

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Arab National Bank (the "Bank") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at December 31, 2012, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes from 1 to 40. We have not audited note 39, nor the information related to "Basel II Pillar 3 disclosures" cross referenced therein, which is not required to be within the scope of our audit.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

INDEPENDENT AUDITORS' REPORT (continued)

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

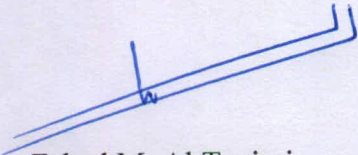
Opinion

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

- present fairly, in all material respects, the financial position of the Group as at December 31, 2012, and its financial performance and its cash flows for the year then ended in accordance with Accounting Standards for Financial Institutions issued by SAMA and with International Financial Reporting Standards; and
- comply with the requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's By-laws in so far as they affect the preparation and presentation of the consolidated financial statements.

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(3 Rabi Thani 1434H)
13 February 2013



Arab National Bank – Saudi Joint Stock Company

CONSOLIDATED STATEMENT OF FINANCIAL POSITION As at December 31, 2012 and 2011

	Note	2012 SAR' 000	2011 SAR' 000
ASSETS			
Cash and balances with SAMA	4	20,334,429	13,352,854
Due from banks and other financial institutions	5	2,240,924	1,572,239
Investments, net	6	24,323,047	26,082,198
Loans and advances, net	7	86,328,608	72,843,770
Investment in associates	8	430,046	349,417
Other real estate		319,006	168,009
Property and equipment, net	9	1,307,138	1,283,565
Other assets	10	1,356,078	1,922,253
Total assets		<u>136,639,276</u>	<u>117,574,305</u>
LIABILITIES AND EQUITY			
Liabilities			
Due to banks and other financial institutions	12	6,549,924	8,824,461
Customers' deposits	13	107,560,443	87,858,815
Other liabilities	14	2,931,822	2,474,004
Debt securities in issue	15	1,687,500	1,687,500
Total liabilities		<u>118,729,689</u>	<u>100,844,780</u>
Equity attributed to equity holders of the Bank			
Share capital	16	8,500,000	8,500,000
Statutory reserve	17	6,630,000	6,030,000
Other reserves		244,618	177,620
Retained earnings		1,579,657	1,066,440
Proposed dividend	27	850,000	850,000
Total equity attributed to equity holders of the Bank		<u>17,804,275</u>	<u>16,624,060</u>
Non-controlling interest		105,312	105,465
Total equity		<u>17,909,587</u>	<u>16,729,525</u>
Total liabilities and equity		<u>136,639,276</u>	<u>117,574,305</u>

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

Arab National Bank – Saudi Joint Stock Company

CONSOLIDATED INCOME STATEMENT

For the years ended December 31, 2012 and 2011

	Note	2012 SAR' 000	2011 SAR' 000
Special commission income	19	3,748,063	3,463,490
Special commission expense	19	487,634	282,523
Net special commission income		3,260,429	3,180,967
Fees and commission income, net	20	908,687	726,978
Exchange income, net		243,662	322,736
(Loss) income from FVIS financial instruments, net	21	(149)	5,971
Trading income, net	22	58,265	114,445
Dividend income	23	35,990	31,216
Gains and impairment of non-trading investments, net	24	86,860	34,753
Other operating income, net	25	163,077	124,396
Total operating income		4,756,821	4,541,462
Salaries and employee related expenses	29	1,111,642	1,034,870
Rent and premises related expenses		133,328	125,978
Depreciation and amortization	9	173,413	187,740
General and administrative expenses		473,746	426,470
Impairment charges for credit losses, net	7	521,796	617,897
Total operating expenses		2,413,925	2,392,955
Net operating income		2,342,896	2,148,507
Share in earnings of an associate	8	28,129	22,168
Net income for the year		2,371,025	2,170,675
Loss attributed to non-controlling interest		153	448
Net income attributed to equity holders of the bank		2,371,178	2,171,123
Basic and fully diluted earnings (in SAR per share)	26	2.79	2.55

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

Arab National Bank – Saudi Joint Stock Company

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the years ended December 31, 2012 and 2011

	2012	2011
	SAR' 000	SAR' 000
Net income for the year	2,371,025	2,170,675
Other comprehensive income:		
Available for sale investments:		
- Net changes in fair value	189,828	229,590
- Transfers to consolidated income statement	(96,235)	(34,766)
Cash flows hedges:		
- Net changes in fair value	2,180	80,448
- Transfers to consolidated income statement	(28,775)	(52,786)
	66,998	222,486
Total comprehensive income for the year	2,438,023	2,393,161
Attributable to:		
Equity holders of the Bank	2,438,176	2,393,609
Non-controlling interest	(153)	(448)
Total comprehensive income for the year	2,438,023	2,393,161

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

Arab National Bank – Saudi Joint Stock Company

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY For the years ended December 31, 2012 and 2011

<u>2012</u>	<u>Attributable to equity holders of the Bank</u>						<u>Non- controlling interest</u> SAR' 000	<u>Total equity</u> SAR' 000	
	<u>Note</u>	<u>Share capital</u> SAR' 000	<u>Statutory reserve</u> SAR' 000	<u>Other reserves</u> SAR' 000	<u>Retained earnings</u> SAR' 000	<u>Proposed dividend</u> SAR' 000			<u>Total</u> SAR' 000
Balance at beginning of the year		8,500,000	6,030,000	177,620	1,066,440	850,000	16,624,060	105,465	16,729,525
Changes in equity for the year									
Net changes in fair value of cash flow hedges				2,180	-	-	2,180	-	2,180
Net changes in fair value of available for sale investments				189,828	-	-	189,828	-	189,828
Transfers to consolidated income statement				(125,010)	-	-	(125,010)	-	(125,010)
Net comprehensive income for the year				66,998	-	-	66,998	-	66,998
Net income for the year				-	2,371,178	-	2,371,178	(153)	2,371,025
Total comprehensive income for the year				66,998	2,371,178	-	2,438,176	(153)	2,438,023
Transfer to statutory reserve	17		600,000	-	(600,000)	-	-	-	-
2011 final dividend	27		-	-	-	(850,000)	(850,000)	-	(850,000)
Proposed dividend	27		-	-	(850,000)	850,000	-	-	-
Zakat	27		-	-	(407,961)	-	(407,961)	-	(407,961)
Balance at end of the year		8,500,000	6,630,000	244,618	1,579,657	850,000	17,804,275	105,312	17,909,587
<u>2011</u>									
Balance at beginning of the year		6,500,000	5,480,000	(44,866)	2,705,637	650,000	15,290,771	105,913	15,396,684
Changes in equity for the year									
Net changes in fair value of cash flow hedges				80,448	-	-	80,448	-	80,448
Net changes in fair value of available for sale investments				229,590	-	-	229,590	-	229,590
Transfers to consolidated income statement				(87,552)	-	-	(87,552)	-	(87,552)
Net comprehensive income for the year				222,486	-	-	222,486	-	222,486
Net income for the year				-	2,171,123	-	2,171,123	(448)	2,170,675
Total comprehensive income for the year				222,486	2,171,123	-	2,393,609	(448)	2,393,161
Bonus share issue	16	2,000,000	-	-	(2,000,000)	-	-	-	-
Transfer to statutory reserve	17	-	550,000	-	(550,000)	-	-	-	-
2010 final dividend	27	-	-	-	-	(650,000)	(650,000)	-	(650,000)
Proposed dividend	27	-	-	-	(850,000)	850,000	-	-	-
Zakat	27	-	-	-	(410,320)	-	(410,320)	-	(410,320)
Balance at end of the year		8,500,000	6,030,000	177,620	1,066,440	850,000	16,624,060	105,465	16,729,525

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

Arab National Bank – Saudi Joint Stock Company

CONSOLIDATED STATEMENT OF CASH FLOWS For the years ended December 31, 2012 and 2011

	Notes	2012 SAR' 000	2011 SAR' 000
OPERATING ACTIVITIES			
Net income for the year		2,371,025	2,170,675
Adjustments to reconcile net income to net cash from (used in) operating activities:			
Accretion of discounts of non-trading investments, net		(37,385)	(8,760)
Gains and impairment of non-trading investments, net	24	(86,860)	(34,753)
Depreciation and amortization	9	173,413	187,740
Gain on disposal of property and equipment	25	(7)	(8,264)
Share in earnings of an associate	8	(28,129)	(22,168)
Impairment charges for credit losses, net	7	521,796	617,897
		2,913,853	2,902,367
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA	4	(624,196)	(506,573)
Due from banks and other financial institutions maturing after ninety days of the acquisition date		37,500	37,957
Investments held at FVIS	6	6,144	1,202,408
Loans and advances		(14,021,164)	(7,213,407)
Other real estate		(150,997)	(67,746)
Other assets		469,074	(101,721)
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		(2,274,537)	(3,272,343)
Customers' deposits		19,701,628	3,660,202
Other liabilities		127,480	(510,364)
Net cash from (used in) operating activities		6,184,785	(3,869,220)
INVESTING ACTIVITIES			
Proceeds from sale of and matured non-trading investments		60,636,528	56,406,009
Purchase of non-trading investments		(58,665,217)	(50,604,473)
Investment in associates	8	(52,500)	-
Purchase of property and equipment	9	(243,823)	(234,335)
Proceeds from sale of property and equipment		46,844	32,046
Net cash from investing activities		1,721,832	5,599,247
FINANCING ACTIVITIES			
Dividend paid		(843,053)	(651,611)
Net cash used in financing activities		(843,053)	(651,611)
Increase in cash and cash equivalents		7,063,564	1,078,416
Cash and cash equivalents at the beginning of the year		10,241,180	9,162,764
Cash and cash equivalents at the end of the year	28	17,304,744	10,241,180
Special commission received during the year		3,828,200	3,468,339
Special commission paid during the year		427,687	318,192
Supplemental non-cash information			
Net changes in fair value		192,008	310,038

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

Arab National Bank – Saudi Joint Stock Company

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2012 and 2011

(Saudi Riyals in Thousands)

1. General

Arab National Bank (a Saudi Joint Stock Company, the Bank) was formed pursuant to Royal Decree No. M/38 dated Rajab 18,1399H (corresponding to June 13, 1979). The Bank commenced business on February 2, 1980 by taking over the operations of Arab Bank Limited in the Kingdom of Saudi Arabia. The Bank operates under Commercial Registration No. 1010027912 dated Rabi Awal 1, 1400H (corresponding to January 19, 1980) through its 145 branches (2011: 142 branches) in the Kingdom of Saudi Arabia and one branch in the United Kingdom. The address of the Bank's head office is as follows:

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

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

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

Arab National Bank Investment Company (ANB Invest)

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

Arabian Heavy Equipment Leasing Company (AHEL)

A 62.5% owned subsidiary incorporated in the Kingdom of Saudi Arabia, as a Saudi closed joint stock company, under commercial registration no 1010267489 issued in Riyadh dated 15 Jumada 1, 1430H (corresponding to May 10, 2009). The company is engaged in leasing of heavy equipments and operating in compliance with Shariah principles. The Bank started consolidating the subsidiary financial statements effective May 10, 2009, the date the subsidiary started its operations.

2. Basis of preparation

a) Statement of compliance

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

b) Basis of measurement

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

c) Functional and presentation currency

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

d) Critical accounting judgments, estimates and assumptions

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

Arab National Bank – Saudi Joint Stock Company
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2012 and 2011
(Saudi Riyals in Thousands)

2. Basis of preparation (continued)

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

(i) Impairment for credit losses on loans and advances

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

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

(ii) Fair value of unquoted financial instruments

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

(iii) Impairment of available for sale equity investments

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

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

(iv) Classification of held-to-maturity investments

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

e) Going concern

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

3. Summary of significant accounting policies

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

The accounting policies used in the preparation of these consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2011 except that the Group has adopted the following new and amended IASB Standards and International Financial Reporting Interpretations Committee which had no impact on the financial position and financial performance of the Group:

Arab National Bank – Saudi Joint Stock Company
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2012 and 2011
(Saudi Riyals in Thousands)

3. Summary of significant accounting policies (continued)

IFRS 7 Financial Instruments: Disclosures (amendment)

The IASB issued an amendment to IFRS 7. The amendment provides enhanced disclosures for 'transferred financial assets that are derecognized in their entirety' and transferred assets that are not derecognized in their entirety.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Bank:

- IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets

a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries (collectively referred to as the Group). The financial statements of the subsidiaries are prepared for the same reporting year as that of the Bank, using consistent accounting policies. Adjustments have been made to the financial statements of the subsidiaries when necessary to align them with the Bank's financial statements.

Subsidiaries are all entities controlled by the Bank. Control exists when the Bank has the power to govern the financial and operating policies of the subsidiaries so as to obtain benefits from their activities, generally accompanying an ownership interest of more than one half of the voting rights.

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

Non-controlling interests represent the portion of net income or loss and net assets not owned, directly or indirectly, by the Bank and are presented separately in the consolidated income statement and within equity in the consolidated statement of financial position, separately from the equity holders of the bank. Any losses applicable to the non controlling interest in excess of the non controlling interest share are allocated against the interests of the Bank. Acquisitions of non-controlling interests are accounted for using the purchase method of accounting, whereby, the difference between the cost of acquisition and the fair value of the share of the net assets acquired is recognized as goodwill.

Balances and any unrealized gains and losses arising from transactions between the Bank and its subsidiaries are eliminated in preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

b) Investment in associates

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

c) Settlement date accounting

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

3. Summary of significant accounting policies (continued)

d) Derivative financial instruments and hedge accounting

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

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

i) Derivatives held for trading

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

ii) Embedded derivatives

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

iii) Hedge accounting

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

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

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

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

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

Arab National Bank – Saudi Joint Stock Company
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the years ended December 31, 2012 and 2011

(Saudi Riyals in Thousands)

3. Summary of significant accounting policies (continued)

e) Foreign currencies

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

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

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

f) Offsetting financial instruments

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

g) Revenue and expenses recognition

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

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

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

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

Exchange income/loss is recognized when earned/incurred.

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

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

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

Arab National Bank – Saudi Joint Stock Company
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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3. Summary of significant accounting policies (continued)

h) Sale and repurchase agreements

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

i) Investments

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

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

For securities traded in organized financial markets, fair value is determined by reference to exchange quoted market bid prices at the close of business on the consolidated statement of financial position date without any deduction for transaction costs. Fair value of managed assets and investments in mutual funds are determined by reference to declared net asset values.

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

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

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

Investments in this category include those investments held for trading or those designated as FVIS on initial recognition. Investments classified as trading are acquired for the purpose of selling or repurchasing in short term and are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recognized in trading income/loss, net. An investment may be designated as FVIS if it satisfies the criteria laid down by IAS 39.

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

(ii) Available for sale

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

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

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

Arab National Bank – Saudi Joint Stock Company
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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3. Summary of significant accounting policies (continued)

i) Investments (continued)

(iii) Held to maturity

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

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

(iv) Other investments held at amortized cost

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

j) Loans and advances

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

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

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

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

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

k) Impairment of financial assets

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

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

Arab National Bank – Saudi Joint Stock Company
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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3. Summary of significant accounting policies (continued)

k) Impairment of financial assets (continued)

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

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

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

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

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

i) Impairment of financial assets held at amortized cost

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

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

ii) Impairment of available for sale financial assets

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

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

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

Arab National Bank – Saudi Joint Stock Company
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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3. Summary of significant accounting policies (continued)

l) Other real estate

The Bank, in the ordinary course of business, acquires certain real estate against settlement of due loans and advances. Such real estate are considered as assets held for sale and are initially stated at the lower of net realisable value of due loans and advances and the current fair value of the related properties, less any costs to sell (if material).

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

m) Property and equipment

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

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

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

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

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

n) Liabilities

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

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

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

o) Provisions

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

p) Accounting for leases

i) Where the Bank is the lessee

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

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

Arab National Bank – Saudi Joint Stock Company
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3. Summary of significant accounting policies (continued)

p) Accounting for leases (continued)

ii) Where the Bank is the lessor

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

q) Cash and cash equivalents

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

r) Financial guarantees

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

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

s) Derecognition of financial instruments

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

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

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

t) Zakat and income taxes

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

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

Arab National Bank – Saudi Joint Stock Company
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3. Summary of significant accounting policies (continued)

u) Shariah compliant based banking products

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

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

v) Prospective changes in accounting policies

Certain new IFRS and amendments and interpretations to existing IFRS, have been published and are mandatory for the Bank's accounting period beginning on or after January 1, 2013. These include:

IAS 1 Financial Statement Presentation (Amendments)

The amendments become effective for annual periods beginning on or after 1 July 2012 and affects presentation only.

IAS 28 Investments in associates and joint ventures (as revised in 2011)

Describes the application of the equity method to investments in joint ventures in addition to associates and is effective for annual periods beginning on or after 1 January 2013.

IAS 32 Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". These amendments become effective for annual periods beginning on or after 1 January 2014.

IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7

These amendments require an entity to disclose information about rights to set-off and related arrangements

IFRS 9 Financial instruments

Financial instruments: recognition and measurement' introduces new requirements for classifying and measuring financial assets, liabilities and its related accounting. It has been partially published and is mandatory for compliance for the Bank's accounting year beginning January 1, 2015.

IFRS 10 Consolidated Financial Instruments

IFRS 10 introduces a new approach to determining which investees should be consolidated and is effective for annual periods beginning on or after 1 January 2013.

IFRS 12 – Disclosure of Involvement with Other Entities

The standard becomes effective for annual periods beginning on or after 1 January 2013. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities.

4. Cash and balances with SAMA

	<u>2012</u>	<u>2011</u>
Cash in hand	2,073,327	2,192,958
Statutory deposit	5,270,609	4,646,413
Money market placements	12,983,910	6,510,955
Other balances	6,583	2,528
Total	<u>20,334,429</u>	<u>13,352,854</u>

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

Arab National Bank – Saudi Joint Stock Company
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5. Due from banks and other financial institutions

	<u>2012</u>	<u>2011</u>
Current accounts	1,138,288	734,927
Money market placements	1,102,636	837,312
Total	<u>2,240,924</u>	<u>1,572,239</u>

6. Investments, net

a) Investments are classified as follows:

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

	Domestic		International		Total	
	<u>2012</u>	2011	<u>2012</u>	2011	<u>2012</u>	2011
Mutual funds and others	-	-	78,178	81,715	78,178	81,715
Fixed rate securities (held for trading)	-	-	-	2,607	-	2,607
Held at fair value through income statement	-	-	78,178	84,322	78,178	84,322

ii) Available for sale

Fixed rate securities	1,540,519	2,175,156	4,799,702	6,221,857	6,340,221	8,397,013
Floating rate notes	275,317	293,361	1,340,540	966,432	1,615,857	1,259,793
Equities	808,762	805,342	63,331	64,068	872,093	869,410
Other	271,525	252,269	184,907	193,979	456,432	446,248
Available for sale	2,896,123	3,526,128	6,388,480	7,446,336	9,284,603	10,972,464

iii) Other investments held at amortized cost

Fixed rate securities	9,607,624	9,162,089	1,189,146	1,590,664	10,796,770	10,752,753
Floating rate notes	2,708,618	3,521,892	1,445,503	732,017	4,154,121	4,253,909
Other	-	-	37,500	37,500	37,500	37,500
Held at amortized cost, gross	12,316,242	12,683,981	2,672,149	2,360,181	14,988,391	15,044,162
Allowance for impairment	-	-	(28,125)	(18,750)	(28,125)	(18,750)
Held at amortized cost, net	12,316,242	12,683,981	2,644,024	2,341,431	14,960,266	15,025,412
Total investments, net	15,212,365	16,210,109	9,110,682	9,872,089	24,323,047	26,082,198

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6. Investments, net (continued)

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

	2012			2011		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Fixed rate securities	6,681,975	10,455,016	17,136,991	7,899,150	11,253,223	19,152,373
Floating rate notes	3,932,073	1,837,905	5,769,978	4,395,797	1,117,905	5,513,702
Equities	807,762	64,331	872,093	804,342	65,068	869,410
Other	348,275	223,835	572,110	356,836	208,627	565,463
Allowance for impairment	-	(28,125)	(28,125)	-	(18,750)	(18,750)
Investments, net	11,770,085	12,552,962	24,323,047	13,456,125	12,626,073	26,082,198

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

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

	2012				2011			
	Carrying value	Gross unrecognized gains	Gross unrecognized losses	Fair value	Carrying value	Gross unrecognized gains	Gross unrecognized losses	Fair value
i) Other investments held at amortized cost								
Fixed rate securities	10,796,770	125,031	4,897	10,916,904	10,752,753	68,115	16,707	10,804,161
Floating rate notes	4,154,121	64,792	1,964	4,216,949	4,253,909	54,152	58,432	4,249,629
Other	37,500	-	28,125	9,375	37,500	-	18,750	18,750
Allowance for impairment	(28,125)	-	-	(28,125)	(18,750)	-	-	(18,750)
Total	14,960,266	189,823	34,986	15,115,103	15,025,412	122,267	93,889	15,053,790

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

	2012	2011
Government and quasi government	19,392,550	21,606,582
Banks and other financial institutions	3,615,740	3,251,301
Corporate	980,407	958,300
Other	334,350	266,015
Total	24,323,047	26,082,198

Investments include SAR 7,494 million (2011: SAR 7,486 million), which have been pledged under repurchase agreements with other banks and customers. The market value of such investments is SAR 7,523 million (2011: SAR 7,484 million).

e) Movement in the allowance for impairment of investments

	2012	2011
Balance at beginning of the year	18,750	18,750
Provided during the year	9,375	-
Balance at end of the year	28,125	18,750

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7. Loans and advances, net

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

	<u>2012</u>	<u>Credit cards</u>	<u>Consumer loans</u>	<u>Commercial loans and overdrafts</u>	<u>Total</u>
Performing loans and advances, gross		392,840	21,839,949	65,479,763	87,712,552
Non-performing loans and advances, net		5,212	30,527	1,279,045	1,314,784
Total loans and advances		398,052	21,870,476	66,758,808	89,027,336
Impairment charges for credit losses, net		(2,674)	(88,968)	(2,607,086)	(2,698,728)
Loans and advances, net		395,378	21,781,508	64,151,722	86,328,608
	<u>2011</u>				
Performing loans and advances, gross		493,625	19,974,729	53,195,837	73,664,191
Non-performing loans and advances, net		6,292	24,105	1,754,079	1,784,476
Total loans and advances		499,917	19,998,834	54,949,916	75,448,667
Impairment charges for credit losses, net		(3,237)	(75,449)	(2,526,211)	(2,604,897)
Loans and advances, net		496,680	19,923,385	52,423,705	72,843,770

Loan and advances, net include Shariah compliant based banking products in respect of Murabaha, Tawarruq agreements and Ijarah, which are stated at amortized cost, of 49.3 billion (2011: SAR 39.7 billion).

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

	<u>2012</u>	<u>Credit cards</u>	<u>Consumer loans</u>	<u>Commercial loans and overdrafts</u>	<u>Total</u>
Balance at beginning of the year		3,237	75,449	2,526,211	2,604,897
Provided during the year		9,370	172,931	340,973	523,274
Recovery of amounts previously provided		-	(1,478)	-	(1,478)
Bad debts written off		(9,933)	(157,934)	(260,098)	(427,965)
Balance at end of the year		2,674	88,968	2,607,086	2,698,728
	<u>2011</u>				
Balance at beginning of the year		6,370	104,726	2,083,393	2,194,489
Provided during the year		8,736	148,492	463,364	620,592
Recovery of amounts previously provided		-	(2,695)	-	(2,695)
Bad debts written off		(11,869)	(175,074)	(20,546)	(207,489)
Balance at end of the year		3,237	75,449	2,526,211	2,604,897

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

Arab National Bank – Saudi Joint Stock Company
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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7. Loans and advances, net (continued)

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

	<u>2012</u>	Non performing, net	Impairment charges for credit losses	Loans and advances, net
	Performing gross			
1. Government and quasi government	7,727	-	-	7,727
2. Banks and other financial institutions	1,110,875	500,533	(709,016)	902,392
3. Agriculture and fishing	405,140	-	-	405,140
4. Manufacturing	11,585,618	8,742	(172,776)	11,421,584
5. Mining and quarrying	2,070,815	-	-	2,070,815
6. Electricity, water, gas and health services	2,650,965	-	-	2,650,965
7. Building and construction	5,240,412	36,367	(414,584)	4,862,195
8. Commerce	15,200,617	132,914	(128,246)	15,205,285
9. Transportation and communication	6,604,072	-	(26,565)	6,577,507
10. Services	2,250,800	390,687	(397,786)	2,243,701
11. Consumer loans and credit cards	22,232,789	35,739	(61,984)	22,206,544
12. Other	18,352,722	209,802	(316,636)	18,245,888
	<u>87,712,552</u>	<u>1,314,784</u>	<u>(2,227,593)</u>	<u>86,799,743</u>
Allowance for collective impairment	-	-	(471,135)	(471,135)
Total	<u>87,712,552</u>	<u>1,314,784</u>	<u>(2,698,728)</u>	<u>86,328,608</u>
	<u>2011</u>			
1. Government and quasi government	9,357	-	-	9,357
2. Banks and other financial institutions	1,564,132	553,245	(764,907)	1,352,470
3. Agriculture and fishing	201,658	-	-	201,658
4. Manufacturing	8,803,664	208,750	(380,958)	8,631,456
5. Mining and quarrying	1,598,105	-	-	1,598,105
6. Electricity, water, gas and health services	1,696,243	-	-	1,696,243
7. Building and construction	4,955,457	39,993	(90,477)	4,904,973
8. Commerce	11,591,660	261,038	(148,786)	11,703,912
9. Transportation and communication	5,753,048	-	(46,112)	5,706,936
10. Services	1,349,715	399,114	(399,075)	1,349,754
11. Consumer loans and credit cards	20,468,354	30,397	(47,548)	20,451,203
12. Other	15,672,798	291,939	(306,305)	15,658,432
	<u>73,664,191</u>	<u>1,784,476</u>	<u>(2,184,168)</u>	<u>73,264,499</u>
Allowance for collective impairment	-	-	(420,729)	(420,729)
Total	<u>73,664,191</u>	<u>1,784,476</u>	<u>(2,604,897)</u>	<u>72,843,770</u>

8. Investment in associates

	<u>2012</u>	2011
Balance at beginning of the year	<u>349,417</u>	327,249
Investment during the year	<u>52,500</u>	-
Share in earnings	<u>28,129</u>	22,168
Total	<u>430,046</u>	<u>349,417</u>

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

The investment during the year represents the Bank's share (30%) in setting up a cooperative insurance company in the Kingdom of Saudi Arabia. The company is still under formation and the legal formalities are not yet finalized.

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9. Property and equipment, net

	Land and buildings	Leasehold improvements	Equipment, furniture and vehicles	Projects under execution	Total 2012	Total 2011
Cost						
Balance at beginning of the year	1,086,734	420,595	1,092,486	-	2,599,815	2,578,627
Additions	12,031	23,830	74,178	133,784	243,823	234,335
Disposals	(46,465)	(7)	(7,979)	-	(54,451)	(213,147)
Balance at end of the year	1,052,300	444,418	1,158,685	133,784	2,789,187	2,599,815
Accumulated depreciation						
Balance at beginning of the year	212,303	261,282	842,665	-	1,316,250	1,317,875
Charge for the year	36,150	40,772	96,491	-	173,413	187,740
Disposals	-	(7)	(7,607)	-	(7,614)	(189,365)
Balance at end of the year	248,453	302,047	931,549	-	1,482,049	1,316,250
Net book value						
As at December 31, 2012	803,847	142,371	227,136	133,784	1,307,138	
As at December 31, 2011	874,431	159,313	249,821	-		1,283,565

10. Other assets

	2012	2011
Accrued special commission receivable - banks and other financial institutions	202	70
- investments	84,901	164,724
- loans and advances	317,864	296,008
- derivatives	20,397	45,791
Total accrued special commission receivable	423,364	506,593
Positive fair value of derivatives (note 11)	165,357	235,864
Prepaid expenses	229,227	214,926
Leased equipments	199,698	198,265
Other	338,432	766,605
Total	1,356,078	1,922,253

11. Derivatives

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

a) Swaps

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

b) Forwards and futures

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

c) Forward rate agreements

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

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11. Derivatives (continued)

d) Options

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

Held for trading purposes

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

Held for hedging purposes

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

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

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

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

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

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

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

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11. Derivatives (continued)

	Derivative financial instruments							
	Notional amounts by term to maturity							
<u>2011</u>	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading:								
Commission rate swaps	111,409	102,394	7,044,639	2,089,421	333,333	4,621,885	-	9,080,898
Commission rate futures and options	-	-	37,500	-	37,500	-	-	21,849
Forward foreign exchange contracts	90,713	60,122	10,161,226	8,195,281	1,786,504	179,441	-	10,864,817
Currency options	10,058	5,115	3,618,975	438,919	903,806	2,276,250	-	4,124,875
Held as fair value hedges:								
Commission rate swaps	653	147,672	4,183,646	250,000	1,939,803	681,343	1,312,500	5,561,783
Held as cash flow hedges:								
Commission rate swaps	23,031	5,798	1,957,500	-	-	1,957,500	-	1,980,938
Total	235,864	321,101	27,003,486	10,973,621	5,000,946	9,716,419	1,312,500	31,635,160

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

Description of hedged items	Fair value	Cost	Risk	Hedging instrument	Positive fair value	Negative fair value
<u>2012</u>						
Fixed commission rate investments	657,875	617,261	Fair value	Commission rate swap	-	44,329
Fixed commission rate loans	2,984,234	2,897,619	Fair value	Commission rate swap	5,990	92,605
<u>2011</u>						
Fixed commission rate investments	955,080	914,466	Fair value	Commission rate swap	-	46,386
Fixed commission rate loans	3,369,813	3,269,180	Fair value	Commission rate swap	653	101,286
Floating commission rate loans	382,321	401,250	Cash flow	Commission rate swap	18,929	-
Floating commission rate investments	1,558,077	1,556,250	Cash flow	Commission rate swap	4,102	5,798

Cash flow hedges

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

<u>2012</u>	Within 1 year	1-3 years	3-5 years
Cash inflows (assets)	-	-	-
Cash out flows (liabilities)	-	-	-
Net cash inflow (outflow)	-	-	-
<u>2011</u>			
Cash inflows (assets)	6,087	9,418	691
Cash out flows (liabilities)	(2,832)	(6,386)	(695)
Net cash inflow (outflow)	3,255	3,032	(4)

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11. Derivatives (continued)

The discontinuation of hedge accounting resulted in reclassification of the associated cumulative losses of SAR 466 thousands from equity to consolidated income statement (2011: cumulative gains of SAR 4.8 million), included in the above numbers.

Approximately 31% (2011: 27%) of the positive fair value of the Bank's derivatives are entered into with financial institutions and less than 18% (2011: 12%) of the positive fair value contracts are with any single counter-party at the consolidated statement of financial position date. Derivative activities are mainly carried out under the Bank's treasury banking segment.

12. Due to banks and other financial institutions

	<u>2012</u>	<u>2011</u>
Current accounts	219,267	201,932
Money market deposits	6,330,657	8,622,529
Total	<u>6,549,924</u>	<u>8,824,461</u>

13. Customers' deposits

	<u>2012</u>	<u>2011</u>
Demand	52,349,494	46,524,569
Saving	103,598	105,533
Time	51,248,571	38,032,054
Other	3,858,780	3,196,659
Total	<u>107,560,443</u>	<u>87,858,815</u>

Time deposits include deposits against sale of securities of SAR 4,269 million (2011: SAR 2,366 million) with agreements to repurchase the same at fixed future dates. Other customers' deposits include SAR 2,705 million (2011: SAR 2,155 million) of margins held for irrevocable commitments.

The above include foreign currency deposits as follows:

	<u>2012</u>	<u>2011</u>
Demand	1,833,412	1,627,279
Saving	1,304	1,829
Time	20,085,439	12,630,377
Other	182,113	242,956
Total	<u>22,102,268</u>	<u>14,502,441</u>

14. Other liabilities

	<u>2012</u>	<u>2011</u>
Accrued special commission payable - banks and other financial institutions	1,591	256
- customers' deposits	57,766	31,065
- derivatives	84,145	69,012
- debt securities in issue	4,774	3,656
Total accrued special commission payable	148,276	103,989
Negative fair value of derivatives (note 11)	257,316	321,101
Other	2,526,230	2,048,914
Total	<u>2,931,822</u>	<u>2,474,004</u>

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15. Debt securities in issue

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

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

16. Share capital

The authorized, issued and fully paid share capital of the Bank as at December 31, 2012 consists of 850 million shares of SAR 10 each (2011: 850 million shares of SAR 10 each). The ownership of the Bank's share capital is as follows:

	<u>2012</u>	<u>2011</u>
Saudi shareholders	60%	60%
Arab Bank PLC – Jordan	40%	40%

During the year ended December 31, 2011, 200 million bonus shares of SAR 10 each were issued after approval by the shareholders at their extraordinary general assembly meeting held on March 27, 2011.

At December 31, 2012, the Bank has 850 million shares issued and outstanding.

17. Statutory reserve

In accordance with the Saudi Arabian Banking Control Law and the Articles of Association of the Bank, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid up share capital of the Bank. Accordingly, SAR 600 million has been transferred from the net income for the year ended December 31, 2012 (2011: SAR 550 million). The statutory reserve is currently not available for distribution.

18. Commitments and contingencies

a) Legal proceedings

As at December 31, 2012 and 2011 there were legal proceedings of a routine nature outstanding against the Bank. No material provision has been made as related professional legal advice indicates that it is unlikely that any significant loss will arise.

b) Capital commitments

As at December 31, 2012 the Bank had capital commitments of 140 million (2011: SAR 147 million) in respect of building and equipment purchases.

c) Credit related commitments and contingencies

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

Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans and advances.

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

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

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18. Commitments and contingencies (continued)

c) Credit related commitments and contingencies (continued)

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

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

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

	<u>2012</u>	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit		3,956,422	3,251,609	859,211	-	8,067,242
Letters of guarantee		6,992,166	11,307,291	6,402,406	333,307	25,035,170
Acceptances		1,736,751	728,105	6,840	-	2,471,696
Irrevocable commitments to extend credit		70	159,231	1,148,275	19,565	1,327,141
Other		-	-	-	166,375	166,375
Total		12,685,409	15,446,236	8,416,732	519,247	37,067,624
	<u>2011</u>					
Letters of credit		3,172,130	1,612,263	724,913	-	5,509,306
Letters of guarantee		5,662,952	6,837,473	7,064,393	44,369	19,609,187
Acceptances		1,774,668	1,185,307	2,534	-	2,962,509
Irrevocable commitments to extend credit		-	285,486	1,357,992	19,565	1,663,043
Other		-	-	-	275,084	275,084
Total		10,609,750	9,920,529	9,149,832	339,018	30,019,129

The unutilized portion of non-firm commitments as at December 31, 2012, which can be revoked unilaterally at any time by the Bank, amounts to SAR 12,548 million (2011: SAR 11,650 million).

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

	<u>2012</u>	2011
Government and quasi government	33,600	277,153
Corporate	26,404,181	24,104,608
Banks and other financial institutions	9,699,351	4,832,616
Other	930,492	804,752
Total	37,067,624	30,019,129

d) Assets pledged

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

	<u>2012</u>		2011	
	Assets	Related liabilities	Assets	Related liabilities
Other investments held at amortized cost (note 6)	6,742,681	4,268,654	3,247,890	2,366,422
Available for sale investments (note 6)	751,501	750,000	4,238,128	4,252,174
Total	7,494,182	5,018,654	7,486,018	6,618,596

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18. Commitments and contingencies (continued)

e) Operating lease commitments

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

	<u>2012</u>	<u>2011</u>
Less than 1 year	90,949	84,311
1 to 5 years	225,722	217,124
Over 5 years	106,391	106,949
Total	<u>423,062</u>	<u>408,384</u>

19. Net special commission income

	<u>2012</u>	<u>2011</u>
Special commission income		
Investments:		
Available for sale	139,608	181,555
Other investments held at amortized cost	259,512	243,334
	<u>399,120</u>	<u>424,889</u>
Due from banks and other financial institutions	12,673	10,965
Loans and advances	3,336,270	3,027,636
Total	<u>3,748,063</u>	<u>3,463,490</u>
Special commission expense		
Due to banks and other financial institutions	24,478	22,003
Customers' deposits	428,919	238,494
Debt securities in issue	34,237	22,026
Total	<u>487,634</u>	<u>282,523</u>
Net special commission income	<u>3,260,429</u>	<u>3,180,967</u>

20. Fees and commission income, net

	<u>2012</u>	<u>2011</u>
Fee income		
Share trading and fund management	128,164	104,152
Trade finance	241,000	190,887
Other banking services	944,730	779,945
Total	<u>1,313,894</u>	<u>1,074,984</u>
Fee expense		
Credit cards	99,825	111,144
Custody and brokerage fees	8,997	2,325
Other banking services	296,385	234,537
Total	<u>405,207</u>	<u>348,006</u>
Fees and commission income, net	<u>908,687</u>	<u>726,978</u>

21. (Loss) income from FVIS financial instruments, net

	<u>2012</u>	<u>2011</u>
Fair value change of financial assets held as FVIS investments	(149)	5,971

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22. Trading income, net

	<u>2012</u>	<u>2011</u>
Fixed rate securities	43,126	100,790
Derivatives	15,139	13,655
Total	<u>58,265</u>	<u>114,445</u>

23. Dividend income

	<u>2012</u>	<u>2011</u>
Available for sale investments	35,990	31,216

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

	<u>2012</u>	<u>2011</u>
Realized gains on available for sale investments	96,235	45,244
Realized losses on other investments held at amortized cost	-	(13)
Impairment loss on other investments held at amortized cost	(9,375)	-
Impairment loss on available for sale investments	-	(10,478)
Total	<u>86,860</u>	<u>34,753</u>

25. Other operating income, net

	<u>2012</u>	<u>2011</u>
Gain on disposal of property and equipment	7	8,264
Recoveries of loans and advances previously written off	141,312	62,902
(Loss) gains on disposal of other real estate	(105)	2,277
Other	21,863	50,953
Total	<u>163,077</u>	<u>124,396</u>

26. Basic and fully diluted earnings per share

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

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

27. Proposed gross dividend, Zakat and Income Tax

Gross dividend is comprised of the following :

	<u>2012</u>	<u>2011</u>
Proposed dividends	850,000	850,000
Zakat (including prior year difference)	407,961	410,320
Total	<u>1,257,961</u>	<u>1,260,320</u>

On December 16, 2012 the Board of Directors' approved paying cash dividends of SAR 850 million. This is subject to final approval of the general assembly.

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

Zakat

Zakat attributable to Saudi Shareholders for the year amounted to approximately SAR 245 million (2011: SAR 246 million).

Income Tax

Income tax payable by the non-Saudi Shareholder on the current year's share of net income is SAR 199 million (2011: SAR 186 million).

The Bank has submitted its Zakat and income tax returns for the years up to 2011 and received the final assessments up to 2005. The remaining years are still under review by DZIT.

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28. Cash and cash equivalents

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

	<u>2012</u>	<u>2011</u>
Cash and balances with SAMA excluding statutory deposit (note 4)	15,063,820	8,706,441
Due from banks and other financial institutions maturing within ninety days of the acquisition date	2,240,924	1,534,739
Total	<u>17,304,744</u>	<u>10,241,180</u>

29. Compensation practices

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

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

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

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

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

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29. Compensation practices (continued)

s.No.	Categories of employees	Number of employees	Fixed compensation	Variable cost paid cash in 2011
1.	Senior executive requiring SAMA no objections	13	27,655	19,347
2.	Employees engaged in risk taking activities	161	82,964	23,347
3.	Employees engaged in control functions	320	79,386	6,186
4.	Other employees	3,731	599,497	48,385
5.	Outsourced employees engaged in risk taking activities	-	-	-
	Total	<u>4,225</u>	<u>789,502</u>	<u>97,265</u>
	Variable compensation accrued in 2011		80,000	
	Other employment related costs*		<u>165,368</u>	
	Total salaries and employment related expenses		<u>1,034,870</u>	

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

30. Operating segments

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

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

Retail banking

Deposit, credit and investment products for individuals.

Corporate banking

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

Treasury banking

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

Investment and brokerage services

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

Other

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

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

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

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30. Operating segments (continued)

- a) The Group's total assets and liabilities as at December 31, 2012 and 2011, its total operating income, expenses and net income for the years then ended, by operating segments, are as follows:

2012	Retail banking	Corporate banking	Treasury banking	Investment and brokerage services	Other	Total
Total assets	30,819,872	59,315,473	43,420,050	44,194	3,039,687	136,639,276
Total liabilities	51,822,096	57,833,016	8,393,092	35,897	645,588	118,729,689
Total operating income	2,145,472	1,507,933	873,981	139,804	89,631	4,756,821
Total operating expenses	1,453,112	771,405	72,285	87,586	29,537	2,413,925
Share in earnings of an associate	-	-	-	-	28,129	28,129
Loss attributed to non-controlling interest	-	-	-	-	153	153
Net income attributed to equity holders of the Bank	692,360	736,528	801,696	52,218	88,376	2,371,178
Impairment charges for credit losses, net	194,760	327,036	-	-	-	521,796
Investment in associates	-	-	-	-	430,046	430,046
Depreciation and amortization	156,209	3,354	4,139	7,251	2,460	173,413
Impairment of financial assets	-	-	9,375	-	-	9,375
2011						
Total assets	27,720,931	49,270,375	37,583,567	31,414	2,968,018	117,574,305
Total liabilities	46,047,493	43,775,015	10,242,759	33,402	746,111	100,844,780
Total operating income	2,194,068	1,429,297	417,211	127,039	373,847	4,541,462
Total operating expenses	1,382,765	819,862	77,259	83,363	29,706	2,392,955
Share in earnings of an associate	-	-	-	-	22,168	22,168
Loss attributed to Non-controlling interest	-	-	-	-	448	448
Net income attributed to equity holders of the Bank	811,303	609,435	339,952	43,676	366,757	2,171,123
Impairment charges for credit losses, net	163,190	454,707	-	-	-	617,897
Investment in associates	-	-	-	-	349,417	349,417
Depreciation and amortization	168,503	3,459	4,214	9,573	1,991	187,740
Impairment of financial assets	-	-	-	-	10,478	10,478

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

2012	Retail banking	Corporate banking	Treasury banking	Investment and brokerage services	Other	Total
Consolidated statement of financial position assets	28,063,603	58,888,148	43,064,256	26,185	1,541,534	131,583,726
Commitment and contingencies	3,723,745	13,542,555	-	83,187	-	17,349,487
Derivatives	-	2,917	719,228	-	-	722,145
2011						
Consolidated statement of financial position assets	24,790,744	48,950,249	36,790,781	17,216	1,458,530	112,007,520
Commitment and contingencies	2,569,972	12,130,511	-	137,542	-	14,838,025
Derivatives	-	13,578	575,394	-	-	588,972

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30. Operating segments (continued)

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

31. Credit risk

The Bank manages exposure to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally in lending activities that relate to loans and advances, and investment activities. There is also credit risk in off-statement of financial position financial instruments, such as loan commitments.

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

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

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

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

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

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

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

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

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31. Credit risk (continued)

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

	<u>2012</u>	<u>2011</u>
Loans and advances, net:		
Consumer loans		
Credit cards	395,378	496,680
Term loans	21,781,508	19,923,385
Total	<u>22,176,886</u>	<u>20,420,065</u>
Corporate loans		
Syndicated loans	13,843,066	10,392,961
Overdrafts	4,179,317	3,681,756
Term loans	46,107,348	38,316,122
Other	21,991	32,866
Total	<u>64,151,722</u>	<u>52,423,705</u>
Investments, net:		
Fixed-rate securities	17,136,991	19,152,373
Floating-rate notes	5,769,978	5,513,702
Other	1,416,078	1,416,123
Total	<u>24,323,047</u>	<u>26,082,198</u>
Gross Total	<u>110,651,655</u>	<u>98,925,968</u>

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

	<u>2012</u>	<u>2011</u>
Loan commitments and other credit related liabilities	1,327,141	1,663,043
Financial guarantees	35,740,483	28,356,086
Total	<u>37,067,624</u>	<u>30,019,129</u>

c) Credit quality of loans and advances

	<u>2012</u>	<u>2011</u>
Description		
Neither past due nor impaired	84,782,616	71,327,420
Past due but not impaired	793,539	587,045
Impaired (any loan with specific provision)	3,451,181	3,534,202
Total loans and advances	<u>89,027,336</u>	<u>75,448,667</u>
Impairment charges for credit losses, net	(2,698,728)	(2,604,897)
Loans and advances, net	<u>86,328,608</u>	<u>72,843,770</u>

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

	<u>2012</u>	<u>2011</u>
Grades:		
Low risk (1-4)	39,009,948	33,170,567
Acceptable risk (5-8)	45,652,090	37,455,142
Watch list (9-10)	120,578	701,711
Total	<u>84,782,616</u>	<u>71,327,420</u>

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31. Credit risk (continued)

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

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

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

e) Loans and advances past due but not impaired

<u>2012</u>	<u>Credit cards</u>	<u>Consumer loans</u>	<u>Commercial loans and overdrafts</u>	<u>Total</u>
Past due up to 30 days	34,934	620,515	119,455	774,904
Past due 30 - 60 days	-	-	3,697	3,697
Past due 60-90 days	-	-	8,857	8,857
Past due more than 90 days	-	-	6,081	6,081
Total	34,934	620,515	138,090	793,539
<u>2011</u>				
Past due up to 30 days	25,151	419,241	59,970	504,362
Past due 30 - 60 days	-	-	22,953	22,953
Past due 60-90 days	-	-	19,081	19,081
Past due more than 90 days	-	-	40,649	40,649
Total	25,151	419,241	142,653	587,045

f) Impaired loans and advances

	<u>2012</u>	<u>2011</u>
Corporate loans	3,337,590	3,455,667
Retail loans	113,591	78,535
Total	3,451,181	3,534,202

g) Credit quality of financial assets (investments)

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

	<u>2012</u>	<u>2011</u>
Saudi Government Bonds	10,432,957	11,368,224
Investment grade	12,449,718	13,399,805
Non Investment grade	131,063	279,840
Unrated	1,309,309	1,034,329
Total investment, net	24,323,047	26,082,198

The Saudi Government Bonds comprise Saudi Government Development Bonds, Floating Rate Notes and Treasury Bills.

Investment Grade comprises investments having credit rating equivalent to Standard and Poor's rating of AAA to BBB.

The unrated investments comprise mainly mutual funds and investment in equities.

h) Collateral

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

Nature of collateral held as security	<u>2012</u>	<u>2011</u>
	Carrying value	Carrying value
Listed securities	14,610,064	14,587,192
Properties	3,454,149	4,675,036
Others	1,865,434	1,593,651
Total	19,929,647	20,855,879

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

a) Geographical concentration

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

<u>2012</u>	Saudi Arabia	Other GCC & Middle East	Europe	North America	Latin America	South East Asia	Other Countries	Total
Assets								
Cash and balances with SAMA	20,331,609	-	2,820	-	-	-	-	20,334,429
Due from banks and other financial institutions	775,000	533,136	329,574	414,636	-	187,342	1,236	2,240,924
Investments, net	15,907,281	1,891,551	2,749,548	3,609,321	-	113,497	51,849	24,323,047
Investment in associates	430,046	-	-	-	-	-	-	430,046
Loans and advances, net	85,814,510	34,939	471,265	7,894	-	-	-	86,328,608
Total	123,258,446	2,459,626	3,553,207	4,031,851	-	300,839	53,085	133,657,054
Liabilities								
Due to banks and other financial institutions	1,650,104	3,715,074	436,582	746,526	-	1,478	160	6,549,924
Customers' deposits	107,362,274	28,545	165,782	2,104	127	560	1,051	107,560,443
Debt securities in issue	-	840,000	623,250	-	-	224,250	-	1,687,500
Total	109,012,378	4,583,619	1,225,614	748,630	127	226,288	1,211	115,797,867
Commitments and contingencies	19,868,813	2,291,746	4,935,381	1,366,006	23,223	8,391,887	190,568	37,067,624
Maximum credit exposure (stated at credit equivalent amounts)								
Commitments and contingencies	9,483,590	1,060,578	2,115,458	870,059	7,191	3,723,694	88,917	17,349,487
Derivatives	239,202	7,603	417,037	57,739	564	-	-	722,145
2011								
	Saudi Arabia	Other GCC & Middle East	Europe	North America	Latin America	South East Asia	Other Countries	Total
Assets								
Cash and balances with SAMA	13,350,283	-	2,571	-	-	-	-	13,352,854
Due from banks and other financial institutions	-	453,391	722,711	167,936	-	227,425	776	1,572,239
Investments, net	16,975,516	1,680,736	3,581,760	3,791,494	-	1,312	51,380	26,082,198
Investment in associates	349,417	-	-	-	-	-	-	349,417
Loans and advances, net	72,359,456	45,973	357,487	-	-	-	80,854	72,843,770
Total	103,034,672	2,180,100	4,664,529	3,959,430	-	228,737	133,010	114,200,478
Liabilities								
Due to banks and other financial institutions	2,000,000	2,218,810	2,713,821	1,888,194	-	3,636	-	8,824,461
Customers' deposits	87,740,678	94,760	17,725	521	-	803	4,328	87,858,815
Debt securities in issue	-	840,000	623,250	-	-	224,250	-	1,687,500
Total	89,740,678	3,153,570	3,354,796	1,888,715	-	228,689	4,328	98,370,776
Commitments and contingencies	18,758,034	2,115,974	3,309,331	1,619,172	10,952	4,204,561	1,105	30,019,129
Maximum credit exposure (stated at credit equivalent amounts)								
Commitments and contingencies	9,039,791	1,083,285	1,401,262	1,407,188	2,950	1,902,996	553	14,838,025
Derivatives	254,248	5,932	265,713	63,079	-	-	-	588,972

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

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

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

	Non-performing loans, net		Impairment charges for credit losses	
	2012	2011	2012	2011
Saudi Arabia	1,314,784	1,784,476	2,698,728	2,604,897

33. Market risk

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

a) Market risk-trading book

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

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

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

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

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

- I. A 1-day holding period assumes that it is possible to hedge or dispose of positions within one day horizon. This is considered to be a realistic assumption in most of the cases but may not be the case in situations in which there is severe market liquidity for a prolonged period.
- II. A 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a one percent probability that losses could exceed the VAR.
- III. VAR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day.
- IV. The VAR measure is dependent upon the Bank's position and the volatility of market prices. The VAR of an unchanged position reduces if the market price volatility declines and vice versa.

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

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33. Market risk (continued)

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

The Bank's VAR related information for the years ended December 31, 2012 and 2011 is as under. All the figures are in million SAR:

	2012				2011			
	Foreign exchange risk	Special commission risk	Equity price risk	Overall risk	Foreign exchange risk	Special commission risk	Equity price risk	Overall risk
VAR as at December 31	2.6938	0.2649	-	2.9587	1.8789	0.1352	-	2.0141
Average VAR	1.7110	3.0542	-	4.7652	1.0430	1.9306	-	2.9736

(b) Non-Trading portfolio VAR by risk type

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

i) Commission rate risk

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

The following table depicts the sensitivity to a reasonable possible change in commission rates, with other variables held constant, on the Bank's consolidated income statement or equity. The sensitivity of the income is the effect of the assumed changes in commission rates on the special commission income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at December 31, 2012, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing the fixed rate available for sale financial assets, including the effect of any associated hedges as at December 31, 2012 for the effect of assumed changes in commission rates. The sensitivity of equity is analyzed by maturity of the asset or swap. All the banking book exposures are monitored and analyzed in currency concentrations and relevant sensitivities are disclosed in SAR million.

Currency	2012						
	Increase in basis points	Sensitivity of special commission income	Sensitivity of equity				Total
			6 months or less	1 year or less	1-5 years or less	Over 5 years	
SAR	+10	23.68	(0.01)	(0.11)	(0.46)	(0.01)	(0.59)
USD	+10	(12.53)	(0.04)	(0.35)	(11.55)	-	(11.94)
Others	+10	3.96	(0.01)	(0.28)	-	-	(0.29)

Currency	2012						
	Decrease in basis points	Sensitivity of special commission income	Sensitivity of equity				Total
			6 months or less	1 year or less	1-5 years or less	Over 5 years	
SAR	-10	(23.68)	0.01	0.11	0.46	0.01	0.59
USD	-10	12.53	0.04	0.35	11.55	-	11.94
Others	-10	(3.96)	0.01	0.28	-	-	0.29

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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33. Market risk (continued)

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

i) Commission rate risk (continued)

Currency	Increase in basis points	Sensitivity of special commission income	2011				Total
			Sensitivity of equity				
			6 months or less	1 year or less	1-5 years or less	Over 5 years	
SAR	+10	13.65	(0.02)	(0.06)	(0.41)	(0.45)	(0.94)
USD	+10	(5.40)	(0.01)	(0.22)	(16.11)	(0.47)	(16.81)
Others	+10	0.40	(0.03)	(5.88)	-	-	(5.91)

Currency	Decrease in basis points	Sensitivity of special commission income	2011				Total
			Sensitivity of equity				
			6 months or less	1 year or less	1-5 years or less	Over 5 years	
SAR	-10	(13.65)	0.02	0.06	0.41	0.45	0.94
USD	-10	5.40	0.01	0.22	16.11	0.47	16.81
Others	-10	(0.40)	0.03	5.88	-	-	5.91

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

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

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

<u>2012</u>	<u>Within 3 months</u>	<u>3-12 months</u>	<u>1-5 years</u>	<u>Over 5 years</u>	<u>Non commission bearing</u>	<u>Total</u>
Assets						
Cash and balances with SAMA	12,983,910	-	-	-	7,350,519	20,334,429
Due from banks and other financial institutions	1,102,636	-	-	-	1,138,288	2,240,924
Investments, net	10,386,380	4,637,196	6,833,181	1,067,107	1,399,183	24,323,047
Loans and advances, net	44,377,458	20,719,730	20,535,840	695,580	-	86,328,608
Investment in associates	-	-	-	-	430,046	430,046
Other real estate	-	-	-	-	319,006	319,006
Property and equipment, net	-	-	-	-	1,307,138	1,307,138
Other assets	-	-	-	-	1,356,078	1,356,078
Total assets	68,850,384	25,356,926	27,369,021	1,762,687	13,300,258	136,639,276

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33. Market risk (continued)

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

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

	<u>2012</u>	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total
Liabilities and equity							
Due to banks and other financial institutions		5,700,657	630,000	-	-	219,267	6,549,924
Customers' deposits		33,231,227	20,554,168	29,489	-	53,745,559	107,560,443
Other liabilities		-	-	-	-	2,931,822	2,931,822
Debt securities in issue		1,687,500	-	-	-	-	1,687,500
Equity		-	-	-	-	17,909,587	17,909,587
Total liabilities and equity		40,619,384	21,184,168	29,489	-	74,806,235	136,639,276
On-consolidated statement of financial position gap		28,231,000	4,172,758	27,339,532	1,762,687	(61,505,977)	
Off-consolidated statement of financial position gap		2,975,933	(1,797,468)	(803,465)	(375,000)	-	
Total commission rate sensitivity gap		31,206,933	2,375,290	26,536,067	1,387,687	(61,505,977)	
Cumulative commission rate sensitivity gap		31,206,933	33,582,223	60,118,290	61,505,977	-	
	<u>2011</u>	Within 3 months	3-12 months	1-5 years	Over 5 years	Non- commission bearing	Total
Assets							
Cash and balances with SAMA		6,510,955	-	-	-	6,841,899	13,352,854
Due from banks and other financial institutions		837,312	-	-	-	734,927	1,572,239
Investments, net		9,291,725	6,569,883	7,802,951	877,652	1,539,987	26,082,198
Loans and advances, net		36,055,410	17,534,156	18,309,386	944,818	-	72,843,770
Investment in associates		-	-	-	-	349,417	349,417
Other real estate		-	-	-	-	168,009	168,009
Property and equipment, net		-	-	-	-	1,283,565	1,283,565
Other assets		-	-	-	-	1,922,253	1,922,253
Total assets		52,695,402	24,104,039	26,112,337	1,822,470	12,840,057	117,574,305
Liabilities and equity							
Due to banks and other financial institutions		8,622,529	-	-	-	201,932	8,824,461
Customers' deposits		27,770,558	12,298,592	16,364	-	47,773,301	87,858,815
Other liabilities		-	-	-	-	2,474,004	2,474,004
Debt securities in issue		1,687,500	-	-	-	-	1,687,500
Equity		-	-	-	-	16,729,525	16,729,525
Total liabilities and equity		38,080,587	12,298,592	16,364	-	67,178,762	117,574,305
On-consolidated statement of financial position gap		14,614,815	11,805,447	26,095,973	1,822,470	(54,338,705)	
Off-consolidated statement of financial position gap		1,307,445	(1,263,332)	705,887	(750,000)	-	
Total commission rate sensitivity gap		15,922,260	10,542,115	26,801,860	1,072,470	(54,338,705)	
Cumulative commission rate sensitivity gap		15,922,260	26,464,375	53,266,235	54,338,705	-	

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33. Market risk (continued)

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

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

ii) Currency risk

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

The table below shows the currencies to which the Bank has a significant exposure as at December 31, 2012 on its non-trading monetary assets and liabilities and forecasted cash flows. The analysis calculates the effect of reasonable possible movement of the currency rate against SAR, with all other variables held constant, on the consolidated income statement (due to the fair value of the currency sensitive non-trading monetary assets and liabilities) and equity (due to change in fair value of currency swaps used as cash flow hedges). A positive effect shows a potential increase in consolidated income statement or equity; whereas a negative effect shows a potential net reduction in consolidated income statement or equity.

<u>Currency risk exposures</u>	2012		2011	
	Changes in currency rate in %	Effect on net income	Changes in currency rate in %	Effect on net income
USD	-5	(23,463)	+5	(115,518)
EUR	-3	(3,566)	-3	(1,571)
GBP	-3	(12,207)	-3	(17,030)

iii) Currency position

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

	Long (short) 2012	Long (short) 2011
US Dollar	(158,670)	(108,205)
Euro	2,917	(7,600)
Pound Sterling	13,407	(378)

iv) Equity price risk

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

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

<u>Market indices</u>	2012		2011	
	Change in index %	Effect in SAR'000	Change in index %	Effect in SAR'000
Tadawul	+5	41,354	+5	41,027

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34. Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately. To mitigate this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents, and readily marketable securities.

In accordance with the Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% (2011: 7%) of total demand deposits and 4% (2011: 4%) of saving and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of no less than 20% of its deposit liabilities, in the form of cash, Saudi Government Development Bonds or assets, which can be converted into cash within a period not exceeding 30 days.

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

i) Analysis of undiscounted financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Bank's financial liabilities at 31 December 2012 and 2011 based on contractual undiscounted repayment obligations. As special commission payments up to contractual maturity are included in the table, totals do not match with the consolidated statement of financial position. The contractual maturities of liabilities have been determined based on the remaining period at the statement of financial position date to the contractual maturity date and do not take into account the effective expected maturities. The Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not affect the expected cash flows indicated by the Bank's deposit retention history.

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

<u>2011</u>	<u>Within 3 months</u>	<u>3-12 months</u>	<u>1-5 years</u>	<u>Above 5 years</u>	<u>No fixed maturity</u>	<u>Total</u>
Financial liabilities						
Due to banks and other financial institutions	8,623,617	-	-	-	201,932	8,825,549
Customers' deposits	27,298,407	12,232,529	19,782	-	48,952,106	88,502,824
Derivative financial instruments						
Contractual amounts payable	16,073	99,198	222,558	43,027	-	380,856
Contractual amounts receivable	(17,860)	(60,498)	(158,879)	(27,641)	-	(264,878)
Debt securities in issue	12,128	22,688	1,803,413	-	-	1,838,229
Total financial liabilities	35,932,365	12,293,917	1,886,874	15,386	49,154,038	99,282,580

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34. Liquidity risk (continued)

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

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

Management monitors the maturity profile to ensure that adequate liquidity is maintained. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of both the Bank and operating subsidiaries and foreign branch. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

<u>2012</u>	<u>Within 3 months</u>	<u>3-12 months</u>	<u>1-5 years</u>	<u>Over 5 years</u>	<u>No fixed maturity</u>	<u>Total</u>
Assets						
Cash and balances with SAMA	12,983,910	-	-	-	7,350,519	20,334,429
Due from banks and other financial institutions	1,102,636	-	-	-	1,138,288	2,240,924
Investments, net	5,785,399	4,564,130	9,976,477	2,597,858	1,399,183	24,323,047
Loans and advances, net	29,731,336	20,079,890	28,654,269	3,964,772	3,898,341	86,328,608
Investment in associates	-	-	-	-	430,046	430,046
Other real estate	-	-	-	-	319,006	319,006
Property and equipment, net	-	-	-	-	1,307,138	1,307,138
Other assets	-	-	-	-	1,356,078	1,356,078
Total assets	49,603,281	24,644,020	38,630,746	6,562,630	17,198,599	136,639,276
Liabilities and equity						
Due to banks and other financial institutions	5,700,657	630,000	-	-	219,267	6,549,924
Customers' deposits	32,300,775	20,554,168	29,489	-	54,676,011	107,560,443
Other liabilities	-	-	-	-	2,931,822	2,931,822
Debt securities in issue	-	-	1,687,500	-	-	1,687,500
Equity	-	-	-	-	17,909,587	17,909,587
Total liabilities and equity	38,001,432	21,184,168	1,716,989	-	75,736,687	136,639,276
<u>2011</u>	<u>Within 3 months</u>	<u>3-12 months</u>	<u>1-5 years</u>	<u>Over 5 years</u>	<u>No fixed maturity</u>	<u>Total</u>
Assets						
Cash and balances with SAMA	6,510,955	-	-	-	6,841,899	13,352,854
Due from banks and other financial institutions	837,312	-	-	-	734,927	1,572,239
Investments, net	4,134,220	6,661,183	10,275,465	3,471,343	1,539,987	26,082,198
Loans and advances, net	24,214,297	16,181,752	24,864,691	3,475,929	4,107,101	72,843,770
Investment in associates	-	-	-	-	349,417	349,417
Other real estate	-	-	-	-	168,009	168,009
Property and equipment, net	-	-	-	-	1,283,565	1,283,565
Other assets	-	-	-	-	1,922,253	1,922,253
Total assets	35,696,784	22,842,935	35,140,156	6,947,272	16,947,158	117,574,305
Liabilities and equity						
Due to banks and other financial institutions	8,622,529	-	-	-	201,932	8,824,461
Customers' deposits	26,591,115	12,299,230	16,364	-	48,952,106	87,858,815
Other liabilities	-	-	-	-	2,474,004	2,474,004
Debt securities in issue	-	-	1,687,500	-	-	1,687,500
Equity	-	-	-	-	16,729,525	16,729,525
Total liabilities and equity	35,213,644	12,299,230	1,703,864	-	68,357,567	117,574,305

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35. Fair values of financial assets and liabilities

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

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

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

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

<u>2012</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets				
Financial assets designated at FVIS	-	78,178	-	78,178
Financial investments available for sale	7,472,794	1,739,186	72,623	9,284,603
Derivative financial instruments	82,169	83,188	-	165,357
Total	<u>7,554,963</u>	<u>1,900,552</u>	<u>72,623</u>	<u>9,528,138</u>
Financial Liabilities				
Derivative financial instruments	56,295	201,021	-	257,316
Total	<u>56,295</u>	<u>201,021</u>	<u>-</u>	<u>257,316</u>
 <u>2011</u> 				
Financial assets				
Financial assets designated at FVIS	2,607	81,715	-	84,322
Financial investments available for sale	8,676,421	2,223,921	72,122	10,972,464
Derivative financial instruments	90,713	145,151	-	235,864
Total	<u>8,769,741</u>	<u>2,450,787</u>	<u>72,122</u>	<u>11,292,650</u>
Financial Liabilities				
Derivative financial instruments	60,122	260,979	-	321,101
Total	<u>60,122</u>	<u>260,979</u>	<u>-</u>	<u>321,101</u>

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

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

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

The fair values of derivatives and other off-consolidated statement of financial position financial instruments are based on the quoted market prices when available or by using the appropriate valuation technique. The total amount of the changes in fair value recognized in the consolidated income statement, which was estimated using valuation technique, is SAR 92 million (2011: SAR 102.5 million).

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36. Related party transactions

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

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

	2012	2011
Arab Bank PLC:		
Due from banks and other financial institutions	395,363	420,129
Due to banks and other financial institutions	1,097,762	557,457
Commitments and contingencies	6,608,299	5,402,129
Directors, key management personnel, other major shareholders and their affiliates:		
Loans and advances	2,742,818	3,026,570
Customers' deposits	4,574,918	6,407,063
Commitments and contingencies	861,357	708,691
Bank's mutual funds:		
Investments	348,276	319,336
Loans and advances	275	34,903
Customers' deposits	677,489	192,537
Associate:		
Loans and advances	1,380,681	787,394
Customers' deposits	10,231	35,344

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

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

	2012	2011
Special commission income	177,818	129,182
Special commission expense	38,426	99,604
Fees and commission income	19,770	25,012
Directors' remuneration	4,424	3,457

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

	2012	2011
Short-term employee benefits (Salaries and allowances)	58,615	51,833
Post-employment benefits (End of service indemnity and social security)	6,674	4,834

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

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37. Capital Adequacy

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

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

The increase of the regulatory capital in the year is mainly due to the contribution of the current-year profit.

	<u>2012</u>	<u>2011</u>
Credit Risk RWA	111,543,836	93,922,597
Operational Risk RWA	8,828,346	8,375,693
Market Risk RWA	1,866,856	2,058,533
Total Pillar-I RWA	<u>122,239,038</u>	<u>104,356,823</u>
Tier I Capital	16,813,075	15,672,867
Tier II Capital	1,237,123	1,564,071
Total Tier I & II Capital	<u>18,050,198</u>	<u>17,236,938</u>
Capital Adequacy Ratio %		
Tier I ratio	13.75%	15.02%
Tier I + Tier II ratio	14.77%	16.52%

38. Investment management services

The Group offers investment services to its customers, which include management of investment funds with assets totaling SAR 3,482 million (2011: SAR 3,020 million).

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

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

39. Basel II pillar 3 disclosures

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

40. Board of directors' approval

The consolidated financial statements were approved by the Board of Directors on 11 February 2013 (1 Rabi Thani 1434).