Annual Report... 2012

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بسم الله الرحمن الرحيم

King Abdullah Bin Abdul Aziz Al Saud

The Custodian of the Two Holy Mosques

HRH Crown Prince

Salman Bin Abdul Aziz Al Saud

Deputy Premier and Minster of Defense

HRH Crown Prince

Muqrin Bin Abdul Aziz Al Saud

Second Deputy Premier and Advisor to and Special
Envoy of the Custodian of the Two Holy Mosques

> We will be the leading Saudi Bank, first in quality, first in value, first in caring for our customers and responding to their needs by continuously improving our services while enhancing our Shareholders' value.

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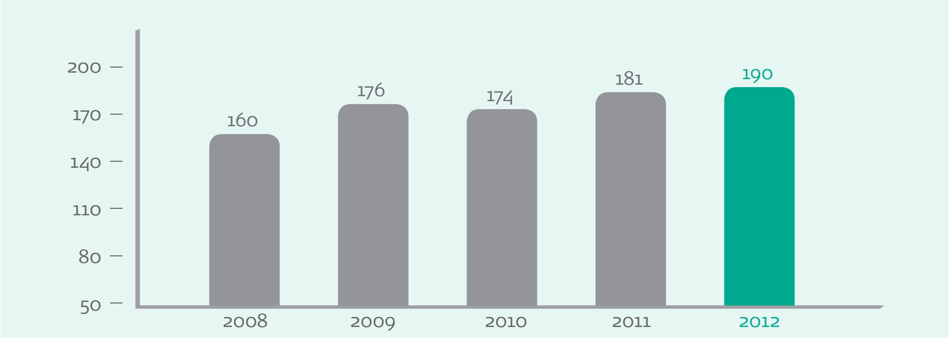
FINANCIAL HIGHLIGHTS

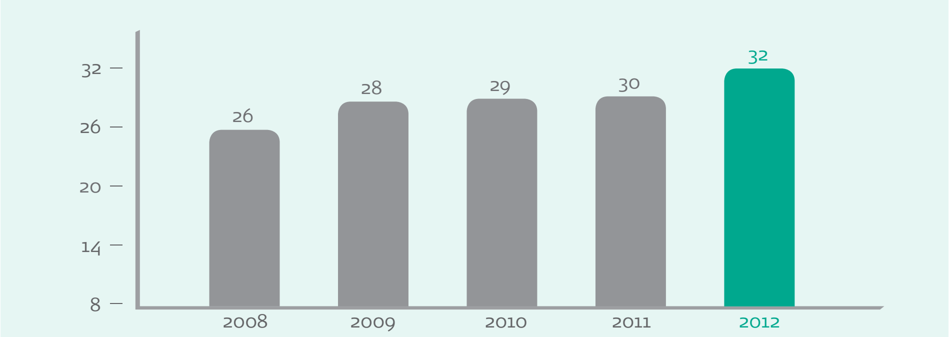
FINANCIAL HIGHLIGHTS

SAR' Millions Financial Highlights	2012	2011	2010	2009	2008
Total Assets	190,181	180,887	173,556	176,399	159,653
Loans & Advances, net	117,471	112,973	106,035	106,515	96,430
Investments, net	36,254	36,616	33,822	32,308	40,329
Customer Deposits	146,215	139,823	126,945	125,278	105,056
Shareholders' Equity	31,964	30,158	29,233	28,235	25,690
Net Income	3,466	3,149	2,825	3,030	2,639
Net Special Commission Income	4,381	4,197	4,142	4,347	3,947
Total Operating Income	6,786	6,276	5,981	5,960	5,248
Fees & Commission Income, net	1,777	1,589	1,418	1,223	1,187
Return on Average Assets	1.87%	1.78%	1.61%	1.79%	1.89%
Return on Equity	10.84%	10.44%	9.66%	10.73%	10.27%

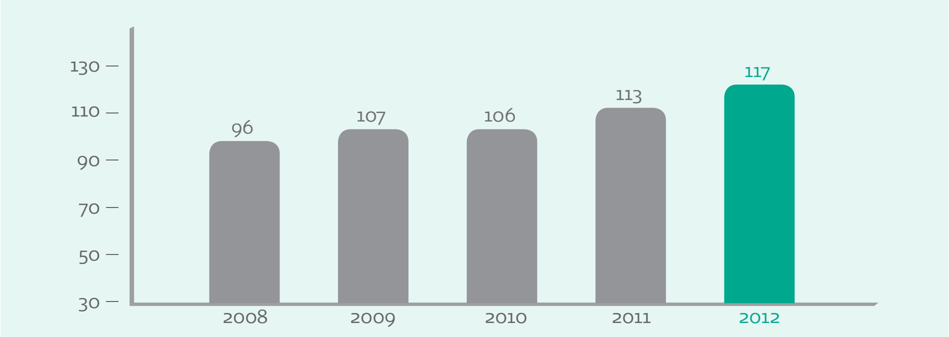
Total Assets (Billions SAR)



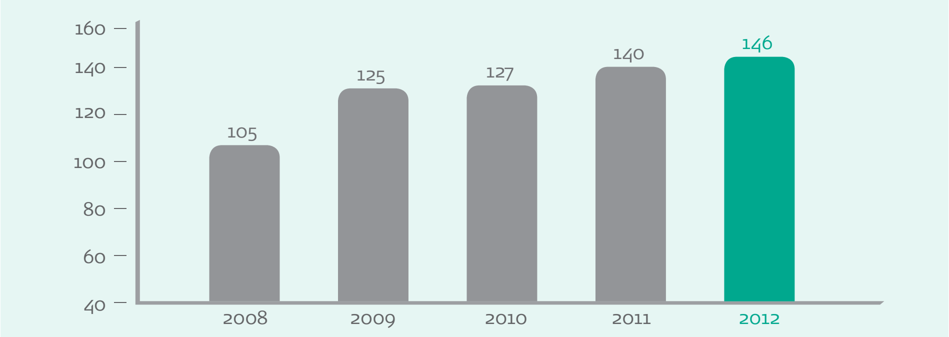
Shareholders' Equity (Billions SAR)



Loans & Advances, net (Billions SAR)



Customer Deposits (Billions SAR)



BOARD OF DIRECTORS

THE CHAIRMAN'S STATEMENT

> During 2012, Riyad Bank has continued its noteworthy achievements in the banking sector by focusing on adopting the advanced standards of technology in banking to support the diversification of products and services

Dear Shareholders, customers and correspondents,

It is a pleasure to present the 56th annual report covering Riyad Bank's activities and performance for the financial year 2012. This report also describes the achievements and efforts dedicated to improve the Bank's performance and services as a whole.

Iam also pleased to share with our shareholders, customers and correspondents the Bank's achievements and efforts to improve its performance and services.

During 2012, Riyad Bank continued its noteworthy achievements in the banking sector by focusing on adopting advanced standards of technology in banking to support the diversification of products and services; improving operational efficiency; and the implementation of quality assurance metrics to develop superior banking services. The Bank also worked on giving priority to training Saudi nationals and developing their skills in order to aid the implementation of the Bank's strategic plans. As a result, these efforts have improved the Bank's performance and revenues, as well as, enhanced shareholders' value .

The Bank has managed to improve competitive capabilities by enhancing the financing and investment programs that are offered, as well as, increasing marketing and sales activities in order to enlarge its customer base. To achieve this, the Bank has relied on its solid infrastructure and extensive network of branches Kingdom-wide, in addition to its strong capital resources. Considerable growth in consumer loans was achieved as a result of these initiatives, with the Bank continuing its prominent market position in both personal and mortgage loans.

To preserve its position as a pioneer in the corporate banking sector, Riyad Bank intensified its efforts to promote its wide range of banking products and services by providing a series of banking and financing programs designed to meet the growing needs of this vital sector. Moreover, Riyad Bank has continued to hold a leading position, in the "Kafalah" program which aims to provide financing to small and medium enterprises. This goes hand in hand with the Bank's firm belief in this program's potential and its crucial role in supporting the national economy by creating new job opportunities and contributing to sustainable development.

Such accomplishments and achievements were only possible due to the dedication and efforts of Riyad Bank staff members who harnessed their expertise and skills throughout the process. To this end, Riyad Bank has given prime importance to the development of human resources by providing continuous training for all staff. The Bank has focused on quality rather than quantity in order to help build a capable and well trained national workforce that is innovative and creative, enriching the whole banking industry. Furthermore, females were encouraged to pursue opportunities in the banking sector and the Bank provided a suitable work environment that is in line with our culture and traditions. Female staff members in Riyad Bank have shown remarkable skill and ability that has helped them stand out in the banking world. In addition, their determination to succeed has driven them to prove their ability to handle various roles and responsibilities across all the bank departments, and they currently represent 20% of the Bank's workforce. It is also worth noting that Riyad Bank has achieved significant progress in the Saudization of jobs, where 93% of the total workforce is Saudi, with 100% of senior management, all Saudi nationals, and 100% of the female staff are also Saudis.

Riyad Bank plays a central role in the social and economic development of the Kingdom . The Bank is committed to the overall sustainable development of the country by offering high quality banking services and products. In this regard, the Bank also undertook numerous initiatives and programs to support philanthropic organizations, as well as, medical organizations and humanitarian foundations, in addition to its participation to preserve and save the environment, and to sponsor other scientific and cultural events.

Based on the Board of Directors' vision and objectives, the Bank has adopted a three year strategy with 'Customer Experience' being a core commitment to such strategy and will be constantly at the heart of all customer touch points when dealing with the Bank, be it via electronic channels, branches or personal contact to ensure that all services are of the highest quality.

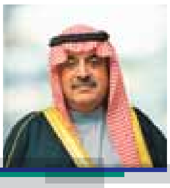
With the end of a year full of such achievements, Riyad Bank remains committed to continued success and excellence and meeting the expectations of customers, shareholders and staff members utilizing the substantial human resources available and strong financial position of the Bank.

On behalf of the Board of Directors, I would like to extend my gratitude to the Bank's shareholders, customers and correspondents for their confidence and trust. I would also like to thank all Riyad Bank staff members for their hard work towards achieving our vision of becoming the leading Bank in the Kingdom of Saudi Arabia.

Best Regards,

Rashed Abdulaziz Al-Rashed
Chairman of the Board of Directors

BOARD OF DIRECTORS

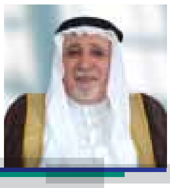


Rashed Abdulaziz Al-Rashed

Chairman of the Board of Directors

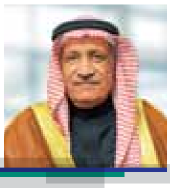
Dr. Khaled Hamza Nahas

Board Director



Abdulrahman Hassan Sharbatly

Board Director



Dr. Abdulaziz Saleh Al-Jarbou

Board Director

Abdullah Ibrahim Al-Ayadhi

Board Director

The Executive Committee

Rashed Abdulaziz Al-Rashed
(Chairman)

Abdullah Ibrahim Al-Ayadhi

Dr. Faris Abdullah AbaalKhail

Mohammed Abdulaziz Al-Afaleq

Waleed Abdulrahman Al-Eisa

The Audit Committee

Dr. Khaled Hamza Nahas
(Chairman)

Eng. Abdullah Mohammed Al-Issa

Dr. Ibrahim Al Ali Al-Khudair

Dr. Abdullah Hasan Al-Abdulqader

Eng. Abdullah Abdullatif Al-Saif

Eng. Abdullah Mohammed Al-Issa

Board Director

Dr. Faris Abdullah AbaalKhail

Board Director

Mohammed Abdulaziz Al-Afaleq

Board Director

Nader Ibrahim Al-Wehibi

Board Director

Waleed Abdulrahman Al-Eisa

Board Director

The Nominations & Compensations Committee

Abdullah Ibrahim Al-Ayadhi (Chairman)

Dr. Faris Abdullah AbaalKhail

Mohammed Abdulaziz Al-Afaleq

Nader Ibrahim Al-Wehibi

Waleed Abdulrahman Al-Eisa

The Strategic Planning Group

Rashed Abdulaziz Al-Rashed (Chairman)

Dr. Khaled Hamza Nahas

Abdulrahman Hassan Sharbatly

Dr. Abdulaziz Saleh Al-Jarbou

Eng. Abdullah Mohammed Al-Issa

REPORT OF THE BOARD OF DIRECTORS

> Riyad Bank provides a comprehensive range of banking and investment services to retail and corporate customers, within Saudi Arabia and abroad

The Board of Directors' Report:

The Board of Directors is pleased to present its annual report covering Riyad Bank and its subsidiaries' performance and achievements, and the financial statements for the year 2012. This report contains information related to the Bank's activities, major achievements, strategies, financial results, as well as information about the Board of Directors, Committees, and other information deemed necessary for the reader of this report

Main Businesses:

Riyad Bank provides a comprehensive range of banking and investment services, for its own account and on behalf of its customers, within Saudi Arabia and abroad, including the financing of different retail, corporate and commercial activities. Riyad Bank offers these services through an extensive network of 252 branches within Saudi Arabia, and also in overseas locations through London Branch in the UK, Houston Agency in the United States, and a Representative Office in Singapore. Furthermore, the Bank provides through its wholly-owned subsidiary, Riyad Capital, an array of investment services including asset management, brokerage and a wide range of mutual funds.

The Income Statement, together with Notes 20 and 21, in the financial statements, reflect the income generated from the Bank's main activities. The results of the Bank's operations and divisions are reflected in Note 26 of the financial statements as of 31 December 2012. The existing and potential risks that may be faced by the Bank are described in detail in Notes 27, 28, 29 and 30. All such Notes are a complementary part of the Board of Directors' report.

Main Achievements:

In 2012, the Bank achieved its objectives to further improve its main banking products and services through initiating and offering products and services tailored to customers' needs, thus strengthening its leading position across many banking activities. The Bank's achievements within its various divisions are many and varied, including:

Retail Banking Services:

During 2012, the Bank has continued to extend its market position by developing its banking products and services to meet customers' needs. In order to achieve greater market share, the focus has been on enhancing the quality and efficiency of service by the end-to-end re-engineering of the sales and underlying credit approval process of the core asset products (Credit Cards, Consumer Loans, Auto Leasing and Mortgages). This effort will continue through 2013 and beyond in order to provide a greater customer experience for all our customers and make the Bank even more efficient.

In the past few years, the Retail Banking Services has attained remarkable achievements in terms of the Bank's market share in the core products and in the quality of assets. These continue to improve year on year. The strategic performance of the business unit is measured annually in order to maintain the highest standards of success, and changes are made to ensure its long term goals and objectives remain aligned to the Bank's overall strategic aims.

In 2012, the Bank scored first position Kingdom-wide for Golden Visa Credit Cards, and launched the new Islamic Platinum Credit Card with its unique features such as the VIP lounge membership available at most international airports worldwide. The Bank was commended by the MasterCard Company for selling 50,000 MasterCard Titanium cards within 9 months from launch date. As a result, the Bank achieved remarkable growth in credit cards compared to other banks in the Middle East.

In the area of Remote Banking, Riyad Bank was ranked first in terms of the number of ATMs located in non-branch sites and further investments in electronic channels are planned again to enhance the customer experience when dealing with the Bank. Moreover, the Customer Relationship Department has launched a new customer segment under the name "Silver Service" designed to meet the needs of our affluent customer base. As a result, the number of customers in this category has increased to new levels.

Private Banking and Golden Service:

Riyad Bank has continued to provide new and sophisticated services to Private Banking and Golden Service customers, achieving satisfactory increases in the customer base for both services compared to last year. Four new branches were launched specifically for Golden Service customers, bringing the total number of Golden Service branches to 55 Kingdom-wide, in addition to our Private Banking offices.

One of our most important objectives at Riyad Bank is to provide the best services and benefits possible to our customers; therefore, our Quality Control Unit has been restructured to better communicate with customers about the services provided through our branches and electronic channels. As a result, the Unit applied a methodology through which customer feedback and comments on the services offered by the branches and ATMs is received directly and swiftly.

Corporate Banking:

Corporate Banking is a leading provider within the Saudi market and our activities here are an important contributor to the Bank's financial performance. We offer comprehensive and diversified packages covering large, medium and small size local Saudi enterprises, in addition to Saudi and international customers with business ties globally or within the Kingdom.

During 2012, Corporate Banking focused on upgrading customer service by incorporating the availability of loans and finance into a total banking experience. We also invested in information technology and launched an advanced e-channel called 'Riyad Online for Corporate' (ROLC). This has been very well received by our corporate clients who have executed their banking transactions with enhanced speed and effectiveness compared with traditional solutions. The Bank continued its investment in the field of banking technology in order to support corporate banking by providing solutions that are compatible with market changes and customer needs.

The Division also launched a significantly upgraded version of the trade finance electronic banking solution, Riyad Trade Finance (RTF) which led to increased customer demand for this channel.

As for financing major projects, Corporate Banking has been active in supporting a number of important projects across many industrial sectors including the heavy involvement in the development of the mining industry in Saudi Arabia, which included the first alumina refinery and bauxite mine in the Middle East.

The Division also played a major role in financial advisory and acted as a joint advisor to the largest single phase petrochemical project ever undertaken worldwide called "Sadara".

As for the Small and Medium enterprises sector (SMEs), our continuing major involvement in the 'Kafalah' program demonstrates the Bank's commitment to finance and support this vital and developing sector on a sustained basis.

Treasury Division:

The Bank's Treasury Division has continued its efforts to develop and broaden the brokerage services offered to customers and successfully expanded its customer base significantly during the year. Treasury Division offers innovative solutions designed to meet customers' needs, helping them to manage their foreign currency and interest rate hedging. The Bank intends to extend its customer base by offering new advanced and structured products. During 2013, the Treasury Division will add other Islamic products, in addition to those already available in relation to foreign currency trading, including Murabaha, in order to meet customers' increasing interest in Sharia compliant products.

In spite of the tough conditions in the financial markets, the Financial Markets Unit successfully mitigated much of the adverse impacts through effective liquidity management. The Foreign Exchange Unit took advantage of the available opportunities in the market and contributed to the Bank's profits. The investment portfolio of the Bank maintains its high quality based on its positive performance during the year.

The Balance Sheet Management Unit, which operates under the supervision of the Assets and

Liability Committee, concentrated on enhancing liquidity and managing the Bank's interest rate risks, and developed a sophisticated work plan for internal transfer pricing methodology.

Islamic Banking:

The Islamic Banking Department continued to develop its broad range of banking products that are Shari'a compliant based on a clear methodology approved by the Bank's Shari'a Committee.

The Bank successfully launched additional Islamic products related to treasury and corporate banking.

The Bank also provided a complete package of products compliant with Shari'a for both investment and financing activities. To disseminate awareness of Sharia compliant products the Bank held three symposia for customers in the Western, Eastern and Central provinces, in addition to twenty Islamic Banking workshops.

The Bank's strategy in this area is to learn more about customers' various needs so as to respond with effective banking solutions compliant with Sharia and conforming to recognized banking practices approved by the Bank's Shari'a Committee.

Overseas Branches:

Through an overseas banking network represented by our branch in London, the Houston Agency and the Singapore Representative Office, Riyad Bank provides banking products abroad, serving the corporate customer base, and allowing the Bank to provide its customers with tailored services to meet their various needs. In addition, the Bank provides advice on investment and business in Saudi Arabia which helps support trade in the country and at the same time takes care of the investments of the Bank's customers abroad.

The London Branch plays an active role in supporting the rapid growth of commercial activities carried out by leading European multinational companies in the Kingdom. This support ranges from providing Letters of Guarantee and Stand-by Letters of Credit, as well as providing finance for their businesses in Saudi Arabia. In addition to this, the London Branch also provides tailored banking services to the Bank's customers in the Kingdom and their affiliated companies in order to support their European investments in, primarily the industrial sector, but also in other sectors.

Riyad Bank is proud to be the only gateway for Saudi banks in the Americas, where the Houston Agency plays an important role in attracting investments to the region, as well as helping U.S. based and multinational companies by supporting their commercial activities in Saudi Arabia, especially in the fields of power, electricity, engineering, construction and aviation. In addition, the Agency supports Saudi companies in North America by providing them with various banking facilities and essential advice.

Riyad Bank is also present in the Far East, where its Singapore Representative Office helps customers to take advantage of investment opportunities in Asia, and develop business relations with Asian correspondents and corporations who have business activities in Saudi Arabia.

Information Technology Divison:

During 2012, the Information Technology Division completed the implementation of a sophisticated (IPVPN) network linking our offices and branches throughout the Kingdom. This will greatly enhance communication, as well as maintain uninterrupted services with greater dependability.

The Bank has made a strategic decision to move to the Linux operating system for central systems. Therefore, we have been transferring existing applications into the Linux environments on the mainframe system. As a result, it is expected that such a move will unify and integrate the operating environment leading to better control of maintenance and licensing costs, as well as, improved performance, speed and quality of service.

The Division also moved data recovery and back-up to the Disaster Recovery site outside Riyadh, using high quality speed applications capable of making standby copies that can be operated in emergency situations. The introduction of a new high speed advanced communication system between the primary site in Riyadh and the Disaster Recovery site has led to significant improvements in the stability of data replication.

During 2012, the Wintel Environment Virtualization solution was initiated to run multiple virtual machines on a single physical server. The same physical machine can run multiple operating systems and multiple applications from different environments to allow for the best sharing of resources. This will reduce hardware purchasing expenditures, minimize server sprawl in the Data Center, simplify server management, control growing operations, and ensure business continuity and faster provision of the resources, which will cut down time to market for new projects.

The Bank also decided to implement an ambitious, "Operations Optimization Program" that aims to achieve improvements by monitoring such operations automatically throughout their different stages, increasing automatic operation, effectiveness and customer satisfaction. The Bank improved the experience of our Consumer Finance customers by implementing the CFEP (Consumer Finance Excellence Program) which integrates front-end systems at branches with CDA (a rules engine that assists in credit decisions).

IT Governance:

During 2012, our IT Governance Department undertook a Bank-wide Business Impact Analysis (BIA) exercise covering all the Bank's business units. This exercise represents an essential step in ensuring continuity of customer services in unforeseen situations.

Moreover, in this fast-changing world, IT Governance has implemented many controls to address new security risks. A dedicated program was initiated to address risks from advanced persistent threats and malwares. Strong authentication controls using token and smart cards were enforced for staff access and externally for customer validation to secure their banking transactions. IT Governance continues to update protection controls against any future attacks on the Bank's systems.

IT Governance has boosted its infrastructure leading to a reduction in operational costs for 'firewalls'. One of the department's priorities is to ensure that all changes initiated in the existing systems replicate the infrastructure's standards existing before implementation, so standards are maintained even as operational costs are reduced.

In order to assess the pre-emptive security measures within the Bank, a new unit called "Information Security Investigation Unit" has been formed. This unit is responsible for conducting digital investigations, and digital fraud investigations as well as other information security incidents.

Risk Management:

The Bank maintains an independent Risk Management division, which operates under the supervision of the Chief Risk Officer. Risk management includes credit risk, market risk and operational risk. The activities and responsibilities of functions relevant to these areas of risk are governed by Risk Frameworks and Policies that are approved by the Board of Directors. Periodic reports are submitted to the Board and its Committees including Asset Quality, Market Value at Risk, Liquidity Risk, and Net Interest Income at Risk.

During the year, several international regulatory developments took place in the area of Risk Governance and Risk Management practices. Accordingly, the Bank refined and expanded its risk management framework, policies and procedures as well as the procedures to support Risk Management in a comprehensive manner and independent of other departments that are responsible for initiating banking operations.

The Credit Risk Management frameworks include principles, infrastructures, tools, and activities required for credit risk management at all levels within the Bank; moreover, the Risk Management division supports the Bank's efforts for enhancing asset quality, while observing the rules and regulations set by the regulatory authorities, all within clearly designed and regularly monitored risk parameters.

The Bank utilizes advanced credit software systems to help it better and effectively manage credit limits, terms and conditions, as well as, collaterals related to such transactions. In addition, the Bank applies sophisticated credit rating systems that adopt internationally recognized standards for credit customers' classification and to produce their credit rating according to rating system approved by the Board of Directors.

Furthermore, Riyad Bank has upgraded its Anti-Money Laundering system in order to improve the effectiveness of monitoring transactions, including improving the quality and accuracy of alerts, as well as increasing the speed of investigations.

The Bank has also upgraded its core operational risk management system to the Statistics Analysis System (SAS), in order to provide an integrated platform for standardizing and managing operational risks in a comprehensive manner.

Quality Assurance Management:

The Quality Assurance Department ensures the adoption and implementation of advanced quality assurance measures and techniques in order to deliver quality improvements, continuous development, best practices and processes in response to customers' needs, effectively and efficiently.

In 2012, The Research Unit conducted more than 120 pieces of research, internally and externally, intended for various departments within the Bank, as well as field surveys of numerous customers in order to obtain feedback relating to services provided by the Bank, their experiences with the Bank's various banking channels, and the extent of their satisfaction with the banking transactions.

Compliance Department:

The Compliance Department reports directly to the Chairman of the Board of Directors and submits its reports to the Operational Risk Management, the Audit Committee and Compliance Committee (ORMCC) periodically, as part of monitoring the extent of compliance within the Bank. As part of compliance risk management, the department ensures that all areas of the Bank are compliant with all the applicable compliance rules and promotes a compliance culture within the organization through training seminars, and periodic and regular awareness sessions for Bank staff. In addition, the Bank also embarked upon a Compliance Transformation Project, in collaboration with a leading consulting firm, to make the Compliance Department more efficient and effective in complying with the applicable requirements and to meet the best practice standards.

Credit Rating:

Despite the numerous risks impacting Banks' financial positions and their relative strength, and given the wide fluctuations in banks' financial positions worldwide which forced Rating Agencies to restructure the basis of their classification assessment, Riyad Bank has succeeded in maintaining its credit rating, consistently preserving its (A+) rating by the Standard & Poor's rating agency for long-term liabilities, and an (A-1) rating for short-term liabilities - the highest rating available. The international Fitch rating agency also maintained its (A+) rating for long-term liabilities and the (F1) rating for short-term liabilities. Capital Intelligence rating agency has awarded the Bank an (AA-) rating for long-term liabilities and an (A1+) for short-term liabilities, the highest rating available. All the rating agencies have maintained their stable outlook of the Bank given its financial soundness, which reflects the strength and durability of Riyad Bank's financial position.

Borrowings by the Bank:

None.

Strategies and Objectives:

Riyad Bank's strategy is to grow the Bank's assets by focusing on its core activities, whilst preserving its quality and solidity, and by acquiring a large share from our target markets to generate revenues for shareholders by continuously developing our products and services and risk management excellence.

The Bank reviewed its strategic plan in accordance with its adopted methodology which has been applied for years and depends on a systematic strategic planning for a 3 year span which is updated on an annual basis. The updating takes into consideration key variables such as market attributes, operational and economic projections and regulations, etc. This updated strategy is then presented to the Strategic Planning Group, comprising members of the Board of Directors, and subsequently submitted to the Board of Directors for review and approval.

The approved strategy revolves around a number of important elements; firstly, the continuing focus on servicing the local market through all the Bank's local branches as well as its international presence through its offices in London, Houston (USA) and Singapore.

The Bank has continued with its Performance Transformation Program that aims to improve upon previous successes and achievements, increase sales productivity of service activities across all customer segments, and improve the experience for all customers.

The strategy focused more and more on improving customer experience by developing and enhancing services in order to strengthen customer loyalty and offer better services. In order to achieve this objective, a detailed plan was designed for specific initiatives in various divisions within a specified timeframe.

Corporate Social Responsibility:

Corporate Social Responsibility is a social support concept adopted by Riyad Bank. The Bank is also committed to the global concept of social responsibility that requires programs, plans, and strategies to differentiate between philanthropic work and sustainable development, because Corporate Social Responsibility encompasses values that have far greater and long term effects in comparison to one-off charitable donations.

Accordingly, Riyad Bank's social responsibility endeavors involve all sectors Kingdom-wide including health, academic, educational, sports, recreational along with the usual support for charity organizations.

Among the most prominent support and sponsorship projects undertaken during 2012 were:

In the health sector, Riyad Bank launched the organ donation campaign in partnership with King Saud University (KSU) students, aiming to boost awareness of the importance of organ donation.

The Bank also sponsored the Zahra Breast Cancer campaign, for the fifth year in a row, to help spread awareness of the importance of early screening in fighting the battle against breast cancer. In addition to the ongoing charitable efforts in the health sector, Riyad Bank donated medical equipment to the Maternity & Children Hospital in Qassim Region to cover the hospital medical needs for patients, pregnant women and children. The Bank also worked on sponsoring numerous charity organizations in remote villages in the Hail region by providing medical equipment for elderly patients in the area. The Bank gave away many gifts to King Abdulaziz Hospital in Jeddah, as well as sponsored the international diabetes day convention at the Makkah Maternity & Children's Hospital.

Furthermore, Riyad Bank sponsored the "Yadawi" program, run by the Heritage Art's Group and Al-Nahda charity organization. The program encourages females with special needs to make handmade heritage items and handicrafts which the Bank buys and then gives to prominent businessmen as gifts to help raise awareness about this program.

Due to the success in sponsoring the first agricultural training program at the Mental Education Institute in the Easter Region, the Bank has continued supporting the second Agricultural Training program by training an even larger number of graduates in the Eastern region, as this program has proved to be so vital and beneficial.

Among the important projects initiated by the CSR Department is the Charitable Transportation scheme, now in its third year of operation. Riyad Bank provides transportation facilities for charities Kingdom-wide, in line with those institutions' needs and requirements.

Moreover, Riyad Bank continues to sponsor the 'Book Award', ever since its inception five years ago, in collaboration with the Riyadh Literature Club, which aims to honor creative writers in various literary and cultural fields Kingdom-wide.

Last but not least, Riyad Bank is keen on supporting charities to help them carry out their mission by supporting the creation of websites for, Al-Nahdah Foundation and Mawadah Foundation to enable them to promote their activities through the wider media and reach further into society.

Subsidiaries and associates:

Riyad Capital:

Riyad Capital, a limited liability company and a wholly owned subsidiary of Riyad Bank, is registered in Saudi Arabia and is headquartered at Riyadh. It has a capital of SAR 200 million and is licensed by the Capital Market Authority to operate as a principal and as an agent, to provide underwriting, arranging, advising, and custodial services.

Riyad Capital develops innovative and selective investment products that meet various investors' and customers' needs through its "Asset Management Department", which in 2012, worked to expand its services in the private investment portfolio management covering major individual customers, corporates and public institutions. The Asset Management Department continued its growth thus placing Riyad Capital funds among the best performing funds in the market, the fact which helped Riyad Capital maintain a leading share in the Saudi investment fund market. Consequently, Riyad Capital managed to further grow its share in the domestic and international stock funds which makes it today the largest player in the Saudi capital market.

In addition, Riyad Capital has adopted numerous new initiatives in asset management with the aim of expanding and diversifying its businesses and investments, prominent among which, is the design of a number of products that are tailored for various customers to help preserve capital and/or target a specific return.

In the area of corporate investment banking, Riyad Capital is privileged to have a qualified and dedicated team with broad experience and extensive expertise in providing specialized financial advice which covers all investment banking activities including Sukuk issuance and IPOs, in addition to advisory services in mergers and acquisitions and structured financing. During 2012, Riyad Capital arranged and launched the issuance of Sukuk for AJIL Financial Services Company for SAR 500 million and for EURICO (a member of the Olayan Group of companies) for SAR 650 million. Riyad Capital also acted as the financial advisor, underwriter, and manager for Al-Madinah Cement IPOs for SAR 946 million. The investment-banking group is currently working on a number of Initial Public Offerings (IPOs) for some companies, as well arranging debt issuance for other Saudi companies.

In 2012, Riyad Capital managed to increase its market share in brokerage services in the Saudi stock market through improving customer service, developing internet-based trading platforms, including online trading in international markets, facilitating trade in different markets through one account, and providing Riyad Tadawul Extra which is tailored exclusively for High Net Worth (HNW) customers.

In addition, Riyad Capital worked in 2012 to develop and prepare its Wealth Management Department to expand its offering to customers and provide them with value added investment advisory and research services. The terminology "wealth management" in Riyad Capital means reinforcing the proper investment practices and culture with the company's HNW clients through a team that is highly specialized in managing wealth and helping clients plan their investments based on their investment objectives. Wealth Management Department serves its clients through a network of 29 investment centers located in different cities throughout the Kingdom, four of which are HNW customer private centers.

Moreover, Riyad Capital implemented an ambitious program for restructuring the 'Wealth Management Department' to enhance and expand its services to take maximum advantage of the new opportunities in the market.

AJIL Financial Services Company:

A limited liability joint-stock Saudi company registered under Saudi Arabian Monetary Agency (SAMA) rules and regulations, located in Jeddah, with a paid up capital of SAR 500 million. Riyad Bank owns 35% of the company's capital; other shareholders include Mitsubishi and other local companies. AJIL operates as a leasing financier that handles the financing of various capital assets in many economic fields in Saudi Arabia.

Ithraa Al-Riyad Real Estate:

Ithraa Al Riyad Real Estate Company is a limited liability company, with a paid up capital of SAR 10 million, wholly owned by Riyad Bank, and registered in Saudi Arabia. This subsidiary is responsible for providing services for real estate owners and others. It also has the right to buy and sell real estate and similar assets in pursuit of the financing purposes for which it was established.

Al-Alamiya Cooperative Insurance Company:

A joint-stock Saudi company listed on Tadawul, with a paid up capital of SAR 200 million, this is a partnership with Royal Sun Alliance (Middle East) Bahrain, operating under SAMA's rules and regulations. Riyad Bank owns around 30% of the capital, directly and indirectly, which is equivalent to 19.92% direct ownership. The company is incorporated in Bahrain and Riyad Bank has a 21.42% share holding in Royal Sun Alliance Insurance (Middle East) Limited E.C. Riyad Bank has had a strong relationship with Royal and Sun Alliance (UK) for over 30 years. Al-Alamiya Cooperative Insurance Company has issued approximately 30% of its shares to the public and is listed on the Saudi Stock Market (TADAWUL).

Riyad Company for Insurance Agency:

Riyad Company for Insurance Agency is a limited liability company which is completely owned by Riyad Bank with a capital of SAR 500,000. It is registerd in Saudi Arabia and is headquarted in Riyadh. Its objective is to enter the insurance market and it's expected to start its activities shortly.

SUMMARY – RESULTS OF THE BANK'S OPERATIONS FOR THE PAST FIVE YEARS

SAR' Millions

Description	2012	2011	2010	2009	2008
Assets					
Cash and Balances with Banks, Financial Institutions and SAMA	29,462	23,708	27,867	32,124	17,335
Loans & Advances, net	117,471	112,973	106,035	106,515	96,430
Investments, net	36,254	36,616	33,822	32,308	40,329
Property, Equipment, Other Real Estate and Investment in Associates	2,606	2,588	2,294	2,236	2,144
Other Assets	4,388	5,002	3,538	3,216	3,415
Total Assets	190,181	180,887	173,556	176,399	159,653
Liabilities					
Balances with Banks and Financial Institutions	6,163	6,242	10,637	16,163	21,213
Customer Deposits	146,215	139,823	126,945	125,278	105,056
Other Liabilities	5,840	4,664	6,741	6,723	7,694
Shareholders' Equity	31,963	30,158	29,233	28,235	25,690
Total Liabilities and Shareholders' Equity	190,181	180,887	173,556	176,399	159,653

SAR' Millions

Description	2012	2011	2010	2009	2008
Total Operating Income (including share in earning of associates)	6,866	6,321	5,980	5,960	5,248
Total Operating Expenses	3,400	3,172	3,156	2,930	2,610
Net Income	3,466	3,149	2,825	3,030	2,639
Earnings Per Share (SAR)	2.31	2.10	1.88	2.02	2.03

Financial Results:

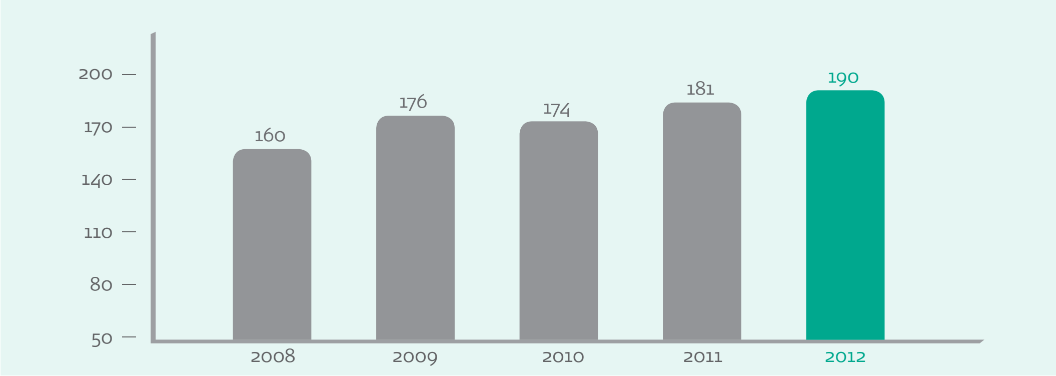
Riyad Bank's net profit for the year ended 31 December 2012 reached SAR 3,466 million against SAR 3,149 million for the previous year, an increase of 10.1%. The net profit for the fourth quarter of 2012 reached SAR 810 million against SAR 778 million for the same quarter in the previous year, an increase of 4.1%.

The total assets of the Bank as of 31 December 2012 are SAR 190,181 million in comparison to SAR 180,887 million for last year, a 5.1% increase. Loans and advances, net as of 31 December 2012 increased by 4.0% and are SAR 117,471 million in comparison to SAR 112,973 million for last year. Investments, net are SAR 36,254 million in comparison to SAR 36,616 million for last year, with a decrease of 1%, while customer deposits increased by 4.6% to reach SAR 146,215 million in comparison to SAR 139,823 million for last year.

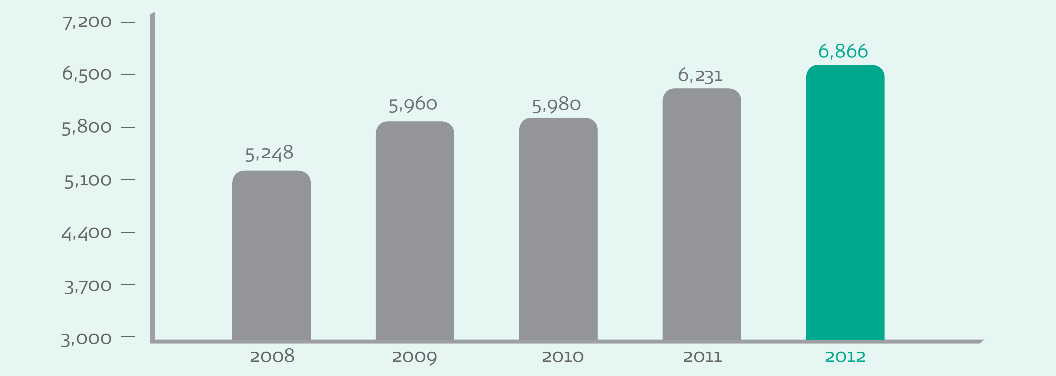
Total operating income for the year ended 31 December 2012 reached SAR 6,786 million against SAR 6,276 million for the previous year, an increase of 8.1%. The 2012 results indicate that the Bank's main banking activities maintained the growth momentum, as total assets increased by 5.1% year on year and the Bank's profitability increased, both in terms of net special commission income and fees for the year ended 31 December 2012. The earnings per share for 2012 also rose to SAR 2.31 in comparison to SAR 2.10 for the last year.

In spite of the changes and challenges that face the banking sector, the Bank has consistently maintained the strategies approved by the Board of Directors to achieve increased returns for shareholders by focusing on core activities, and on the quality and strength of our assets.

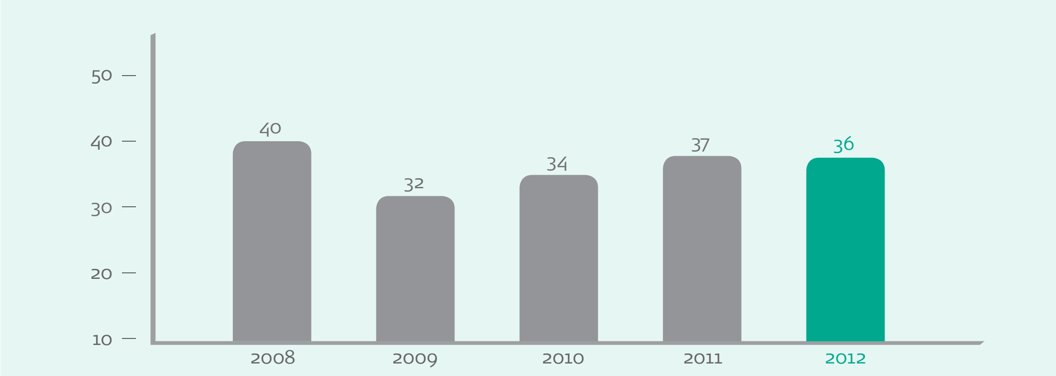
Total Assets (Billions SAR)



Total Operating Income (including 'share in earning of associates') (Millions SAR)



Net Investments (Billions SAR)



Geographical Analysis of the Total Income of the Bank:

The total income for the year ended 31 December 2012 was SAR 8,462 million from domestic operations, and SAR 1,238 million from international operations. The following table depicts the geographical analysis of total income:

SAR' Millions

Year	Domestic Operations			International Operations	Total **
	Western Province	Central Province *	Eastern Province		
2012	1,346	6,062	1,054	1,238	9,700

*The amount allocated for the Central Province includes income from investments related to the Treasury and Investment Division, which totaled SAR 3,287 million. This income is not related to any specific geographic sector domestically. It also includes inseparable revenues related to other regions.

**The above mentioned total income is in the gross terms. In calculating the net amount, each income item is handled according to its category in the financial statements.

Geographical Analysis of the Total Income of the Bank's International Operations:

SAR' Millions

Year	International Operations					Total
	GCC & Middle East	Europe	North & Latin America	South East Asia	Other Regions	
2012	203	545	406	20	64	1,238

Appropriation of Earnings:

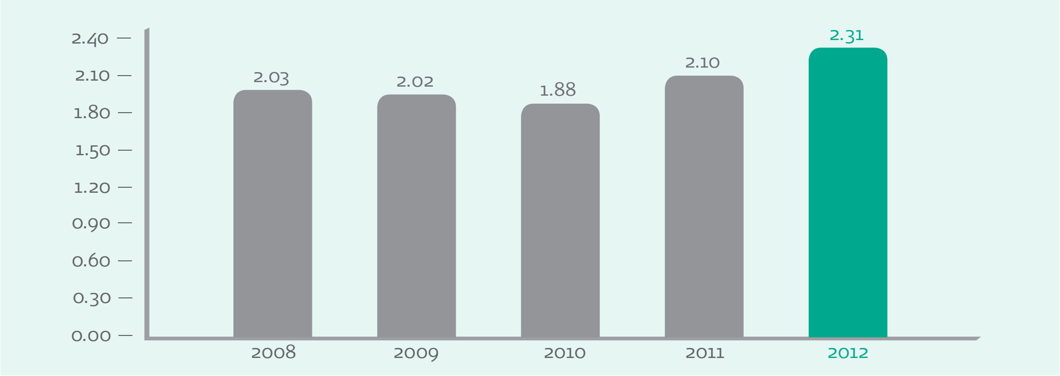
The Bank follows the relevant, applicable rules and regulations and observes the following policies in distributing dividends to its shareholders:

a) Transfers 25% of the net profit to statutory reserve. Such transfers may discontinue when the total statutory reserve is equal to the paid-up capital.

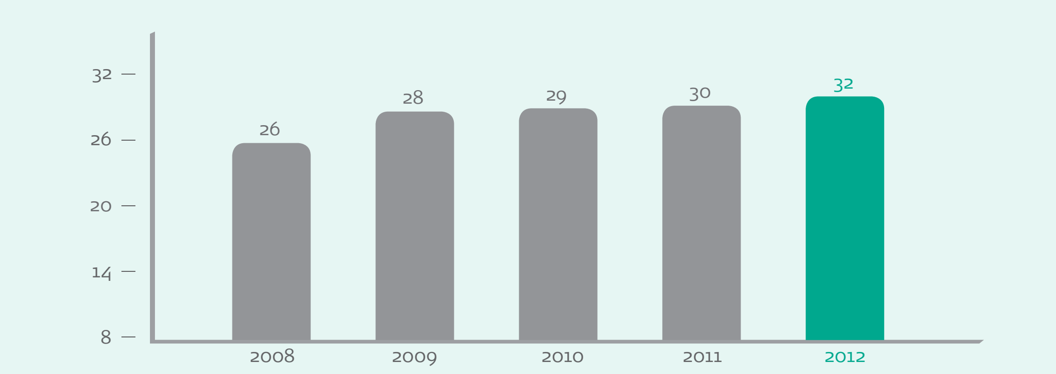
b) Distributes a specified percentage among shareholders, each in proportion to their shareholdings, based upon the recommendation of the Board of Directors and approval of the Annual General Assembly Meeting.

c) The Bank's strategic direction determines the distribution of the interim and annual dividends. The dividends proposed for the second half of the year are included in the shareholders' equity, until the Annual General Assembly Meeting approves the Board of Directors' recommendation.

Earning per Share (SAR)



Shareholders' Equity (Billions SAR)



The Board of Directors recommended the appropriation of earnings as follows:

	SAR' 000
Retained earnings at the beginning of the year	872,518
Net income for the year 2012	3,466,049
Total	4,338,567
Appropriation as follows:	
Zakat as per the Sharia'	150,000
Cash dividends, distributed to shareholders for the first half of 2012	975,000
Cash dividends, proposed for distribution to shareholders for the second half of 2012	975,000
Transfer to statutory reserve	866,512
Retained earnings at the end of the year 2012	1,372,055

For the first half of the year, in July 2012, the Bank distributed an amount of 65 Halalas per share, as an interim dividend. The proposed dividend for the second half of the year 2012, amounting to 65 Halalas per share, will be distributed after the approval of the General Assembly, thus bringing the total dividend for the year 2012 to SAR 1,950 million, or SAR 1.30 per share.

Board of Directors:

The Bank is managed by a Board of Directors consisting of ten members, elected and appointed by the Annual General Assembly once every three years, and may be re-elected for a similar term at the end of their membership. The current Board of Directors consists of six independent members and four non-executive members, as defined in Article II of the Corporate Governance Guidelines, issued by the Capital Market Authority (CMA). The current members of the Board of Directors were elected in October 2010. During the year 2012, eight meetings were held and had 100% quorum in person or by proxy, with an attendance rate of 94%.

The following table depicts the Board of Directors meetings during the year 2012:

Riyad Bank's Board Members	1st Meeting	2nd Meeting	3rd Meeting	4th Meeting	5th Meeting	6th Meeting	7th Meeting	8th Meeting	Total
Rashed Abdulaziz Al-Rashed ** (independent)	✓	✓	✓	✓	✓	✓	✓	✓	8
Dr. Khaled Hamza Nahas (independent)	✓	✓	✓	✓	✓	✓	✓	✓	8
Abdulrahman Hassan Sharbatly (non-executive)	By proxy	✓	By proxy	✓	✓	By proxy	✓	By proxy	4
Dr. Abdulaziz Saleh Al-Jarbou (independent)	✓	✓	✓	✓	✓	✓	✓	✓	8
Abdullah Ibrahim Al-Ayadhi * ** (non-executive)	✓	✓	✓	✓	✓	✓	✓	✓	8
Eng. Abdullah Mohammed Al-Issa ** (independent)	✓	✓	✓	✓	✓	✓	✓	✓	8
Dr. Faris Abdullah AbaalKhail ** (independent)	✓	✓	✓	✓	✓	✓	✓	✓	8
Mohammed Abdulaziz Al-Afaleq (independent)	✓	✓	✓	✓	✓	By proxy	✓	✓	7
Nader Ibrahim Al-Wehibi ** * (non-executive)	✓	✓	✓	✓	✓	✓	✓	✓	8
Waleed Abdulrahman Al-Eisa (non-executive) *	✓	✓	✓	✓	✓	✓	✓	✓	8

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* Members representing the Public Investment Fund, the General Organization for Social Insurance (GOSI), and Public Pension Agency respectively.

** A specially convened committee of five member s of the Board of Directors met for a single session.

The Board of Directors executes its duties through its main committees solely consisting of Board members, with the exception of the Audit Committee, which in addition to two members from the Board of Directors, includes three, external independent non-Board members. The Board of Director's Committees' main responsibilities are as follows:

The Executive Committee:

The Executive Committee is responsible for implementing credit, banking, financial and administrative authorities, as set by the Board of Directors. The Committee held nineteen meetings during the year 2012, with 100% attendance.

The Audit Committee:

The Audit Committee is responsible for monitoring the Bank's operations and controls over financial reports, compliance with rules and regulatory requirements, adequacy and effectiveness of internal controls, risk management, as well as recommending the appointment of the external auditors. The Committee held seven meetings during the year 2012, with 100% attendance.

The Committee consists of five members, three of whom are external, non-Board members, namely: Dr. Ibrahim Al Ali Al-Khudair, Dr. Abdullah Hassan Al-Abdulqader, and Eng. Abdullah Abdullatif Al-Saif (whose membership began on 22/09/2012).

The Nomination & Compensation Committee:

The Nomination & Compensation Committee is responsible for overseeing the design of the compensation system and its application on behalf of the Board of Directors. It is also responsible for formulation of compensation policies and submission of the same to the Board of Directors for review and approval.

The Committee periodically reviews and assesses the adequacy of compensation policy to ensure targets set are being achieved, and submits its recommendations to the Board of Directors for updating or amending the Policy, as necessary. Furthermore, the Committee is responsible for the assessment of compensation payment methods and techniques, recommending structure and level of salaries, privileges and benefits for senior executives, and reviewing compliance to SAMA's rules and regulations.

In addition, the Committee recommends to the Board of Directors the nomination of new members to the Board as per adopted policies and standards, as well as ensuring compliance to regulatory requirements for board membership according to the Banking Control regulations, the Capital Market Authority and the Corporate Law. The Committee held seven meetings during the year 2012, with 100% attendance.

The Strategic Planning Group:

The Strategic Planning Group is responsible for setting and reviewing the strategic objectives of the Bank, monitoring and assessing actions taken, reviewing major projects initiated, and reviewing financial and operational performance of the Bank against the set objectives. The Group held three meetings during the year 2012, with 100% attendance.

The following table sets out details of Riyad Bank's Board of Directors' membership of Committees, as well as, the attendance percentage of each member in person or by proxy. In 2012, 260 meetings were held (including the specially convened board committee) with 100% attendance.

The table also lists the other joint stock companies that include Board members from Riyad Bank, in their board of directors.

Dr. Ibrahim Al Ali Al-Khudair

External Member of Audit Committee

Dr. Abdullah Hasan Al-Abdulqader

External Member of Audit Committee

Eng. Abdullah Abdullatif Al-Saif

External Member of Audit Committee

Riyad Bank Directors and Committees		Attendance %	Names of joint stock companies where Board Members hold membership on their Boards
Member's Name	Membership in other Committees		
Rashed Abdulaziz Al-Rashed	Chairman of the Executive Committee & Chairman of the Strategic Planning Group	100 %	Saudi Arabian Investment Co. (SANABIL) (unlisted joint stock company)
Dr. Khaled Hamza Nahas	Chairman of the Audit Committee & Member of the Strategic Planning Group	100 %	National Water Co. Saudi Arabian Investment Co. (SANABIL) (unlisted joint stock company) Hassanah Investment Co.
Abdulrahman Hassan Sharbatly	Member of the Strategic Planning Group	100 %	Saudi Arabian Refineries Co. Saudi Arabia Marketing Co. (SAMACO) Al Sagr Cooperative Insurance Co. Golden Pyramids Plaza Co. – Cairo
Dr. Abdulaziz Saleh Al-Jarbou	Member of the Strategic Planning Group	100 %	Saudi Paper Manufacturing Co. (WARAQ) Amiantit Co. Gulf Chemicals & Industrial Oils Co. General Lighting Co.
Abdullah Ibrahim Al-Ayadhi *	Chairman of Nomination & Compensation Committee & Member of the Executive Committee	100 %	Saudi Company for Technological Development & Investment
Eng. Abdullah Mohammed Al-Issa	Member of the Audit Committee & Member of the Strategic Planning Group	100 %	Arabian Cement Co. Saudi Basic Industries Corporation (SABIC) Saudi Hotels & Resorts Co. National Medical Care Co.
Dr. Faris Abdullah AbaalKhail	Member of the Executive Committee & Member of the Nomination & Compensation Committee	100 %	Fawaz Abdulaziz Alhokair & Co.
Mohammed Abdulaziz Al-Afaleq	Member of the Executive Committee & Member of the Nomination & Compensation Committee	100 %	None
Nader Ibrahim Al-Wehibi *	Member of the Nomination & Compensation Committee	100 %	None
Waleed Abdulrahman Al-Eisa *	Member of the Executive Committee & Member of the Nomination & Compensation Committee	100 %	Taawuniya Insurance Co.

* Members representing the Public Investment Fund (PIF), the General Organization for Social Insurance (GOSI), and Public Pension Agency (PPA), respectively.

Riyad Bank Board's Committee Members (non-Board Members)		Attendance %	Name of joint stock companies where member holds a position on their Board of Directors
Name	Membership in Committees		
Dr. Ibrahim Al Ali Al-Khudair	Member of the Audit Committee (non-Board Member)	100 %	None
Dr. Abdullah Hasan Al-Abdulqader	Member of the Audit Committee (non-Board Member)	100 %	Saudi Company for Technological Development & Investment Allianz Saudi Fransi Cooperative Insurance Co. Gulf International Bank – Bahrain
Eng. Abdullah Abdullatif Al-Saif*	Member of the Audit Committee (non-Board Member)	100 %	Qassim Cement Co. Herfy Food Services Co. Saudi Printing & Packaging Co. Saudi Specialized Laboratory Co.

*The membership of Eng. Abdullah Abdullatif Al-Saif began on 22/09//2012.

Directors & Senior Executives Remuneration:

(SAR'000)

Description	Members of the Board	Senior Executives *
Salaries	-	9,110
Allowances	748	1,277
Annual and Periodic Remuneration	3,600	5,165
Incentive Plans	-	176
Compensation & Other Benefits	58	366
End of Service Benefits	-	4,312

* Includes remuneration of the five senior executives from the executive management, including CEO and CFO.

Changes in Major Shareholdings:

The two tables below show details of any interest related to Board Members or Senior Executives, including their spouses and minor children, in the shares or credit instruments of the company or any of its subsidiaries, in accordance with the provisions of Article 43 of the CMA Listing Rules.

Major Shareholders, Non-Board Members and Senior Executives including their Spouses and Minor Children							
Name	Beginning of the year			End of the year			
	Number of Shares	Credit Instruments	Ownership % *	Number of Shares	Credit Instruments	Net Change	Ownership % *
Public Investment Fund	326,304,000	-	21.7536%	326,304,000	-	-	21.7536%
General Organization for Social Insurance (GOSI)	324,378,600	-	21.6252%	324,378,600	-	-	21.6252%
Public Pension Agency	38,596,396	-	2.5731%	137,712,337	-	99,115,941	9.1808%
Al-Nahla Trading and Construction Co.	139,677,339	-	9.3118%	136,569,006	-	(3,108,333)	9.1046%
MASC Holding Company	-	-	-	120,000,000	-	120,000,000	8.0000%

* To the nearest 4 decimal points

Chairman, Board Members and Senior Executives including their Spouses and Minor Children							
Name	Beginning of the year			End of the year			
	Number of Shares	Credit Instruments	Ownership % *	Number of Shares	Credit Instruments	Net Change	Ownership % *
Rashed Abdulaziz Al-Rashed	14,859,314	-	0.9906%	14,892,853	-	33,539	0.9929%
Dr. Khaled Hamza Nahas	2,400	-	0.0002%	2,400	-	-	0.0002%
Abdulrahman Hassan Sharbatly	146,425,747	-	9.7617%	144,736,966	-	(1,688,781)	9.6491%
Dr. Abdulaziz Saleh Al-Jarbou	1,600	-	0.0001%	1,600	-	-	0.0001%
Abdullah Ibrahim Al-Ayadhi	11,000	-	0.0007%	11,000	-	-	0.0007%
Eng. Abdullah Mohammed Al-Issa	1,425,000	-	0.0950%	625,000	-	(800,000)	0.0417%
Dr. Faris Abdullah AbaalKhail	1,235,300	-	0.0824%	1,230,000	-	(5,300)	0.0820%
Mohammed Abdulaziz Al-Afaleq	33,500	-	0.0022%	33,500	-	-	0.0022%
Nader Ibrahim Al-Wehibi	-	-	-	-	-	-	-
Waleed Abdulrahman Al-Eisa	-	-	-	-	-	-	-
Talal Ibrahim Al-Qudaibi	33,432	-	0.0022%	33,432	-	-	0.0022%
Saeed Saadi Al-Siarri	61,000	-	0.0041%	61,000	-	-	0.0041%

* To the nearest 4 decimal points

Accrued Regulatory Payments:

There are no regulatory payment(s) due by the Bank for the year 2012, except as illustrated below:

(SAR’000)

Description	2012	2011
Zakat - Department of Zakat and Income Tax	150,000	150,000
Taxes payable by the Bank on behalf of non-resident bodies (as per contract provision)	6,848	7,798
Taxes payable by the Bank’s overseas branches to official bodies overseas	7,939	5,625

Penalties, Sanctions and Preventive Provisions:

There are no regulatory restrictions imposed on the Bank by the Capital Market Authority or by any other supervisory, regulatory or judicial authority. The total penalties and fines paid by the Bank in conducting its operational activities amounted to SAR 4.1 million, most of which related to ATM operations and other operational fines.

Applicable Accounting Standards:

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) as issued by the International Accounting Standards Board (IASB). The Bank also prepares its consolidated financial statements to comply with the Banking Control Law, the provisions of Regulations for Companies in the Kingdom of Saudi Arabia and the Bank's Articles of Association. These are audited by licensed external auditors.

In line with its role and responsibility towards the safeguarding and protection of the Banks' assets and customer deposits, the Board of Directors confirms that:

- There is no contract in which the Bank is a party and that is or was of substantial interest to any of the Chairman and members of the Board of Directors, or to the Chief Executive Officer or Chief Financial Officer, or to any person having a direct relationship with any of them, except as stated in Note No. 32, to the consolidated financial statements.
- All accounting records are properly prepared and maintained.
- There is no doubt about the Bank's ability to continue its activities as a going concern.

With regard to the Internal Control System, and taking into account the nature of an internal control system, as described below, the Board confirms that the Internal Control System is well-founded and is being implemented effectively. The Bank has an organized process for the design of internal controls related to its business and then putting them into practice. The essential elements of the Bank's system of internal control comprise; defined roles and responsibilities for the Board of Directors and Executive Management, delegated financial and administrative authorities to different levels of Management, proper segregation of duties and responsibilities in order to achieve an effective internal control.

The Board of Directors, through its Audit Committee, has access to Internal Audit Reports and findings of the various internal control systems' evaluation, as well as, risk management and other reports on a regular periodic basis, so as to provide an ongoing assessment of the internal control system and its effectiveness. In addition to this, the Internal Audit Department follows up its recommendations regularly, and files reports to the Audit Committee on what has been achieved. No significant observation affecting the fairness of financial statements has emerged/arisen. This accords with the Board of Directors' objectives to obtain reasonable assurance on the safe design and an effective implementation of the internal control system, noting that any internal control system, no matter how soundly designed and effectively implemented, cannot provide absolute assurance.

Saudi Corporate Governance Regulations:

The Bank adopts and implements the prevailing Corporate Governance Regulations in Saudi Arabia issued by the Capital Market Authority, except for what has been declared in Form (8) regarding the extent of compliance to the Corporate Governance regulations, which can be summarized as follows:

Article 6 – Voting Rights: The Bank has not adopted accumulative voting until its final approval by the regulatory bodies and according to what the Saudi Arabian Monetary Agency may enact.

Article 10 – Main Functions of the Board of Directors, section (d): the Board of Directors approved the Board of Directors' Membership Nomination policy which will be presented to the General Assembly on 11/03/2013 for approval.

Article 14 – Audit Committee Charter: the Board of Directors has approved the roles and responsibilities of the Committee which will be presented to the General Assembly on 11/03/2013 for approval.

Article 15 – Nomination & Compensation Committee Charter: The Committee has been formed and the Board of Directors approved its duties and responsibilities which will be presented to the General Assembly on 11/03/2013 for approval.

Generally, Riyad Bank has been a leader in the adoption and implementation of many aspects of governance regulations and continues to keep abreast of developments in this important area. The Bank is in the process of updating and finalizing related policies and procedures.

Human Resources

The Board of Directors consider Human Resources a cornerstone to the success of banking operations; therefore, short and long term human resources strategies are in place to attract fresh graduates from both universities and specialized institutes. As well as training new recruits for suitable positions within the Bank's different departments, plans are also in place for training and developing existing personnel in order to help them excel in their careers.

The Human Resources Division constantly supports the various departments to fulfill their objectives and strategic initiatives, upgrading leadership skills for both existing and future senior positions, as well as, improving methods of measuring and managing performance.

The Human Resources division has been keen to support all divisions, departments, and units within the Bank in order to achieve the Bank's goals and strategic initiatives in 2012.

The Bank is at the forefront of how it administers its human resources: we are proud of our Saudization level, which now stands at 93% of our workforce. The proportion of women is 20% of the Bank's total employees and all our female employees are Saudi citizens. Furthermore, Executive Management is totally comprised of Saudi nationals.

Again in 2012, the Human Resources division carried out an intensive training program, providing more than 9,000 training opportunities, both locally and internationally. The Bank also put a graduate team through the 'Riyad Bank Program', as well as, continuing to enhance staff skills within branches through the Competency Development Program.

The Bank's management inspires and motivates staff to boost their self-confidence and loyalty and ensure their effectiveness and career development. Consequently, management supports incentive programs designed for the staff, such as the Incentive and Bonus Scheme and the Saving Investment Program. Details of these programs are included in the Notes to the consolidated Financial Statements. The following are statements of the balances and movements for Staff Incentive Programs during the year 2012.

(SAR'000)

Description	Staff Incentive Program		
	Investment Saving		
	Staff's Share	Bank's Share	Total
Balance at the beginning of the year	37,980	13,488	51,468
Provided during year 2012	9,080	3,348	12,428
Charged during year 2012	(7,407)	(2,523)	(9,930)
Balance at the end of the year	39,653	14,313	53,966

External Auditors

The Annual General Assembly Meeting of the Bank's Shareholders held on 19 March 2012 approved the appointment of Messrs. Deloitte & Touche (Bakr Abulkhair & Co) and KPMG (Al Fozan & Al Sadhan) as joint external auditors for the financial year ending 31 December 2012. The General Assembly, however, will decide in its upcoming meeting, whether to reappoint the current auditors or replace them; the General Assembly will also approve their fees for reviewing the Bank's financial statements for the financial year ending 31 December 2013, after reviewing the recommendations of the Audit Committee and the Board of Directors in these respects.

Acknowledgements

We would like to take this opportunity to extend our profound thanks and gratitude to the Custodian of the Two Holy Mosques, King Abdullah Bin Abdulaziz Al Saud (May Allah protect him), HRH Crown Prince Salman Bin Abdulaziz Al Saud, the Deputy Prime Minister and Minister of Defense, as well as, the government. Much is owed to the Ministry of Finance, the Saudi Arabian Monetary Agency and the Capital Market Authority for their continued assistance and support to the banking and financial institutions sector.

Our appreciation also goes to our shareholders, customers and correspondents for their valued support and confidence which motivates us to exert more effort and commitment. Finally, we extend our thanks and appreciation to the Bank's staff for their dedication, loyalty and outstanding performance that were and are directed to achieve Riyad Bank's goals and objectives.

The Board of Directors

Riyadh, January 28, 2013 - Rabi Al Awal 16, 1434 H

ACHIEVEMENTS 2012

ACHIEVEMENTS 2012

> Retail Banking Services has achieved considerable progress across the board which led to growth in market share, profitability and asset quality

Retail Banking Services:

Retail Banking Services has achieved considerable progress across the board which led to growth in market share, profitability and asset quality. An annual review and assessment of the retail strategy is carried out in order to ensure high levels of success.

In credit cards, Riyad Bank was honored by MasterCard for selling 50,000 Titanium credit cards in 9 months which is considered the fastest growing credit card portfolio in the MENA region.

Additionally, Riyad Bank ranked first in issuing Golden Visa Credit Cards in Saudi Arabia. The Bank also launched the Islamic Visa Platinum card which provides a number of exclusive features such as VIP access to airport lounges around the world, a travel insurance program, and many more benefits.

During the year, the Bank worked on enhancing the Auto Leasing program by implementing an instant pre-approval system to handle the customer's request for finance. The department also worked on building strategic ties with a number of major car dealerships in the Kingdom.

In 2012, the Bank also continued developing and marketing its personal finance and mortgage products.

In Remote Banking, the Bank ranked first in terms of the number of ATMs located in offsite locations.

To improve the quality of services, the Bank launched a new customer segment under the name "Silver Service" to give particular attention to meeting the needs of this customer base. The value proposition for this segment is to give the best offers and prices on consumer loan products and discounts that range from 25% to 100% on service fees such as international transfers, ATM card fees and cheque books as well as other benefits.

Personal Loan

Islamic Banking:

The Islamic Banking Department continued developing its broad range of banking products that comply with Shari'a. The number of Islamic Banking branches increased to a total of 118 branches.

The department also conducted 3 Islamic forums for customers in the Eastern, Central, and Western regions. Additionally, the department contributed to the launch of a number of Islamic products for Treasury. The Department held 20 Islamic Banking training workshops for bank staff to introduce and define the Islamic Banking products, the processes and procedures to help them in presenting these products to potential customers and enable them to answer their questions accurately.

Private Banking and Golden Service:

Riyad Bank has continued to provide new and sophisticated services to Private Banking and Golden Service customers, where the total number of Golden Service centers reached 55. These centers are managed by highly qualified Relationships Managers that provide their services 24/7. In addition the opening of 4 new Private Banking centers around the Kingdom provide their exclusive services that suit this customer segment.

Overseas Branches:

Through an overseas banking network represented by branches/offices in London, the Houston agency, and the Singapore Representative Office, Riyad Bank provides banking products abroad, serving the corporate customer base, and allowing the Bank to provide its customers with tailored services to meet their various needs. In addition, the Bank provides advice on investment and business in the Kingdom of Saudi Arabia.

The London Branch plays an active role in supporting the rapid growth of commercial activities carried out by leading European multinational companies with the Kingdom. This support ranges from providing Letters of Guarantee and stand-by Letters of Credit, as well as assisting in the provision of financing for their business in Saudi Arabia. In addition to this, the London Branch also provides tailored banking services to the Bank's customers in the Kingdom and their affiliated companies in order to support their European investments in the industrial sector as well as other sectors.

Riyad Bank is the only gateway for Saudi banks in the Americas, where the Houston Agency plays an important role in attracting investments to the region, as well as helping U.S. based and multinational companies by supporting their commercial activities in Saudi Arabia, especially in the fields of power, electricity, engineering, construction and aviation. In addition, the Agency supports Saudi companies in North America through providing banking facilities and necessary advice.

Riyad Bank is also present in the Far East, where its Singapore Representative Office helps customers to take advantage of investment opportunities in Asia, and develop business relations with Asian correspondents and corporations who have business activities in Saudi Arabia.

Corporate Banking Services:

Corporate Banking Division continued to be the biggest contributing division in Riyad Bank in terms of income and assets. In 2012, Corporate Banking was all about improving customer services and increasing the range of Corporate Banking products to create a complete relationship banking experience.

Customer usage of RiyadOnline Corporate, the Division's dedicated corporate banking electronic platform, increased substantially. This jump in usage during 2012 had a positive impact in making customer banking transactions easier and more convenient from their workplaces.

The Division also launched a significantly upgraded version of the trade finance electronic banking solution, Riyad Trade Finance which led to increased customer demand for this channel.

As for financing major projects, the Bank has been active in supporting a number of important projects across many industrial sectors including being heavily involved in the development of the mining industry in Saudi Arabia, which included the first alumina refinery and bauxite mine in the Middle East.

The Division also played a major role in financial advisory and was a joint advisor to the largest single phase petrochemical project ever undertaken worldwide called "Sadara".

As part of Riyad Bank's commitment to the fast growing Small and Medium Enterprise sector, the Bank provided an extensive range of financing options and other banking services through a team of specially trained experts who are located in dedicated SME centers all around the Kingdom.

In addition, the Bank continued to update all policies, procedures as well as its banking products to educate the SME segment and especially entrepreneurs. The Bank also adopted best banking practices that support this segment that plays an important role in the national economy.

Furthermore, the Bank participated in all conferences and seminars held by the "Kafalah" program in cooperation with other local banks and Chambers of Commerce that are located around the Kingdom in order to educate female and male entrepreneurs. The Bank also renewed its cooperation agreement with the International Finance Corporation "IFC" that provides banking solutions and tools such as management skills, accountancy, marketing, and feasibility studies to help SMEs run their businesses effectively.

Riyad Bank continues to support its corporate customers and help to build and develop the infrastructure of this sector and assist these customers in executing their projects.

Treasury and Investment Division:

In 2012, the Treasury and Investment Division continued to achieve outstanding results by focusing on the needs of its customer base and then working on product development and diversification according to these needs and providing customers with new products and customized solutions to manage their interest rate and foreign currency hedging risk exposures.

Over the coming year, Treasury will continue to offer new products that are targeted at meeting the diverse needs of the various segments of its customer base.

In spite of tough conditions in financial markets that posed their own exacting challenges, the Bank has maintained its strong position as a result of its professional team's effective management of liquidity through sound risk management methods. In addition, Treasury works hand in hand with the Corporate Banking Division to satisfy the needs of customers andpresent tailored products to this segment.

Overseas Branches

Investment Portfolio:

Riyad Bank adopts an investment strategy that is based on quality, diversification and liquidity in its asset allocation under the supervision of the Bank's Investment Committee. The investment portfolio of the Bank consists of local and international diversified assets where government bonds and companies form the largest share of the portfolio's assets. The investment portfolio performed exceptionally well during 2012 and achieved good returns.

Risk Management:

Riyad Bank believes that Risk Management is one of the pillars of the banking business. The Risk Management function is an independent body that reports directly to the Chief Risk Officer and includes Credit, Market and Operational Risk. The activities and responsibilities of these functions are governed by Risk Frameworks and Policies that are approved by the Board of Directors. Periodic reports are submitted to the Board and its Committees including Asset Quality, Market Value at Risk, Liquidity Risk, and Net Interest Income at Risk.

During the year, several international regulatory developments took place in the area of Risk Governance and Risk Management practices. Accordingly, the Bank refined and augmented its risk management framework, policies and procedures to support Risk Management in a comprehensive manner and independent of other departments that are responsible for initiating banking operations.The Bank also worked on the development of policies, procedures, governance and risk management, updating these periodically in accordance with international developments.

Market Risk

Credit Risk

The Credit Risk Management Framework, within which the Bank operates, consists of principles, structures, tools and activities required for managing credit risk at all levels in the Bank. The purpose of this framework is to support the Bank's efforts to enhance the Bank's asset quality, while observing the rules and regulations set by the regulatory authorities, all within clearly designed and regularly monitored risk parameters.

The Bank utilizes sophisticated credit software systems to ensure full lifecycle management of credit applications, limits management, and financial and non-financial collateral management. In addition, the Bank uses internationally recognized advance credit rating systems to assess the viability of corporate credit applications and to produce their credit rating according to the credit ratings that are approved by the Board of Directors. The Bank also uses advanced retail credit systems for Retail Risk.

In accordance with the Saudi Arabian Monetary Agency (SAMA) regulations, the Bank is in compliance with all Basel II Accord requirements in respect of Capital Adequacy calculation according to the standardized approach for credit risk management.

The Bank is also actively working towards the implementation of the Internal Rating Based (IRB) Approach to assess the capital required to cover Credit Risk.

Riyad Bank is considered to be at an advanced stage towards the implementation of IRB Standards, following the success in developing internal credit rating systems by segmenting customers into groups according to their risk characteristics, and with the scrutiny necessary to test the compatibility of these systems with the requirements of Basel II (Internal Rating Based Approach). In this respect, following its Rating Model review process during the year, the Bank validated and optimized its internal rating models and aligned its Risk Policies, where required, to strengthen further its Credit Rating Systems to comply with Basel II IRB Standards.

Market Risk

The Financial Risk Management Department, which is part of the Risk Management Division, assumes the responsibility for measuring and monitoring market risks, and Asset/Liability risks resulting from fluctuation in fair values or future cash flows of financial instruments as a result of the changes in market prices, all within the Board of Directors approved Risk framework and limits. Periodic reports are prepared and submitted to the relevant stakeholders at the Bank.

The primary market risk measure used within Riyad Bank is the Value-at-Risk (VaR) methodology, which incorporates the volatility of relevant market prices and the correlation of their movements. In addition, the Bank has implemented a number of standards and other advanced methodologies to enhance its analytical capabilities in managing financial risks, including stress testing and sensitivity analysis.

During 2012, The Bank has fully leveraged its integrated and advanced risk management system for market, interest rate, and liquidity risk management. This system is a leading market risk management system that is used around the world by major banks, insurance companies, governments and other risk management entities.

Furthermore, as part of Riyad Bank's strategy to move towards Basel II's Internal Model Approach to Market Risk Management, the Bank has approved comprehensive Value-at-Risk (VaR) limits for the Bank's treasury and investment activities. In addition, the Bank's market risk measurement models were validated by external parties during the year.

Market Risk reports summarizing the Bank's Market Risk exposures against agreed limits and liquidity position are regularly reported to the Board of Directors and its Committees and the Bank's Asset and Liability Committee (ALCO).

Operational Risk

Operational Risk Management assumes the responsibility of identifying, assessing, monitoring and reporting operational risk and works in cooperation with other responsible departments for defining responsibilities to assist in reducing operational risks, improving internal controls and procedures, developing its operational risk database, and increasing operational risk awareness across the Bank.

During 2012, the Bank implemented a project for the development of examination and investigation processes for operational risk in branch operations and other supporting departments. The project is considered a major undertaking for the Examination and Investigation Department aimed at enhancing its current capabilities in order to develop a risk-based methodology for its examination and investigation approach.

Furthermore, Riyad Bank has upgraded its Anti-Money Laundering system in order to improve the effectiveness of monitoring transactions, including improving the quality and accuracy of alerts, as well as increasing the speed of investigations.

The Bank has also upgraded its core operational risk management system in order to provide an integrated platform for standardizing and managing operational risks in a comprehensive manner.

The Bank is presently reporting on capital adequacy for operational risk using the Standardized Approach under the Basel II requirements, and is gradually preparing itself to meet the Advanced Measurement Approach (AMA) model for operational risk.

Stress Testing

An overarching Stress Testing Framework and Policy was enhanced to meet the Stress Testing requirements at an enterprise-wide level to include all material risks relating to banking activities under the supervision of the Board of Directors, or its delegated authorities.

Credit Rating:

Riyad Bank has succeeded in maintaining its credit rating, consistently preserving its (A+) rating by the Standard & Poor's rating agency for long-term liabilities, and an (A-1) rating for short-term liabilities - the highest rating available. The international Fitch rating agency also maintained its (A+) rating for long-term liabilities and (F1) rating for short-term liabilities. Capital Intelligence rating agency has awarded the Bank an (AA-) rating for long-term liabilities and an (A1+) for short-term liabilities, the highest rating available. All the rating agencies have maintained their stable outlook for the Bank given its financial soundness, which reflects the strength and durability of Riyad Bank's financial position.

Information Technology:

The Information Technology Division continued during 2012 to develop technical solutions to improve the level of service offered. The IT Division upgraded all of its connectivity to "IPVPN" to match the latest trend in communication technologies and to enhance existing features and performance. This change has a direct improvement on Riyad Bank branches which has resulted in delivering faster and more reliable services to customers.

During the year, Riyad Bank has taken a strategic decision to move to the "Linux Operating System", which entails the setup of "Linux" environments on the mainframe. The benefits include enabling hardware/ platform consolidation, maintenance and cost savings, licensing cost savings for sharing resources from the consolidated environment, and the optimization of available system resources.

Essential infrastructure upgrades and enhancements were implemented at the Disaster Recovery site in Dammam to control data transfer and use high speed applications of the best quality as well as providing backups that can be used during emergencies. The legacy link for data replication between the Primary site in Riyadh and Disaster Recovery site in Dammam was replaced with Dense Wavelength Division Multiplexing technology (DWDM) which decreased the network transit and IP packet time delays and enhanced the stability of data replication.

Credit Cards - 10 Cars Winner Campaign

Additionally, the Wintel Environment Virtualization solution was initiated to run multiple virtual machines on a single physical server. The same physical machine can run multiple operating systems and multiple applications from different environments to allow the best sharing of resources e.g. processor, memory etc. This will reduce hardware purchasing expenditures, minimize server sprawl in the Data Center, simplify server management, control growing operations, and ensure business continuity and faster provision of the resources which will cut down time to market for new projects.

Riyad Bank has decided to embark on an ambitious "Operations Optimization Program", which aims at reducing operational risk and timelines for operational activities, while increasing automation, efficiency, and customer satisfaction.

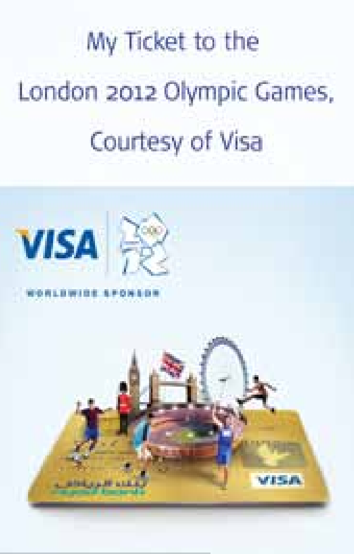
In 2012, the IT Division continued to support many divisions such as the Corporate Banking Division by establishing the Corporate Payroll process, which assists the Bank's corporate customers to monitor and track the status of payroll requests and handle any required updates and notifications.

In addition, the IT Division supported Retail Banking in line with the Bank's overall strategy, by assisting in the fundamental shift from product based strategies to a more customer-centric approach with one of its main pillars being to improve the service delivery of the Bank's products and services. Hence, the IT Division updated the current methods, processes and systems for Consumer Finance Department (CFD), by implementing the CFEP (Consumer Finance Excellency Program) which uses the current Siebel Front End in branches with integration with CDA (the decision rule engine).

IT Governance:

The IT Governance Department undertook a bank-wide Business Impact Analysis exercise covering all Riyad Bank's business units. The exercise was an essential step in ensuring that the Bank will continue to be able to serve its customers even in unforeseen situations.

In 2012, IT Governance implemented many controls to address new security risks. A dedicated program was initiated to address risks from advanced persistent threats and malwares. Strong authentication controls using token and smart cards were enforced for staff access and externally for customer validations to secure banking transactions. IT Governance continues to update protection controls against any future attacks on the Bank's systems.



Credit Cards - London Olympics 2012

IT Governance continued its efforts in consolidating its security infrastructure. This resulted in reduced operational cost of firewalls. IT Governance also made significant progress in automating several security processes which have reduced the effort and time required in executing those processes and reducing the operating costs of information security.

During the year, IT Governance set up a new unit called the "Information Security Investigation Unit" that is in charge of conducting digital investigations, and digital fraud investigations as, well as other information security incidents.

Compliance Department:

Compliance Department reports directly to the Chairman of the Board of Directors and submits its reports, to the Audit Committee and the Operational Risk Management and Compliance Committee perriodically regarding the level of compliance in the Bank.

As part of compliance risk management, the Department makes sure that all areas of the Bank are compliant with all the applicable compliance rules as well as improving the Bank's evaluation regarding its compliance to regulatory requirements. Furthermore, the Department organized training courses/awareness sessions for all Bank employees to strengthen the compliance culture within the organization.

In this regard, The Bank completed a Compliance Transformation Project, in collaboration with a leading consulting firm, to make the Compliance Department more efficient and effective in complying with the applicable requirements and to meet best practice standards.

Human Resources:

The Human Resources Division continued to support all Divisions across the Bank to deliver on its objectives and strategic initiatives during 2012. The Division has maintained its focus on leadership development at the Bank, and has improved both its performance measurement and management.

The Bank takes pride in its excellent level of Saudization, where the overall percentage reached 93%. All female staff are 100% Saudi nationals, and they make up 20% of the total workforce at the Bank, not to mention that the executive management team is totally comprised of Saudi nationals.

The Bank also continued to motivate and train staff to raise professional performance, through more than 9000 training opportunities both inside the Kingdom and abroad. It is worth noting that the Bank continuously grows and trains its talented staff via the Riyad Bank Program.

The Division has also continued to enhance skills within the branches through the Competency Development Program.

Marketing and Communications:

In 2012, the Marketing and Communications Division strove to consistently support the Bank's objectives through launching innovative marketing campaigns, by examining the current market in detail and utilizing customer analytical data. These approaches have helped raise the Bank's overall market share.

In 2012, Marketing and Communications Division has improved communication with existing and potential customers by launching creative marketing campaigns in several key areas such as: credit cards, mortgages, personal loans, auto leasing, along with many other campaigns.

To implement these campaigns effectively and efficiently, the Bank has adopted diverse media strategies to cement brand presence using different media channels such as outdoor media as well as many others. The result is that the Bank's presence was more visible in all different types of media channels as well as in social and digital media marketing.

Moreover, the Division was able to strengthen Riyad Bank's position in its target retail customers' 'top of mind' brand awareness with an increase of 4% (from 14% in Q4, 2011 to 18% in Q3, 2012). This is mainly due to implementing effective communication strategy throughout the year. This increase in brand awareness has consolidated the Bank's position as third amongst the leading Saudi banks.

The 'top of mind' awareness for the Riyad Bank brand is similar across the 3 main cities and all age groups. However, it is mainly driven by a significantly higher awareness among women reaching 30% where Riyad Bank is by far the leader of all local banks in 'top of mind' awareness in this segment.

Quality Assurance Department:

The goal of the Quality Assurance Department is, by referencing best industry standards for quality assurance, to ensure continuous and sustained development so that the Bank always meets customer needs. The Department has five main units namely: Customer Care Unit, Quality Development Unit, Quality Monitoring Unit, Research Unit, and Field Survey Unit.

During 2012, the Research Unit conducted more than 120 surveys whether as market research or inter-organizational related reports and studies as part of the services it provided to other departments in the Bank. In addition, the Field Survey Unit made more than 19,000 calls to customers to obtain their feedback about bank services and measure customer satisfaction and to help rate the user experience when using the various banking channels. The Quality Development Unit managed 7 development projects for different Departments. Finally, the Quality Monitoring Unit successfully completed 5 quality monitoring projects while participating in 14 different development projects across the Bank.

The Quality Assurance Department has also continued the publication of its periodic reports that are considered crucial for decision makers in the Bank to enable them to make informed and timely decisions. These reports include but are not limited to the following: customer experience reports, customer complaints analysis report, internal customer satisfaction reports.

In 2012, the Quality Committee was formed consisting of division managers and heads and held periodic meetings with the purpose of reviewing and assessing the quality of all bank departments. This internal review and assessment used a SWOT analysis (strengths, weaknesses, opportunities and threats) of the products and services offered to customers based on analytical reports issued by the Department in order to achieve the highest quality at all levels.

Corporate Social Responsibility:

Corporate Social Responsibility (CSR) is the term that is used to describe the role an organization plays in contributing to its community. The main principles of CSR are based on the importance of creating solid ties between the private sector and society by implementing programs, plans and strategies and differentiating between philanthropic work and sustainable development because CSR encompasses values that have far greater and long term effects in comparison to one-off charitable donations.

Breast Cancer Awareness Campaign

Riyad Bank is keen to expand the spectrum of its social and charitable contributions to the fullest extent and across all regions in the Kingdom. The Bank's CSR activities cover various sectors such as health, academia and education as well as expanding to sports and entertainment, along with the usual support for charity organizations.

Among the most prominent support and sponsorship projects during 2012 were the following:

In the health field, Riyad Bank launched the organ donation campaign in partnership with King Saud University (KSU). The Bank also worked on sponsoring numerous charity organizations in villages in the Hail region by providing medical equipment for elderly patients in the area. These villages include Al- Ghazalah located in the southern parts of Hail, and Al- Halefah Al- Olyah, which is 210km away from Hail. As part of our new program this year Riyad Bank was a silver sponsor for the Saudi International Conference of Nephrology & Transplantation.

The Bank also sponsored the Zahra Breast Cancer campaign for the fifth year running to help spread awareness about the importance of early screening in fighting the battle against breast cancer. The Bank also sponsored the development of websites for both of Al-Nahda and Mowada charities to help spread their message among members of society.

As part of the Bank's commitment to support special needs programs, it sponsored the annual "Special Needs Summer Club" for the sixth year in a row, to help children with special needs to spend constructive fun time in an environment that encourages learning and provides entertainment. In this regard, the Bank also participated in the first agricultural training program at the ALAHSA disabled association in the Al-Ahsa, which included teaching these people farming skills to be able to earn a living and become active members of society.

In addition, the CSR Department sponsored the "Yadawi" program, run by the Heritage Art's Group and Al-Nahda charity organizations. The program encourages females with special needs to make handmade heritage items and handicrafts, which the Bank buys and gives to prominent business men as gifts to help raise awareness about this program.

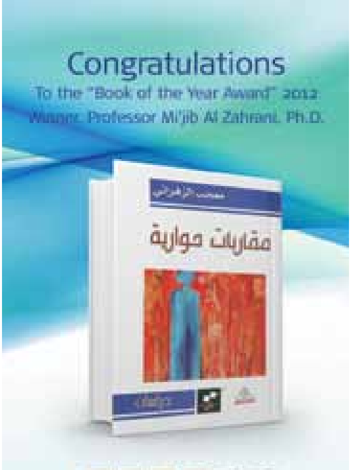
Furthermore, for the third time the Bank participated in sponsoring a transportation scheme by providing cars for charity organizations in different regions. The Bank launched another major charity initiative to donate winter clothes and blankets to needy people. Thousands of blankets and heaters were donated around the Northern region's main cities and surrounding small villages.

In line with the Bank's efforts to encourage volunteer and team work among its staff, the annual Ramadan campaign was launched with staff volunteers who helped to give out food baskets to families in need in the southern, western and northern regions of the Kingdom. Riyad Bank staff also went on their yearly visits to children in hospitals bearing gifts and toys to help lift their spirits and bring joy to their hearts.

The Bank also participated in many local festivals such as the 27th National Heritage and Culture Festival "Al-Janadriyah", by sponsoring the Qassim region section at the Festival, as well as sponsoring Al-Dokhalah Festival for the fourth year in the Eastern region.

The Bank also participated as a silver sponsor for the 6th Prince Abdulraham bin Ahmad Al-Sudairy conference for Saudi Studies that aim to save and preserve heritage and antiquities in the Kingdom.

As for the academic and educational field, the CSR Department in 2012, has participated in many activities such as sponsoring the scientific forum for gifted female students in Baha, as well as sponsoring the Princess Norah University annual graduation ceremony held for the 19th class graduating from the university and the higher education technical college exhibition in Riyadh. Furthermore, the CSR Department has also participated in the "Career Days" of several well-known universities and colleges.



Book Award

Riyad Capital:

Riyad Capital is a Saudi company wholly owned by Riyad Bank, and is licensed by the Saudi Capital Market Authority to deal (as a principal, an agent, an underwriter) for arranging, advising, and custody.

Riyad Capital, through its Asset Management Department (AMD), aims at developing new and high value-added investment products and services to meet the needs of its diverse customer base. AMD managed to expand its "Discretionary Portfolio Management" business in 2012 to include a larger number of high net worth (HNW) individuals, companies and public institutions, as well as maintaining its high performance ranking among its competitors in the Saudi market and, therefore, preserving its leading market share. The company was able to further expand its market share in both local and international equity funds, which is the largest in the Saudi market. AMD has also taken a numbers of initiatives in 2012 to expand and diversify its investment offerings to include various structured products that are tailor made to meet specific client investment needs in terms of preserving capital and achieving certain target returns.

In the area of Corporate Investment Banking (CIB), Riyad Capital is proud to have a team of highly qualified and experienced staff who specialize in investment banking advisory services, including managing public equity and debt securities offerings, private placements, M&A and structured finance. In 2012, Riyad Capital closed Al-Madinah Cement IPO for SAR 946 million, where it acted as sole Financial Advisor, Underwriter and Flotation Manager. It also closed two Sukuk transactions, one was AJIL Financial Services Company for SAR 500 million and the other for EURICO (a member of the Olayan Group companies) for SAR 650 million, and in both transactions Riyad Capital acted as Arranger and Placement Agent. In addition, the CIB team is currently working on a number of transactions involving IPOs and Sukuk offerings.

With regard to Brokerage Services, Riyad Capital was able to increase its market share in the Saudi market due to its continuing efforts to improve on customer service and enhance the functionality of the electronic trading channels. The company introduced a number of key new services to its internet-based trading platforms including online trading in international markets, trading in different markets through one account, and Riyad Tadawul Extra which is tailored exclusively for HNW clients.

In addition, Riyad Capital worked in 2012 to develop and prepare its Wealth Management Department to expand its offering to customers and provide them with value added investment advisory and research services. The terminology "wealth management" in Riyad Capital means reinforcing the proper investment practices and culture with the company's HNW clients through a team that is highly specialized in managing wealth and helping clients plan their investments based on their investment objectives. Wealth Management Department serves its clients through a network of 29 investment centers located in different cities throughout the the Kingdom, four of which are HNW customer private centers.

Riyad Capital

ECONOMIC AND FINANCIAL OUTLOOK FOR 2013

ECONOMIC AND FINANCIAL OUTLOOK FOR 2013

> The repercussions of the global financial crisis and its negative impact on the global economy continued in 2012. The world faced a number of crises and challenges

Introduction

During the year 2012, the world economy posted some signs of improvement, yet it faced many forces that kept the situation and prospects challenging, with most regions growing at a pace below potential. In advanced economies, growth was too low to make a substantial decrease in unemployment rates while in major emerging market economies, growth that had been strong earlier has also notably decreased. The general feeling of uncertainty exerted huge downward pressure on economies. The Euro area debt crisis remained in focus. Worries increased over the ability of European policymakers to control the Euro crisis after it escalated and hit other countries in the area. Moreover, in the U.S., policy makers took a long time to put in order a fiscal plan to avoid what is so-called the "fiscal cliff". The "fiscal cliff" refers to about $607 billion of tax increases and Federal spending cuts set to kick in automatically by the beginning of 2013. A last minute agreement finally took place that could avoid dragging the largest economy in the world into a recession which could cause some serious damage to growth globally. However, avoiding the "fiscal cliff" means the U.S. economy will continue to witness large fiscal deficits and unsustainable public debt. Estimations show that the fiscal deficit for 2012 reached $1,327 billion or 8.4 percent of the GDP, while public debt exceeded $16,350 billion or 103 percent of GDP.

Emerging market and developing economies, on the other hand, were affected by the low growth and uncertainty in advanced economies through both trade and financial channels, adding to homegrown weaknesses. Activity in these countries has been slowed by policy tightening in response to capacity constraints, weaker demand from advanced economies, and country-specific factors. Policymakers were aware of the need to rebuild fiscal and monetary policy tools but were still wondering how to calibrate policies in the face of major external downside risks.

The U.S. economy posted some signs of improvement during the year, yet, it still faces many challenges. Apart from the fiscal deficit and the accumulated public debt, the economy still faces weak employment conditions, along with a continued weak housing market and risk of foreclosures which held back consumer spending. In the Euro zone also, the situation continued to be unstable and the outlook seemed to be unpromising. Mario Draghi, president of the European Central Bank, warned that even powerhouse Germany is starting to suffer the ill effects of the debt crisis. The risks include, but are not limited to, further negative dynamics of slower growth affecting sovereign debtors. This, in turn, would lead bank balance sheets to deteriorate, thereby reducing their ability to support growth and thus leading to a recession. The United Nation's report for 2012 pointed out four major weaknesses that continued to feed into each other and combined against any robust economic recovery. First, continued deleveraging by banks, firms and households which was and still is holding back normal credit flows as well as consumer and investment demand. Second, unemployment rates remained high. By definition, unemployment as a slack represents both a cause and effect of weak economic recovery. Third, fiscal austerity responses to deal with rising public debts were further preventing economic growth, which in turn made the return to debt sustainability more difficult. And fourth, bank exposure to sovereign debts and the weak economies were spreading financial sector fragility, which in turn spurred continued deleveraging. Developed countries, especially in Europe, continue to struggle to break out of this vicious circle.

At present, the biggest danger for the Euro area is posed by the situation in Italy and Spain as the size of their debts would likely challenge the region's rescue funds. The main fear is that Spain will slide into a downward spiral of austerity and recession, which will drive up its borrowing costs, lead to increased market turmoil and eventually require a bailout: with insufficient funds available for Italy. Such a scenario would likely involve renewed speculation about a break-up of the Euro area, further unsettling financial markets and triggering a sharp downturn in global economic activity. The Spanish government, in response to the accelerating problem in Europe, agreed on a program with its European partners to support the restructuring of its banking sector, with financing of up to €100 billion. Also, leaders launched work on a banking union, which was followed up recently with a proposal by the European Commission to establish a single supervisory mechanism.

In light of the above conditions, the IMF lowered its estimate of global economy growth in 2012 by 0.2 percentage points to 3.3 percent and projected a growth rate of 3.6 percent in 2013, which is 0.3 percentage points less than initially projected. Real GDP in advanced economies expanded at a weak pace of 1.3 percent in 2012, and is projected to grow at a rate of 1.5 percent in 2013 as financial conditions remained fragile and unemployment stayed elevated in many of those countries. Emerging and developing economies expanded by 5.3 percent in 2012 and are projected to grow by 5.6 percent in 2013. The instability in commodity prices and the weakness in world trade and capital flows are the main factors threatening growth in these countries. Generally speaking, output is expected to remain sluggish in advanced economies but still relatively stronger in many emerging market and developing economies.

Central banks around the globe announced new stimulus measures aiming to support liquidity conditions and real economic activity. Among others, the Fed introduced in September a third round of quantitative easing before announcing in December a more modest stimulus program due to expire at year-end with a fresh round of Treasury purchases. The European Central Bank declared a potentially-unlimited government bond-buying scheme aiming to support Euro-periphery debt markets. The Bank of Japan, from its side, announced an increase in the total size of its asset purchase program.

The current circumstances require policies in all countries to be more proactive. However, efforts should be focusing on reserving the structural imbalances between domestic versus external demand and private versus public demand. In advanced economies, private demand must take over from public demand, while focusing at the same time on shifting toward external demand. In emerging economies, domestic demand must take over from external demand. However, the immediate kind of policy response that is required from the European leaders is to break the adverse feedback loop between troubled sovereigns and financial institutions, and to find the right balance between fiscal consolidation and structural reform in the economies of the periphery. In the U.S. and Japan, the policy response should also seek the balance between implementing fiscal consolidation plans to put public debt on a sustainable path and keep implementing policies to sustain recovery.

Oil Markets

In 2012, oil prices averaged at levels very close to those in 2011. Prices exhibited noticeable volatility during the year mostly as a reflection of increased levels of speculation in the commodities markets, exacerbated by geopolitical tensions and, latterly, exceptional weather conditions. Market fundamentals continued to be the main driver for the direction of prices throughout the year. The supply and demand for oil have been impacted by many events and factors. On one hand, prices were pushed up strongly because of supply uncertainties related to the situation in some of the Middle Eastern countries, especially in Syria. In addition to that, tensions between the West and Iran over Tehran's nuclear program raised concerns over oil supplies and led oil prices to surge. The dispute over Iran's nuclear ambitions remained a supportive factor to oil prices amid fears of falling demand for oil because of global economic worries. From the supply side also, another event occurred that gave oil prices a boost during the year, which was a labor strike in the Norwegian oil industry that resulted in choking off around 15 percent of Norway's oil production and 7 percent of its gas output, pushing oil prices up on fears of a full loss of supply from the world's eighth largest oil exporter. Oil markets have also been very sensitive to speculation over adopting new stimulus measures by the Federal Reserve, the European Central Bank and other central banks which would likely cause a push to the demand for oil. Oil prices were also supported by some encouraging economic activities from the United States and China, which came stronger-than-projected, as oil prices have closely tracked macroeconomic expectations and financial market performance over the year. Despite the supportive factors, oil prices have been impacted negatively throughout the year by uncertainty over the global economic recovery, particularly with respect to the contagion- effect of Europe's debt crisis. Downward pressure came on oil prices because of rising banking troubles in Spain and wider European economic problems generally. Given the above developments concerning the factors affecting both the supply and demand in oil markets, WTI prices and Brent crude averaged $94/bbl and $112/bbl respectively in 2012. For 2013, the U.S. Energy Information Agency (EIA) expects WTI price to average $88/bbl and Brent to average $104/bbl.

The WTI started the year 2012 at $102.96/bbl, $4.13 higher than its closing price for 2011. Prices touched a year high at $109.4 on February 24th, due to a widening geopolitical risk premium which led to fears of supply disruptions. It reached as low as $77.7 a barrel on June 28th, on abundant crude oil supplies and economic concerns, especially regarding the Euro zone. Brent crude, from its side, started the year 2012 at $111.1/bbl passing its closing price for 2011 by $3.03. It plunged to its lowest level during the year to $88.7/bbl on June 25th, while it touched a record of $128.14/bbl on March 13th 2012.

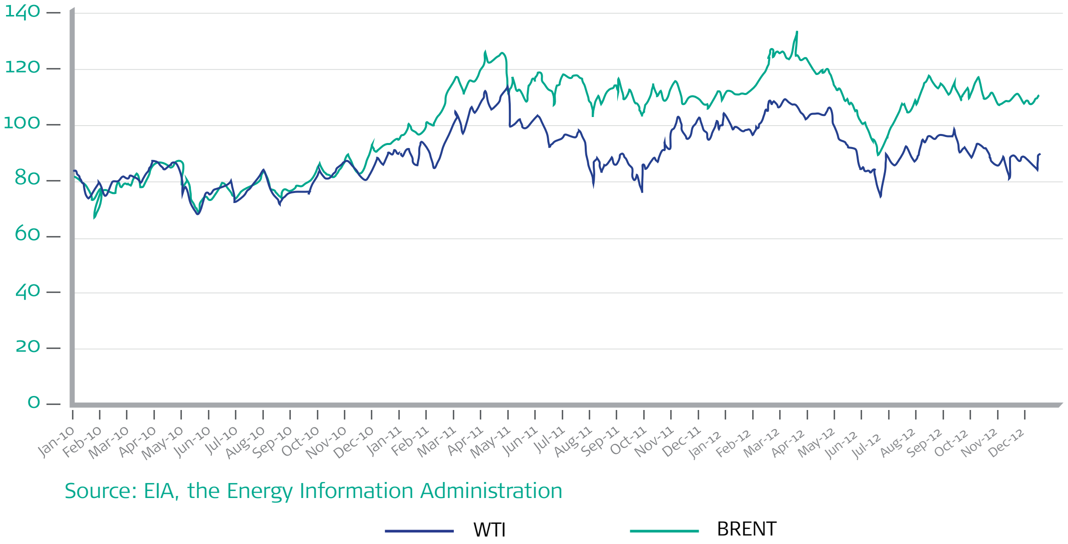
The global economy continued to be the most important driver of oil consumption growth. Both EIA and IEA (the International Energy Agency) lowered their estimates for oil demand in 2012 as global economic expansion remained tepid and the weakness in the global economy caused a great deal of uncertainty for the forecast of the world oil demand especially in the first half of the year. A large amount of this uncertainty can be attributed not only to the Organization for Economic Cooperation and Development (OECD) but also to China and India.

Nevertheless, the world consumption of crude oil and liquid fuels grew from its record high level of 88.29 million bbl/d in 2011 to 89.04 million bbl/d in 2012. The growth in global oil consumption was driven by emerging markets outside of the OECD, mainly China, India, and the Middle East countries. Oil demand from China, which witnessed a GDP growth of 7.8 percent in 2012, rose 3.9 percent during the year to 10.2 million bbl/d. In India, where the economy grew by 4.9 percent in 2012, oil demand increased 4.3 percent to 3.4 million bbl/d. In the Middle Eastern countries, that achieved an average economic growth rate in excess of 5 percent in 2012, oil consumption rose 3 percent to 7.7 million bbl/d. On the other hand, in the OECD countries which expanded by as little as 1.3 percent in 2012, oil consumption decreased 1.1 percent from 45.8 million bbl/d in 2011 to 45.3 million bbl/d in 2012. For 2013, world oil consumption is expected to continue growing by 0.96 million bbl/d, to 90.0 million bbl/d despite the uncertainties surrounding the global economy. However, the increase in oil demand will mainly come from the non-OECD economies.

On the supply side, world oil supply increased by 2.3 percent during 2012 or 2.03 million bb/d to 89.1 million bbl/d, and it is expected to rise to around 89.95 million bbl/d in 2013. OPEC oil production in 2012 increased to 31.2 million bbl/d compared with 29.8 million bbl/d in 2011. During their conference on December 12th, 2012, OPEC agreed to leave its production targets unchanged at 30.0 million bbl/d in 2013 in light of the current economic conditions and demand uncertainties.

According to EIA, non-OPEC oil production has expanded slightly by 0.55 million bbl/d in 2012 to an average of 52.50 million bbl/d, and is expected to grow by 1.3 million bbl/d in 2013 to average at 53.79 million bbl/d. The largest source of expected growth in non-OPEC liquids production is the United States, where production grew by 870 thousand bbl/d in 2012 and it is expected to increase by 670 thousand bbl/d in 2013 because of strong growth in previously tight on-shore oil production. In contrast, EIA projects that Russian and Mexican annual average production will decrease by 50 thousand bbl/d and 60 thousand bbl/d, respectively, between 2012 and 2013.

Development of Oil Prices in 2012



Source: EIA, the Energy Information Administration

The Gulf Region

The continuous strong economic growth in the Gulf States in 2012 is largely underpinned by the consistent relatively high oil prices throughout the year and increasing production to substitute for the shortage of supply arising from the political situation in some of the Middle Eastern countries. In addition, activities in the non-oil sector have also been spurred by expansionary fiscal policies and accommodative monetary conditions. Governments in the region are seizing the opportunity presented by high oil prices to move toward sustainable and more diversified economies, through adopting large scale spending and investment programs, especially in infrastructure and manufacturing. So, over the medium term, fiscal policy in the GCC countries is expected to stay expansionary, boosting domestic demand in the region. Monetary policy is also expected to remain accommodative aiming at facilitating access of the private sector to sources of credit, as long as inflation rates stay at their current moderate levels. On the other hand, the resilience of GCC banking systems has strengthened over the past couple of years, putting them in a stronger position to withstand external financial pressures. Capital adequacy ratios have increased in most countries in the GCC since 2009 and are currently above recommended minimum international standards.

GDP at current prices is estimated to reach $1,578 billion in 2012, and it is expected to exceed $1,665 billion in 2013. Real GDP in the GCC countries grew by around 5.8 percent in 2012 and it is expected to grow by 4.2 percent in 2013. Average yearly inflation rate for the 6 countries remained around 2 percent during the year 2012 and it is expected to increase to 3 percent in 2013. The overall current account surplus for the GCC countries has reached around $365 billion or 23.2 percent of the total GDP of the region in 2012; however, it is expected to decline to around $334 billion or 20 percent of the GDP in 2013 due to the stabilization of oil prices and oil production.

Although the economic outlook in the region is closely linked to global developments, it seems brighter than the rest of the world. The major downside risk to this view is the deterioration in commodities prices that will impact the region that depends on oil export revenues. A worsening of the European debt crisis could impact the GCC through trade and financial linkages. The two main transmission channels here are: first, real sector effects of a widening of the crisis resulting in lower global growth and energy demand, and second, financial links to global and European banks. For some of the GCC countries, the medium-term challenge is to generate more jobs and housing for the younger generations. However, the actual challenge for all the GCC countries remains the ability to successfully diversify the economy away from the hydrocarbon sector.

Financial markets in the region posted different performance over the year 2012. Five markets recorded gains for the year with Dubai, Abu Dhabi, and the Saudi markets posting the biggest gains, up by 20 percent, 10 percent, and 6 percent respectively. On the other hand, two markets ended in the red, where Bahrain and Qatar, were down by 7 percent and 5 percent respectively.

The Saudi Economy

The Saudi economy posted another year of notable growth of 6.8 percent in 2012, with the private non-oil GDP growing by 7.5 percent following an 8.3 percent growth rate in 2011. The solid growth rates in the private sector during the last two years showed that the benefits from positive development in the oil sector and the expansion in the fiscal programs transmit to private sector activities within a short lag period. Recent history shows that this transmission channel seems to be asymmetric. The private sector continued energizing and spurring economic growth even during the relatively low oil prices era at the peak of the global financial crisis and global recession in 2009. This feature, that gives the Saudi economy the ability to cushion the impact of exogenous shocks, together with the overall friendly business environment, made Saudi Arabia, one of the most desirable countries for receiving long term foreign direct investments (FDI). In 2011, Saudi Arabia ranked twelfth as the largest recipient of FDI in the world as it attracted around $16.4 billion of new FDI inflows, or around 63 percent of total FDI to the GCC. Also, the Kingdom ranked 22 among 185 economies in the Ease of Doing Business Ranking of the International Finance Corporation (IFC) for the year 2012.

In addition to the above, Standard & Poor's Ratings Services affirmed Saudi Arabia's Sovereign Rating at 'AA-'with a "stable" outlook, supported by the view of the government's very strong external and fiscal positions, which have been built over a number of years. The Ratings Agency also mentioned "By prudent macroeconomic management, the government has reduced its general government debt, generating additional fiscal tools for countercyclical policies". It noted that Saudi Arabia is making tangible progress in transparency and data availability, most recently with the inaugural publication of data on the country's international investment position.

In its 2012 report, the IMF has applauded the economic policies adopted in the Kingdom, especially regarding using oil revenues to accelerate economic growth and to achieve development objectives. It pointed out the new initiatives announced in 2011 to accelerate the pace of growth and to solve some of urgent social issues, including employment, housing, and financing small and medium-sized enterprises. The report also said that "the negative effects on the Saudi economy resulting from the turmoil in the region and the Euro zone crisis are limited so far". The report finally mentioned that Saudi Arabia has demonstrated, through the results of the IMF-World Bank assessments, sufficiently strong adherence to the relevant standards.

In a survey provided by the Financial Times released in 2012, Saudi Arabia has been ranked number one in economic performance among the Group of 20 leading countries. The Financial Times judged economic performance of G20 nations based on 7 measures: GDP growth, budget deficit, government debt, economic recovery (output compared with the pre-crisis peak), change in debt since 2009, change in unemployment from 2009 to 2012, and deviations in current account balances.

Continuing past practice, Saudi Arabia unveiled another expansionary budget for 2013 (1434H-1435H), with government expenditure showing an annual increase of 19 percent to reach SR 820 billion. The 2013 budget allocates SR 285 billion or 35 percent of the total expenditures to new projects and proceeding with new phases of existing projects. The main allocations include SR 204 billion for education and manpower training, SR 100 billion for health services and social development, SR 57 billion for water, agriculture and infrastructure services, SR 65 billion for infrastructure and transport, and SR 36 billion for municipalities. This is in addition to the generous allocations for the specialized credit institutions.

Financial Markets

During 2012, SAMA continued to implement a balanced monetary policy that aimed at providing sufficient liquidity and achieving financial and price stability by keeping up with domestic and international economic developments. As a result, money markets in Saudi Arabia continued to have adequate liquidity that enabled the economy to continue its robust pace of growth in favorable conditions of low interest rates and a stable inflation rate.

The 3-month SIBOR ended the year 2012 at 0.99 percent to average 0.91 percent, 22 basis points above its average in 2011 at 0.69 percent. The 12-month SIBOR ended the year at 1.12 percent to average 1.11 percent through the year, around 15 basis points above its average in 2011 which was 0.96 percent. The rates continued to be in the favor of Riyal deposits throughout the year. The average spread of the 3-month SIBOR over the 3-month LIBOR was 48 basis points. Regarding inflation, the Central Department of Statistics and Information published a new set of data for the cost of living indices using the year 2007 as a base year instead of the year 1999. The change implied increasing the number of major groups from 8 to 12 groups, and extending the number of items to 476 from 406. According to the new set of indices, the annual inflation rate for the year 2012 was 2.9 percent. Using the previous set which used year 1999 as a base year, inflation rate averaged at 4.5 percent in 2012, down from 5 percent in 2011.

Concerning liquidity, the latest available weekly data from SAMA shows that broad money supply (M3), reached a record of SR 1,393.8 billion by the end of December 2012, which is 14 percent above its level at the end of December 2011. Total deposits grew by around 14.2 percent with the growth rate in demand deposits reaching 17.6 percent.

Total lending from commercial banks continued to pick up consistently starting from December 2010. By the end of December 2012, total loans extended to the private sector by Saudi banks increased by 16.4 percent exceeding SR 960 billion compared to SR 825 billion at the end of December 2011. As a result, the loan to deposit ratio stabilized at 79.3 percent in December 2012 up from 77.8 percent in December 2011.

The Saudi stock market (TADAWUL) gathered strength and ended the year at 6,801 points compared to 6,417 points at the end of 2011, higher by 383 points or 6 percent. The index (TASI) reached as high as 7,930 points on 3rd April, the highest closing level for the index during the year. The P/E ratio increased to 12.75 at the end of 2012 up from 11.7 at the end of 2011, while the market capitalization as a percentage of GDP declined to 51.3 percent in 2012 compared to 56 percent at the end of 2011. However, the market currently is very attractive and the market capitalization and trading values (as a percent of GDP) are expected to return to their high historical averages.

Macroeconomic Performance in 2012 and Outlook for 2013

Preliminary estimates show that the GDP at current market prices increased in 2012 by 8.6 percent to reach SR 2,727 billion. In real terms, the GDP grew by 6.8 percent compared to a growth rate of 8.5 percent in 2011. The growth came as a result of the growth in oil sector by 5.5 percent and the growth of the non-oil sector by 7.2 percent. Within the non-oil sector, the private sector expanded by 7.5 percent and the government sector increased by 6.2 percent. The growth in the private sector came as a result of the growth in all economic sectors; manufacturing went up by 8.3 percent, construction sector grew by 10.3 percent; while transport and communication increased by 10.7 percent.

Concerning the external sector, the total value of exports of goods increased in 2012 by 9 percent to reach SR 1,485.0 billion. Non-oil exports of goods increased by 4 percent to reach SR 183 billion, accounting for around 12 percent of total goods exported. On the other hand, imports of goods increased by 7 percent to SR 480 billion. As a result, in 2012, the trade balance registered a surplus of SR 1,005.0 billion or 36.9 percent of the GDP, while the current account achieved a surplus of SR 669.2 billion or 25.6 percent of the GDP.

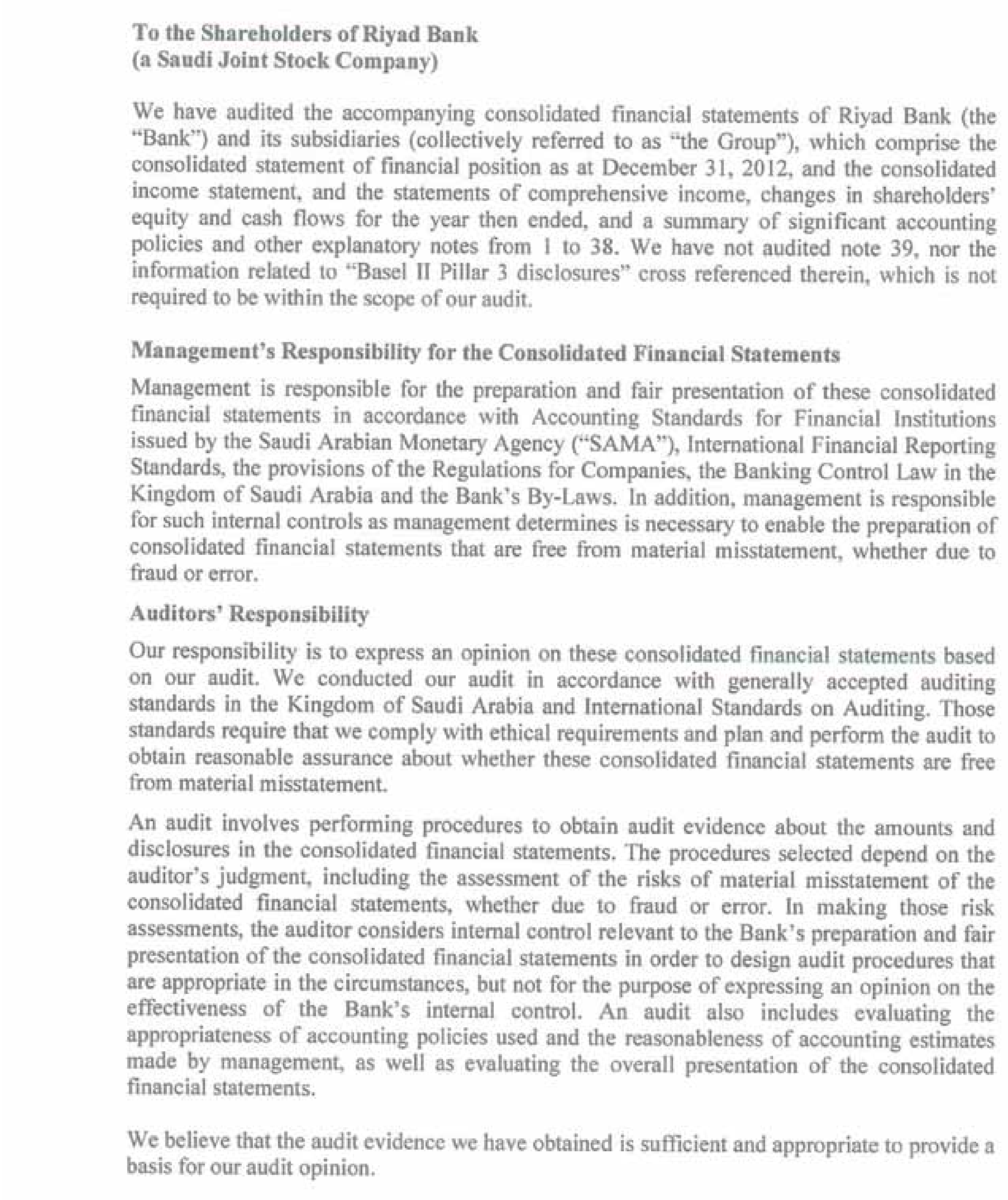
Regarding the government budget, total revenues in 2012 reached SR 1,239.5 billion while total expenditure increased to SR 853 billion. As a result, in 2012, the government budget achieved a surplus of SR 386.5 billion or 14.2 percent of the GDP. In line with the budget achievement, the government debt decreased to 3.6 percent of the GDP in 2012, down from 6.3 percent in 2011, and it is expected to fall further below 3.5 percent in 2013.

In 2013, Saudi oil prices are expected to average $103/bbl, and Saudi oil production is expected to stay around 9.5 million bbl/day. With these assumptions, oil sector growth is expected to deteriorate to 2.0 percent in 2013, while the, non-oil sector is expected to grow by 6.0 percent. The government sector is expected to continue growing at a rate of 5.8 percent, while the private sector is expected to grow by 6.0 percent. Accordingly, the overall GDP is expected to grow by 4.9 percent in 2013. The nominal GDP in 2013 is expected to reach SR 2,945 billion. The inflation rate is expected to stay around 3.2 percent in 2013 and unemployment rate (among Saudis) is expected to decline to 12 percent with the new measures to boost employment.

Based on the above oil prices and production in 2013, the current account is expected to register a surplus of SR 351 billion or 11.9 percent of the GDP. The fiscal figures, on the other hand, are expected to again deviate from the conservative budget figures. Accordingly, we expect the budget to record a surplus of SR 125 billion in 2013 or 4.2 percent of GDP.

FINANCIAL STATEMENTS 2012

FINANCIAL STATEMENTS 2012



To the Shareholders of Riyad Bank
(a Saudi Joint Stock Company)

We have audited the accompanying consolidated financial statements of Riyad 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, and the consolidated income statement, and the statements of comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes from 1 to 38. We have not audited note 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.

Opinion

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

- present fairly, in all material respects, the consolidated 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 in the Kingdom of Saudi Arabia 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.

Deloitte & Touche
Bakr Abulkhair & Co.

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Ebrahim Oboud Baeshen
Certified Public Accountant
Registration No. 382

16 Rabi'I 1434H
January 28, 2013

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2012 and 2011

SAR'000	Notes	2012	2011
ASSETS			
Cash and balances with SAMA	4	26,270,523	17,623,477
Due from banks and other financial institutions	5	3,190,989	6,085,023
Investments, net	6	36,253,852	36,616,170
Loans and advances, net	7	117,470,654	112,972,764
Investment in associates	8	410,172	339,954
Other real estate		458,385	440,896
Property and equipment, net	9	1,737,902	1,806,833
Other assets	10	4,388,361	5,002,273
Total assets		190,180,838	180,887,390
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks and other financial institutions	12	6,162,968	6,241,948
Customer deposits	13	146,214,567	139,822,500
Other liabilities	15	5,839,793	4,664,587
Total liabilities		158,217,328	150,729,035
Shareholders' equity			
Share capital	16	15,000,000	15,000,000
Statutory reserve	17	13,341,600	12,475,088
Other reserves	18	1,124,855	535,749
Retained earnings		1,372,055	872,518
Proposed dividends	24	1,125,000	1,275,000
Total shareholders' equity		31,963,510	30,158,355
Total liabilities and shareholders' equity		190,180,838	180,887,390

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

For the years ended December 31, 2012 and 2011

SAR'000	Notes	2012	2011
Special commission income	20	5,163,301	4,915,363
Special commission expense	20	781,830	718,329
Net special commission income		4,381,471	4,197,034
Fee and commission income, net	21	1,777,485	1,589,174
Exchange income, net		245,583	278,607
Trading losses, net		(5,585)	(4,330)
Dividend income		65,969	30,218
Gains on non-trading investments, net		207,248	149,193
Other operating income		114,094	35,905
Total operating income		6,786,265	6,275,801
Salaries and employee-related expenses	22	1,185,504	1,285,910
Rent and premises-related expenses		239,150	250,829
Depreciation of property and equipment		285,255	286,222
Other general and administrative expenses		624,530	667,262
Impairment charge for credit losses, net		1,179,659	661,712
Impairment charge for investments		(130,000)	-
Other operating expenses		15,536	19,934
Total operating expenses		3,399,634	3,171,869
Income from operating activities		3,386,631	3,103,932
Share in earnings of associates, net	8	79,418	45,421
Net income for the year		3,466,049	3,149,353
Basic and diluted earnings per share (in SAR)	23	2.31	2.10

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the years ended December 31, 2012 and 2011

SAR'000	2012	2011
Net income for the year	3,466,049	3,149,353
Other comprehensive income:		
-Available for sale investments		
Net changes in fair value (note 18)	929,926	(50,573)
Net changes in fair value transferred to consolidated income statement (note 18)	(333,985)	(174,014)
	595,941	(224,587)
-Cash flow hedges		
Effective portion of net changes in fair value (note 18)	(6,395)	(53,467)
Net changes in fair value transferred to consolidated income statement (note 18)	(440)	(162)
	(6,835)	(53,629)
Other comprehensive income for the year	589,106	(278,216)
Total comprehensive income for the year	4,055,155	2,871,137

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2012 and 2011

SAR'000

				Other Reserves				
2012	Notes	Share capital	Statutory reserve	Available for sale investments	Cash flow hedges	Retained earnings	Proposed dividend	Total
Balance at the beginning of the year		15,000,000	12,475,088	526,651	9,098	872,518	1,275,000	30,158,355
Total comprehensive income		-	-	595,941	(6,835)	3,466,049	-	4,055,155
Final dividend paid - 2011	24	-	-	-	-	-	(1,275,000)	(1,275,000)
Interim dividend paid -2012	24	-	-	-	-	(975,000)	-	(975,000)
Transfer to statutory reserve	17	-	866,512	-	-	(866,512)	-	-
2012 final proposed dividend	24	-	-	-	-	(1,125,000)	1,125,000	-
Balance at the end of the year		15,000,000	13,341,600	1,122,592	2,263	1,372,055	1,125,000	31,963,510

SAR'000

				Other Reserves				
2011	Notes	Share capital	Statutory reserve	Available for sale investments	Cash flow hedges	Retained earnings	Proposed dividend	Total
Balance at the beginning of the year		15,000,000	11,687,749	751,238	62,727	610,504	1,121,000	29,233,218
Total comprehensive income		-	-	(224,587)	(53,629)	3,149,353	-	2,871,137
Final dividend paid - 2010	24	-	-	-	-	-	(1,121,000)	(1,121,000)
Interim dividend paid -2011	24	-	-	-	-	(825,000)	-	(825,000)
Transfer to statutory reserve	17	-	787,339	-	-	(787,339)	-	-
2011 final proposed dividend	24	-	-	-	-	(1,275,000)	1,275,000	-
Balance at the end of the year		15,000,000	12,475,088	526,651	9,098	872,518	1,275,000	30,158,355

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended December 31, 2012 and 2011

SAR'000	Notes	2012	2011
OPERATING ACTIVITIES			
Net income for the year		3,466,049	3,149,353
Adjustments to reconcile net income for the year to net cash from (used in) from operating activities:			
(Accretion of discounts) on non-trading investments, net and debt securities in issue, net		(40,342)	(51,216)
Gains on non-trading investments, net		(207,248)	(149,193)
Depreciation of property and equipment		285,255	286,222
Share in earnings of associates, net		(79,418)	(45,421)
Impairment charge for investments		(130,000)	-
Impairment charge for credit losses, net		1,179,659	661,712
		4,473,955	3,851,457
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA	4	66,759	(826,152)
Due from banks and other financial institutions maturing after three months from date of acquisition		1,705,179	(1,368,302)
Loans and advances		(5,677,549)	(7,599,736)
Other real estate		(17,489)	(9,318)
Other assets		613,912	(1,464,771)
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		(78,980)	(4,394,603)
Customer deposits		6,392,067	12,877,041
Other liabilities		1,085,441	(222,762)
Net cash from operating activities		8,563,295	842,854
INVESTING ACTIVITIES			
Proceeds from sales and maturities of non-trading investments		32,732,289	36,506,721
Purchase of non-trading investments		(31,394,075)	(39,671,463)
Purchase of property and equipment, net		(216,324)	(230,200)
Net cash from (used in) investing activities		1,121,890	(3,394,942)
FINANCING ACTIVITIES			
Repayment of debt securities in issue	14	-	(1,875,050)
Dividend and Zakat paid		(2,160,235)	(1,926,130)
Net cash used in financing activities		(2,160,235)	(3,801,180)
Net increase/ (decrease) in cash and cash equivalents		7,524,950	(6,353,268)
Cash and cash equivalents at beginning of the year		14,483,739	20,837,007
Cash and cash equivalents at end of the year	25	22,008,689	14,483,739
Special commission received during the year		5,078,520	4,903,050
Special commission paid during the year		754,905	733,174
Supplemental non-cash information			
Net changes in fair value and transfer to consolidated income statement		589,106	(278,216)

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

1. GENERAL

Riyad Bank (The "Bank") is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia, formed pursuant to the Royal Decree and the Council of Ministers' Resolution No. 91 dated 1 Jumad Al-Awal 1377H (corresponding to November 23, 1957G). The Bank operates under commercial registration No. 1010001054 dated 25 Rabi Al-Thani 1377H (corresponding to November 18, 1957G) through its 252 branches (2011: 248 branches) in the Kingdom of Saudi Arabia, a branch in London-United Kingdom, an agency in Houston-United States, and a representative office in Singapore. The Bank's Head Office is located at the following address:

Riyad Bank P.O. Box 22622 Riyadh 11416

Kingdom of Saudi Arabia

The objective of the Bank is to provide a full range of banking and investment services. The Bank also provides to its customers Islamic (non-interest 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 Riyad Bank and its wholly owned subsidiaries; Riyad Capital and Ithra Al-Riyad Real Estate Company (collectively referred to as "the Group").

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) as issued by the International Accounting Standards Board (IASB). The Bank also prepares its consolidated financial statements to comply with the Banking Control Law, the provisions of Regulations for Companies in the Kingdom of Saudi Arabia and the Bank's Articles of Association.

b) Basis of measurement

The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of derivatives and Available for Sale financial assets. In addition, financial assets or liabilities that are hedged in a fair value hedging relationship, and otherwise carried at cost, are carried at fair value to the extent of the risk being hedged.

c) Functional and presentation currency

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

d) Critical accounting judgements, estimates and assumptions

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its 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 advices and expectations of future events that are believed to be reasonable under the circumstances. Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

i) Impairment for credit losses on loans & advances

The Bank reviews its loan portfolios to assess specific and collective impairment on a quarterly basis. In determining whether an impairment loss 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.

ii) Fair value of financial instruments

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques, which are validated and periodically reviewed independently, to ensure that outputs reflect actual data and comparative market prices. To the extent practical, valuation techniques use only observable market data; however areas such as credit risk, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

2. BASIS OF PREPARATION (continued)

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

iii) Impairment of available-for-sale investments

The Bank exercises judgement in considering impairment on the 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 price. 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.

The Bank reviews its debt securities classified as available for sale at each reporting date to assess whether they are impaired. This requires similar judgement as applied to individual assessment of loans and advances.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Change in accounting policies

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2011. The amendments and revisions to existing standards issued by IASB during the year ended December 31, 2012 had no financial impact on the consolidated financial statements of the Group.

b) Basis of consolidation

The consolidated financial statements comprise the financial statements of Riyad Bank and its subsidiaries drawn upto 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting year as that of the Bank, using consistent accounting policies. Subsidiaries are all entities controlled by the Bank. Control exists when the Bank has the power to govern the financial and operating policies, so as to obtain benefits from its 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.

Balances between the Bank and its subsidiaries, and any income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

The Bank is party to special purpose entities (SPEs), primarily for the purpose of facilitation of certain Shariah compliant financing arrangements.

c) Settlement date accounting

All regular way purchases and sales of financial assets are recognized and derecognized on the settlement date. The Bank accounts for any change in fair value between the trade and the reporting date in the same way as it accounts for the acquired assets. Regular way purchases or sales are purchases or sales of financial instruments that require delivery of assets within the time frame generally established by regulation or convention in the market place.

d) Investments in associates

An associate is an entity in which the Bank has significant influence (but not control), over financial and operating policies and which is neither a subsidiary nor a joint venture. Investments in associates are initially recognized at cost and subsequently accounted for under the equity method of accounting. Investment in associates are carried in the statement of financial position at cost, plus post-acquisition changes in the Bank's share of net assets of the associate, less any impairment in the value of individual investments. Distribution received from the investee reduces the carrying amount of the investment.

e) Derivative financial instruments and hedge accounting

Derivative financial instruments, including foreign exchange contracts, special commission rate swaps and currency options (both written and purchased), 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 consolidated income statement and disclosed in trading income/ loss. Derivatives held for trading also include those derivatives which do not qualify for hedge accounting described below.

ii) Hedge accounting

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

For the purpose of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the reported net gain or loss; and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised 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 the 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 Bank 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.

a) Fair value hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect income statement, any gain or loss from re-measuring the hedging instruments to fair value is recognised immediately in the consolidated income statement. The related portion of the hedged item is adjusted against the carrying amount of the hedged item and recognised in the consolidated income statement. For hedged items measured at amortised cost, where the fair value hedge of a special 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 amortised over the remaining term of the original hedge using the effective yield basis. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated income statement.

b) Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of a variability of cash flows attributable to a particular risk associated with a recognised asset or a liability or a highly probable forecasted transaction that could affect income statement, the portion of the gain or loss on the hedging instrument that is determined to be an effective portion is recognised directly in other comprehensive income and the ineffective portion, if any, is immediately recognised in the consolidated income statement. For cash flow hedges affecting future transactions, the gains or losses recognised 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 such asset or liability is recognised the associated gains or losses that had previously been recognised directly in other comprehensive income are included in the initial measurement of the acquisition cost or other carrying amount of such asset or liability.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting, or the forecast 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 recognised in other comprehensive income is retained until the forecasted transaction occurs. Where the hedged forecasted transaction is no longer expected to occur, the net cumulative gain or loss recognised in other comprehensive income is transferred to the consolidated income statement for the period.

f) Foreign currencies

Transactions in foreign currencies are translated into Saudi Arabian Riyals at spot exchange rates prevailing on the transaction dates. Monetary assets and liabilities at the year-end, denominated in foreign currencies, are translated into Saudi Arabian Riyals at the exchange rates prevailing at the reporting date. Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement. Non-monetary items measured at fair value in a foreign currency are translated using the spot exchange rates at the date when the fair value is determined. Translation gains or losses on non-monetary items carried at fair value are included as part of the fair value adjustment either in the consolidated income statement or in equity, depending on the underlying financial asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Foreign currencies (continued)

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rates as at the dates of the initial transactions.

The assets and liabilities of overseas branch are translated at the spot exchange rate at the reporting date. The income and expenses of overseas branch are translated at the average exchange rates for the year. All exchange differences, if significant, are recognised in other comprehensive income. These differences are transferred to consolidated income statement at the time of disposal of foreign operations. All insignificant differences are included in the consolidated income statement.

g) Offsetting financial instruments

Financial assets and liabilities are offset and reported net in the consolidated statement of financial position when the entity has a legal currently enforceable right to set off the recognised amounts and when the Group intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.

h) Revenue recognition

i) Special commission income and expenses

Special commission income and expense for all special commission bearing financial instruments, except for those classified as held for trading or designated at fair value through income statement (FVIS), are recognised in the consolidated income statement using the effective yield basis. The effective yield is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective special commission rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

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

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

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

ii) Fee and commission income

Fees and commissions are recognised when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred and, together with the related direct cost, are recognised as an adjustment to the effective yield on the loan. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period. Portfolio and other management advisory and service fees are recognised 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 recognised over the period when the service is being provided.

iii) Others

Dividend income is recognised when the right to receive payment is established. Exchange income/ loss is recognised when earned/ incurred. Results arising from trading activities include gains and losses from changes in fair value and related special commission income or expense for financial assets and financial liabilities held for trading.

i) Sale and repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in 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 amortised cost. The counterparty liability for amounts received under these agreements is included in "Due to banks and other financial institutions" or "Customers' deposits", as appropriate. The difference between sale and repurchase prices is treated as special commission expense and is accrued over the life of the repo agreement on an effective special commission rate basis. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos), are not recognised 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" or "Due from banks and other financial institutions" as appropriate. The difference between purchase and resale prices is treated as special commission income and accrued over the life of the reverse repo agreement on an effective yield basis.

j) Investments

All investment securities are initially recognised at fair value, including incremental direct transaction cost except for investments held as Fair Value through Income Statement (FVIS) and are subsequently accounted for depending on their classification as either held to maturity, FVIS, Available for sale or other investments held at amortised cost. Premiums are amortised and discounts accreted using the effective yield basis and are 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 reporting date. Fair value of managed assets and investments in mutual funds are determined by reference to declared net asset values.

For securities where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the expected cash flows of the security. Where the fair values cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models if possible. 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 recognition, subsequent transfers between the various classes of investments are not ordinarily permissible except in accordance with amendments in IAS 39 (refer note 6). 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 as FVIS

Investments in this category are classified at initial recognition as either investment held for trading or those upon initial recognition designated as FVIS. Investments classified as trading are acquired principally for the purpose of selling or repurchasing in short term. After initial recognition, investments at FVIS are measured at fair value and any change in the fair value is recognised in the consolidated income statement for the period in which it arises. Transaction costs, if any, are not added to the fair value measurement at initial recognition of FVIS investments. Special commission income and dividend income on investment securities held as FVIS are reflected as trading income.

ii) Available for sale

Available for sale investments are non-derivative financial instruments and include equity and debt securities that are either designated as AFS or not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss. 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 special 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 recognised directly in other comprehensive income. On derecognition, any cumulative gain or loss previously recognised in other comprehensive income is included in the consolidated income statement.

iii) Other investments held at amortised cost

Investment securities with fixed or determinable payments that are not quoted in an active market are classified as "Other investments held at amortised cost". Such investments whose fair values have not been hedged are stated at amortised cost using effective yield basis, less provision for impairment. Any gain or loss is recognised in the consolidated income statement when the investment is derecognised or impaired.

iv) Held to maturity

Investments having fixed or determinable payments and fixed maturity and that the Bank has the positive intention and ability to hold to maturity, are classified as held to maturity. Held to maturity investments are subsequently measured at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any discount or premium on acquisition using an effective yield basis. Any gain or loss on such investments is recognised in the consolidated income statement when the investment is derecognised 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 commission rate or prepayment risk, reflecting the longer-term nature of these investments.

k) 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 recognised when cash is advanced to borrowers. They are derecognised when either borrowers repay 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 directly attributable transaction costs associated with the loans and advances. Loans and advances originated or acquired by the Bank that are not quoted in an active market, are stated at amortised cost. For presentation purposes, allowance for credit losses is deducted from loans and advances.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Impairment of financial assets

An assessment is made at each reporting date to determine whether there is objective evidence that a financial asset or group of financial assets carried at amortized cost may be impaired. 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 recognised for changes in its carrying amounts.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the group on the terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of active market for a security or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers.

It may also include instances where Bank considers that the obligor is unlikely to pay its credit obligations to the Bank, in full, without recourse by the Bank to actions such as realizing the security, if held.

When a financial asset is uncollectible, it is written off against the related provision for impairment either directly by a charge to consolidated income statement or through impairment allowance 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.

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

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 recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the consolidated income statement in impairment charge for credit losses.

Loans whose terms have been renegotiated are no longer considered to be past due. 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. Consumer loans are charged off when they become 180 days past due.

i) Impairment of financial assets held at amortised cost

In case of financial instruments held at amortised cost or held to maturity, the Bank assesses individually whether there is objective evidence of impairment based on same criteria as explained above.

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

The Bank also considers evidence of impairment at a collective assets level. The collective provision is based upon deterioration in the internal grading or external credit ratings, allocated to the borrower or group of borrowers, the current economic climate in which the borrowers operate and the experience and historical default patterns that are embedded in the components of the credit portfolio.

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 explained above. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised 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 credit event occurring after the impairment loss was recognised in the consolidated 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 consolidated income statement as long as the asset continues to be recognised i.e. any increase in fair value after impairment has been recorded can only be recognised in equity. On derecognition, any cumulative gain or loss previously recognised in shareholders' equity is included in the consolidated income statement for the year.

m) 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 realizable value of due loans and advances or the current fair value of the related properties, less any costs to sell, if material. Rental income from other real estate is recognised in the consolidated income statement. No depreciation is charged on such real estate.

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

n) Property and equipment

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

Buildings	33 years
Improvements and decoration of premises	over the lower of the lease period or 5 years
Furniture, fixtures and equipment	5 to 20 years
Computer hardware	5 years
Software programs and automation projects	3 to 5 years
Motor vehicles	4 years

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

o) Financial liabilities

All money market deposits, customer deposits and debt securities in issue are initially recognised at fair value less transaction costs. Subsequently, all special commission-bearing financial liabilities other than those held at FVIS or where fair values have been hedged are measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium. Premiums are amortised 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 recognised in the consolidated income statement. For financial liabilities carried at amortised cost, any gain or loss is recognised in the consolidated income statement when derecognised.

p) Guarantee contracts

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

q) Provisions

Provisions are recognised 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.

r) Accounting for leases

Leases entered into by the Group as a lessee, are 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 recognised as an expense in the period in which termination takes place.

s) Cash and cash equivalents

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

t) 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 derecognised, when the contractual rights to receive the cash flows from the financial asset expires.

In instances where the Bank is assessed to have transferred a financial asset, the asset is derecognised

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2012 and 2011 (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

t) Derecognition of financial instruments (continued)

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 derecognised only if the Bank has not retained control of the financial asset. The Bank recognises separately as assets or liabilities any rights and obligations created or retained in the process.

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

u) End of service benefits

Benefits payable to the employees of the Bank at the end of their services are accrued in accordance with the guidelines set by the Saudi Arabian Labor Regulations and are included in other liabilities in the consolidated statement of financial position.

v) Zakat

Under Saudi Arabian Zakat and Income Tax Laws, Zakat is the liabilities of shareholders. Zakat is computed on the shareholders' equity or net income using the basis defined under the Zakat regulations. Zakat is not charged to the Group's consolidated income statement as they are deducted from the dividends paid to the shareholders.

w) Investment management services

The Group offers investment services to its customers, which include management of certain investment funds. 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.

x) Non-interest based banking products

In addition, to the conventional banking, the Bank offers its customers certain non-interest based banking products, which are approved by its Shariah Board. These products include Murabaha, Tawaraq, Istisna'a and Ijara. These banking products are accounted for using IFRS and are in conformity with the accounting policies described in these consolidated financial statements.

i) Murabaha is an agreement whereby the Bank sells to a customer a commodity or an asset, which the bank has purchased and acquired based on a promise received from the customer to buy. The selling price comprises the cost plus an agreed profit margin.

ii) Ijarah is a an agreement whereby the Bank, acting as a lessor, purchases or constructs an asset for lease according to the customer request (lessee), based on his promise to lease the asset for an agreed rent and specific period that could end by transferring the ownership of the leased asset to the lessee.

iii) Tawaraq is a form of Murabaha transactions where the Bank purchases a commodity and sells it to the customer. The customer sells the underlying commodity at spot and uses the proceeds for his financing requirements.

4. CASH AND BALANCES WITH SAMA

SAR'000	2012	2011
Cash in hand and other balances	2,847,695	3,831,890
Statutory deposit	6,896,828	6,963,587
Reverse repos with SAMA	16,526,000	6,828,000
Total	26,270,523	17,623,477

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

5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

SAR'000	2012	2011
Current accounts	359,916	102,290
Money market placements	2,831,073	5,982,733
Total	3,190,989	6,085,023

6. INVESTMENTS, NET

a) Investment securities are classified as follows:

i) Held as FVIS

On September 1, 2008, the Group reclassified investments held in trading portfolio reported under its investments at fair value through income statement ("FVIS") category to the available for sale category.

The carrying and fair value of these reclassified investments as at December 31, 2012 was SAR 3,794 million (December 31, 2011: SAR 3,625 million).

Had the reclassification not occurred, the consolidated income statement for the year ended December 31, 2012, would have included unrealised fair value gain on such reclassified investments amounting to SAR 369 million (31 December 2011: unrealised fair value gain SAR 80.3 million).

ii) Available for sale

SAR'000	Domestic		International		Total	
	2012	2011	2012	2011	2012	2011
Fixed rate securities	23,972	39,746	11,424,917	9,913,341	11,448,889	9,953,087
Floating rate securities	-	-	1,699,530	1,842,492	1,699,530	1,842,492
Mutual funds	235,498	244,218	1,982,354	1,980,174	2,217,852	2,224,392
Equities	1,173,749	1,134,158	75,490	55,606	1,249,239	1,189,764
Available for sale, net	1,433,219	1,418,122	15,182,291	13,791,613	16,615,510	15,209,735

International investments above includes investment portfolios of SAR 12.3 billion (2011: SAR 11.3 billion) which are externally managed.

iii) Other investments held at amortised cost

SAR'000	Domestic		International		Total	
	2012	2011	2012	2011	2012	2011
Fixed rate securities	10,568,837	8,242,077	2,137,120	1,828,973	12,705,957	10,071,050
Floating rate securities	2,836,162	4,287,644	-	38,930	2,836,162	4,326,574
Other investments held at amortised cost	13,404,999	12,529,721	2,137,120	1,867,903	15,542,119	14,397,624

iv) Held to maturity

SAR'000	Domestic		International		Total	
	2012	2011	2012	2011	2012	2011
Fixed rate securities	187,779	216,974	3,908,444	6,791,837	4,096,223	7,008,811
Held to maturity	187,779	216,974	3,908,444	6,791,837	4,096,223	7,008,811
Investments, net	15,025,997	14,164,817	21,227,855	22,451,353	36,253,852	36,616,170

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

SAR'000	2012			2011		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Fixed rate securities	13,593,765	14,657,304	28,251,069	11,823,426	15,209,522	27,032,948
Floating rate securities	4,236,492	299,200	4,535,692	4,555,347	1,613,719	6,169,066
Equities	1,119,429	170,335	1,289,764	1,053,375	176,841	1,230,216
Mutual funds	2,217,852	-	2,217,852	2,224,392	-	2,224,392
Allowance for impairment	-	(40,525)	(40,525)	-	(40,452)	(40,452)
Investments, net	21,167,538	15,086,314	36,253,852	19,656,540	16,959,630	36,616,170

6. INVESTMENTS, NET (continued)

c) The analysis of unrealised gains and losses and the fair values of other investments held at amortised cost, and held to maturity investments, is as follows:

i) Other investments held at amortised cost

SAR'000	2012				2011			
	Carrying value	Gross unrealised gain	Gross unrealised loss	Fair value	Carrying value	Gross unrealised gain	Gross unrealised loss	Fair value
Fixed rate securities	12,705,957	193,101	(33,683)	12,865,375	10,071,050	107,752	(7,450)	10,171,352
Floating rate securities	2,836,162	119,584	-	2,955,746	4,326,574	90,122	-	4,416,696
Total	15,542,119	312,685	(33,683)	15,821,121	14,397,624	197,874	(7,450)	14,588,048

ii) Held to maturity

SAR'000	2012				2011			
	Carrying value	Gross unrealised gain	Gross unrealised loss	Fair value	Carrying value	Gross unrealised gain	Gross unrealised loss	Fair value
Fixed rate securities	4,096,223	21,055	-	4,117,278	7,008,811	23,301	-	7,032,112

d) Credit quality of investments

SAR'000	2012				2011			
	Fixed rate securities	Floating rate securities	Others	Total	Fixed rate	Floating rate securities	Others	Total
Grade A- and above	23,114,882	3,150,591	-	26,265,473	22,222,208	5,150,732	-	27,372,940
Lower than A-	3,893,964	491,595	-	4,385,559	3,515,966	441,544	-	3,957,510
Unrated	1,242,223	893,506	3,467,091	5,602,820	1,294,774	576,790	3,414,156	5,285,720
Total	28,251,069	4,535,692	3,467,091	36,253,852	27,032,948	6,169,066	3,414,156	36,616,170

Lower than A- comprises mainly of bonds rated BBB and BB. The unrated investments category mainly comprises of mutual funds and equities.

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

SAR'000	2012	2011
Government and quasi Government	16,526,723	15,456,747
Corporate	8,847,365	8,222,385
Banks and other financial institutions	10,879,764	12,937,038
Total	36,253,852	36,616,170

Investments include SAR 1,648 million (2011: SAR 2,044 million), which have been pledged under repurchase agreements with customers (note 19 d). The market value of such investments is SAR 1,647 million (2011: SAR 2,116 million).

f) Movements of allowance for impairment on available for sale equity investments:

SAR'000	2012	2011
Balance at beginning of the year	40,452	40,572
Other movements	73	(120)
Balance at end of the year	40,525	40,452

7. LOANS AND ADVANCES, NET

a) Loans and advances held at amortised cost

These comprise the following:

2012						
SAR'000	Overdrafts	Credit cards	Consumer loans	Commercial loans	Others	Total
Performing loans and advances, gross	8,796,369	754,682	29,857,170	78,134,827	432,164	117,975,212
Non-performing loans and advances, net	160,339	-	-	1,845,786	31,009	2,037,134
Total Loans and advances	8,956,708	754,682	29,857,170	79,980,613	463,173	120,012,346
Allowance for impairment	(61,165)	-	-	(1,386,621)	(21,557)	(1,469,343)
Total	8,895,543	754,682	29,857,170	78,593,992	441,616	118,543,003
Portfolio provision	-	-	-	-	-	(1,072,349)
Loans and advances held at amortised cost, net						117,470,654

2011						
SAR'000	Overdrafts	Credit cards	Consumer loans	Commercial loans	Others	Total
Performing loans and advances, gross	7,001,831	745,616	25,549,643	79,011,785	783,210	113,092,085
Non-performing loans and advances, net	48,672	-	-	1,758,372	72,179	1,879,223
Total Loans and advances	7,050,503	745,616	25,549,643	80,770,157	855,389	114,971,308
Allowance for impairment	(29,071)	-	-	(834,485)	(62,639)	(926,195)
Total	7,021,432	745,616	25,549,643	79,935,672	792,750	114,045,113
Portfolio provision	-	-	-	-	-	(1,072,349)
Loans and advances held at amortised cost, net						112,972,764

Loans and advances, net include Islamic products of SR 56,818 million (2011: 52,569 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2012 and 2011 (continued)

7. LOANS AND ADVANCES, NET (continued)

b) Movements in allowance for impairment are as follows:

2012	Allowances for impairment					
SAR'000	Credit cards	Consumer loans	Commercial loans *	Total	Portfolio provision	Total
Balance at beginning of the year	-	-	926,195	926,195	1,072,349	1,998,544
Provided during the year	63,464	335,635	1,159,635	1,558,734	-	1,558,734
Bad debts written off	(63,464)	(335,635)	(465,269)	(864,368)	-	(864,368)
Recoveries of previously provided amounts	-	-	(103,297)	(103,297)	-	(103,297)
Other movements	-	-	(47,921)	(47,921)	-	(47,921)
Balance at end of the year	-	-	1,469,343	1,469,343	1,072,349	2,541,692

2011	Allowances for impairment					
SAR'000	Credit cards	Consumer loans	Commercial loans *	Total	Portfolio provision	Total
Balance at beginning of the year	-	-	1,216,004	1,216,004	1,072,349	2,288,353
Provided during the year	87,456	338,677	586,055	1,012,188	-	1,012,188
Bad debts written off	(87,456)	(338,677)	(703,544)	(1,129,677)	-	(1,129,677)
Recoveries of previously provided amounts	-	-	(142,578)	(142,578)	-	(142,578)
Other movements	-	-	(29,742)	(29,742)	-	(29,742)
Balance at end of the year	-	-	926,195	926,195	1,072,349	1,998,544

* Including overdrafts and other loans

c) Credit Quality of Loans and Advances

i) Neither past due nor impaired

	2012			
SAR'000	Credit cards	Consumer loans	Commercial loans*	Total
Standard category	665,929	28,308,691	86,526,245	115,500,865
Special Mention category	-	-	537,580	537,580
Total	665,929	28,308,691	87,063,825	116,038,445

	2011			
SAR'000	Credit cards	Consumer loans	Commercial loans*	Total
Standard category	646,658	24,409,415	86,047,353	111,103,426
Special Mention category	-	-	642,751	642,751
Total	646,658	24,409,415	86,690,104	111,746,177

Above includes past due but not impaired loans with upto 30 days ageing amounting to SAR 4,988 million as at Dec 31,2012 (2011: SAR 3,389 million).

Standard category: A credit with very strong to satisfactory credit quality and repayment ability, where regular monitoring is carried out.

Special Mention category: A credit that requires close monitoring by management due to deterioration in the borrowers' financial condition.

Standard Category as at Dec 31, 2012 includes Commercial loans* of Very Strong Quality SAR 25,249 million (2011: SAR 27,280 million), Good Quality SAR 49,720 million (2011: SAR 49,302 million) and Satisfactory Quality SAR 11,558 million (2011: SAR 9,465 million).

* Including overdrafts and other loans

ii) Ageing of loans and advances (Past due but not impaired)

	2012			
SAR'000	Credit cards	Consumer loans	Commercial loans*	Total
From 31 - 90 days	51,636	952,346	15,256	1,019,238
From 91 - 180 days	37,117	596,133	391	633,641
More than 180 days	-	-	283,888	283,888
Total	88,753	1,548,479	299,535	1,936,767

	2011			
SAR'000	Credit cards	Consumer loans	Commercial loans*	Total
From 31 - 90 days	57,969	710,735	23,962	792,666
From 91 - 180 days	40,989	429,493	15,691	486,173
More than 180 days	-	-	67,069	67,069
Total	98,958	1,140,228	106,722	1,345,908

* Including overdrafts and other loans

d) Economic sector risk concentration for the loans and advances and allowance for impairment are as follows

	2012			
SAR'000	Performing	Non performing, net	Allowance for impairment	Loans and advances, net
Government and quasi Government	148,194	-	-	148,194
Banks and other financial institutions	6,071,968	-	-	6,071,968
Agriculture and fishing	1,125,607	19,221	(3,442)	1,141,386
Manufacturing	17,130,966	57,800	(30,342)	17,158,424
Mining and quarrying	3,655,486	-	-	3,655,486
Electricity, water, gas and health	2,372,032	-	-	2,372,032
Building and construction	11,088,289	438,552	(341,152)	11,185,689
Commerce	34,688,503	1,441,778	(1,042,235)	35,088,046
Transportation and communication	6,849,406	966	(515)	6,849,857
Services	3,443,155	20,645	(13,712)	3,450,088
Consumer loans and credit cards	30,611,852	-	-	30,611,852
Other	789,754	58,172	(37,945)	809,981
Total	117,975,212	2,037,134	(1,469,343)	118,543,003
Portfolio provision				(1,072,349)
Loans and advances, net				117,470,654

7. LOANS AND ADVANCES, NET (continued)

d) Economic sector risk concentration for the loans and advances and allowance for impairment are as follows: (continued)

	2011			
SAR '000	Performing	Non performing, net	Allowance for impairment	Loans and advances, net
Government and quasi Government	6,697	-	-	6,697
Banks and other financial institutions	7,281,019	-	-	7,281,019
Agriculture and fishing	1,172,464	-	-	1,172,464
Manufacturing	15,692,470	272,989	(157,732)	15,807,727
Mining and quarrying	1,941,254	-	-	1,941,254
Electricity, water, gas and health	2,350,869	-	-	2,350,869
Building and construction	10,201,366	171,703	(139,151)	10,233,918
Commerce	36,263,713	1,348,241	(588,761)	37,023,193
Transportation and communication	7,436,146	1,808	(964)	7,436,990
Services	2,890,228	20,189	(11,315)	2,899,102
Consumer loans and credit cards	26,295,259	-	-	26,295,259
Other	1,560,600	64,293	(28,272)	1,596,621
Total	113,092,085	1,879,223	(926,195)	114,045,113
Portfolio provision				(1,072,349)
Loans and advances, net				112,972,764

e) Collateral

The Bank in the ordinary course of lending activities hold collaterals as security to mitigate credit risk in the loans and advances. These collaterals mostly include time and demand and other cash deposits, financial guarantees, local and international equities, real estate and other fixed assets. The collaterals are held mainly against commercial and consumer loans and are managed against relevant exposures at their net realizable values. Management monitors the market value of the collateral and requests additional collateral in accordance with the underlying agreement when deemed necessary.

8. INVESTMENT IN ASSOCIATES

Investment in associates represents the Bank's share of investment in entities where the Bank has significant influence. These investment are accounted for, using the equity method of accounting.

Investment in associates represents 35% (2011: 35%) share ownership in Ajil Financial Services Company incorporated in Kingdom of Saudi Arabia, 21.4% (2011: 21.4%) share ownership in Royal and Sun Alliance Insurance (Middle East) Limited E.C., incorporated in Bahrain and 19.9% (2011: 19.9%) share ownership and Board representation in Al-Alamiya for Cooperative Insurance Company incorporated in Kingdom of Saudi Arabia.

9. PROPERTY AND EQUIPMENT, NET

SAR' 000	Land and buildings	Improvements and decoration of premises	Furniture, fixtures and equipment	Computer hardware, software programs and automation projects	Motor vehicles	Total 2012	Total 2011
Cost							
Balance at beginning of the year	1,334,642	684,128	358,205	1,837,361	2,830	4,217,166	4,001,968
Additions	27,568	25,443	6,783	156,594	-	216,388	230,200
Disposals	(30)	(1,190)	(3,570)	(2,663)	-	(7,453)	(15,002)
Balance at end of the year	1,362,180	708,381	361,418	1,991,292	2,830	4,426,101	4,217,166
Accumulated depreciation and amortisation							
Balance at beginning of the year	417,028	509,911	266,329	1,214,248	2,817	2,410,333	2,139,113
Charge for the year	27,623	72,998	32,088	152,533	13	285,255	286,222
Disposals	-	(1,176)	(3,553)	(2,660)	-	(7,389)	(15,002)
Balance at end of the year	444,651	581,733	294,864	1,364,121	2,830	2,688,199	2,410,333
Net book value							
As at December 31, 2012	917,529	126,648	66,554	627,171	-	1,737,902	
As at December 31, 2011	917,614	174,217	91,876	623,113	13		1,806,833

Land and buildings; and improvements and decoration of premises include work in progress as at December 31, 2012 amounting to SAR 5.8 million (2011: SAR 40.6 million); and SAR 3.4 million (2011: SAR 2.3 million), respectively.

10. OTHER ASSETS

SAR'000	2012	2011
Accrued special commission receivable		
- banks and other financial institutions	2,477	7,040
- investments	218,305	224,246
- loans and advances	363,583	315,136
- other	92,358	45,520
Total accrued special commission receivable	676,723	591,942
Accounts receivable	167,994	165,307
Positive fair value of derivatives (note 11)	2,398,422	2,958,870
Other	1,145,222	1,286,154
Total	4,388,361	5,002,273

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 special commission rate swaps, counterparties generally exchange fixed and floating special commission rate payments in a single currency without exchanging principal. For currency swaps, principal, fixed and floating commission payments are exchanged in different currencies.

11. DERIVATIVES (continued)

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 over-the-counter market. Foreign currency and special 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 special commission rate contracts that call for a cash settlement for the difference between a contracted special commission rate and the market rate on a specified future date, on a notional principal for an agreed period of time.

d) Options

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

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 favourable movements in prices, rates or indices. Arbitrage involves identifying pricing anomalies in different markets and products, with the expectation of profiting from price differentials between markets or products.

Held for hedging purposes

The Bank 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 rates and special commission rates to reduce its exposure to currency and special commission rate risks to acceptable levels as determined by the Board of Directors within the guidelines issued by SAMA. The Board of Directors has established levels of currency risk by setting limits on counterparty and currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits. The Board of Directors have also established the level of special commission rate risk by setting limits on special commission rate gaps for stipulated periods. Asset and liability special commission rate gaps are reviewed on a periodic basis and hedging strategies are used to reduce special commission rate 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 own exposure to currency and special commission rate risks. This is generally achieved by hedging specific transactions as well as strategic hedging against overall consolidated statement of financial position exposures. Strategic hedging, other than portfolio hedges for special commission rate risks, does not qualify for special hedge accounting and the related derivatives are accounted for as held for trading.

Fair value hedges

The Bank uses special commission rate swaps to hedge against the special commission rate risk arising from specifically identified fixed special commission rate exposures.

Cash flow hedges

The Bank is exposed to variability in future special commission cash flows on non-trading assets and liabilities which bear special commission rate at a variable rate. The Bank uses special commission rate swaps as cash flow hedges of these special commission rate risks.

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

2012			
SAR'000	Within 1 year	1-3 years	3-5 years
Cash inflows (assets)	546	-	-
Cash outflows (liabilities)	-	-	-
Net cash inflow	546	-	-

2011			
SAR'000	Within 1 year	1-3 years	3-5 years
Cash inflows (assets)	4,735	449	-
Cash outflows (liabilities)	-	-	-
Net cash inflow	4,735	449	-

The table below shows the positive and negative fair values of derivative financial instruments held, together with their 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 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.

2012							
				Notional amounts by term to maturity			
SAR'000	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3-12 months	1-5 years	Monthly average
Held for trading:							
Special commission rate swaps	372	(551)	589,852	437,916	75,011	76,925	905,314
Forward foreign exchange contracts	2,191,422	(118,078)	67,515,005	57,984,049	9,377,353	153,603	88,821,049
Currency options	205,099	(204,962)	32,472,428	15,492,638	13,300,891	3,678,899	32,647,014
Commodity options	-	-	-	-	-	-	11,061
Held as fair value hedges:							
Special commission rate swaps	-	-	-	-	-	-	250,000
Held as cash flow hedges:							
Special commission rate swaps	1,529	-	100,000	-	100,000	-	472,250
Total	2,398,422	(323,591)	100,677,285	73,914,603	22,853,255	3,909,427	123,106,688

11. DERIVATIVES (continued)

2011							
				Notional amounts by term to maturity			
SAR'000	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3-12 months	1-5 years	Monthly average
Held for trading:							
Special commission rate swaps	2,544	(1,690)	1,360,162	382,637	715,018	262,507	2,743,068
Forward foreign exchange contracts	2,886,658	(89,222)	93,510,641	50,958,421	42,552,220	-	85,809,075
Currency options	27,978	(27,331)	15,805,052	9,564,344	5,339,084	901,624	13,465,451
Commodity options	17,301	(17,301)	80,160	80,160	-	-	119,431
Held as fair value hedges:							
Special commission rate swaps	-	(3,871)	500,000	-	500,000	-	2,261,740
Held as cash flow hedges:							
Special commission rate swaps	24,389	-	1,098,000	-	998,000	100,000	1,455,252
Total	2,958,870	(139,415)	112,354,015	60,985,562	50,104,322	1,264,131	105,854,017

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

SAR '000	2012					
Description of hedged items	Fair value	Hedge inception value	Risk	Hedging instrument	Positive fair value	Negative fair value
Floating rate notes	100,000	100,000	Cash flow	Special commission rate swaps	1,529	-
Fixed special commission rate loans	-	-	Fair value	Special commission rate swaps	-	-

SAR '000	2011					
Description of hedged items	Fair value	Hedge inception value	Risk	Hedging instrument	Positive fair value	Negative fair value
Floating rate notes	1,098,000	1,098,000	Cash flow	Special commission rate swaps	24,389	-
Fixed special commission rate loans	506,809	500,000	Fair value	Special commission rate swaps	-	(3,871)

The net gains on the hedging instruments for fair value hedge is SAR 3.87 million (2011: net gain of SAR 5.90 million). The net losses on the hedged item attributable to the hedged risk is SAR 6.81 million (2011: net loss of SAR 14.34 million).

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For the years ended December 31, 2012 and 2011 (continued)

Reconciliation of movements in the other reserve of cash flow hedges:

SAR'000	2012	2011
Balance at beginning of the year	9,098	62,727
Losses from changes in fair value recognised directly in equity	(6,395)	(53,467)
Gains removed from equity and included in net special commission income	(440)	(162)
Balance at end of the year	2,263	9,098

12. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

SAR'000	2012	2011
Current accounts	1,103,220	722,268
Money market deposits	5,059,748	5,519,680
Total	6,162,968	6,241,948

Money market deposits include deposits against sales of fixed rate bonds of SAR nil (2011: SAR 1,438 million) with agreement to repurchase the same at fixed future dates.

13. CUSTOMER DEPOSITS

SAR'000	2012	2011
Demand	67,525,144	58,123,709
Saving	301,758	305,148
Time	71,035,977	75,615,429
Other	7,351,688	5,778,214
Total	146,214,567	139,822,500

13. CUSTOMER DEPOSITS (continued)

Time deposits include deposits against sales of bonds of SAR 1,500 million (2011: SAR 180 million) with agreement to repurchase the same at fixed future dates. Other customers' deposits include SAR 2,427 million (2011: SAR 2,140 million) of margins held for irrevocable commitments.

Time deposits include non-interest based deposits of SAR 22,706 million (2011: SAR 29,006 million).

The above include foreign currency deposits as follows:

SAR'000	2012	2011
Demand	3,322,914	2,683,930
Saving	228	141
Time	19,152,189	21,176,343
Other	374,362	384,369
Total	22,849,693	24,244,783

14. DEBT SECURITIES IN ISSUE

During April 2006, the Bank issued USD 500 million (SAR 1,875 million) Floating Euro Medium Term Note (EMTN), as the first tranche of the Notes issuance programme amounting to USD 1,600 million. These matured on April 26, 2011.

15. OTHER LIABILITIES

SAR'000	2012	2011
Accrued special commission payable		
– banks and other financial institutions	3,483	2,479
– customer deposits	241,920	215,999
Total accrued special commission payable	245,403	218,478
Accounts payable	1,510,401	1,115,204
Negative fair value of derivatives (note 11)	323,591	139,415
Other*	3,760,398	3,191,490
Total	5,839,793	4,664,587

*Includes items in transit which are cleared in the normal course of business.

16. SHARE CAPITAL

The authorised, issued and fully-paid share capital of the Bank consist of 1,500 million shares of SAR 10 each (2011:1,500 million shares of SAR 10 each).

17. STATUTORY RESERVE

In accordance with 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 the statutory reserve until this reserve equals the paid up capital of the Bank. Accordingly, SAR 866.5 million has been transferred from 2012 net income (2011: SAR 787.33 million). The statutory reserve is not currently available for distribution.

18. OTHER RESERVES

2012			
SAR'000	Cash flow hedges	Available for sale	Total
Balance at beginning of the year	9,098	526,651	535,749
Net change in fair value	(6,395)	929,926	923,531
Transfer to consolidated income statement	(440)	(333,985)	(334,425)
Net movement during the year	(6,835)	595,941	589,106
Balance at end of the year	2,263	1,122,592	1,124,855

2011			
SAR'000	Cash flow hedges	Available for sale	Total
Balance at beginning of the year	62,727	751,238	813,965
Net change in fair value	(53,467)	(50,573)	(104,040)
Transfer to consolidated income statement	(162)	(174,014)	(174,176)
Net movement during the year	(53,629)	(224,587)	(278,216)
Balance at end of the year	9,098	526,651	535,749

19. COMMITMENTS AND CONTINGENCIES

a) Legal proceedings

As at December 31, 2012 there were legal proceedings of routine nature outstanding against the Bank. No provision has been made as management and in-house legal adviser believes that it is unlikely that any significant loss will arise.

b) Capital commitments

As at December 31, 2012 the Bank had capital commitments of SAR 66.4 million (2011: SAR 102.4 million). This includes computer hardware, software, automation projects, construction and equipment purchases.

c) Credit related commitments and contingencies

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantee and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2012 and 2011 (continued)

19. COMMITMENTS AND CONTINGENCIES (continued)

c) Credit related commitments and contingencies (continued)

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

	2012				
SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	8,816,039	4,218,435	466,398	-	13,500,872
Letters of guarantee	12,283,364	25,431,476	17,287,737	375,582	55,378,159
Acceptances	2,491,548	146,971	4,898	-	2,643,417
Irrevocable commitments to extend credit	1,103,229	639,794	4,155,290	2,665,152	8,563,465
Total	24,694,180	30,436,676	21,914,323	3,040,734	80,085,913

	2011				
SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	9,680,109	5,105,796	762,713	-	15,548,618
Letters of guarantee	11,534,965	26,480,516	17,260,918	141,800	55,418,199
Acceptances	2,080,936	231,326	38,489	-	2,350,751
Irrevocable commitments to extend credit	1,024,688	539,339	4,434,290	3,227,620	9,225,937
Total	24,320,698	32,356,977	22,496,410	3,369,420	82,543,505

The outstanding unused portion of non-firm commitments as at December 31,2012 which can be revoked unilaterally at any time by the Bank, amounts to SAR 72,449 million (2011: SAR 68,638 million).

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

SAR'000	2012	2011
Government and quasi government	1,125,000	1,125,000
Corporate	59,518,177	61,239,859
Banks and other financial institutions	19,442,736	20,178,646
Total	80,085,913	82,543,505

d) Assets pledged

Assets pledged as collateral with other financial institutions and customers are as follows:

SAR'000	2012		2011	
	Assets	Related liabilities	Assets	Related liabilities
Other investments held at amortised cost and available for sale (note 6,12 and 13)	1,648,185	1,500,000	2,043,860	1,617,991

These transactions are conducted under terms that are usual and customary to standard lending and securities borrowing and lending activities.

e) Operating lease commitments

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

SAR'000	2012	2011
Less than 1 year	12,886	14,887
1 to 5 years	30,321	34,969
Over 5 years	14,155	19,484
Total	57,362	69,340

20. SPECIAL COMMISSION INCOME AND EXPENSE

SAR'000		2012	2011
Special commission income			
Investments	- Available for sale	408,191	362,843
	- Other investments held at amortised cost	238,754	211,105
	- Held to maturity	96,821	91,663
		743,766	665,611
Due from banks and other financial institutions		43,585	51,695
Loans and advances		4,375,950	4,198,057
Total		5,163,301	4,915,363

SAR'000	2012	2011
Special commission expense		
Due to banks and other financial institutions	46,090	130,799
Customer deposits	735,740	582,610
Debt securities in issue	-	4,920
Total	781,830	718,329

21. FEE AND COMMISSION INCOME, NET

SAR'000	2012	2011
Fee and commission income:		
- Share brokerage and fund management	365,262	300,532
- Trade finance and corporate finance and advisory	1,253,310	1,147,384
- Other banking services	568,821	504,003
Total fee and commission income	2,187,393	1,951,919
Fee and commission expense:		
- Banking cards and share brokerage	325,557	283,713
- Other banking services	84,351	79,032
Total fee and commission expense	409,908	362,745
Fee and commission income, net	1,777,485	1,589,174

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2012 and 2011 (continued)

22. STAFF COMPENSATION

The following table summarizes the Bank's employee categories defined in accordance with SAMA's rules on compensation practices and includes the total amounts of fixed and variable compensation paid to employees during the year ended Dec 31, 2012 and 2011, and the forms of such payments.

Categories	Number of employees		Fixed compensation		Variable compensation		Total compensation	
	2012	2011	2012	2011	2012	2011	2012	2011
Senior executives requiring SAMA no objections	29	23	30,708	26,358	8,468	7,270	39,176	33,628
Employees engaged in risk taking activities	290	283	75,755	71,954	18,864	14,783	94,619	86,737
Employees engaged in control functions	375	372	74,015	71,616	7,211	6,248	81,226	77,864
Outsourced employees	165	166	8,458	11,016	-	-	8,458	11,016
Others	4,475	4,412	546,237	554,644	75,458	73,376	621,695	628,020
Total	5,334	5,256	735,173	735,588	110,001	101,677	845,174	837,265
Variable Compensation accrued in 2012 (2011) and other employee related benefits*			450,331	550,322				
Total Salaries and employee-related expenses as per consolidated statement of income			1,185,504	1,285,910				

*Other employee benefits include; Insurance, GOSI, Relocation Expenses, Recruitment Expenses, Training and Development and Other Employee benefits.

Compensation policy is based on the job profile requirement, market practices, nature and level of involvement in risk taking process. It applies to the Bank's senior management and all employees and aims to link individual performance to the Bank's overall achievements and soundness. Compensation includes fixed and variable components. Salary revision, performance bonus and other performance linked incentives are decided based on the performance evaluation process outcome as well as the Bank's financial performance and strategic goals.

The Board of Directors has the responsibility to approve and oversee the Bank's compensation policy. The Nomination and Compensation Committee, made up of five non-executive Directors is in charge of overseeing the compensation system design and effectiveness on behalf of the Board of Directors as well as preparing the Bank's compensation policy and undertaking its periodic assessment and update to ensure achievement of the system objectives and reinforce the Bank's risk management framework. Fixed compensation comprises of salaries and wages and other benefits and allowances. The variable compensation includes sales incentives, product related rewards and performance related payments.

23. EARNINGS PER SHARE

Basic and diluted earnings per share for the years ended December 31, 2012 and 2011 is calculated by dividing the net income for the year by the weighted average number of ordinary shares outstanding at end of the year.

24. PROPOSED GROSS DIVIDEND AND ZAKAT

The net cash dividend after deduction of zakat reached SAR 1,950 million (2011: SAR 1,950 million), resulting in a net dividend to the shareholders of SAR 1.30 per share (2011: SAR 1.30 per share). The gross dividends for 2012 include interim net dividends of SAR 975 million paid for the first half of 2012 (2011: SAR 825 million). Final dividends, net of zakat of SAR 975 million have been proposed for 2012 (2011: SAR 1,125 million).

Zakat for the year amounted to approximately SAR 150 million (2011: SAR 150 million).

The Bank has filed its Zakat returns for the years up to and including the financial year 2011 with the Department of Zakat and Income Tax (the "DZIT"). During 2011, the Bank has received Zakat assessments from the DZIT in respect of the years 2008 and 2009 raising an additional Zakat liability. The basis for this additional liability is being contested by all the Banks in Saudi Arabia.

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

25. CASH AND CASH EQUIVALENTS

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

SAR'000	2012	2011
Cash and balances with SAMA excluding statutory deposit (note 4)	19,373,695	10,659,890
Due from banks and other financial institutions maturing within three months from the date of acquisition	2,634,994	3,823,849
Total	22,008,689	14,483,739

26. OPERATING SEGMENTS

The Group determines and presents operating segments based on the information that is provided internally to the chief operating decision maker in order to allocate resources to the segments and to assess its performance. The operating segments are managed separately based on the Group's management and internal reporting structure. The Group's primary business is conducted in Saudi Arabia with one international branch, a representative office and an agency. However, the total assets, liabilities, commitments and results of operations of this branch, representative office and agency are not material to the Group's overall consolidated financial statements and as a result have not been separately disclosed. There are no other material items of income or expense between the operating segments.

The Group's reportable segments under IFRS 8 are as follows:

Retail	Deposit, credit and investment products for individuals and small to medium sized businesses.
Investment banking and brokerage	Investment management services and asset management activities related to dealing, managing, arranging, advising and custody of securities.
Corporate	Principally handling corporate customers' current accounts, deposits and providing loans, overdrafts and other credit facilities and derivative products.
Treasury and investments	Principally providing money market trading and treasury services as well as the management of the Bank's investment portfolios.
Other	Includes income on capital and unallocated costs pertaining to head office, finance division, human resources, technology services and other support departments and unallocated assets and liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2012 and 2011 (continued)

26. OPERATING SEGMENTS (continued)

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

2012

SAR'000	Retail	Investment banking and brokerage	Corporate	Treasury and investment	Other	Total
Total assets	31,972,505	53,258	86,682,792	67,700,767	3,771,516	190,180,838
Total liabilities	54,103,848	59,825	92,084,229	9,493,629	2,475,797	158,217,328
Total operating income	2,006,642	353,523	2,943,737	1,150,529	331,834	6,786,265
Net special commission income	1,550,782	12,974	1,927,285	672,264	218,166	4,381,471
Fee and commission income, net	451,091	342,011	998,322	(13,939)	-	1,777,485
Total operating expenses	1,093,755	124,055	1,203,288	(95,242)	1,073,778	3,399,634
Depreciation and amortization	128,581	-	3,712	1,595	151,367	285,255
Impairment charge for credit losses, net	218,429	-	961,230	-	-	1,179,659
Impairment charge for investments	-	-	-	(130,000)	-	(130,000)
Share in earnings of associates, net	-	-	-	-	79,418	79,418
Net income (loss)	912,887	229,468	1,740,449	1,245,771	(662,526)	3,466,049

2011

SAR'000	Retail	Investment banking and brokerage	Corporate	Treasury and investment	Other	Total
Total assets	27,037,580	1,579	86,991,861	63,262,376	3,593,994	180,887,390
Total liabilities	45,048,469	50,743	95,672,425	7,614,786	2,342,612	150,729,035
Total operating income	1,921,408	297,532	2,856,298	1,069,761	130,802	6,275,801
Net special commission income	1,548,883	16,465	1,889,511	647,691	94,484	4,197,034
Fee and commission income, net	370,456	283,070	948,523	(12,875)	-	1,589,174
Total operating expenses	1,211,199	132,517	633,205	30,973	1,163,975	3,171,869
Depreciation and amortization	139,152	-	3,603	372	143,095	286,222
Impairment charge for credit losses, net	248,558	-	413,154	-	-	661,712
Impairment charge for investments	-	-	-	-	-	-
Share in earnings of associates, net	-	-	-	-	45,421	45,421
Net income (loss)	710,209	165,015	2,223,093	1,038,788	(987,752)	3,149,353

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

2012				
SAR'000	Retail	Corporate	Treasury and investment	Total
Consolidated statement of financial position assets	31,369,754	87,658,719	38,959,371	157,987,844
Commitments and contingencies	-	37,314,404	-	37,314,404
Derivatives	-	-	2,643,694	2,643,694

2011				
SAR'000	Retail	Corporate	Treasury and investment	Total
Consolidated statement of financial position assets	26,664,872	87,851,456	42,229,978	156,746,306
Commitments and contingencies	-	37,782,543	-	37,782,543
Derivatives	-	-	2,233,444	2,233,444

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.

27. CREDIT RISK

Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The Bank uses internal credit rating tools to assess credit standing of its counterparties and assigns credit ratings accordingly. Also the Bank uses the external ratings, of the major rating agency, where applicable. A potential credit loss might arise due to lack of proper credit analysis of the borrower's credit worthiness, inability to service the debt, lack of appropriate documentation etc.

The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. 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. Actual exposures against limits are monitored daily. 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 counterparties in appropriate circumstances, and limiting the duration of exposure. In certain cases, the Bank may also close out transactions or assign them to other counterparties to mitigate credit risk.

The Bank's credit risk for derivatives, represents the potential cost to replace the derivative contracts if counterparties fail to fulfil their obligation, and to control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

Concentration Risk refers to the risk from an uneven distribution of counterparties in credit or in other business relationship or from concentration in business sectors or geographical regions. Accordingly, Concentration risk in the credit portfolios comes into existence through a skewed distribution of financing to (a) individual borrower (name concentration) (b) industry /service sector (sector concentration) and (c) geographical regions (regional concentration). Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting any particular category of concentration.

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 counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Management monitors the market value of collateral recurrently, 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 practice.

The debt securities included in the investment portfolio are mainly sovereign risk. Analysis of investments by counterparty is provided in note 6. For details of the composition of loans and advances refer to note 7. Information on credit risk relating to derivative instruments is provided in note 11 and for commitments and contingencies in note 19. The information on Banks maximum credit exposure by business segment is given in note 26. The information on maximum credit risk exposure and their relative risk weights is also provided in note 33.

28. CONCENTRATION OF RISKS OF FINANCIAL ASSETS WITH CREDIT RISK EXPOSURE AND FINANCIAL LIABILITIES

a) The distribution by geographical region for major categories of assets, liabilities, commitments and contingencies and credit exposure are as follows:

	2012							
SAR'000	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other countries	Total
Assets								
Cash and balances with SAMA	26,270,517	-	5	-	-	1	-	26,270,523
Due from banks and other financial institutions	329,731	791,230	1,774,851	108,328	-	167,303	19,546	3,190,989
Investments, net and investment in associates	15,317,677	1,827,899	7,070,512	11,610,847	3,617	71,892	761,580	36,664,024
Loans and advances, net	113,328,467	3,514,237	392,145	235,805	-	-	-	117,470,654
Total	155,246,392	6,133,366	9,237,513	11,954,980	3,617	239,196	781,126	183,596,190
Liabilities								
Due to banks and other financial institutions	1,195,417	2,840,103	843,314	915,131	-	-	369,003	6,162,968
Customer deposits	139,429,421	3,004,965	2,460,244	1,312,692	-	-	7,245	146,214,567
Total	140,624,838	5,845,068	3,303,558	2,227,823	-	-	376,248	152,377,535
Commitments and contingencies	66,515,363	799,702	5,975,154	6,448,137	-	530	347,027	80,085,913
Maximum credit exposure (stated at credit equivalent amounts according to SAMA's prescribed methodology)								
Derivatives	861,892	401,615	1,288,897	86,425	-	-	4,865	2,643,694
Commitments and contingencies	31,085,752	246,749	2,688,292	3,224,069	-	106	69,436	37,314,404

2011								
SAR'000	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other countries	Total
Assets								
Cash and balances with SAMA	17,623,468	-	9	-	-	-	-	17,623,477
Due from banks and other financial institutions	638,526	861,837	3,759,538	696,225	-	88,617	40,280	6,085,023
Investments, net and investment in associates	14,409,394	2,007,276	9,533,992	10,149,642	6,487	390,103	459,230	36,956,124
Loans and advances, net	106,647,687	5,147,379	883,590	248,525	-	-	45,583	112,972,764
Total	139,319,075	8,016,492	14,177,129	11,094,392	6,487	478,720	545,093	173,637,388
Liabilities								
Due to banks and other financial institutions	791,993	1,661,244	1,378,220	1,848,827	-	-	561,664	6,241,948
Customer deposits	137,853,509	1,521,166	447,825	-	-	-	-	139,822,500
Total	138,645,502	3,182,410	1,826,045	1,848,827	-	-	561,664	146,064,448
Commitments and contingencies	66,438,456	1,177,367	7,969,373	6,942,086	-	15,844	379	82,543,505
Maximum credit exposure (stated at credit equivalent amounts according to SAMA's prescribed methodology)								
Derivatives	737,475	336,142	1,046,864	112,919	-	-	44	2,233,444
Commitments and contingencies	30,484,008	306,964	3,512,417	3,471,043	-	7,922	189	37,782,543

28. 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 specific allowance for credit losses, which is entirely attributable to Saudi Arabia is as follows:

	Non-performing loans and advances, net		Allowance for credit losses	
SAR'000	2012	2011	2012	2011
Kingdom of Saudi Arabia	2,037,134	1,879,223	(1,469,343)	(926,195)
Total	2,037,134	1,879,223	(1,469,343)	(926,195)

29. 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 special commission rates, foreign exchange rates, commodity and equity prices. The Bank classifies exposures to market risk into either trading or non-trading/ banking-book. The market risk for the trading book is managed and monitored using a VaR methodology. Market risk for the non-trading book is managed and monitored using a combination of VaR, stress testing and sensitivity analysis .

a) Market Risk - Trading Book

The Bank has set limits (exposure based 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 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 variance-covariance approach for calculating VaR for trading book based on historical data (of 1 year). 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 Bank calculates VaR on the basis of the following:

1. 1 day holding period at 95% confidence interval for internal reporting
2. 10 days holding period at 99% confidence interval for regulatory capital computation (under IMA approach of Basel II Accord that the Bank plans to adopt in near future)
3. 1 day holding period at 99% confidence interval for internal reporting and for disclosure purposes.

This means that the VaR that the Bank measures is an estimate (using a confidence level of 95% and 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 or 10 days. The use of 99% confidence level depicts that within a 1-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.

To overcome the VaR limitations mentioned above, the Bank also carries out stress tests of both non-trading and trading portfolios to simulate conditions outside normal confidence intervals using six stress scenarios for the entire Bank. The potential losses occurring under stress test conditions are reported regularly to the Bank's Asset Liability Committee (ALCO) for their review.

The Bank's VaR related information for the year ended December 31, 2012 and 2011 using a 1 day holding period at 99% confidence interval is as under. All the figures are in million SAR:

	2012			
SAR Million	Foreign exchange rate risk	Special commission rate risk	Equity price risk	Overall risk
VaR as at December 31, 2012	0.10	5.65	-	5.60
Average VaR for 2012	1.03	2.88	-	3.07
Maximum VaR for 2012	3.22	7.11	-	7.14
Minimum VaR for 2012	0.03	0.74	-	0.76

	2011			
SAR Million	Foreign exchange rate risk	Special commission rate risk	Equity price risk	Overall risk
VaR as at December 31, 2011	1.75	3.20	-	4.04
Average VaR for 2011	1.89	2.52	-	3.29
Maximum VaR for 2011	3.04	10.81	-	11.12
Minimum VaR for 2011	1.17	0.44	-	1.51

b) Market Risk - Non-trading or Banking Book

i) Special commission rate risk

Special commission rate risk arises from the possibility that the changes in special commission rates will affect either the fair values or the future cash flows of the financial instruments. The Bank has established Net special commission Income at Risk and Market Value at Risk (MVaR) limits that are monitored by ALCO. There are gap limits to accommodate Forward FX and Money Market for all currencies. 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 special 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 special commission rates on the net special commission income for one year, on the non-trading financial assets and financial liabilities held as at December 31, 2012 & 2011, 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 & 2011 for the effect of assumed changes in special 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.

SAR Million	2012						
			Sensitivity of equity				
Currency	Increase in basis	Sensitivity of special commission income	6 months or less	1 year or less	1-5 years	Over 5 years	Total
SAR	+100	159.77	-	-	-	-	-
USD	+100	(56.46)	1.73	2.90	35.01	204.19	243.83
EUR	+100	30.42	0.23	0.21	10.27	3.55	14.26
GBP	+100	(1.45)	0.10	-	1.15	0.42	1.67
JPY	+100	8.94	0.05	0.05	0.43	-	0.53
Others	+100	13.39	0.11	-	1.10	-	1.21

SAR Million	2012						
			Sensitivity of equity				
Currency	Decrease in basis	Sensitivity of special commission income	6 months or less	1 year or less	1-5 years	Over 5 years	Total
SAR	- 100	(119.02)	-	-	-	-	-
USD	- 100	5.13	(1.73)	(2.90)	(35.01)	(204.19)	(243.83)
EUR	- 100	(2.02)	(0.23)	(0.21)	(10.27)	(3.55)	(14.26)
GBP	- 100	(0.21)	(0.10)	-	(1.15)	(0.42)	(1.67)
JPY	- 100	(5.40)	(0.05)	(0.05)	(0.43)	-	(0.53)
Others	- 100	12.24	(0.11)	-	(1.10)	-	(1.21)

29. MARKET RISK (continued)

b) Market Risk - Non-trading or Banking Book (continued)

i) Special commission rate risk (continued)

SAR Million	2011						
			Sensitivity of equity				
Currency	Increase in basis	Sensitivity of special commission income	6 months or less	1 year or less	1-5 years	Over 5 years	Total
SAR	+100	113.18	-	-	-	-	-
USD	+100	(55.06)	2.48	2.40	26.38	215.88	247.14
EUR	+100	69.97	0.22	0.40	7.06	2.97	10.65
GBP	+100	0.20	0.07	-	0.98	1.22	2.27
JPY	+100	5.96	0.07	-	-	-	0.07
Others	+100	(1.16)	0.02	0.09	1.76	1.85	3.72

SAR Million	2011						
			Sensitivity of equity				
Currency	Decrease in basis	Sensitivity of special commission income	6 months or less	1 year or less	1-5 years	Over 5 years	Total
SAR	- 100	(172.45)	-	-	-	-	-
USD	- 100	4.25	(2.48)	(2.40)	(26.38)	(215.88)	(247.14)
EUR	- 100	(68.93)	(0.22)	(0.40)	(7.06)	(2.97)	(10.65)
GBP	- 100	0.37	(0.07)	-	(0.98)	(1.22)	(2.27)
JPY	- 100	(3.32)	(0.07)	-	-	-	(0.07)
Others	- 100	(2.31)	(0.02)	(0.09)	(1.76)	(1.85)	(3.72)

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

The Bank manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market special commission rates on its financial position and cash flows. The Bank is exposed to special commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off 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.

The table below summarizes the Bank's exposure to special commission rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or the maturity dates.

	2012					
SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Non special commission bearing	Total
Assets						
Cash and balances with SAMA	16,526,000	-	-	-	9,744,523	26,270,523
Due from banks and other financial institutions	3,158,236	-	-	-	32,753	3,190,989
Investments, net and investment in associates	11,113,456	7,736,818	7,168,381	6,768,106	3,877,263	36,664,024
Loans and advances, net	44,511,572	27,174,881	37,818,346	7,965,855	-	117,470,654
Other real estate	-	-	-	-	458,385	458,385
Property and equipment, net	-	-	-	-	1,737,902	1,737,902
Other assets	-	-	-	-	4,388,361	4,388,361
Total assets	75,309,264	34,911,699	44,986,727	14,733,961	20,239,187	190,180,838
Liabilities and shareholders' equity						
Due to banks and other financial institutions	4,868,461	191,286	-	-	1,103,221	6,162,968
Customer deposits	50,037,937	23,677,764	-	-	72,498,866	146,214,567
Other liabilities	-	-	-	-	5,839,793	5,839,793
Shareholders' equity	-	-	-	-	31,963,510	31,963,510
Total liabilities and shareholders' equity	54,906,398	23,869,050	-	-	111,405,390	190,180,838
Special commission rate sensitivity - On statement of financial position gap	20,402,866	11,042,649	44,986,727	14,733,961	(91,166,203)	
Special commission rate sensitivity - Off statement of financial position gap	(100,000)	100,000	-	-	-	
Total special commission rate sensitivity gap	20,302,866	11,142,649	44,986,727	14,733,961	(91,166,203)	
Cumulative special commission rate sensitivity gap	20,302,866	31,445,515	76,432,242	91,166,203	-	

29. MARKET RISK (continued)

b) Market Risk - Non-trading or Banking Book (continued)

i) Special commission rate risk (continued)

	2011					
SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Non special commission bearing	Total
Assets						
Cash and balances with SAMA	6,828,000	-	-	-	10,795,477	17,623,477
Due from banks and other financial institutions	5,861,053	153,752	-	-	70,218	6,085,023
Investments, net and investment in associates	13,328,479	8,689,078	5,828,297	5,356,160	3,754,110	36,956,124
Loans and advances, net	46,952,349	23,244,022	33,941,642	8,834,751	-	112,972,764
Other real estate	-	-	-	-	440,896	440,896
Property and equipment, net	-	-	-	-	1,806,833	1,806,833
Other assets	-	-	-	-	5,002,273	5,002,273
Total assets	72,969,881	32,086,852	39,769,939	14,190,911	21,869,807	180,887,390
Liabilities and shareholders' equity						
Due to banks and other financial institutions	5,514,930	4,750	-	-	722,268	6,241,948
Customer deposits	47,400,097	29,837,931	-	-	62,584,472	139,822,500
Other liabilities	-	-	-	-	4,664,587	4,664,587
Shareholders' equity	-	-	-	-	30,158,355	30,158,355
Total liabilities and shareholders' equity	52,915,027	29,842,681	-	-	98,129,682	180,887,390
Special commission rate sensitivity - On statement of financial position gap	20,054,854	2,244,171	39,769,939	14,190,911	(76,259,875)	
Special commission rate sensitivity - Off statement of financial position gap	(553,001)	453,001	100,000	-	-	
Total special commission rate sensitivity gap	19,501,853	2,697,172	39,869,939	14,190,911	(76,259,875)	
Cumulative special commission rate sensitivity gap	19,501,853	22,199,025	62,068,964	76,259,875	-	

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

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 & 2011 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 and forward foreign exchange contracts 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.

Currency Exposures As at December 31, 2012	Change in currency rate in %	Effect on net income
USD	+1	8.40
EUR	+1	0.79
GBP	+1	0.03
JPY	+1	0.06
Others	+1	0.06

Currency Exposures As at December 31, 2011	Change in currency rate in %	Effect on net income
USD	+1	6.28
EUR	+1	1.49
GBP	+1	0.09
JPY	+1	0.13
Others	+1	0.15

iii) Foreign currency risk

The Bank manages exposure to 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 overnight positions, which are monitored daily. At the end of the year, the Bank had the following significant net exposures denominated in foreign currencies:

SAR'000	2012 Long (short)	2011 Long (short)
US Dollar	(118,437)	2,124,911
Japanese	(409,185)	115,919
Euro	(140,891)	(27,352)
Pound	(407,626)	40,988
Other	(44,995)	78,349

iv) Banking Book -Equity Price risk

Equity 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:

	December 31, 2012		December 31, 2011	
Market Indices	Change in equity indices %	Effect in SAR millions	Change in equity indices %	Effect in SAR millions
Tadawul	+5	48.91	+5	50.65
	+10	97.82	+10	101.30
	-5	(48.91)	-5	(50.65)
	-10	(97.82)	-10	(101.30)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2012 and 2011 (continued)

30. 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 an appropriate balance of cash, cash equivalents and readily marketable securities.

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 the Bank. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

In accordance with 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 not less than 20% of its deposit liabilities, in the form of cash, gold, 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 upto 75% of the nominal value of bonds held by the Bank.

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 statement of financial position. The contractual maturities of liabilities have been determined based on the remaining period at the reporting 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.

The undiscounted maturity profile of the liabilities is as follows:

	2012				
SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Financial liabilities					
Due to banks and other financial institutions	5,976,870	191,495	-	-	6,168,365
Customer deposits	122,928,739	22,924,091	834,740	9,385	146,696,955
Derivative financial instruments(gross contractual amounts payable)	601	718	709	-	2,028
Total undiscounted financial liabilities	128,906,210	23,116,304	835,449	9,385	152,867,348

	2011				
SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Financial liabilities					
Due to banks and other financial institutions	6,241,061	4,758	-	-	6,245,819
Customer deposits	110,341,522	29,191,239	723,293	5,145	140,261,199
Derivative financial instruments(gross contractual amounts payable)	6,278	7,984	4,463	-	18,725
Total undiscounted financial liabilities	116,588,861	29,203,981	727,756	5,145	146,525,743

The table below summarises the maturity profile of the Bank's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date and do not take account of the effective maturities as indicated by the Bank's deposit retention history. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

The maturity profile of the Bank's assets and liabilities is as follows:

	2012					
SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	19,373,695	-	-	-	6,896,828	26,270,523
Due from banks and other financial institutions	3,190,989	-	-	-	-	3,190,989
Investments, net and investment in associates	7,675,413	8,367,154	9,130,300	7,613,894	3,877,263	36,664,024
Loans and advances, net	34,667,126	22,178,953	43,534,471	17,090,104	-	117,470,654
Other real estate	-	-	-	-	458,385	458,385
Property and equipment, net	-	-	-	-	1,737,902	1,737,902
Other assets	3,074,616	-	-	-	1,313,745	4,388,361
Total assets	67,981,839	30,546,107	52,664,771	24,703,998	14,284,123	190,180,838
Liabilities and shareholders' equity						
Due to banks and other financial institutions	5,971,682	191,286	-	-	-	6,162,968
Customer deposits	122,536,803	22,838,798	829,581	9,385	-	146,214,567
Other liabilities	568,992	-	-	-	5,270,801	5,839,793
Shareholders' equity	-	-	-	-	31,963,510	31,963,510
Total liabilities and shareholders' equity	129,077,477	23,030,084	829,581	9,385	37,234,311	190,180,838

	2011					
SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	10,659,891	-	-	-	6,963,586	17,623,477
Due from banks and other financial institutions	5,931,271	153,752	-	-	-	6,085,023
Investments, net and investment in associates	9,450,160	10,170,904	7,807,473	5,773,477	3,754,110	36,956,124
Loans and advances, net	38,608,394	19,643,165	39,367,470	15,353,735	-	112,972,764
Other real estate	-	-	-	-	440,896	440,896
Property and equipment, net	-	-	-	-	1,806,833	1,806,833
Other assets	3,550,814	-	-	-	1,451,459	5,002,273
Total assets	68,200,530	29,967,821	47,174,943	21,127,212	14,416,884	180,887,390
Liabilities and shareholders' equity						
Due to banks and other financial institutions	6,237,198	4,750	-	-	-	6,241,948
Customer deposits	109,984,569	29,116,356	716,430	5,145	-	139,822,500
Other liabilities	357,893	-	-	-	4,306,694	4,664,587
Shareholders' equity	-	-	-	-	30,158,355	30,158,355
Total liabilities and shareholders' equity	116,579,660	29,121,106	716,430	5,145	34,465,049	180,887,390

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, balances with SAMA, items in the course of collection; loans and advances to banks; and loans and advances to customers. The cumulative maturities of commitments and contingencies is given in note 19 c) (i) of the financial statements.

31. 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 market price: financial instruments with quoted prices for identical instruments in active markets.

Level 2: valuation technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

Level 3: valuation technique with significant unobservable inputs: financial instruments valued using valuation techniques where one or more significant inputs are unobservable. Valuations are based on Net Asset Value (NAV) per unit/share as per the statement provided by custodian for managed funds or the latest available audited financial statements for entities other than managed funds.

Fair value and fair value hierarchy:

	2012			
SAR' 000	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments	-	2,398,422	-	2,398,422
Financial investments available for sale	14,316,185	612,445	1,686,880	16,615,510
Financial Liabilities				
Derivative financial instruments	-	323,591	-	323,591

	2011			
SAR' 000	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments	-	2,958,870	-	2,958,870
Financial investments available for sale	13,094,525	366,629	1,748,581	15,209,735
Financial Liabilities				
Derivative financial instruments	-	139,415	-	139,415

There were no transfers between the fair value hierarchy levels.

Although the Bank believes that its estimates of fair value of Level 3 securities are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. Level 3 consists of local and international unquoted equity securities. Bank uses net assets valuation method based on most recent available audited financial statements to fair value these investments. Other methodology that could be used to value the securities is discount cash flow model based on expected dividend yield for which no data is available. Therefore potential impact of using reasonably possible alternative assumptions for the valuation techniques is not quantified.

Reconciliation of movement in Level 3:

SAR' 000	2012	2011
Opening balance	1,748,581	2,300,789
Total gains or losses		
- recognised in consolidated income statement	419	(387)
- recognised in other comprehensive income	102,623	(94,330)
Purchases	-	-
Redemption	(164,743)	(139,831)
Classified as associates (refer note 8)	-	(317,660)
Closing balance	1,686,880	1,748,581

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-statement of financial position financial instruments, except for other investments held at amortised costs and held-to-maturity investments which are carried at amortised cost, are not significantly different from the carrying values included in the financial statements. The fair values of loans and advances, special commission bearing customers' deposits, due from and due to banks which are carried at amortised cost, are not significantly different from the carrying values included in the financial statements, since the current market special 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 amortised cost are based on quoted market prices when available, or pricing models when used in the case of certain fixed rate bonds (respectively). The fair values of these investments are disclosed in note 6.

The fair values of derivatives are based on the quoted market prices when available or by using the appropriate valuation technique.

32. RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Bank transacts business with related parties. Related party transactions are governed by the limits set by the Banking Control Laws and regulations issued by SAMA. The balances at December 31, resulting from such transactions are as follows:

SAR'000	2012	2011
a) Directors, key management personnel, other major shareholders' and their affiliates:		
Loans and advances	4,844,862	5,488,089
Customer deposits	24,618,097	23,512,784
Derivatives asset (at fair value)	1,146,248	1,494,532
Commitments and contingencies (irrevocable)	4,013,285	3,865,975
Executive end of service	43,379	35,651

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

Other major shareholders represent shareholdings of 5% or more of the Bank's issued share capital.

SAR'000	2012	2011
b) Bank's mutual funds:		
Customer deposits	1,267,548	1,607,473

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

SAR'000	2012	2011
Special commission income	137,727	150,482
Special commission expense	261,670	277,052
Fees from banking services, net	186,903	213,374
Directors and committees remuneration and expenses	4,660	4,821
Executive remuneration and bonus	32,832	28,007
Executive end of service	7,727	2,700
Other expenses	5,248	5,248

33. 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.

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

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

Pursuant to SAMA guidelines regarding implementation of Basel II, Pillar 3 disclosures effective 1 January 2008, the following disclosures have been made:

SAR'000	2012		2011	
	Capital	Ratio %	Capital	Ratio %
Top consolidated level				
Tier 1 capital	28,288,975	15.3%	26,835,624	14.8%
Total regulatory capital (Tier 1 + Tier 2)	32,618,887	17.7%	30,883,950	17.1%

SAR'000	2012	2011
Risk weighted assets		
Credit risk weighted assets	172,477,213	167,886,678
Operational risk weighted assets	11,131,963	10,791,225
Market risk weighted assets	1,144,763	2,374,267
Total Pillar 1 Risk Weighted Assets	184,753,939	181,052,170

34. STAFF INVESTMENT SAVINGS PLANS

The Group operates a Staff Savings Investment Plan. Under the terms of the Staff Savings Investment Plan, participating employees of the Bank make monthly contributions by way of a deduction from their salary subject to a maximum of 15% of their basic salaries. The Bank also contributes on a monthly basis a pre-determined percentage (subject to a maximum of 6%) of the basic salary of an employee based on the varying service periods. The proceeds are invested in the Bank's existing range of mutual funds for the benefit of the employees. The cost of the above plan is charged to the Bank's consolidated income statement.

35. INVESTMENT MANAGEMENT SERVICES

The Group offers investment management services to its customers, which include management of certain investment funds with assets totaling SAR 19.7 billion (2011: SAR 18.9 billion).

The Group's assets under management include non-interest based funds amounting to SAR 5.2 billion (2011: SAR 5.3 billion).

36. ISSUED IFRS BUT NOT YET EFFECTIVE

The Group has chosen not to early adopt the following new standards which have been issued but are not yet effective, for the Bank's accounting years beginning after 1 January 2013 and is currently assessing their impact.

i) IFRS 9 Financial instruments (2010): Revised version of IFRS 9 applicable from 1 January 2015. This incorporates revised requirements for the classification and measurement of financial liabilities and carries over the existing derecognition requirements from IAS 39 Financial Instruments: Recognition and Measurement.

ii) IFRS 10 Consolidated financial statements: IFRS 10 replaces the requirements previously contained in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation - Special Purpose Entities and is applicable from 1 January 2013. The Standard introduces a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e. whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in 'special purpose entities').

iii) IFRS 11 Joint arrangements: IFRS 11 replaces IAS 31 Interests in Joint Ventures and is applicable from 1 January 2013. Requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and then account for those rights and obligations in accordance with that type of joint arrangement.

iv) IFRS 12 Disclosure of Interests in Other Entities: Requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows and is applicable from 1 January 2013.

v) IFRS 13 Fair value measurements: Replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard and is applicable from 1 January 2013. The IFRS defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value and is applicable from 1 January 2013.

The Bank has chosen not to early adopt the following amendments to existing IAS/IFRS issued by IASB and is currently assessing their impact:

a) Amendments to IAS 1 Presentation of financial statements: amends IAS 1 to revise the way other comprehensive income is presented and is applicable from 1 January 2013.

b) Amendments to IFRS 7 Financial Instruments: Disclosure: Amends the disclosure requirements in IFRS 7 to require information about all recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32 and also require disclosure of information about recognised financial instruments subject to enforceable master netting arrangements and agreements even if they are not set off under IAS 32 and is applicable from 1 January 2013.

c) Amendments to IAS 32 Financial instruments presentation: Amends IAS 32 to clarify certain aspects relating to requirements on offsetting and is applicable from 1 January 2014.

d) IAS 19 Employee Benefits – Amendments: The amendments to IAS 19 remove the option to defer the recognition of actuarial gains and losses, i.e., the corridor mechanism. All changes in the value of defined benefit plans will be recognised in profit or loss and other comprehensive income. The effective date of the standard is 1 January 2013.

e) IAS 27 Separate Financial Statements (2011): revised version of IAS 27 applicable from 1 January 2013 now only deals with the requirements for separate financial statements, which have been carried over largely unamended from IAS 27 Consolidated and Separate Financial Statements. Requirements for consolidated financial statements are now contained in IFRS 10 Consolidated Financial Statements.

f) IAS 28 Investments in Associates and Joint Ventures (2011): revised version of IAS 28 applicable from 1 January 2013. The majority of these revisions result from the incorporation of Joint ventures into IAS 28 (2011).

g) The IASB has published Annual Improvements to IFRSs: 2009-2011 cycle of improvements that contain amendments to the following standards with consequential amendments to other standards and interpretations with applicability from 1 January 2013:

- IFRS 1 - First time adoption of IFRS: Repeated application of IFRS 1 and borrowing cost exemption;
- IAS 1 – Presentation of financial statements: Comparative information beyond minimum requirements and presentation of the opening statement of financial position and related notes;
- IAS 16 – Property, plant and equipment: Classification of servicing equipment;
- IAS 32 – Financial instruments presentation: Income tax consequences of distributions
- IAS 34 – Interim Financial Reporting: Segment assets and liabilities.

h) Investments entities (Amendments to IFRS 10, IFRS 12 and IAS 27): The IASB published the above amendments applicable from 1 January 2014 with a mandatory consolidation exception for qualifying investment entity that is required to account for investments in controlled entities as well as investments in associates and joint ventures at fair value through profit or loss. The only exception would be subsidiaries that are considered an extension of the investment entity's investing activities.

37. COMPARATIVE FIGURES

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

38. BOARD OF DIRECTORS' APPROVAL

The consolidated financial statements were approved by the Board of Directors on 16 Rabi I 1434H (corresponding to 28 January 2013).

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.riyadbank.com and the annual report, respectively, as required by the Saudi Arabian Monetary Agency. Such disclosures are not subject to review or audit by the external auditors.

SUMMARY OF PILLAR 3 QUALITATIVE DISCLOSURES

SUMMARY OF PILLAR 3 QUALITATIVE DISCLOSURES

> Riyad Bank provides the Saudi Arabian Monetary Agency (SAMA) with quarterly reports on the capital adequacy, where these reports define the capital adequacy status of the bank

These risk and capital disclosures are consistent with the requirements of the Saudi Arabian Monetary Agency (SAMA) and the Basel II Accord Capital Adequacy requirements commonly referred to as Pillar 3 Disclosure requirements. This is a summarized version of the full Pillar 3 disclosure document, which is available on our website at "www.riyadbank.com".

In accordance with SAMA requirements, the Basel II Accord Capital Adequacy Regulations are applicable to Riyad Bank on a consolidated basis, comprising Riyad Bank and its subsidiaries Riyad Capital, Ithra' Al-Riyad and Riyad Company for Insurance Agency (under establishment).

Riyad Bank provides SAMA with quarterly capital adequacy reports which detail its current capital adequacy position, and on an annual basis it submits a forward looking Internal Capital Adequacy Assessment Plan (ICAAP). Riyad Bank provides adequate capital, represented by its total equity, for core banking risks (Credit, Market and Operational Risk) in accordance with Pillar 1 of the Basel II Accord and provides additional capital for other risks under Pillar 2 including; Settlement risk, IT risk, Strategic risk, etc. Under the Pillar 2 Supervisory Review Process (SRP) the Bank's capital position is the total of Pillar 1 and Pillar 2 Capital requirements, plus any additional capital requirements determined by the regulator.

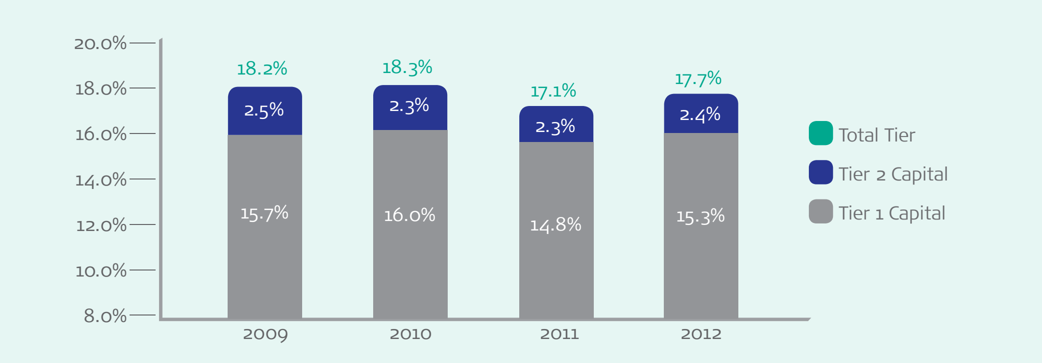
Frameworks, policies, authorities, procedures and other control activities constitute the Bank's control culture and determine its adequacy and effectiveness. Senior Management Committees in the Bank include the Operational Risk Management & Compliance Committee and the Asset and Liability Committee. These committees oversee market, liquidity, operational and strategic business risk and compliance risk. The Board Audit Committee receives and reviews regular reports on risk and controls across the Bank.

The Risk Management function at Riyad Bank is headed by the Chief Risk Officer (CRO) and includes overseeing and management of all aspects of Bank's risk planning, risk modeling, risk measurement and risk methodology development, and implementation of the capital adequacy rules required by SAMA and the Basel Committee. The Credit Risk management mandate is exercised through Credit Division, covering all aspects of credit risk. Risk Management Division covers financial and operational risks.

The Compliance function, including regulatory compliance, is separately performed by the Bank's Compliance Department reporting directly to the Bank's Chairman.

Set out below is a commentary on the major risks and how the Bank manages each risk type:

Capital Adequacy Ratio



1- Credit Risk:

Credit risk is the potential that a bank obligor or counterparty will fail to meet its obligations in accordance with agreed terms. Based on the organizational structure of the Bank, the business units that perform work with clients are completely independent from the units responsible for controlling, measuring, and monitoring credit risk and who report independently.

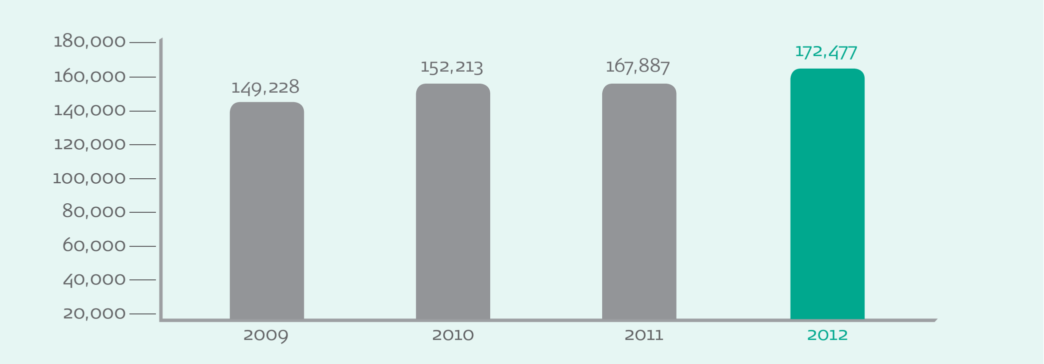
The Board of Directors has approved a Credit Risk Management (CRM) Framework document. The CRM framework consists of principles, structures, tools and activities required for managing credit risk at all levels in the Bank. The CRM Framework and credit risk governance structure are designed to provide comprehensive controls and continuing management of credit risk inherent in the Bank's business activities. The Board is directly involved in risk appetite determination, policy development, credit authorities delegation, approval of large credits and continuing review of existing credit exposures, review of status and trends in credit quality, industry and sector credit concentrations.

The Bank's Credit Committees are responsible for reviewing and approving credit exposures within risk-limits, criteria required for loan documentation and methods of follow-up and supervision. The Main Credit Committee is chaired by the Chief Executive Officer of the Bank.

Credit Division is responsible for managing and controlling credit risk throughout the Bank, and is independent from the business units.

Internal Audit regularly submits its reports to the Board Executive Committee on loan reviews. External Auditors carry out their reviews and submit their reports to the Board Audit Committee and to the Board of Directors.

Credit Risk Weighted Assets Millions SAR



The Investment Committee, chaired by the Chairman of the Board, oversees the Bank's investment portfolio in accordance with Board approved asset allocation and investment guidelines and mandates. The Investment Committee sets out the policy framework and investment asset allocation. Portfolio Managers' performance is reviewed by the Investment Department and independent consultants.

Riyad Bank's credit exposure can be classified in two broad risk categories: Retail Credit Risk and Non-retail Credit Risk. Retail Credit Risk is the risk of non-payment of credit facilities offered to retail banking customers. This typically covers risks associated with personal loans, residential mortgage loans, credit cards, and other products offered to individuals. Retail Banking risk acceptance is primarily based on the application of fixed criteria using well defined scoring methodologies. Portfolio provisions are based on the Bank's provisioning policy. In case of non-payment for 180 days from due date, the loan is charged off through deduction from the Bank's revenues.

Non-retail lending includes corporate facilities/loans and overdrafts, inter-bank loans, loans to government entities, small and medium sized enterprise loans, trade finance, structured and project finance, leasing, syndicated loans and corporate guarantees.

Off-shore credit risk is controlled within the country risk limits which are approved by the Board of Directors. The Bank has a specialized unit which is responsible for credit risk management of financial institutions.

Corporate credit risk is managed by ensuring timely risk identification, quantification, calibration, monitoring, and credit exposure reporting in line with the Bank's credit risk appetite, corporate strategy, and our portfolio and sector strategy. Concentration policy and limits exist for single customer exposure, industry concentration, and segment exposure. Credit to related parties is covered by collateral as per regulatory requirements. Risk is monitored on a facility basis, total exposure basis, and portfolio basis. The Bank utilizes sophisticated credit administration and limit management software systems to ensure full life cycle management of credit applications, limits management, financial and non-financial collateral management.

The Bank applies a borrower rating assessment using an externally built credit rating system, which is then mapped to an Obligor Risk Rating based on financial and business analysis criteria. An internal rating is assigned based on a range of definitions and criteria given for each rating grade, taking into account the facility, collateral offered and other factors. Rating changes are approved by the Credit Rating Committee and / or Credit Rating Review Committee. The Internal Audit department monitors the ratings and their amendments.

The Bank uses Standard & Poor's, Fitch, Moody's, and Capital Intelligence as External Credit Assessment Institutions for ratings of Sovereigns, Central Banks, Banks, Securities Firms and Corporate exposures.

Collateral is never the principal rationale for lending decisions but is viewed as an alternative source of repayment in the event that a business fails or enters into bankruptcy. Policy guidelines control collateral acceptance, valuation, enforceability, marketability and liquidity.

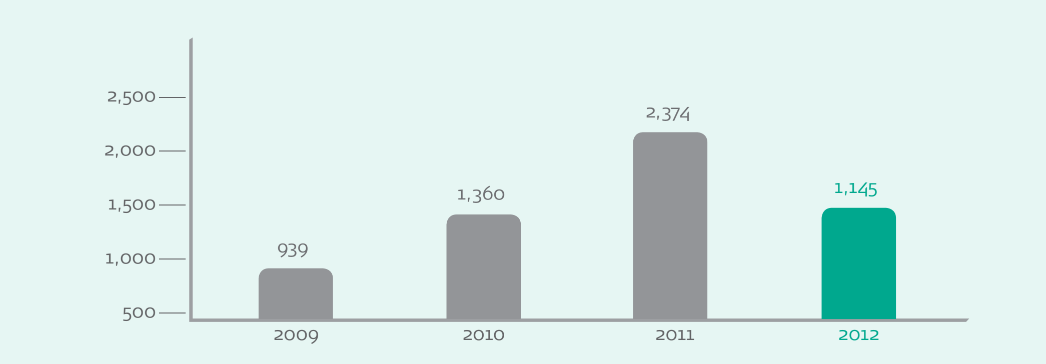
The provisions study is prepared by a department reporting directly to the Chief Risk Officer then submitted to the Audit Committee and Board of Directors for approval; additionally the provisions are reviewed quarterly by the Bank's internal & external auditors. Provisions consist of portfolio and specific provisions. Specific provisions are created for non-retail loans classified as non-performing based on individual review on a periodical basis of credit exposures less expected recoverable amounts. Portfolio reserves are calculated to cover corporate, consumer and credit card performing exposures applying a range of reserve ratios which reflect the potential impairment on each portfolio category.

2- Market Risk

Market risks are the risks related to fluctuations in the Value at Risk (V@R), fair value or future cash flows of the financial instruments incurred as a result of various changes in the market elements such as special commission rates, foreign exchange rates/foreign currency exposure, or equity prices.

The Bank monitors positions daily and uses hedging strategies to ensure maintenance of positions within the established gap limits set and approved by the Board.

Market Risk Weighted Assets Millions SAR



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.

To mitigate liquidity risk, the Bank has diversified funding sources and retains an appropriate balance of cash, cash equivalents and readily marketable securities as liquid assets.

3- Operational Risk

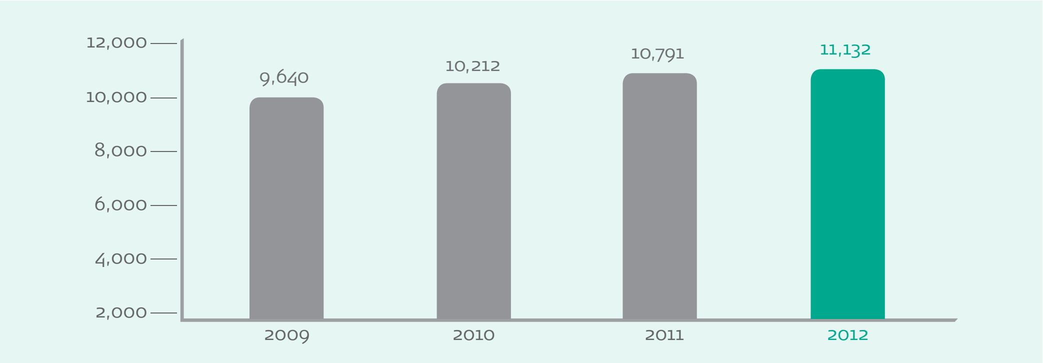
Riyad Bank's operational risk strategy is to ensure that the Bank is safeguarded against major operational risks while ensuring that losses incurred as a result of operational risk are minimized. The Bank has developed proactive risk mitigation strategies supported by risk management frameworks, policies and procedures aimed at detecting and controlling risks before they become a threat. A centralized Operational Risk Management Department monitors and manages all operational risk impacts on the Bank and reports to the Operational Risk Management & Compliance Committee (ORMCC) which is chaired by the CEO. In addition, the Operational Risk Management department is also supported by important functions including Fraud Prevention and Anti Money Laundering units that assist the Bank in safeguarding against potential fraud and money laundering related events.

4- Other Risks

The Bank follows integrated strategies to manage, monitor and control other risks such as liquidity risk, IT risk, strategic risk, credit concentration risk, interest rate risk in the banking book, macroeconomic and business cycle risk, settlement risk, etc.. Such strategies concentrate on the mitigation of any potential adverse consequences of these risks, and the Bank allocates adequate capital to these risk types.

The Bank also conducts stress tests covering major risks in all aspects of its banking activities in line with related standards and rules.

Operational Risk Weighted Assets Millions SAR



EXECUTIVE MANAGEMENT

EXECUTIVE MANAGEMENT

Talal I. Al-Qudaibi

President &
Chief Executive Officer

Suliman A. Al-Gwaiz

Deputy Chief Executive
Officer

Abdulaziz S. Al-Furaih

Senior Executive
Vice President

Thalib A. Al-Shamrani

Executive Vice President
Chief Risk Officer Risk
Management

Abdulmajeed A. Al-Mubarak

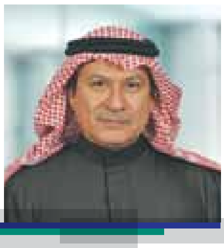
Executive Vice President
Corporate Banking

Abdulaziz S. Al-Malki

Executive Vice President
Treasury & Investment

Saeed S. Al-Siairri

Executive Vice President
Support services



Adel A. Bin Al-Sheikh

Executive Vice
President Branches

Ahmed Y. Al-Tayeb

Executive Vice President Risk Managment

Ossama A. Bukhari

Executive Vice President
Credit Policy

Adnan S. Al-Joyan

Executive Vice President
Human Resources

Riyadh O. Al-Zahrani

Executive Vice President
Operations

Majid A. Al-Gwaiz

Executive Vice President
Corporate Banking Services

Abdulrahman M. Al-Odan

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Mohamad A. Al-Rabeah

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Hani A. Abul Naja

Regional Manager,
Western Region

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