AL RAJHI BANKING AND INVESTMENT CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
TOGETHER WITH AUDITORS' REPORT

AL RAJHI BANKING AND INVESTMENT CORPORATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2013 AND 2012

		(SR '000)	
	Notes	**2013**	2012
ASSETS			
Cash and balances with Saudi Arabian Monetary Agency ("SAMA") and central banks	4	**29,970,266**	31,266,493
Due from banks and other financial institutions	5	**15,462,510**	16,094,818
Financing, net	6	**186,813,225**	171,941,478
Investments, net	7	**39,573,058**	40,542,529
Customer debit current accounts, net	8	**274,873**	292,138
Property and equipment, net	9	**4,320,448**	3,817,980
Other assets, net	10	**3,456,305**	3,427,126
TOTAL ASSETS		**279,870,685**	267,382,562
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks and other financial institutions	11	**3,639,709**	2,235,245
Customers' deposits	12	**231,589,113**	221,394,638
Other liabilities	13,15	**6,237,270**	7,283,942
Total liabilities		**241,466,092**	230,913,825
Shareholders' equity			
Share capital	14	**15,000,000**	15,000,000
Statutory reserve	15	**15,000,000**	15,000,000
Other reserves	15	**2,068,170**	1,470,301
Retained earnings	15	**4,086,423**	1,148,436
Proposed gross dividends and Zakat	22	**2,250,000**	3,850,000
Total shareholders' equity		**38,404,593**	36,468,737
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**279,870,685**	267,382,562

The accompanying notes from 1 to 37 form an integral part of these consolidated financial statements.

AL RAJHI BANKING AND INVESTMENT CORPORATION

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	Notes	2013 (SR '000)	2012 (SR '000)
INCOME			
Gross financing and investments income	17	**10,114,698**	9,686,406
Return on customers' time investments	17	**(465,633)**	(345,520)
Net financing and investments income	17	**9,649,065**	9,340,886
Fee from banking services, net	18	**2,936,641**	3,086,206
Exchange income, net		**954,883**	897,938
Other operating income	19	**574,103**	657,987
Total operating income		**14,114,692**	13,983,017
EXPENSES			
Salaries and employee related benefits	20	**2,301,315**	2,100,120
Rent and premises related expenses		**235,868**	216,458
Impairment charge for financing and others, net	6-2	**2,619,343**	2,319,167
Other general and administrative expenses		**1,111,129**	1,057,744
Depreciation and amortization		**404,553**	401,699
Board of directors' remuneration	28	**4,497**	3,123
Total operating expenses		**6,676,705**	6,098,311
Net income for the year		**7,437,987**	7,884,706
Other comprehensive income		**-**	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**7,437,987**	7,884,706
Weighted average number of shares outstanding	14 & 21	**1,500 million**	1,500 million
Basic and diluted earnings per share (in SR)	21	**4.96**	5.26

The accompanying notes from 1 to 37 form an integral part of these consolidated financial statements.

AL RAJHI BANKING AND INVESTMENT CORPORATION

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	Notes	Share capital	Statutory Reserve	Other reserves	Retained earnings	Proposed gross dividends and zakat	Total
		(SR '000)					
2013							
Balance at January 1, 2013		**15,000,000**	**15,000,000**	**1,470,301**	**1,148,436**	**3,850,000**	**36,468,737**
Transfer to other reserves	15	**-**	**-**	**850,000**	**-**	**(850,000)**	**-**
Dividends paid for prior year 2012		**-**	**-**	**-**	**-**	**(3,000,000)**	**(3,000,000)**
Total comprehensive income for the year		**-**	**-**	**-**	**7,437,987**	**-**	**7,437,987**
Interim dividends paid for the first half of 2013	22	**-**	**-**	**-**	**(2,250,000)**	**-**	**(2,250,000)**
Employees shares plan	15	**-**	**-**	**7,751**	**-**	**-**	**7,751**
Transfer to accrued Zakat under other liabilities	15	**-**	**-**	**(259,882)**	**-**	**-**	**(259,882)**
Proposed gross dividends and Zakat	15 & 22	**-**	**-**	**-**	**(2,250,000)**	**2,250,000**	**-**
Balance at December 31, 2013		**15,000,000**	**15,000,000**	**2,068,170**	**4,086,423**	**2,250,000**	**38,404,593**
2012							
Balance at January 1, 2012		15,000,000	13,956,451	750,000	32,279	3,750,000	33,488,730
Transfer to other reserves	15	-	-	750,000	-	(750,000)	-
Dividends paid for prior year 2011		-	-	-	-	(3,000,000)	(3,000,000)
Total comprehensive income for the year		-	-	-	7,884,706	-	7,884,706
Transfer to statutory reserve		-	1,043,549	-	(1,043,549)	-	-
Interim dividends paid for the first half of 2012	22	-	-	-	(1,875,000)	-	(1,875,000)
Employees shares plan	15	-	-	5,011	-	-	5,011
Transfer to accrued Zakat under other liabilities	15	-	-	(34,710)	-	-	(34,710)
Proposed gross dividends and Zakat	15 & 22	-	-	-	(3,850,000)	3,850,000	-
Balance at December 31, 2012		15,000,000	15,000,000	1,470,301	1,148,436	3,850,000	36,468,737

The accompanying notes from 1 to 37 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	Notes	(SR '000) 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year		**7,437,987**	7,884,706
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization	9	**404,553**	401,699
Gain on sale of property and equipment		**-**	(4,392)
Impairment charge for financing and other	6 - 2	**2,619,343**	2,319,167
Expenses of employees' share plan		**7,751**	5,011
Net (increase) decrease in operating assets			
Statutory deposit with SAMA and central banks	4	**(1,931,551)**	(1,467,632)
Due from banks and other financial institutions		**95,692**	(2,952,816)
Financing		**(17,065,047)**	(33,925,076)
Investments held as FVIS		**44,825**	29,675
Customer debit current accounts		**17,265**	83,803
Other assets, net		**(29,179)**	(135,886)
Net increase (decrease) in operating liabilities			
Due to banks and other financial institutions		**1,404,464**	(482,049)
Customers' deposits		**10,194,475**	43,661,686
Other liabilities		**(1,306,554)**	457,123
Net cash provided by operating activities		**1,894,024**	15,875,019
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	9	**(907,021)**	(600,391)
Investments recorded at amortized cost		**498,603**	(2,486,645)
Proceeds from sale of property and equipment		**-**	8,626
Net cash used in investing activities		**(408,418)**	(3,078,410)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		**(5,250,000)**	(4,875,000)
Net cash used in financing activities		**(5,250,000)**	(4,875,000)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(3,764,394)**	7,921,609
Cash and cash equivalents at the beginning of the year		**26,329,226**	18,407,617
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	23	**22,564,832**	26,329,226
Non-Cash Transactions:			
Transfer of zakat provision from other reserves		**259,882**	34,710

The accompanying notes from 1 to 37 form an integral part of these consolidated financial statements.

1. GENERAL

a) Incorporation and operation

Al Rajhi Banking and Investment Corporation, a Saudi Joint Stock Company, (the "Bank"), was formed and licensed pursuant to Royal Decree No. M/59 dated 3 Dhul Qadah 1407H (corresponding to June 29, 1987) and in accordance with Article 6 of the Council of Ministers' Resolution No. 245, dated 26 Shawal 1407H (corresponding to June 23, 1987).

The Bank operates under Commercial Registration No. 1010000096 and its Head Office is located at the following address:

Al Rajhi Bank
Olaya Street
P.O. Box 28
Riyadh 11411
Kingdom of Saudi Arabia

The objectives of the Bank are to carry out banking and investment activities in accordance with its Articles of Association and By-Laws, the Banking Control Law and the Council of Ministers' Resolution referred to above. The Bank is engaged in banking and investment activities for its own account and on behalf of others inside and outside the Kingdom of Saudi Arabia through 528 branches including the branches outside the kingdom as at December 31, 2013 (2012: 513 branches) and 10,603 employees as at December 31, 2013 (2012: 10,054 employees). The Bank has established a number of wholly or substantially owned subsidiaries as set out below:

SUBSIDIARIES	Shareholding %	
	2013	2012
Al Rajhi Company for Development Limited - KSA	**100%**	100%
Al Rajhi Corporation Limited - Malaysia	**100%**	100%
Al Rajhi Capital Company – KSA	**100%**	99%
Al Rajhi Bank - Kuwait	**100%**	100%
Al Rajhi Bank - Jordan	**100%**	100%
Al Rajhi Takaful Agency Company - KSA	**99%**	99%
Al Rajhi Company for management services - KSA	**100%**	-

During the year ended December 31, 2013, Al Rajhi Company for management services - KSA was established and all the above-mentioned subsidiaries have been consolidated.

b) Shari'a Authority

As a commitment from the Bank for its activities to be in compliance with Islamic Shari'a legislations, since its inception, the Bank has established a Shari'a Authority to ascertain that the Bank's activities are subject to its approval and control. The Shari'a Authority had reviewed several of the Bank's activities and issued the required decisions thereon.

2. BASIS OF PREPARATION

a) Statement of compliance

The consolidated financial statements are prepared in accordance with the Accounting Standards for Financial Institutions promulgated by the Saudi Arabian Monetary Agency ("SAMA") and International Financial Reporting Standards ("IFRS"). The Bank also prepares its consolidated financial statements to comply with the requirements of Banking Control Law and the provision of Regulations for Companies in the Kingdom of Saudi Arabia and the Bank's Articles of Association.

b) Basis of measurement

The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of investments held as fair value through income statement ("FVIS").

c) Functional and presentation currency

The consolidated financial statements are presented in Saudi Riyal ("SR"), the Bank's functional currency and are rounded off to the nearest thousand except otherwise indicated.

d) Critical accounting judgments, estimates and assumptions

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

i) Impairment on financing

The Bank reviews its financing portfolios to assess specific and collective impairment on a quarterly basis. In determining whether an impairment loss should be recorded, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. This evidence may include observable data indicating that there has been an adverse change in the payment status of clients in a group. Management uses estimates based on historical loss experience for financing with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating 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.

ii) Fair value of financial instruments

The Group measures financial instruments, and non-financial assets such as investment properties, at fair value at each balance sheet date.

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

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

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

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

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.

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

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

iii) Determination of control over investees

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

Investment funds

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

iv) Going concern

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2012 except for the adoption of the following new standards and amendments to existing standards, which have no significant impact on the consolidated financial statements of the Bank:

IAS 1 – Amendments	- Presentation of items of other comprehensive income - Clarification of the requirement for comparative information (Amendment)
IFRS 10	- Consolidated financial statements
IFRS 12	- Disclosure of interests in other entities
IFRS 13	- Fair value measurement
IAS 19 - Revised 2011	- Employee benefits
IAS 28 - Revised 2011	- Associates and joint ventures
IAS 27 - Revised 2011	- Separate financial statements
IFRS 7 - Revised 2011	- Disclosures on offsetting financial assets and liabilities
Amendments to the basis for conclusions on IAS 1, 16, 32, and 34 (annual improvements 2011)	

a) Basis of the preparation of the consolidated financial statements

These consolidated financial statements comprise the financial statements of the Bank and its subsidiaries (the "Group") in which the Bank's shareholdings exceed 50% of their share capital and the Bank has the power to govern their financial and operational policies. The financial statements of subsidiaries are prepared for the same reporting year as that of the Bank, using consistent accounting policies. The accounting policies of subsidiaries are changed when necessary to align them with the policies adopted by the Bank.

Subsidiaries are the entities controlled by the Bank. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

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

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- derecognises the assets (including goodwill) and liabilities of the subsidiary
- derecognises the carrying amount of any non-controlling interests
- derecognises the cumulative translation differences recorded in equity
- recognises the fair value of the consideration received
- recognises the fair value of any investment retained
- recognises any surplus or deficit in profit or loss
- reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriates would be required if the Group had directly disposed of the related assets or liabilities.

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

Intra group balances and any income and expenses arising from intra-group transactions, are eliminated in preparing these consolidated financial statements. As of December 31, 2013 and 2012 interests in subsidiaries not directly owned by the Bank are owned by representative shareholders for the beneficial interest of the Bank and hence are not separately disclosed on the consolidated statement of financial position or consolidated statement of comprehensive income.

b) Zakat

Zakat is calculated based on the Zakat rules and regulations in the Kingdom of Saudi Arabia and is considered as a liability on the shareholders to be deducted from dividends. Zakat is computed based on equity or net income using the basis defined under the Zakat regulations. In case of any differences between the Bank's calculation and the Department of Zakat and Income Tax's ("DZIT") assessment, such differences will be charged to the other reserve Note 15).

c) Trade date

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

d) Foreign currencies

The consolidated financial statements are presented in Saudi Riyal ("SR"), which is also the parent company's functional currency. Each entity determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are translated into Saudi Riyals at exchange rates prevailing on the dates of the transactions. Monetary assets and liabilities at the year-end, denominated in foreign currencies, are translated into Saudi Riyals at exchange rates prevailing at the date of the consolidated statement of financial position.

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

The monetary assets and liabilities of foreign subsidiaries are translated into Saudi Riyals at rates of exchange prevailing at the date of the consolidated statement of financial position. The statements of income of foreign subsidiaries are translated at the average exchange rates for the year.

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

Exchange differences arising on translation of the financial statements of the foreign companies, if material, are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognized in equity relating to that particular foreign operation is recognized in the income statement in 'Other operating expenses' or 'Other operating income'.

e) Offsetting financial instruments

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

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

f) Revenue recognition

- Income from Mutajara, Murabaha, investments held at amortized costs, installment sale, Istisnaa financing and visa services is recognized based on effective yield basis on the outstanding balances.
- Fees and commissions are recognized when the service has been provided.
- Financing commitment fees that are likely to be drawn down are deferred and, together with the related direct cost, are recognized as an adjustment to the effective yield on the financing. When a financing commitment is not expected to result in the draw-down of a financing, financing commitment fees are recognised on a straight-line basis over the commitment period.
- Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, on a time-proportionate basis.
- Fee received on asset management, wealth management, financial planning, custody services and other similar services that are provided over an extended period of time, are recognized over the period when the service is being provided.
- Dividend income is recognised when the right to receive income is established.
- Foreign currency exchange income / loss is recognized when earned / incurred.

g) Financing and investment

The Bank offers non-interest based products including Mutajara, installment sales, Murabaha and Istisnaa to its customers in compliance with Shari'a rules.

The Bank classifies its principal financing and investment as follows:

i. Held at amortized cost - such financing and certain investments which meets the definition of loans and receivable and debit balances under IAS 39, are classified as held at amortized cost, and comprise Mutajara, installment sale, Istisnaa, Murabaha and visa operations accounts balances. Financing and investments held at amortized cost are initially recognized at fair value and subsequently measured at amortized cost (using effective yield basis) less any amounts written off, and allowance for impairment

ii. Held as FVIS - Investments in this category are classified as either investment held for trading or those designated as FVIS on initial recognition. Investments classified as trading are acquired principally for the purpose of selling in short term. These investments comprise of mutual funds, and other investments. Such investments are measured at fair value and any change in the fair value is charged to the consolidated statement of comprehensive income. Transaction costs, if any, are not added to the fair value measurement at initial recognition of FVIS investments and expensed out in the consolidated financial statements.

h) Impairment of financial assets

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

Specific allowance for impairment are evaluated individually. Considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are essentially based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such allowance for impairment. In addition to the specific allowance for impairment described above, the Bank also makes collective impairment allowance for impairment, which are evaluated on a group basis and are created for losses, where there is objective evidence that unidentified losses exist at the reporting date. The amount of the provision is estimated based on the historical default patterns of the investment and financing counter-parties as well as their credit ratings, taking into account the current economic climate.

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

- Delinquency in contractual payments of principal or profit.
- Cash flow difficulties experienced by the customer.
- Breach of repayment covenants or conditions.
- Initiation of bankruptcy proceedings against the customer.
- Deterioration of the customer's competitive position.
- Deterioration in the value of collateral.

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the customer's credit rating), the previously recognized impairment loss is reversed by adjusting the provision account. The amount of the reversal is recognized in the statement of comprehensive income in impairment charge.

Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted.

i) De-recognition of financial assets and liabilities

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire or if the Bank has not retained control on the financial asset.

A financial liability can be only derecognized when it is extinguished, that is when the obligation specified in the contract is either discharged, cancelled or expired.

j) Customer debit current accounts

All non-commission bearing customer debit current accounts are stated at amortized cost, less doubtful amounts and allowance for impairment, if any.

k) Property and equipment

Property and equipment are stated at cost, net of accumulated depreciation and amortization. Land is not depreciated. The cost of other property and equipment is depreciated or amortized using the straight-line method over the estimated useful lives of the assets, as follows:

Leasehold land improvements	over the lesser of the period of the lease or the useful life
Buildings	33 years
Leasehold building improvements	over the lease period or 3 years, whichever is shorter
Equipment and furniture	3 to 10 years

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

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

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

l) Customer deposits

Non-commission bearing customer deposits are initially recognized at fair value, being the fair value of the consideration received, and are subsequently measured at amortized cost.

m) Guarantees

In the ordinary course of business the Bank gives guarantees which include letters of credit, letters of guarantee, acceptances and stand by letter of credits. Initially, the received margins are recognized as liabilities and included in customers' deposits in the consolidated financial statements. The Bank's obligation towards each guarantee is measured through the higher of amortized margin or best estimate of expenditure required to settle the financial obligations arising as a result of guarantees. Any increase in the financial obligations related to the guarantees is recognized in the consolidated statement of comprehensive income.

n) Provisions

Provisions are recognized when the Bank has present legal, or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

o) Accounting for leases

Leases entered into by the Bank as a lessee are all operating leases. Accordingly, payments are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease. Leases entered into by the Bank as a lessor are all operating leases. Income from operating lease is recognized on a straight line basis.

p) Cash and cash equivalents

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

q) Special commission excluded from the consolidated statement of comprehensive income

In accordance with the Shari'a Authority's resolutions, special commission income received by the Bank is excluded from the determination of income, and is recorded as other liabilities in the consolidated statement of financial position and is paid as charities.

r) Provisions for employees' end of service benefits

The provision for employees' end of service benefits is accrued using actuarial valuation according to the regulations of Saudi labor law and local regulatory requirements.

s) Share-based payments

The Bank operates an equity-settled, share-based compensation plan "Employee share grant plan - ESGB" as approved by SAMA, under which the entity receives services from the eligible employees as consideration for equity instruments (options) of the Bank. Under the terms of the ESGP, eligible employees of the Bank are offered stock options at a predetermined strike price for a fixed period of time. At maturity of the plans, the underlying allotted shares are delivered if the employees exercise the options as per the terms and conditions of the plan.

The fair value of the employee services received in exchange for the grant of the options is recognized as an expense on the consolidated statement of comprehensive income over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

At the end of each reporting period, the Bank revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognizes the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

t) Mudaraba funds

The Group carries out Mudaraba transactions on behalf of its customers, and are treated by the Group as being restricted investments. These are included as off balance sheet items. The Group's share of profits from managing such funds is included in the Group's consolidated statement of comprehensive income.

u) Investment management services

The Group provides investment management services to its customers, through its subsidiary which include management of certain mutual funds. Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and, accordingly, are not included in the Group's consolidated financial statements. The Group's share of these funds is included under FVIS investments. Fees earned are disclosed under consolidated statement of comprehensive income.

v) Bank's products definition

The Bank provides its customers with banking products based on interest avoidance concept and in accordance with Shari'a regulations. The following is a description of some of the financing products:

Mutajara financing:
It is financing agreement whereby the Bank purchases a commodity or an asset and sell it to the client based on a purchase promise from the client with a deferred price higher than the cash price, accordingly the client becomes debtor to the Bank with the sale amount and for the period agreed in the contract.

Installment sales financing:
It is financing agreement whereby the Bank purchases a commodity or an asset and sells it to the client based on a purchase promise from the client with a deferred price higher than the cash price, accordingly the client becomes debtor to the Bank with the sale amount to be paid through installments as agreed in the contract.

Istisnaa financing:
It is a financing agreement whereby the Bank contracts to manufacture a commodity with certain known and accurate specifications according to the client's request. The client becomes a debtor to the Bank for the manufacturing price which includes cost plus profit.

Murabaha financing:
It is a financing agreement whereby the Bank purchases a commodity or asset and sell it to the client with a price representing the purchase price plus a profit known and agreed by the client which means that the client is aware of the cost and profit separately.

4. CASH AND BALANCES WITH SAMA AND CENTRAL BANKS

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

	(SR'000)	
	2013	2012
Cash in hand	**7,702,363**	5,880,149
Statutory deposits	**14,292,097**	12,360,546
Current accounts	**7,975,806**	13,025,798
Total	**29,970,266**	31,266,493

In accordance with the Banking Control Law and Regulations issued by SAMA, the Bank is required to maintain a statutory deposit with SAMA and central banks at stipulated percentages of its customers' demand deposits, customers' time investment and other customers' account calculated at the end of each Gregorian month.

The above statutory deposits are not available to finance the Bank's day-to-day operations and therefore are not part of cash and cash equivalents, when preparing consolidated statement of cash flows.

5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Due from banks and other financial institutions as of December 31, comprise the following:

	(SR'000)	
	2013	2012
Current accounts	**1,689,154**	1,317,455
Mutajara	**13,773,356**	14,777,363
Total	**15,462,510**	16,094,818

The above due from banks and other financial institutions balance does not include any past due or impaired balances as of December 31, 2013 and 2012.

6. FINANCING, NET

6 - 1 Financing

a) Net financing as of December 31, comprise the following:

	(SR'000)		
	2013		
	Gross	**Provision**	**Net**
Corporate Mutajara	**37,919,735**	**(1,719,259)**	**36,200,476**
Installment sale	**139,031,442**	**(1,816,725)**	**137,214,717**
Murabaha	**13,697,883**	**(762,134)**	**12,935,749**
Visa cards	**483,016**	**(20,733)**	**462,283**
Total	**191,132,076**	**(4,318,851)**	**186,813,225**

	(SR'000) 2012 Gross	Provision	Net
Corporate Mutajara	35,257,737	(2,210,283)	33,047,454
Installment sale	127,587,467	(1,825,589)	125,761,878
Murabaha	13,348,754	(784,954)	12,563,800
Visa cards	580,151	(11,805)	568,346
Total	**176,774,109**	**(4,832,631)**	**171,941,478**

b) The net financing by location, inside and outside the Kingdom, as of December 31 are as follows:

(SR'000)

Description	2013 Corporate Mutajara	Installment sale	Murabaha	Visa cards	Total
Inside the Kingdom	35,631,882	135,486,302	10,207,450	480,482	181,806,116
Outside the Kingdom	2,287,853	3,545,140	3,490,433	2,534	9,325,960
Total	37,919,735	139,031,442	13,697,883	483,016	191,132,076
Provision	(1,719,259)	(1,816,725)	(762,134)	(20,733)	(4,318,851)
Net	**36,200,476**	**137,214,717**	**12,935,749**	**462,283**	**186,813,225**

Description	2012 Corporate Mutajara	Installment sale	Murabaha	Visa cards	Total
Inside the Kingdom	34,422,104	124,595,142	9,848,916	576,763	169,442,925
Outside the Kingdom	835,633	2,992,325	3,499,838	3,388	7,331,184
Total	35,257,737	127,587,467	13,348,754	580,151	176,774,109
Provision	(2,210,283)	(1,825,589)	(784,954)	(11,805)	(4,832,631)
Net	33,047,454	125,761,878	12,563,800	568,346	171,941,478

c) The net financing concentration risks and the related provision, by major economic sectors at December 31, are as follows:

2013 (SR'000)

Description	Performing	Non-Performing	Provision	Net financing
Commercial	**23,731,925**	**338,560**	**(315,719)**	**23,754,766**
Industrial	**12,958,297**	**466,919**	**(280,679)**	**13,144,537**
Building and construction	**8,795,958**	**119,136**	**(35,583)**	**8,879,511**
Personal	**129,903,300**	**1,761,993**	**(1,061,412)**	**130,603,881**
Services	**7,057,112**	**11,727**	**(1,458)**	**7,067,381**
Agriculture and fishing	**721,652**	**298,859**	**(94,271)**	**926,240**
Other	**4,956,146**	**10,492**	**(158)**	**4,966,480**
Total	**188,124,390**	**3,007,686**	**(1,789,280)**	**189,342,796**
Additional portfolio provision			**(2,529,571)**	**(2,529,571)**
Balance			**(4,318,851)**	**186,813,225**

2012 (SR'000)

Description	Performing	Non-Performing	Allowance for impairment	Net financing
Commercial	20,496,545	466,159	(342,840)	20,619,864
Industrial	14,358,238	75,092	(55,227)	14,378,103
Building and construction	8,519,750	112,950	(83,070)	8,549,630
Personal	118,534,018	1,742,758	(1,281,723)	118,995,053
Services	10,093,913	1,116,841	(821,388)	10,389,366
Agriculture and fishing	172,733	2,010	(1,478)	173,265
Other	1,068,692	14,410	(10,597)	1,072,505
Total	173,243,889	3,530,220	(2,596,323)	174,177,786
Additional portfolio provision			(2,236,308)	(2,236,308)
Balance			(4,832,631)	171,941,478

d) The table below depicts the categories of financing as shown in the statement of financial position as per main business segments at December 31:

2013 (SR'000)

	Retail	Corporate	Total
Corporate Mutajara	**-**	**37,919,735**	**37,919,735**
Installment sale	**129,793,468**	**9,237,974**	**139,031,442**
Murabaha	**1,388,810**	**12,309,073**	**13,697,883**
Visa	**483,016**	**-**	**483,016**
Total	**131,665,294**	**59,466,782**	**191,132,076**
Less: Allowance for impairment	**(2,575,018)**	**(1,743,833)**	**(4,318,851)**
Financing, net	**129,090,276**	**57,722,949**	**186,813,225**

2012	(SR'000)		
	Retail	**Corporate**	**Total**
Corporate Mutajara	-	35,257,737	35,257,737
Installment sale	118,436,882	9,150,585	127,587,467
Murabaha	1,259,743	12,089,011	13,348,754
Visa	580,151	-	580,151
Total	**120,276,776**	**56,497,333**	**176,774,109**
Less: Allowance for impairment	(2,597,772)	(2,234,859)	(4,832,631)
Financing, net	**117,679,004**	**54,262,474**	**171,941,478**

e) The table below summarizes financing balances at December 31, that are neither past due nor impaired, past due but not impaired and impaired, as per the main business segments of the Bank:

2013	(SR'000)					
	Neither past due nor impaired	**Past due but not impaired**	**Impaired**	**Total**	**Allowance for impairment**	**Net**
Retail	129,570,517	332,784	1,761,993	131,665,294	(2,575,018)	129,090,276
Corporate	57,960,329	260,760	1,245,693	59,466,782	(1,743,833)	57,722,949
Total	**187,530,846**	**593,544**	**3,007,686**	**191,132,076**	**(4,318,851)**	**186,813,225**

2012	(SR'000)					
	Neither past due nor impaired	**Past due but not impaired**	**Impaired**	**Total**	**Allowance for impairment**	**Net**
Retail	118,187,084	346,934	1,742,758	120,276,776	(2,597,772)	117,679,004
Corporate	54,558,545	151,326	1,787,462	56,497,333	(2,234,859)	54,262,474
Total	**172,745,629**	**498,260**	**3,530,220**	**176,774,109**	**(4,832,631)**	**171,941,478**

Financing past due for less than 90 days are not treated as impaired, unless other available information proves otherwise,

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

f) The tables below depict the quality of financing past due (up to 90 days) but not impaired at December 31:

2013	**(SR'000)**		
	Retail	**Corporate**	**Total**
Performing loans - Acceptable	288,850	248,486	537,336
Performing loans - Special mention	43,934	12,274	56,208
Total	**332,784**	**260,760**	**593,544**

2012	**(SR'000)**		
	Retail	**Corporate**	**Total**
Performing loans - Acceptable	270,032	126,260	396,292
Performing loans - Special mention	76,902	25,066	101,968
Total	**346,934**	**151,326**	**498,260**

Financing under the standard category are performing, have sound fundamental characteristics and include those that exhibit neither actual nor potential weaknesses,

The special mention category includes financing that are also performing, current and up to date in terms of principal and profit payments, However, they require close management attention as they may have potential weaknesses both financial and non-financial that may, at some future date, result in the deterioration of the repayment prospects or either the principal or the profit payments, The special mention financing would not expose the Bank to sufficient risk to warrant a worse classification,

g) The tables below set out the aging of financing past due but not impaired as of December 31:

2013	**(SR'000)**		
Age	**Retail**	**Corporate**	**Total**
up to 30 days	201,266	185,624	386,890
31-60 days	87,584	62,862	150,446
61-90 days	43,934	12,274	56,208
Total	**332,784**	**260,760**	**593,544**
Fair value of collateral	**-**	**3,514,663**	**3,514,663**

2012	**(SR'000)**		
Age	**Retail**	**Corporate**	**Total**
up to 30 days	193,250	111,696	304,946
31-60 days	76,782	14,564	91,346
61-90 days	76,902	25,066	101,968
Total	**346,934**	**151,326**	**498,260**
Fair value of collateral	**-**	**5,153,990**	**5,153,990**

The fair value of collateral is based on valuation techniques and quoted prices (wherever available),

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

2013	**(SR'000)**		
	Retail	**Corporate**	**Total**
Individually impaired financing	-	1,245,693	1,245,693
Fair value of collateral	-	970,659	970,659

2012	**(SR'000)**		
	Retail	**Corporate**	**Total**
Individually impaired financing	-	1,787,462	1,787,462
Fair value of collateral	-	923,520	923,520

The Bank in the ordinary course of financing activities holds collaterals as security to mitigate credit risk in financing, These collaterals mostly include customer deposits and other cash deposits, financial guarantees, local and international equities, real estate and other property and equipment, The collaterals are held mainly against commercial and consumer financing and are managed against relevant exposures related to financing,

i) The tables below depict the quality of neither past due nor impaired as at December 31:

	(SR'000)	
	2013	2012
Risk Rating 1	**-**	-
Risk Rating 2	**-**	-
Risk Rating 3	3,406,842	4,798,410
Risk Rating 4	19,153,159	26,887,669
Risk Rating 5	95,743,701	79,797,057
Risk Rating 6	65,115,509	53,690,940
Risk Rating 7	4,111,635	7,571,553
Total	187,530,846	172,745,629

Risk Rating 1
Exceptional - Obligors of unquestioned credit standing at the pinnacle of credit quality,

Risk Rating 2
Excellent - Obligors of the highest quality, presently and prospectively, Virtually no risk in lending to this class, Cash flows reflect exceptionally large and stable margins of protection, Projected cash flows including anticipated credit extensions indicate strong liquidity levels and debt service coverage, Balance Sheet parameters are strong, with excellent asset quality in terms of value and liquidity,

Risk Rating 3
Superior - Typically obligors at the lower end of the high quality range with excellent prospects, Very good asset quality and liquidity, Consistently strong debt capacity and coverage, There could however be some elements, which with a low likelihood impair performance in the future,

Risk Rating 4
Good - Typically obligors in the high end of the medium range who are definitely sound with minor risk characteristics, Elements of strength are present in such areas as liquidity, stability of margins, cash flows, diversity of assets, and lack of dependence on one type of business,

Risk Rating 5
Satisfactory - These are obligors with smaller margins of debt service coverage and with some elements of reduced strength, Satisfactory asset quality, liquidity, and good debt capacity and coverage, A loss year or declining earnings trend may occur, but the borrowers have sufficient strength and financial flexibility to offset these issues,

Risk Rating 6
Adequate - Obligors with declining earnings, strained cash flow, increasing leverage and/or weakening market fundamentals that indicate above average risk, Such borrowers have limited additional debt capacity, modest coverage, average or below average asset quality and market share, Present borrower performance is satisfactory, but could be adversely affected by developing collateral quality/adequacy etc,

Risk Rating 7
Very high risk - Generally undesirable business constituting an undue and unwarranted credit risk but not to the point of justifying a substandard classification, No loss of principal or interest has taken place, Potential weakness might include a weakening financial condition, an unrealistic repayment program, inadequate sources of funds, or a lack of adequate collateral, credit information or documentation, The entity is undistinguished and mediocre, No new or incremental credits will generally be considered for this category,

6 - 2 Impairment charge for financing:

The movement in the allowance for impairment of financing for the years ended December 31, is as follows:

2013	(SR'000)		
	Retail	Corporate	Total
Balance as at the beginning of the year	2,597,772	2,234,859	4,832,631
Provided during the year, net *	1,284,591	908,709	2,193,300
Disposals (bad debts written off)	(1,307,345)	(1,399,735)	(2,707,080)
Balance as at the end of the year	**2,575,018**	**1,743,833**	**4,318,851**

* The amount provided does not include SR 426,043 thousand representing additions to investments provision,

2012	(SR'000)		
	Retail	Corporate	Total
Balance as at the beginning of the year	2,280,543	1,357,416	3,637,959
Provided during the year, net *	1,217,187	1,079,703	2,296,890
Disposals (bad debts written off)	(899,958)	(202,260)	(1,102,218)
Balance as at the end of the year	**2,597,772**	**2,234,859**	**4,832,631**

* The amount provided does not include SR 22,277 thousand representing additions to investments provision,

7. INVESTMENTS, NET

Net investments comprise the following as of December 31:

	(SR'000)	
Investments held at amortized costs	**2013**	2012
Murabaha with SAMA	**37,229,076**	38,276,376
Sukuk, net	**1,167,943**	1,045,289
Total investments held at amortized costs	**38,397,019**	39,321,665
Investments held as FVIS		
Equity investments	**816,388**	646,073
Mutual funds	**359,651**	574,791
Total investments held as FVIS	**1,176,039**	1,220,864
Net investments	**39,573,058**	40,542,529

The designated FVIS investments included above are so designated when the financial instruments are being evaluated on a fair value basis and are in accordance with the documented risk management strategy of the Bank,

Equity investments include traded investments amounting to SR 793 million as of December 31, 2013 (2012: SR 623 million),

Investments recorded at FVIS include local investments of SR 1,032 million as of December 31, 2013 (2012: SR 1,014 million) and foreign investments of SR 144 million as of December 31, 2013 (2012: SR 207 million),

Investments held at amortized costs do not include balances that are past due or impaired as of December 31, 2013,

The following is analysis of investment according to counterparties as at December 31:

	(SR'000)	
	2013	2012
Government and qausi government	**37,229,076**	38,276,376
Companies	**794,466**	621,935
Banks and other financial institutions	**21,922**	24,138
Others	**1,527,594**	1,620,080
Net investments	**39,573,058**	40,542,529

8. CUSTOMER DEBIT CURRENT ACCOUNTS, NET

Customer debit current accounts, net comprise the following as of December 31:

	(SR'000)	
	2013	2012
Customer debit current accounts (inside the Kingdom)	**296,841**	314,106
Less: allowance for impairment	**(21,968)**	(21,968)
Customer debit current accounts, net	**274,873**	292,138

9. PROPERTY AND EQUIPMENT, NET

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

	(SR'000)					
	Land	**Buildings**	**Leasehold land & buildings improvements**	**Equipment and furniture**	**Total 2013**	Total 2012
COST						
At January 1	**1,659,350**	**1,469,730**	**790,541**	**2,526,089**	**6,445,710**	5,853,217
Additions	**138,346**	**380,618**	**54,083**	**333,974**	**907,021**	600,391
Disposals	**-**	**-**	**-**	**-**	**-**	(7,898)
At December 31	**1,797,696**	**1,850,348**	**844,624**	**2,860,063**	**7,352,731**	6,445,710
ACCUMULATED DEPRECIATION & AMORTIZATION						
At January 1	**-**	**182,827**	**620,844**	**1,824,059**	**2,627,730**	2,229,695
Charge for the year	**-**	**41,589**	**119,100**	**243,864**	**404,553**	401,699
Disposals	**-**	**-**	**-**	**-**	**-**	(3,664)
At December 31	**-**	**224,416**	**739,944**	**2,067,923**	**3,032,283**	2,627,730
NET BOOK VALUE						
At December 31, 2013	**1,797,696**	**1,625,932**	**104,680**	**792,140**	**4,320,448**	
At December 31, 2012	1,659,350	1,286,903	169,697	702,030		3,817,980

Buildings include work-in-progress amounting to SR 466 million as at December 31, 2013 (2012: SR 85 million),

Furniture and equipment includes information technology-related assets having net book value SR 243 million (2012: SR 111 million)

10. OTHER ASSETS, NET

Other assets, net comprise the following as of December 31:

	(SR'000)	
	2013	2012
Cheques under collection	**937,485**	1,117,995
Advances payments	**420,343**	361,776
Miscellaneous receivables	**1,014,456**	933,702
Prepaid expenses	**398,408**	279,650
Accrued income	**272,590**	245,476
Various assets	**371,412**	337,532
Others	**41,611**	150,995
Total	**3,456,305**	3,427,126

11. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

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

	(SR'000)	
	2013	2012
Current accounts	**1,699,626**	1,855,628
Banks' time investments	**1,940,083**	379,617
Total	**3,639,709**	2,235,245

Due to banks and other financial institutions includes as well balances inside and outside the Kingdom, as of December 31, as follows:

	(SR'000)	
	2013	2012
Inside the Kingdom	**1,441,068**	50,000
Outside the Kingdom	**2,198,641**	2,185,245
Total	**3,639,709**	2,235,245

12. CUSTOMERS' DEPOSITS

Customers' deposits by currency comprise the following as of December 31:

	(SR'000)	
	2013	2012
Saudi Riyals	**216,441,148**	206,896,968
Foreign currencies	**15,147,965**	14,497,670
Total	**231,589,113**	221,394,638

Customers' deposits by type comprise the following as of December 31:

	(SR'000)	
	2013	2012
Demand deposits	**206,275,543**	189,817,668
Customers' time investments	**20,723,083**	27,945,243
Other customer accounts	**4,590,487**	3,631,727
Total	**231,589,113**	221,394,638

The balance of the other customers' accounts includes margins on letters of credit and guarantees, checks under clearance and transfers.

13. OTHER LIABILITIES

Other liabilities comprise the following as of December 31:

	(SR'000)	
	2013	2012
Accounts payable	**4,224,661**	5,199,790
Provision for employees' end of service benefits	**618,782**	549,341
Accrued expenses	**224,025**	441,030
Charities (see Note 30)	**44,372**	46,191
Other	**1,125,430**	1,047,590
Total	**6,237,270**	7,283,942

14. SHARE CAPITAL

The authorized, issued and fully paid share capital of the Bank as of December 31, 2013 and 2012 consists of 1,500 million shares of SR 10 each,

15. STATUTORY, GENERAL, PRIOR PERIOD ADJUSTMENTS AND OTHER RESERVES

The Banking Control Law in Saudi Arabia and the By-Laws of the Bank require a transfer to statutory reserve at a minimum of 25% of net income for the year, The Bank may discontinue such transfers when the reserve equals the paid up share capital, This reserve is presently not available for distribution, An amount of SR 1,043,549 thousand was transferred to statutory reserve during the year ended December 31, 2012 and no further transfer is required as the cumulative amount i,e, SR 15 billion is equal to the share capital,

In addition, the Bank makes an appropriation to general reserve for general banking risks and others, if any,

During the year ended December 31, 2012, the Bank changed its accounting policy relating to Zakat, where it used to record the calculated amount as part of other liabilities and any subsequent differences in Zakat liability were paid out of the general reserve, According to the old and new accounting policies, Zakat is still considered as distributions and not as expense to the Bank,

Effective January 1, 2012 and in accordance with the Bank's new accounting policy, the Bank records the amount of Zakat it calculates in other reserves until such time when the final amount of Zakat payable can be determined, at which time, the amount of Zakat payable is transferred from other reserves to other liabilities, Accordingly, an amount of SR 750 million was reclassified from other liabilities to other reserves, The change in policy did not have any impact on the consolidated statement of comprehensive income,

The Bank grants its shares to certain eligible employees, through share-based incentive programs at market price after obtaining the necessary approval, The shares granting is subject to the completion of two years of service at the Bank and is subject to meeting certain profitability and growth levels, The Bank has no legal or expected commitment to repurchase or settle these grants in cash, Total amounts allocated under this scheme is expected to be around SR 38 million.

16. COMMITMENTS AND CONTINGENCIES

a) Legal proceedings

As at December 31, 2013, there were certain legal proceedings outstanding against the Bank in the normal course of business including those relating to the extension of credit facilities, Such proceedings are being reviewed by the concerned parties.

Provisions have been made for some of these legal cases based on the assessment of the Bank's legal advisors.

b) Capital commitments, related to commitments to grant credit

As at December 31, 2013, the Bank had capital commitments of SR 159 million (2012: SR 136 million) relating to contracts for computer software update and development, and SR 330 million (2012: SR 1,036 million) relating to development and improvement of new and existing branches.

c) Credit related commitments and contingencies

The primary purpose of these instruments is to ensure that funds are available to customers as required, Credit related commitments and contingencies mainly comprise of letters of guarantee, standby letters of credit, acceptances and unused commitments to extend credit, Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet his obligations to third parties, carry the same credit risk as financing.

Letters of credit, which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate, and therefore, carry less risk, Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers.

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

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

1. The contractual maturities of commitments and contingencies liabilities are as follows at December 31:

2013	**(SR '000)**				
	Less than 3 months	**From 3 to 12 months**	**From 1 to 5 years**	**Over 5 years**	**Total**
Letters of credit and acceptances	877,734	654,466	70,122	1,930,023	3,532,345
Letters of guarantee	29,031	674,461	4,003,849	2,350,726	7,058,067
Irrevocable commitments to extend credit	2,088,960	1,590,200	1,934,627	1,872,539	7,486,326
Total	**2,995,725**	**2,919,127**	**6,008,598**	**6,153,288**	**18,076,738**

2012	**(SR '000)**				
	Less than 3 months	**From 3 to 12 months**	**From 1 to 5 years**	**Over 5 years**	**Total**
Letters of credit and acceptances	954,773	1,028,299	150,667	1,857,661	3,991,400
Letters of guarantee	20,288	497,102	3,822,630	1,649,253	5,989,273
Irrevocable commitments to extend credit	279,970	574,746	1,389,594	1,674,464	3,918,774
Total	1,255,031	2,100,147	5,362,891	5,181,378	13,899,447

2. The analysis of commitments and contingencies by counter-party is as follows as at December 31:

	(SR'000) 2013	2012
Corporate	**13,491,552**	10,162,662
Banks and other financial institutions	**4,585,186**	3,736,785
Total	**18,076,738**	13,899,447

d) Operating lease commitments

The future minimum lease payments under non-cancelable operating leases, where the Bank is the lessee, are as follows as at December 31:

	(SR'000) 2013	2012
Less than one year	**17,393**	15,485
One year to five years	**142,196**	124,091
Over five years	**42,272**	42,624
Total	**201,861**	182,200

17. NET FINANCING AND INVESTMENTS INCOME

Net financing and investments income for the years ended December 31, comprises the following:

	(SR'000) 2013	2012
Financing		
Corporate Mutajara	**1,192,724**	1,180,128
Installment sale	**7,972,727**	7,586,899
Murabaha	**482,241**	480,544
Investments and other		
Murabaha with SAMA	**251,503**	185,226
Mutajara with banks	**172,206**	198,078
Income from Sukuk	**43,297**	55,531
Gross financing and investment income	**10,114,698**	9,686,406
Return on customers' time investments	**(465,633)**	(345,520)
Net financing and investments income	**9,649,065**	9,340,886

18. FEE FROM BANKING SERVICES, NET

Fees from banking services, net for the years ended December 31, comprise the following:

	(SR'000)	
	2013	2012
Fee income		
Fees from advance payments on contracts	**1,554,804**	1,578,893
Fees from payment service systems	**482,583**	595,384
Fees from share trading services	**514,506**	523,812
Fees from remittance business	**378,429**	304,586
Fees from credit cards	**250,134**	184,159
Mudaraba fee income	**91,064**	80,317
Other	**559,914**	593,046
Total fee income	**3,831,434**	3,860,197
Fee expenses		
Fees for payment service systems	**(701,222)**	(666,653)
Fees for share trading services	**(193,571)**	(107,338)
Total fee expense	**(894,793)**	(773,991)
Fee from banking services, net	**2,936,641**	3,086,206

19. OTHER OPERATING INCOME

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

	(SR'000)	
	2013	2012
Recovery of written-off debts	**317,997**	189,528
Dividends income	**30,417**	28,411
Income from sale of investments	**20,927**	17,865
Other income, net	**204,762**	422,183
Total	**574,103**	657,987

20. SALARIES AND EMPLOYEES RELATED BENEFITS

The following tables provide an analysis of the salaries and employee related benefits for the years ended December 31:

			(SR'000)		
			Variable compensations paid		
2013	**Number of employees**	**Fixed Compensations**	**Cash**	**Shares**	**Total**
Executives	**36**	**34,041**	**16,231**	**4,205**	**54,477**
Risk department employees	**254**	**90,850**	**1,904**	**878**	**93,632**
Control department employees	**246**	**94,027**	**5,476**	**3,222**	**102,725**
Other employees	**10,067**	**1,568,874**	**206,260**	**2,366**	**1,777,500**
External employees	**1,939**	**134,979**	**68,550**	**-**	**203,529**
Total	**12,542**	**1,922,771**	**298,421**	**10,671**	**2,231,863**
Accrued variable compensations in 2013	**-**	**41,520**	**27,309**	**-**	**68,829**
Other employees' bonuses	**-**	**623**	**-**	**-**	**623**
Gross total	**12,542**	**1,964,914**	**325,730**	**10,671**	**2,301,315**

			(SR'000)		
			Variable compensations paid		
2012	**Number of employees**	**Fixed Compensations**	**Cash**	**Shares**	**Total**
Executives	36	33,374	14,755	-	48,129
Risk department employees	251	87,356	1,587	-	88,943
Control department employees	243	90,411	4,762	-	95,173
Other employees	9,524	1,455,802	174,304	-	1,630,106
External employees	1,602	112,082	63,078	-	175,160
Total	11,656	1,779,025	258,486	-	2,037,511
Accrued variable compensations in 2013	-	37,792	24,405	-	62,197
Other employees' bonuses	-	412	-	-	412
Gross total	11,656	1,817,229	282,891	-	2,100,120

As the Kingdom of Saudi Arabia is part of the G-20, instructions were given to all financial institutions in the Kingdom to comply with the standards and principles of Basel II and the financial stability board,

SAMA, as the regulatory for the financial institutions in Saudi Arabia, issued regulations on compensations and bonus in accordance with the standards and principles of Basel II and the financial stability board,

In light of SAMA instructions related to the compensations and bonuses, the Bank issued compensation and bonuses policy which was implemented after the Board of Directors approval, The scope of this policy is extended to include the Bank and its subsidiary companies (local and international) that are operating in the financial sector, Accordingly it includes all official employees, permanent and temporary contracted employees and service providers (contribution in risk position if SAMA allows the use of external resources).

For consistency with other banking institutions in the Kingdom of Saudi Arabia, the Bank has used a combination of fixed and variable compensation to attract and maintain talent, The fixed compensation is assessed on a yearly basis by comparing it to other local banks in the Kingdom of Saudi Arabia including the basic salaries, allowance and benefits which is related to the employee's ranks, The variable compensation is related to the employees performance and their compatibility to achieve the agreed on objectives, It includes incentives, performance bonus and other, Incentives are mainly paid to branches employees whereby the performance bonuses are paid to head office employees and others who do not qualify for incentives.

These bonuses and compensation are approved by the Board of Directors as a percentage of the Bank's income.

21. EARNINGS PER SHARE

Earnings per share are calculated by dividing the net income for the year by the weighted average number of shares outstanding during the year (Note 14),

22. PAID AND PROPOSED GROSS DIVIDENDS AND ZAKAT

The Bank distributed dividends for the first half of 2013 amounting to SR 2,250,000 thousand (i,e, SR 1.50 per share), Also the Board proposed gross dividends for the second half of 2013 amounting to SR 2,250,000 thousand (2012: SR 3,850,000 thousand) of which SR 750,000 thousand (2012: SR 850,000 thousand) was deducted for Zakat from the proposed gross dividends, resulting in a net dividend of SR 2.5 per share for 2013 (2012: SR 3.25 per share).

The Bank has filed its Zakat returns for the years up to 2012 with the Department of Zakat and Income Tax (the "DZIT"). The Zakat assessments for the years up to 1997 have been finalized with the DZIT. The Bank has received Zakat assessments from the DZIT in respect of the years 1998 to 2009 raising an additional Zakat liability. The basis for this additional liability is being contested by all the Banks in Saudi Arabia.

The Bank has formally contested these assessments and is awaiting a response from DZIT. The management believes that the ultimate outcome of the appeals filed and actions taken by the Bank in conjunction with other banks in the Kingdom of Saudi Arabia cannot be determined reliably at this stage.

23. CASH AND CASH EQUIVALENTS

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

	(SR'000)	
	2013	2012
Cash	**7,702,363**	5,880,149
Due from banks and other financial institutions (current accounts and Murabaha)*	**6,886,663**	7,423,279
Balances with SAMA and central banks (current accounts)	**7,975,806**	13,025,798
Total	**22,564,832**	26,329,226

*Murabaha due from other banks mature within 90 days, or less, from the acquisition date.

24. OPERATING SEGMENTS

The Bank identifies operating segments on the basis of internal reports about the activities of the Bank that are regularly reviewed by the chief operating decision maker, principally the Chief Executive Officer, in order to allocate resources to the segments and to assess its performance,

For management purposes, the Bank is o rganized into the following four main businesses segments:

Retail segment: Includes individual customer deposits, credit facilities, customer debit current accounts (overdrafts), fees from banking services and remittance business,

Corporate segment: Incorporates deposits of VIP, corporate customer deposits, credit facilities, and debit current accounts (overdrafts),

Treasury segment: Incorporates treasury services, Murabaha with SAMA and international Mutajara portfolio,

Investment services and brokerage segments: Incorporates investments of individuals and corporate in mutual funds, local and international share trading services and investment portfolios,

Transactions between the above segments are on normal commercial terms and conditions, There are no material items of income or expenses between the above segments, Assets and liabilities for the segments comprise operating assets and liabilities, which represents the majority of the Bank's assets and liabilities,

The Bank carries out its activities principally in the Kingdom of Saudi Arabia, and has six subsidiaries as of December 31, 2013 and 2012, as listed in Note 1-a, of which three operate outside the Kingdom of Saudi Arabia,

The total assets, liabilities, commitments, contingencies and results of operations of these subsidiaries are not material to the Bank's consolidated financial statements as a whole,

a) The Bank's total assets and liabilities, together with its total operating income and expenses, and net income, as of and for the years ended December 31, for each segment are as follows:

2013	**(SR'000)**				
	Retail segment	**Corporate segment**	**Treasury segment**	**Investment services and brokerage segment and other**	**Total**
Total assets	141,604,240	58,082,365	77,280,922	2,903,158	279,870,685
Total liabilities	191,041,339	45,810,276	4,473,755	140,722	241,466,092
Gross financing & investments income	7,760,104	1,692,985	587,814	73,795	10,114,698
Return on customers' time investments	(95,001)	(316,203)	(52,110)	(2,319)	(465,633)
Total operating income	9,994,609	1,948,622	1,455,935	715,526	14,114,692
Impairment charge for financing and other	(1,284,591)	(1,334,752)	-	-	(2,619,343)
Depreciation and amortization	(362,506)	(14,017)	(1,884)	(26,146)	(404,553)
Other operating expenses	(2,944,546)	(347,668)	(45,686)	(314,909)	(3,652,809)
Total operating expenses	(4,591,643)	(1,696,437)	(47,570)	341,055	6,676,705
Net income	**5,402,966**	**252,185**	**1,408,365**	**374,471**	**7,437,987**

2012 (SR'000)

	Retail segment	Corporate segment	Treasury segment	Investment services and brokerage segment and other	Total
Total assets	128,452,440	54,591,453	81,303,527	3,035,142	267,382,562
Total liabilities	173,997,759	54,324,761	2,517,174	74,131	230,913,825
Gross financing & investments income	7,465,942	1,620,535	420,888	179,041	9,686,406
Return on customers' time investments	(73,700)	(192,560)	(77,500)	(1,760)	(345,520)
Total operating income	9,556,617	1,925,775	1,250,441	1,250,184	13,983,017
Impairment charge for financing and other	(1,217,187)	(1,101,980)	-	-	(2,319,167)
Depreciation and amortization	(362,428)	(12,542)	(1,987)	(24,742)	(401,699)
Other operating expenses	(2,802,163)	(234,031)	(47,362)	(293,889)	(3,377,445)
Total operating expenses	(4,381,778)	(1,348,553)	(49,349)	(318,631)	(6,098,311)
Net income	**5,174,839**	**577,222**	**1,201,092**	**931,553**	**7,884,706**

b) The Bank's credit exposure by business segments as of December 31, is as follows:

2013 (SR'000)

	Retail segment	Corporate segment	Treasury segment	Investment services and brokerage segment	Total
Consolidated balance sheet assets	**136,675,787**	**52,820,842**	**51,581,775**	**1,601,225**	**242,679,629**
Commitments and contingencies excluding irrevocable commitments to extend credit	**3,007,054**	**7,583,358**	**-**	**-**	**10,590,412**

2012

	(SR'000)				
	Retail segment	**Corporate segment**	**Treasury segment**	**Investment services and brokerage segment**	**Total**
Consolidated balance sheet assets	117,487,440	54,004,453	56,766,527	1,074,914	229,333,334
Commitments and contingencies excluding irrevocable commitments to extend credit	2,985,159	6,995,514	-	-	9,980,673

Credit risks comprise the carrying value of the consolidated statement of financial position, except for cash and balances with SAMA, property and equipment and other assets, The credit equivalent value of commitments and contingencies are included in credit exposure,

25. FINANCIAL RISK MANAGEMENT

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks, Taking risk is core to the banking business, and these risks are an inevitable consequence of participating in financial markets, The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance,

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

Risk management is performed by the Credit and Risk Management Group ("CRMG") under policies approved by the Board of Directors, The CRMG identifies and evaluates financial risks in close co-operation with the Bank's operating units, The most important types of risks identified by the Bank are credit risk, liquidity risk and market risk, Market risk includes currency risk, profit rate risk, operational risk and price risk,

25-1 Credit risk

Credit risk is considered to be the most significant and pervasive risk for the Bank, The Bank takes on exposure to credit risk, which is the risk that the counter-party to a financial transaction will fail to discharge an obligation causing the Bank to incur a financial loss, Credit risk arises principally from financing (credit facilities provided to customers) and from cash and deposits held with other banks, Further, there is credit risk in certain off-balance sheet financial instruments, including guarantees relating to purchase and sale of foreign currencies, letters of credit, acceptances and commitments to extend credit, Credit risk monitoring and control is performed by the CRMG which sets parameters and thresholds for the Bank's financing activities,

a. Credit risk measurement

Financing

The Bank has structured a number of financial products which are in accordance with Sharia law in order to meet the customers demand, These products are all classified as financing assets in the Bank's consolidated statement of financial position, In measuring credit risk of financing at a counterparty level, the Bank considers the overall credit worthiness of the customer based on a proprietary risk methodology, This risk rating methodology utilizes a 10 point scale based on quantitative and qualitative factors with seven performing categories (rated 1 to 7) and three non performing categories (rated 8-10), The risk rating process is intended to advise the various independent approval authorities of the inherent risks associated with the counterparty and assist in determining suitable pricing commensurate with the associated risk,

This process also enables the Bank to detect any weakness in the portfolio quality and make appropriate adjustments to credit risk allowances, where credit quality has deteriorated and where losses are likely to arise, The Bank evaluates individual corporate customer balances which are past due to make appropriate allowances against financings, For the remaining (performing) corporate portfolio, the Bank applies a loss rate to determine an appropriate collective allowance, The loss rate is determined based on historical experience of credit losses,

Settlement risk

The Bank is also exposed to settlement risk in its dealings with other financial institutions, These risks arise when the Bank pays away its side of the transaction to the other bank or counterparty before receiving payment from the third party, The risk is that the third party may not pay its obligation, While these exposures are short in duration but they can be significant, The risk is mitigated by dealing with highly rated counterparties, holding collateral and limiting the size of the exposures according to the risk rating of the counterparty,

b. Risk limit control and mitigation policies

The responsibility for credit risk management is enterprise wide in scope, Strong risk management is integrated into daily processes, decision making and strategy setting, thereby making the understanding and management of credit risk the responsibility of every business segment,

The following business units within the Bank assist in the credit control process:

- Corporate Credit Unit,
- Credit Administration, Monitoring and Control Unit,
- Remedial Unit,
- Credit Policy Unit,
- Retail Credit Unit,

The monitoring and management of credit risk associated with these financing are made by setting approved credit limits, The Bank manages limits and controls concentrations of credit risk wherever they are identified - in particular, to individual customers and groups, and to industries and countries, Concentrations of credit risks arise when a number of customers are engaged in similar business activities, 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 risks indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location,

The Bank seeks to manage its credit risk exposure through diversification of its financing to ensure there is no undue concentration of risks with to individuals or groups of customers in specific geographical locations or economic sectors,

The Bank manages credit risk by placing limits on the amount of risk accepted in relation to individual customers and groups, and to geographic and economic segments, Such risks are monitored on a regular basis and are subject to an annual or more frequent review, when considered necessary, Limits on the level of credit risk by product, economic sector and by country are reviewed at least annually by the executive committee,

Exposure to credit risk is also managed through regular analysis on the ability of customers and potential customers to meet financial and contractual repayment obligations and by revising credit limits where appropriate,

Some other specific control and mitigation measures are outlined below,

b-1) Collateral

The Bank implements guidelines on the level and quality of specific classes of collateral, The principal collateral types are:

- Mortgages over residential and commercial properties,
- Cash, shares, and general assets for customer,
- Shares for Murabaha (collateralized share trading) transactions,

b-2) Collateralized Credit - related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required, Guarantees and standby letters of credit carry the same credit risk as traditional banking products of the Bank,

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

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of further financing products, guarantees or letters of credit, With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments, However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards,

c. Impairment and provisioning policies

Allowance for impairment is recognized for financial reporting purposes only for losses that have been incurred at the statement of financial position date based on objective evidence of impairment, and management judgment,

Management determines whether objective evidence of impairment exists under IAS 39, based on the following criteria as defined by the Bank:

- Delinquency in contractual payments of principal or profit,
- Cash flow difficulties experienced by the customer,
- Breach of repayment covenants or conditions,
- Initiation of bankruptcy proceedings against the customer,
- Deterioration of the customer’s competitive position,
- Deterioration in the value of collateral,

The Bank's policy requires the review of each individual corporate customer at least annually or more regularly when individual circumstances require, Impairment allowances on individually assessed accounts are determined by an evaluation of incurred losses at the statement of financial position date on a case-by-case basis, and by using management judgment.

The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

Collectively assessed impairment allowances are provided for:

- Portfolios of homogenous assets mainly relating to the retail financing portfolio that are individually not significant.
- On the corporate portfolio for financing where losses have been incurred but not yet identified, by using historical experience, judgment and statistical techniques.

The table below sets out the maximum exposure to credit risk at the reporting date without considering collateral or other credit enhancements and includes the off-balance sheet financial instruments involving credit risks as at December 31:

	(SR'000)	
	2013	2012
On-balance sheet items		
Due from banks and other financial institutions	**15,462,510**	16,094,818
Financing, net		
• Corporate	**57,722,949**	54,262,474
• Retail	**129,090,276**	117,679,004
Customer debit current accounts, net	**274,873**	292,138
Other assets, net	**3,456,305**	3,427,126
Total on-balance sheet items	**206,006,913**	191,755,560
Off-balance sheet items:		
Letters of credit and acceptances	**3,532,345**	3,991,400
Letters of guarantee	**7,058,067**	5,989,273
Irrevocable commitments to extend credit	**7,486,326**	3,918,774
Total off-balance sheet items	**18,076,738**	13,899,447
Maximum exposure to credit risk	**224,083,651**	205,655,007

The above table represents a worst case scenario of credit risk exposure to the Bank at December 31, 2013 and 2012, without taking account of any collateral held or other credit enhancements attached, For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the consolidated statement of financial position.

25-2 Liquidity risks

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn, The consequence may be the failure to meet obligations to repay deposits and financing parties and fulfill financing commitments, Liquidity risk can be caused by market disruptions or by credit downgrades, which may cause certain sources of funding to become unavailable immediately, Diverse funding sources available to the Bank help mitigate this risk, Assets are managed with liquidity in mind, maintaining a conservative balance of cash and cash equivalents,

Liquidity risk management process

The Bank's liquidity management process is as monitored by the Bank's Asset and Liabilities Committee (ALCO), includes:

- Day-to-day funding, managed by Treasury to ensure that requirements can be met and this includes replenishment of funds as they mature or are invested;
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements;
- Managing the concentration and profile of debt maturities;

- Maintain diversified funding sources; and
- Liquidity management and asset and liability mismatching,

Monitoring and reporting take the form of analyzing cash flows of items with both contractual and non-contractual maturities, The net cash flows are measured and ensured that they are within acceptable ranges, The Treasury / ALCO also monitors, the level and type of undrawn lending commitments, usage of overdraft facilities and the potential impact contingent liabilities such as standby letters of credit and guarantees may have on the Bank's liquidity position,

The tables below summarize the maturity profile of the Bank's assets and liabilities, on the basis of the remaining maturity as of the consolidated statement of financial position date to the contractual maturity date,

Management monitors the maturity profile to ensure that adequate liquidity is maintained, Assets available to meet all of the liabilities and to cover outstanding financing commitments include cash, balances with SAMA and due from banks, Further, in accordance with the Banking Control Law and Regulations issued by SAMA, the Bank maintains a statutory deposit equal to a sum not less than 7% of total customers' deposits, and 4% of total other customers' accounts, In addition to the statutory deposit, the Bank maintains a liquid reserve of not less than 20% of the deposit liabilities, in the form of cash, gold or assets which can be converted into cash within a period not exceeding 30 days, Also, the Bank has the ability to raise additional funds through special financing arrangements with SAMA including deferred sales transactions, The contractual maturities of assets, liabilities and shareholders' equity as of December 31, based on discounted cash flows are as follows:

2013	**(SR'000)**					
	Less than 3 months	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**No fixed maturity**	**Total**
Assets						
Cash and balance with SAMA and central banks	15,678,169	-	-	-	14,292,097	29,970,266
Due from banks and other financial institutions	6,886,663	8,575,847	-	-	-	15,462,510
Financing, net	23,429,723	40,628,889	104,708,397	18,046,216	-	186,813,225
Investments, net	14,569,504	21,442,422	329,412	3,231,720	-	39,573,058
Customer debit current accounts, net	274,873	-	-	-	-	274,873
Property and equipment, net	-	-	-	-	4,320,448	4,320,448
Other assets, net	1,870,324	46,850	246,918	1,124,353	167,860	3,456,305
Total	**62,709,256**	**70,694,008**	**105,284,727**	**22,402,289**	**18,780,405**	**279,870,685**
Liabilities and Shareholders' equity						
Due to banks and other financial institutions	2,455,936	1,166,563	-	-	17,210	3,639,709
Customer deposits	218,404,447	9,744,083	895,748	2,539,136	5,699	231,589,113
Other liabilities	25,240	101,239	-	27,961	6,082,830	6,237,270
Shareholders' equity	-	-	-	-	38,404,593	38,404,593
Total	**220,885,623**	**11,011,885**	**895,748**	**2,567,097**	**44,510,332**	**279,870,685**

2012 (SR'000)

	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balance with SAMA and central banks	18,905,947	-	-	-	12,360,546	31,266,493
Due from banks and other financial institutions	7,423,279	8,671,539	-	-	-	16,094,818
Financing, net	24,979,925	35,977,938	90,600,047	20,383,568	-	171,941,478
Investments, net	14,425,525	25,983,067	-	133,937	-	40,542,529
Customer debit current accounts, net	50,978	157,943	-	83,217	-	292,138
Property and equipment, net	-	-	-	-	3,817,980	3,817,980
Other assets, net	1,253,494	1,148,460	1,025,172	-	-	3,427,126
Total	67,039,148	71,938,947	91,625,219	20,600,722	16,178,526	267,382,562
Liabilities and Shareholders' equity						
Due to banks and other financial institutions	1,873,054	357,269	-	4,922	-	2,235,245
Customer deposits	219,228,109	2,142,309	87	24,133	-	221,394,638
Other liabilities	-	-	-	-	7,283,942	7,283,942
Shareholders' equity	-	-	-	-	36,468,737	36,468,737
Total	221,101,163	2,499,578	87	29,055	43,752,679	267,382,562

The following tables disclose the maturity of contractual financial liabilities on undiscounted cash flows as at December 31:

2013 (SR'000)

	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	No fixed maturity	Total
Due to banks and other financial institutions	2,461,333	1,186,375	-	-	-	3,647,708
Customer deposits	218,769,663	9,816,889	906,094	2,563,258	-	232,055,904
Other liabilities	25,240	101,239	-	27,961	6,082,830	6,237,270
Total	**221,256,236**	**11,104,503**	**906,094**	**2,591,219**	**6,082,830**	**241,940,882**

2012 (SR'000)

	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	No fixed maturity	Total
Due to banks and other financial institutions	1,884,249	357,876	-	4,931	-	2,247,056
Customer deposits	219,547,126	2,149,619	88	24,174	-	221,721,007
Other liabilities	-	-	-	-	7,283,942	7,283,942
Total	221,431,375	2,507,495	88	29,105	7,283,942	231,252,005

The cumulative maturities of commitments & contingencies are given in note 16-C-1 of the financial statements.

25-3 Market risks

The Bank is exposed to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices, Market risks arise on profit rate products, foreign currency and mutual fund products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as profit rates, foreign exchange rates and quoted market prices,

Market risk exposures are monitored by Treasury / Credit & Risk department and reported to ALCO on a monthly basis, ALCO deliberates on the risks taken and ensure that they are appropriate,

a. Market risks - speculative operations

The Bank is not exposed to market risks from speculative operations, The Bank is committed to Sharia guidelines which does not permit it to enter into contracts or speculative instruments such as hedging, options, forward contracts and derivatives.

b. Market risks - banking operations

The Bank is exposed to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices, Market risks arise on profit rate products, foreign currency and mutual fund products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as profit rates, foreign exchange rates and quoted market prices,

- Profit rate risk

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

- Foreign currency risks

The Bank is exposed to the effects of fluctuations in foreign currency exchange rates on its financial position, results of operations and cash flows, The Bank’s management sets limits on the level of exposure by currency and in total for both overnight and intraday positions, which are monitored daily,

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

The Bank has performed a sensitivity analysis for the reasonably possible changes in foreign exchange rates, other than US Dollars, using historical average exchange rates and has determined that there is no significant impact on its net foreign currency exposures, The tables below summarize the Bank's exposure to foreign currency exchange rate risk at December 31, 2013 and 2012 and the concentration of currency risks, Included in the table are the Bank's financial instruments at carrying amounts, categorized by currency:

2013

(SR'000)

	UAE DIRHAM	BANGLADESH TAKA	JAPANESE YEN	EURO	LEBANESE LIRA	MALAYSIAN RINGGIT	US DOLLAR	POUND STERLING	OTHER	TOTAL
ASSETS										
Cash and cash equivalent	27,297	-	-	47,756	202	49,646	232,299	57,341	133,251	547,792
Due from banks and other financial institutions	145,338	37,851	12,649	164,946	27	778,918	898,306	3,980	1,497,147	3,539,162
Financing, net	-	-	-	-	-	5,471,949	7,786,315	-	1,392,079	14,650,343
Investments, net	-	-	-	610	-	2,158,607	106,884	-	523,699	2,789,800
Customer debit current account, net	-	-	-	1,162	-	-	-	-	-	1,162
Other assets, net	-	-	-	-	-	264,427	104,058	-	218,623	587,108
Total Assets	172,635	37,851	12,649	214,474	229	8,723,547	9,127,862	61,321	3,764,799	22,115,367
LIABILITIES										
Due to banks and other financial institutions	14,352	2,025	-	1,903	602	740,266	2,229,370	3,941	557,193	3,549,652
Customer deposits	6,310	-	11,697	156,547	11,062	6,176,133	6,815,854	11,708	1,958,654	15,147,965
Other liabilities	5,233	43,627	1,068	19,147	428	147,190	(2,156)	7,818	142,121	364,476
Total Liabilities	25,895	45,652	12,765	177,597	12,092	7,063,589	9,043,068	23,467	2,657,968	19,062,093
Net	146,740	(7,801)	(116)	36,877	(11,863)	1,659,958	84,794	37,854	1,106,831	3,053,274

2012

	(SR'000)									
	UAE DIRHAM	BANGLADESH TAKA	JAPANESE YEN	EURO	LEBANESE LIRA	MALAYSIAN RINGGIT	US DOLLAR	POUND STERLING	OTHER	TOTAL
ASSETS										
Cash and cash equivalent	28,396	1	57	41,149	194	52,561	209,003	22,203	113,234	466,798
Due from banks and other financial institutions	6,435	17,597	7,128	118,837	56	1,337,800	2,883,099	3,266	1,299,327	5,673,545
Financing, net	-	-	-	-	-	5,262,561	7,241,175	-	1,343,784	13,847,520
Investments, net	-	-	-	585	-	1,011,685	872,503	-	85,671	1,970,444
Customer debit current account, net	-	-	-	1,111	-	751,731	2	-	56,514	809,358
Other assets, net	-	-	-	-	-	332,659	268,232	-	5,460	606,351
Total Assets	34,831	17,598	7,185	161,682	250	8,748,997	11,474,014	25,469	2,903,990	23,374,016
LIABILITIES										
Due to banks and other financial institutions	78,896	4,401	-	13,125	467	782,487	696,296	1,936	432,030	2,009,638
Customer deposits	5,755	-	6,311	187,737	11,341	5,827,571	7,106,067	11,538	1,341,350	14,497,670
Other liabilities	4,976	54,685	1,308	18,796	815	269,831	-	8,065	97,472	455,948
Total Liabilities	89,627	59,086	7,619	219,658	12,623	6,879,889	7,802,363	21,539	1,870,852	16,963,256
Net	(54,796)	(41,488)	(434)	(57,976)	(12,373)	1,869,108	3,671,651	3,930	1,033,138	6,410,760

c. Price risk

The Bank has certain investments which are carried at fair value through the income statement (FVIS) and includes investments in quoted mutual funds and other investments, Price risk arises due to changes in quoted market prices of these mutual funds,

As these investments are in a limited number of funds and are not significant to the total investment portfolio, the Bank monitors them periodically and determines the risk of holding them based on changes in market prices,

Other investments have little or no risks as these are bought for immediate sales, Investments are made only with a confirmed sale order and therefore involve minimal risk,

d. Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems, and external events,

Operational risk is inherent in most of the Bank's activities this necessitates an integrated approach to the identification, measurement and monitoring of operational risk,

An Operational Risk Management Unit (ORMU) has been established within the Credit and Risk Management Group which facilitates the management of Operational Risk within the Bank, ORMU facilitates the management of Operational Risk by setting policies, developing systems, tools and methodologies, overseeing their implementation and use within the business units and providing ongoing monitoring and guidance across the Bank,

The three primary operational risk management processes in the Bank are Risk Control Self Assessment, Operational Loss Database and eventual implementation of Key Risk Indicators which are designed to function in a mutually reinforcing manner,

26. GEOGRAPHICAL CONCENTRATION

a) The distribution by the geographical region of the major categories of assets, liabilities, commitments, contingencies and credit exposure accounts as of December 31, is as follows:

2013 (SR'000)

	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	South America	South East Asia	Other Countries	Total
Assets								
Cash and balances with SAMA and central banks	29,347,437	312,637	338	-	-	309,854	-	29,970,266
Due from banks and other financial institutions	11,782,520	2,609,981	174,660	225,833	-	586,763	82,753	15,462,510
Financing, net	177,661,344	2,924,212	379,921	-	375,799	5,471,949	-	186,813,225
Investments, net	38,261,566	33,325	452	-	-	1,277,715	-	39,573,058
Total	**257,052,867**	**5,880,155**	**555,371**	**225,833**	**375,799**	**7,646,281**	**82,753**	**271,819,059**
Liabilities								
Due to banks and other financial institutions	1,441,068	1,285,385	6,354	38,128	-	867,170	1,604	3,639,709
Customer deposits	223,477,383	1,935,597	-	-	-	6,176,133	-	231,589,113
Total	**224,918,451**	**3,220,982**	**6,354**	**38,128**		**7,043,303**	**1,604**	**235,228,822**
Commitments and contingencies	**14,797,154**	**98,815**	**244,890**	**2,924,747**	**-**	**31**	**11,101**	**18,076,738**
Credit exposure (stated at credit equivalent value)	**7,310,828**	**98,815**	**244,890**	**2,924,747**	**-**	**31**	**11,101**	**10,590,412**

2012

	(SR'000)							
	Kingdom of Saudi Arabia	**Other GCC and Middle East**	**Europe**	**North America**	**South America**	**South East Asia**	**Other Countries**	**Total**
Assets								
Cash and balances with SAMA and central banks	30,738,719	445,392	338	-	-	82,044	-	31,266,493
Due from banks and other financial institutions	11,244,617	2,444,773	126,150	1,247	-	1,308,046	969,985	16,094,818
Financing, net	164,802,180	1,548,050	-	-	328,687	5,262,561	-	171,941,478
Investments, net	39,290,561	461,564	44,060	-	-	746,344	-	40,542,529
Total	246,076,077	4,899,779	170,548	1,247	328,687	7,398,995	969,985	259,845,318
Liabilities								
Due to banks and other financial institutions	50,000	1,307,689	15,890	12,040	-	826,917	22,709	2,235,245
Customer deposits	214,235,512	1,330,710	-	-	-	5,828,416	-	221,394,638
Total	214,285,512	2,638,399	15,890	12,040	-	6,655,333	22,709	223,629,883
Commitments and contingencies	10,233,990	102,181	326,107	3,233,914	-	32	3,223	13,899,447
Credit exposure (stated at credit equivalent value)	6,315,216	102,181	326,107	3,233,914	-	32	3,223	9,980,673

Credit equivalent amounts reflect the amounts that result from conversion of the Bank's off-balance sheet liabilities relating to commitments and contingencies into the risk equivalent of financing, using credit conversion factors prescribed by SAMA, Credit conversion factor is meant to capture the potential credit risk related to the exercise of that commitment,

b) The distributions by geographical concentration of non-performing financing and allowance for impairment of financing as of December 31, are as follows:

2013

	(SR'000)		
	Non-performing	**Allowance for impairment of financing**	**Net non-performing financing**
Kingdom of Saudi Arabia	**2,891,770**	**(1,701,723)**	**1,190,047**
Other GCC countries	**-**	**-**	**-**
South East of Asia	**115,916**	**(87,557)**	**28,359**
Total	**3,007,686**	**(1,789,280)**	**1,218,406**

2012

	(SR'000)		
	Non-performing	**Allowance for impairment of financing**	**Net non-performing financing**
Kingdom of Saudi Arabia	2,307,852	(1,411,104)	896,748
Other GCC countries	1,092,086	(1,092,086)	-
South East of Asia	130,282	(93,133)	37,149
Total	3,530,220	(2,596,323)	933,897

Refer to Note 6-c for performing financing,

27. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Determination of fair value and fair value hierarchy

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

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

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

Level 3: valuation techniques for which any significant input is not based on observable market data, Assets at fair values are as follows:

	(SR'000)			
2013	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Financial assets at FVIS	1,130,571	-	45,468	**1,176,039**

	(SR'000)			
2012	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Financial assets at FVIS	1,173,198	-	47,666	1,220,864

The third level of investments represents investments recoded at cost as its fair value cannot be measured reliably,

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

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

The value obtained from the relevant valuation model may differ, with the transaction price of a financial instrument, The difference between the transaction price and the model value commonly referred to as 'day one profit and loss' is either amortized over the life of the transaction, deferred until the instrument's fair value can be determined using market observable data, or realized through disposal, Subsequent changes in fair value are recognized immediately in the income statement without reversal of deferred day one profits and losses,

28. RELATED PARTY TRANSACTIONS

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

	(SR'000)	
Related parties	**2013**	2012
Members of the Board of Directors		
Mutajara	**3,841,833**	2,481,462
Contingent liabilities*	**579,573**	861,053
Current accounts	**57,431**	82,694
Companies and establishments guaranteed by members of the Board of Directors		
Mutajara	**1,694,147**	65,866
Contingent liabilities*	**25,040**	7,449
Other major shareholders (above 5% equity share)		
Investment in mutual funds	**-**	14,889
Other liabilities	**19,956**	17,531
Mutual Funds		
Investments in Mutual Funds	**359,651**	574,791

* = off balance sheet items

Income and expenses pertaining to transactions with related parties included in the consolidated financial statements for the years ended December 31, are as follows:

	(SR'000)	
	2013	2012
Income from financing and other	**88,314**	119,105
Employees' salaries and benefits (air tickets)	**15,646**	8,789
Rent and premises related expenses	**1,412**	2,098
Board of Directors' remunerations	**4,497**	3,123

The amounts of compensations recorded in favor of or paid to the Board of Directors and the executive management personnel during the years ended December 31, are as follows:

	(SR'000)	
	2013	2012
Short-term benefits	**24,470**	26,609
Provision for end of service benefits	**1,138**	902

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

29. MUDARABA FUNDS

Mudaraba funds as of December 31, comprise the following:

	(SR'000)	
	2013	2012
Customers' Mudaraba and investments	**13,247,198**	11,279,365
Current accounts, metals	**5,636**	5,640
Total	**13,252,834**	11,285,005

Mudaraba and investments represents customer's investment portfolio managed by Al Rajhi Capital Company and are considered as off balance sheet

30. SPECIAL COMMISSIONS EXCLUDED FROM THE CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

The following represents the movements in charities account, which is included in other liabilities (see Note 13):

	(SR'000)	
	2013	2012
Balance, beginning of the year	**46,191**	20,308
Additions during the year	**105,089**	46,948
Payments during the year	**(106,908)**	(21,065)
Balance, end of the year	**44,372**	46,191

31. INVESTMENT MANAGEMENT SERVICES

The Bank offers investment services to its customers, The Bank has established a number of Mudaraba funds in different investment aspects, These funds are managed by the Bank's Investment Department, and a portion of the funds is also invested in participation with the Bank, The Bank also offers investment management services to its customers through its subsidiary, which include management of funds with total assets under management of SAR 26,109 million (2012: SAR 23,354 million), Mutual funds' financial statements are not included in the consolidated statement of financial position of the Bank, The Bank's share of investments in these funds is included under investments, and is disclosed under related party transactions, Funds invested by the Bank in those investment funds amounted to SR 359,651 thousand at December 31, 2013 (2012: SR 574,791 thousand).

32. CAPITAL ADEQUACY

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

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

The Bank monitors the adequacy of its capital using ratios established by SAMA, These ratios measure capital adequacy by comparing the Bank’s eligible capital with its consolidated statement of financial position, commitments and contingencies, to reflect their relative risk as of December 31, 2013 and 2012,

	(SR'000)	
	2013	2012
Credit risk weighted assets	**183,748,863**	171,674,934
Operational risk weighted assets	**23,575,018**	20,386,578
Market risk weighted assets	**346,049**	2,683,350
Total Pillar I - risk weighted assets	**207,669,930**	194,744,862
Tier I - capital	**38,404,593**	28,584,031
Tier II capital	**2,296,861**	10,030,642
Total tier I & II capital	**40,701,454**	38,614,673
Capital Adequacy Ratio %		
Tier I ratio	**18.49%**	14,68%
Tier I and II ratio	**19.60%**	19,83%

33. COMPARATIVE FIGURES

Figures have been rearranged or reclassified wherever necessary for the purpose of better presentation, however, no significant rearrangements or reclassifications have been made in these financial statements,

34. EVENTS AFTER THE REPORTING DATE

The Board of Directors of the Bank proposed, in its meeting dated January 16, 2014, a distribution of dividends to the shareholders for the second half of the current fiscal year in a net amount of SR 1,500 million, after deducting zakat on shareholders, for SR 1 per share, in addition, the Board of Directors also proposed the increase in the share capital from SR 15,000 million to SR16,250 million through transfer of SR 1,250 million from retained earnings by issuing one bonus share for each twelve shares. The Legal procedures related to the increase of the share capital will be initiated after the approval of the ordinary General Assembly in its next meeting.

35. ISSUED IFRS BUT NOT YET EFFECTIVE

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

- IFRS 10 Amendment that provides consolidation relief for investments entities applicable from 1 January 2014, This mandatory consolidation relief provides that a qualifying investment entity is required to account for investments in controlled entities as well as investments in associates and joint ventures at fair value through profit or loss provided it fulfills certain conditions with an exception being that subsidiaries that are considered an extension of the investment entity's investing activities,

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

- 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,

- IFRS 9 Financial instruments (2010): revised version of IFRS 9 (applicable date not yet decided) This incorporates revised requirements for the classification and measurement of financial liabilities and carries over the existing derecognition requirements from IAS 39 Financial Instruments: Recognition and Measurement,

36. APPROVAL OF THE BOARD OF DIRECTORS

The consolidated financial statements were approved by the Board of Directors on 15 Rabi Awwal 1435H (corresponding to January 16, 2014).

37. BASEL III PILLAR 3 DISCLOSURE (UNAUDITED)

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