	9,577,202	(129,818)	9,447,384
Corporate	35,748,812	111,829	35,860,641	(55,915)	35,804,726
Total	45,135,361	302,482	45,437,843	(185,733)	45,252,110
Collective provision					(328,487)
Financing, net					44,923,623
					SAR'000
2012					
Retail	6,191,388	122,125	6,313,513	(77,985)	6,235,528
Corporate	31,154,525	-	31,154,525	-	31,154,525
Total	37,345,913	122,125	37,468,038	(77,985)	37,390,053
Collective provision					(203,553)
Financing, net					37,186,500

7.1 Movement in allowance for impairment of financing:

	SAR'000		
	Retail	Corporate	Total
2013			
Balance at the beginning of the year	77,985	-	77,985
Provided during the year	55,128	55,915	111,043
Bad debts written off	(339)	-	(339)
Reversals/recoveries of amounts previously provided	(2,956)	-	(2,956)
Balance at the end of the year	129,818	55,915	185,733
Collective provision	46,863	281,624	328,487
Total	176,681	337,539	514,220
			SAR'000
2012			
Balance at the beginning of the year	5,801	-	5,801
Provided during the year	73,326	-	73,326
Bad debts written off	(569)	-	(569)
Reversals/recoveries of amounts previously provided	(573)	-	(573)
Balance at the end of the year	77,985	-	77,985
Collective provision	58,828	144,725	203,553
Total	136,813	144,725	281,538

7.2 Credit quality of financing portfolio:

The Bank follows robust credit evaluation process anchored on strong credit policies, extensive due diligence and credit review/approval process combined with stringent credit administration and limit monitoring.

For the purpose of the internal risk rating, the Bank has implemented the generic Moody's KMV Risk Analyst Tool. This Tool, which is also being used by several leading banks globally and in the Kingdom, enables the Bank to assign internal risk ratings to individual obligors. The internal risk rating indicates the one year probability of credit default. Retail portfolio is not subject to the KMV tool rating.

The Credit Risk Policy defines a 10 point rating scale with 1 (best) through 10 (worst). As part of the Bank's financing policy, only obligors with risk rating of 1 to 6 are considered as eligible for financing.

7.2.1 Neither past due nor impaired:

Bank's internal risk rating scale	Credit risk quality rating definition	2013 SAR'000	2012 SAR'000
1 - 4	Investment Grade	17,124,721	20,023,958
5 - 6	Below Investment Grade	18,552,174	11,002,850
7	Watch list	-	-
		35,676,895	31,026,808
	Unrated exposure (Retail)	9,377,205	6,182,155
Total		45,054,100	37,208,963

Rating Scale (1 – 4) represents: Substantially credit risk free, Exceptionally strong credit quality, Excellent credit risk quality, Very good credit risk quality.
 Rating Scale (5 – 6) represents: Good to Satisfactory credit quality.
 Rating Scale (7) represents: Watch List category.

7.2.2 Aging of Financing (Past due but not impaired):

2013	SAR'000		
	Retail	Corporate	Total
From 1 day to 30 days	7,544	71,917	79,461
From 31 days to 90 days	1,800	-	1,800
From 91 days to 180 days	-	-	-
More than 180 days	-	-	-
Total	9,344	71,917	81,261

2012	SAR'000		
	Retail	Corporate	Total
From 1 day to 30 days	6,458	127,294	133,752
From 31 days to 90 days	2,775	423	3,198
From 91 days to 180 days	-	-	-
More than 180 days	-	-	-
Total	9,233	127,717	136,950

7.3 Economic sectors risk concentration for financing and allowance for impairment are as follows:

				SAR'000
2013	<u>Performing</u>	<u>Non-performing</u>	<u>Allowance for impairment</u>	<u>Financing, net</u>
Government and quasi government	9,608,615	-	-	9,608,615
Manufacturing	4,744,659	-	-	4,744,659
Electricity, water, gas & health services	958,723	-	-	958,723
Building, construction and real estate	11,917,266	-	-	11,917,266
Services	1,878,354	-	-	1,878,354
Consumer financing	9,386,549	190,653	(129,818)	9,447,384
Commerce	4,317,700	111,829	(55,915)	4,373,614
Others	2,323,495	-	-	2,323,495
	<u>45,135,361</u>	<u>302,482</u>	<u>(185,733)</u>	<u>45,252,110</u>
Collective provision				<u>(328,487)</u>
Financing, net				<u>44,923,623</u>

				SAR'000
2012	<u>Performing</u>	<u>Non-performing</u>	<u>Allowance for impairment</u>	<u>Financing, net</u>
Government and quasi government	7,457,331	-	-	7,457,331
Manufacturing	3,607,481	-	-	3,607,481
Electricity, water, gas & health services	1,169,131	-	-	1,169,131
Building, construction and real estate	11,183,309	-	-	11,183,309
Services	2,123,606	-	-	2,123,606
Consumer financing	6,191,388	122,125	(77,985)	6,235,528
Commerce	3,982,905	-	-	3,982,905
Others	1,630,762	-	-	1,630,762
	<u>37,345,913</u>	<u>122,125</u>	<u>(77,985)</u>	<u>37,390,053</u>
Collective provision				<u>(203,553)</u>
Financing, net				<u>37,186,500</u>

7.4 Collateral

The Bank, in the ordinary course of business holds collaterals as security to mitigate credit risk. These collaterals mostly include customers' deposits, financial guarantees, equities, real estate and other fixed assets. The collaterals are reflected against relevant exposures at their estimated net realizable values.

The Bank held collateral of SAR 39,012 million (2012: SAR 28,284 million) against financing.

7.5 Financing includes Ijarah as follows:

	2013 SAR'000	2012 SAR'000
Less than 1 year	730,797	644,251
1 to 5 years	6,535,945	6,067,954
Over 5 years	13,460,079	9,839,950
Gross receivables from Ijarah	20,726,821	16,552,155
Unearned future finance income on Ijarah	(4,880,848)	(4,339,563)
Specific provision	(608)	(1,583)
Net receivables from Ijarah	15,845,365	12,211,009

8. Property and equipment, net

	SAR'000				
	Land and buildings	Leasehold improvements	Furniture and equipment	Total 2013	Total 2012
Cost:					
Balance at beginning of the year	646,088	226,423	1,005,839	1,878,350	1,659,517
Additions	67,800	28,805	122,515	219,120	218,833
Disposals	-	-	(54,155)	(54,155)	-
Balance at end of the year	713,888	255,228	1,074,199	2,043,315	1,878,350
Accumulated depreciation:					
Balance at beginning of the year	12,922	57,423	360,181	430,526	280,272
Charge for the year	9,722	24,160	120,259	154,141	150,254
Disposals	-	-	(16,264)	(16,264)	-
Balance at end of the year	22,644	81,583	464,176	568,403	430,526
Net book value-as at December 31, 2013	691,244	173,645	610,023	1,474,912	
Net book value-as at December 31, 2012	633,166	169,000	645,658		1,447,824

Property and equipment includes work in progress as at December 31, 2013 amounting to SAR 93 million (2012: SAR 98 million).

Furniture and equipment includes information technology-related assets as follows:

Information technology related assets:	Tangible	Intangible	Total SAR'000
Cost	396,302	558,986	955,288
Accumulated depreciation/amortization	(164,374)	(221,616)	(385,990)
Net book value-as at December 31, 2013	231,928	337,370	569,298
Net book value-as at December 31, 2012	223,633	362,280	585,913

9. Other assets

	Note	2013 SAR'000	2012 SAR'000
Accrued income receivable on:			
- Due from banks and financial institutions and investments		51,897	56,878
- Financing		502,669	396,372
Total		554,566	453,250
Zakat paid/accrued on behalf of shareholders	9.1	-	792,310
Prepaid rental		32,406	23,746
Advances to suppliers		2,368	20,366
Other real estate	9.2	90,000	-
Other prepayments		40,022	31,463
Others		539,221	325,982
Total		1,258,583	1,647,117

9.1. Zakat amounting to SAR 894.4 million related to the years up to and including financial year 2012 have been set-off with retained earnings.

9.2. This represents the properties acquired in settlement of financing dues from a customer (2012: NIL).

10. Due to banks and other financial institutions

	2013 SAR'000	2012 SAR'000
Murabahas with banks and other financial institutions	200,000	2,141,291
Others	736	273,241
Total	200,736	2,414,532

11. Customers' deposits

i) Customers' deposits include the following:

	Note	2013 SAR'000	2012 SAR'000
Demand		21,999,085	19,511,453
Customers' time investments	11.1	20,488,205	9,972,540
Others	11.2	275,333	2,729,619
Total		42,762,623	32,213,612

11.1 It represents Murabaha and Mudaraba with customers.

11.2 Others represent cash margins for letters of credit and guarantees.

ii) The above includes foreign currency deposits as follows:

	2013 SAR'000	2012 SAR'000
Demand	1,339,464	2,262,822
Customers' time investments	4,796,824	2,510,284
Other	47,879	2,601,537
Total	6,184,167	7,374,643

12. Other liabilities

	2013 SAR'000	2012 SAR'000
Accrued profit payable on:		
- Customers' time investments	68,186	29,152
- Due to banks and other financial institutions	39	665
Total	68,225	29,817
Accrued expenses	133,226	152,340
Outward drafts payable	2,450,592	2,036,334
Accounts payable	92,589	86,816
Advance rentals	448,117	377,747
Others	13,193	39,058
Total	3,205,942	2,722,112

13. Share capital

The authorized, issued and fully paid share capital of the Bank consists of 1,500 million shares (2012: 1,500 million shares) of SAR 10 each.

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

	2013	2012
	Percentage	
Public Pension Agency ("PPA")	10.71	10.71
Public Investment Fund ("PIF")	10.00	10.00
General Organization for Social Insurance ("GOSI")	10.00	10.00
General public and others	69.29	69.29
Total	100.00	100.00

14. Statutory reserve

In accordance with the Banking Control Law in the Kingdom of Saudi Arabia and the Articles of Association of the Bank, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid up capital of the Bank. Accordingly, SAR 251.19 million (2012: SAR 183.3 million) has been transferred from the net income for the year to statutory reserve. The statutory reserve is not available for distribution.

15. Treasury Shares

These shares have been acquired, after due approvals, for discharging the obligations of employees share based plans.

16. Commitments and contingencies

a) Legal proceedings

As at December 31, 2013 there were no significant legal proceedings outstanding against the Bank.

b) Capital commitments

As at December 31, 2013, the Bank had capital commitments of SAR 84.5 million (2012: SAR 93.8 million) relating to property and equipment.

c) Credit related commitments and contingencies

Credit related commitments and contingencies comprise letters of guarantee, letters of credit, acceptances and unused irrevocable commitments to extend financing facilities. The primary purpose of these instruments is to ensure that funds are available to customers as required. Letters of guarantee and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as investments and financing. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to invoke such commitments.

Documentary letters of credit are generally collateralised by the underlying assets to which they relate, and therefore have significantly lower risk.

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

Commitments to extend credit represent the unused portion of approved credit, principally in the form of financing, guarantees and letters of credit. With respect to these commitments, the Bank is exposed to an insignificant potential credit risk 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:

	SAR'000				
2013	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	961,931	851,138	5,953	-	1,819,022
Letters of guarantee	412,543	1,612,662	550,578	16,468	2,592,251
Acceptances	221,980	14,386	-	-	236,366
Irrevocable commitments to extend credit	3,145,333	-	-	-	3,145,333
Total	4,741,787	2,478,186	556,531	16,468	7,792,972
	SAR'000				
2012	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	3,060,845	481,195	44,100	-	3,586,140
Letters of guarantee	137,939	1,690,369	674,012	15,015	2,517,335
Acceptances	238,721	644	-	-	239,365
Irrevocable commitments to extend credit	-	1,854,432	-	-	1,854,432
Total	3,437,505	4,026,640	718,112	15,015	8,197,272

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

	<u>2013</u> <u>SAR'000</u>	<u>2012</u> <u>SAR'000</u>
Government and quasi government	713,035	137,905
Corporate	6,427,098	7,427,788
Banks and other financial institutions	<u>652,839</u>	<u>631,579</u>
Total	<u><u>7,792,972</u></u>	<u><u>8,197,272</u></u>

iii) The outstanding unused portion of commitments as at December 31, 2013, which can be revoked unilaterally at any time by the Bank, amounts to SAR 9,426 million (2012: SAR 5,163 million).

d) Operating lease commitments

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

	<u>2013</u> <u>SAR'000</u>	<u>2012</u> <u>SAR'000</u>
Less than one year	556	325
One year to five years	172,620	175,337
Over five years	<u>197,690</u>	<u>198,334</u>
Total	<u><u>370,866</u></u>	<u><u>373,996</u></u>

17. Income from investments and financing activities, net

	<u>2013</u> <u>SAR'000</u>	<u>2012</u> <u>SAR'000</u>
Income from investments and financing:		
Investments (Murabaha with SAMA)	25,193	7,358
Investments in Sukuk	17,552	6,299
Murabaha with banks and other financial institutions	59,410	93,065
Financing	<u>1,918,544</u>	<u>1,528,648</u>
Total	<u><u>2,020,699</u></u>	<u><u>1,635,370</u></u>
Return on time investments:		
Customers' time investments	(179,217)	(110,410)
Due to banks and other financial institutions	<u>(6,647)</u>	<u>(7,833)</u>
Total	<u><u>(185,864)</u></u>	<u><u>(118,243)</u></u>
	<u><u>1,834,835</u></u>	<u><u>1,517,127</u></u>

18. Fees from banking services, net

	2013 SAR'000	2012 SAR'000
Income on:		
Corporate finance and advisory	149,692	131,110
Trade services	24,333	31,851
Card services	120,592	83,356
Fund management and other banking services	37,864	34,995
Total fee and other banking services income	<u>332,481</u>	<u>281,312</u>
Expense on:		
Card services	(57,600)	(37,259)
Other fees	(2,283)	(1,198)
	<u>272,598</u>	<u>242,855</u>

19. Salaries and employee related expenses

The following table summarizes the Bank's employee categories defined in accordance with SAMA's rules on compensation practices.

Categories of employees	SAR'000									
	Number of employees		Fixed compensation		Variable Compensation paid					
					Cash		Shares		Total	
2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	
Senior executives requiring SAMA no objections	14	14	24,831	24,595	9,022	7,566	-	-	9,022	7,566
Employees engaged in risk taking activities	348	326	109,396	103,972	17,655	14,584	-	-	17,655	14,584
Employees engaged in control functions	120	107	54,972	37,917	7,522	4,703	-	-	7,522	4,703
Other employees	1,183	1,105	228,314	215,323	26,287	25,682	-	-	26,287	25,682
Outsourcing employees (engaged in risk taking activities)	-	-	-	-	-	-	-	-	-	-
	1,665	1,552	417,513	381,807	60,486	52,535	-	-	60,486	52,535
Variable compensation accrued			45,471	66,759						
Other employee related benefits			29,607	23,695						
Total	1,665	1,552	492,591	472,261	60,486	52,535	-	-	60,486	52,535

19.1 Salient features of Compensation Policy

As an integral part of the compensation governance, the Bank follows appropriate compensation practices in line with the SAMA guidelines and Financial Stability Board (FSB) Principles/Standards. The Bank has implemented a “Compensation & Allowances” policy approved by the Board of Directors (the “Board”).

The Bank has also established a Nomination and Compensation Committee. It has been mandated by the Board to review and recommend sound compensation policies for adoption by the Bank.

While developing and implementing such policies, the Bank has sought to align the same with the risks related to capital, liquidity and sustainability as well as timing of revenue streams.

The Bank has adopted fixed as well as variable compensation schemes. The variable component is aligned not only with the aforesaid risks but also with the overall performance of the Bank and the individual, and risk involved in the relevant job function. The Bank consistently evaluates its compensation policies against the industry and makes necessary revisions as and when required.

20. Earnings per share

Basic and diluted earnings per share are calculated by dividing the net income by the weighted average number of outstanding shares which were 1,485 million shares at the after accounting for treasury shares.

21. Zakat

The Bank has filed its Zakat returns for the years up to and including the financial year 2012 with the Department of Zakat and Income Tax (DZIT). The estimated Zakat for the year ended December 31, 2013 amounted to SAR 67.9 million.

22. Cash and cash equivalents

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

	2013 SAR'000	2012 SAR'000
Cash in hand	987,697	689,227
Balances with SAMA excluding statutory deposit	1,809,158	403,506
Due from banks and other financial institutions maturing within ninety days of acquisition	3,243,877	5,773,169
Total	6,040,732	6,865,902

23. Operating segments

Operating segments are identified on the basis of internal reports about activities of the Bank that are regularly reviewed by the key decision makers including CEO and the Assets and Liabilities Committee (ALCO), in order to allocate resources to the segments and to assess their performance.

The Bank's primary business is conducted in Saudi Arabia. Transactions between the operating segments are on terms as approved by the management. Majority of the segment assets and liabilities comprise operating assets and liabilities.

The Bank's reportable segments are as follows:

a) Retail banking

Financing, deposit and other products/services for individuals and small businesses.

b) Corporate banking

Financing, deposit and other products and services for corporate and institutional customers.

c) Treasury

Murabahas with banks, investments and treasury services.

d) Investment and brokerage

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

Profit is charged or credited to operating segments using internally developed Fund Transfer Pricing (FTP) rates which approximate the marginal cost of funds.

Following is an analysis of the Bank's assets, liabilities, income and results by operating segments:

2013	SAR '000				
	Retail	Corporate	Treasury	Investment & brokerage	Total
Total assets	11,182,470	36,953,160	14,360,520	505,081	63,001,231
Total liabilities	25,238,662	6,464,671	14,155,670	310,298	46,169,301
Income from investments and financing, net	555,322	946,927	329,874	2,712	1,834,835
Fees from banking services and other income	76,094	178,309	151,511	38,326	444,240
Total operating income	631,416	1,125,236	481,385	41,038	2,279,075
Charge for impairment of assets	52,173	222,051	-	-	274,224
Depreciation and amortization	76,178	55,687	21,355	921	154,141
Other operating expenses	466,098	239,669	93,604	36,146	835,517
Total operating expenses	594,449	517,407	114,959	37,067	1,263,882
Net operating income	36,967	607,829	366,426	3,971	1,015,193
Share of loss from associate	-	-	(10,436)	-	(10,436)
Net income	36,967	607,829	355,990	3,971	1,004,757

2012	SAR '000				
	Retail	Corporate	Treasury	Investment & brokerage	Total
Total assets	7,522,860	32,754,572	13,267,994	469,027	54,014,453
Total liabilities	15,067,028	11,263,756	10,728,972	290,500	37,350,256
Income from investments and financing, net	398,673	814,616	301,592	2,246	1,517,127
Fees from banking services and other income	55,055	163,784	54,049	36,039	308,927
Total operating income	453,728	978,400	355,641	38,285	1,826,054
Charge for impairment of assets	108,426	45,947	-	-	154,373
Depreciation and amortization	66,519	59,891	23,028	816	150,254
Other operating expenses	399,279	243,215	97,695	34,566	774,755
Total operating expenses	574,224	349,053	120,723	35,382	1,079,382
Net operating income / (loss)	(120,496)	629,347	234,918	2,903	746,672
Share of loss from associate	-	-	(13,513)	-	(13,513)
Net income / (loss)	(120,496)	629,347	221,405	2,903	733,159

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

2013	SAR '000				
	Retail	Corporate	Treasury	Investment & brokerage	Total
On balance sheet assets	9,400,520	35,523,102	10,155,673	182,324	55,261,619
Commitments and contingencies	-	7,792,972	-	-	7,792,972
Total	9,400,520	43,316,074	10,155,673	182,324	63,054,591

2012	SAR '000				
	Retail	Corporate	Treasury	Investment & brokerage	Total
On balance sheet assets	6,179,357	31,007,142	10,766,685	157,286	48,110,470
Commitments and contingencies	-	8,197,272	-	-	8,197,272
Total	6,179,357	39,204,414	10,766,685	157,286	56,307,742

Credit exposure comprises the carrying value of balance sheet assets, excluding cash, property and equipment, and other assets. The credit equivalent value of commitments and contingencies are included in credit exposure.

24. Credit risk

Credit risk is the most significant risk for the Bank's business. It is defined as the risk that a counterparty may fail to meet its obligations to the Bank and, therefore, could result in a financial loss for the Bank. While credit exposures arise principally from financing and investment, there is also credit risk in off-balance sheet financial instruments, such as letters of credit/acceptances, letters of guarantee, and other forms of financial commitments.

The Bank actively manages its credit risk exposure through the establishment of Credit Risk Policies which provide guidance, among others, on target market, risk acceptance criteria, minimum disclosure from customers, standard due

diligence process, review and approval process, documentation, concentration limits, and day to day account management and problem recognition/remedial action.

To ensure proper check and balance of generating business and taking on credit risks, the Bank has an independent Risk Management Group (RMG) led by a Chief Risk Officer (CRO), tasked with the responsibility of implementing, reviewing and safeguarding the Credit and other Risk Policies.

Analysis of investments is provided in note (6). For details of the composition of financing refer note (7). For commitments and contingencies refer note (16).

24.1 Geographical concentration of financial assets with credit risk exposure, financial liabilities, commitments and contingencies.

2013	SAR'000				
	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	Other countries	Total
Financial assets					
Cash and balances with SAMA	4,972,467	-	-	-	4,972,467
Due from banks and other financial institutions	3,081,639	1,187,489	580,594	122,459	4,972,181
Investments	5,137,775	-	261,691	-	5,399,466
Financing, net	44,923,623	-	-	-	44,923,623
Other assets	1,183,787	-	-	-	1,183,787
Total financial assets	59,299,291	1,187,489	842,285	122,459	61,451,524
Financial liabilities					
Due to banks and other financial institutions	200,000	-	-	736	200,736
Customers' deposits	42,762,623	-	-	-	42,762,623
Other liabilities	2,757,825	-	-	-	2,757,825
Total financial liabilities	45,720,448	-	-	736	45,721,184
Commitments and contingencies	7,792,972	-	-	-	7,792,972
Maximum credit exposure (stated at credit equivalent amounts) of commitments and contingencies	3,468,963	-	-	-	3,468,963

2012	SAR'000				
	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	Other countries	Total
Financial assets					
Cash and balances with SAMA	2,764,956	-	-	-	2,764,956
Due from banks and other financial institutions	4,577,837	3,470,694	953,236	6,046	9,007,813
Investments	1,861,953	-	98,290	-	1,960,243
Financing, net	37,186,500	-	-	-	37,186,500
Other assets	1,571,542	-	-	-	1,571,542
Total financial assets	47,962,788	3,470,694	1,051,526	6,046	52,491,054
Financial liabilities					
Due to banks and other financial institutions	1,402,737	461,250	85	550,460	2,414,532
Customers' deposits	32,213,612	-	-	-	32,213,612
Other liabilities	2,344,364	-	-	-	2,344,364
Total financial liabilities	35,960,713	461,250	85	550,460	36,972,508
Commitments and contingencies	8,197,272	-	-	-	8,197,272
Maximum credit exposure (stated at credit equivalent amounts) of commitments and contingencies	3,142,477	-	-	-	3,142,477

24.2 The distributions by geographical concentration of impaired financing and allowances for impairment on financing are as follows:

2013	SAR'000				
	Kingdom of Saudi Arabia	Other GCC and Middle East countries	Europe	Other countries	Total
Non performing financing, net	302,482	-	-	-	302,482
Allowances for impairment on financing	514,220	-	-	-	514,220

2012	SAR'000				
	Kingdom of Saudi Arabia	Other GCC and Middle East countries	Europe	Other countries	Total
Non performing financing, net	122,125	-	-	-	122,125
Allowances for impairment on financing	281,538	-	-	-	281,538

25. Market risk

Market risk is the risk that the fair value or the future cash flows of the financial instrument will fluctuate due to changes in market variables such as equity prices, profit rates, foreign exchange rates, and commodity prices. The Bank classifies exposures to market risks into either trading or non-trading (or banking book).

i. Market risk – trading book

The Bank holds an insignificant market risk on its trading book position of equities in local currency which is regularly marked to market and losses or gains on equity prices are taken directly into consolidated statement of income.

ii. Market risk – non trading book

Market risks on its non-trading book mainly arise from profit rate risk and to a very minor extent from currency risks. It also faces price risks on those securities held as “available for sale.”

a) Profit rate risk

It arises from changes in profit rates which will affect either the fair values or the future cash flows of the financial instruments. Treasury imputes the funding costs based on the yield curve and the margins are also adjusted to account for liquidity premium based on the duration of the financing.

Given the asset and liabilities configuration of the Bank, where the profit rate sensitive assets are much greater than profit rate sensitive liabilities, potential increases in profit rates during the next 12 months will have no material adverse impact on the consolidated statement of income of the Bank.

Yield sensitivity of assets, liabilities and off balance sheet items

The Bank manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market profit rates on its financial position and cash flows. The Bank uses the SAIBOR for SAR and the LIBOR for USD lending as a benchmark rate for different maturities. At times when these benchmark rates are not representative of the actual transactions in the market, marginal cost-of-fund is provided by Treasury. The Bank charges profit rates based on the maturity of loans (longer term loans usually require a higher profit rate) based on marginal costs of funds.

The table below summarizes the Bank’s exposure to profit rate risks. Included in the table are the Bank’s financial instruments at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates.

2013	SAR'000					Total
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-profit bearing	
Assets						
Cash and balances with SAMA	-	-	-	-	4,972,467	4,972,467
Due from banks and other financial institutions	3,686,641	943,937	187,523	-	151,080	4,972,181
Investments	1,350,000	2,200,000	-	1,087,117	762,349	5,399,466
Financing, net	10,148,775	11,727,659	17,682,148	5,365,041	-	44,923,623
Property and equipment, net					1,474,912	1,474,912
Other assets					1,258,583	1,258,583
Total assets	15,188,416	14,871,596	17,869,671	6,452,158	8,619,391	63,001,232
Liabilities & shareholders' equity						
Due to banks and other financial institutions	200,000	-	-	-	736	200,736
Customer deposits	11,872,248	8,610,194	5,763	-	22,274,418	42,762,623
Other liabilities	-	-	-	-	3,205,942	3,205,942
Shareholders' equity	-	-	-	-	16,831,931	16,831,931
Total liabilities & shareholders' equity	12,072,248	8,610,194	5,763	-	42,313,027	63,001,232
Yield sensitivity - On statement of financial position	3,116,168	6,261,402	17,863,907	6,452,158	(33,693,636)	
Yield sensitivity - Off statement of financial position	4,741,787	2,478,186	556,531	16,468		7,792,972
Total Yield sensitivity gap	7,857,955	8,739,588	18,420,438	6,468,626		
Cumulative yield sensitivity gap	7,857,955	16,597,544	35,017,982	41,486,608		

2012	SAR'000					
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-profit bearing	Total
Assets						
Cash and balances with SAMA	-	-	-	-	2,764,956	2,764,956
Due from banks and other financial institutions	6,528,818	1,892,494	562,538	-	23,963	9,007,813
Investments	-	900,000	-	334,167	726,076	1,960,243
Financing, net	7,033,687	8,231,671	19,250,460	2,670,682	-	37,186,500
Property and equipment, net	-	-	-	-	1,447,824	1,447,824
Other assets	-	-	-	-	1,647,117	1,647,117
Total assets	13,562,505	11,024,165	19,812,998	3,004,849	6,609,936	54,014,453
Liabilities & shareholders' equity						
Due to banks and other financial institutions	2,141,291	-	-	-	273,241	2,414,532
Customer deposits	3,869,247	6,103,293	-	-	22,241,072	32,213,612
Other liabilities	-	-	-	-	2,722,112	2,722,112
Shareholders' equity	-	-	-	-	16,664,197	16,664,197
Total liabilities & shareholders' equity	6,010,538	6,103,293	-	-	41,900,622	54,014,453
Yield sensitivity - On statement of financial position	7,551,967	4,920,872	19,812,998	3,004,849	(35,290,686)	-
Yield sensitivity - Off statement of financial position	3,437,505	4,026,640	718,112	15,015	-	8,197,272
Total yield sensitivity gap	10,989,472	8,947,512	20,531,110	3,019,864		
Cumulative yield sensitivity gap	10,989,472	19,936,984	40,468,094	43,487,958		

b) Currency risk

Represents the risks of change of value of financial instruments due to changes in foreign exchange rates. The Risk Appetite Framework and policies contain limits for positions by currencies. However, the Bank has negligible exposure in foreign exchange because its assets and liabilities are mainly denominated in Saudi Riyals and to a smaller extent in United States Dollars (USD) or in USD pegged currencies.

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

	2013	2012
	SAR'000	SAR'000
Assets		
Cash & balances with SAMA	96,941	24,288
Due from banks and other financial institutions	3,514,530	5,742,717
Investments	261,694	113,321
Financing, net	187,523	168,543
Other assets	35,926	52,836
Total currency risk on assets	4,096,614	6,101,705
Liabilities		
Due to banks and other financial institutions	43	551,795
Customers' deposits	6,184,167	7,374,643
Other liabilities	213,829	114,670
Total currency risk on liabilities	6,398,039	8,041,108

The table below shows the currencies to which the Bank has a significant exposure as at December 31:

	2013	2012
	SAR'000	SAR'000
USD	(3,155,814)	(2,734,649)
Euro	(65)	(1,030)
UAE Dirham	(482)	3,067
BHD	852,367	635,199
QAR	(363)	157,555
Others	2,932	455
Total	(2,301,425)	(1,939,403)

c) **Equity price risk**

Equity price risk refers to the risk of decrease in fair values of equities. The Bank's portfolio of investments 'available for sale' is regularly marked to market and changes, if any, are taken into the shareholder's equity.

26. Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. 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 into consideration, maintaining an adequate balance of cash and cash equivalents.

In accordance with Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% of total demand deposits and 4% of customers' time investments.

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 and assets, which can be converted into cash within a period not exceeding 30 days.

a) Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Bank's financial liabilities at December 31, 2013 and 2012 based on contractual undiscounted repayment obligations whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

As profit payments up to contractual maturity are included in the table, totals do not match with the figures as appearing in the consolidated statement of financial position.

2013	SAR'000					
	Within 3 months	3 months to 12 months	1 to 5 years	Over 5 years	No fixed maturity	Total
Liabilities						
Due to banks and other financial institutions	200,098	-	-	-	736	200,834
Customers' deposits	34,194,829	8,711,316	6,043	-	-	42,912,188
Other liabilities	-	-	-	-	3,205,942	3,205,942
Total liabilities	34,394,927	8,711,316	6,043	-	3,206,678	46,318,964

2012	SAR'000					
	Within 3 months	3 months to 12 months	1 to 5 years	Over 5 years	No fixed maturity	Total
Liabilities						
Due to banks and other financial institutions	2,416,329	-	-	-	-	2,416,329
Customers' deposits	26,142,206	6,168,705	-	-	-	32,310,911
Other liabilities	-	-	-	-	2,722,112	2,722,112
Total liabilities	28,558,535	6,168,705	-	-	2,722,112	37,449,352

b) The tables below show the maturity profile of the assets and liabilities:

The maturities of assets and liabilities have been determined on the basis of the remaining period at reporting date and does not reflect the effective maturities as indicated by the historical experience.

2013	SAR'000					
	Within 3 months	3 months to 12 months	1 to 5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	4,972,467	-	-	-	-	4,972,467
Due from banks and other financial institutions	3,840,721	943,937	187,523	-	-	4,972,181
Investments	1,457,908	2,428,784	392,106	1,087,117	33,551	5,399,466
Financing, net	5,635,147	6,467,494	22,991,198	9,829,784	-	44,923,623
Property and equipment, net	-	-	-	-	1,474,912	1,474,912
Other assets	-	-	-	-	1,258,583	1,258,583
Total	15,906,243	9,840,215	23,570,827	10,916,901	2,767,046	63,001,232
Liabilities and shareholders' equity						
Due to banks and other financial institutions	200,736	-	-	-	-	200,736
Customers' deposits	34,146,666	8,610,194	5,763	-	-	42,762,623
Other liabilities	-	-	-	-	3,205,942	3,205,942
Shareholders' equity	-	-	-	-	16,831,931	16,831,931
Total	34,347,402	8,610,194	5,763	-	20,037,873	63,001,232
Commitments & contingencies	4,741,787	2,478,186	556,531	16,468	-	7,792,972

2012	SAR'000					
	Within 3 months	3 months to 12 months	1 to 5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	2,764,956	-	-	-	-	2,764,956
Due from banks and other financial institutions	6,552,781	1,892,494	562,538	-	-	9,007,813
Investments	28,277	900,000	653,812	334,167	43,987	1,960,243
Financing, net	3,210,399	4,694,092	22,419,929	6,862,080	-	37,186,500
Property and equipment, net	-	-	-	-	1,447,824	1,447,824
Other assets	-	-	-	-	1,647,117	1,647,117
Total	12,556,413	7,486,586	23,636,279	7,196,247	3,138,928	54,014,453
Liabilities and shareholders' equity						
Due to banks and other financial institutions	2,414,532	-	-	-	-	2,414,532
Customers' deposits	26,110,319	6,103,293	-	-	-	32,213,612
Other liabilities	-	-	-	-	2,722,112	2,722,112
Shareholders' equity	-	-	-	-	16,664,197	16,664,197
Total	28,524,851	6,103,293	-	-	19,386,309	54,014,453
Commitments & contingencies	3,437,505	4,026,640	718,112	15,015	-	8,197,272

27. Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk arises throughout the Bank and from almost any activity.

The Bank has an Operational Risk Team as a part of Risk Management Group which is tasked with monitoring and controlling the Operational Risks of the Bank. Functions of this unit are guided by the Operational Risk Policy and Framework. To systematize the assessment and mitigation of operational risks, the Business Environment and Internal Control Framework is established through Risk Control and Self-Assessment (RCSA) along with establishing Key Risk Indicators (KRIs) for all Business and support units. These risk metrics are proactively monitored by Operational Risk department on a regular basis. In addition, the Bank has also implemented Business Continuity and Disaster Recovery Program.

28. Sharia'h non-compliance risk

Being an Islamic bank, the Bank is exposed to the risk of Sharia'h non-compliance. To mitigate such risk, extensive Sharia'h Policies and procedures are in place. Further the Bank has established a Sharia'h Board and a Sharia'h Compliance Audit Unit to monitor such risk.

29. Reputational risk

Reputational risk covers the potential adverse effects resulting from negative publicity about the Bank's products, services, competence, integrity and reliability.

As an Islamic bank, one of the major sources of Reputational risk is Sharia'h non-compliance. The other sources of negative publicity could be major frauds, customer complaints, regulatory actions and negative perceptions about the Bank's financial condition. The Bank has put in place controls around reputation risk in order to mitigate and avoid such risks.

30. Fair values of financial assets and liabilities

Fair value is the price that would be received on sale of an asset or paid to discharge 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 takes place either:

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

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

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

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

Level 2: quoted prices in active market 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.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	SAR '000			
2013	Level 1	Level 2	Level 3	Total
Financial assets held as FVIS	107,908	-	-	107,908
Financial assets held as 'available for sale'	1,708,007	-	-	1,708,007
Total	1,815,915	-	-	1,815,915

	SAR '000			
2012	Level 1	Level 2	Level 3	Total
Financial assets held as FVIS	28,277	-	-	28,277
Financial assets held as 'available for sale'	987,979	-	-	987,979
Total	1,016,256	-	-	1,016,256

There were no transfers between the fair value hierarchy levels during the year.

31. Employees share-based plans

Significant features of the employee share based schemes outstanding at the end of the year are as follows:

Nature of scheme	ESPS	ESGS
No. of outstanding Schemes	One	One
Grant date	June 01, 2013	April 01, 2013
Maturity date	May 31, 2016	March 31, 2018
Number of shares granted	2,580,654	3,032,000
Vesting period	3 years	3-5 years
Value of shares granted (SAR)	36,129,156	39,870,800
Strike price per share at grant date (SAR)	11.5	-
Fair value per share at grant date (SAR)	14.0	13.15
Vesting conditions	Employee remains in service and meets prescribed performance criteria	Employee remains in service and meets prescribed performance criteria
Method of settlement	Equity	Equity
Valuation model used	Market Value	Market Value
Weighted average remaining contractual life	2.42 years	4.25 years

The movement in weighted average price and in the number of shares in the employees share participation scheme is as follows:

	Weighted average exercise price (SAR)		Number of shares in scheme	
	2013	2012	2013	2012
Beginning of the year	-	-	-	-
Granted during the year	11.5	-	2,580,654	-
Forfeited	-	-	-	-
Exercised/expired	-	-	-	-
End of the year	11.5	-	2,580,654	-
Exercisable at year end	-	-	-	-

These rights are granted only under a service/performance condition with no market condition associated with it. Total amount of expense recognized during the year in these consolidated financial statements in respect of these schemes was SAR 10.25 million. (2012: NIL).

32. Related party balances and transactions

In the ordinary course of its activities, the Bank transacts business with related parties. Related party transactions are governed by limits set by the Banking Control Law and regulations issued by SAMA.

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

	<u>2013</u> <u>SAR'000</u>	<u>2012</u> <u>SAR'000</u>
Directors, key management personnel, Bank's mutual funds, major shareholders and affiliates		
Financing	5,956	206,085
Customers' deposits	5,075,490	4,894,387
End of service benefit	8,962	6,851
Investments	33,551	43,987
Mutual funds managed by the Bank	88,895	72,429

(ii) **Income and expenses pertaining to transactions with related parties included in the consolidated statement of income are as follows:**

	<u>2013</u> <u>SAR'000</u>	<u>2012</u> <u>SAR'000</u>
Income on financing	355	12,559
Return on time investments	70,823	43,576
Directors' remuneration	2,651	2,859

The advances and expenses related to executives are in line with the normal employment terms.

(iii) **The total amount of compensation paid to key management personnel during the year is as follow:**

	<u>2013</u> <u>SAR'000</u>	<u>2012</u> <u>SAR'000</u>
Short-term employees benefits	42,652	40,693
End of service benefit	2,111	3,364

33. Capital adequacy

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

Capital adequacy and the use of regulatory capital are monitored by the Bank's management. SAMA requires to hold and maintain ratio of total regulatory capital to the risk-weighted assets at or above the Basel prescribed minimum of 8%.

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

SAMA has issued the framework and guidance for implementation of capital reforms under Basel III, which are effective from January 01, 2013. Accordingly, the risk weighted assets, total capital and related ratios for 2013 are calculated using Basel III framework. The comparative balances and ratios have not been restated and are based on Basel II framework.

Particulars	2013 SAR'000	2012 SAR'000
Credit Risk Weighted Assets	50,231,214	43,940,575
Operational Risk Weighted Assets	3,433,374	2,561,291
Market Risk Weighted Assets	6,830,683	4,773,266
Total Pillar-I Risk Weighted Assets	60,495,271	51,275,132
Tier I Capital	16,831,931	16,608,419
Tier II Capital	328,487	200,141
Total Tier I & II Capital	17,160,418	16,808,560
Capital Adequacy Ratio %		
Tier I ratio	28%	32%
Tier I + Tier II ratio	28%	33%

34. BASEL III Pillar 3 and Capital Structure disclosures

Certain additional quantitative and qualitative disclosures are required under Basel III. These disclosures will be made available to the public on the Bank's website (www.alinma.com) within prescribed time as required by SAMA. Such disclosures are not subject to audit by the external auditors of the Bank.

35. Investment management and brokerage services

The Bank offers investment management services to its customers through its subsidiary which include management of funds with total assets under management of SAR 247.7 million (2012: SAR 178.5 million).

36. Prospective changes in the International Financial Reporting Standards

The Bank has chosen not to early adopt the amendments and revisions to the following standards which have been published and are mandatory for compliance by the Banks effective from accounting period beginning on or after January 1, 2014.

Standard, and amendments	Effective date	Brief description of changes
IFRS 9 “Financial Instruments”	not yet decided	IFRS 9 retains but simplifies the measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity’s business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply.
Amendments to IFRS 10 “Consolidated Financial Statements”	January 01, 2014	These amendment provide consolidation relief for investment funds if it fulfills certain specified conditions.
Amendments to IAS 32 “Financial Instruments: Presentation”	January 01, 2014	It clarifies: a) an entity currently has a legally enforceable right to off-set if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties; and b) gross settlement is equivalent to net settlement if and only if the gross settlement mechanism has features that eliminate or result in insignificant credit and liquidity risk and process receivables and payables in a single settlement process or cycle.
Amendment to IAS 36 “ Impairment of assets”	January 01, 2014	It requires certain disclosure of information about the recoverable amount of impaired assets.

Other than IFRS 9, the amendments are not likely to have any material impact on the Bank’s consolidated financial statements except for certain additional disclosures. The Bank will be assessing the implications of IFRS 9 in due course.

37. Comparative figures

Certain prior year figures have been reclassified to conform with the current year presentation.

38. Approval of the consolidated financial statements

These consolidated financial statements were approved by the Board of Directors of the Bank on 26 Rabi Awal 1435H (corresponding to 27 January, 2014).