

# ANNUAL REPORT 2013

MOVING FORWARD  
TOWARDS  
EXCELLENCE

البنك  
السعودي  
الفرنسي  
Banque  
Saudi  
Fransi



بنك الامتياز

Banque of Excellence

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# بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ



**King  
Abdullah Bin Abdulaziz  
Al-Saud**  
Custodian of the  
Two Holy Mosques



**HRH Prince  
Salman Bin Abdulaziz  
Al-Saud**  
Crown Prince  
First Deputy Premier  
Minster of Defense

# Year at a Glance

## Performance in the year 2013

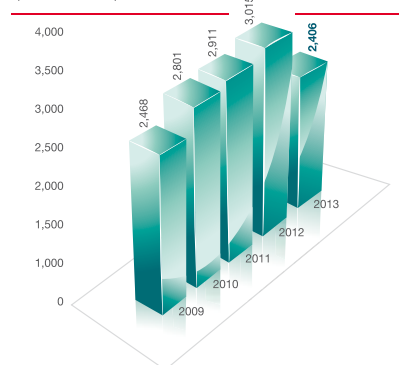
Net Income	SAR 2,406 million
Total Assets	SAR 170,057 million
Customers' Deposits	SAR 131,601 million
Loans & Advances, net	SAR 111,307 million
Total Equity	SAR 23,217 million
Total Liabilities	SAR 146,840 million

## Net Income

# SAR 2,406 million

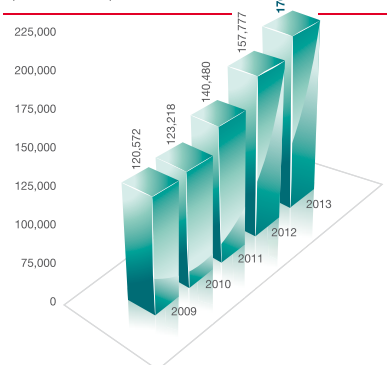
### Net Income

(in million SAR)



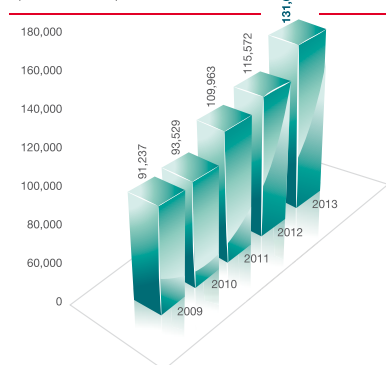
### Total Assets

(in million SAR)



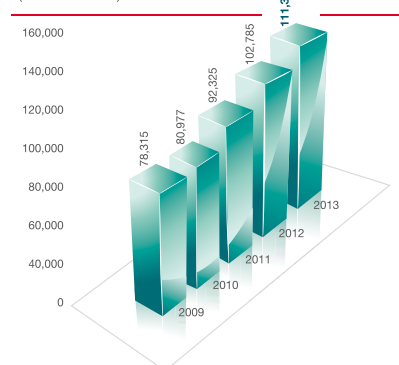
### Customers' Deposits

(in million SAR)



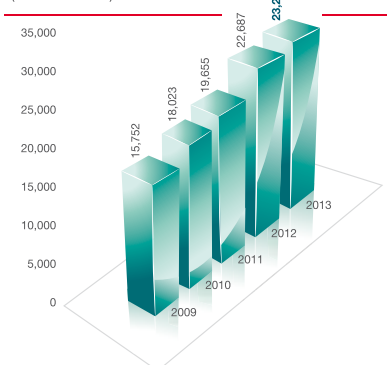
### Loan & Advances, net

(in million SAR)



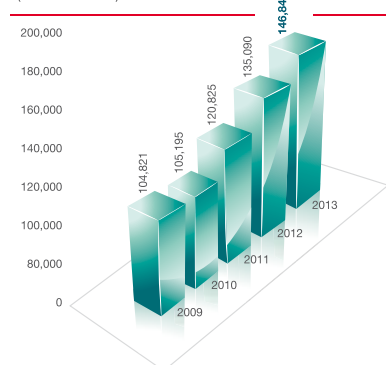
### Total Equity

(in million SAR)



### Total Liabilities

(in million SAR)







**The Bank achieved  
a net profit of  
2,406 million Saudi  
Riyals during the  
fiscal year 2013**

## Chairman's Statement



It is my pleasure to present on behalf of the members of the Board of Directors the annual report of Banque Saudi Fransi for the financial year ending on 31/12/2013.

During the year 2013, the Bank continued its re-organizational structure, which commenced in the previous year. The achievements in this regard included the consolidation of all regulatory and control functions under one umbrella at a time when regulatory and legal issues have become of critical importance. Some business activities and administrative functions have also been merged and streamlined. An overall infrastructure of compliance and control has also been developed to meet the needs of the Bank in line with the guidelines of SAMA and other regulatory bodies. This was achieved through follow-up by the Board of Directors of the strategy set out by the senior management of the Bank, establishing solid rules for decision-making, leveling the ground for development activities. Each business line contributed in a balanced manner to the Bank's profits. As is well known, the Bank's activities have depended historically on assuming a leading position in corporate business and constant commitment to the development of branch and retail banking services in order to diversify the sources of income. The Bank also focuses its work on the employment of assets to obtain the highest possible return through the intensification of cross selling in an attempt to accommodate the impact of lower interest rates.

I would also like to point out that the Bank achieved a net profit of 2,406 million Saudi Riyals during the fiscal year 2013. It is to be noted here that net income for the year confirms the strong growth of revenue resulting from earmarking a high rate of allocations in line with the conservative policy that we adopt at BSF.



This process of provisioning comes after two years of strategic restructuring of the Bank, which continued through 2012 and 2013, to level the ground for the Medium Term Plan for the years 2014-2016. The Bank realized a growth in its assets reaching 170 billion Saudi Riyals marking an increase at a rate of 8% over the fiscal year 2012. The Bank's portfolio of loans and advances increased by 8% to 111 billion Saudi Riyals, from 103 billion Saudi Riyals in 2012. Deposits reached 132 billion Saudi Riyals, marking an increase of 14% over 2012. These achievements were realized with the support of deposits that scored a high rate of increase, which enabled the Bank maintain an optimal ratio of loans to deposits. Revenue has maintained its strength, where operating income totaled 5.1 billion Saudi Riyals. Net profit from special commission income amounted to 3.4 billion Saudi Riyals supported by the stability of net interest margin which continued from the second quarter of 2013.

In line with the above achievements, we affirm our constant commitment to keep up with the development of the Bank's business at all levels.

In conclusion, on my own behalf and on behalf of the members of the Board of Directors, I extend my sincere gratitude and appreciation to the Custodian of the Two Holy Mosques, the Crown Prince, the Second Deputy Premier Minister of Defense and the rightly-guided government for their constant support to the banking sector, stressing the positive and effective role in supporting the Bank by the various competent government agencies, particularly the Ministry of Finance, Saudi Arabian Monetary Agency, Ministry of Commerce and Industry, Capital Market Authority, and the Saudi Arabian General Investment Authority. I also extend my thanks to the esteemed customers of the BSF for their nurtured trust and confidence. Gratitude and appreciation is also extended to all staff members of the BSF for their contribution in realizing these positive results.

I ask God to help us in all our endeavors

**Saleh bin Abdulaziz Al-Omair**  
Chairman of the Board



**BSF remained sound with Total Operating Income amounting to a record SAR 5,053 million supported by Total Assets of SAR 170,057 million**

## Managing Director's Statement



It is my pleasure to present Banque Saudi Fransi's performance for the year ended 31 December 2013. In 2013, BSF completed two years of organizational and business model adjustments aimed at preparing the Bank for current and future challenges faced by the banking industry globally and in the Kingdom, and to lay ground for the implementation of a new Medium Term Plan 2014-2016.

As part of this strategic review, BSF conducted an in-depth clean-up of its loan book along with a build-up of its collective provisions in line with its prudent risk policy. This healthy exercise led to significant provisions for the year impacting the Net Income which reached SAR 2,406 million for the year, a decrease of 20.2% vs 2012.

Aside from those exceptional provisions, the operating metrics of BSF remained sound with Total Operating Income amounting to a record SAR 5,053 million supported by Total Assets of SAR 170,057 million, an increase of 7.8% over the year.

BSF indeed recorded robust loan growth of 8.3% in 2013 fed by supportive economic situation in the Kingdom and BSF's drive to support Corporates or Households with sustainable financing solutions.

The Bank continued to deploy its balanced strategy between its different business lines leveraging on its historical and strong position in the corporate sector to develop its offer across all banking segments and business lines.

This cross-selling effort is at the heart of the new Medium Term Plan 2014-2016 approved by the Board of Directors in September 2013. Its objective is to develop a sustainable and diversified business model ensuring optimization of the Bank's capital.





“Excellence at client service” is the motto of this Medium Term Plan. The client is at the center of the business model and all parts of the Bank strive toward excellence to serve it better.

Over the medium-term, BSF aims at continuing playing a leading role with Corporate particularly in the infrastructure field bringing innovative solutions to finance projects or hedge financial risks associated. Similarly, BSF will continue to develop its retail franchise with a focus on innovation and eChannels.

The efforts made over the past two years have reinforced the Bank and prepared it to address the upcoming challenges. Clear strategic direction has been set with new Medium Term Plan starting 2014. I am accordingly very confident that BSF will be well positioned to capture opportunities and continue playing a key role supporting the economic development of the Kingdom.

Once again, I would like to thank all of our clients who have placed trust in BSF and reiterate that all BSF staff are dedicated to their satisfaction.

I also take this opportunity to express my gratitude to the Chairman of the Board, Dr. Saleh A. Al Omair, all Board Members, Executive Committee, Audit Committee and Remuneration & Compensation Committee Members for their strong involvement and continuous support.

I also wish to thank SAMA and the Capital Market Authority for their help and fruitful on going guidance and assistance.

Last, I also want to extend my appreciation to all BSF Staff for their personal commitment and their deep involvement in ensuring that the Bank continue to develop and put excellence at client service.

**Patrice Couvignes**  
Managing Director

# Board of Directors



**Saleh Bin Abdul Aziz Al-Omair,**  
Chairman



**Abdulrahman Al-Rashed,**  
Member



**Ibrahim M. Al-Issa,**  
Member



**Mosa O. Al-Omran,**  
Member



**Marc Oppenheim,**  
Member



**Abdulaziz Al-Habdan,**  
Member



**Thierry Simon,**  
Member



**Dr. Khaled H. Mutabagani,**  
Member



**Patrice Couvignes,**  
Managing Director



**Abdulrahman A. Jawa,**  
Member



## Management Team



Patrice Couvignes  
Managing Director

Mohamad M. Abdulhadi  
Senior Executive Director Business

Philippe Enjalbal  
Senior Executive Director COO

Abdulrahman AlSughayer  
Chief of Governance, Compliance & Control

Riyadh AlSharikh  
Assistant Senior Executive Director Business

Julien Maze  
Chief Financial Officer

Jean-Michel Castelnau  
Chief Risk Officer

Kamal A. Khodr  
Corporate Banking Group

Abdulaziz Y. Al-Oraifi  
Retail Banking Group

Abdulrahman Mutabagani  
Business Banking Group

Adel Malawi  
Global Markets Group

Amer M. Othman  
Wealth Management Group

Ahmad Jawdat  
High NetWorth Group

Robert Reynaud  
Information System Group

Saadoun Al-Saadoun  
Corporate Operations Division

Osama Al-Bakri  
Property Management Division

Khaled Al-Toukhi  
Global Transaction Business

Radhi K. Al-Radhi  
Procurement Division

Abdul Qadeer Mirza  
Accounting and Financial Control Division

Athar Iqbal  
Chief Internal Auditor

Amr AlTaher  
Corporate Human Resources Division

Sameh M. Abdulhadi  
Corporate Communications

### Regional Management

Mazen Tamimi  
Western Region Manager

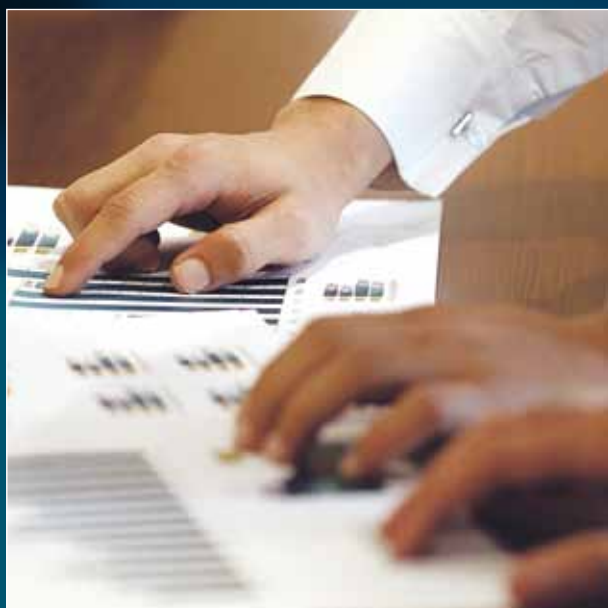
Abdulaziz Al Molhem  
Eastern Region Manager

### Specialized Subsidiaries and Joint-Venture Companies

Yasser Al-Rumayyan  
Saudi Fransi Capital

Riyadh Al Sharikh  
Saudi Fransi Leasing

Xavier Denys  
Allianz Saudi Fransi



**Total Assets  
reached SAR  
170,057 million as  
at 31 December  
2013, an increase  
by 7.8%**

## Financial Management



For the 12 months ended 31 December 2013, Banque Saudi Fransi's key indicators and risk ratios are set out in the table below:

Key Indicators (SAR'000)	12 months ended 31- Dec-11	12 months ended 31- Dec-12	<b>12 months ended 31- Dec-13</b>	% Var 2013 / 2012	% Var 2012 / 2011
Total Balance Sheet	140,479,958	157,777,302	<b>170,056,674</b>	7.78%	12.31%
Total Loans and Advances, net	92,325,042	102,785,372	<b>111,306,904</b>	8.29%	11.33%
Total Deposits	109,963,411	115,571,767	<b>131,601,187</b>	13.87%	5.10%
Total Equity	19,655,327	22,686,818	<b>23,216,631</b>	2.34%	15.42%
Total Operating Income	4,584,774	5,009,551	<b>5,052,535</b>	0.86%	9.26%
Total Net Income	2,910,942	3,015,136	<b>2,405,575</b>	-20.22%	3.58%



Key Ratios	12 months ended 31-Dec-11	12 months ended 31-Dec-12	12 months ended 31-Dec-13	% Var 2013 / 2012	% Var 2012 / 2011
Provisions to Non-Performing Loans	136.41%	148.59%	<b>146.19%</b>	-2.40%	12.18%
Non-Performing Loans to Total Loans	1.20%	1.00%	<b>1.34%</b>	0.34%	-0.20%
Loans to Funding Sources	80.85%	82.57%	<b>80.12%</b>	-2.42%	1.72%
Tier 1 + Tier 2 Capital Adequacy	14.52%	16.49%	<b>15.58%</b>	-0.91%	1.97%
Cost to Income	32.70%	30.99%	<b>33.34%</b>	2.35%	-1.71%

Total Assets reached SAR 170,057 million as at 31 December 2013, an increase by 7.8% over the year coming primarily from a robust loan growth of 8.3% and an increase in the Investments (+24.7%) as the Bank continued growing its Saudi government treasury bills holdings.

The Saudi economy remained well orientated in 2013 and BSF benefited from the overall sound economic situation, supportive government budget policy and important financing needs across the country to grow. The loan book developed as illustrated in the table below:

(SAR'000)	Credit Cards + Consumer Loans	Overdraft & Commercial Loans	Other Loans	Total
2011	10,398,751	75,408,090	6,518,201	92,325,042
2012	10,506,040	85,259,124	7,020,208	102,785,372
<b>2013</b>	<b>10,281,844</b>	<b>93,249,794</b>	<b>7,775,266</b>	<b>111,306,904</b>
% Var 2012 / 2011	1.03%	13.06%	7.70%	11.33%
<b>% Var 2013 / 2012</b>	<b>-2.13%</b>	<b>9.37%</b>	<b>10.76%</b>	<b>8.29%</b>

Retail loans slightly retreated in 2013 by 2.1% as the Bank completed a consolidation of its retail operations with a focus on asset quality, operational efficiency and client segmentation. Corporate loans continued to be the main driving force of the portfolio growth with a 9.4% increase for 2013 supported by infrastructure program and development of the private sector.

This increase in the loan book fed the Total Operating Income which reached SAR 5,053 million for the year, a limited increase of 0.86% versus 2012 as persistent low interest rate levels affected remuneration of liquidity and investments.

Net Income retreated to SAR 2,405 million a decrease of 20.2% versus 2012 as a direct consequence of higher provisions for credit losses which reached SAR 957 million in 2013 versus SAR 455 million in 2012.

Those provisions concluded an exercise of in-depth review of BSF loan book accompanied by a significant build-up of the collective provisions across the year with the objective to have sound provisioning level ahead of launching new Medium Term Plan 2014-2016. As a matter of fact, the Total Provisions to Total Non Performing Loans ratio was maintained to a secured level of 146% as of end December 2013 demonstrating the prudent risk policy applied by the Bank.



## Liquidity position:

BSF has maintained a solid liquidity position throughout 2013. The loan to deposit ratio as per SAMA calculation was staying at 80.12% as of 31 December 2013.

Customers' deposits grew 13.9% with Non Commission Bearing Deposits jumping by 32.7% over the year demonstrating the capacity of BSF to rely on a solid and affordable funding base. Non Commission Bearing Deposits now represent 65.4% of total deposits.

(SAR'000)	31-Dec-11	31-Dec-12	% Var 2012/2011	31-Dec-13	% Var 2013/2012
Non Commission Bearing Deposits	55,499,518	64,886,471	16.91%	<b>86,092,468</b>	32.68%
Commission Bearing Deposits	54,463,893	50,685,296	-6.94%	<b>45,508,719</b>	-10.21%
<b>Total Customers Deposits</b>	<b>109,963,411</b>	<b>115,571,767</b>	<b>5.10%</b>	<b>131,601,187</b>	<b>13.87%</b>
<b>Non Commission Bearing Deposits as % of Total Customers Deposits</b>	<b>50.47%</b>	<b>56.14%</b>	<b>5.67%</b>	<b>65.42%</b>	<b>9.28%</b>

## Capital Adequacy:

The Capital Adequacy Ratio (Tier I + Tier II ratio) reached 15.58% as at December 2013 decreasing from a high of 16.49% as at December 2012. This decrease is primarily due to the amortization of the capital benefit coming from the SAR 1,900 million subordinated sukuk qualifying as Tier II capital issued in December 2012. This strong regulatory capital base will allow BSF to pursue its development in line with the market opportunities.

Ratings	Standard & Poors Ratings Services	Moody's Investors Service	Fitch Ratings
Long-term ratings	A	Aa3	A
Short-term ratings	A-1	P-1	F1
Outlook / Review	Positive	Stable	Stable
Last Published Credit Opinion	02/10/2013	21/01/2014	20/12/2013



**Monumental effort was given to restructure the business lines into cross functional business entities**

## Senior Executive Director Business' Statement



BSF remained vigilant on the quality of its lending portfolio and achieved growth without compromising on strict risk and implementation criteria.

Leveraging our strong corporate and business banking client base, extensive focus was directed towards the cross selling of the bank's retail, global markets, corporate finance, wealth management and investment banking franchise.

Monumental effort was given to restructure the business lines into cross functional business entities to support the new cross-selling culture of the bank and to also achieve the optimal alignment between the bank's resources/assets and the objectives of its management in making BSF The Bank of Excellence.







**Corporate Banking Group continued to play its pivotal role in the overall growth of the Bank's assets and profitability**

With its strong and diversified client base, the Corporate Banking Group continued to play its pivotal role in the overall growth of the Bank's assets and profitability.

This was achieved through continued growth of the customer base as well as the booking of large transactions across the various industry segments including power generation,



oil and petrochemicals, mining, telecommunication, and other major projects/ contracts. Leveraging on CBG's strong corporate client base, extensive focus was directed towards cross selling with the bank's retail, global markets, corporate finance, business banking, wealth management, and investment banking franchise. 2013 marked a renewed focus on the structured and project finance and particularly the further development of the financial advisory business.

Furthermore, a concerted effort to substantially grow BSF's trade finance business is well underway following the reorganization of the bank's Financial Institutions Division and Trade Finance Sales Division.



**Retail Banking  
Group is now  
geared up for the  
challenges and  
opportunities that  
lay ahead**

2013 was a milestone in the history of the Retail Banking Group (RBG). Monumental effort was given to restructure its business model to achieve optimal alignment between the bank's resources/assets and the objectives of its management in making BSF "The Bank of Excellence".



The result of this initiative was laying down the foundation for a business and operational framework that is true to the principles of banking excellence, and those being:

- Organizational development, team building, and business incentives
- Automation and enhancements of systems and operational processes
- Proactive and dynamic product development
- Effective sales channels

With the pledge of support and vision of the senior management, RBG is now geared up for the challenges and opportunities that lay ahead, a sound marketing strategy, and strong fundamentals, RBG is now standing on solid ground with a precise aim to hit its commercial targets in 2014 and beyond.



## Special focus on growing the Small & Medium Enterprises business

Business Banking Group completed another successful year showing double digit growth over the previous year in this client segment, and has ambitious plans for the next three years.



This includes building and strengthening the Small & Medium Enterprises (SMEs) across all three regions, and having special focus on its growth in accordance with the bank's medium term plan.



**Global Markets  
Group:  
Efficient cross  
selling efforts,  
maintained its  
market dominance**

On the treasury business side BSF managed to pull in yet another strong and profitable year despite the continuation of market challenges from the year before as reflected in low interest rates and global economic slowdown.





Balance sheet growth remained healthy with strong liquidity levels reflected in the low loan to deposit ratio. The Global Markets Group, backed by strong management support and efficient cross selling efforts maintained its market dominance in off-balance sheet & derivatives coverage, and increased its market presence through offering a wide range of Shariah compliant and conventional products.



## **Wealth Management and High Net Worth: Building everlasting relationships that spans generations**

With interest rates at historical lows, BSF continued to benefit from the strategic shift in the business model and increased appetite of clients towards the active management of their wealth through innovative Wealth Management and High Net Worth solutions.



BSF's approach to its client in this segment is predicated on the bank's core value of building everlasting relationships that spans the generations of family members while both preserving and growing the wealth of its customers.



**Risk Management:  
Portfolio utilizations  
reached SAR 175 bn  
(+SAR 13 bn, +8%  
vs. 31/12/2012)**

BSF continued in 2013 the development of its portfolio. Total utilizations reached SAR 175 billion (+SAR 13 bn, +8% vs. 31/12/2012). Funded exposure represents 65.6% of total exposure (vs. 66.1%)

During the year 2013, Corporate Information Security has achieved significant milestones in Information Security Governance, Security



Risk Management and Security Compliance. Corporate Information Security has established a strong Security Governance framework to ensure proper alignment of information security strategy and roadmap with business objectives to protect BSF from tangible and intangible losses arising due to security breaches, threats and security compliance violations.

Credit Administration Department (CAD) collectively support in entertaining Business Lines growing demands and played a proactive role in testing new systems.

#### Basel II:

The guidance of the regulator (SAMA) has increased the focus not only on the preparation of the IRB approach for BASEL II, but also on the introduction of the concepts for BASEL III.


- BSF, as member of the SIMAH project, keeps submitting the consolidated data, which are required for the calibration of selected IRB models.
- BSF complied with SAMA guidelines for the submission of Basel III calculations in particular Credit Value Added (CVA) submitted for the 1st time in March 2013.
- BSF Board of Directors validated within the Medium Term Plan 2014-2016 the objective to use IRB approach to compute Bank's RWA in the future. A shaping phase of this important Program was initiated in 2013 with the constitution of a dedicated project team to conduct gap analysis assessments and detailed roadmap to comply with all quantitative & qualitative SAMA requirements including regulatory Use Test of Internal Ratings Models and IRB Business & IT processes.



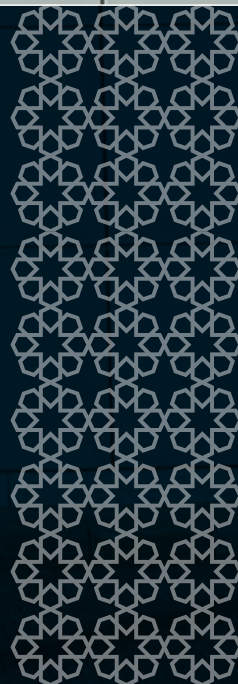
**BSF was amongst the first multinational banks to recognize the growing demand for Sharia compliant banking services**

BSF continued to build on the momentum experienced in the last few years on the product development front, to enhance existing products as well as develop new ones. On the retail side, the framework for Islamic Credit Card was put in place.





On the corporate side, a full review of the framework was initiated to enhance the risk profile of these products as well as accommodated changing market dynamics and new regulatory requirements. On the business banking side, a new sharia compliant call deposit account was introduced. On the treasury side, a new framework for Structured Islamic Investment and Hedging solutions was initiated in late 2013 with an objective to be commercially ready by mid-2014.





**We have been preparing the bank for today's and tomorrow's challenges to reach operational excellence!**

## Senior Executive Director COO's Statement



2013 has been a very active and challenging year for support functions with the:

- Implementation of the new Information System governance model to pave the way for the execution of MTP Programs and investments.
- Completion of key property projects, of which major renovation of the Head Office.
- Continuation of the centralization of the procurement function to improve operational efficiency and optimize costs and quality.
- Transformation of Global Transaction Services into a business line.
- Streamlining of Operations with a revised perimeter and start of the upgrade of key operational processes.
- Completion and test of a "state-of-the art" Business Continuity Plan.

Also, it has been a year of change in the management team with the arrival of new managers in Information System, Property and Procurement.

With these changes, we have been preparing the bank for today's and tomorrow's challenges to reach operational excellence!





## Corporate Operations Division has implemented a number of corporate compliant projects

Corporate Operations Division (COD) thrived for service excellence for internal and external customers through advanced systems, competent resources, new organization and cost effective services.

COD has implemented a number of corporate compliant projects including Wages Protection System



(WPS), a Ministry of Labor initiative; Automation of Reporting Bounced Cheques to SIMAH; an automated mechanism in reporting information of the objection slips issued through the Cheque Encoding Machine.

Capital Market Operation is participating in number of major activities.

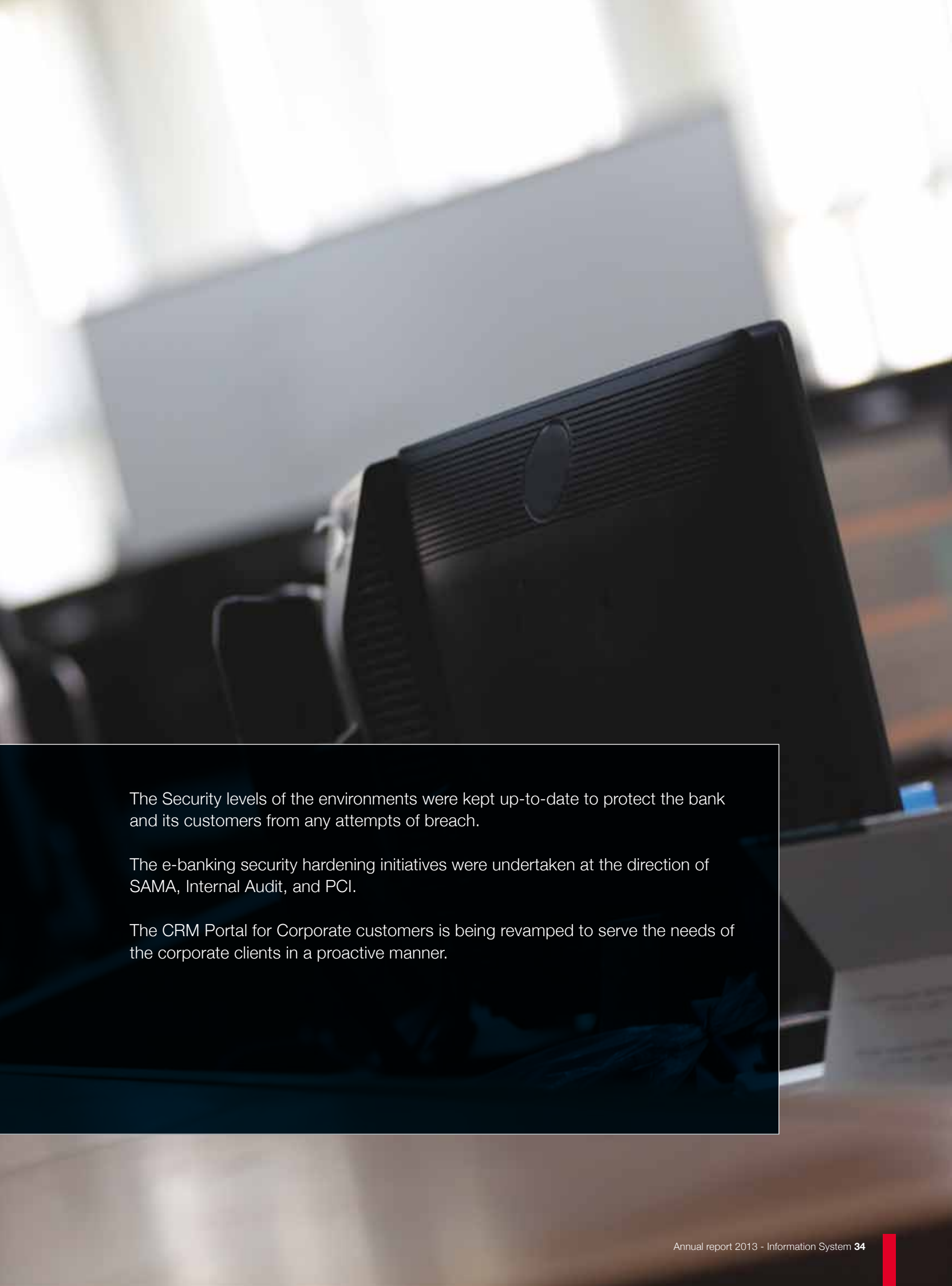
Two key projects undertaken in the Payments area for improvement of turn-around time, operation efficiency and better quality service to the customers comprising of the new Cheque Encoding Machine.



**Information System Group:  
Sustained the demand over the Medium Term Plan and protect the bank**

Transformation of the functions in terms of organization and delivery strategy was the main strategic direction that Information System Group (ISG) undertook during 2013.

Technology upgrade and solutions that would help the ISG to sustain the demand over the Medium Term Plan 2014-2016.



The Security levels of the environments were kept up-to-date to protect the bank and its customers from any attempts of breach.

The e-banking security hardening initiatives were undertaken at the direction of SAMA, Internal Audit, and PCI.

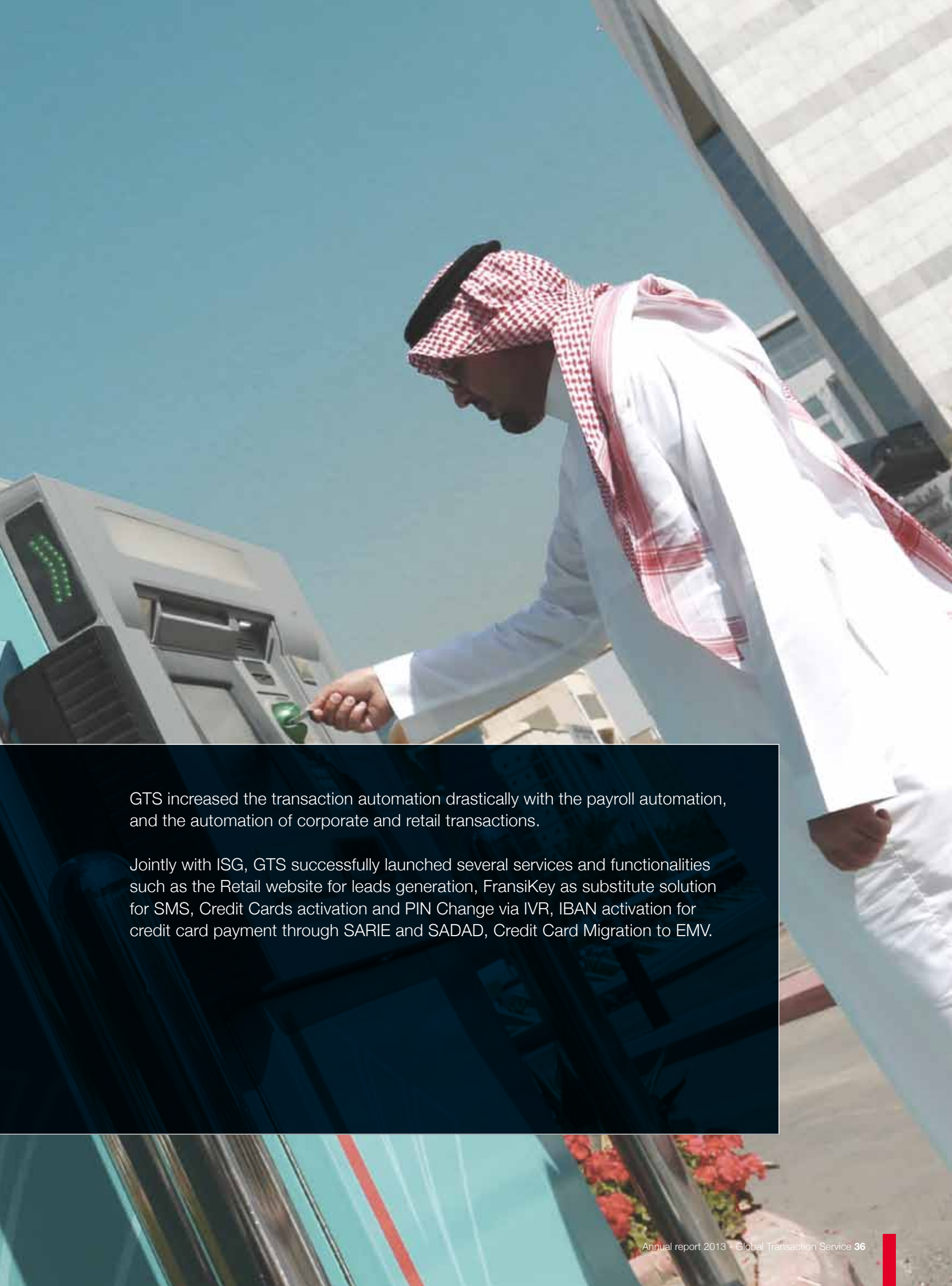
The CRM Portal for Corporate customers is being revamped to serve the needs of the corporate clients in a proactive manner.



## Enhancing eChannels services, functionalities and customer service improvements

2013 was the year to achieve Global Transactions Services (GTS) objectives tangibly by focusing on cost saving, transactions automation, cross selling, enhancing the eChannels services, functionalities and customer service improvements.





GTS increased the transaction automation drastically with the payroll automation, and the automation of corporate and retail transactions.

Jointly with ISG, GTS successfully launched several services and functionalities such as the Retail website for leads generation, FransiKey as substitute solution for SMS, Credit Cards activation and PIN Change via IVR, IBAN activation for credit card payment through SARIE and SADAD, Credit Card Migration to EMV.



## Embarked on numerous projects Kingdom-wide

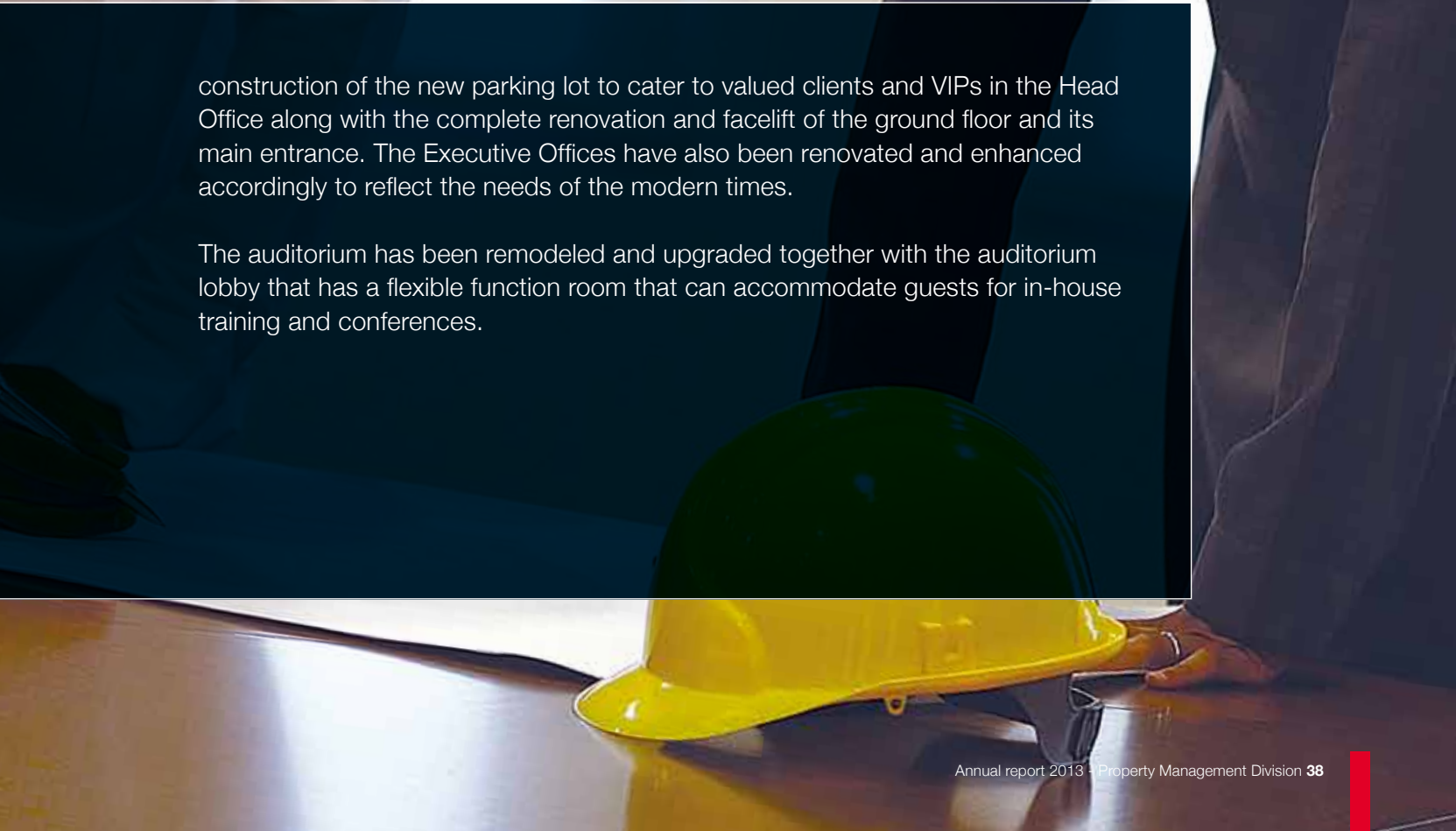
Property Management Division has embarked on numerous projects Kingdom-wide which were completed in 2013.

Besides the usual modification, renovation and relocation of branches, the Head Office and its surroundings have undergone renovation and modification:



construction of the new parking lot to cater to valued clients and VIPs in the Head Office along with the complete renovation and facelift of the ground floor and its main entrance. The Executive Offices have also been renovated and enhanced accordingly to reflect the needs of the modern times.

The auditorium has been remodeled and upgraded together with the auditorium lobby that has a flexible function room that can accommodate guests for in-house training and conferences.

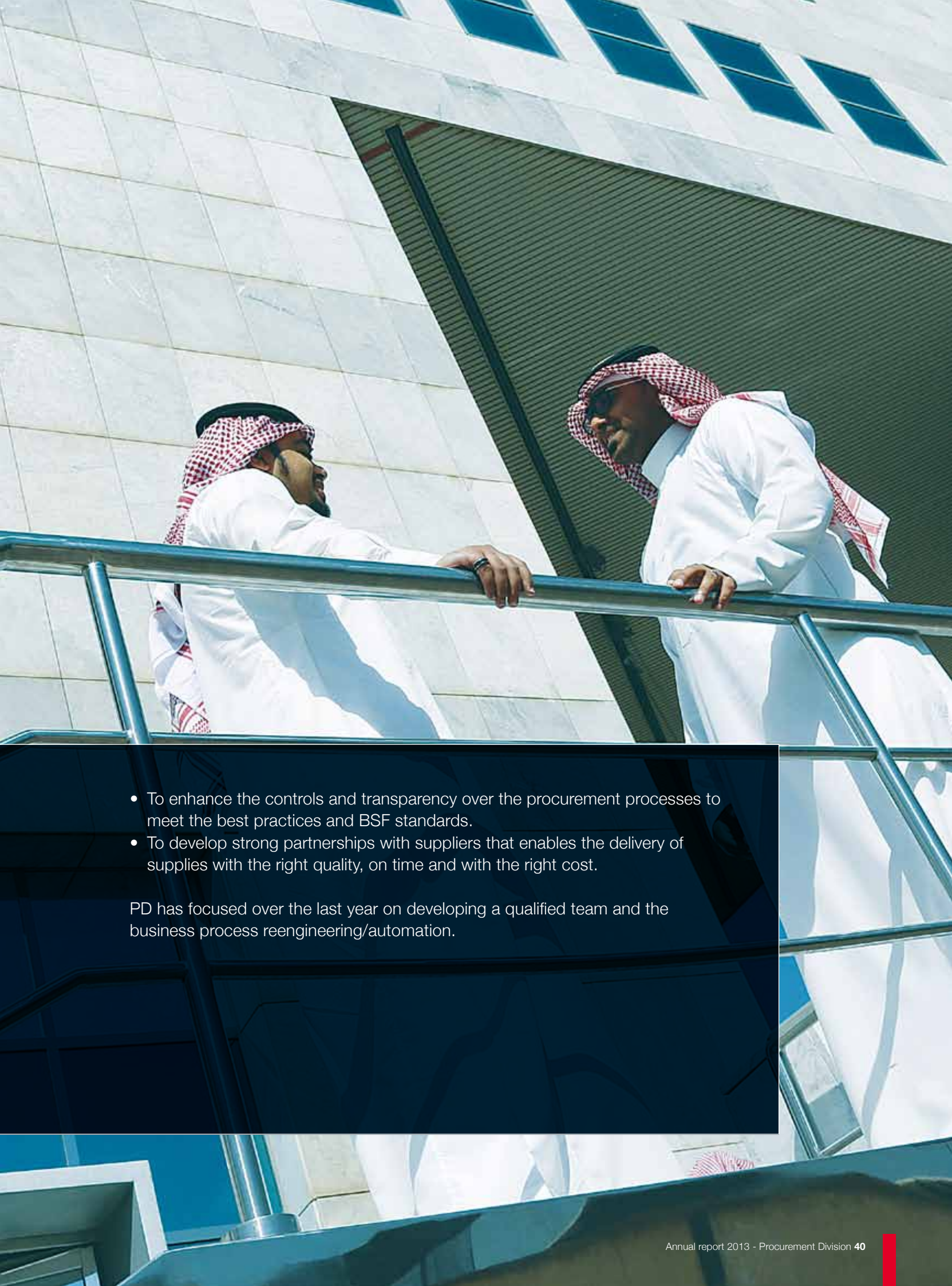




## Develop strong partnerships with suppliers that enables the delivery of supplies

Procurement Division (PD), established less than two years ago, has continued:

- To enhance the centralized operations of procurement functions through BSF.
- To work closely with the business lines to meet and focus on their requirements and aligning the PD processes with the strategic goals of all business lines.



- To enhance the controls and transparency over the procurement processes to meet the best practices and BSF standards.
- To develop strong partnerships with suppliers that enables the delivery of supplies with the right quality, on time and with the right cost.

PD has focused over the last year on developing a qualified team and the business process reengineering/automation.



**Coordinated the set-up of the new Medium Term Plan (2014-2016) validated by the Board of Directors**

Finance & Strategy Group gathers the Accounting & Financial Control Division (AFCD), the Financial Planning and Management Control Division (FPMCD), the Asset & Liability Management Department (ALMD) and the Corporate Communications Department.

AFCD ensures full compliance & maximum disclosure of information in the light of



International Financial Reporting Standards (IFRS) and regulatory guidelines by SAMA. The Division contributed significantly in ensuring a smooth transition from Basel II to the Basel III capital accord notably with the implementation of the Pillar 3 disclosure requirements. It plays a key internal control function positioned as second level of control providing necessary assurance for key operations and processes of the bank.

FPMCD is primarily in charge of the budget preparation and follow-up. In 2013, the Division has also coordinated the set-up of the new Medium Term Plan 2014-2016 validated by the Board of Directors in September 2013. This Plan was built-up as a bank-wide project with bottom-up approach allowing to empower managers with this new Medium Term Plan.

ALMD is in charge of managing interest rate risk and long-term liquidity risk of the Bank. It applies strict guidelines in ensuring that those 2 key risks for the Bank are in check and in line with the limits defined.



## Robust review and update of high-level succession plan

Move to operate HR based on human capital management concept take a great boost in 2013. Part of it is the robust review and update of high-level succession plan. At the forefront too is the continuous development of key talents through various development programs and the launching of new programs to ensure current and future supply of talents.





Aiming at retention as well, HR spearheads bringing work-life balance as a way to engage employees.

With the CA-CIB Senior HR Director together with Boston Consulting Group, a project to review the present HR operating model that includes governance, organization and processes started during the year. The objective of the review is to ensure an HR roadmap that is fully aligned with business strategy, likewise, to improve perceived quality of HR services and partnership with business.



**Including all regulatory affairs under one umbrella while regulatory and legal issues have become of critical importance**

## Governance, Compliance & Control Group



### **Compliance**

Compliance is responsible for driving a culture of compliance; establishing compliance program requirements and related policies; executing the monitoring and testing of business controls; performing risk assessments on the businesses' adherence to laws, rules and regulations in line with SAMA and other regulatory entities directives.

Compliance is also responsible for facilitating processes to effectively manage regulatory changes and maintain constructive relationships with regulators.

### **Legal**

Legal Division has been recently established as an independent and specialized Division within Governance, Compliance and Control Group reporting directly to Secretary General and Chief of Governance, Compliance and Control Group. The Division is entrusted with drafting, vetting, reviewing, negotiating and providing advice on the implementation of all agreements, contracts and other formal arrangements for operational activities of BSF with the related parties.



### **Governance**

The Governance, Compliance and Control Group was introduced in the second quarter of 2013 for the purpose of including all regulatory affairs under one umbrella while regulatory and legal issues have become of critical importance.

### **Secretariat General**

The Secretariat General provides administrative support to all departments of the bank in addition to the group of sister companies and associates.

The Secretariat also oversees the preparation of the Board of Directors' report as basis for preparing the financial results, in coordination with all concerned departments, to get the report and financial results published in the newspapers, the Official Gazette and Tadawul site.



## Establishing the concept of bank of excellence in the minds of the bank's employees

Corporate Communications Department continues its support to all departments of BSF and its subsidiaries, particularly, all marketing campaigns for the whole range of retail banking services and products.

This manifested itself in providing a full support in areas of exchange,



development and proper implementation of ideas in compliance with corporate identity to achieve BSF stated goals and plans.

In line with the new vision of senior management to achieve the “Bank of Excellence” and the medium-term plan 2014–2016, Corporate Communications Department has been working on the development of the necessary tools of the design work, advertising gifts, logos and messages to establish the concept of bank of excellence in the minds of the bank’s employees and become a reality in terms of thinking, belief, work, compliance and quality.



## Improvements in Audit Division have started to be felt in various areas of BSF

Audit Division (AD) provides Audit Committee and Management with independent assessment on:

- Adequacy of Internal Controls
- Effectiveness of Risk Management
- Compliance with policies and procedures as well as applicable rules and regulations



Year 2013 was a period of transformation for Audit during which different approach was applied and staffing was reinforced both in quality and quantity while performing normal Audit duty as well as unplanned activity. Improvements in Audit have started to be felt in various areas of BSF where Audit helped in increasing efficiency and designing stronger controls in order to avoid operational incidents.



**In 2013, SFC closed the highest number of IPO transactions in the Kingdom of Saudi Arabia**

## Saudi Fransi Capital



In 2013, Saudi Fransi Capital was one of the most active investment banking companies, having completed a total of eight investment banking transactions. SFC acted as the sole financial advisor and lead manager for the initial public offering of Bawan Company; the largest premium IPO in KSA in 2013. Coupled with the IPO of ANB-AIG Cooperative Insurance Company, at which SFC acted as the sole financial advisor and underwriter. In 2013, SFC closed the highest number of IPO transactions in KSA, IPOs of Saudi Airlines Catering and Najran Cement Company and the Rights Issue for Sahara Petrochemicals and Zain KSA.

In 2013, SFC closed a total of three Sukuk transactions with an aggregate value of approximately SAR 6.8 billion.

In 2013, SFC completed the sale of a 60% stake in Abahsain Fiberglass to Chongqing Polycomp International Corporation, a Chinese publicly listed company.

SFC continues to provide best in class advice and execution service to its clients and strives to become a one-stop solution in investment banking requirements.





#### **Fransi Tadawul (Brokerage and Related Services)**

On the Fransi Tadawul, 2013 was a good year for international brokerage as our revenue in that activity increased by around 170%. Moreover, 2013 witnessed another significant achievement through the launch of our new and revamped trading platforms.

#### **Fransi Tharawat (Asset Management, Research & Advisory)**

2013 was a very strong year for asset management, with double digit growth in both AUMs and revenues.

Asset Management started Real Estate Fund Management as a new activity in 2013, A unique US private equity fund was structured and launched during the year, SFC further entered into a prestigious distribution agreement with Blackrock, which is the world's largest asset manager,

#### **Specialized Services Division**

The Specialized Services was developed in order to be the representative of Saudi Fransi Capital to Institutional Clients, its responsibilities consist of developing new profitable services with a market demand.

In overall 2013 has been a successful year for Specialized Services with large developments and successes, allowing us to enter into the New Year with a strong foothold.



**The Company showed in 2013 its ability to manage growth of both its revenue and of its net profit**

In a challenging environment, the Company showed in 2013 its ability to manage growth of both its revenue and of its net profit, reaching its best results since its establishment.

For 2014 and the subsequent years, we have established plans to continue developing profitable growth with the aim to be amongst one of the leading.



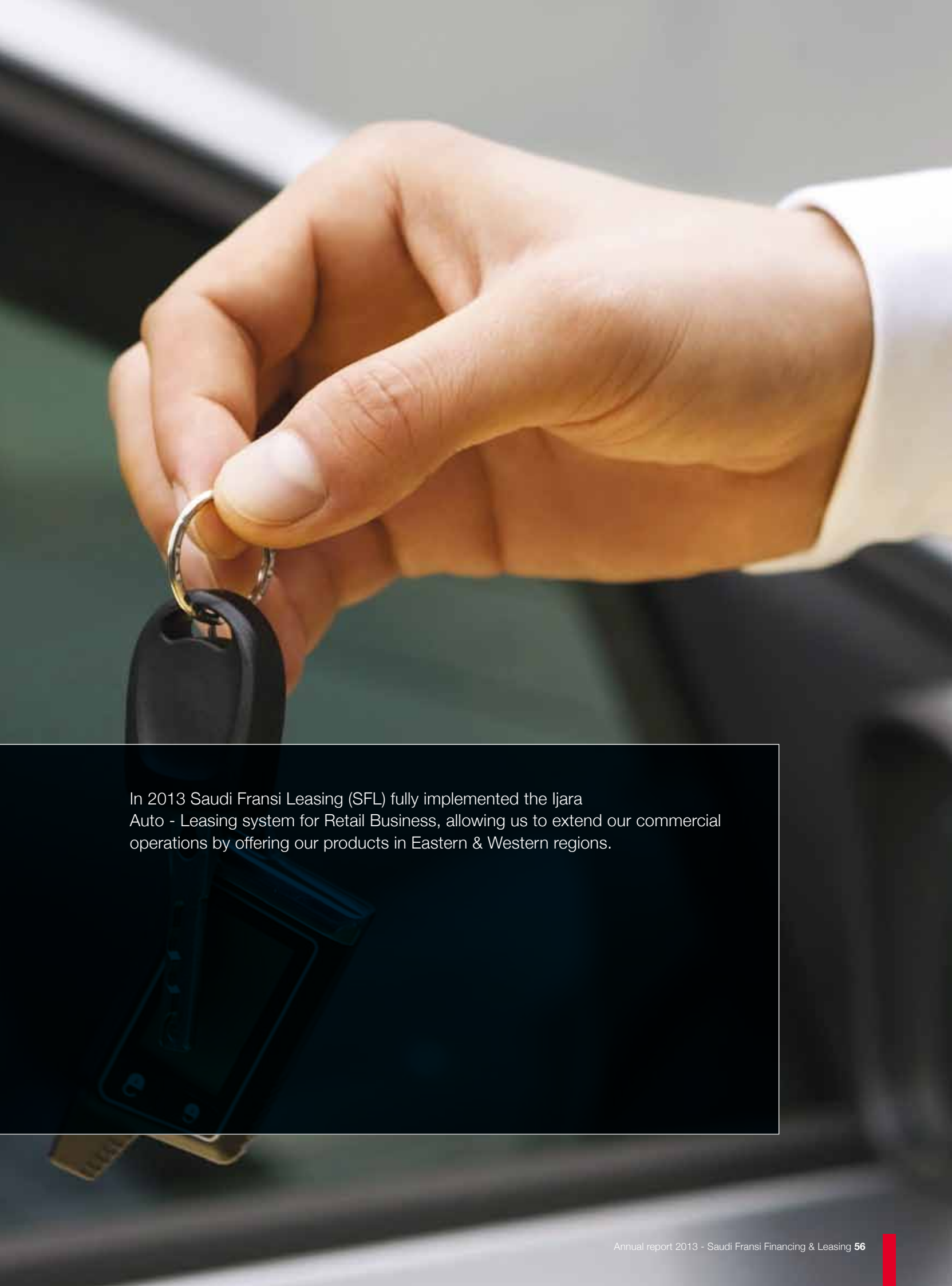
**Allianz @ Arena**

Insurance companies in the Kingdom fulfilling Retail and Corporate customer needs with modern and innovative insurance solutions in various lines of business and through easy access to customers by various channels of distribution and highly motivated employees.



## **Saudi Fransi Leasing has been able to make its presence felt in the Auto Leasing market segment**

During 2013, Saudi Fransi Leasing (SFL) witnessed soft launching, progressive revamping of activities and focusing on the promising leasing market



In 2013 Saudi Fransi Leasing (SFL) fully implemented the Ijara Auto - Leasing system for Retail Business, allowing us to extend our commercial operations by offering our products in Eastern & Western regions.



## Activity adequately followed up by Secretary of Audit Committee

## Audit Committee



Chairman: **Mr. AbdulRahman AlRashed**,  
Member, Board of Directors of BSF

Members: **Mr. Jean-Pierre Tremenbert**  
Head of Inspection Generale of CA-CIB  
**Mr. Eid Alshamri**  
CEO of Ithraa Capital  
**Dr. Abdullah Al-Muneef**  
Member of Shura Council  
**Dr. Mohammad Ikhwan**  
Advisor to H. E. Minister of Labor

Secretary: **Mr. Athar Iqbal**  
Chief Internal Auditor of BSF

Saudi Arabian Monetary Agency (SAMA) approved nomination by BSF Board of Directors of above members of Audit Committee for a three-year term beginning on 01/01/2013.

BSF Audit Committee meets some seven times a year in order to adequately cover all significant topics of BSF requiring its close monitoring. It reviews Quarterly and Annual Financial Statements of BSF with External Auditors and recommends their approval to BSF Board as required by SAMA and CMA.



Main items of Audit Committee activity are documented and reported to BSF Board of Directors and are adequately followed up by Secretary of Audit Committee (Chief Internal Auditor) with BSF Management.

Audit Committee is actively involved in risk assessment used for defining three year Audit Plan and evaluation of performance of Internal Audit as well as External Auditors. It regularly reviews main risks related to BSF activities, quality and adequacy of Internal Controls. Audit Committee is informed and briefed not only by Chief Internal Auditor and External Auditors but also directly by relevant sectors of BSF as well as subsidiaries or joint venture companies when required.

Audit Committee is involved in selecting External Auditors and recommending them for approval to Board.

Audit Committee is regularly updated by Head of Compliance on fraud cases, new regulations and pronouncements as well as significant breaches of compliance. It is also briefed by Chief Risk Officer on Risk Management and Internal Control setup and is informed of significant items related to Internal Control Committee.

Audit Committee continuously supported Internal Audit by providing it with adequate organization, staffing, tools and means for independence. It also followed activities of Audit very closely as well as rate of implementation of recommendations.

# Independent Auditors' Report



To the Shareholders of Banque Saudi Fransi  
(A Saudi Joint Stock Company)

We have audited the accompanying consolidated financial statements of Banque Saudi Fransi (the "Bank") and its subsidiaries, which comprise the consolidated statement of the financial position as at 31 December 2013, and the consolidated income statement, statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes from (1) to (44). We have not audited notes (40) and (41), and the information related to "Basel III - Capital structure and Pillar 3 disclosures" cross-referenced therein, which are not required to be within the scope of our audit.

## Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Accounting Standards for Financial Institutions issued by the Saudi Arabian Monetary Agency ("SAMA"), International Financial Reporting Standards, the provisions of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia, the Bank's Articles of Association, and 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 the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amount and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment the assessment of the risks of material misstatement of the consolidated financial statement, 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.



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

- Present fairly, in all material respects, the financial position of the Bank and its subsidiaries as at 31 December 2013, and their financial performance and cash flow for the year then ended in accordance with Accounting Standards for Financial Institutions issued by the Saudi Arabian Monetary Agency and with International Financial Reporting Standards.
- Comply with the requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's Articles of Association in so far as they affect the preparation and presentation of the consolidated financial statements.

PricewaterhouseCoopers  
P.O. Box 8282  
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Kingdom of Saudi Arabia



Mohammed A. Al Obaidi  
Certified Public Accountant  
Registration No. 367



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P.O. Box 92876  
Riyadh 11663  
Kingdom of Saudi Arabia



Tareq A. Al Sadhan  
Certified Public Accountant  
Registration No. 352



9 Rabi Al Thani 1434H  
February 9, 2014



## Board of Directors' Report



The Board of Directors is pleased to present its report for the FY 2013

### 1. Establishment

Banque Saudi Fransi, Saudi Joint Stock Company, Mathar St., P.O.Box 56006 Riyadh 11554, KSA, was established in accordance with the Royal Decree No. m/ 32 dd 17 Jumada II 1397 (4 June 1977). Following the transfer of Banque de l'Indochine et de Suez operations in Saudi Arabia, Banque Saudi Fransi officially commenced its operations on 4 Safar 1410 (September 5, 1989) under CR No. 1010073368. Banque Saudi Fransi has a branch network of 83 branches (86 in 2012). The Bank's employees number 2988 (2677 in 2012).

The objectives of Banque Saudi Fransi include the offer of banking products and services in addition to the offer of Islamic products approved by an independent Shariah Board.

### 2. BSF's Affiliates:

Saudi Fransi Capital (SFC): BSF owns 99% of the company while 1% is indirectly owned by a director. SFC's line of business includes brokerage, asset management and corporate finance.

Saudi Fransi Insurance Agency: 100% ownership by BSF and performs insurance brokerage activities since Jan 2012.

Saudi Fransi Leasing: BSF owns 100% share capital.

Sakan Company: BSF owns 100% share capital.

BSF acquired an additional 50% shareholding in Sofinco SF (previously an associate with 50% share in equity) to achieve a 100% ownership of the company. Sofinco SF's consumer financing and net assets were transferred to SF Leasing. Sofinco SF's shareholders agreed to liquidate the company after finalizing the transfer of the assets and liabilities and settlement of all legal obligations.

BSF owns 32.5% of the share capital of Allianz SF

BSF also owns 10.9% shareholding in Saudi Credit Information Co (Simah) which offers consumer and commercial credit information services to respective members in the Kingdom of Saudi Arabia. The Bank also owns share capital in Saudi Traveller Checks Co.

All the companies mentioned above are existing and established in KSA.

The bank has investment in associates and owns 27% shareholding in Banque Bemo Saudi Fransi (entered on 04.01.2004) incorporated in Syria and 10% shareholding in Banque Bemo Lebanon (entered on 01.08.2008) incorporated in Lebanon. BSF is no longer represented in the board of directors of BBSF Syria and Bemo Lebanon with effect from 26.11.2011. BSF's decision was duly communicated to the major partners.

BSF Sukuk Ltd: BSF owns the company which has no capital and was established as Special Purpose Vehicle in the Cayman Islands to issue shariah compliant Sukuk of USD 750 million in May 2012.

### **3. Growth:**

Over the years, BSF activities continued to develop, thus supporting its financial strength and leading position in the Saudi market and positioning it as one of the modern and effective financial institutions totally qualified to stand before future challenges. BSF kept working actively on developing shariah compliant branches, products and services in the areas of retail banking, investment services and treasury.

#### 4. Financial Highlights of 2013 and 2012:

Description	31/12/2013 (Million SR)	31/12/2012 (Million SR)	%
Net Income	2,406	3,015	-20.2
Total Operating Income	5,053	5,010	0.86
Net Special Commission Income	3,363	3,306	1.72
Total Assets	170,057	157,777	7.78
Investments, net	34,299	27,498	24.73
Loans and Advances, net	111,307	102,785	8.29
Customers' Deposits	131,601	115,572	13.87
Earnings per share (SR)	2.66	3.34	-

#### 5. Consolidated Statement of Financial Position as at 31 Dec 2013 and 2012

SAR' 000	2013	2012
<b>Assets</b>		
Cash and balances with SAMA	18,139,603	15,233,244
Due from Banks and other financial institutions	1,545,091	5,435,376
Investments, net	34,298,873	27,497,999
Loans and advances, net	111,306,904	102,785,372
Investments in associates, net	166,270	171,948
Properties and equipment, net	619,918	641,305
Other assets	3,980,015	6,012,058
<b>Total Assets</b>	<b>170,056,674</b>	<b>157,777,302</b>
<b>Liabilities and Equity</b>		
<b>Liabilities</b>		
Due to banks and other financial institutions	3,667,893	5,662,468
Customers' deposits	131,601,187	115,571,767
Term Loans	-	1,778,306
Debt Securities and Sukuks	7,130,101	7,130,041
Other liabilities	4,440,862	4,947,902
<b>Total liabilities</b>	<b>146,840,043</b>	<b>135,090,484</b>
<b>Equity</b>		
Capital	9,040,179	9,040,179
Statutory reserve	9,040,179	7,553,621
General reserve	982,857	982,857
Other reserves	268,668	892,378
Retained earnings	3,884,748	3,407,783
Proposed dividend	-	810,000
<b>Total equity</b>	<b>23,216,631</b>	<b>22,686,818</b>
<b>Total liabilities and equity</b>	<b>170,056,674</b>	<b>157,777,302</b>

## 6. Consolidated Statement of Income for the Years ended December 31, 2013 and 2012

SAR' 000	2013	2012
Special commission income	4,257,050	4,069,280
Special commission expenses	893,747	763,503
<b>Net special commission income</b>	<b>3,363,303</b>	<b>3,305,777</b>
Fees and commission income, net	1,149,565	1,173,483
Exchange income, net	281,839	246,519
Trading income, net	105,712	138,034
Dividend income	21,423	21,379
Gains on non trading investments, net	80,184	78,771
Other operations income	50,509	45,588
<b>Total operating income</b>	<b>5,052,535</b>	<b>5,009,551</b>
Salaries and employee related expenses	952,546	875,686
Rent and premises related expenses	165,707	137,483
Depreciation and amortization	128,483	129,598
Other general and administrative expenses	422,521	406,426
Impairment charge for credit losses, net	957,420	455,175
Impairment charge for Investment, net	8,529	(11,250)
Other operating expenses	15,077	3,098
<b>Total operating expenses</b>	<b>2,650,283</b>	<b>1,996,216</b>
<b>Net operating income</b>	<b>2,402,252</b>	<b>3,013,335</b>
Share in earnings of associates, net	3,323	1,801
<b>Net income for the year</b>	<b>2,405,575</b>	<b>3,015,136</b>
<b>Basic and diluted earnings per share</b>	<b>2.66</b>	<b>3.34</b>

## 7. Consolidated Statement of Comprehensive Income for the Years ended December 31, 2013 and 2012

SAR' 000	2013	2012
Net income of the year	2,405,575	3,015,136
<b>Other comprehensive income (loss):</b>		
Items that can be recycled back to consolidated statement of income in future		
<b>Available for sale investments</b>		
Net change in the fair value	71,286	41,173
Net amount transferred to consolidated statement of income	(74,034)	(5,204)
<b>Cash flow hedge</b>		
Effective portion of change in the fair value	(77,233)	566,255
Net amount transferred to consolidated statement of income	(543,729)	(585,869)
<b>Total comprehensive income for the year</b>	<b>1,781,865</b>	<b>3,031,491</b>

## 8. Financial Highlights for the last 5 years

SAR' 000	2013	2012	2011	2010	2009
Total assets	<b>170,056,674</b>	157,777,302	140,479,958	123,218,330	120,572,438
Investments and investments in associates, net	<b>34,465,143</b>	27,669,947	16,840,066	20,026,343	17,625,570
Loans and advances, net	<b>111,306,904</b>	102,785,372	92,325,042	80,976,587	78,315,196
Total liabilities	<b>146,840,043</b>	135,090,484	120,824,631	105,195,282	104,820,658
Customers' deposits	<b>131,601,187</b>	115,571,767	109,963,411	93,529,251	91,237,118
Total equity	<b>23,216,631</b>	22,686,818	19,655,327	18,003,661	15,732,673
<b>Total operating income</b>	<b>5,052,535</b>	5,009,551	4,584,774	4,395,229	4,294,907
<b>Total operating expenses</b>	<b>2,650,283</b>	1,996,216	1,657,484	1,597,900	1,799,663
Share in earnings/ (losses) of associates, net	<b>3,323</b>	1,801	(16,348)	3,958	(27,439)
Net income	<b>2,405,575</b>	3,015,136	2,910,942	2,801,287	2,467,805
Net special commission income	<b>3,363,303</b>	3,305,777	3,137,071	3,065,857	3,050,289
Fees from banking services, net	<b>1,149,565</b>	1,173,483	1,050,052	887,043	840,254
Impairment charge for credit losses, net	<b>957,420</b>	455,175	157,908	339,344	574,621
Salaries and employees related expenses	<b>952,546</b>	875,686	828,111	708,633	642,589
Number of employees	<b>2,988</b>	2,677	2,788	2,594	2,460

## 9. Bank's Major Business Lines

The organizational changes validated by the Board of Directors in December 2011 were completed in 2012 and has been described in the previous Board of Directors report. As part of this framework, the Governance, Compliance and Control Group (GCCG) was established during Q2, 2013 to consolidate all organizational and regularity matters under one umbrella, at a time when compliance and legal matters began to gain vital importance. The purpose also includes consolidating certain functions, simplify operations and generally develop a compliance and control infrastructure in accordance with the regulations of SAMA, CMA and other regulators.

### Business sectors

The major business lines of the Bank are determined according to internal reports which are constantly reviewed by the main decision makers of the Bank for the distribution of resources among business lines and for assessing their performance. Transactions among business lines are processed according to the conditions approved by senior management and are booked according to BSF's internal transfer rates policy. These terms and conditions are consistent with the standard commercial terms. The reported incomes from external parties are measured in a way identical to that recorded in the consolidated income statement and are according to the normal commercial terms and conditions. There were no changes on operating sector determination basis or the sectors' income/ loss measurement basis since 31 Dec 2012. BSF's major business activities are located in KSA.

The Business Segments presented above are defined as follow:

#### 9.1. Retail Banking:

Incorporates private and small establishment customers' demand accounts, overdrafts, loans, saving accounts, deposits, credit and debit cards, personal loans and certain forex products. This Business Segment covers three Business Lines within BSF: Retail Banking Group, Wealth Management Group and High Net worth Group.

#### 9.2. Corporate Banking:

Incorporates corporate demand accounts, deposits, overdrafts, loans and other credit facilities and derivative products. This Business Segment covers two Business Lines within BSF: Corporate Banking Group and Business Banking Group.

#### 9.3. Treasury:

Incorporates treasury services, trading activities, investment securities, money market, Bank's funding operations and derivative products. This Business Segment covers one Business Line within BSF: Global Markets Group.

#### 9.4. Brokerage and Investment:

Incorporates equity brokerage, asset management and corporate finance services. This Business Segment covers primarily Saudi Fransi Capital.

Through its affiliates, BSF performs negotiation, management, arrangements, consultation, custody, management of local and international shares, brokerage and insurance.

#### 9.5. The Bank's Business segments

As at December 31, 2013 and 2012, its total operating income and expenses, and its net income for the years then ended by business segments are as follows:

SAR' 000	Retail banking	Corporate banking	Treasury	Brokerage and Investment	Total
<b>2013</b>					
Total assets	16,006,414	98,733,562	53,413,201	1,903,497	170,056,674
Investment in associates, net	-	-	166,270	-	166,270
Total liabilities	66,101,013	65,806,674	13,230,948	1,701,408	146,840,043
Total operating income	1,450,363	2,518,980	806,201	276,991	5,052,535
Share in earnings of associates, net	-	-	3,323	-	3,323
Total operating expenses	1,193,618	1,115,353	177,096	164,216	2,650,283
Net income for the year	256,745	1,403,627	632,428	112,775	2,405,575
<b>Results</b>					
Net special commission income	1,166,997	1,780,745	375,797	39,764	3,363,303
Fees and commission income, net	193,184	732,538	(13,384)	237,227	1,149,565
Exchange income, net	46,399	-	235,440	-	281,839
Trading income, net	-	-	105,712	-	105,712
Impairment charges for credit losses, net	234,883	722,537	-	-	957,420
Depreciation and amortization	89,738	17,074	12,047	9,624	128,483
<b>2012</b>					
Total assets	15,769,666	90,979,517	49,975,274	1,052,845	157,777,302
Investment in associates, net	-	-	171,948	-	171,948
Total liabilities	53,797,177	61,828,944	18,583,551	880,812	135,090,484
Total operating income	1,415,054	2,337,384	920,714	336,399	5,009,551
Share in earnings of associates, net	-	-	1,801	-	1,801
Total operating expenses	1,111,078	568,851	167,664	148,623	1,996,216
Net income for the year	303,976	1,768,533	754,851	187,776	3,015,136
<b>Results</b>					
Net special commission income	1,151,889	1,656,735	477,435	19,718	3,305,777
Fees and commission income, net	181,962	676,514	(1,674)	316,681	1,173,483
Exchange income, net	39,974	-	206,545	-	246,519
Trading income, net	-	-	138,034	-	138,034
Impairment charges for credit losses, net	226,849	228,326	-	-	455,175
Depreciation and amortization	88,110	18,625	17,206	5,657	129,598

#### 9.6. Geographical Distribution

Following is a table showing income per province (Eastern, Western, Central, HO and affiliates) for 2013.

##### BSF and Affiliates (excluding SFC)

SAR' 000 / 2013	Eastern	Western	Central	HO	Bank
Income	942,552	1,028,384	1,453,864	1,354,067	4,778,867
Total Expenses (before provisions)	(144,195)	(196,040)	(195,625)	(984,258)	(1,520,118)
Provisions	(111,598)	(353,596)	(243,948)	(256,807)	(965,949)
Net Income	686,759	478,748	1,014,291	113,002	2,292,800

## SFC

SAR' 000 / 2013	Eastern	Western	Central	HO	Bank
Income	46,555	72,571	86,863	71,002	276,991
Expenses	-	-	-	(164,216)	(164,216)
Net Income	46,555	72,571	86,863	(93,214)	112,775

## BSF Group

SAR' 000 / 2013	Eastern	Western	Central	HO	Bank
Income	989,107	1,100,955	1,540,727	1,425,069	5,055,858
Total Expenses (before provisions)	(144,195)	(196,040)	(195,625)	(1,148,474)	(1,684,334)
Provisions	(111,598)	(353,596)	(243,948)	(256,807)	(965,949)
Net Income	733,314	551,319	1,101,154	19,788	2,405,575

## 10. Investment Portfolio

### 10.1. Investments, net

Investments consist of the following:

SAR' 000	2013			2012		
	Domestic	International	Total	Domestic	International	Total

#### i) Held as FVIS

Fixed rate securities	155,158	164,354	319,512	21,438	226,588	248,026
Floating rate securities	1,530	-	1,530	53,759	-	53,759
Equities	5,130	-	5,130	8,996	-	8,996

<b>Held as FVIS</b>	<b>161,818</b>	<b>164,354</b>	<b>326,172</b>	<b>84,193</b>	<b>226,588</b>	<b>310,781</b>
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#### ii) Available for sale (AFS)

Fixed rate securities	53,624	491,011	544,635	530,617	614,725	1,145,342
Floating rate securities	2,617,852	131,489	2,749,341	1,545,590	90,224	1,635,814
Equities	490,434	56,833	547,267	595,016	98,278	693,294
Other	4,025,936	-	4,025,936	3,263,211	-	3,263,211

<b>Available for sale</b>	<b>7,187,846</b>	<b>679,333</b>	<b>7,867,179</b>	<b>5,934,434</b>	<b>803,227</b>	<b>6,737,661</b>
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#### iii) Held to maturity

Fixed rate securities	3,639	-	3,639	709,587	-	709,587
Floating rate securities	10,000	-	10,000	-	-	-

<b>Held to maturity</b>	<b>13,639</b>	<b>-</b>	<b>13,639</b>	<b>709,587</b>	<b>-</b>	<b>709,587</b>
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#### iv) Other investments held at amortized cost, net

Fixed rate securities	26,006,883	-	26,006,883	19,654,970	-	19,654,970
Floating rate notes	85,000	266,250	351,250	85,000	363,750	448,750

<b>Other investments held at amortized cost, gross</b>	<b>26,091,883</b>	<b>266,250</b>	<b>26,358,133</b>	<b>19,739,970</b>	<b>363,750</b>	<b>20,103,720</b>
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Allowance for impairment	-	(266,250)	(266,250)	-	(363,750)	(363,750)
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<b>Other investments held at amortized cost, net</b>	<b>26,091,883</b>	<b>-</b>	<b>26,091,883</b>	<b>19,739,970</b>	<b>-</b>	<b>19,739,970</b>
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<b>Investments, net</b>	<b>33,455,186</b>	<b>843,687</b>	<b>34,298,873</b>	<b>26,468,184</b>	<b>1,029,815</b>	<b>27,497,999</b>
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## 10.2. Breakdown of investments by counterparty

SAR' 000	2013	2012
Government and quasi government	26,809,053	21,028,831
Corporate	5,999,570	4,332,682
Banks and other financial institutions	1,404,300	2,061,064
Others	85,950	75,422
<b>Total</b>	<b>34,298,873</b>	<b>27,497,999</b>

## 10.3. Credit risk exposure on investments

SAR' 000	2013	2012
Saudi government bonds	26,133,231	20,863,854
Investment grade	1,764,084	2,374,474
Non-investment grade	-	-
Unrated	6,401,558	4,259,671
<b>Total</b>	<b>34,298,873</b>	<b>27,497,999</b>

The Saudi government bonds (SGB) include the Saudi development government bonds, treasury bonds and floating rate bonds.

Investment grade notes include the notes that are exposed to credit risks matching the risk stipulated by Standard & Poors from AAA to BBB. The unrated investments include local and foreign equities and Musharaka and Mudaraba investments for SAR 4,026 million (SAR. 3,263 million in 2012).

Investment held as FVIS represent investments held for trading and include Islamic securities of SAR 40 million (2012: SAR 22 million).

Available for sale investments include Islamic securities (Sukuk) of SAR 1,920 million (2012: SAR 1,524 million). Unrated investments include Saudi Government Bonds and Treasury Bills of SAR 26,133 Million (2012: SAR 20,864 million)

## 11. Term loans

The five year term loan of Euro 100 million was matured and fully settled during 2013. In addition, the Bank has also settled the five year tranche (USD 342 million) term loan matured in 2013.

## 12. Debt securities and Sukuks

In 2010, the Bank issued USD 650 million in 5 year non-convertible and unsecured fixed rate bonds, under its USD 2 Billion Medium Term Note program which is listed on the London Stock Exchange. The bonds pay a semi-annual coupon of 4.25% and are to be used for general banking purposes. The Bank also raised funds through medium term sharia compliant Sukuk of USD 750 million for 5 years in May 2012, under a USD 2 Billion program listed on the London Stock Exchange. In addition, the Bank issued a privately placed SAR 1,900 million unsecured subordinated Sukuk in December 2012 for a period of 7 years. The Sukuk is settled through the Tadawul depository system. However, the Bank has an option to repay the unsecured subordinated Sukuk after 5 years, subject to prior approval of SAMA and terms and conditions of the agreement.

## 13. Investments in associates

SAR' 000	2013	2012
Opening balance	171,948	170,789
Sale / transfer of investments	24,999	(642)
Impairment provision	(34,000)	-
Share of earnings	3,323	1,801
Closing balance	166,270	171,948

Investment in associates represents 27% shareholding in interest in the Banque BEMO Saudi Fransi (2012: 27%) and 32.5% shareholding in Saudi Fransi Cooperative Insurance Company (Allianz Saudi Fransi) (2012: 32.5%) incorporated in the Kingdom of Saudi Arabia. The quoted price of the Bank's investment in Saudi Fransi Cooperative Insurance Company (Allianz Saudi Fransi) as at December 31, 2013 was SAR 520 million (2012: SAR 344.5 million).

### 13.1. BSF's share of associates' Financial Statements

SAR' 000	BEMO Saudi Fransi		Allianz	
	2013	2012	2013	2012
Total Assets	833,379	1,105,130	477,239	364,241
Total Liabilities	769,590	1,006,740	421,057	309,817
Total Equity	63,789	98,390	56,182	54,424
Total Income	19,254	46,413	122,378	128,879
Total Expenses	15,653	38,862	117,909	125,986

13.2. The assets, liabilities and Issued share capital of subsidiaries are as follows;

SAR' 000	Saudi Fransi Capital		Saudi Fransi Leasing	
	2013	2012	2013	2012
<b>Assets &amp; Liabilities</b>				
Total Assets	2,588,856	1,673,820	137,018	101,806
Total Liabilities	1,701,039	880,813	40,640	4,966
Shareholders' Equity	887,817	793,007	96,378	96,840
Issued and paid up Share capital	500,000	500,000	100,000	100,000

The paid up share Capital of Sofinco Saudi Fransi and SAFIA is 100 Million and 0.5 Million respectively. The assets and liabilities of the other subsidiaries are not material.

### 13.3. Debt instruments of subsidiaries

There is no debt instruments issued by the subsidiaries i.e. Saudi Fransi Capital, Saudi Fransi Leasing, Sofinco and SAFIA.

13.4. The following table shows the outstanding loans and advances as of 31-12-2013 provided by BSF to its subsidiaries

SAR' 000	2013
<b>Name of the Subsidiary</b>	
Saudi Fransi Capital	1,662,492
Saudi Fransi Leasing	30,000
<b>Total</b>	<b>1,692,492</b>

The results of Sofinco Saudi Fransi were insignificant, and accordingly they were not disclosed in the consolidated financial statements. This also applies to BSF shareholding with Simah and Saudi Travelers Checks Co.

## 14. Capital Adequacy

The Bank's objectives when managing capital are, to comply with the capital requirements set by SAMA; to safeguard the bank's ability to continue as a going concern; and to maintain a strong capital base. Capital adequacy and the use of regulatory capital are monitored daily by the bank's management.

The bank monitors the adequacy of its capital using ratios established by SAMA. These ratios measure capital adequacy by comparing the bank's eligible capital with its statement of financial position assets, commitments and notional amount of derivatives at a weighted amount to reflect their relative risk. SAMA requires holding the minimum level of the regulatory capital of and maintaining a ratio of total regulatory capital to the risk weighted asset (RWA) at or above the agreed minimum of 8%.

SAMA has issued the framework and guidance regarding implementation of the capital reforms under Basel III – which are effective from January 1, 2013. Accordingly, the group's consolidated Risk Weighted Assets (RWA), total capital and related ratios on a consolidated group basis, calculated under the Basel III framework. For the purpose of presentation, the RWAs, total capital and related ratios as at December 31, 2013 are calculated using the framework and the methodologies defined under the Basel III framework. The comparative figures have not been reinstated in line with the Basel III accord.

SAR' 000	2013	2012
Credit Risk RWA	153,855,918	140,626,870
Operational Risk RWA	8,979,637	8,584,137
Market Risk RWA	3,048,275	3,300,569
<b>Total RWA</b>	<b>165,883,830</b>	<b>152,511,576</b>
Tier I Capital	23,056,227	22,348,029
Tier II Capital	2,793,813	2,793,700
<b>Total Tier I &amp; II Capital</b>	<b>25,850,040</b>	<b>25,141,729</b>
<b>Capital Adequacy Ratio %</b>		
Tier I ratio	13.90%	14.65%
Tier I + Tier II ratio	15.58%	16.49%

## 15. Basel III - Pillar 3 Disclosure

Under Basel III pillar 3, certain quantitative and qualitative disclosures are required, and those disclosures will be made available on the Bank's website [www.alfransi.com.sa](http://www.alfransi.com.sa) and the annual report, respectively as required by the Saudi Arabian Monetary Agency.

## 16. Provision for Credit Losses

The allowance for impairment of credit losses has reached to SAR 2,218 Million at the end of 2013 with coverage ratio of 146.19%.

The net charge to income (provision net of recoveries) of SAR 957 million (2012: SAR 455 million) in respect of impairment charge for credit losses for the year is net of recoveries of SAR 146 million (2012: SAR 110 million). The allowance for impairment includes SAR 923 million (2012: SAR 779 million) evaluated on a collective impairment basis.

## 17. Future Plans

A new Medium Term Plan covering 2014 - 2016 has been elaborated by Senior Management and endorsed by Board of Directors in September 2013. This new Medium Term Plan takes into account the evolution of the market and regulation and aims at ensuring a sustainable development of the Bank on the medium and long-run.

## 18. Macroeconomic perspectives

The Bank's Management considers that the economic environment remains supportive to develop the businesses of the Bank.

In terms of economic environment, overall GDP growth reached 3.8% in 2013 with GDP for non-oil sector growing at a solid 5.1%. Consensus projects a GDP growth of 3.5% to 4.5% in 2014.

High government spending will continue to feed the economy, supported by bank lending and healthy domestic consumption demand. The non-oil private sector remains also well orientated with a 5% growth expected in 2014.

BSF believes that those government expenditures will continue to trickle down into the economy at large providing a sound environment to develop the Bank's activities. The focus on the infrastructure development shall benefit BSF's Corporates clients while the Bank can also leverage on its recognized expertise in the project finance area to support those infrastructure programs.

On the negative side for the earnings of the Bank, interest rates levels are expected to stay low in 2014. Low interest rates have an impact on the yield of the investment portfolio limiting overall revenues growth capacity.

## 19. Strategy

The strategy of the Bank is geared at developing its activities so that each line of business show a well-balanced contribution to the net profit of the Bank.

BSF has been historically geared toward Corporates holding a leading position in the Corporate Banking sector but it is committed to continue developing its Retail Banking franchise to achieve a well-diversified source of revenues.

In a continuing low interest rate environment, BSF is also giving strong emphasis on the deployment of its assets and a higher contribution of its fee based businesses through systematic cross-selling implementation.

Retail Banking's asset slightly increased in 2013. After several years of very rapid expansion, Retail's business has indeed focused on market positioning and operational efficiency to consolidate its position. Leveraging on this sound base, we expect Retail Banking to continue its development in 2014 benefiting from positive market momentum.

Corporate Banking will maintain its strong market share in terms of assets and further increase its presence in the project finance sector. Corporate Banking will also be a key driver in the effort to develop a comprehensive and mutually beneficial relationship with BSF's Corporate Clients offering large scope of products and services.

## 20. BSF Credit ratings

Ratings	Standard & Poor's Ratings Services	Moody's Investors Service	Fitch Ratings
Long-term ratings	A	Aa3	A
Short-term ratings	A-1	P-1	F1
Outlook / Review	Positive	Stable	Stable
Last published credit opinion	02/10/2013	21/01/2014	20/12/2013

## 21. Shareholders' Equity (according to Para (a) and (b), Article 3 and Article 5, Corporate Governance, CMA)

BSF Articles of Association stipulates the following rights to the shareholders:

- Secure cash dividend payments as approved.
- Attend shareholders general meetings, participate in its deliberations and vote on decisions to be taken.
- Shares disposal right.
- The right to monitor the board of directors activities and initiate a liability suit against the directors.
- Access to information (but not to the detriment of the company's interests and not inconsistently with CMA Act and Regulations).
- In the event of expiry of the company's duration or in case of earlier termination, the extra ordinary general shareholders assembly will, upon the suggestion of the board of directors, decide the method of liquidation, appoint one or more liquidators and define their powers and fees.
- The powers of the board shall cease upon the winding up of the company. However the board will continue to manage the affairs of the company till the appointment of liquidators and the company's departments shall remain operational to an extent not inconsistent with the liquidators' jurisdiction.
- BSF affirms that it did not receive from the certified public accountants any request to hold a meeting of the shareholders during the expired financial year and that such meeting was not held.
- BSF also affirms that it did not receive from shareholders holding 5% or more share capital any request to hold a meeting of the shareholders during the expired financial year and that such meeting was not held.
- Announcements confirming dates, meeting places and the agendas of the shareholders meetings were published 20 days before every meeting.
- Invitations were published for the three shareholders meetings held during the year on Tadawul, the official gazette and local press: Riyad and Okaz on 26.01.2013 and Elyoum on 27.01.2013.
- BSF shall give the shareholders an access to the minutes of the General Assembly Meeting by submitting a request to SEG. BSF also shall inform the market media of the results of the General Assembly Meeting soon after its closing. BSF endeavors to comply with the regulators' directives.
- Para (b), Article 33, BSF Articles of Association, stipulates that the directors are elected according to the cumulative voting method. BSF also clarifies that Article 3, Corporate Governance, included several requirements related to the shareholders rights including the right to the company's assets upon liquidation. BSF states that this clause does not apply to BSF due to the absence of an explicit clause in the Articles of Association, However, Article 45, BSF Articles of Association, included matters related to liquidation and the related procedures according to Companies Act.

## 22. Profits Distribution Policy

The annual net profits are distributed after the deduction of costs and expenses, the creation of provisions for doubtful debts, investment losses, and the contingent liabilities as may be deemed appropriate by the board in accordance with Banking Act. The distribution shall be made as follows:

- 22.1. Zakat payable by Saudi shareholders and tax payable by the foreign shareholders will be calculated in line with the rules and regulations in force in the Kingdom of Saudi Arabia. The bank will pay such amount from the net income distributed to these parties.
- 22.2. The minimum of 25% of net profits will be transferred to the statutory reserve. The deductions will be continuously made until the reserve equals the amount of paid up capital of the bank.
- 22.3. After the deduction of statutory reserve, Zakat and income, an amount of profit not less than 5% of paid up capital shall be distributed among the Saudi and non-Saudi shareholders pro rata the paid value of shares of Saudis or non-Saudis according to the suggestions to be made by the board and approved by the shareholders. In the event that the amount of the remaining profits is insufficient to pay to the respective dividend to the concerned shareholders, the shareholders shall not demand the payment of dividends in the following year(s). The shareholders meeting shall not decide to pay profits in excess of the percentage proposed by the board of directors.

22.4. The balance after the payments made according to Items 1, 2 and 3 above will be used according to the board of directors' suggestion and the shareholders' decision.

22.5. When calculating statutory reserve and other provisions from net profits (after Zakat and tax), the share capital of the Saudi and non-Saudi shareholders must be maintained. The two sides of shareholders must contribute to these provisions pro rata their share capital. Their contributions shall be deducted from their respective shares in net profits.

## 23. Basic and diluted earnings per share

Basic and diluted earnings per share for the years ended December 31, 2013 and 2012 are calculated by dividing the net income for the year attributable to equity holders' of the bank by 904.0 million shares.

### Total Distributable Profits, Zakat and Income Tax

The Board of Directors has declared interim gross dividend of SAR 398 million (SAR 0.4 net per share). Total gross interim dividend to Saudi shareholders was SAR 274 million and total interim dividend to foreign shareholders was SAR 124 million. No final dividend has been proposed by the Board of Directors for the year 2013 (2012: SAR 0.80).

### Gross dividend

SAR' 000	2013	2012
Interim dividend	397,810	-
Final proposed gross dividend	-	810,000
<b>Total</b>	<b>397,810</b>	<b>810,000</b>

## 24. Zakat and Tax

According to the Saudi Zakat and tax laws, the Zakat and tax are considered obligations of both the Saudi and non-Saudi shareholders respectively.

Zakat is computed against the Saudi shareholders' part of the shareholders equity and/ or net income according to the principles described in the Zakat laws.

Income tax is computed against the non-Saudi shareholders' part in the annual net income.

Zakat attributable to the Saudi shareholders for the year amounted approximately to SAR 56 million (2012: SAR 60 million). Zakat included in interim gross dividend amounted to SAR 25 million and estimated Zakat for the second half of 2013 amounted to SAR 31 million which was deducted from retained earnings.

The Bank received Zakat / Tax assessment for the years 2010 and 2011. This assessment is primarily due to the disallowance of certain long-term investments from the Zakat base of the Bank. The Bank, in consultation with its advisors, has contested the assessment, and the Saudi banking industry has raised this issue with the regulator for a satisfactory resolution. At the current stage, a reasonable estimation of the exposure cannot be determined reliably.

## 25. Income tax

Income tax payable in respect of foreign shareholder – CA-CIB's current year's share of income tax is approximately SAR 154 million (2012: SAR 186 million). Tax deducted from the interim gross dividend amounted to SAR 90 million and estimated tax for the second half of 2013 amounted to SAR 64 million out of which 14 million was deducted from the retained earnings in proportion to foreign shareholding and remaining tax of SAR 50 million is claimed from the foreign shareholders.

The Zakat and incomes tax due on the shareholders are as follows:

SAR' 000	2013	2012
Zakat due by the Saudi shareholders	56,000	60,000
Income tax due by the non- Saudi shareholders (CA- CIB)	154,000	186,000
<b>Total</b>	<b>210,000</b>	<b>246,000</b>

## 26. Other Payments

SAR' 000 Type of Service	Saudi Offices	Resident Offices	Non Resident	Total
<b>2013</b>				
Administrative	2,436	21	10,008	12,465
Financial	650	-	10,469	11,119
Economic	-	-	-	-
<b>Grand Total</b>	<b>3,086</b>	<b>21</b>	<b>20,477</b>	<b>23,584</b>

<b>2012</b>				
Administrative	5,439	14	8,477	13,930
Financial	642	-	11,721	12,362
Economic	-	-	63	63
<b>Grand Total</b>	<b>6,081</b>	<b>14</b>	<b>20,261</b>	<b>26,355</b>

SAR' 000	2013	2012
GOSI paid memberships	61,134	54,767
Delay fines paid to GOSI	414	39
Passport Dept.	639	466
Labor Office	104	167
Visa Office	28	32
Chamber of Commerce, Ministry of Foreign Affairs	10	14
Visas	0.5	0.4
Saudi Engineers Association	3	6
Fines (ATM and others)	694	372

## 27. Board of directors (re Article 16 of BSF Articles of Association)

BSF's BOD consists of 10 directors. According to BSF's Articles of Association, the Saudi directors are selected by the shareholders for 3 years. Written policies and procedures were laid down and being implemented in relation to the board membership. The principles stated in BSF's articles of association and those laid down by SAMA, as well as in companies act and corporate governance are being complied with.

The present BOD duration extends from 1.1.2013 till 31.12.2015 (voting was conducted as per Article 33 (b) of the articles of association according to the cumulative voting method).

The independent members of the board are now four representing more than one third of the board members. According to the regulations, the membership shares (1000 shares per director) were booked. BSF shall immediately inform CMA and the market of any termination of board membership along with the reasons. There has been no change in the board structure for the present board term which expires on 31.12.2015.

### 27.1. The Saudi Directors

Dr. Saleh Abdulaziz Al-Omair	Chairman	Independent
Mr. Abdulrahman Rashed Al-Rashed	Member	Non-executive
Mr. Ibrahim Mohammad Al-Issa	Member	Independent
Mr. Abdulaziz Habdan Al-Habdan	Member	Non-executive (GOSI rep)
Dr. Khaled Hamed Mutabagani	Member	Independent
Mr. Mousa Omran Al-Omran	Member	Independent
Mr. Abdulrahman Amin Jawa*	Member	Non-executive

(\*) Status changed from executive to non-executive owing to the resignation from his post as DMD on 21.10.2013.

### 27.2. The Non-Saudi Directors (representing the foreign partner, CA CIB)

Mr. Francois Patrice Raymond Couvegnes	Managing Director Member (executive)
Mr. Thierry Paul Michel Marie Simon	Member (non-executive)
Mr. Marc Oppenheim	Member (non-executive)

In 2012, BOD held 4 meetings, at an attendance rate of 100%. Following is the attendance record of the subject meetings:

Name	Status	1st meeting 30.2.2013	2nd meeting 3.4.2013	3rd meeting 17.7.2013	4th meeting 19.9.2013	5th meeting 11.12.2013
Saleh Al-Omair	Independent	✓	✓	✓	✓	✓
Khalid Mutabagani	Independent	✓	x	✓	✓	✓
Ibrahim Al-Issa	Independent	✓	✓	✓	✓	✓
Mousa Al-Omran	Independent	✓	x	✓	✓	✓
Abdulrahman Al-Rashed	Non-Executive	✓	✓	✓	x	x
Abdulaziz Al-Habdan	Non-Executive	✓	✓	✓	✓	✓
Abdulrahman Jawa	Non-Executive	✓	✓	✓	✓	✓
Thierry Simon	Non-Executive	✓	✓	✓	✓	✓
Marc Oppenheim	Non-Executive	✓	✓	✓	✓	✓
Patrice Couvegnes	Executive	✓	✓	✓	✓	✓

(✓) Attended (x) Not attended.



## 28. The board of directors approved the following in 2013:

1. The approval of the selection and structure of EC, Audit Committee, Remuneration Committee, Social Donation Committee and Risk Committee. The terms of these committees will end on 31.12.2015.
2. Approved Medium Term Plan (2014 – 2016)
3. Authorizing Audit Committee to take the measures for evaluating RBG activities.
4. The approval of the amended policy for Remuneration Committee.
5. The approval of Share Dividend Payment Policy (in addition to matters in BSF's Articles of Association).
6. The approval of the Independence Form - Self Disclosure for Board Members.
7. Violation reporting.
8. The reconstitution of members to the board of directors of Saudi Fransi Insurance Agents Co and SFL.
9. The approval of the BSF Administrative Restructuring which was presented to the Board on 14.12.2011 and the creation of GCCG.
10. Technical Service Agreement renewal for 3 years with CACIB.

28.1. The following BSF Directors are also members in the board of directors in other companies as follows:

Director's Name	Name of other company	Capacity
Dr. Saleh Al-Omair	- Orix Leasing SA - Saico	Chairman Chairman
Abdulrahman Al-Rashed	-	-
Ibrahim Al-Issa	- Taiba Holding - Al-Maraie Co - Yanbu Cement - Savola Group	Chairman Director Director Director
Abdulaziz Al-Habdan	- STC - SABIC	Director Director
Khaled Mutabagani	-	-
Mousa Al-Omran	- Savola Company - Al-Maraie Co - Arabian Cement	Director Director Director
Patrice Couveignes	-Allianz SF (representing BSF)	Director
Abdulrahman A. Jawa	-Allianz SF (representing BSF)	Director
Marc Oppenheim	-	-
Thierry Simon	-	-

28.2. BSF directors/ senior executives, their wives and minor children own the following BSF shares as at 31.12.2013:

#### BSF Directors

Name	Shares owned at the start of the year 2013	Ownership percentage at the beginning of the year	Change Number of shares	Change %	Shares owned at year end 2013	Shares owned at year end percentage
Saleh Al-Omair	443,330	0.05%	-	-	443,330	0.05%
Ibrahim AL-Issa	3,750	0%	-	-	3,750	0%
Abdulaziz Al-Rashed	2,000	0%	-	-	2,000	0%
Abdulrahman A. Jawa and family	25,795	0%	190	-	25,985	0%
Khalid Mutabagani	44,718	0%	-	-	44,718	0%
Mousa Al-Omran and his family	599,135	0.06%	181,954 (wife's name)	0.02%	781,089	0.08%

#### BSF Senior Executives

Name	Shares owned at the start of 2013	Ownership percentage	Change Number of shares	Change %	Shares owned at year end 2013	Shares owned at year end percentage
Abdulaziz Omar Othman	4,821	0%	-	-	4,821	0%
Ahmad Jawdat and his family	2,082	0%	(1,587)*	-	495	0%
Mazen Tamimi and his family	696,788	0.08%	-	-	696,788	0.08%

(\*) The change in percentage was too small to be mentioned as compared to the number of shares.

## 29. Share Ownership

According to Article 30, CMA Listing Rules, BSF top shareholders as at 31.12.2013 are as follows:

#### Major shareholders, other than directors or senior executives, holding 1% or more:

Name	Shares owned at the start of the year	Ownership percentage	Change Number of shares	Change % during the year	Shares owned at year end	Shares owned at year end percentage
CA CIB	281,250,000	31.11%	-	-	281,250,000	31.11%
GOSI	116,084,583	12.84%	4,061,938	0.45%	120,146,521	13.29%
Rashed Al-Rashed & Sons	88,866,401	9.83%	-	-	88,866,401	9.83%
Masek Holding*	37,500,000	4.15%	2,500,000	0.27%	40,000,000	4.42%
Mohammad I Al-Issa*	7,750,000	0.86%	(7,750,000)	0.86%	-	-
SAMBA Private Investment Fund 1	18,174,507	2.01%	-	-	18,174,507	2.01%
Pension Gen Org	12,894,056	1.43%	3,701,645	0.06%	16,595,701	1.84%
Omran Al-Omran	16,482,853	1.82%	-	-	16,482,853	1.82%
Adnan Bouqari	13,644,045	1.51%	-	-	13,644,045	1.51%
Ibrahim Al-Touq	12,493,740	1.38%	-	-	12,493,740	1.38%
Hamed Mutabaqani	12,473,415	1.38%	-	-	12,473,415	1.38%
Al-Olayan Saudi Investment Ltd	9,308,513	1.03%	(38,720)	-	9,269,793	1.03%

\* Representing change in the number of shares due to the increase of capital and some transactions made during 2013: GOSI (purchase), Pension Gen Org (purchase), M Al-Issa/ Masek Holding (share transfer), and sale/ purchase transactions involving investment portfolio.

### 30. Assignment of interests by BSF Directors/ Executives/ shareholders

BSF is not aware of any arrangements or agreements whereby any director/ senior executive/ shareholder had assigned interests or rights to dividends.

### 31. Dealing with Related Parties

During the course of business, BSF deals with interested parties. The management and the board of directors see that dealings with interested parties were done under the same terms of dealing with other parties. Dealing with interested parties is subject to the ratios stated in Banking Act and SAMA directives. The concerned department is committed to providing periodical reports to the EC, BOD and Audit Committee regarding full information about such dealing and securing the necessary approval according to the laws and regulations.

The balances resulting from such dealing as at 31 Dec 2013 and 2012 as reflected in the consolidated financial statements:

SAR' 000	2013	2012
<b>CA-CIB Group</b>		
Due from banks and other financial institutions	53,858	1,659,860
Due to banks and other financial institutions	119,504	191,526
Derivatives at fair value, net	47,675	14,371
Commitments and contingencies	3,051,105	1,905,196
<b>Associates</b>		
Investments	166,270	171,948
Loans and advances	-	50,010
Due to banks and other financial institutions	75,760	45,023
Customers' deposits	-	18,065
Commitments and contingencies	-	5,050
<b>Directors, auditors, other major shareholders' and their affiliates</b>		
Loans and advances	2,323,046	2,541,138
Customers' deposits	3,991,011	4,022,698
Derivatives at fair value, net	-	(68,022)
Commitments and contingencies	561,650	1,129,506
<b>Bank's mutual funds</b>		
Investments	70,819	66,461
Derivatives at fair value, net	-	5,222
Customers' deposits	234,779	378,464

Other major shareholders represent shareholdings excluding the foreign shareholder of more than 5% of the Bank's share capital. Income and expenses pertaining to transactions with related parties included in the consolidated financial statements are as follows:

SAR' 000	2013	2012
Total Special commission income	49,337	64,512
Total Special commission expense	49,077	44,187
Fees, commission income and others, net	13,985	12,495
Directors' fees	3,852	3,350
Other general and administrative expenses	1,108	1,128

The aggregate short term benefits paid to key management personnel during the year amounted to SR. 113 Million (2012: SR. 111 Million). Key management personnel are those persons who have the powers and responsibility to carry out either directly or indirectly planning, direction and supervision of the bank's activities.

### 32. Transactions with BSF directors

All transactions with related parties including those with the Bank's Board of Directors are carried out on an arm's length basis. The related party transactions are governed by limits set by the Banking Control Law and Regulations issued by SAMA. All facilities provided to the related parties are adequately secured in accordance with Bank's strict credit policy.

All related party balances and transactions were properly recorded and, where appropriate, adequately disclosed in the financial statements. BSF higher management affirms that no BSF director or any of their relatives of the first degree or the management senior officers have any relationship with the companies that have contracts with or are doing certain works for BSF.

Aside from the information provided in the Auditor's Report attached with BSF Consolidated Account Statements, BSF did not enter into important contracts involving significant interest for any of the directors or with the executive management or any party connected therewith.

### 33. Board of directors' and senior executive officers' remuneration (bonus and allowances)

SAR' 000	Independent	Executives	Non-executives
<b>2013</b>			
Saleh Al-Omair	375	-	-
Khalid Al-Mutabaggani	372	-	-
Mousa Al-Omran	387	-	-
Ibrahim Al-Issa	393	-	-
Abdulrahman Al-Rashed	-	-	381
Abdulaziz Al-Habdan	-	-	393
Marc Oppenheim	-	-	375
Thierry Simon	-	-	390
Patrice Couvignes	-	393	-
Abdulrahman Jawa	-	-	393
Secretary	-	50	-
<b>Total</b>	<b>1,527</b>	<b>443</b>	<b>1,932</b>

## 34. Five Top Executives including MD, DMD and CFO

Description	(SR 000)
Salaries and remuneration	7.943
Allowances	4.832
Annual and periodical bonus	11.210
<b>Total</b>	<b>23.985</b>

## 35. Committees created under BOD

In Banque Saudi Fransi, several committees were created under the Board of Directors: Executive Committee, Audit Committee, Nomination and Compensation Committee, the Donation and Social Contribution Committee and Risk Committee. Each committee operates under a written charter or operating policy and procedure. Below is the summary of the key responsibilities of each committee.

### 35.1. Executive Committee:

- Executive Committee supervises the management of risk of BSF and is responsible for establishing long-term goal and succession planning;
- Identify and monitor the key risks of BSF and evaluate their management;
- Approve risk management policies that establish the appropriate approval levels for decisions and other checks and balances to manage risk;
- Satisfy itself that policies are in place to manage the risks to which BSF is exposed, including market, operational, liquidity, credit, insurance, regulatory and legal risks, and reputational risks;
- Critically assess business strategies and plans;
- Review and recommend to the Board long-term objectives in relation to governance requirements including committees' regulations, legal matters and staff matters;
- To be able to carry out its functions, Executive Committee has the right to review all regulatory and legal matters which might affect the Bank, revise the current and outstanding litigation processes, revise all matters that might actually impact the Bank's operations and periodically revise and assess the suitability of the regulations related to the committees.

It consists of 7 members and its term runs for 3 years starting from 1.1.2013 to 31.12.2015. Members in the Executive Committee are as follows:

1) Mr. Patrice Couvignes	Chairman
2) Mr. Abdulrahman Al-Rashed	Member
3) Mr. Ibrahim Al-Issa	Member
4) Mr. Mousa Al-Omran	Member
5) Mr. Abdulaziz Al-Habdan	Member
6) Mr. Abdulrahman A. Jawa	Member
7) Mr. Thierry Simon	Member

In 2013, EC held 6 meetings at an attendance rate of 93%. The secretary general assumes the functions of the committee's secretary.

## 35.2. Nomination & Compensation:

The Board of Directors of BSF, through the Nomination and Compensation Committee (NCCOM) is responsible for the overall design and oversight of the compensation and performance management system.

NCCOM duration is 3 years. Membership on the committee members will be extended or others will be appointed on the committee for another 3 years according to BOD decision. Members on the committee do not receive any remuneration. The committee consists of non-executive directors and the executive directors attend the committee meetings as observers on permanent basis.

Nomination and Compensation Committee consists of 4 members as follows:

1) Mr. Mousa Al Omran	Chairman
2) Dr. Khalid Mutabagani	Member
3) Mr. Abdulaziz Al Habdan	Member
4) Mr. Marc Oppenheim	Member

BSF Secretary General also undertakes the position of the committee's secretary general.

In 2013, the committee held 2 meetings at an attendance rate of 100%.

### **The Committee's Duties:**

1. Overseeing the compensation system's design and operation on behalf of the Board of Directors;
2. Evaluating practices by which compensation is paid for potential future revenues whose timing and likelihood remain uncertain;
3. Making recommendations to the Board on the level and composition of remuneration of key executives of the bank. The key executives for this purpose will include all those executives whose appointment is subject to no objection by SAMA;
4. Determination of bonus pool based on risk-adjusted profit of the bank for payment of performance bonus;
5. Reviewing compliance of the Compensation Policy with these Rules and the FSB principles and Standards;
6. Determining the aspects of weaknesses and strengths in the Board of Directors and making the recommendations of action to be taken in this respect;
7. Reviewing the candidates files in order to assess their independency and the ability to assume membership of the Board in accordance with the Articles of Association and approved policies and standards. Presenting their recommendations to the board through SEG and then final approval before referring to the approval of the authorities;
8. Study requests for employment in BSF leading positions and in collaboration with CHR to verify consistency with BSF actual needs. The committee also reviews key employment contracts to recommend renewal or replacement and submit recommendations to BOD who will finally authorizes the management to take the final decision.

## 35.3. Risk Committee

According to SAMA directives (Ref. 341000036442 dtd 31.2.1434), BSF's board of directors approved during its meeting No. 128 dtd 3.4.2013 the creation of a new committee to be named as Risk Committee. The committee's nature and responsibilities to be defined as per the regulator's directives. During EC Meeting dtd 26.5.2013, the EC members recommended the nomination of members on the Risk Committee and to present them to the board for approval. During the board's meeting by deliberation dtd 26.6.2013, BSF board of directors approved the Risk Committee structure to consist of 6 members as follows:

Mr. Abdulrahman Al-Rashed	BSF director	Chairman
Mr. Mousa Al-Omran	BSF director	Member
Mr. Thierry Simon	BSF director	Member
Mr. Patrice Couveignes	Managing Director	Member
Mr. Daniel Puyo	Chief Risk Officer, CACIB	Member
Mr. Jean-Michel Castelnau	Chief Risk Officer	Member

During its first meeting, Risk Committee will present for review and then referral to the board of directors a charter that explains its responsibilities, functions and number of meetings to be held by it.

#### 35.4. Donation and Social Contribution Committee

The Donation and Social Contribution Committee meets to lay down the appropriate mechanism for donations and social contributions.

It consists of 4 members as follows:

1) Dr. Saleh Al-Omair	Chairman
2) Dr. Khalid Mutabagani	Member
3) Mr. Patrice Couveignes	Member
4) Mr. Abdulrahman Jawa	Member

In 2013, the committee held 2 meeting at an attendance rate of 100%.

BSF management through the committee focused on supporting charitable causes in remote areas. According to the cooperation agreement signed between BSF and Deputy Ministry for Social Welfare, the Minister of Social Affairs received donations to several charitable association. The committee also contributed to several specialized associations such as Down Syndrome, Cancer, Autism, handicapped, diabetes, special needs individuals, Kidney patients, etc. During the year, BSF sponsored several international medical conferences.

The committee holds meetings by deliberation to decide on urgent aid requests.

#### 35.5. Audit Committee

Audit Committee consists of 5 members.

Audit committee assumes the responsibility for:

- Verifying the quality and credibility of BSF financial reports
- Supervising internal audit
- Verifying the accuracy and clarity of the financial reports
- Verifying internal audit procedures
- Providing the board with the recommendations for appointing, re-appointing and termination of external auditors
- Verifying compliance with the laws and regulations in force
- Verifying the activities of the affiliates
- Reviewing procedures, legal cases and related parties transactions
- Reviewing and verifying the insurance coverage
- Periodically reviewing the adequacy of the regulations

Saudi Arabian Monetary Agency (SAMA) approved nomination by BSF Board of Directors of above members of Audit Committee for a three-year term beginning on 01/01/2013 to the end of 2015 and the replacement for the independent committee members who are.

Chairman	: Mr. Abdulrahman Al-Rashed, Member Board of Directors of BSF
Members	: Mr. Jean-Pierre Tremembert Head of Inspection Generale of CA-CIB Mr. Eid Al-Shammari CEO of Ithraa Capital Dr. Abdullah Al-Muneef Member of Shura Council Dr. Mohammad Ikhwan Advisor to H. E. Minister of Labor

The Chief Auditor also assumes the position of secretary to the committee. The head of GCCG attends the Audit Committee meetings as an observer.

Audit Committee held 7 meetings during the year covering all matters of importance.

In addition, Audit Committee assumes the following:

- Review of the annual and interim financial statements with the external auditors Submits its recommendations to the board according to SAMA/ CMA directives
- The deliberations held during the meetings are recorded in minutes and the deliberations are referred to the board and matters are followed with the committee's secretary.
- The committee also assumed the review of the internal and external auditors, review of risks associated with BSF's major activities and the adequacy of the internal controls.
- Audit committee members are being informed of the scheme of things by Chief Internal Auditor, business lines and the supporting departments managers.
- Audit Committee along with CPD reviews fraud cases, the new regulations, compliance related violations and others. It also review risk management, internal control and the deliberations of BSF control committee. Audit committee offered valuable assistance to INA for the verification of the annual audit plan and followed the audit activities. It also followed the audit's unimplemented recommendations and other unplanned missions.

The review of the effectiveness of internal controls:

#### **a) Review of performance of Internal Audit**

Audit Committee assessed the performance of BSF Internal Audit (AD) via the following actions:

- The approved risk based Internal Audit plan for 2013 which is based on a three-year cycle for Banking & IT Audit and Branch Audit.
- Follow up of the rate of implementation of recommendation and ensuring the implementation of comments by Internal Audit.
- Participation in the review of Internal Audit Activity Report prepared every quarter which contains the list of missions performed together with their rating and a summary of their conclusion.
- Getting and review of:
  - Compliance Quarterly Reporting
  - New and important laws and regulations
  - Minutes of Financial Crime & Anti-money Laundering Committee
  - Minutes of Internal Control Committee



## **b) Review of performance of External Auditors**

Audit Committee performed the following actions in order to assess the performance of two External Auditors of BSF (PWC and KPMG):

- Reviewed on a quarterly basis:
  - Scope and effectiveness of work
  - Significant issues highlighted
  - Significant breach of rules identified
  - Material misstatement in financial statements
  - Related & connected party transactions
  - Subsequent material transactions
- Assessed External Auditor presentation during Audit Committee on quarterly Financial Statements in line with Capital Market Authority directive
- Analyzed recommendations highlighted in Management Letter of External Auditors
- Obtained detailed explanation from Head of Accounting and Financial Control Division who prepares Financial Statements in coordination with External Auditors. Audit Committee used these discussions in order to get informed about any material misstatement or significant breach of SAMA rules and regulation. Such meetings were regularly attended by Chief Financial Officer who also briefed Audit Committee on Asset & Liability Management matters.

## **c) Significant breach of SAMA Rules and Regulations and of Internal Policies and Procedures**

Audit Committee interacted on several occasions with various actors through seven meetings a year. These discussions were meant to find out whether any significant breach of SAMA rules and regulations including any weaknesses in internal control setup of BSF had occurred. These discussions took place with areas such as:

- Internal Audit
- Compliance
- Operational Risks and Permanent Control
- External Auditors
- BSF various sectors

Audit Committee considers situation satisfactory as Compliance, Internal Audit and External Auditors all confirm absence of significant breach of SAMA rules or regulations.

## **36. Certified Public Accountants**

The shareholders meeting held on 3.04.2013 appointed Messrs. KPMG Al Fozan & Al Sadhan and Messrs. Pricewaterhouse Coopers, as the Bank's certified public accountants for the FY 2013 and for one year.

## **37. Accounting standards**

The financial statements were prepared according to the accounting standards issued by SAMA as well as the international recognized standards. BSF prepares its financial statements consistently with Banking Act and Corporate Act of SA as well as BSF Articles of Association. There has been no major deviation in the accounting standards against those issued by SOCPA.

Following are the important accounting policies used in the preparation of the consolidated financial statements, except in the application of the accounting policies stated under Note 3 (a) here under:

BSF Board of Directors and other interested parties affirm, to the best of its knowledge that:

1. Accounting records were prepared correctly,
2. BSF internal audit system was prepared according to sound principles and was effectively implemented, and
3. There is no doubt to mention about the Bank's ability to continue its activities.

### 38. Disclosure

BSF management believes that it has in place suitable control system that permits it to prepare interim financial statements consistent with SAMA’s accounting and financial standards as well as the international accounting and reporting standards. The present statements were prepared on the basis of this system. The directors were given access to the information covering a period not exceeding one year from the ending date of last year. BSF prepared the Governance Regulations and presented it to the board and it was duly approved.

BSF announces all fundamental changes and development on the Tadawul website. Disclosure is also made according to BSF Disclosure Charter and its regulations, CMA’s/ SAMA’s Governance Regulations and BSF Compliance Regulations. The responsibility for disclosure was entrusted to 2 representatives of which one is a director and the other is a BSF senior executive.

### 39. Corporate Governance

BSF operates under its Corporate Governance Regulations which were approved by BOD and under SAMA rules and directives. BSF continues to comply with CMA’s Governance Regulations. In addition, the directors are continuously updated by the chairman regarding matters received from the competent authorities. BSF Governance Regulations are being updated time to time as per the regulator’s directives.

BSF complied with Governance clauses which are consistent with the Bank’s articles of association in addition to the obligatory clauses referred to under CMA decisions excluding Article Three, Item (d), Article Sixth and Item (d), Article Sixth of the same regulations as follows:

Article	Requirements	Reasons for no applying:
Third	It includes a number of requirements related to the shareholders including the shareholder’s pro rata right to the company’s assets upon liquidation.	This requirement does not apply to BSF due to the absence of an explicit clause under BSF’s articles of association. However Article 45 of the articles of association included matters and procedures related to liquidation as per Corporate Act.
Para (d), Article Sixth	The investors, the judicial persons, acting on behalf of others, such as investment funds, must disclose their policies in voting and their actual voting in their annual reports. They must also disclose the way by which they deal with any significant conflict of interest that might impact the exercise of the basic interests of their investments.	BSF has no legal capacity to obligate investors, the judicial persons, acting on behalf of others, such as investment funds, to disclose their policies in voting.
Para (d), Article Tenth	Laying down clear policies, standards and procedures in relation to board membership and implementing them after the shareholders’ approval.	This was included within the functions of Remuneration and Nomination Committee. It was recently separated and updated to include this point.

In conclusion, the Board of Directors wishes to express deepest gratitude, first and foremost, to the Almighty Allah and then to King Abdullah Ben Abdulaziz and his crown Prince and second deputy premier for their continuous support of banking sector. The Board would like also to thank the Ministry of Finance and National Economy and to the Saudi Arabian Monetary Agency, the Ministry of Commerce and Industry, the Capital Market Authority as well as the Bank customers, staff, committees’ members, and correspondents, praying Almighty Allah for continued security and prosperity.