1. GENERAL

(1.1) Introduction

The financial statements comprise the consolidated financial statements of the National Commercial Bank (the Bank) and its subsidiaries (the Group).

The National Commercial Bank (the Bank) is a Saudi Joint Stock Company formed pursuant to Cabinet Resolution No. 186 on 22 Dhul Qida 1417H (30 March 1997) and Royal Decree No. M/19 on 23 Dhul Qida 1417H (31 March 1997), approving the Bank's conversion from a General Partnership to a Saudi Joint Stock Company.

The Bank commenced business as a partnership under registration certificate authenticated by a Royal Decree on 28 Rajab 1369H (15 May 1950) and registered under commercial registration No. 4030001588 issued on 27 Dhul Hijjah 1376H (24 July 1957). The Bank initiated business in the name of "The National Commercial Bank" under Royal Decree No. 3737 on 20 Rabi Thani 1373H (26 December 1953). The date of 1 July 1997 was determined to be the effective date of the Bank's conversion from a General Partnership to a Saudi Joint Stock Company.

The Bank operates through its 312 branches (2012: 295 branches), 17 retail service centres (2012: 16 centres), 10 corporate service centres (2012: 10 centres) and 57 QuickPay remittance centers (2012: 28 centres) in the Kingdom of Saudi Arabia and two overseas branches (Lebanon and Bahrain). The Bank's Head Office is located at the following address:

The National Commercial Bank
Head Office
King Abdul Aziz street
P.O. Box 3555
Jeddah 21481, Saudi Arabia
www.alahli.com

The objective of the Group is to provide a full range of banking services. The Group also provides non-special commission based banking products in compliance with Shariah rules, which are approved and supervised by an independent Shariah Board.

(1.2) Group's subsidiaries

The details of the Group's subsidiaries are as follows:

(a) NCB Capital Company (NCBC)

In April 2007, the Bank formed a capital market company, namely, NCBC, a Saudi Joint Stock Company formed in accordance with Capital Market Authority's Resolution No. 2-83-2005 dated 21 Jumad Awal 1426H (28 June 2005), and registered in the Kingdom of Saudi Arabia to manage the Bank's investment services and asset management activitives. The Bank has 90.71% (2012: 90.71%) direct ownership interest in NCBC and an indirect ownership of 2.79% (2012: 1.96%) (the indirect ownership is held via an intermediary trust for future grant to NCBC employees).

(b) Türkiye Finans Katılım Bankası A.Ş. (TFK)

The Bank has 66.27% (2012: 65.61%) ownership interest in Türkiye Finans Katılım Bankası A.Ş. (the Turkish Bank). The Turkish Bank operates as a participation bank, by collecting funds through current accounts and profit sharing accounts, and lending funds to consumer and corporate customers, through finance leases and profit/loss sharing partnerships. During the year ended 31 December 2012, the shareholders of TFK, resolved to increase the capital by TL 975 million, which was subsequently endorsed by the Central Bank of Turkey (BRSA). Accordingly, the share capital of Turkish Bank has been increased to TL 1,775 million through capitalization of retained earnings and cash contribution. The Bank's share of such cash contribution was TL 206 million (SR 431 million).

(c) Eastgate Capital Holdings Inc. (Eastgate)

The Group has a 65.46% (2012: 71.36%) effective ownership interest in Eastgate Capital Holdings Inc., a Middle East-based private equity firm acquired through its subsidiary, NCBC. NCBC acquired 77% direct ownership interest and the remaining 23% is owned by the management of Eastgate. On 5 September 2013, NCBC disposed of 7% of its ownership interest in Eastgate Capital Holdings Inc. for a consideration of SR 656 thousands, without losing control.

(d) NCBC Investment Management Umbrella Company Plc

The Group has 93.5% (2012: 92.67%) effective ownership in NCBC Investment Management Umbrella Company Plc, which was formed by NCBC in Ireland. NCBC Investment Management Umbrella Company Plc is the Undertaking Company for Collective Investment in Transferable Securities (UCITS) under the provisions of the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulation 2011.

(e) Real Estate Development Company (Redco)

The Bank formed Real Estate Development Company (Redco) as a Limited Liability Company registered in the Kingdom of Saudi Arabia under Commercial Registration number 4030146558 dated 21 Dhul Qida 1424H (corresponding to 13 January 2004). The Bank has 100% ownership (2012: 100%) in Redco. The objectives of Redco primarily include keeping and managing title deeds and collateralised real estate properties on behalf of the Bank.

2. BASIS OF PREPARATION

(2.1) Statement of compliance

The consolidated financial statements are prepared in accordance with Accounting Standards for Financial Institutions promulgated by the Saudi Arabian Monetary Agency (SAMA) and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). These consolidated financial statements are prepared in compliance with Banking Control Law, the provision of Regulations for Companies in the Kingdom of Saudi Arabia and the Bank's Articles of Association.

(2.2) Basis of measurement

The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of derivatives, financial assets held for trading, held at Fair Value through Income Statement (FVIS), available for sale investments and other real estate. In addition, financial assets or liabilities that are carried at cost but are hedged in a fair value hedging relationship are carried at fair value to the extent of the risk being hedged.

(2.3) Functional and presentation currency

These consolidated financial statements are presented in Saudi Riyals (SR) which is the Bank's functional currency and have been rounded off to the nearest thousand Saudi Riyals, except as otherwise indicated.

(2.4) Basis of consolidation

The consolidated financial statements comprise the financial statements of "The National Commercial Bank" and its subsidiaries - NCB Capital and its subsidiaries, Türkiye Finans Katılım Bankası A.Ş. (the Turkish Bank) and Real Estate Development Company. NCB Capital also consolidates the financial statements of Eastgate in its consolidated financial statements. The financial statements of the subsidiaries are prepared for the same reporting year as that of the Group, using consistent accounting policies.

(2.5) Critical accounting judgements, estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting judgements, 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 Group's accounting policies. Such judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. Revision to accounting estimates are recognized in the period in which the estimate is revised and any future period affected.

Significant areas where management has used estimates, assumptions or exercised judgments are as follows:

(a) Impairment charge for credit losses

The Group reviews its non-performing loans and advances at each reporting date to assess whether a specific provision for credit losses should be recorded in the consolidated statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the specific provision.

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

(b) Fair value of financial instruments that are not quoted in an active market

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

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

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

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

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

(2.5) Critical accounting judgements, estimates and assumptions continued

(b) Fair value of financial instruments that are not quoted in an active market continued

Financial instruments for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy (see note 35).

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

(c) Impairment of available for sale equity investments

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

The Group considers 30% or more, as a reasonable measure for significant decline below its cost, irrespective of the duration of the decline, and is recognized in the consolidated statement of income as impairment charge on investments. Prolonged decline represents decline below cost that persists for 1 year or longer irrespective of the amount and is, thus, recognized in the consolidated statement of income as impairment charge on investments. The previously recognized impairment loss in respect of equity investments cannot be reversed through the consolidated statement of income.

(d) Classification of held to maturity investments

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity.

(e) Going concern

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group 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 Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

(f) Impairment of non-financial assets

The carrying amounts of the non-financial assets are reviewed at each reporting date or more frequently to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The fair value less cost to sell is based on observable market prices or, if no observable market prices exist, estimated prices for similar assets or if no estimated prices for similar assets are available, then based on discounted future cash flow calculations.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

The subsidiaries are regarded as a cash-generating unit for the purpose of impairment testing of their respective goodwill. Impairment losses are recognised in the consolidated statement of income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of other assets including the intangible assets in the unit (group of units) on a pro rata basis on condition that the carrying amount of other assets should not be reduced below their fair values.

Where goodwill forms part of a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative foreign currency translation reserve and unimpaired goodwill is recognised in the consolidated statement of income.

The previously recognized impairment loss in respect of goodwill cannot be reversed through the consolidated statement of income.

Non-financial assets held under Murabaha arrangements are measured at their lower of cost and net realizable value. Net realizable value is the estimated selling price, less selling expenses. Any impairment loss arising as a result of carrying these assets at their net realizable values is recognized in the consolidated statement of income under other operating income, net.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(2.5) Critical accounting judgements, estimates and assumptions continued

(g) Determination of control over investment funds

The group acts as Fund Manager to a number of investment funds. Determining whether the group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the Fund (comprising any carried interests and expected management fees) and the investors rights to remove the Fund Manager.

3.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Except for the change in accounting policies as detailed in note 3.1 below, the accounting policies adopted in the preparation of these financial statements are consistent with those used in the previous year.

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

(3.1) Changes in accounting policies

The accounting policies adopted are consistent with those used in Group's annual financial statements for the year ended December 31, 2012 except for amendments and revisions to existing standards mentioned below. The changes do not have any material impact on the financial statements of the Group other than few additional disclosures.

(a) New standards

- IFRS 10 Consolidated financial statements: IFRS 10 replaces the requirements previously contained in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation - Special Purpose Entities. The Standard introduces a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e. whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in 'special purpose entities').
- IFRS 12 Disclosure of Interests in Other Entities: Requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.
- IFRS 13 Fair value measurements: Replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. The IFRS defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value.

(b) Amendments to existing standards

- Amendments to IAS 1 Presentation of financial statements: amends IAS 1 to revise the way other comprehensive income is presented.
- Amendments to IFRS 7 Financial Instruments: Disclosure: Amends the disclosure requirements in IFRS 7 to require information about all recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32 and also require disclosure of information about recognised financial instruments subject to enforceable master netting arrangements and agreements even if they are not set off under IAS 32.
- IAS 27 Separate Financial Statements (2011): Now only deals with the requirements for separate financial statements, which have been carried over largely unamended from IAS 27 Consolidated and Separate Financial Statements. Requirements for consolidated financial statements are now contained in IFRS 10 Consolidated Financial Statements.
- IAS 28 Investments in Associates and Joint Ventures (2011): The majority of these revisions result from the incorporation of Joint ventures into IAS 28 (2011) and the fundamental approach to accounting for equity accounted investments has not changed.
- The IASB has published Annual Improvements to IFRSs: 2009-2011 cycle of improvements that contain amendments to the following standards with consequential amendments to other standards:
  - IAS 1 – Presentation of financial statements: Comparative information beyond minimum requirements and presentation of the opening statement of financial position and related notes;

(3.2) Settlement date accounting

All regular way purchases and sales of financial assets are recognized and derecognized on the settlement date, i.e. the date on which the asset is delivered to the counterparty. When settlement date accounting is applied, the Group accounts for any change in fair value between the trade date and the settlement date in the same way as it accounts for the acquired asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

(3.3) Derivative financial instruments and hedge accounting

Derivative financial instruments including foreign exchange contracts, special commission rate futures, forward rate agreements, currency and special commission rate swaps, swaptions, currency and special commission rate options (both written and purchased) are measured at fair value. All derivatives are carried at their fair values classified under other assets where the fair value is positive and under other liabilities where the fair value is negative. Fair values are obtained by reference to quoted market prices and/or valuation models as appropriate.

(3.3.1) Derivatives held for trading

Any changes in the fair value of derivatives that are held for trading purposes are taken directly to the consolidated statement of income for the year and are disclosed in trading income. Derivatives held for trading also include those derivatives, which do not qualify for hedge accounting as described below.

(3.3) Derivative financial instruments and hedge accounting continued

(3.3.2) Embedded derivatives

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

(3.3.3) Hedge accounting

The Group designates certain derivatives as hedging instruments in qualifying hedging relationships.

For the purpose of hedge accounting, hedges are classified into two categories:

(a) Fair value hedges which hedge the exposure to changes in the fair value of a recognized asset or liability, or an unrecognized firm commitment or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the reported net gain or loss; and

(b) Cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or to a highly probable forecasted transaction that will affect the reported net gain or loss.

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

(3.3.4) Fair value hedges

In relation to fair value hedges, which meet the criteria for hedge accounting, any gain or loss from remeasuring the hedging instruments to fair value is recognized immediately in the consolidated statement of income. Any gain or loss on the hedged item attributable to fair value changes relating to the risks being hedged is adjusted against the carrying amount of the hedged item and recognized in the consolidated statement of income (in the same line item as hedging instrument). Where the fair value hedge of a special commission bearing financial instrument ceases to meet the criteria for hedge accounting, the adjustment in the carrying value is amortised to the consolidated statement of income over the remaining life of the instrument.

(3.3.5) Cash flow hedges

In relation to cash flow hedges which meet the criteria for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized initially in other reserves under equity and the ineffective portion, if any, is recognized in the consolidated statement of income. For cash flow hedges affecting future transactions, the gains or losses recognized in other reserves, are transferred to the consolidated statement of income in the same period in which the hedged transaction affects the consolidated statement of income.

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

(3.4) Foreign currencies

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currency of NCB, NCBC and Redco is Saudi Riyals. The functional currency for the Turkish Bank is Turkish Lira and the functional currency of Eastgate and NCBC Investment Management Umbrella Company Plc is U.S. Dollars.

(a) Transactions and balances

Transactions in foreign currencies are translated into functional currency at the spot exchange rates prevailing at transaction dates. Monetary assets and liabilities at the year-end, denominated in foreign currencies, are retranslated into functional currency at the exchange rates prevailing at the reporting date. Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income. Non-monetary assets measured at fair value in a foreign currency are translated using the exchange rates prevailing at the date when the fair value was determined.

(b) Foreign operations

As at the reporting date, the assets and liabilities of the foreign operations are translated into the Group's presentation currency (Saudi Riyals) at the rate of exchange ruling at the statement of financial position date, equity (pre-acquisition) is translated at historical exchange rate at the date of acquisition and income and expenses of the statement of income are translated at the spot exchange rates prevailing at transaction dates on daily basis. Exchange differences arising on translation are taken directly to a separate component of equity (foreign currency translation reserve) and are recognized in consolidated statement of comprehensive income. However, if the operation is a non-wholly owned subsidiary, then the relevant proportionate share of the foreign exchange translation reserve is allocated to the non-controlling interest. The deferred cumulative amount of exchange differences recognised in equity will be recognised in the statement of income in 'Other operating expenses' or 'Other operating income' at the time of any future disposal or partial disposal with loss of control.

Goodwill and intangible assets arising on the acquisition of the foreign operations and fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at the closing rate.

(3.5) Offsetting financial instruments

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

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

(3.6) Revenue / expenses recognition

Special commission income and expenses for all special commission-bearing financial instruments, except for those classified as held for trading or designated at fair value through income statement (FVIS), including fees which are considered an integral part of the effective yield of a financial instrument, are recognized in the consolidated statement of income using the effective special commission rate basis including premiums amortised and discounts accreted during the year. The effective special commission rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to the carrying amount of the financial asset or liability. When calculating the effective special commission rate, the Group estimates future cash flows considering all contractual terms of the financial instrument but excluding future credit losses.

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

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, special commission income continues to be recognised using the rate of special commission used to discount the future cash flows for the purpose of measuring the impairment loss.

The calculation of the effective special commission rate includes all fees paid or received, transaction costs and discounts or premiums that are an integral part of the effective special commission rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of financial asset or liability.

When the Group enters into a special commission rate swap to change special commission from fixed to floating (or vice versa), the amount of special commission income or expense is adjusted by the net special commission on the swap to the extent hedge is considered to be effective.

Income from FVIS financial instruments relates to financial assets designated as FVIS and includes all realised and unrealised fair value changes.

Exchange income from banking services are recognized when earned.

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

Fees income and expenses are recognized on an accrual basis as the service is provided. Loan commitment fees for loans that are likely to be drawn down are deferred and recognized as an adjustment to the effective yield on the loan, if material. Portfolio and other management advisory and service fee income are recognized based on the applicable service contracts, usually on a time-proportionate basis. Fee income received on other services that are provided over an extended period of time, are recognized rateably over the period when the service is being provided, if material.

Other fee expenses mainly relate to transaction and services fee, which are expensed as related services are provided.

(3.7) Trading income (loss), net

Results arising from trading activities include all realized and unrealized gains and losses from changes in fair value and related special commission income or expense, dividends for financial assets held for trading and foreign exchange differences on open positions. This also includes any ineffective portion of the gain or loss on hedging instruments.

(3.8) Sale and repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognized in the statement of financial position as the Group retains substantially all the risks and rewards of ownership. These assets are continued to be measured in accordance with related accounting policies for investments held for trading, available for sale, held to maturity and other investments held at amortised cost. The counterparty liability for amounts received under these agreements is included in "due to banks and other financial institutions or customers' deposits", as appropriate. The difference between sale and repurchase price is treated as special commission expense which is accrued over the life of the repo agreement using the effective special commission rate.

Assets purchased with a corresponding commitment to resell at a specified future date (reverse repo) are not recognized in the statement of financial position, as the Group does not obtain control over the assets. Amounts paid under these agreements are included in "cash and balances with SAMA, due from banks and other financial institutions or loans and advances", as appropriate. The difference between purchase and resale price is treated as special commission income which is accrued over the life of the reverse repo agreement using the effective yield basis.

(3.9) Business combinations

Business combinations are accounted for using the acquisition method of accounting. The cost of an acquisition, being total consideration of the acquisition, is measured as the fair value of the assets given and liabilities incurred or assumed at the date of acquisition, plus costs directly attributable to the acquisition that occured prior to 1 January 2010. For any subsequent acquisitions, the cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition related costs are expensed as incurred and are included in administrative expenses.

Identifiable assets acquired (including previously unrecognized intangible assets) and liabilities (including contingent liabilities) in an acquisition are measured initially at fair values at the date of acquisition, irrespective of the extent of any non-controlling interest. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions, that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in the consolidated statement of income. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investments or other categories of investments in accordance with the relevant Group’s accounting policy.

(a) Subsidiaries

Subsidiaries are entities which are controlled by the Group. To meet the definition of control, all three criteria must be met:

i) the Group has power over the entity;
ii) the Group has exposure, or rights, to variable returns from its involvement with the entity; and
iii) the Group has the ability to use its power over the entity to affect the amount of the entity’s returns.

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

(b) Non-controlling interests

Non-controlling interest represent the portion of net income and net assets of subsidiaries not owned, directly or indirectly, by the Bank in its subsidiaries and are presented separately in the consolidated statement of income and within equity in the consolidated statement of financial position, separately from Bank equity. Any losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(c) Associates

Associates are enterprises over which the Group exercises significant influence. Investments in associates are initially recognized at cost and subsequently accounted for under the equity method of accounting and are carried in the consolidated statement of financial position at the lower of the equity-accounted or the recoverable amount.

Equity-accounted value represents the cost plus post-acquisition changes in the Group's share of net assets of the associate (share of the results, reserves and accumulated gains/losses based on latest available financial statements) less impairment, if any.

The previously recognized impairment loss in respect of investment in associate can be reversed through the consolidated statement of income, such that the carrying amount of investment in the consolidated statement of financial position remains at the lower of the equity-accounted (before provision for impairment) or the recoverable amount.

(d) Transactions eliminated on consolidation

Inter-group balances, income and expenses (except for foreign currency transaction gains or losses) arising from inter-group transactions are eliminated in full in preparing the consolidated financial statements.

(3.10) Goodwill and other intangible assets

(a) Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses; impairment loss of goodwill is charged to the consolidated statement of income. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that its carrying value may be impaired.

(3.10) Goodwill and other intangible assets continued

(b) Other intangible assets

Intangible assets in the statement of financial position comprise of customer deposits relationships, the value of the TFK's brands, and other banking relationships. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over their estimated useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of income under amortization of intangible assets.

Amortisation of intangible assets is calculated using the straight-line method over their estimated remaining useful lives of 3-4 years.

Intangible assets with indefinite lives are reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

(3.11) Investments

All investment securities are financial assets which are initially recognized at cost, being the fair value of the consideration given, including incremental direct transaction costs except for those transaction charges related to investments held as FVIS or for trading, which are not added to the cost at initial recognition and are charged to the consolidated statement of income. Premiums are amortised and discounts accreted using the effective yield basis and are taken to special commission income.

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

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 with non-observable market data.

Following initial recognition, subsequent transfers between the various classes of investments are not ordinarily permissible.

The subsequent period-end accounting treatment for each class of investment are determined on the basis as set out in the following paragraphs:

(a) Held for trading

Investments classified as held for trading are acquired principally for the purpose of selling or repurchasing in the short term.

Securities which are held for trading are subsequently measured at fair value and any gains or losses arising from a change in fair value are included in the consolidated statement of income in the period in which it arises and are disclosed as trading income.

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

Investments in this category are classified as FVIS on initial recognition. An investment may be designated as FVIS by the management if it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as “an accounting mismatch”) that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on different bases; or a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Group’s key management personnel. These include all hedge fund and mutual fund investments that are managed by the Group, directly or indirectly, and whose performance is evaluated on a fair value basis. Equity instruments that do not have a quoted market price in an active market and whose fair values cannot be reliably measured are not classified under this category.

After initial recognition, investments at FVIS are measured at fair value and any change in the fair value is recognized in the consolidated statement of income for the period in which it arises and are disclosed as income from FVIS investments.

(c) Available for sale (AFS)

Available-for-sale investments are non-derivative investments that are designated as AFS or not classified as another category of financial assets, and are intended to be held for an unspecified period of time, which may be sold in response to needs for liquidity or changes in special commission rates, exchange rates or equity prices.

Investments which are classified as available for sale are initially recognised at fair value including direct and incremental transaction costs and subsequently measured at fair value except for unquoted equity securities whose fair value cannot be reliably measured are carried at cost. Any unrealised gains or losses arising from changes in fair value are recognized through the consolidated statement of comprehensive income in "other reserves" under equity until the investments are derecognized or impaired whereupon any cumulative gains or losses previously recognized in equity are reclassified to consolidated statement of income for the period and are disclosed as gains/(losses) on non-trading investments.

For impairment of available for sale investments, see note 3.14(b).

(3.11) Investments continued

(d) Held to maturity

Investments having fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity are classified as held to maturity. Held to maturity investments are initially recognised at fair value including direct and incremental transaction costs and subsequently measured at amortised cost, less provision for impairment in their value. Amortised cost is calculated by taking into account any discount or premium on acquisition using the effective yield method. Any gain or loss on such investments is recognized in the consolidated statement of income when the investment is derecognized or impaired.

Investments classified as held to maturity cannot ordinarily be sold or reclassified without impacting the Group's ability to use this classification and cannot be designated as a hedged item with respect to special commission rate or prepayment risk, reflecting the intention to hold them to maturity.

(e) Other investments held at amortised cost

Investments having fixed or determinable payments that are not quoted in an active market are classified as other investments held at amortised cost. Such investments whose fair values have not been hedged are stated at amortised cost using an effective yield basis, less provision for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition using effective yield method. Any gain or loss is recognized in the consolidated statement of income when the investment is derecognized and are disclosed as gains/(losses) on non-trading investments.

(3.12) Loans and advances

Loans and advances are non-derivative financial assets originated or acquired by the Group with fixed or determinable payments.

Loans and advances are recognised when cash is advanced to borrowers. They are derecognized when either borrower repays their obligations, or the loans are sold or written off, or substantially all the risks and rewards of ownership are transferred.

Loans and advances are initially measured at fair value of the consideration given.

Following the initial recognition, loans and advances for which fair value has not been hedged are stated at cost less any amount written off and specific and portfolio (collective) provisions for impairment.

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

(3.13) Due from banks and other financial institutions

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

Following the initial recognition, due from banks and other financial institutions are stated at cost less any amount written-off and specific provisions for impairment, if any, and a portfolio (collective) provision for counterparty risk.

(3.14) Impairment of financial assets

An assessment is made at the date of each statement of financial position to determine whether there is objective evidence that a financial asset or a group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss is recognized for changes in its carrying amount as follows:

(a) Impairment of financial assets held at amortised cost

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

A specific provision for credit losses, due to impairment of a loan or any other financial asset held at amortised cost, is established if there is objective evidence that the Group 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 basis.

In addition to a specific provision for credit losses of corporate loans, an additional portfolio provision for collective impairment is made on a portfolio basis for credit losses where there is an objective evidence that unidentified losses exist at the reporting date. These are based on any deterioration in the risk rating (i.e. downward migration of risk ratings) of the financial assets since they were originally granted. This provision is estimated based on various factors including credit ratings allocated to a borrower or group of borrowers, the current economic conditions, the experience the Group has had in dealing with a borrower or group of borrowers and available historical default information.

Loans and advances are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. In the latter case, renegotiation can result in an extension of the due date of payment or repayment plans under which the Group offers a revised rate of commission to genuinely distressed borrowers. This may result in the asset continuing to be overdue and individually impaired as the renegotiated payments of commission and principal do not recover the original carrying amount of the loan. In other cases, renegotiation leads to a new agreement, which treated as a new loan. Restructuring policies and practices are based on indicators or criteria which, indicate that payment will most likely continue. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan’s original effective yield rate.

Corporate loans are written off when they are determined to be uncollectible. This determination is reached after considering information such as the number of days for which the loan has been past due, significant changes in the borrower financial position such that the borrower can no longer settle its obligations, or to the extent that proceeds from collateral held are insufficient to cover the obligations.

(3.14) Impairment of financial assets continued

(a) Impairment of financial assets held at amortised cost continued

Consumer loans are considered to be impaired when a payment is overdue by 90 days or more. Since the risk metrics for consumer loans are based on a collective "pool" basis, rather than on individual loans, the provisions for consumer loans are also computed on a "pool basis" using the 'flow rate" methodology. The provision coverage is 100% for such non-performing loans which reach the "write-off point" (write-off points are set at 180 days past due).

The carrying amount of the asset is adjusted through the use of a provision for impairment account and the amount of the adjustment is included in the consolidated statement of income.

(b) Impairment of financial assets held at fair value

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

If, in a subsequent period, the amount of the impairment loss on debt instruments decreases upon subsequent increase in the fair value and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the issuer's credit rating), the previously recognized impairment loss is reversed by adjusting the provision account. The amount of the reversal is recognized in the consolidated statement of income as a reversal of provision for impairment on investment.

Where a loss has been recognized directly under equity, the cumulative net loss balance recognized in equity is transferred to the consolidated statement of income as impairment loss when the asset is considered to be impaired.

For equity investments held as available for sale, a significant or prolonged decline in fair value below its cost represents objective evidence of impairment [also see note 2.5(c)]. Unlike debt securities, the previously recognized impairment loss of equity investments cannot be reversed through the consolidated statement of income as long as the asset continues to be recognized, that is, any increase in fair value, after impairment has been recorded, can only be recognized in equity.

The Group writes off its financial assets when the respective business units together with Risk Management determine that the financial assets are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligations, or that proceeds from collateral will not be sufficient to pay back the entire exposure. The financial assets are, then, written off only in circumstances where effectively all possible means of recovery have been exhausted. For consumer loans, write off decisions are generally based on a product specific past due status. When a financial asset is uncollectible, it is written off against the related provision for impairment, if any, and any amounts in excess of available provision are directly charged to the consolidated statement of income.

For impairment of non-financial assets, see note [2.5(f)].

(3.15) Other real estate and repossessed assets

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

Subsequent to the initial recognition, such assets are revalued on a periodic basis and adjusted for any subsequent provision for unrealized revaluation losses. Previously recognized unrealised revaluation losses of such assets can be reversed through the consolidated statement of income on an individual basis upon subsequent increase in fair value. Any unrealised losses on revaluation (or reversal), realized losses or gains on disposal and net rental income are recognised in the consolidated statement of income as other operating income, net.

The other real estate assets are disclosed in note 9 while other repossessed assets are included in other assets. Gain on disposal of repossessed assets are included in other operating income, net.

(3.16) Property and equipment

Property and equipment are measured at cost less accumulated depreciation and accumulated impairment loss. Freehold land is not depreciated. Changes in the expected useful life are accounted for by changing the period or method, as appropriate, and treated as changes in accounting estimates.

The depreciable amount of other property and equipment is depreciated using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	40 years
Leasehold improvements	Over the lease period or 5 years, whichever is shorter
Furniture, equipment and vehicles	3-10 years

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at the date of each statement of financial position.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the consolidated statement of income and are disclosed as other non-operating income (expenses).

All such assets are reviewed for impairment 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.

(3.17) Financial liabilities
All money market deposits, customers' deposits and debt securities issued are initially recognized at cost, net of transaction charges, being the fair value of the consideration received. Subsequently, all commission bearing financial liabilities, are measured at amortised cost by taking into account any discount or premium. Premiums are amortised and discounts are accreted on an effective yield basis to maturity and taken to special commission expense.

(3.18) Financial guarantees and loan commitments
In the ordinary course of business, the Group issues financial guarantees, consisting of letter of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value in other liabilities, being the value of the premium received. Subsequent to the initial recognition, the Group's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligations arising as a result of guarantees net of any cash margin. Any increase in the liability relating to the financial guarantee is taken to the consolidated statement of income as impairment charge for credit losses, net. The premium received is recognised in the consolidated statement of income as fee income from banking services on a straight line basis over the life of the guarantee, if material.

The specific and portfolio (collective) provisions for letters of credit, guarantees and acceptances are included and presented under other liabilities.

Loan commitments are firm commitments to provide credit under prespecified terms and conditions.

(3.19) Provisions
Provisions (other than impairment of credit losses and investments) are recognized when a reliable estimate can be made by the Group 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.

(3.20) Accounting for leases
(a) Where the Group is the lessee
All leases entered into by the Group are operating leases. Payments made under operating leases are charged to the consolidated statement of income on a straight-line basis over the period of the lease.

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

(b) Where the Group is the lessor
When assets are transferred under a finance lease, including assets under a lease arrangement in compliance with *Shariah* rules (*Ijara*), the present value of the lease payments is recognised as a receivable and disclosed under loans and advances. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return and is disclosed as special commission income.

(3.21) Zakat and overseas income tax
Zakat is the liability of the shareholders. Zakat is computed on the higher of net adjusted income or adjusted shareholders' equity using the basis defined under the Saudi Zakat Regulations. Zakat is paid by the Bank on the shareholder's behalf and is not charged to the consolidated statement of income but is deducted from the gross dividend paid to the shareholders or charged to retained earnings as an appropriation of net income if no dividend has been distributed.

Overseas branches and subsidiaries are subject to income tax as per rules and regulations of the country in which they are incorporated and such taxes are reported under non-operating expenses.

(3.22) Cash and cash equivalents
For the purpose of the consolidated statement of cash flows, cash and cash equivalents are defined as those amounts included in cash, balances with SAMA, excluding statutory deposits, and due from banks and other financial institutions with original maturity of three months or less.

(3.23) Derecognition of financial instruments
A financial asset (or a part of a financial asset, or a part of a group of similar financial assets) is derecognized, when the contractual rights to the cash flows from the financial asset expires.

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

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

(3.24) Investment management services
The financial statements of investment management mutual funds are not included in the consolidated financial statements of the Group. Transactions with the funds are disclosed under related party transactions; the Group's share of these funds is included in held for trading investments.

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

(3.25) Financing products in compliance with *Shariah* rules

In addition to conventional banking products, the Bank offers its customers certain non-special commission based financing products that comply with Shariah rules. These are approved and overseen by the Bank's Shariah Board.

(3.25.1) Murabaha

Murabaha is a Shariah-compliant form of financing where the Bank, based on requests from its customers, purchases specific commodities and sells them to the customers at an agreed-upon price equal to the Bank's cost plus a specified profit margin, which is payable on a deferred basis in agreed-upon installments.

(3.25.2) Tayseer

Tayseer Alahli is a Shariah-compliant financing instrument introduced by the Bank for customers in need of cash financing. It involves the Bank buying commodities from international or local markets and selling them to customers at agreed-upon deferred installment terms. Customers, on their own, or by appointing an agent, resell the commodities to third parties for cash.

(3.25.3) Ijara with a promise to transfer ownership

Ijara is a Shariah-compliant form of financing where the Bank, based on requests from customers, purchases assets with agreed-upon specifications on a cash basis and leases them to customers for an agreed-upon rent to be settled in agreed-upon installments. In the Ijara contract, the Bank promises to transfer ownership of the assets to its customers at the end the lease periods, either by sale at nominal prices or in the form of grants.

(3.25.4) Istisna'a

Istisna'a is a contract for the acquisition of assets to be manufactured in accordance with customer specifications. The Bank signs Istisna'a contracts with customers to provide specified assets at agreed-upon prices (equal to the Bank's cost plus a specified profit margin) and payment terms. The Bank then signs parallel Istisna'a agreements with manufacturers for the delivery of these assets in return for settlement of the costs by the Bank.

All the above Shariah-compliant financing products are accounted for in conformity with the accounting policies described in these financial statements. They are included in loans and advances.

(3.26) Shariah-compliant deposit products

The Bank offers its customers certain deposit products that comply with Shariah rules. These are approved and overseen by the Bank's Shariah Board.

(3.26.1) AlKhairaat

Alkhairaat is a Shariah-compliant product based on commodity Murabaha. The Bank acts as an agent for its customers in purchasing commodities on their behalf with their funds and then purchases these commodities for its own account from customers at agreed-upon price and deferred maturities (3,6,9 or 12 months). Being a retail product, customers are allowed to choose the investment amount, tenure, and currency. Since the Bank purchases commodities from its customers, it is liable to them for the capital they invested plus a profit.

This Shariah-compliant deposit product is accounted for in conformity with the accounting policies described in these financial statements. They are included in customers' deposit.

(3.27) Treasury shares

Treasury shares are recorded at acquisition cost and presented as a deduction from equity. Any gains or losses on disposal of such shares are reflected under equity and shall not be recognized in the consolidated statement of income.

(3.28) End of Service Benefits

The provision for end of service benefits is based on the rules stated under the Saudi Arabian Labor and Workmen Law and in accordance with the local statutory requirements of the foreign branches and subsidiaries.

(3.29) Staff Compensation

The Bank's Board of Directors and its Nomination and Compensation Committee oversee the design and implementation of the Bank's Compensation process in accordance with SAMA's Compensation Rules and Financial Stability Board (FSB) Principles and Standards of Sound Compensation Practice.

The Compensation and Nomination Committee was established by the Board of Directors and is composed of four non-executive members including the Chairman of the Committee. The Committee's role and responsibilities have been reviewed and updated in line with SAMA's Compensation Rules.

The Committee is responsible for the development and implementation of the compensation process and oversight of its execution, with the objective of preventing excessive risk-taking and promoting corporate financial soundness. The Committee submits its recommendations, resolutions and reports to the Board of Directors for approval.

Key elements of compensation in the Bank:

(3.29.1) Fixed Compensation

The fixed compensation comprises salaries, allowances and benefits. Salaries are set in relation to market rates to attract, retain and motivate talented individuals. Salary administration is based on key processes such as job evaluation grade structure and pay scales. The competitiveness of the pay scales is maintained through participation in periodic and regular market pay surveys.

(3.29) Staff Compensation continued

(3.29.2) Variable Compensation

Variable compensation aims at driving performance and limit excessive risk-taking. The Bank operates two plans under variable compensation:

(a) Annual Performance Bonus

The annual performance bonus aims at supporting the achievement of a set of annual financial and non-financial objectives. The financial objectives relate to the economic performance of the Bank business, while the non-financial objectives relate to some other critical objectives relating, for example, to complying with risk and control measures, employee development, teamwork, staff morale.

The Bank has established a regular performance appraisal process aimed at assessing employees' performance and contribution. Annual performance bonus payments are based on employee contributions, business performance and the Bank's overall results. The overall annual performance bonus pool is set as a percentage of the Bank's net income, adjusted to reflect the core performance of the employees. The Bank does not have a guaranteed bonus plan.

The cost of this plan is recognized in the consolidated statement of income of the year to which it relates and is normally paid during the 1st quarter of the following year.

(b) Long Term Performance Plan

This plan aims at driving and rewarding achievements that lead to long-term corporate success, measured on the basis of return on equity (ROE) attributable to the equity holders of the Bank. The plan is rolled out in three-year cycles. The Bank's actual performance is assessed at the end of each cycle as a basis for determining the actual payout amount.

Although all executives whose roles and accountabilities are likely to influence the Bank's long term success are eligible to participate in this plan, their actual selection is made through rigorous vetting to ensure that other critical participation criteria are met.

The cost of the plan is estimated by reference to a set of expected return-on-equity forecasts at the beginning of each cycle and is reviewed annually.

The three year cost estimate is apportioned and charged equally to the statement of income of each year in the cycle. As the estimate is revised annually, the difference between the latest and the previous estimate is apportioned and charged equally over the remainder of the cycle.

4. CASH AND BALANCES WITH SAMA

	2013 SR '000	2012 SR '000
Cash in hand	5,104,443	3,730,621
Balances with SAMA:		
Statutory deposit	16,804,464	14,550,505
Money market placements and Current accounts	17,180,781	22,017,302
Total	39,089,688	40,298,428

In accordance with article (7) of the Banking Control Law and regulations issued by Saudi Arabian Monetary Agency (SAMA), the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its demand, savings, time and other deposits calculated at the end of each Gregorian month (see note 33). The statutory deposits with SAMA are not available to finance the Bank's day-to-day operations and therefore are not part of cash and cash equivalents.

5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2013 SR '000	2012 SR '000
Current accounts	4,469,447	3,737,548
Money market placements	10,361,885	12,664,734
Due from banks and other financial institutions	14,831,332	16,402,282

The credit quality of due from banks and other financial institutions is managed using credit ratings, as determined by reputable external credit rating agencies (see note 31).

6. INVESTMENTS, NET

(6.1) Investments are classified as follows:

	Domestic		International		Total	
	2013 SR '000	2012 SR '000	2013 SR '000	2012 SR '000	2013 SR '000	2012 SR '000
(a) Held for trading						
Mutual funds	575,425	541,561	97,652	74,288	673,077	615,849
Held for trading	575,425	541,561	97,652	74,288	673,077	615,849
(b) Held as FVIS						
Hedge funds	–	–	2,072,015	2,082,240	2,072,015	2,082,240
Held as FVIS	–	–	2,072,015	2,082,240	2,072,015	2,082,240
(c) Available for sale						
Fixed rate securities	–	66,944	19,697,704	20,379,175	19,697,704	20,446,119
Floating rate securities	–	–	4,535,279	3,499,658	4,535,279	3,499,658
Equity instruments	2,729,063	2,143,039	1,774,974	1,792,466	4,504,037	3,935,505
Others	–	–	473	255,000	473	255,000
Available for sale, gross	2,729,063	2,209,983	26,008,430	25,926,299	28,737,493	28,136,282
Provision for impairment	(220,516)	(50,197)	(855,149)	(1,029,439)	(1,075,665)	(1,079,636)
Available for sale, net	2,508,547	2,159,786	25,153,281	24,896,860	27,661,828	27,056,646
(d) Held to maturity						
Fixed rate securities	–	–	1,030,246	1,403,653	1,030,246	1,403,653
Floating rate securities	–	–	–	5,545	–	5,545
Held to maturity, gross	–	–	1,030,246	1,409,198	1,030,246	1,409,198
Provision for impairment	–	–	–	(1,494)	–	(1,494)
Held to maturity, net	–	–	1,030,246	1,407,704	1,030,246	1,407,704
(e) Other investments held at amortised cost						
Fixed rate securities	39,157,303	42,336,021	40,181,524	33,154,809	79,338,827	75,490,830
Floating rate securities	5,946,011	4,795,018	8,572,008	4,984,763	14,518,019	9,779,781
Other investments held at amortised cost, gross	45,103,314	47,131,039	48,753,532	38,139,572	93,856,846	85,270,611
Provision for impairment	–	–	–	(5,257)	–	(5,257)
Other investments held at amortised cost, net	45,103,314	47,131,039	48,753,532	38,134,315	93,856,846	85,265,354
Investments, net	48,187,286	49,832,386	77,106,726	66,595,407	125,294,012	116,427,793

(6.2) The analysis of the composition of investments is as follows:

	2013			2012		
	Quoted SR '000	Unquoted SR '000	Total SR '000	Quoted SR '000	Unquoted SR '000	Total SR '000
Fixed rate securities	19,974,284	80,093,459	100,067,743	21,827,273	75,513,329	97,340,602
Floating rate securities	4,442,247	14,610,085	19,052,332	3,499,657	9,785,327	13,284,984
Hedge funds and externally managed portfolio	–	2,072,015	2,072,015	–	2,082,240	2,082,240
Equity instruments	2,682,161	1,821,876	4,504,037	2,096,136	1,839,369	3,935,505
Others	673,077	473	673,550	615,849	255,000	870,849
Investments, gross	27,771,769	98,597,908	126,369,677	28,038,915	89,475,265	117,514,180
Provision for impairment	(319,792)	(755,873)	(1,075,665)	(355,432)	(730,955)	(1,086,387)
Investments, net	27,451,977	97,842,035	125,294,012	27,683,483	88,744,310	116,427,793

The above unquoted fixed rate securities and floating rate securities mainly comprise Saudi Government Securities, Foreign Government and Foreign Quasi Government Bonds.

Fixed and floating rate securities also include sovereign, corporate and bank bonds.

Others include Mutual Funds.

Quoted instruments are those which are quoted in an active market. Unquoted instruments also include certain securities that although are quoted but for which there is no active market. The carrying value of such securities amounts to SR 49,741 million (2012: SR 39,603 million).

Unquoted equity instruments include unquoted investments amounting to SR 68 million (2012: SR 68.7 million), net of provision for impairment, that are carried at cost as their fair values cannot be reliably measured.

(6.3) Collateral given

The Bank conducts Repo transactions under the terms that are usually based on the applicable GMRA (Global Master Repurchase Agreement) collateral guidelines. The counterparty is allowed to sell or repledge those securities in the event of default by the Bank (see note 14).

The carrying amount and fair value of securities pledged under agreement to repurchase (repo) are as follows:

	2013		2012	
	Carrying amount SR '000	Fair value SR '000	Carrying amount SR '000	Fair value SR '000
Available for sale	5,474,918	5,474,918	4,637,558	4,637,558
Held to maturity	467,765	526,514	1,030,394	1,101,893
Investments held at amortised cost	1,089,417	1,120,139	1,694,833	1,756,595
Total	7,032,100	7,121,571	7,362,785	7,496,046

The Bank has placed a margin deposit of SR 263 million (2012: SR 17 million) as an additional security for these repo transactions.

(6.4) The analysis of unrealized revaluation gains/losses and fair values of held to maturity investments and other investments held at amortised cost are as follows:

(a) Held to maturity

	2013				2012			
	Carrying value SR '000	Gross unrealized gain SR '000	Gross unrealized loss SR '000	Fair value SR '000	Carrying value SR '000	Gross unrealized gain SR '000	Gross unrealized loss SR '000	Fair value SR '000
Fixed rate securities	1,030,246	76,430	–	1,106,676	1,403,653	119,086	–	1,522,739
Floating rate securities	–	–	–	–	5,545	–	(9)	5,536
Held to maturity, gross	1,030,246	76,430	–	1,106,676	1,409,198	119,086	(9)	1,528,275
Provision for impairment	–	–	–	–	(1,494)	–	–	(1,494)
Total	1,030,246	76,430	–	1,106,676	1,407,704	119,086	(9)	1,526,781

(b) Other investments held at amortised cost

	2013				2012			
	Carrying value SR '000	Gross unrealized gain SR '000	Gross unrealized loss SR '000	Fair value SR '000	Carrying value SR '000	Gross unrealized gain SR '000	Gross unrealized loss SR '000	Fair value SR '000
Fixed rate securities	79,338,827	1,397,308	(1,137,476)	79,598,659	75,490,830	2,600,825	(117,076)	77,974,579
Floating rate securities	14,518,019	267,950	(111,284)	14,674,685	9,779,781	191,843	(3,568)	9,968,056
Other investments held at amortised cost, gross	93,856,846	1,665,258	(1,248,760)	94,273,344	85,270,611	2,792,668	(120,644)	87,942,635
Provision for impairment	–	–	–	–	(5,257)	–	–	(5,257)
Total	93,856,846	1,665,258	(1,248,760)	94,273,344	85,265,354	2,792,668	(120,644)	87,937,378

(6.5) Counterparty analysis of the Group's investments, net of provisions

	2013 SR '000	2012 SR '000
Government and Quasi Government	108,020,874	102,530,270
Corporate	9,911,435	7,757,002
Banks and other financial institutions	7,361,703	6,140,521
Total	125,294,012	116,427,793

(6.6) Credit quality of investments

The credit quality of investments (excluding investment in equity instruments, hedge funds and mutual funds) is managed using reputable external credit rating agencies.

The table below shows the credit quality by class of asset.

	2013 SR '000	2012 SR '000
Performing:		
Saudi Government Bonds and Treasury Bills	27,994,537	35,649,563
Investment grade	89,854,617	73,436,635
Non-investment grade	1,165,150	1,441,637
Unrated	83,171	298,817
Total performing	119,097,475	110,826,652
Less: portfolio (collective) provision	(84,566)	(347,169)
Net performing	119,012,909	110,479,483

Investments classified under investment grade above comprise of credit exposures equivalent to Aaa to Baa3 ratings determined by reputable rating agencies.

(6.7) Movement in the provision for impairment on investments

The accumulated credit-related provision for investments is as follows:

	2013 SR '000	2012 SR '000
Balance at beginning of the year	1,086,387	1,143,194
Net charge for the year	40,406	–
(Written-off) against investments sold	(51,128)	(56,807)
Balance at the end of the year	1,075,665	1,086,387

7. LOANS AND ADVANCES, NET

(7.1) Loans and advances

2013	Credit cards SR '000	Consumer SR '000	Corporate SR '000	Others SR '000	Total SR '000
Performing loans and advances	2,421,326	60,344,450	122,202,506	4,641,490	189,609,772
Non-performing loans and advances	62,053	373,211	2,424,432	59,751	2,919,447
Total loans and advances	2,483,379	60,717,661	124,626,938	4,701,241	192,529,219
Provision for credit losses	(67,922)	(803,085)	(3,898,589)	(72,586)	(4,842,182)
Loans and advances, net	2,415,457	59,914,576	120,728,349	4,628,655	187,687,037

(7.1) Loans and advances continued

2012	Credit cards SR '000	Consumer SR '000	Corporate SR '000	Others SR '000	Total SR '000
Performing loans and advances	2,024,305	49,539,012	108,717,451	5,302,844	165,583,612
Non-performing loans and advances	62,756	235,431	4,479,239	155,280	4,932,706
Total loans and advances	2,087,061	49,774,443	113,196,690	5,458,124	170,516,318
Provision for credit losses	(111,728)	(808,975)	(5,966,892)	(167,534)	(7,055,129)
Loans and advances, net	1,975,333	48,965,468	107,229,798	5,290,590	163,461,189

Others include private banking customers and bank loans.

Loans and advances, net, include financing products in compliance with *Shariah* rules mainly Murabaha, Tayseer and Ijara amounting to SR 124,151 million (2012: SR 104,229 million).

Provision for credit losses related to financing products in compliance with *Shariah* rules is SR 3,446 million (2012: SR 2,652 million).

(7.2) Movements in the provision for credit losses

The accumulated provision for credit losses is as follows:

2013	Credit cards SR '000	Consumer SR '000	Corporate SR '000	Others SR '000	Total SR '000
Balance at beginning of the year	111,728	808,975	5,966,892	167,534	7,055,129
Foreign currency translation adjustment	(2,217)	(9,526)	(114,106)	–	(125,849)
Provided during the year	77,050	655,031	619,253	–	1,351,334
Bad debts (written off)	(116,463)	(646,390)	(2,390,651)	(94,948)	(3,248,452)
(Recoveries) of amounts previously provided	(2,176)	(5,005)	(182,799)	–	(189,980)
Balance at the end of the year	67,922	803,085	3,898,589	72,586	4,842,182

2012	Credit cards SR '000	Consumer SR '000	Corporate SR '000	Others SR '000	Total SR '000
Balance at beginning of the year	116,385	745,305	4,927,424	227,517	6,016,631
Foreign currency translation adjustment	616	1,892	25,651	–	28,159
Provided (reversed) during the year	95,191	492,281	1,222,706	(24,387)	1,785,791
Bad debts (written off)	(96,011)	(426,336)	(70,228)	(35,596)	(628,171)
(Recoveries) of amounts previously provided	(4,453)	(4,167)	(138,661)	–	(147,281)
Balance at the end of the year	111,728	808,975	5,966,892	167,534	7,055,129

(7.3) Impairment charge for credit losses in the consolidated statement of income represents:

	2013 SR '000	2012 SR '000
Addition during the year	1,351,334	1,785,791
(Recoveries) of amounts previously provided	(189,980)	(147,281)
	1,161,354	1,638,510
Provision against indirect facilities (included in other liabilities) (note 17)	32,662	162,519
(Recoveries) of debts previously written-off	(403,209)	(371,159)
Direct write-off	4,538	6,142
Net charge for the year (impairment charge for credit losses, net)	795,345	1,436,012

(7.4) Credit quality of loans and advances

The Group uses an internal classification system based on risk ratings for its corporate and middle market customers. The risk rating system, which is managed by an independent unit, provides a rating at the obligor level. The risk rating system includes twenty grades, of which sixteen grades relate to the performing portfolio as follows:

- Level 1: represents very strong quality (i.e. top 8 risk rating grades);
- Level 2: represents good quality (i.e. 9th and 10th risk rating grades);
- Level 3: represents satisfactory quality (i.e. 11th and 12th risk rating grades) and
- Level 4: represents satisfactory quality, with higher risk (i.e. 13th to 16th risk rating grades).

The lowest four grades (i.e. 17th to 20th rating grades) relate to the non-performing portfolio.

The credit quality of loans and advances is managed using internal credit ratings. The table below shows the credit quality by class of asset.

2013	Consumer and Credit cards SR '000	Corporate SR '000	Others SR '000	Total SR '000
Performing:				
Neither past due nor impaired (performing)				
Level 1	–	87,595,214	2,696,322	90,291,536
Level 2	–	24,297,814	–	24,297,814
Level 3	–	4,036,836	–	4,036,836
Level 4	–	2,730,051	–	2,730,051
Standard - unrated	59,718,113	1,708,870	1,944,323	63,371,306
Total	59,718,113	120,368,785	4,640,645	184,727,543
Past due but not impaired (performing)				
Less than 30 days	2,387,702	1,043,142	845	3,431,689
30-59 days	450,191	467,170	–	917,361
60-90 days	209,770	323,409	–	533,179
Sub total	3,047,663	1,833,721	845	4,882,229
Total performing	62,765,776	122,202,506	4,641,490	189,609,772
Less: portfolio (collective) provision	(541,928)	(1,836,081)	(30,246)	(2,408,255)
Net performing	62,223,848	120,366,425	4,611,244	187,201,517
Non-performing:				
Total non-performing	435,264	2,424,432	59,751	2,919,447
Less: specific provision	(329,079)	(2,062,508)	(42,340)	(2,433,927)
Net non-performing	106,185	361,924	17,411	485,520
Total loans and advances, net	62,330,033	120,728,349	4,628,655	187,687,037

(7.4) Credit quality of loans and advances continued

2012	Consumer and Credit cards SR '000	Corporate SR '000	Others SR '000	Total SR '000
Performing:				
Neither past due nor impaired (performing)				
Level 1	–	77,240,888	3,909,573	81,150,461
Level 2	–	19,390,065	–	19,390,065
Level 3	–	4,545,335	–	4,545,335
Level 4	–	3,927,614	–	3,927,614
Standard - unrated	49,644,644	1,744,810	1,333,779	52,723,233
Total	49,644,644	106,848,712	5,243,352	161,736,708
Past due but not impaired (performing)				
Less than 30 days	1,473,724	1,048,920	711	2,523,355
30-59 days	279,338	532,127	58,781	870,246
60-90 days	165,611	287,692	–	453,303
Sub total	1,918,673	1,868,739	59,492	3,846,904
Total performing	51,563,317	108,717,451	5,302,844	165,583,612
Less: portfolio (collective) provision	(674,332)	(1,790,391)	(30,246)	(2,494,969)
Net performing	50,888,985	106,927,060	5,272,598	163,088,643
Non-performing:				
Total non-performing	298,187	4,479,239	155,280	4,932,706
Less: specific provision	(246,371)	(4,176,501)	(137,288)	(4,560,160)
Net non-performing	51,816	302,738	17,992	372,546
Total loans and advances, net	50,940,801	107,229,798	5,290,590	163,461,189

Standard - unrated loans mainly comprise of consumer, credit cards, small businesses and private banking loans.

Collateral

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

Fair value of collateral held by Group against loans and advances by each category are as follows:

	2013 SR '000	2012 SR '000
Neither past due nor impaired	**53,413,123**	46,992,590
Past due but not impaired	**2,495,826**	1,839,121
Impaired	**590,744**	635,620
Total	**56,499,693**	49,467,331

Those collaterals, which are not readily convertible into cash (i.e. real estate), are accepted by the Group with intent to dispose off in case of default by the customer.

(7.5) Economic sector risk concentrations for the loans and advances and provisions for credit losses are as follows:

2013	Performing SR '000	Non-performing SR '000	Specific provision SR '000	Loans and advances, net SR '000
Government and quasi Government	2,649,831	–	–	2,649,831
Banks and other financial institutions	2,874,054	4,127	(3,880)	2,874,301
Agriculture and fishing	677,142	20,618	(11,903)	685,857
Manufacturing	29,656,768	480,102	(348,228)	29,788,642
Electricity, water, gas and health services	10,124,612	9,021	(4,362)	10,129,271
Building and construction	13,340,121	585,742	(540,007)	13,385,856
Commerce	34,646,562	1,221,753	(1,076,443)	34,791,872
Transportation and communication	12,805,082	25,583	(23,715)	12,806,950
Services	16,736,394	47,857	(40,168)	16,744,083
Consumer loans and credit cards	62,765,776	435,264	(329,079)	62,871,961
Others	3,333,430	89,380	(56,142)	3,366,668
	189,609,772	2,919,447	(2,433,927)	190,095,292
Portfolio (collective) provision				(2,408,255)
Loans and advances, net				187,687,037

2012	Performing SR '000	Non-performing SR '000	Specific provision SR '000	Loans and advances, net SR '000
Government and quasi Government	1,802,969	–	–	1,802,969
Banks and other financial institutions	3,806,419	42,649	(42,464)	3,806,604
Agriculture and fishing	635,787	23,275	(12,043)	647,019
Manufacturing	26,296,747	348,424	(296,075)	26,349,096
Electricity, water, gas and health services	9,179,088	34,227	(25,936)	9,187,379
Building and construction	11,690,632	1,531,934	(1,494,631)	11,727,935
Commerce	31,895,726	2,258,505	(2,153,959)	32,000,272
Transportation and communication	9,920,928	106,612	(88,169)	9,939,371
Services	15,902,983	141,153	(86,452)	15,957,684
Consumer loans and credit cards	51,563,317	298,187	(246,371)	51,615,133
Others	2,889,016	147,742	(114,062)	2,922,696
	165,583,612	4,932,708	(4,560,162)	165,956,158
Portfolio (collective) provision				(2,494,969)
Loans and advances, net				163,461,189

(7.6) Loans and advances include finance lease receivables (including *Ijara* in compliance with *Shariah* rules) which are analysed as follows:

	2013 SR '000	2012 SR '000
Gross receivables from finance leases:		
Less than 1 year	976,288	1,699,223
1 to 5 years	7,793,157	4,776,621
Over 5 years	12,699,540	6,749,995
	21,468,985	13,225,839
Unearned finance income on finance leases	(4,478,875)	(3,213,835)
Net receivables from finance leases	16,990,110	10,012,004

Provision for uncollectable finance lease receivables included in the provision for credit losses is SR 321 million (2012: SR 365 million).

8. INVESTMENT IN ASSOCIATES, NET

	2013 SR '000	2012 SR '000
Cost:		
At the beginning/end of the year	1,487,450	1,487,450
Provision for impairment and share of losses:		
At beginning of the year	(654,819)	(648,875)
Additions, net (note 26)	(3,716)	(5,944)
At 31 December	(658,535)	(654,819)
Investment in associates, net	828,915	832,631

Investment in associates represents a 60% (2012: 60%) ownership interest in the Commercial Real Estate Markets Company 30% (2012: 30%) ownership interest in each of Al Behar Real Estate Investment Company and Al-Ahli Takaful Company, which are all registered in the Kingdom of Saudi Arabia.

9. OTHER REAL ESTATE, NET

	2013 SR '000	2012 SR '000
Cost:		
At beginning of the year	304,822	357,121
Additions	49,552	24,219
Disposals	(68,402)	(76,518)
At 31 December	285,972	304,822
Provision and foreign currency translation:		
Foreign currency translation adjustment	(20,493)	(9,642)
Provision for unrealized revaluation losses	(49,478)	(77,036)
At 31 December	(69,971)	(86,678)
Total	216,001	218,144

10. PROPERTY AND EQUIPMENT, NET

	2013			2012		
	Land, buildings and leasehold improvements SR '000	Furniture, equipment and vehicles SR '000	Total SR '000	Land, buildings and leasehold improvements SR '000	Furniture, equipment and vehicles SR '000	Total SR '000
Cost:						
At beginning of the year	2,951,701	2,402,233	5,353,934	2,818,314	2,044,896	4,863,210
Foreign currency translation adjustment	(32,174)	(58,271)	(90,445)	8,993	18,314	27,307
Additions	328,259	422,745	751,004	136,414	519,538	655,952
Disposals and retirement	(618)	(68,294)	(68,912)	(12,020)	(180,515)	(192,535)
At 31 December	3,247,168	2,698,413	5,945,581	2,951,701	2,402,233	5,353,934
Accumulated depreciation:						
At beginning of the year	1,316,595	1,487,443	2,804,038	1,188,441	1,357,416	2,545,857
Foreign currency translation adjustment	(12,436)	(39,209)	(51,645)	3,045	11,686	14,731
Charge for the year	139,721	338,169	477,890	130,594	283,618	414,212
Disposals and retirement	(280)	(45,950)	(46,230)	(5,485)	(165,277)	(170,762)
At 31 December	1,443,600	1,740,453	3,184,053	1,316,595	1,487,443	2,804,038
Net book value:						
As at 31 December	1,803,568	957,960	2,761,528	1,635,106	914,790	2,549,896

11. GOODWILL AND OTHER INTANGIBLE ASSETS, NET

(11.1) Net book value

	2013		2012	
	Goodwill SR '000	Other intangibles SR '000	Goodwill SR '000	Other intangibles SR '000
Cost:				
At beginning of the year	1,579,854	1,238,076	1,834,120	1,248,994
Disposal	–	–	(346,360)	(83,090)
Foreign currency translation adjustment	(248,927)	(195,075)	92,094	72,172
At 31 December	1,330,927	1,043,001	1,579,854	1,238,076
Amortisation, impairment and foreign currency translation:				
At beginning of the year	937,792	708,040	1,229,485	622,686
Amortisation charge for the year	–	189,337	–	189,337
Impairment loss release on disposal	–	–	(346,360)	(52,668)
Disposal	–	–	–	(30,422)
Foreign currency translation adjustment	(147,762)	(187,115)	54,667	(20,893)
At 31 December	790,030	710,262	937,792	708,040
Net book value:				
At 31 December	540,897	332,739	642,062	530,036

(11.2) Türkiye Finans Katılım Bankası A.Ş., (TFK)

In accordance with the requirements of International Financial Reporting Standards, the Group's management has carried out an impairment test in respect of the goodwill arising on the acquisition of Türkiye Finans Katılım Bankası A.S,. (TFK). The recoverable amount of TFK has been determined based on the higher of value in use or fair value less cost to sell. The two key assumptions used in the test are the discount rate and estimated future cash flows from the business.

An average discount rate of 14.2% (2012: 13.6%) was used to discount future cash flows over a five year period.

A real long term growth rate of 4% (2012: 3%) was used in the terminal value calculation which is in accordance with the latest "The Organisation for Economic Co-operation and Development" (OECD) estimates.

Using the above rates, the recoverable amount based on value in use as at 30 November 2013 was higher than the carrying value; hence no impairment loss on goodwill is required to be recognised in 2013 in respect of TFK.

12. OTHER ASSETS

	2013 SR '000	2012 SR '000
Accrued special commission income receivable:		
- banks and other financial institutions	22,851	41,886
- investments	812,979	813,085
- loans and advances	787,065	672,049
- derivatives	45,679	67,670
Total accrued special commission income receivable	1,668,574	1,594,690
Prepayments and accounts receivable	404,645	299,496
Margin deposits against derivatives and repos (notes 6.3, 14 and 31)	437,307	284,631
Positive fair value of derivatives, net (note 13)	503,733	389,390
Others	2,683,926	1,329,035
Total	5,698,185	3,897,242

13. DERIVATIVES

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

(a) Swaps

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

(b) Forwards and Futures

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

(c) Forward rate agreements

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

(d) Options

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

(e) Structured derivative products

Structured derivative products provide financial solutions to the customers of the Group to manage their risks in respect of foreign exchange, special commission rate and commodity exposures and enhance yields by allowing deployment of excess liquidity within specific risk and return profiles. Majority of the Group's structured derivative transactions are entered on a back-to-back basis with various counterparties.

(13.1) Derivatives held for trading purposes

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

(13.2) Derivatives held for hedging purposes

The Group has adopted a comprehensive system for the measurement and management of risk (see note 31 - credit risk, note 32 - market risk and note 33 - liquidity risk). Part of the risk management process involves managing the Group's exposure to fluctuations in foreign exchange and special commission rates to reduce its exposure to currency and special commission rate risks to acceptable levels as determined by the Board of Directors within the guidelines issued by SAMA.

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

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

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

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

				Notional amounts by term to maturity				
2013	Positive fair value SR '000	Negative fair value SR '000	Notional amount SR '000	Within 3 months SR '000	3-12 months SR '000	1-5 years SR '000	Over 5 years SR '000	Monthly average SR '000
Held for trading:								
Special commission rate swaps	197,790	(187,164)	18,630,107	–	729,836	16,465,104	1,435,166	12,952,404
Forward foreign exchange contracts	117,001	(90,446)	59,929,689	43,592,590	16,320,205	16,894	–	58,024,978
Options	1,860	(1,860)	660,509	545,872	114,636	–	–	3,700,735
Structured derivatives	155,251	(155,664)	42,491,314	5,940,282	18,668,254	17,882,778	–	49,037,201
Held as fair value hedges:								
Special commission rate swaps	–	(155,041)	843,750	–	–	843,750	–	843,750
Held as cash flow hedges:								
Special commission rate swaps	31,831	(48,246)	7,349,059	–	200,000	4,796,559	2,352,500	8,584,364
Total fair value, net (note 12 & 17)	503,733	(638,421)	129,904,428	50,078,744	36,032,931	40,005,085	3,787,666	

(13.2) Derivatives held for hedging purposes continued

2012	Positive fair value SR '000	Negative fair value SR '000	Notional amount SR '000	Within 3 months SR '000	3-12 months SR '000	1-5 years SR '000	Over 5 years SR '000	Monthly average SR '000
			Notional amounts by term to maturity					
Held for trading:								
Special commission rate swaps	137,164	(132,817)	7,073,932	6,500	543,096	5,765,169	759,166	6,427,670
Forward foreign exchange contracts	68,334	(55,573)	53,984,869	32,598,844	21,386,025	–	–	54,063,141
Options	32,552	(32,551)	2,781,723	1,128,923	1,193,648	459,152	–	4,164,488
Structured derivatives	50,016	(50,014)	22,156,663	4,641,936	11,716,532	5,798,196	–	46,201,354
Held as fair value hedges:								
Special commission rate swaps	–	(212,618)	843,750	–	–	93,750	750,000	1,092,969
Held as cash flow hedges:								
Special commission rate swaps	101,324	(9,965)	8,024,543	–	69,000	7,178,364	777,179	6,391,450
Total fair value, net (note 12 & 17)	389,390	(493,538)	94,865,480	38,376,203	34,908,301	19,294,631	2,286,345	

The table below shows a summary of hedged items and portfolios, the nature of the risk being hedged, the hedging instrument and its fair value.

2013	Fair value SR '000	Cost SR '000	Risk	Hedging instrument	Positive fair value SR '000	Negative fair value SR '000
Description of hedged items						
Fixed rate instruments	1,010,045	843,750	Fair value	Special commission rate swap	–	(155,041)
Fixed rate and floating rate instruments	7,386,839	7,349,059	Cash flow	Special commission rate swap	31,831	(48,246)

2012	Fair value SR '000	Cost SR '000	Risk	Hedging instrument	Positive fair value SR '000	Negative fair value SR '000
Description of hedged items						
Fixed rate instruments	980,140	843,750	Fair value	Special commission rate swap	–	(212,618)
Fixed rate and floating rate instruments	8,150,980	8,024,543	Cash flow	Special commission rate swap	101,324	(9,965)

The losses on the hedging instruments for fair value hedges are SR 58 million (2012: SR 217 million). The gains on the hedged items attributable to the hedged risk are SR 58 million (2012: SR 217 million). Thus, the net fair value is SR nil (2012: SR nil).

Approximately 9% (2012: 48%) of the positive fair value of the Group's derivatives are entered into with financial institutions and less than 91% (2012: 52%) of the positive fair value contracts are with non-financial institutions at the consolidated statement of financial position date. Derivative activities are mainly carried out under the Group's Treasury segment.

Cash flows hedges:

The Bank is exposed to variability in future special commission cash flows on non-trading assets and liabilities which bear special commission at a variable rate. The Bank generally uses special commission rate swaps as hedging instruments to hedge against these special commission rate risks.

(13.2) Derivatives held for hedging purposes continued

Cash flows hedges: continued

Below is the schedule indicating as at 31 December, the periods when the hedged cash flows are expected to occur and when they are expected to affect profit or loss:

2013	Within 1 year SR '000	1-3 years SR '000	3-5 years SR '000	Over 5 years SR '000
Cash inflows (assets)	220,922	319,727	150,280	207,842
Cash outflows (liabilities)	(171,632)	(275,242)	(180,589)	(311,737)
Net cash inflows	49,290	44,485	(30,309)	(103,895)

2012	Within 1 year SR '000	1-3 years SR '000	3-5 years SR '000	Over 5 years SR '000
Cash inflows (assets)	214,036	398,802	95,025	8,251
Cash outflows (liabilities)	(173,868)	(331,185)	(102,219)	(11,892)
Net cash inflows	40,168	67,617	(7,194)	(3,641)

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

	2013 SR '000	2012 SR '000
Special commission income	201,552	179,339
Special commission expense	(172,197)	(133,450)
Net gain on cash flow hedges reclassified to the consolidated statement of income	29,355	45,889

Movements in the other reserve of cash flows hedges:

	2013 SR '000	2012 SR '000
Balance at beginning of the year	91,359	56,885
Net gain on cash flow hedges reclassified to the consolidated statement of income	(40,161)	(45,889)
(Losses)/gain from changes in fair value recognised directly in equity, net (effective portion)	(20,403)	80,363
Balance at end of the year	30,795	91,359

The discontinuation of hedge accounting due to disposal of both the hedging instruments and the hedged items, resulted in reclassification of the associated cumulative gains of SR 10.8 million (2012: SR nil) from equity to consolidated statement of income, included in the gains above.

14. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2013 SR '000	2012 SR '000
Current accounts	2,970,409	3,928,846
Money market deposits	14,467,698	14,085,533
Repos (note 6.3)	7,287,207	7,559,797
Total	24,725,314	25,574,176

15. CUSTOMERS' DEPOSITS

	2013 SR '000	2012 SR '000
Current accounts	234,988,516	190,156,460
Savings	148,015	145,998
Time	53,095,364	70,533,589
Others	12,369,780	12,694,043
Total	300,601,675	273,530,090

Other customers' deposits include SR 3,531 million (2012: SR 3,963 million) of margins held for irrevocable commitments and contingencies.

Foreign currency deposits included in customers' deposits:

	2013 SR '000	2012 SR '000
Current accounts	30,137,011	11,879,096
Savings	374	883
Time	31,415,619	33,928,515
Others	1,266,922	1,185,084
Total	62,819,926	46,993,578

16. DEBT SECURITIES ISSUED

During May 2013, Turkiye Finans Katilim Bankasi, issued 5 year fixed rate non-convertible sukuk certificates amounting to US $500 million (SR 1,875 million). The certificates are listed on the Irish Stock Exchange and carry a fixed rate of 3.95% payable semi annually.

17.OTHER LIABILITIES

	2013 SR '000	2012 SR '000
Accrued special commission expense payable:		
- banks and other financial institutions	35,259	38,306
- customers' deposits	206,296	187,351
- derivatives	55,451	67,721
Total accrued special commission expense payable	297,006	293,378
Negative fair value of derivatives (note 13)	638,421	493,538
Zakat (NCB and NCBC)	889,876	478,753
Staff-related payables	1,533,539	1,476,180
Accrued expenses and accounts payable	1,083,921	955,836
Provisions for indirect facilities (note 7.3)	430,503	422,050
Others	3,032,649	2,631,557
Total	7,905,915	6,751,292

18. SHARE CAPITAL

The authorized, issued and fully paid share capital of the Bank excluding treasury shares (see note 42) consists of 1,495,975,148 shares of SR 10 each (2012: 1,495,975,148 shares of SR 10 each), wholly owned by Saudi shareholders.

The Board of Directors in its meeting held on 29 January 2014 (corresponding to 28 Rabi Al-Awal 1435H) proposed to increase the authorised and issued share capital of the Bank from SR 15 billion to SR 20 billion through capitalization of retained earnings and issuance of 33.33% bonus shares (one share for each three shares held as at 31 December 2013). The proposed increase is subject to the approval of SAMA, Ministry of Commerce and Industry and the shareholders of the Bank in the next General Assembly Meeting.

19. STATUTORY RESERVE

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

Pursuant to the Lebanese Money and Credit Law, the Lebanon branch is required to transfer 10% of its annual net income to the statutory reserve. The Turkish Bank transferred 5% of its previous year annual net income to statutory reserve.

The statutory reserves are not currently available for distribution.

20. OTHER RESERVES (cumulative changes in fair values)

Other reserves represent the net unrealized revaluation gains (losses) of cash flow hedges (effective portion) and available for sale investments. The movement of other reserves during the year is included under consolidated statement of other comprehensive income and the consolidated statement of changes in equity. These reserves are not available for distribution.

21. COMMITMENTS AND CONTINGENCIES

(21.1) Legal proceedings

The Bank is one of many Saudi and non-Saudi defendants in certain lawsuits initiated in the United States commencing in 2002. These lawsuits were consolidated in a Federal Court in New York for preliminary pre-trial purposes. During 2004, the Bank filed motions to dismiss the lead lawsuits and asserted a number of threshold jurisdictional and legal defenses. In July 2008, the Bank made a renewed motion to dismiss all of these lawsuits based on a lack of United States jurisdiction over the Bank. On 16 June 2010, the Presiding Judge granted the Bank's renewed motion to dismiss all of plaintiffs' claims against the Bank, finding that the evidence did not support the exercise of United States jurisdiction over the Bank, either generally, or specifically in connection with the plaintiffs' claims.

On 14 July 2011, the Clerk of the Court issued a formal judgment of dismissal of claims against the Bank and numerous other defendants. Through a series of notices filed on or before 15 August 2011, the plaintiffs in all lawsuits against the Bank commenced appeals of the judgment of dismissal of the Bank and numerous other defendants. Following oral argument of the appeals in December 2012, the Court of Appeals on 16 April 2013 affirmed the trial court's judgment dismissing the claims against the Bank for lack of jurisdiction. On 10 May 2013, the plaintiffs filed a petition for rehearing of the appeal which the Court of Appeals denied on 10 June 2013.

Although the judgment dismissing plaintiffs' claims against the Bank became final upon denial of the petition for rehearing, the plaintiffs on 9 September 2013 sought a discretionary further (and final) review of the Court of Appeals' decision by way of a petition to the United States Supreme Court for a writ of certiorari. The Bank joined with other similarly situated defendants (those dismissed for lack of jurisdiction) in a common brief in opposition to the plaintiffs' petition for certiorari, which was filed in November 2013. In an order entered on December 16, 2013, the Supreme Court invited the Solicitor General of the United States to submit the views of the U.S. government, a process that is likely to take several months. The Bank's legal counsel expects that the Supreme Court ultimately will deny plaintiffs' petition because the judgment dismissing the claims against the Bank has a strong basis in both law and fact as recognized by the Court of Appeals in its 16 April 2013 decision. The Supreme Court denied plaintiffs' earlier petition for certiorari involving the dismissal of claims against several Saudi government defendants, after inviting the Solicitor General to submit the views of the U.S. government.

(21.2) Capital and other non-credit related commitments

The Group's capital commitments as at 31 December 2013 in respect of building and equipment purchases are not material to the financial position of the Group.

(21.3) Credit-related commitments and contingencies

Credit-related commitments and contingencies mainly comprise letters of credit, guarantees, acceptances and commitments to extend credit (irrevocable). The primary purpose of these instruments is to ensure that funds are available to customers as required.

Guarantees including standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that customers cannot meet their obligations to third parties, carry the same credit risk as loans and advances.

Cash requirements under guarantees are normally considerably less than the amount of the related commitment because the Group does not generally expect the third party to draw funds under the agreement.

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

(21.3) Credit-related commitments and contingencies continued

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

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

(a) The contractual maturity structure of the Group's credit-related commitments and contingencies is as follows:

2013	Within 3 months SR '000	3-12 months SR '000	1-5 years SR '000	Over 5 years SR '000	Total SR '000
Letter of credit	16,731,014	2,808,346	920,100	14,020	20,473,480
Guarantees	10,957,279	19,875,983	11,998,811	5,321,763	48,153,836
Acceptances	2,118,005	1,200,104	55,218	7,693	3,381,020
Irrevocable commitments to extend credit	–	876,220	8,448,376	341,250	9,665,846
Total	29,806,298	24,760,653	21,422,505	5,684,726	81,674,182

2012	Within 3 months SR '000	3-12 months SR '000	1-5 years SR '000	Over 5 years SR '000	Total SR '000
Letter of credit	15,771,031	3,884,382	1,688,471	13,224	21,357,108
Guarantees	13,079,479	17,219,246	15,089,850	5,248,855	50,637,430
Acceptances	2,567,054	877,185	41,228	4,880	3,490,347
Irrevocable commitments to extend credit	720,087	1,980,327	7,347,514	–	10,047,928
Total	32,137,651	23,961,140	24,167,063	5,266,959	85,532,813

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

	2013 SR '000	2012 SR '000
Government and quasi Government	5,976,544	5,081,506
Corporate and establishment	58,252,497	61,458,243
Banks and other financial institutions	16,583,853	18,134,990
Others	861,288	858,074
Total	81,674,182	85,532,813

(21.4) Operating lease commitments

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

	2013 SR '000	2012 SR '000
Less than 1 year	222,329	198,543
1 to 5 years	606,025	578,131
Over 5 years	465,941	484,911
Total	1,294,295	1,261,585

22. NET SPECIAL COMMISSION INCOME

	2013 SR '000	2012 SR '000
Special commission income:		
Investments – available for sale	491,605	647,383
Investments – held to maturity	51,429	57,201
Other investments held at amortised cost	2,132,489	2,057,503
Sub total – investments	2,675,523	2,762,087
Due from banks and other financial institutions	89,802	109,241
Loans and advances	8,960,493	8,224,859
Total	11,725,818	11,096,187
Special commission expense:		
Due to banks and other financial institutions	270,041	205,421
Customers' deposits	1,402,006	1,931,184
Debt securities issued	41,441	–
Total	1,713,488	2,136,605
Net special commission income	10,012,330	8,959,582

23. FEE INCOME FROM BANKING SERVICES, NET

	2013 SR '000	2012 SR '000
Fee income:		
Shares brokerage	323,960	516,883
Investment management services	268,138	279,548
Finance and lending	1,471,258	1,277,877
Credit card	253,213	239,826
Trade finance	720,892	712,448
Others	196,462	168,992
Total	3,233,923	3,195,574
Fee expenses:		
Shares brokerage	56,589	90,096
Investment management services	10,930	10,156
Credit card	136,357	125,939
Others	11,395	9,001
Total	215,271	235,192
Fees from banking services, net	3,018,652	2,960,382

Others includes fees from miscellaneous banking activities.

24. TRADING INCOME, NET

	2013 SR '000	2012 SR '000
Foreign exchange	63,075	40,715
Mutual funds	4,876	8,566
Derivatives	32,602	31,595
Total	100,553	80,876

25. GAINS ON NON-TRADING INVESTMENTS, NET

	2013 SR '000	2012 SR '000
Gains on available for sale investments, net	563,565	487,571
Gains on other investments held at amortised cost, net	82,527	114,185
Total	646,092	601,756

26. OTHER NON-OPERATING (EXPENSES), NET

	2013 SR '000	2012 SR '000
Income tax of foreign operations	(159,695)	(150,075)
Bank's share in associates' (losses) (note 8)	(3,716)	(5,944)
Gain on disposal of property and equipment	15,250	3,563
Net other (expenses)	(35,799)	(23,777)
Total	(183,960)	(176,233)

27. BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share for the years ended 31 December 2013 and 2012 is calculated by dividing the net income attributable to equity holders of the Bank for the year by the weighted average number of shares outstanding during the year (see note 18).

The calculation of diluted earnings per share is not applicable to the Group.

28. NET DIVIDEND AND ZAKAT

During the year, the Board of Directors recommended a dividend, net of zakat, for the year as follows:

	Amount		Rate per share	
	2013 SR '000	2012 SR '000	2013 SR	2012 SR
Interim dividend paid	1,196,780	1,196,780	0.80	0.80
Proposed final dividend	1,645,573	1,495,975	1.10	1.00
Total net dividend	2,842,353	2,692,755	1.90	1.80
Zakat attributable to the Bank	889,876	451,650		
Total gross dividend	3,732,229	3,144,405		

28. NET DIVIDEND AND ZAKAT CONTINUED

Zakat assessments had been finalized with the Department of Zakat and Income Tax (DZIT) for all the years up to 2007. The Bank has submitted zakat returns for the years 2008 to 2012 and obtained limited zakat certificates. The DZIT has issued assessment for the years 2008 to 2011 and the bank has filed an appeal against the assessment which is currently under review by DZIT.

The zakat assessment for the year 2012 has not yet been issued by DZIT.

29. CASH AND CASH EQUIVALENTS

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

	2013 SR '000	2012 SR '000
Cash and balances with SAMA excluding statutory deposits (note 4)	22,285,224	25,747,923
Due from banks and other financial institutions with original maturity of three months or less (note 5)	8,309,338	12,340,282
Total	30,594,562	38,088,205

30. OPERATING SEGMENTS

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Group management.

The Group has five reportable segments, as described below, which are the Group's strategic divisions. The strategic divisions offer different products and services, and are managed separately based on the Group's management and internal reporting structure.

Retail - Provides banking services, including lending and current accounts in addition to products in compliance with *Shariah* rules which are supervised by the independent *Shariah* Board, to individuals and private banking customers.

Corporate - Provides banking services including all conventional credit-related products and financing products in compliance with *Shariah* rules to small sized businesses medium and large establishments and companies.

Treasury - Provides a full range of treasury products and services, including money market and foreign exchange, to the Group's clients, in addition to carrying out investment and trading activities (local and international) and managing liquidity risk, market risk and credit risk (related to investments).

Capital Market - Provides wealth management, assets management, investment banking and shares brokerage services (local, regional and international).

International - Comprises banking services provided outside Saudi Arabia including overseas subsidiaries and branches.

Transactions between the operating segments are recorded as per the Bank and its subsidiaries' transfer pricing system.

The supports and Head Office expenses are allocated to segments using activity-based costing.

(30.1) The Group's total assets and liabilities at year end, its operating income and expenses (total and main items) and net income for the year, by business segments, are as follows:

2013	Retail SR '000	Corporate SR '000	Treasury SR '000	Capital Market SR '000	International SR '000	Total SR '000
Total assets	75,283,303	102,655,440	151,186,129	1,217,883	46,937,579	377,280,334
Total liabilities	147,537,332	132,618,779	17,382,034	262,079	36,943,930	334,744,154
Fee income from banking services, net	862,949	1,011,439	–	575,356	568,908	3,018,652
Operating income	5,310,796	3,392,080	3,387,768	604,631	2,167,668	14,862,943
Operating expenses	3,503,309	801,604	364,317	402,714	1,565,397	6,637,341
of which:						
- Depreciation of property and equipment	297,079	48,828	32,542	21,870	77,571	477,890
- Impairment charge for credit losses, net	451,015	107,067	–	–	237,263	795,345
- Impairment charge on investments, net	–	–	29,861	10,545	–	40,406
Net income (Bank and non-controlling interests)	1,854,109	2,594,599	3,033,184	111,476	395,608	7,988,976

(30.1) The Group's total assets and liabilities at year end, its operating income and expenses (total and main items) and net income for the year, by business segments, are as follows: continued

2012	Retail SR '000	Corporate SR '000	Treasury SR '000	Capital Market SR '000	International SR '000	Total SR '000
Total assets	61,858,845	89,855,518	150,529,436	1,203,302	41,812,602	345,259,703
Total liabilities	136,677,454	119,012,012	20,438,672	251,811	29,475,609	305,855,558
Fee income from banking services, net	840,454	855,571	–	753,819	510,538	2,960,382
Operating income	5,091,660	2,315,643	3,232,212	768,736	2,100,660	13,508,911
Operating expenses	2,978,932	1,466,890	285,022	415,997	1,514,582	6,661,423
of which:						
- Depreciation of property and equipment	265,230	37,992	28,456	16,646	65,888	414,212
- Impairment charge for credit losses, net	203,928	885,576	–	–	346,508	1,436,012
- Impairment charge on investments, net	–	–	–	–	–	–
Net income (Bank and non-controlling interests)	2,138,177	812,968	2,897,745	340,943	423,493	6,613,326

(30.2) The Group's credit exposure, by business segments, is as follows:

2013	Retail SR '000	Corporate SR '000	Treasury SR '000	Capital Market SR '000	International SR '000	Total SR '000
Statement of financial position assets	58,975,796	95,366,169	126,661,224	141,613	42,996,091	324,140,893
Commitments and contingencies (credit equivalent)	302,106	24,757,199	–	–	14,281,519	39,340,824
Derivatives (credit equivalent)	–	–	1,206,028	–	149,394	1,355,422

2012	Retail SR '000	Corporate SR '000	Treasury SR '000	Capital Market SR '000	International SR '000	Total SR '000
Statement of financial position assets	47,976,508	84,851,050	121,461,806	87,533	38,234,768	292,611,665
Commitments and contingencies (credit equivalent)	269,478	27,270,628	–	–	14,215,029	41,755,135
Derivatives (credit equivalent)	–	–	816,690	188	61,938	878,816

The credit exposure of assets as per statement of financial position comprises the carrying value of due from banks and other financial institutions, investments subject to credit risk, loans and advances, accrued special commission income, margin deposits against derivatives and repos and positive fair value of derivatives.

The credit equivalent of commitments and contingencies and derivatives is calculated according to SAMA's prescribed methodology.

31. CREDIT RISK

The Group manages exposure to credit risk, which is the risk that one party to a financial instrument or transaction will fail to discharge an obligation and will cause the other party to incur a financial loss. Credit exposures arise principally in credit-related risk that is embedded in loans and advances and investments. There is also credit risk in off-balance sheet financial instruments, such as trade-finance related products and loan commitments.

For loans and advances and off-balance sheet financing to borrowers, the Group assesses the probability of default of counterparties using internal rating models. For investments, due from banks and off-balance sheet financial instruments with international counterparties, the Group uses external ratings of the major rating agencies.

The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Group's risk management policies are designed to identify risks and to set appropriate risk limits and to monitor the risks and adherence to limits. Actual exposures against limits are monitored daily.

The Group manages the credit exposure relating to its trading activities by monitoring credit limits, entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposure. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk. The Group's credit risk for derivatives represents the potential cost to replace the derivative contracts if counterparties fail to fulfill their obligation and the Group assesses counterparties using the same techniques as for its lending activities in order to control the level of credit risk taken.

31. CREDIT RISK CONTINUED

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

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

The debt securities included in investments are mainly sovereign risk and high-grade securities. Analysis of investments by counterparty is provided in note (6.5). For details of the composition of the loans and advances refer to note (7.5). Information on credit risk relating to derivative instruments is provided in notes (13) and for commitments and contingencies in note (21). The information on the Bank's total maximum credit exposure is given in note (31.1).

Each individual borrower is rated based on an internally developed debt rating model that evaluates risk based on financial, qualitative and industry specific inputs. The associated loss estimate norms for each grade have been developed based on the Group's experience. These risk ratings are reviewed on a regular basis.

Performing credit cards, consumer loans and small business loans are classified as standard as they are performing and have timely repayment with no past dues.

The Group in the ordinary course of lending activities holds collaterals as security to mitigate credit risk in the loans and advances (refer to note 7.4). These collaterals mostly include time and other cash deposits, financial guarantees from other banks, local and international equities, real estate and other fixed assets. The collaterals are held mainly against commercial and individual loans and are managed against relevant exposures at their net realizable values. The Group holds real estate collateral against transfer of title deed (ifrag) as a collateral but due to the difficulty in seizing and liquidating them, the Group does not consider them as immediate cash flow for impairment assessment for non-performing loans. Financial instruments such as loans and advances and customers' deposits are shown gross on the consolidated statement of financial position and no offsetting has been done. The positive and negative fair values of derivatives are shown gross on the consolidated statement of financial position and no offsetting has been done (refer to notes 12 and 13). Collateral generally is not held against due from banks and other financial institutions, except when securities are held as part of reverse repurchase agreements (refer to note 5). The carrying amount and fair value of securities pledged and the margin deposit under agreements to repurchase (repo) are disclosed in notes 6.3, 12 and 14. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2013 and 2012.

The Group seeks to manage its credit risk exposure through the diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or businesses. It also takes security when appropriate. The Group also seeks additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant loans and advances. The Group monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained periodically.

Specific provisions for credit losses for the impaired lending portfolio are maintained by the Group's Credit Risk Management in addition to credit-related specific provision for investments. Exposures falling within certain high risk ratings are considered impaired and appropriate specific provisions are individually made. An additional portfolio (collective) provision is allocated over the performing loans and advances as well as investments [refer to note (3.14 and 2.5(a)) for accounting policy of impairment of financial assets].

(31.1) Maximum credit exposure

Maximum exposure to credit risk without taking into account any collateral and other credit enhancements is as follows:

	2013 SR '000	2012 SR '000
Assets		
Due from banks and other financial institutions (note 5)	14,831,332	16,402,282
Investments (note 6.6)	119,012,909	110,479,483
Loans and advances, net (note 7.4)	187,687,037	163,461,189
Other assets – margin deposits against derivatives and repos, and accrued special commission income receivable (note 12)	2,105,881	1,879,321
Total assets	323,637,159	292,222,275
Contingent liabilities and commitments, net (notes 15,16 & 21.3)	77,713,176	81,148,105
Derivatives – positive fair value, net (note 13)	503,733	389,390
Total maximum exposure	401,854,068	373,759,770

32. MARKET RISK

Market risk is the risk that changes in market prices, such as special commission rate, credit spreads (not relating to changes in the obligor's / issuer's credit standing), equity prices and foreign exchange rates, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Group separates its exposure to market risk between trading and banking books. Trading book is mainly held by the Treasury division and includes positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

Overall authority for market risk is vested in the Board of Directors. The Group's Risk Management is responsible for the development of detailed risk management policies (subject to review and approval by the Board of Directors) and for the day-to-day review of their implementation.

(32.1) Market Risk-Trading Book

The principal tool used to measure and control market risk exposure within the Group's trading book is Value at Risk (VaR). The VaR of a trading position is the estimated loss that will arise on the position over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used by the Group is based upon a 99 percent confidence level and assumes a 1-day holding period, except for Fair Value through Income Statement (FVIS) investments which are computed over a 3-month holding period (i.e., VaR is measured daily, except for VaR on FVIS investments which are computed on a monthly basis), to facilitate the comparison with the trading income (loss) which is also computed and reported on a daily and monthly basis respectively for these products. The model computes volatility and correlations using relevant historical market data.

The Group uses VaR limits for total market risk embedded in its trading activities including derivatives related to foreign exchange and special commission rate. The Group also assesses the market risks using VaR in its FVIS investments which are controlled by volume limits. The overall structure of VaR limits is subject to review and approval by the Board of Directors. VaR limits are allocated to trading book. The daily reports of utilisation of VaR limits are submitted to the senior management of the Group. In addition, regular summaries about various risk measures including the Economic Capital are submitted to the Risk Committee of the Board.

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

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

(ii) A 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a one percent probability that losses could exceed the VaR.

(iii) VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day.

(iv) The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.

(v) The VaR measure is dependent upon the Group's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

The limitations of the VaR methodology are recognised by supplementing VaR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading book. In addition, the Group uses stress tests to model the financial impact of exceptional market scenarios on individual trading book and the Group's overall trading position.

The table below shows the VaR related information for the year ended 31 December 2013 and 2012 for both Held for Trading and Held as FVIS portfolios:

	Held for Trading			
2013	Foreign exchange risk SR '000	Special commission risk SR '000	Overall risk SR '000	FVIS SR '000
VaR as at 31 December 2013	30	27	57	211,037
Average VaR for 2013	26	26	52	189,540

(32.1) Market Risk-Trading Book continued

2012	Held for Trading: Foreign exchange risk SR '000	Held for Trading: Special commission risk SR '000	Held for Trading: Overall risk SR '000	FVIS SR '000
VaR as at 31 December 2012	3	13	16	125,125
Average VaR for 2012	14	16	30	221,424

(32.2) Market Risk – Banking Book

Market risk on banking book positions mainly arises from the special commission rate, foreign currency exposures and equity price changes.

(32.2.1) Special Commission Rate Risk

Special commission rate risk arises from the possibility that changes in special commission rates will affect future cash flows or the fair values of financial instruments. The Group's Assets-Liabilities Committee (ALCO) has established limits on the special commission rate gap. Positions are regularly monitored and reported on a monthly basis to ALCO and hedging strategies are used to ensure positions are maintained within the established limits. In case of stressed market conditions, the asset-liability gap may be monitored more frequently.

The following table depicts the sensitivity due to reasonably possible changes in special commission rates, with other variables held constant, on the Group's consolidated statement of income or equity. The sensitivity of the income is the effect of the assumed changes in special commission rates on the net special commission income for one year, based on the special commission bearing non-trading financial assets and financial liabilities held as at 31 December 2013, including the effect of hedging instruments. The sensitivity of the equity is calculated by revaluing the fixed rate available for sale financial assets, including the effect of any associated hedges, as at 31 December 2013 for the effect of assumed changes in special commission rates. The sensitivity of equity is analyzed by maturity of the assets or cash flow hedge swaps. All significant banking book exposures are monitored and analyzed in currency concentrations and relevant sensitivities are disclosed in local currency. The sensitivity analysis does not take account of actions by the Group that might be taken to mitigate the effect of such changes.

2013	Increase / Decrease in basis points	Sensitivity of special commission income SR '000	Sensitivity of equity (other reserves): within 3 months SR '000	Sensitivity of equity (other reserves): 3-12 months SR '000	Sensitivity of equity (other reserves): 1-5 years SR '000	Sensitivity of equity (other reserves): Over 5 years SR '000	Total SR '000
Currency							
SR	± 10	± 103,147	–	± 102	± 4,602	± 14,903	± 19,607
USD	± 10	± 18,622	± 40	± 1,286	± 14,937	± 49,329	± 65,592

2012	Increase / Decrease in basis points	Sensitivity of special commission income SR '000	Sensitivity of equity (other reserves): within 3 months SR '000	Sensitivity of equity (other reserves): 3-12 months SR '000	Sensitivity of equity (other reserves): 1-5 years SR '000	Sensitivity of equity (other reserves): Over 5 years SR '000	Total SR '000
Currency							
SR	± 10	± 85,258	–	± 23	± 46,954	± 1,133	± 48,110
USD	± 10	± 28,716	± 205	± 116	± 13,530	± 119,881	± 133,732

(32.2) Market Risk – Banking Book continued

(32.2.1) Special Commission Rate Risk continued

(a) Special commission rate sensitivity of assets, liabilities and off-balance sheet items

The Group manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market special commission rates on its financial position and cash flows. The table below summarizes the Group's exposure to special commission rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorized by the earlier of the contractual re-pricing or the maturity dates. The Group manages exposure to special commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period. The Group manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

The table below summarizes the Group's exposure to special commission rate risks.

2013	Within 3 months SR '000	3-12 months SR '000	1-5 years SR '000	Over 5 years SR '000	Non-special commission bearing SR '000	Total SR '000
Assets						
Cash and balances with SAMA	17,182,881	–	–	–	21,906,807	39,089,688
Due from banks and other financial institutions	7,587,234	1,387,400	–	–	5,856,698	14,831,332
Investments, net	28,865,401	27,361,052	26,678,227	36,108,227	6,281,105	125,294,012
Loans and advances, net	41,276,826	65,172,535	72,553,934	8,302,473	381,269	187,687,037
Investment in associates, net	–	–	–	–	828,915	828,915
Other real estate, net	–	–	–	–	216,001	216,001
Property and equipment, net	–	–	–	–	2,761,528	2,761,528
Goodwill and other intangible assets, net	–	–	–	–	873,636	873,636
Other assets	–	–	–	–	5,698,185	5,698,185
Total assets	94,912,342	93,920,987	99,232,161	44,410,700	44,804,144	377,280,334
Liabilities and equity						
Due to banks and other financial institutions	17,980,817	3,064,925	3,387,900	–	291,672	24,725,314
Customers' deposits	40,144,428	13,657,159	332,371	–	246,467,717	300,601,675
Debt securities issued	–	–	1,511,250	–	–	1,511,250
Other liabilities	–	–	–	–	7,905,915	7,905,915
Equity attributable to equity holders of the Bank	–	–	–	–	40,933,907	40,933,907
Non-controlling interest	–	–	–	–	1,602,273	1,602,273
Total liabilities and equity	58,125,245	16,722,084	5,231,521	–	297,201,484	377,280,334
On-balance sheet gap	36,787,097	77,198,903	94,000,640	44,410,700	(252,397,340)	
Off-balance sheet gap	927,434	(619,434)	(2,098,000)	1,790,000	–	
Total special commission rate sensitivity gap	37,714,531	76,579,469	91,902,640	46,200,700	(252,397,340)	
Cumulative special commission rate sensitivity gap	37,714,531	114,294,000	206,196,640	252,397,340	–	

(32.2) Market Risk – Banking Book continued

(32.2.1) Special Commission Rate Risk continued

(a) Special commission rate sensitivity of assets, liabilities and off-balance sheet items continued

2012	Within 3 months SR '000	3-12 months SR '000	1-5 years SR '000	Over 5 years SR '000	Non-special commission bearing SR '000	Total SR '000
Assets						
Cash and balances with SAMA	22,016,849	–	–	–	18,281,579	40,298,428
Due from banks and other financial institutions	13,117,788	104,930	–	–	3,179,564	16,402,282
Investments, net	24,495,945	15,983,862	36,981,779	33,017,895	5,948,312	116,427,793
Loans and advances, net	42,744,259	63,462,521	51,493,434	5,404,217	356,758	163,461,189
Investment in associates, net	–	–	–	–	832,631	832,631
Other real estate, net	–	–	–	–	218,144	218,144
Property and equipment, net	–	–	–	–	2,549,896	2,549,896
Goodwill and other intangible assets, net	–	–	–	–	1,172,098	1,172,098
Other assets	–	–	–	–	3,897,242	3,897,242
Total assets	102,374,841	79,551,313	88,475,213	38,422,112	36,436,224	345,259,703
Liabilities and equity						
Due to banks and other financial institutions	14,571,829	6,349,658	1,122,101	–	3,530,588	25,574,176
Customers' deposits	56,309,588	15,250,402	427,623	–	201,542,477	273,530,090
Debt securities issued	–	–	–	–	–	–
Other liabilities	–	–	–	–	6,751,292	6,751,292
Equity attributable to equity holders of the Bank	–	–	–	–	37,703,631	37,703,631
Non-controlling interest	–	–	–	–	1,700,514	1,700,514
Total liabilities and equity	70,881,417	21,600,060	1,549,724	–	251,228,502	345,259,703
On-balance sheet gap	31,493,424	57,951,253	86,925,489	38,422,112	(214,792,278)	
Off-balance sheet gap	(670,518)	(518,954)	4,274,920	(3,085,448)	–	
Total special commission rate sensitivity gap	30,822,906	57,432,299	91,200,409	35,336,664	(214,792,278)	
Cumulative special commission rate sensitivity gap	30,822,906	88,255,205	179,455,614	214,792,278	–	

The off-balance sheet gap represents the net notional amounts of derivative financial instruments, which are used to manage the special commission rate risk.

(32.2) Market Risk – Banking Book continued

(32.2.2) Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Board has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

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

Currency	2013 Long (short) SR '000	2012 Long (short) SR '000
US Dollar	109,945	74,009
TRY	4,497,811	4,783,630

Long position indicates that assets in a foreign currency are higher than the liabilities in the same currency; the opposite applies to short position.

The table below indicates the extent to which the Group was exposed to currency risk at 31 December 2013 on its significant foreign currency positions. The analysis is performed for reasonably possible movements of the currency rate against the Saudi Riyal with all other variables held constant, including the effect of hedging instruments, on the consolidated statement of income; the effect on equity of foreign currencies other than Turkish Lira (TRY) is not significant. A negative amount in the table reflects a potential net reduction in consolidated statement of income, while a positive amount reflects a net potential increase. The sensitivity analysis does not take account of actions by the Group that might be taken to mitigate the effect of such changes.

	2013			2012		
Currency	Increase/ Decrease in currency rate in %	Effect on profit SR '000	Effect on equity SR '000	Increase/ Decrease in currency rate in %	Effect on profit SR '000	Effect on equity SR '000
TRY	± 10%	± 43,028	± 449,781	± 10%	± 39,254	± 478,363

(32.2.3) Equity Price Risk

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the levels of equity index and the value of individual stocks.

The effect on equity (other reserves) as a result of a change in the fair value of equity instruments quoted on Tadawul and held as available-for-sale at 31 December 2013 and 2012, due to reasonably possible changes in the prices of these quoted shares held by the Bank, with all other variables held constant, is as follows:

	2013		2012	
Market index – (Tadawul)	Increase/ Decrease in market prices %	Effect on equity (other reserves) SR '000	Increase/ Decrease in market prices %	Effect on equity (other reserves) SR '000
Impact of change in market prices	± 10%	± 268,216	± 10%	± 209,614

33. LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to be less readily available. To mitigate this risk, management has diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, maintaining an appropriate balance of cash, cash equivalents and readily marketable securities and monitors future cash flows and liquidity on a daily basis. The Group has lines of credit in place that it can access to meet liquidity needs.

In accordance with the Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA of 7% of total demand deposits and 4% of savings and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of not less than 20% of the deposit liabilities, in the form of cash, Saudi Government Development Bonds or assets which can be converted into cash within a period not exceeding 30 days. The Bank has the ability to raise additional funds through repo facilities available with SAMA against Saudi Government Development Bonds up to 75% of the nominal value of bonds held.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. One of these methods is to maintain limits on the ratio of liquid assets to deposit liabilities, set to reflect market conditions. Liquid assets consists of cash, short-term bank deposits and liquid debt securities available for immediate sale and Saudi Government Bonds excluding repos. Deposits liabilities include both customers and Banks, excluding non-resident Bank deposits in foreign currency. The ratio during the year was as follows:

	2013 %	2012 %
As at 31 December	28%	38%
Average during the year	30%	37%

(33.1) Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2013 and 2012 based on contractual undiscounted repayment obligations; as special commission payments up to contractual maturity are included in the table, totals do not match with the consolidated statement of financial position. The contractual maturities of liabilities have been determined on the basis of the remaining period at the consolidated statement of financial position date to the contractual maturity date and do not take into account the effective expected maturities as shown on note (33.2) below (Maturity analysis of assets and liabilities for the expected maturities). Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

Financial liabilities	On demand SR '000	Less than 3 months SR '000	3 to 12 months SR '000	1 to 5 years SR '000	Over 5 years SR '000	Total SR '000
As at 31 December 2013						
Due to banks and other financial institutions	2,970,409	17,331,682	2,755,151	2,059,092	–	25,116,334
Customers' deposits	246,713,336	40,093,882	13,791,799	350,920	–	300,949,937
Debt securities issued	–	–	61,230	1,735,756	–	1,796,986
Derivative financial instruments (gross contractual amounts payable)	–	43,603,775	34,741,227	19,180,814	554,444	98,080,260
Total undiscounted financial liabilities	249,683,745	101,029,339	51,349,407	23,326,582	554,444	425,943,517

Financial liabilities	On demand SR '000	Less than 3 months SR '000	3 to 12 months SR '000	1 to 5 years SR '000	Over 5 years SR '000	Total SR '000
As at 31 December 2012						
Due to banks and other financial institutions	3,928,847	15,296,829	5,643,153	980,464	–	25,849,293
Customers' deposits	202,298,456	55,821,556	15,099,467	443,914	–	273,663,393
Debt securities issued	–	–	–	–	–	–
Derivative financial instruments (gross contractual amounts payable)	–	30,853,185	24,186,026	2,087,526	–	57,126,737
Total undiscounted financial liabilities	206,227,303	101,971,570	44,928,646	3,511,904	–	356,639,423

The contractual maturity structure of the credit-related contingencies and commitments are shown under note (21.3(a)).

(33.2) Maturity Analysis of Assets and Liabilities

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled. See note (33.1) above for the contractual undiscounted financial liabilities.

2013	0-30 days SR '000	1 to 12 months SR '000	Over 1 year SR '000	No-fixed maturity SR '000	Total SR '000
Assets					
Cash and balances with SAMA	17,182,881	–	5,102,343	16,804,464	39,089,688
Due from banks and other financial institutions	1,645,353	721,162	12,464,817	–	14,831,332
Investments, net	5,738,020	24,142,043	89,141,047	6,272,902	125,294,012
Loans and advances, net	39,050,708	44,005,059	104,631,270	–	187,687,037
Investment in associates, net	–	217,840	–	611,075	828,915
Other real estate, net	–	–	–	216,001	216,001
Property and equipment, net	–	–	–	2,761,528	2,761,528
Goodwill and other intangible assets, net	9,486	104,335	218,918	540,897	873,636
Other assets	–	–	–	5,698,185	5,698,185
Total assets	63,626,448	69,190,439	211,558,395	32,905,052	377,280,334
Liabilities and equity					
Due to banks and other financial institutions	14,504,190	402,819	6,847,909	2,970,396	24,725,314
Customers' deposits	13,767,007	6,629,748	45,762,004	234,442,916	300,601,675
Debt securities issued	–	–	1,511,250	–	1,511,250
Other liabilities	–	–	–	7,905,915	7,905,915
Total liabilities	28,271,197	7,032,567	54,121,163	245,319,227	334,744,154
Total equity	–	–	–	42,536,180	42,536,180
Total liabilities and equity	28,271,197	7,032,567	54,121,163	287,855,407	377,280,334

2012	0-30 days SR '000	1 to 12 months SR '000	Over 1 year SR '000	No-fixed maturity SR '000	Total SR '000
Assets					
Cash and balances with SAMA	22,016,939	–	3,730,984	14,550,505	40,298,428
Due from banks and other financial institutions	1,760,380	797,904	13,843,998	–	16,402,282
Investments, net	15,270,949	21,365,236	73,215,312	6,576,296	116,427,793
Loans and advances, net	7,476,101	93,235,684	62,749,404	–	163,461,189
Investment in associates, net	–	–	–	832,631	832,631
Other real estate, net	–	–	–	218,144	218,144
Property and equipment, net	–	–	–	2,549,896	2,549,896
Goodwill and other intangible assets, net	11,259	123,849	394,928	642,062	1,172,098
Other assets	–	–	–	3,897,242	3,897,242
Total assets	46,535,628	115,522,673	153,934,626	29,266,776	345,259,703
Liabilities and equity					
Due to banks and other financial institutions	12,830,194	489,908	8,326,918	3,927,156	25,574,176
Customers' deposits	17,342,928	8,416,813	58,251,636	189,518,713	273,530,090
Debt securities issued	–	–	–	–	–
Other liabilities	–	–	–	6,751,292	6,751,292
Total liabilities	30,173,122	8,906,721	66,578,554	200,197,161	305,855,558
Total equity	–	–	–	39,404,145	39,404,145
Total liabilities and equity	30,173,122	8,906,721	66,578,554	239,601,306	345,259,703

34. GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES, COMMITMENTS AND CONTINGENCIES AND CREDIT EXPOSURE

(34.1) The distribution by geographical region for major categories of assets, liabilities and commitments and contingencies and credit exposure at year end is as follows:

2013	The Kingdom of Saudi Arabia SR '000	GCC and Middle East SR '000	Europe SR '000	Turkey SR '000	Other countries SR '000	Total SR '000
Assets						
Cash and balances with SAMA	37,282,016	47,062	1,386,318	263,866	110,426	39,089,688
Due from banks and other financial institutions	4,289,007	1,649,642	765,358	7,756,561	370,764	14,831,332
Investments, net	48,187,286	24,768,304	4,753,176	2,443,653	45,141,593	125,294,012
Loans and advances, net	152,881,154	720,170	1,343,996	31,899,489	842,228	187,687,037
Investment in associates, net	828,915	–	–	–	–	828,915
Goodwill and other intangible assets, net	–	–	–	873,636	–	873,636
Total	243,468,378	27,185,178	8,248,848	43,237,205	46,465,011	368,604,620
Liabilities						
Due to banks and other financial institutions	393,064	10,050,553	630,754	7,080,023	6,570,920	24,725,314
Customers' deposits	273,373,233	296,464	24,652	26,857,411	49,915	300,601,675
Debt securities issued	–	–	–	1,511,250	–	1,511,250
Total	273,766,297	10,347,017	655,406	35,448,684	6,620,835	326,838,239
Commitments and contingencies (note 21.3)	51,852,554	1,629,267	2,033,437	15,697,651	10,461,273	81,674,182
Credit exposure (credit equivalent) (note 30.2):						
Commitments and contingencies	26,043,287	590,241	610,143	8,234,742	3,862,411	39,340,824
Derivatives	805,038	178,520	222,400	149,464	–	1,355,422

2012	The Kingdom of Saudi Arabia SR '000	GCC and Middle East SR '000	Europe SR '000	Turkey SR '000	Other countries SR '000	Total SR '000
Assets						
Cash and balances with SAMA	39,534,597	34,802	445,712	213,442	69,875	40,298,428
Due from banks and other financial institutions	5,605,544	3,692,454	681,740	5,965,580	456,964	16,402,282
Investments, net	49,832,386	18,902,008	4,576,030	1,759,171	41,358,198	116,427,793
Loans and advances, net	132,573,758	3,055	1,901,843	26,994,066	1,988,467	163,461,189
Investment in associates, net	832,631	–	–	–	–	832,631
Goodwill and other intangible assets, net	–	–	–	1,172,098	–	1,172,098
Total	228,378,916	22,632,319	7,605,325	36,104,357	43,873,504	338,594,421
Liabilities						
Due to banks and other financial institutions	437,997	9,447,936	1,533,505	4,111,092	10,043,646	25,574,176
Customers' deposits	249,176,696	362,077	27,132	23,874,704	89,481	273,530,090
Debt securities issued	–	–	–	–	–	–
Total	249,614,693	9,810,013	1,560,637	27,985,796	10,133,127	299,104,266
Commitments and contingencies (note 21.3)	51,240,865	1,955,103	1,246,665	16,222,195	14,867,985	85,532,813
Credit exposure (credit equivalent) (note 30.2):						
Commitments and contingencies	27,540,105	1,065,050	520,760	7,947,655	4,681,565	41,755,135
Derivatives	297,010	149,377	370,435	61,938	56	878,816

The credit equivalent of commitments and contingencies and derivatives is calculated according to SAMA's prescribed methodology.

(34.2) The distribution by geographical concentration of non-performing loans and advances and specific provision are as follows:

	The Kingdom of Saudi Arabia SR '000	GCC and Middle East SR '000	Europe SR '000	Turkey SR '000	Other countries SR '000	Total SR '000
2013						
Non performing loans and advances	2,140,598	–	–	778,849	–	2,919,447
Less: specific provision	(1,881,542)	–	–	(552,385)	–	(2,433,927)
Net	259,056	–	–	226,464	–	485,520
2012						
Non performing loans and advances	4,144,143	37,500	–	751,063	–	4,932,706
Less: specific provision	(3,979,730)	(37,500)	–	(542,930)	–	(4,560,160)
Net	164,413	–	–	208,133	–	372,546

35. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderlly transaction between market participants at the measurement date in the principal or, in its absence, the most adavantages market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

The fair values of on-balance sheet financial instruments, except for other investments held at amortised cost and held-to-maturity investments which are carried at amortised cost, are not significantly different from the carrying values included in the consolidated financial statements. The fair values of loans and advances, commission bearing customers' deposits, due from/to banks and other financial institutions which are carried at amortised cost, are not significantly different from the carrying values included in the consolidated financial statements, since the current market commission rates for similar financial instruments are not significantly different from the contracted rates, and for the short duration of due from/to banks and other financial institutions. The estimated fair values of held-to-maturity investments and other investments held at amortised cost are based on quoted market prices when available or pricing models when used in the case of certain fixed rate bonds respectively. The fair values of these investments are disclosed in note 6.4.

The fair values of derivatives and other off-balance sheet financial instruments are based on the quoted market prices when available and/or by using the appropriate valuation techniques.

36. DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY

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

Level 1: quoted prices in active markets for the same instrument.

Level 2: quoted prices in active markets for similar assets and liabilities or 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:

2013	Level 1 SR '000	Level 2 SR '000	Level 3 SR '000	Total SR '000
Financial assets				
Derivative financial instruments	–	503,733	–	503,733
Financial assets designated at FVIS	6,039	1,592,122	473,854	2,072,015
Financial assets available for sale	15,238,429	11,351,195	1,072,204	27,661,828
Held for trading	673,060	–	–	673,060
Total	15,917,528	13,447,050	1,546,058	30,910,636
Financial liabilites				
Derivative financial instruments	–	638,421	–	638,421
Total	–	638,421	–	638,421

36. DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY CONTINUED

2012	Level 1 SR '000	Level 2 SR '000	Level 3 SR '000	Total SR '000
Financial assets				
Derivative financial instruments	–	389,634	–	389,634
Financial assets designated at FVIS	–	1,865,152	217,088	2,082,240
Financial investments available for sale	21,689,599	3,978,002	1,389,045	27,056,646
Held for trading	615,849	–	–	615,849
Total	22,305,448	6,232,788	1,606,133	30,144,369
Financial liabilites				
Derivative financial instruments	–	493,782	–	493,782
Total	–	493,782	–	493,782

The following table shows a reconciliation from the beginning balances to the ending balances for the fair value measurements in Level 3 of the fair value hierarchy in respect of financial assets designated as FVIS and available for sale.

Movement of level 3 is as follows:

	2013 SR '000	2012 SR '000
Balance at beginning of the year	1,606,133	2,027,069
Total gains/(losses) in consolidated income statement and comprehensive income	(118,347)	4,426
Purchases	111,585	224,513
(Sales)	(294,003)	(568,059)
(Settlements)	(1,489)	(7,014)
Transfer to/(from) level 3	242,179	(74,802)
Balance at end of the year	1,546,058	1,606,133

37. RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Group transacts business with related parties. In the opinion of the management and the Board, the related party transactions are performed on an arm's length basis. The related party transactions are governed by the limits set by the Banking Control Law and the regulations issued by SAMA. Related party balances include the balances resulting from transactions with Governmental shareholders. All other Government transactions are also at market rates.

(37.1) The balances as at 31 December included in the financial statements are as follows:

	2013 SR '000	2012 SR '000
Group's Board of Directors and senior executives:		
Loans and advances	109,455	163,858
Customers' deposits	51,430	28,799
Commitment and contingencies	14,014	7,849
Investments	4,247	8,002
Other liabilities - end of service benefits	14,702	25,357
Major shareholders:		
Customers' deposits	18,823,547	14,967,845
Investments	237,029	215,743
Bank's mutual funds:		
Investments	652,345	541,558
Customers' deposits	242,278	206,759

Major shareholders represent shareholdings of more than 5% of the Bank's issued share capital. Related parties are the persons or close members of those persons' families and their affiliate entities where they have control, joint control or significant influence over these entities.

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

	2013 SR '000	2012 SR '000
Special commission income	7,428	7,529
Special commission expense	161,346	150,301
Fees and commission income and expense, net	1,287	421

The Bank's Board of Directors includes the Board and Board related committees (Executive Committee, Credit Committee, Risk Management Committee, Compensation and Nomination Committee and Audit Committee); their remunerations, allowances and expenses are disclosed in the Board of Directors' report. For Bank's senior executives compensation, refer to note 38.

38. GROUP'S STAFF COMPENSATION

The total cost of the Group's compensation is as follows:

	2013			2012		
Categories of employees	Number of employees	Fixed compensation (on accrual basis) SR '000	Variable compensation (on cash basis) SR '000	Number of employees	Fixed compensation (on accrual basis) SR '000	Variable compensation (on cash basis) SR '000
Senior executives	14	31,350	60,751	14	30,939	41,988
Employees engaged in risk taking activities	256	94,616	36,134	221	81,940	19,381
Employees engaged in control functions	318	104,782	24,963	284	91,107	18,242
Other employees	6,525	1,060,609	295,194	6,231	986,698	204,535
Subsidiaries	4,303	572,131	106,196	3,929	523,582	83,508
Group total	11,416	1,863,488	523,238	10,679	1,714,266	367,654

38. GROUP'S STAFF COMPENSATION continued

All forms of payment for fixed and variable compensation are in cash.

The Bank's senior executives are those persons, including an executive director, having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly.

Employees engaged in risk taking activities comprise those officers of the business sectors of Individual Banking, Consumer Finance, International, Corporate and Treasury division, who are the key drivers in undertaking business transactions, and managing related business risks.

Employees engaged in control functions include employees in Risk Management, Internal Audit, Compliance, Finance and Legal divisions.

The Group's variable compensation recognized as staff expenses in the consolidated statement of income for 2013 is SR 413.5 million (2012: SR 409.3 million) which will be paid to employees during quarter 1 of 2014.

39. CAPITAL ADEQUACY

(39.1) Capital adequacy ratio

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

The Group monitors the adequacy of its capital using the ratios and weights established by SAMA. These ratios measure capital adequacy by comparing the Group's eligible capital with its statement of position assets, commitments and contingencies and notional amount of derivatives at a weighted amount to reflect their relative credit risk, market risk and operational risk. SAMA requires the Bank to hold the minimum level of the regulatory capital and maintain a ratio of total eligible capital to the risk-weighted asset at or above the agreed minimum of 8%. Regulatory Capital is computed for Credit, Market and Operational risk which comprise the Pillar 1 minimum capital requirements.

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

The following table summarizes the Bank's Pillar-1 Risk Weighted Assets, Tier 1 and Tier 2 capital and capital adequacy ratios.

	Eligible capital		Capital Adequ.acy Ratio (Pillar 1)	
	2013 SR '000	2012 SR '000	2013 %	2012 %
Core capital (Tier 1)	41,630,086	38,199,378	16.2%	16.5%
Supplementary capital (Tier 2)	2,375,797	2,462,301	–	–
Core and supplementary capital (Tier 1 and Tier 2)	44,005,883	40,661,679	17.1%	17.5%

Tier 1 capital of the Group at the year end comprises share capital, statutory reserve, other reserves, retained earnings, proposed dividend and non-controlling interests less treasury shares, goodwill, intangible assets and other prescribed deductions. Tier 2 capital comprises a prescribed amount of eligible portfolio (collective) provisions less prescribed deductions.

The Group uses the Standardized approach of Basel III to calculate the risk weighted assets and required Regulatory Capital for Pillar -1 (including credit risk, market risk and operational risk). The Group's Risk Management is responsible for ensuring that minimum required Regulatory Capital calculated is compliant with Basel III requirements. Quarterly prudential returns are submitted to SAMA showing the Capital Adequacy Ratio. The following table summarizes the Bank's Risk Weighted Assets.

	Risk weighted assets	
	2013 SR '000	2012 SR '000
Credit risk	226,641,233	203,732,065
Operational risk	24,479,624	22,208,627
Market risk	5,707,726	6,157,369
Total Pillar-1 - risk weighted assets	256,828,583	232,098,061

(39.2) Basel III Pillar 3 Disclosures

Under Basel III pillar 3, certain quantitative and qualitative disclosures are required, and these disclosures, which are not required to be audited, will be made available on the Bank's website www.alahli.com as required by the Saudi Arabian Monetary Agency (SAMA).

40. MATERIAL PARTLY-OWNED SUBSIDIARIES

(a) Significant restrictions

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory frameworks within which TFK operate. The supervisory frameworks require TFK to keep certain levels of regulatory capital and liquid assets, limit their exposure to other parts of the Group and comply with other ratios. The carrying amounts of TFK's assets and liabilities are SR 43,386 million and SR 38,827 million respectively (2012: SR 35,826 million and SR 31,119 million respectively).

(b) Non-controlling interests in subsidiaries

The following table summarises the information relating to the Group's subsidiary (TFK) that has material non-controlling interests (NCI).

	2013 SR '000	2012 SR '000
Summarised statement of financial position		
Loans and advances	31,899,489	26,994,066
Other assets	11,487,247	8,831,663
Liabilities	38,827,175	31,119,057
Net assets	4,559,561	4,706,672
Carrying amount of NCI	1,537,789	1,618,432
Summarised statement of income		
Total operating income	2,122,870	2,054,633
Net income	403,611	419,210
Total comprehensive income	(401,133)	759,448
Total comprehensive income allocated to NCI	(135,289)	261,143
Summarised cash flow statement		
Net cash (used in) from operating activities	(108,298)	816,456
Net cash (used in) by investing activities	(798,120)	(190,350)
Net cash from by financing activities	1,185,054	314,445
Net increase in cash and cash equivalent	278,636	940,551

41. INVESTMENT SERVICES

The Bank offers investment management services to its customers through NCB capital. Assets under management outstanding at 31 December 2013 amounted to SR 49,112 million (2012: SR 41,019 million) (note 3.24).

42. TREASURY SHARES

The Bank acquired its own equity shares in 2009 from a customer as a result of partial set-off of debt.

43. COMPARATIVE FIGURES

Certain prior year figures have been reclassified to conform to current year presentation, which are not material in nature.

44. PROSPECTIVE CHANGES IN ACCOUNTING POLICIES

Standards issued but not yet effective up to the date of issuance of the Group consolidated financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective. The Group is currently assessing the implications of the below mentioned standards and amendments on the Group's consolidated financial statements and the related timing of adoption.

Effective for annual periods beginning on or after	Standard, amendment or interpretation	Summary of requirements
1 January 2014	IAS 32 – Financial Instruments: Presentation (Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32)	IAS 32 amendment clarifies that a) an entity currently has a legally enforceable right to off-set if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties; and b) gross settlement is equivalent to net settlement if an only if the gross settlement mechanism has features that eliminate or result in insignificant credit and liquidity risk and process receivables and payables in a single settlement process or cycle.
1 January 2014	IAS 39 – Financial Instruments: Recognition and Measurement (Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39)	The amendments provide an exception to the requirement to discontinue hedge accounting in certain circumstances in which there is a change in counterparty to a hedging instrument in order to achieve clearing for that instrument. The amendments cover novations to central counterparties, as well as to intermediaries such as clearing members, or clients of the latter that are themselves intermediaries.
1 January 2014	IFRS 10 - Consolidated Financial Statements (Investment Entities (Amendments)	This mandatory consolidation relief provides that a qualifying investment entity is required to account for investments in controlled entities as well as investments in associates and joint ventures at fair value through profit or loss provided it fulfils certain conditions with an exception being that subsidiaries that are considered an extension of the investment entity's investing activities.
1 January 2014	IAS 36 – Impairment of Assets	IAS 36 amendment applicable from 1 January 2014 address the disclosure of information about the recoverable amount of impaired assets limiting disclosures requirements if that amount is based on fair value less costs of disposal.
The effective date has been deferred until the issue date of the completed version of IFRS 9 is known.	IFRS 9 – Financial Instruments	IFRS 9 (2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduces additions relating to financial liabilities. IFRS 9 (2013) introduces new requirements for hedge accounting. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets. The mandatory effective date of IFRS 9 is not specified but will be determined when the outstanding phases are finalised. However, application of IFRS 9 is permitted.

45. BOARD OF DIRECTORS' APPROVAL

The consolidated financial statements were approved by the Board of Directors on 29 January 2014 (corresponding to 28 Rabi Al-Awal 1435H).