بنك البلاد
BANK ALBILAD

10
Defiance and Success

Annual Report
2014

بنك البلاد
BANK ALBILAD

Kingdom of Saudi Arabia
Riyadh – Al Malaz – 382 Salahuddin Street
P.O. Box 140 Riyadh 11411

Phone + 966 1 479 8888
Fax +966 1 291 5101

بسم الله الرحمن الرحيم

May Your Souls Rest in Peace







لا إله إلا الله محمد رسول الله


لا إله إلا الله محمد رسول الله


سلمان

Custodian of the Two Holy Mosques
Salman bin Abdulaziz Al Saud
May Allah Bless Him

His Royal Highness
Mohammad bin Nayef bin Abdulaziz Al Saud
Crown Prince and Deputy Prime Minister
May Allah Bless Him

His Royal Highness
Mohammad bin Salman bin Abdulaziz Al Saud
Deputy Crown Prince and Second Deputy Prime Minister
Minister of Interior
May Allah Bless Him

Vision

To be the preferred choice of genuine Islamic banking solutions

Mission

To strive through initiatives and innovation to provide our banking services on a genuine Islamic basis to meet the ambitions of our stakeholders: clients, employees and shareholders

Values

Initiative and Innovation
Care and Partnership
Trust and Accountability

Mr. Abdulrahman bin Mohammed Remzi Addas
Board Director, Member of the Executive Committee, Chairman of Risk and Compliance Committee, Chairman of Nomination and Compensations Committee

Dr. Ibrahim bin Abdulrahman Al-Barrak
Board Director

Mr. Khalid bin Abdullah Al-Subeai
Board Director

Mr. Ahmed bin Abdulrahman Al-Hossan
Board Director, Chairman of the Audit Committee

Mr. Khalid bin Abdulaziz Al-Mukairin
Board Director, Member of the Executive Committee, Member of the Nominations and Compensations Committee

Mr. Fahad bin Abdullah bindekhayel
Board Director, Member of Risk and Compliance Committee

Mr. Khalid bin Abdulrahman Al-Rajhi
Board Director, Member of the Executive Committee

Dr. Abdulrahman bin Ibrahim Al-Humid
Chairman of the Board of Directors, Chairman of the Executive Committee

Mr. Khalid bin Suleiman Al-Jasser
CEO, Member of the Executive Committee

Mr. Nasser bin Mohammed Al-Subeaei
Vice-Chairman of the Board, Member of the Executive Committee, Member of the Nominations and Compensations Committee

Eng. Abdulrahman bin Abdullatif Al-Issa
Board Director

Eng. Ahmad bin Abdulaziz Al-Ohali
Board Director, Member of the Nominations and Compensations Committee

Dr. Abdulrahman
bin Ibrahim Al-Humid

The Chairman of the Board of Directors Letter

In the name of Allah, the most Beneficent, the most Merciful

All praise belongs to Allah, and may peace and blessings be upon his Messenger and upon his family and companions.

On my behalf and on behalf of the Members of the Board of Directors, it gives me great pleasure to place the 2014 Annual Report in the hands of our honorable shareholders. This report shows the general performance of the Bank, details its main activities, and describes the financial position, the rights of shareholders, and the financial statements for the fiscal year ending December 31, 2014.

With the help and guidance of Allah, the Bank achieved, during the past year ending December 31, 2014, positive financial and operational results and a projected growth. The monetary and fiscal policy, adopted by the wise Government of the Kingdom of Saudi Arabia, constituted the main reason for the success of Bank Albilad specifically, and Saudi banks in general, by consolidating their financial positions and increasing their ability to deal with risks and high and stable level of financial solvency.

During the past year, Bank Albilad successfully executed the plans of the first year of strategic work that were previously approved by the Board of Directors. The results were positive and promise the success of the approval strategy in which 80 action plans were listed to complete strategic initiatives distributed on all the divisions of the Bank. An integrated governance system was also developed to monitor the execution of those strategic plans, and a number of Saudi executive leaders known for their experience and competence were recruited, which reflected positively on the Bank's profits and generated a good growth in property rights this year.

Moreover, the Board of Directors' recommendation to the General Assembly to increase the capital to five billion Saudi Riyals by distributing bonus shares: one bonus share for every four shares, in addition to distributing cash dividends to shareholders at 0.5 Riyal per share, were the result of the good performance of the Bank during the past years, and in anticipation to a future that the Board sees will be prosperous and promising.

I am honored to extend, on my behalf and on behalf of the Board of Directors, the Executive Board, and all Bank employees, the most solemn gratitude and respect to the Custodian of the Two Holy Mosques, King Salman bin Abdulaziz, His Royal Highness the Crown Prince Muqrin bin Abdulaziz Al Saud, and His Royal Highness the Deputy Crown Prince Muhammad bin Nayef bin Abdulaziz Al Saud - may Allah's blessings be upon them - for their constant support and care bestowed on the banking sector. I also extend my gratitude and appreciation to all public and private institutions, particularly the Saudi Arabian Monetary Agency, the Ministry of Finance, the Ministry of Commerce and Industry and the Capital Market Authority. I also thank, on my behalf and on behalf of the Board of Directors and the Executive Board, their Excellency the chairman and members of the Bank's Sharia Board for their appreciated efforts deployed to ensure the abidance of the Bank by Sharia standards in all its services and products for and their work which is aimed at achieving the vision of the Board of Directors and its shareholders: for the Bank to be a pioneer in genuine Islamic banking. I also extend my thanks to Bank Albilad's shareholders and partners, as well as to its honorable customers for their trust that the Bank acknowledges and values.

Finally, I commend and praise the Bank's employees, Albilad ambassadors, who work daily with and constant dedication, loyalty and competence, as they are the main cause for our achievements, sustained growth and good results. We fully trust that they will continue to spare no effort and they will not stop at this point, but will work hard to achieve more growth and prosperity in the coming years in Allah's will and guidance.

As-Salamu Alaykum

Mr. Khalid bin Suleiman Al-Jasser

The CEO Letter

All praise belongs to Allah and may peace and blessings be upon his Messenger and upon his family and companions,

Shareholders of Bank Albilad,

In the name of God, the most Beneficent, the most Merciful

With the help and guidance of Allah, Bank Albilad continues to achieve a sustained growth with rates higher than the market growth rates. We also continue our achievements aiming at accomplishment of aspirations of the Albilad shareholders, respected customers, main partners and employees of success and constant growth.

Since 2010 Bank Albilad has been achieving constant growth in its profits, year after the other, until it reached 864 million Saudi Riyals in 2014 recording an increase of 18.5% compared to last year. The total assets reached 45 billion, recording an increase of 24.5% compared to the previous year, which requires concentration not only on investment revenues, but on competing in the size of said revenues as well.

My colleagues and myself together, will exert our best efforts to sustain our achievements of earnings and growth rates by maintaining initiative and innovation, in order to respond to the aspirations of the shareholders and customers for genuine Islamic banking solutions, so that the Bank remains trustworthy and liable by attracting the best qualified staff that represent the actual capital in its investments. We will also continue our social initiative aiming at reinforcing the Bank's social responsibility.

The support of the Board of Directors and of the Executive Committee, through its Care and Partnership, and by adopting and supervising the execution of the Bank's strategy, constitutes the basis of a sustainable success and the assistance we need to continue our progress to the better, and for the benefit of not only our shareholders and partners but to all the regions of the country.

I ask Allah to bless this country guided by the Custodian of the Two Holy Mosques, King Salman bin Abdulaziz, His Royal Highness the Crown Prince Mohammad bin Nayef bin Abdulaziz Al Saud, and His Royal Highness the Deputy Crown Prince Mohammad bin Salman bin Abdulaziz Al Saud - may Allah's blessings be upon them and upon this country and its people.

May Allah bless us all

The Thrive Towards Success Continues at a Steady Pace








Bank Albilad’s Divisions and Departments' Activities

Retail Banking Division

The year 2014 was a very special year to Bank Albilad, during which several changes occurred on the level of employment in Retail Banking Division and supporting it with highly qualified talent. Moreover, the Division now has an integrated sales team, a performance indicator system and an incentive system considered to be the best in the Kingdom.

The expansion of the Bank's network and the opening of new branches during the past year had a great impact on the achievement of the Retail Banking Division of a good growth rate in current accounts on both retail and corporate levels.

Considerable progress was made in customer service procedures and systems, a part of which came as a response to legislations approved by the Saudi Arabian Monetary Agency concerning personal finance, mortgage finance and leasing finance.

The most important characteristic of Bank Albilad is its novelty which enables it to undertake decisions and initiatives in a fast way with the least impact possible. It is expected that the year 2015 would witness a remarkable shift for the Division.

14 branches and 2 female branches were opened during in 2014, and 2 branches and a female branch were moved. It is expected to achieve a growth ratio reaching 20% in 2015, with regards to the number of branches. Moreover, a very important challenge awaits in 2015 which is to transfer the employees' concentration from operations to sales, especially after the introduction of a sales specialized department.

"Enjaz" Division

Enjaz is one of the key market players in the Kingdom for providing remittance services across the globe. The segment over the years has grown substantially despite facing competition from other remittance market players.

2014 also witnessed sustained growth over the previous year. The key reasons for this are as follows:

i. Easy money remittance through easy access transfer channels;
ii. Increase in the number of correspondents network globally; and
iii. Technological developments that enable customers to conduct the remittance electronically.

During 2014, the bank continued with the expansion policy by reaching a total number of 159 Enjaz centers across the Kingdom. In addition several existing centers were re-modelled to improve customer services by increasing efficiency and productivity.

In the same year, the bank also continued its expansion of correspondents globally to cater to the ever growing demands of its customers.

The bank also developed a dedicated website for Enjaz which describes various types of services and available products, account opening for its customers, locate various and nearest centers to the customer across the Kingdom, etc.

Enjaz's endeavors continue with its policy of increasing the reach to the customers both by way of opening new centers as well as enabling the customer to do their transactions electronically which will save time of the customer and bring enhanced efficiency in our services.

Corporate Banking Division

Corporate Banking Division achieved an impressive growth in 2014 as a result of the bank's policy on human resources, product development, and process reengineering. The division has become the bank's major profit source despite the economical and regional changes. In 2014, the division worked on reinforcing its market share by attracting wide number of customer and also by lending projects from different sectors. The financing portfolio has grown by 29%, and customer's deposits from private and public sectors has reached a growth rate on 20%. The bank's policy in operational efficiency resulted in a healthy increase of the corporate banking division's net profit to reach 75%. The Division continued its efforts to identify the requirements of its customers and to develop products that cater to these requirements.

Various initiatives of product development have been undertaken during 2014, some of which have been launched, whereas some will be available in the following years.

The Division also focused on development of its staff as part of the various strategic initiatives. This will enable the staff to develop corporate finance skills, resulting not only in increase in portfolio but improving the quality of it as well.

Treasury Division

Treasury Division continued its outstanding performance in 2014, which was a successful year for the Bank in terms of performance and revenue compared to 2013. Considering that the Treasury Division is the core of any bank, the management of this Division have worked to develop the sector in all units, including staff, products, investment portfolios, and the bank's reputation locally, regionally and globally.

The following key initiatives were undertaken by the Division during the year 2014 :

i- In order to improve its automation process, the division has signed for development and implementation of one of the best available system in the market. The Division is in the final stages of completing the first phase of the project whereas the remaining two phases are expected to be completed by the end of the years 2015 and 2016 respectively.

ii- A new sales and marketing unit was established in the Treasury Division. The unit employed qualified professionals to help and support the corporate and retail divisions in selling treasury products, conduct combined visits to the Bank's customers in both, divisions and in Enjaz branches, and present offers to the bank's customers as well as its employees. Moreover interaction was initiated directly with certain Bank customers to cover their needs from Treasury products at the best prices and providing Shariah based products.

iii- Treasury Division worked on investing in Sukuk that is Shariah compliant along with its conditions to increase its share in this market and raise the value of the portfolio of respected and low risk Sukuk. The division has also, for the first time invested in some funds that have sound returns, low risk and Shariah compliance resulting in positive revenue of capital markets' investments.

The Bank is also one of the key participants in the foreign exchange market where by competitive rates are being offered to its customers in a wide variety of currencies.

The division is also working on offering new products that serve not only the bank but also its customers via hedging the international currencies' variations. Despite the challenges, the treasury division was able to overcome them by hiring the right talents, investing in personnel development, and via the direct and fruitful communication with the bank's divisions and staff.

Risk Group

The Risk Group is composed of the Risk Division, Information Security and IT Governance Management, Credit Policy Division and Basel Application Unit.

The Group conducted several initiatives during the year 2014, mainly initiating the development of Enterprise Wide Risk Management system which Moody's Corporation is currently undertaking in its establishment. Upon the completion of the first stage of this system, Pillar One Capital Charge accounts will be automated and upon the completion of the second stage of the system, all assets management systems will be automated.

Among the main challenges that the Group faced during the year 2014 was risk containment at generally accepted levels. Except for the goals related to profitability, the Division managed to achieve all the goals it had set for itself during the past year, and it also succeeded in satisfying the desire of investors with regards to risks.

Moreover, the Group is currently working on verifying the samples of risks calculation adopted by the Bank which were executed during the past years. Moody's Corporation will work on reviewing the different samples of the Bank, especially those related to Stress Testing and Assessment Capital Recommendation programs, in addition to other programs such as Facility Risk Rating and other samples. Upon the completion of the evaluation of the samples, the Risk Group would have verified the correct methods for risk management at the Bank and assumed the best adopted practices in this domain. The Risk Group is also working on abiding by Basel standards and maintaining the quality of the services provided at the best possible levels.

Compliance and Combating Financial Crimes Division

This Division undertakes the assessment of the requirements of the Saudi Arabian Monetary Agency concerning regulatory requirements of all the sectors of the Bank, namely business and support, which help in revealing any money laundering operations or fraud.

The Division depends on a number of different systems through which certain suspicious activities and operations are revealed, and necessary analyses are conducted, which will form the main source to submit reports to concerned official entities and the Bank's Management. Consequently, such illegal operations, used to exploit the Bank as a means to reach their illegal goals, were eliminated.

2014 witnessed the employment of new qualified employees from Saudi youth holders of internationally recognized diplomas, while taking the technical aspect into consideration and integrating with it to accelerate the achievement of the Division's needs.

Several accomplishments were achieved during the year 2014, mainly the execution of an integrated system of international ban lists pertaining to the Bank. Moreover, work started on monitoring all the accounts and operations accomplished by Enjaz Division and its branches. Additionally, a new integrated system, consistent with the principle based on risks, was applied to combat money laundering and entered into force in April, 2014. The customer acceptance procedures were restructured according to their classification, an automated means was developed to electronically increase the level of culture and awareness in money laundering amongst all Bank employees. Finally, it was agreed that Bank Albilad would work on supporting events aiming at combatting money laundering and abide by the requirements of the Monetary Agency. In fact, the Bank was recently the diamond sponsor of the sixth annual conference on committing and combatting money laundering which was also sponsored by H.E. the Governor of the Saudi Arabian Monetary Agency and supported and attended by H.E. Bank Albilad's CEO.

The management's aspirations for the year 2015 are to complete all the programs that were launched in 2014, and completely abide by the decisions of the Bank's Board of Directors and Chairman concerning the application of all the requirements of the Saudi Arabian Monetary Agency.

Finally, we look forward to increasing the awareness of groups targeted in combatting money laundering and all means of fraud, mainly circulating and constantly supervising the abidance to all the requirements of the Monetary Agency among different divisions of the Bank.

Internal Audit Division

In 2014, the Internal Audit Division (IAD) successfully tackled a very ambitious target, by delivering on more than 96% of the approved plan and completing number of unplanned internal audits, tackling areas of emerging risks and giving more confidence in the reliability of internal controls through the verification of internal control enhancement implementation. As part of Division's commitment to quality internal audit work and enable continuous improvement of its activities in accordance with Institute of Internal Audit (IIA) international professional standards, the division has completed an internal quality assessment for its activities and shared the results of the assessment with the Audit Committee (AC). The division also appointed a professional firm to conduct an external quality assessment in line with IIA international professional standards and international best practices in the profession of internal auditing.

The Division developed its new strategy focusing on four (4) main pillars: Processes, People, Technology and Communication to enable the division to deliver effectively and efficiently on its mandates following a risk-based approach and applying world-class professional practices.

In reflection of its strategy and believing in the strategic importance of the development of its human capital, the Division members received a variety of professional training courses and development activities geared to equip the Internal Audit team with the right mix of knowledge, skills and tools to enable them to excel and deliver against the various audit engagements with robust confidence and value-adding work. Technology has also been a center of focus for the Division with an adoption of Audit Management System covering all key aspects of its activities: Risk Assessment, Audit Execution and work paper, Audit recommendations tracking and Audit Scheduling and Timekeeping. In addition to that, Division set a strategic initiative to further elevate its utilization of advanced data analytics and data visualization tools and techniques to gradually enable continuous auditing of key risks related to the bank transactions and activities.

Shariah Division

Based on Bank Albilad's policy which stated on the abidance of the Bank in all its transactions by the provisions of the Islamic Shariah, the Shariah Division was established and formed by an entity independent from the Bank's Executive Committee and linked to the general assembly. The Shariah Division includes the following scholars specialized in financial transactions and economy jurisdiction (Fiqh):

1. Sheikh Abdullah bin Sulaiman bin Manea, Head of the Shariah Board;
2. Sheikh Dr. Abdullah bin Muhammad Al-Mutlaq, Deputy Head of the Board;
3. Sheikh Dr. Abdullah bin Moussa Al-Ammar, member;
4. Sheikh Dr. Muhammad bin Saud Al-Osaimi, member;
5. Sheikh Abdulaziz bin Fawzan Al-Fawzan, member;
6. Sheikh Dr. Yusuf bin Abdullah Al-Shubaili, member.

The Shariah Division is formed of a preparatory committee composed of the four last members. The preparatory committee practices the powers granted thereto by the Shariah Board, and its main tasks are the following:

1. Studying the subjects forwarded by the Bank prior to submitting them before the Shariah Board for final ruling.
2. Studying the Shariah inquiries submitted by the Bank employees and customers for appropriate guidance.
3. Studying initiatives for products for appropriate guidance.

The Shariah Division is technically linked to the Shariah Board. It administratively and financially handles the transactions of the Bank's other divisions. The Shariah Division is considered the entity responsible for achieving all the requirement of the Shariah Board, the Shariah strategy of the Bank, and all matters related to the provisions of Islamic Shariah.

The Shariah Division's structure in composed of: the Shariah Board Secretariat Department, the Shariah Audit Department and the Support and Coordination Unit.

The Shariah Board Secretariat Department works on preparing issues submitted to the Shariah Board, conducting necessary researches and studies, and developing the products of Islamic banking. It constitutes the link between the bank's different divisions and the Shariah Board.

The Shariah Audit Department ensures that all the products of the Bank abide by the decisions of the Shariah Board, comply with the provisions of the Islamic Shariah upon establishment and follow the procedures and grounds approved by the Shariah Board.
The Support and Coordination Unit prepares and supports the meetings of the Shariah Board, in addition to managing the Printing Projects and monitoring the Shariah library at the Division.

The Shariah Board conducted during the year 2014 nine (9) meetings, while the preparatory committee held seventeen (17) meetings.

In 2014, the Shariah Division solved more than 800 subjects, which is the highest number of subjects submitted in the past years since the establishment of the Bank. Thirty-two (32) supervisory notes were detected, 7 notes are still being audited, while the rest were all solved.

The Shariah Division was capable of achieving a large part of the automation project of Shariah supervisory systems to become entirely electronic in one system called "Rased" which facilitates the procedures of auditing, limiting and developing products and facilitates the communication with concerned entities.

The Shariah Division was able, with the support of this system, to adopt the principle of avoiding mistakes before happening through taking precautionary steps that would avoid the Bank any matter that might lead to material losses or harming its reputation. "Rased" contributed in decreasing mistakes average and operational costs.

In 2015, the Division aims at completing the automation of all its operations, which will have a direct impact on increasing workflow and decreasing the time required in transactions. Moreover, the Division works on continuing to limit the issues presented thereto and setting restrictions needed for solving them according to the stipulations of the Shariah Board.

With the approval of the Shariah Board, the Shariah Division launched, during the year 2014, the Ideal Rating project, which is a program dealing with Shariah classification of local, gulf and international stocks, and providing accurate results to concerned entities such as Albilad Capital and the Treasury Division, the results will also be available to all customers.
The activities of the Shariah Division include the Printing project and issuing a series of publications such as letters and scientific researches related to Islamic economy and financial transaction jurisprudence. The Division published during the year 2014 the following three (3) publications:

1. "Standards Abstracted from Resolutions of Shariah Board of Bank Albilad" issued in English;
2. "Cooperative Banks – A Practical Jurisprudence Study";
3. "Shariah Guide for Real Estate Finance"; this publication gathers Shariah provisions for several real estate finance issues with Murabaha and finance lease (ending with ownership) that the Bank employees, financing customers and real estate offices must be aware of, in addition to the production of 55 short visual presentations to explain Shariah guide for real estate finance which will be uploaded on the Bank's channel on YouTube.

The total number of publications will then reach fourteen (14) publications.

Information Technology Division

Concerning the Information Technology (IT) Division, last year was characterized as the year of compliance with different standards. The Saudi Arabian Monetary Agency issued several reviews to a number of legislations and standards in the field of electronic banking. The Division also conducted a large auditing operation to which many resources were allocated, and all the efforts were successful.

On the level of infrastructure, there was a large concentration on the security of information technology through ensuring its high reliability and security. The Division was able to adopt a proper platform to achieve essential banking transactions around the clock on the internet. In the past, transactions were suspended every Friday, whereas nowadays, the transactions never stop even during maintenance or system update. The Division succeeded in producing an advanced mobile application that provides all banking services on the internet.

Moreover, the Division succeeded during the past year to undertake its role in the expansion process of the ATM network. The Division also re-updated the entire archive reserve system pertaining to the Bank through the Network Access Storage (NAS).

The Division undertook initiatives to support the companies through a number of new services and products to guarantee a greater ease and an additional comfort to banking transactions for the retail division and risk management group, etc. which are currently being updated.
The Division updated the crisis recovery system to guarantee its abidance by the concerned standards.

The Division will face, during the near coming years, the challenge of moving the headquarters of the general management of the Bank and the Bank's data centers, since said centers will be moved to locations owned by the Bank and will be granted a more mature and sophisticated information environment, while keeping the minimum limit of impact resulting from said move process on the Bank operations.
The Division was able to introduce two new data centers connected with a special synchronization system, which is unprecedented in the banking services industry. The new data storage solutions enabled the

Division to provide more data in the required time and increase the level of compliance to the standards of the Saudi Arabian Monetary Agency in this field which reached special levels compared to other banks, in addition to the possibility to recover data when needed.

90% of the notes submitted by the Monetary Agency were solved and the remaining notes will be completed in the end of the second quarter of the year 2015.

Moreover, work started in the end of 2014 on large projects including optical imaging of documents and files of the past ten years. Working on said projects will continue during this year, in order to secure these records and upload them on the archive system to recover them when needed.

With all said achievements, the IT Division is keen on generally decreasing the costs of programs.

Human Resources Division

The Human Resources (HR) Division provides support services to employees and other Bank divisions through four main departments: The first department is the Manpower Planning and Recruitment department which includes contractors, recruitment and Manpower Planning units. The second department is Employee Relations department which is composed of Payroll, Employee services and Government Relations units. The third department is the Performance and Compensations department which includes compensations and benefits units, in addition to a performance management unit. The fourth department is the Competencies department, which works on developing employees’ skills through short training programs or programs concerning professional development, career paths and advancement, provided by the training unit and competencies development unit.

The Division also introduced an employee care unit which is directly related to the Division Head and reflects the Bank’s constant orientation towards granting the employees the care they deserve. The main tasks of this unit is to address staff grievances, conduct employee satisfaction questionnaires and work on providing everything contributing in improving the work environment through oriented employee programs. The unit organized appreciation programs for employees such as Albilad Stars program and a pilgrimage where 23 employees and their families were sent in a convoy to perform Hajj for the year 1435 AH, and the Bank paid all accommodation and subsistence expenses. The Division also executed the “young ambassador” program for the year 2015, which links the employee to his family: children of employees are invited to visit the sites where their parents work and learn about their jobs which generate a higher respect to their parents.

2014 was very important for the Bank’s HR Division since it kept pace with the implementation of the Bank’s new strategic plan especially the transformation that the Division witnessed and the modernization of the work mechanisms where the HR Division completed the Bank’s new organizational structure project and succeeded in closing all the vacancies through providing qualified human competencies to different managements.

The Division executed several projects of the Bank’s strategic plan, and continues to work on additional projects.

Perhaps the development of the Division without affecting the performance level constituted one of the main challenges of the past year, especially that the development is related to the strategic bases of both the Division and the Bank. The Division is still deploying efforts to achieve the expectations of all the divisions in the field of developing employees and it contributed in training 1,000 employees of the retail division in order to obtain professional certificates adopted by the Monetary Agency. The competencies department is also working on organizing new training programs. In 2014, more than 3,000 employees were trained according to their functional needs for 65,000 training hours, and more than 1,000 employees sat for an exam on the basics of retail banking.

After adopting a new salary scale in December 2013, the Division prepared an integrated procedure for its application which was approved by the Bank’s Board of Directors, and working on its execution is ongoing according to the adopted plan. The Division has completed the design of a system and a new procedure for performance assessment, which was applied in the year 2014.

The achievements of the Division include reviewing and updating all the human resources policies to assure they include all the aspects that help in facilitating work procedures and clarifying the rights and obligations of employees. Employee relations department adopted several new self-services in the human resources system pertaining to the Bank to improve and develop certain procedures.

The HR Division aims at completing the development plans which serve the Bank's strategy and provide support to the ambassadors of Albilad, thus contributing in the service of its customers and shareholders through providing to employees, automating work procedures and meeting all organizational requirements.

Operations Division

The Operations Division provides direct support to all the divisions of the Bank to offers services to Bank customers of different segments: the Operations Division manages trade finance operation, consumer finance, payments through all Bank channels, exchange, clearing, treasury, conformity, reconciliation and support works such as auditing accounts files and indexing documents before archiving them, in addition to other work that prepare Albilad branches and Enjaz centers to apply high standards of performance and efficiency. Bank Albilad is the first bank to automate registration of SIMAH project pertaining to credit information of Saudi Arabian Monetary Agency where the customers' credit register is easily updated. This is due to the Operations Division's efforts in this field.

The Operations Division at Bank Albilad participates in the meetings of the committee formed from operations directors of banks operating in the Kingdom of Saudi Arabia. The Committee works, in cooperation with the Saudi Arabian Monetary Agency, on developing the banking sector operations through an efficient execution management of the Agency's standards in banks operating in the Kingdom of Saudi Arabia and drafting efficient and safe frameworks to develop the standards of operations and services provided to the customers of the Saudi banking sector.

Moreover, the Operations Division is constantly working on attracting and developing national employees and is keen on adopting standards to all departments' transactions and reports. The Division meets with heads of divisions on a regular basis and with the Chief Operations Officer on a monthly basis to review recent updates and make sure to overcome obstacles that the Operations Division might face in providing special services to customers.

Administration Affairs Division

This Division serves the Bank's different orientations in terms of supporting works. The following seven main departments are affiliated to this Division: Engineering Management Department whose task is to design special Bank sites and supervise their execution and final delivery. It has an advisory role for different divisions of the Bank.

Second, the ATM Installations Departments works on searching for and analyzing locations suitable for installing ATMs. It submits its recommendations in this field, then undertakes designing and installing ATMs, manages them for the first time, and then delivers them to the Operations Division. The Contracts Department undertakes the issuance and management of contracts for the different divisions of the Bank, and includes services, consultations, work support and all contracts drafted and managed in cooperation with the concerned divisions.

The Security and Safety Department is responsible for everything that concerns the safety and security of the facilities and workers at the Bank, in addition to the safety and security of the Bank operations in general, including the establishment and operation of alarm systems, securing money transfer and storing same in branches and ATMs.

The Security and Safety Department adopts the best techniques pertaining to guarding and monitoring. In fact, the Bank owns one of the best operation rooms that enable specialists to monitor all the branches of the Bank all the time and control the alarm systems. The Department works on providing the departments of the Bank with all the requirements of monitoring and protection.

This Department participates with the heads of security in all Banks in an annual meeting headed by the head of the Administrative and Property Services Division. During this meeting challenges are discussed, accomplishments are evaluated and future steps are set.

The Support Services Department is considered among the largest departments of the Bank. Its team is divided over different regions of the Kingdom. The Department is responsible of all the mail services, archiving, managing facilities, maintenance and housekeeping, in addition to hospitality services, in coordination with competent vendors in this field. The workers in this Department are like anonymous soldiers.

The Suppliers Department undertakes the relations of the Bank with vendors and consultants, as well as assessing their performance. Moreover, this Department conducts tenders, evaluates the entities that participate in tenders and works on periodically updating information concerning suppliers in the Kingdom. The Procurement Department completes the contracts and suppliers’ work by collecting and providing all the needs of different departments with services and products.

The seventh department is considered the newest so far and is still under development; it is the Standards and Supervision Department. This Department translated the orientation of the Bank towards modernizing the services provided to the Bank customers, granting them added value and guaranteeing the abidance by standards and values set for each department.

The Department also works on assessing, measuring and developing all the works of the Bank or the works of external parties with which the Bank cooperates, whether through contracts, housekeeping or other, and guarantees the works abide by internationally adopted standards and values such as ISO (International Organization for Standardization), Six Sigma and others, in addition to activating quality assurance programs before launching them outside the department in Bank facilities. The establishment of this Department will soon be complete.

The Division generally aims at enabling the Bank to achieve growth in its works and decrease operation expenses as much as possible.

The achievements of 2014 are summarized by opening 15 new branches, moving 3 branches and establishing 8 new Enjaz centers. Also, 164 ATMs were installed and moved, and a new electronic archive system was adopted. The Division succeeded to provide 2.7% of the budget allocated to the public sector last year, after executing the adopted projects. The Division dealt with 23,000 visitors to the general management during the year.

The Suppliers Department submitted 79 additional tenders, corresponding to 27% compared to 2013. The value of the tenders, during 2014, reached around 157 million Riyals, and the Department registered 210 new suppliers for the Bank.

The Security and Safety Department achieved 19 development projects distributed on the general management, the branches of the Bank, Enjaz and the security control room. Also, 25,000 money transfer trips were conducted.

As for 2015, the Division will work on maintaining the growth that the Bank achieved, and will concentrate on increasing the level of customer satisfaction and cooperate to achieve the most important goal which is to supervise and control the operation expenses.

The Division is currently working on developing a new identity for the branches to be launched in the coming year. The Bank will present itself in a different way.

Legal Division

The Legal Division is directly affiliated to the Bank's CEO. It is composed of three departments: Proceedings and Investigation Department, Legal Advice Department and Debt Processing and Collection Department. The Proceedings and Investigation Department undertakes filing lawsuits and pleadings before judicial authorities in lawsuits filed by or against the Bank. It also conducts internal investigations concerning major administrative violations. The Legal Advice Department provides legal counseling and advice to all the divisions, departments and branches of the Bank. It also works on reviewing agreements and contracts in which the Bank is a party. In addition, the Debt Processing and Collection Department collects the rights of the Bank from default customers.

Financial Control Division

As part of the Bank's adopted strategy, it initiated a medium-term plan to guarantee the automation of all the products and operations. The main concentration was to improve and develop the information technology reports in order to enable all the business and support divisions to achieve strategic goals. It set ambitious goals for the budget, as well as a medium-term plan for the Bank, which guarantee placing main performance indexes which are measurable for performance, for all the business and support divisions.

The Financial Division is familiar with different developments in the accounting world, in order to ensure smooth transition where new standards are applicable. The Division knew about these developments to ensure its advantages and disadvantages in different work initiatives.

MarCom Division

The MarCom Division plays a key role in supporting the business and services divisions and in reinforcing and consolidating the characteristic of Bank Albilad as being a pioneer and modern community Islamic bank.

The role of marketing and communication, pertaining to supporting business and services divisions during the year 2014, was to conduct several marketing and promotional campaigns regarding financing, cards and Enjaz Division, in addition to preparing new products which the Bank will launch in coordination with the divisions concerned with said products in Albilad. Supporting the business divisions with information, statistics and consultancies through marketing researches is considered essential to implement the Bank's strategy and orientations. As for the Bank's service divisions, the exceptional cooperation between the MarCom Department, the Information Technology Department and the Electronic Channels Division resulted in a special development in the Bank's website and its services through its electronic channels.

On the level of reinforcing and consolidating the brand of Bank Albilad as being a pioneer and modern community Islamic bank, the Bank undertook several social initiatives, mainly the opening of its first integrated branch for full access for people with special needs and preparing and uploading videos for self-development directed to people with hearing disabilities. The Bank also contributed in reinforcing the culture of volunteering through sponsoring a camp for Hajj for the year 1435 AH and distributing one million five hundred bottles of water and two hundred fifty thousand juice boxes for Pilgirms and through an Iftar project by distributing more than 200 thousand Iftar meals in more than 14 cities in the Kingdom with the participation of more than 2,000 volunteers.

Albilad Capital Company

Maintaining Growth

Albilad Capital Company is an investment company licensed by the Capital Market Authority which is fully owned by Bank Albilad. It is active in all investment fields, including investment banking services, assets management, mediation, consultancy and conservation. The Company registered positive results during 2014 despite the decline in capital market in the last two months, which constituted a challenge for the Company. The Company registered an increase in earnings compared to 2014. It also launched a number of new products during the past year, namely, the real estate fund that established in coordination with Rafal Company, which invests in the Company's real estates and is characterized by a unique organizational structure.

On the other hand, the Company launched Margin Lending service, through which the Company provides loans for stocks traders.

The Company witherzed quality leaps during the past period. It succeeded to double its operations since the 2012 and it will benefit from the market's constant activity and growth to support its growth rate which reached 25-26% during 2014. It is working hard to geographically and qualitatively diversify its investments and achieve a larger balance.

The Company started in 2012 to provide conservation service, and during the year 2013, it maintained its development. In 2014, the service constituted a large part of the income concerning corporate banking.

On the other hand, the Assets Department witnessed a larger growth in the quantity of managed assets which reached 39% between 2012 and 2014.

One of the main financial challenges that Albilad Capital and other investment companies are confronting is the decline in fuel prices, constituting a new factor of market changes that the Company has never faced before. Nonetheless, the Government's pledge to maintain its expenditure is reassuring.

The Company judges that the stock market reaction is so far average, and it will remain so in the short term. However on the long term, there is a great assurance towards the performance of the market. This assurance supports the anticipated access of foreign investors to the stock market during the upcoming month of June, which will increase the market index and contribute in improving its performance. However, this increase might be limited since the market does not need more liquidity. This access might lead to creating new products to satisfy the requirements and interest of those investors, and open unprecedented investment horizons. The Company has actually started its preparation for the access of foreign investors to benefit as much as possible from what they will offer to the Saudi market.

The Company seeks to deal with the increasing real estate prices. It is currently working on developing a real estate product that will be launched during the first quarter of 2015.

Social Responsibility Report

Bank Albilad's social responsibility is a constant commitment for social contribution since the Bank is aware of its responsibility towards its society, in a way that serves all the segments of society at the same time. That is done by showing high professional moral standards and not causing harm to the environment or the country's economy, and through achieving economic growth and working on improving the Bank's usual work practices, in addition to abiding by respecting the concerns and expectation of entities related to the Bank, and covering the social, environmental and economic aspects. Since we believe in the principle of social responsibility, we established, in 2014, after the approval of the general assembly, a special committee for this purpose. This committee is a compositioning from the higher powers of the Bank: the CEO, the works' executive director, the general secretary of the Board of Directors, the director general of Corporate Banking Division, the director general of Human Resources Division and the head of Marketing and Communication Division. This committee meets on regular basis to discuss the means for developing and settling social responsibility programs. Among the main decisions of the committee for the present year is to start developing the Bank's social responsibility strategy, in addition to agreeing on general budget for social responsibility activities.

And one of Albilad unique Social responsibility initiatives is:

Albilad Initiative Campaign:

Coinciding with the holy month of Ramadan, we launched an advertising campaign aiming at reinforcing the values of voluntary work and helping those in need, in addition to the Bank's initiative of providing more than 200 thousand Iftar meals in most of the cities of the Kingdom during this holy month.

Hajj Pilgrims Service Initiative:

As part of the exclusive sponsorship of camps during Hajj season, we served pilgrims and distributed one million five hundred thousand bottles of water and two hundred fifty thousand juice boxes for guests in the holy sites.

Serving People with Special Needs:

Full Access Branch: (Specialized Branch)

We rehabilitated a branch equipped with all the necessary installations for serving people with special needs. This branch enables people with physical disabilities, hearing disabilities and visual disabilities to easily execute all banking operations.

Dictionary of Banking Transactions in Sign Language:

In cooperation with specialists, we adopted a dictionary that contains banking transaction terms in sign language, in order to enable people with hearing disabilities to achieve their transactions with confidence and ease. The Bank believes that it is necessary for its social programs to be comprehensive in order to serve the largest number possible of community segments.

The Bank adopted and sponsored several programs and occasions, mainly:

Employment

- Sponsoring career day for scholarship students at the United States of America;
- Sponsoring the employment sectors gathering exhibition in Jeddah;
- Sponsoring open day for recruiting scholarship graduates from American universities.

Education

- Sponsoring the graduation ceremony of male and female physicians from King Saud University;
- Sponsoring the conference of business faculties from countries of the Gulf Cooperation Council;
- Sponsoring the college journalism convention;
- Sponsoring the honoring ceremony of distinguished female high school graduates.

Productive Families

- Sponsoring "Min Aydeena" (Products we prepared ourselves) exposition.

Women

- Sponsoring Women's Week Exhibition.
- Sponsoring ladies' world forum.

Youth

- Sponsoring the King's Cup draw.
- Sponsoring the sports' excellence award.

Islamic Bank

- Sponsoring a blog of finical transactions related to Fiqh books.
- Sponsoring Harvard conference for Islamic Banking.

General

- Conducting a seminar on "how to establish your endowment with excellence".
- Sponsoring the exhibition and seminar on pioneer public transportation projects.
- Sponsoring the Arab orphan day celebration.

Our Social Responsibility towards our Employees:

Albilad Stars Program:

- We annually reward distinguished staff with a trip abroad, through which they are introduced to a new culture and they build teamwork skills.

Albilad Champions Program:

- We organize an annual tournament in football in which the employees participate and Distinguished players are selected to go and play with a certain international club.

Albilad inaugurates its first branch in the Kingdom to provide banking services to people with special needs

The Chief Executive Officer of Bank Albilad, H.E. Mr. Khalid Bin Sulaiman Al-Jasser, inaugurated the first branch of Bank Albilad to provide banking services to customers suffering from visual, hearing or physical disabilities in the city of Riyadh.

During the inauguration of the branch, Mr. Khalid Al-Jasser stated: "This branch is the first banking branch, established in cooperation between Bank Albilad and medical communications centers "Tawasol", to provide services to people with hearing disabilities. He added that, at the moment, there is a great need to provide banking services to people with special needs, by dispensing translators, like it was in the past, especially knowing that many customers do not have a translator. Bank Albilad's CEO revealed that the partnership with the medical communications centers is based on the following three main steps: Full access, which is the first step to rehabilitating the specialized branch in Riyadh to provide its services to all people with special needs, especially for people with physical or visual disabilities. The second step is to establish a banking dictionary, which is a translation for banking terms in sign language, through video clips and photographs, in order to enable this segment to be familiar with every term and its definition, thus, providing a better service to this community. This is the first sign language dictionary for banking terms in the Arab world. The third step is to translate the book "How to become a hero in 3 hours" by the author Dr. Youssef Al-Hazim, the general secretary of Alanood Charitable Foundation, through audiovisual video clips enabling people with hearing and visual disabilities to benefit from it.

For his part, the CEO of the medical communication centers (Tawasol), Dr. Fahd Bin Saleh Al-Arifi, clarified that the agreement between the Center and Bank Albilad was concluded to provide unprecedented service to people with special needs, by providing instant translation from and to the sign language to those with hearing disabilities, especially that the number of people with hearing disabilities in the Kingdom is around 900,000 people to whom translation services are not provided in service zones including banks, in addition to providing full access service to them.

“Albilad Future” Program Inauguration

The Chief Executive Officer of Bank Albilad, H.E. Mr. Khalid Bin Sulaiman Al-Jasser, launched “Albilad Future” program during a special event held on Thursday, September 18, 2014, in Radisson Blu Hotel in the city of Riyadh. The event was attended by the Bank’s executive directors, heads of all divisions and divisions’ managers, in addition to the participants in the program and a number of Albilad ambassadors.

In his guiding speech for the participants in the program, Bank Albilad’s CEO, Mr. Khalid Bin Sulaiman Al-Jasser stressed on the necessity to distinguish between service and expertise. Expertise is more important since it enables the person to gain and master several skills in different fields. While service is mostly mastering one skill for the entire working period. In his speech, H.E. Mr. Khalid Bin Sulaiman Al-Jasser shared with the attendees the expertise he gained during his professional life and his long journey in the banking field. He presented samples of successful characters who affected his professional and personal life and added few success stories in the Arab region and the world.

In his speech, the general manager of Bank Albilad’s Human Resources Division, Mr. Hamad Bin Nasser Al-Kadib, welcomed the attendees and expressed his gratitude to the CEO and the management team of the Bank for their support and cooperation in the success of such developmental programs that aim at serving Albilad community. He confirmed that the program was designed to contribute to the success of the Bank’s ambitious strategic vision.

Board of Directors Report

Messrs.: Albilad Bank Shareholders

Alsalam alaikum wa rahmatu Allah wa barakatuh,

The Board of Directors is pleased to present to Bank Albilad shareholders the annual report concerning the Bank's performance and main activities for the fiscal year ended on December 31, 2014.

Operational Results

This year's net income amounted to 864 million Saudi Riyals, recording an increase of 18.5% compared to the year 2013. This increase is attributed to the growth of banking operations income by 9.4% to reach 2,097 million Saudi Riyals by the end of 2014, as a result to the improvement of income from main activities including financing and investment portfolio, the growth reached 7.7% compared to the year 2013, thus amounting to 1,019 million Saudi Riyals.

The net fee and commission income increased, compared to the year 2013, by 8% to reach 719 million Saudi Riyals. Net foreign exchange income increased by 19.6% compared to the year 2013, reaching 293 million Saudi Riyals. The operating expenses increased by 3.8%, recording 1,233 million Saudi Riyals, including 7.5 million Saudi Riyals provisions for financing portfolio, as a result for redemption of default amounts.

Financial Position

The Bank assets reached, by the end of 2014, the sum of 45,230 million Saudi Riyals, recording an increase of 24.5% compared to last year. The customer deposits increased, at the end of the current year, to amount to 36,724 million Saudi Riyals, recording an increase of 7,616 million Saudi Riyals from last year, representing an increase of 26.2%. The net financing increased, by the end of the year 2014, to 28,355 million Saudi Riyals, compared to last year's 23,415 million Saudi Riyals, thus reflecting an increase of 21.1%.

Shareholders' Equity

The shareholders' equity reached, at the end of the year 2014, the sum of 5,891 million Saudi Riyals, compared to the sum of 5,101 million Saudi Riyals from the end of the year 2013. The number of ordinary shares reached about 400 million shares. The Capital Adequacy Ratio reached, at the end of the year 2014, 16.71% compared to the minimum requirement of 8%.

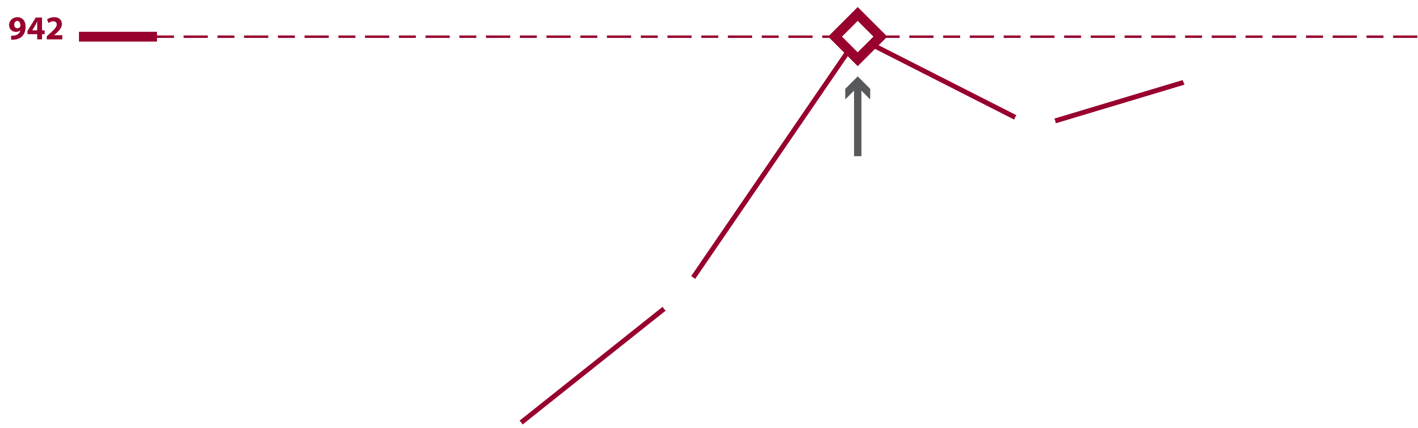
Moreover, the Bank achieved 2.1% as a return on average assets, while the return on average shareholders' equity reached 15.7%, and the earnings per share reached 2.16 Riyals per share.

Expansion of Bank Services

In the year 2014, Bank Albilad opened 14 new branches to reach 116 operating branches and added 7 remittance centers to reach 158 centers at the end of 2014.

On the electronic banking side, 97 Automated Teller Machine (ATMs) were operated to reach 953 ATMs by the end of 2014 to cover the Kingdom of Saudi Arabia regions. Moreover, 5167 points of sale were added during 2014 to reach 2,690 points of sale by the end of the year 2014.

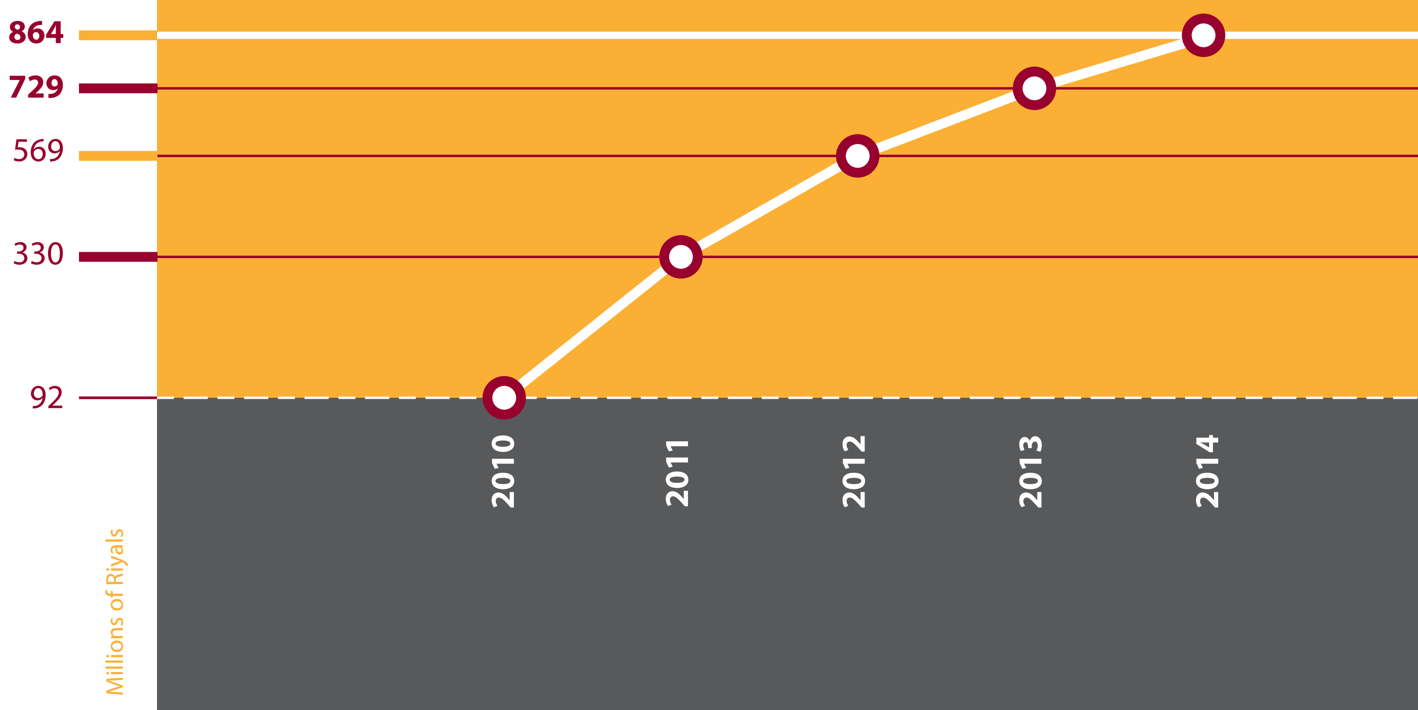
The Bank achieved an extraordinary income estimated at 373 million Saudi Riyals from selling its land in the Governorate of Al-Diriyah.



Increase in Net Income

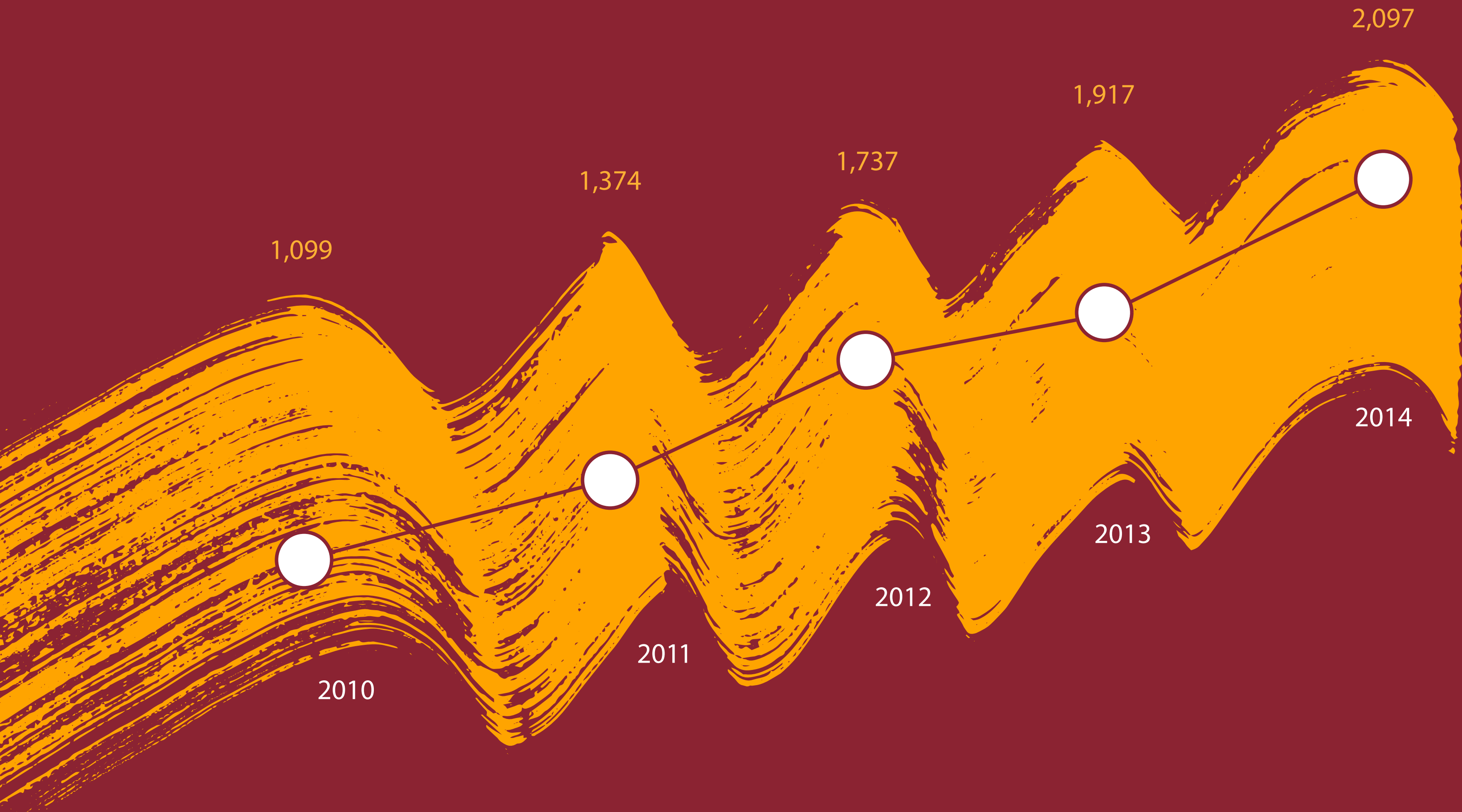
18.5%

Upon the elimination of this extraordinary income, the net operational income for the year 2012 reached the sum of 569 million Saudi Riyals.



Increase in Banking Operations Income

9.4%

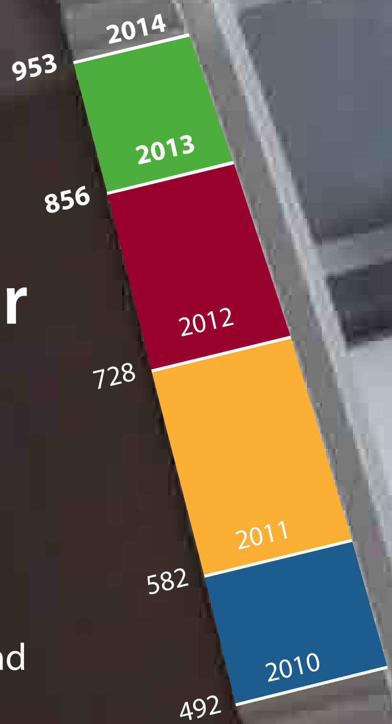


Total Operations Income
in millions Saudi Riyals

Banking operations income increased by 9.4% to reach 2,097 million Saudi Riyals by the end of 2014, as a result to the improvement of income from main activities including financing and investment portfolio.

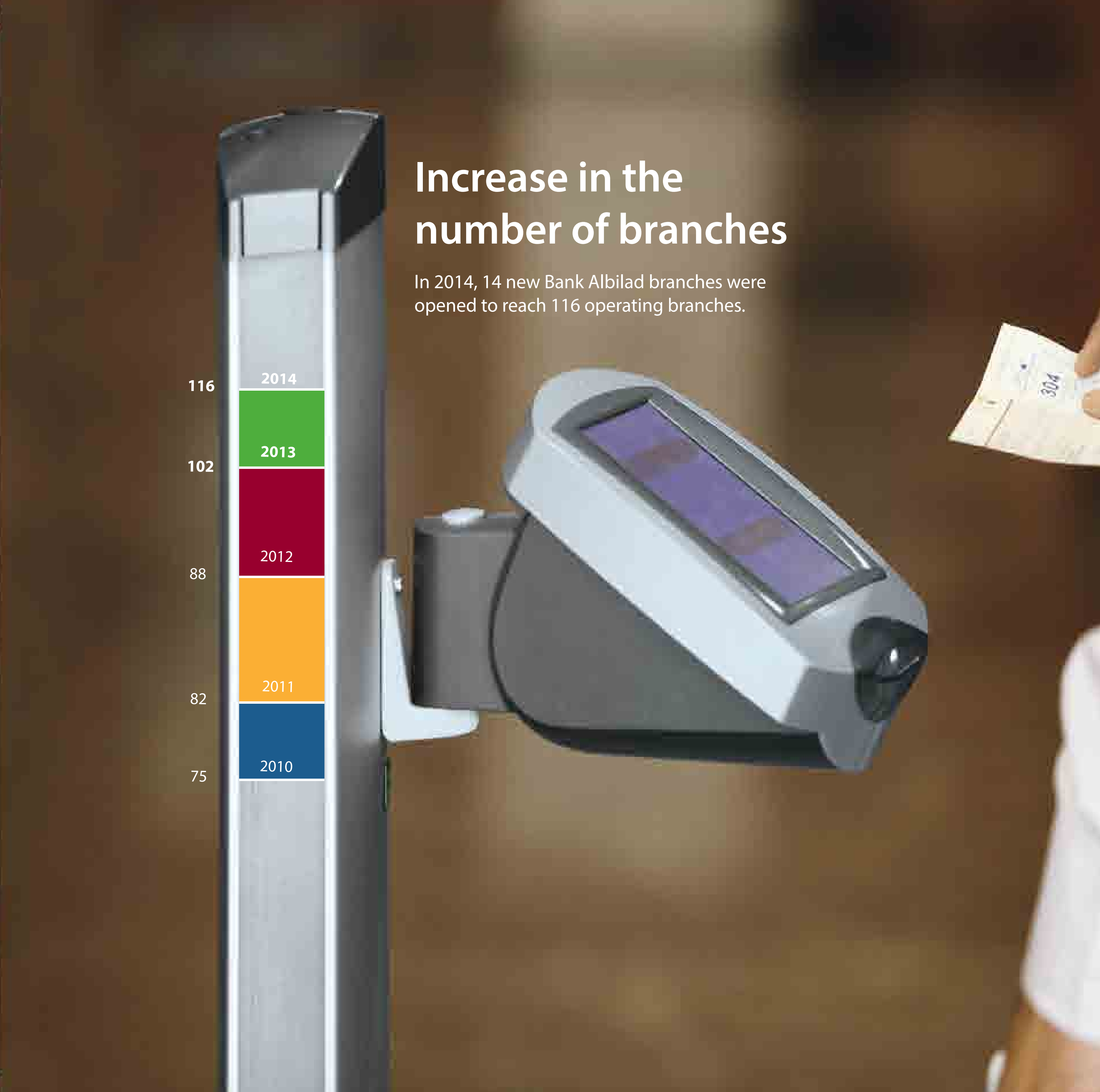
Increase in the number of ATMs

97 new ATMs were operated to reach 953 operating machines by the end of 2014

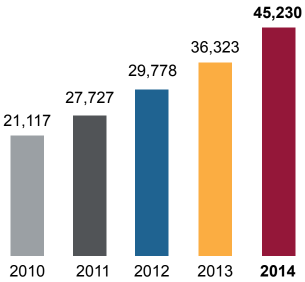


Increase in the number of branches

In 2014, 14 new Bank Albilad branches were opened to reach 116 operating branches.



Financial Comparisons



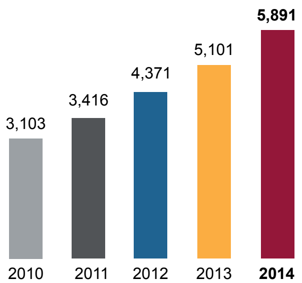
Total Assets Increase

24.5%

1.The following is an analysis of the major items of Consolidated statement of financial position:

(SAR in millions)

	2014	2013	2012	2011	2010
Investments, net	**2,635**	1,667	1,537	951	1,611
Financing, net	**28,355**	23,415	18,256	13,780	12,290
Total assets	**45,230**	36,323	29,778	27,727	21,117
Customers' deposits	**36,724**	29,108	23,742	23,038	16,932
Total liabilities	**39,339**	31,222	25,407	24,311	18,014
Total shareholders' equity	**5,891**	5,101	4,371	3,416	3,103



Shareholder Equity Increase

15.5%

2. The following is an analysis of the major items of Consolidated income statement:

(SAR in millions)

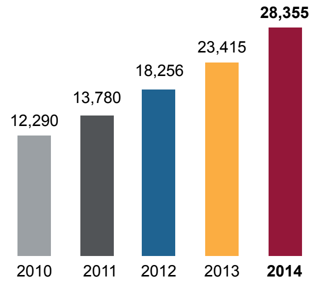
	2014	2013	2012	2011	2010
Net income from investing and financing assets	**1,019**	947	840	703	625
Fee and commission income, net	**719**	666	645	458	342
Exchange income, net	**293**	245	234	189	121
Total operating income	**2,097**	1,917	1,737	1,374	1,099
Reversal of Impairment charge on commodity murabaha	-	(5)	-	-	47
(Reversal) / Impairment charge for financing, net	**(8)**	175	275	252	242
Total operating expenses	**1,233**	1,188	1,168	1,044	1,007
Non-operating income	-	-	373	-	-
Net income for the year	**864**	729	942	330	92
Basic and diluted earning per share (Saudi Riyal)	**2.16**	1.82	1.42*	1.1	0.31

* Net income before the extraordinary income.

Major Activities

The Bank operations are run through various activities as detailed below.

Retail banking activity	Services and products to individuals including deposits, financing, remittances and currency exchange.
Corporate banking activity	Services and products to corporate and commercial customers including deposits, financing and trade services
Treasury activity	Money market, trading and treasury services.
Investment banking and brokerage activity	Includes investment management services and asset management activities related to dealing, managing, arranging, advising and custody of securities.

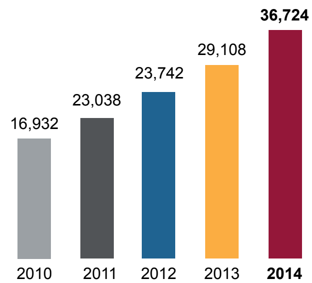


Net Financing Increase

21.1%

Major activities of the Bank and its subsidiaries as at December 31, 2014 are summarized as follows:

2014 SAR' 000	Retail Banking activity	Corporate Banking activity	Treasury activity	Investment banking and brokerage activity	Other	Total
Total assets	13,141,895	19,234,996	11,023,015	357,212	1,472,796	45,229,914
Capital expenditures	62,341	310	1,373	1,172	67,129	132,325
Total liabilities	24,688,068	12,123,331	1,103,361	125,236	1,298,565	39,338,561
Net income from investing and financing assets	413,769	510,816	52,022	310	42,260	1,019,177
Fee, commission and other income, net	722,061	125,378	86,072	78,898	65,466	1,077,875
Total operating income	1,135,830	636,194	138,094	79,208	107,726	2,097,052
Impairment charge for financing, net	79,242	(86,760)	-	-	-	(7,518)
Depreciation and amortization	90,859	3,331	1,100	503	-	95,793
Total operating expenses	972,292	166,057	49,454	43,392	1,828	1,233,023
Net income for the year	163,538	470,137	88,640	35,816	105,898	864,029



Customer Deposit Increase

26.2%

Geographical analysis of gross revenue

Analysis of the gross revenue by region **(SAR in millions)**

	Central	Western	Eastern	Total
Gross revenue for 2014	1,086	576	435	2,097

Essentially, all revenues of the Bank are from activities inside the Kingdom. The Bank does not have any branches or subsidiaries outside the Kingdom of Saudi Arabia.

Subsidiaries

Company name	Date of establishment	Main activity	Capital	Company head office	Country of establishment	Ownership
AlBilad Investment Company	November 20, 2007	Investment services and asset management activities related to dealing, managing, arranging, advising and custody of securities regulated by the CMA	200 million Saudi riyal	Riyadh , Kingdom of Saudi Arabia	Kingdom of Saudi Arabia	100%
AlBilad Real Estate Company	September 17, 2006	Registration of the real estate collaterals that the Bank obtains from its customers	500 thousand Saudi riyal	Riyadh , Kingdom of Saudi Arabia	Kingdom of Saudi Arabia	100%

Future plans

Bank AlBilad has adopted a growth strategy aiming to increase its market share. The bank has embarked on establishing a governance and a transparency approach over all the activities which has resulted in better performance and an improved customer experience. We have taken steps towards institutionalization, through many initiatives that strengthened multiple processes throughout the bank, which is evident by the improving performance in various areas such as revenue growth and decrease in non-performing loans. These strategic initiatives by the Bank aim to support the Bank's existing and future clients base and transform the bank to a world class financial institution.

Bank Albilad has developed its strategy to consolidate and focus to capture the existing market opportunities and get the maximum growth advantage to increase its market share. The Bank's business plan has been developed taking into account the Kingdom's generally positive economic & business outlook despite growing competition in the market.

Current and Future Risk

The Bank is exposed to various current and future risks from its activities, which is an essential component of the nature of banking business. These risks are monitored and managed through the Bank's Risk Management Group, which is responsible for managing credit, market and operational risks, information security, implementation of Basel regime, and IT Governance. The details for these risks are mentioned in notes 28 to 32 of the consolidated financial statements attached to Board of Directors report.

Risk Group

During 2014, the Risk Divisions effectively managed to identify, assess, and manage risk, and ensured the application of best-in-class risk assessments and control practices. Overall, the division was focused on ensuring that Albilad achieved an appropriate equilibrium between revenue and expected risks.

The framework of the Risk Divisions depends on three pillars that are the sound principles of risk management, organizational structure and the processes to measure and control the risks that are consistent with banking activities to ensure maintaining an acceptable level of those risks.

The tasks of the Risk Divisions are separate and independent from the operational activities of the bank. This is in accordance with the instructions and guidance of the Saudi Arabian Monetary Agency (SAMA) and guidelines of Basel Committee. .

The Risk Management Group is responsible for a number of different types of risks that can affect a financial institution. These include credit and liquidity risks as well as operational and market risks. The periodical review of the Risk Group's policies and regulations is considered one of its essential and fundamental responsibilities due to the importance of Risk Management. These reviews provide insight into changing market conditions and changing risk management practices in the international banking sector.

A. Credit Risk

Credit Risk is considered the most prominent risk faced by the bank through its various investment and financing activities. As credit risk is spread across a wide range of products and activities, its functions are segmented into multiple sections; however, all sections adhere to a unified set of procedural guidelines in accordance with approved credit policies and procedures.

• Credit Risk Assessment

The Bank applies cautious and accurate quantitative and qualitative measurement standards to assess credit risk. Presently, Albilad employs Moody's Analytics system to assist in the internal assessment of credit risk related to different customers. Moody's Analytics is a subsidiary of Moody's corporation, best known as a credit rating agency. Following the standards set by Moody's Analytics, Albilad Bank assesses customer companies in relation to likelihood of default, amount of default, and the impact of losses resulting from default. In future, the bank intends to upgrade current internal assessment methods for customers in small to medium business sector (SME) to be consistent with Moody's system. The goal is to provide all clients with accurate and fair assessment.

• Credit Risk Alleviators and Controls

Bank Albilad uses many different methods to manage credit risk at acceptable level. Most important are analytical studies that assess a client's future ability to fulfill his payments obligations by analyzing projected data. Depending on the size of the credit facility and the degree of risk, credit approval requires authorization from several committees made up of bank executives. Naturally, the Bank demands securities that must be furnished to cover such credit facilities. The types and forms of securities vary in nature and range from cash coverage, to pledge of investments and liquid assets, mortgage of commercial or residential real estate, and financial, personal or third party guarantees. Financing personal credit for individuals is associated with the client's salary transfer to the bank. Other considerations include the bank's credit concentration risk, which is a general assessment of all outstanding credit accounts. The bank continously assesses the volume of credit exposure against set controls that pertain to specific parties and active sectors.

• Monitoring and Reports

The bank conducts an annual comprehensive credit solvency review for all financed corporate customers to ensure that their activities match their financing needs. In addition, the bank prepares reports for each client and visits clients frequently. Customers that are considered to be high credit risk are identified and carefully monitored to ensure that risks are mitigated wherever possible. The portfolio of individual customers who obtained consumer credit facilities and credit cards are also monitored; criteria established for portfolios within a specific segment are used to allow such credits. With reference to the bank's financial records and statements, credit allowances are calculated in accordance with International Financial Reporting Standards for accounts that may result in losses and which may affect expected cash flow from these assets or investments. A comprehensive monthly report that examines the status of the bank's portfolio along with a credit concentration analysis is prepared. This monthly report is supervised and reviewed by senior management.

B. Market Risk

Market risk is defined as the risk of losses arising from movements in market prices that may affect the fair value of future cash flows. Market variables include Murabaha rates, foreign currency exchange rates, and fluctuating stock prices.

There are major types of market risk that the Bank is exposed to, these types are as follows:

- Profit Rate Risk or Rate of Return Risk:

Profit Rate Risk or Rate of Return Risk known as the potential impact on the profitability of the bank as a result of changes in the profit rate in the market, and often changes in the market rate of return occurs either because of general market movements, or because of a particular source / reasons for the borrower.

- Foreign Exchange Risk:

Risk resulting from the impact of fluctuations in the exchange rates of the currencies on the bank currency positions.

- Equity Price Risk

Risks resulting from fluctuations in share prices and therefore the impact on the Bank's profitability and shareholders' equity.

In general, the objective of the bank's market risk management is to manage and control market risk exposures in order to increase the yield within the approved market risk policy and the acceptable risk level by the bank. The sources of market risk exposure in the Bank are divided to into two types: trading portfolio and Non-Trading portfolio.

- Trading Portfolio

This exposure is a direct result of the bank's need to hold sufficient foreign currency reserves.

- Non- Trading Portfolio

The exposure to market risk in the non-trading portfolio mainly results from the miss-match between dates of maturity of assets and the maturity dates of liabilities and the impact of the change in prices on execution of the re-investment transactions.

C. Liquidity Risk

Liquidity risk is one of the most important risks that the banking system or a specific Bank might be exposed to, and take into account the likelihood of Bank's ability to meet its financing requirements at a reasonable cost (funding liquidity risk), or the inability to close centers within a reasonable speed while maintaining the right price (market liquidity risk).

● Market and liquidity risk Governance

Market risk management professionals monitor the bank's exposure to market risk on a daily basis. The corresponding results are reported to senior management daily, and to the Assets and Liabilities Committee and the Board of Directors periodically. In addition, market risk management personnel perform a number of stress tests to assess the impact of exceptional market change scenarios in accordance with international standards and SAMA regulations.

Differing from market risk, liquidity risk results from the bank's inability to meet the net financial liabilities or fulfill them at a tolerable financial cost. Liquidity risk may also develop as a result of the declining quality of the bank's assets or due to economic changes. The bank has decided to diversify funding sources, reduce the degree of concentration, and maintain an acceptable level of liquid assets to reduce exposure to liquidity risk.

In addition to liquidity risk policies and framework, the bank has developed a contingency plan consistent with best management practices and framework for supervision of liquidity risk issued by the Basel Committee. The bank has also resumed application of Basel III standards to assess its ability to manage short-term and long-term liquidity. The Assets and Liabilities Committee plays a strategic role in managing cash flow accruals, concentrations of current and investment accounts, and the liquidity reserve rate to ensure effective management of liquidity risk. Liquidity is monitored daily and any transgressions of accepted standard are reported to the concerned committees and the Board of Directors.

The Bank also conducts periodic liquidity stress tests assuming normal or exceptional circumstances, which can relate to internal conditions or external factors. In addition to the limits imposed by SAMA, the Bank has established policies and procedures to set and monitor internal limitations to control liquidity risk. A periodic review of liquidity risk management policies and procedures is conducted and any changes, if required, are approved by the Assets and Liabilities Committee and the Board of Directors.

D. Operational Risk

The Basel Committee defines operational risk as the risk of losses resulting from inefficiency or failure in Internal processes , people , systems, or external events, including legal risks.

Operational risk is inherent in all products, activities, processes and systems of the Bank that are caused by internal factors, other than credit risk and market risk which arise from external factors.

To manage operational risk, the bank has instituted a tightly controlled strategy within a comprehensive framework, supported by policies and procedures, to achieve a number of objectives, the most important of which include:

- Analysis and evaluation of objectives and sub-activities to reduce the bank's exposure to operational risk.
- Identification and assessment of operational risk arising from new and current products, activities, processes and systems through the following operational risk management tools:
  - Collecting and analyzing operational loss incidents in order to identify control gaps that led to those losses, and recommend the corrective actions required to reduce their re-occurrence in the future.
  - Assessment of risks inherent in the various activities of the Bank, and the control elements in place to address those risks.
  - Collection of key risk indicators in order to monitor and control the level of exposure to operational risk, as an early warning signal before the risk occurs.

- Supervision by the Board of Directors and the senior bank management
- Independent and continuous assessment of the control elements, policies and procedures, and the Bank activities' performance levels.
- Ensure compliance with instructions of the regulatory authorities and international standards in operational risk management.
- Provide executive management and Board of Directors with periodical reports on the results of the operational risk assessment and the losses suffered by the bank and related corrective actions.

Accounting standards applicable

The consolidated financial statements are prepared in accordance with the Accounting Standards for Financial Institutions promulgated by the Saudi Arabian Monetary Agency ("SAMA") and with International Financial Reporting Standards ("IFRS"). The Bank also prepares its consolidated financial statements to comply with the requirements of Banking Control Law and the Regulations of Companies in the Kingdom of Saudi Arabia. There is no material departure from accounting standards issued by SOCPA.

Governance and transparency

Bank AlBilad Board of Directors is committed to submit growing value for shareholders over the long term, and appreciates the role of an effective regulation of governance in achieving sustainable growth, and achieved through the formulation of strategic objectives and translate them into appropriate programs work, and work to achieve them with a commitment to criteria of transparency and disclosure approved by Saudi Arabian Monetary Agency (SAMA) and the Capital Market Authority.

Bank AlBilad Board of Directors and executive management stresses on the need to adhere to the criteria of governance as an effective means to develop the concepts of transparency and integrity, effective control and to achieve high professional performance . This will enhance the confidence of investors, and serve the interests of shareholders and employees, as well as the community, partners and customers, both locally and regionally.

The Board of Directors in the Framework of governance stresses on the fact that board members must activate their supervisory role and bear their responsibilities in promoting public confidence in the bank's management, taking into account that this is within the framework of action to enhance the bank's profits and minimize the impact of risk on the interests of depositors and financial stability. This report illustrates the extent of the bank's commitment to the terms and conditions of corporate governance.

Items partially applied, and items not applied to the list of corporate governance

Board of Directors approves the bank's commitment to implement all mandatory clauses provided by Corporate Governance Regulation issued by the Capital Market Authority on 21/11/2006 and modified by Capital Market Authority Board's decision on 16/3/2010, as well as all stipulated by the general principles of banks governance issued by Saudi Arabian Monetary Agency, dated March 2014, first updated, and some items of which is not guided was implemented as stipulated in Regulation of corporate governance , except for the following items:

Items Not applicable	Items not applied	Items applied partially	Items completely applied	Number of Items	Number in the list of corporate Governance
D	-	-	4	5	Sixth: voting rights
I	-	-	8	9	Twelve: Board committees

The Board of Directors also approve a comprehensive set of regulations and policies for governance, which are consistent with those reported in the companies law and a list of corporate governance issued by the Capital Market Authority and the general principles for the governance of banks issued by the Saudi Arabian Monetary Agency as well as the articles of association of the Bank, the Board of Directors follow-up with the executive management to ensure its commitment to implement all provisions stipulated by these regulations and policies.

Social Responsibility

Bank Albilad is giving the social responsibility a great interest, and had contributed in several social activities during the year 2014 by supporting and organizing a number of charity projects, exhibitions, conferences and holding seminars. Bank Albilad has been Aware of its responsibility towards the society.

The Board of Directors

The Board of Directors consists of 11 members, who were elected in the General Assembly meeting held on 28/05/14341H, corresponding to April 9, 2013 for three years with effect from 07/06/1434H corresponding to April 17, 2013 until 09/07/1437 corresponding to April 16, 2016.

Meetings attendance of the Board of Directors Record

In furtherance of its role, the Board of Directors was held (6) meetings during 2014, the following attend these meetings Record:

	Date					
Member	10/03/2014	14/04/2014	02/06/2014	01/07/2014	15/09/2014	14/12/2014
Dr. Abdulrahman bin Ibrahim Al-Humid	√	√	√	√	√	√
Mr. Nasser bin Mohammed Al-Subeaei	√	√	√	√	√	√
Dr. Ibrahim bin Abdulrahman Al-Barrak	√	√	√	√	√	√
Mr. Abdulrahman bin Mohammed Remzi Addas	√	√	√	√	√	√
Eng. Abdulrahman bin Abdullatif Al-Issa	√	√	X	√	√	√
Mr. Fahad bin Abdullah bindekhayel	√	X	√	√	√	X
Eng. Ahmad bin Abdulaziz Al-Ohali	√	√	√	√	√	√
Mr. Khalid bin Abdulaziz Al-Mukairin	√	√	√	√	√	√
Mr. Ahmed bin Abdulrahman Al-Hossan	√	√	√	√	√	√
Mr. Khalid bin Abdulrahman Al-Rajhi	√	√	√	√	√	√
Mr. Khalid bin Abdullah Al-Subeai	X	√	√	√	√	√

Memberships In Listed Companies

Position	Company Name	Member
Dr. Abdulrahman bin Ibrahim Al-Humid	Saudi Vitrified Clay Pipe Co	Board Member
Mr. Nasser bin Mohammed Al-Subeaei	Saudi Hotels & Resort Areas	Board Member
Mr. Abdulrahman bin Mohammed Remzi Addas	Al Sorayai Trading And Industrial Group Company	Board Member
Eng. Abdulrahman bin Abdullatif Al-Issa	Saudi Vitrified Clay Pipe Co	Board Member
	United Electronics Company (Extra).	Board Member
Eng. Ahmad bin Abdulaziz Al-Ohali	Saudi International Petrochemical Company (SIPCHEM).	Board Member
Mr. Khalid bin Abdulrahman Al-Rajhi	Saudi Cement Co.	Chairman
	Saudi United Cooperative Insurance Co(Walaa)	Board Member
	Takween Advanced Industries Co.	Board Member
	Dana gas company (United Arab Emirates)	Board Member

The Status of Board of Directors

Member	Position	Status
Dr. Abdulrahman bin Ibrahim Al-Humid	Chairman	Non-executive
Mr. Nasser bin Mohammed Al-Subeaei	Vice chairman	Non-executive
Dr. Ibrahim bin Abdulrahman Al-Barrak	Member	Independent
Mr. Abdulrahman bin Mohammed Remzi Addas	Member	Independent
Eng. Abdulrahman bin Abdullatif Al-Issa	Member	Non-executive
Mr. Fahad bin Abdullah bindekhayel	Member	Non-executive
Eng. Ahmad bin Abdulaziz Al-Ohali	Member	Independent
Mr. Khalid bin Abdulaziz Al-Mukairin	Member	Non-executive
Mr. Ahmed bin Abdulrahman Al-Hossan	Member	Independent
Mr. Khalid bin Abdulrahman Al-Rajhi	Member	Non-executive
Mr. Khalid bin Abdullah Al-Subeai	Member	Non-executive

Major Shareholders

The major shareholders of the Bank with more than 5% shareholders as of end of trading (13/12/2014) as follows:

	Shareholder Name	Percentage %
1	**Mohammed Ibrahim Mohammed AlSubaie & Sons company**	18.45
2	**Abdullah Ibrahim Mohammed AlSubaie company**	11.14
3	**Abdulrahman Saleh Abdulaziz AlRajhi**	8.45
4	**Abdulrahman Abdulaziz Saleh AlRajhi**	6.57
5	**Khalid Abdulrahman Saleh AlRajhi**	8.84

- The above balances is based on the Saudi Stock Exchange (Tadawul) records at the end of the trading day 31/12/2014 .

Shareholding of Board members, their wives and children

The shareholdings of Board members, their wives and children as at the end of December 2014 compared to December 2013 are as follows:

	Name	December 2014	December 2013	Change	Change in percentage %
1	**Dr. Abdulrahman bin Ibrahim Al-Humid**	1,333	1,333	-	-
2	**Mr. Nasser bin Mohammed Al-Subeaei and his family**	1,368,562	1,368,775	(213)	-
3	**Dr. Ibrahim bin Abdulrahman Al-Barrak**	1,000	54,088	(53,088)	(98.2)
4	**Mr. Abdulrahman bin Mohammed Remzi Addas**	2,666	2,666	-	-
5	**Eng. Abdulrahman bin Abdullatif Al-Issa**	1,333	1,333	-	-
6	**Mr. Fahad bin Abdullah bindekhayel**	1,000	1,000	-	-
7	**Eng. Ahmad bin Abdulaziz Al-Ohali**	4,000	4,000	-	-
8	**Mr. Khalid bin Abdulaziz Al-Mukairin and his family**	566,588	606,454	(39,866)	(6.6)
9	**Mr. Ahmed bin Abdulrahman Al-Hossan**	1,000	6,666	(5,666)	(85)
10	**Mr. Khalid bin Abdulrahman Al-Rajhi**	35,368,748	25,561,251	9,807,497	38.4
11	**Mr. Khalid bin Abdullah Al-Subeai**	1,333	1,333	-	-

Shareholding of top executives, their spouses and children

The shareholdings of top executives, their wives and children as at the end of December 2014 compared to December 2013 are as follows:

	Name	December 2014	December 2013	Change	Change in percentage %
1	**Mr. Khalid bin Suleiman Al-Jasser**	196,423	160	196,263	122,664%
Total number of shares		196,423	160	196,263	122,664%

Remunerations and Allowances:

The Bank pays remunerations and allowances to the Board Members and members of various Board Committees for attending the Board meetings as well as salaries, rewards and allowances to senior executives in accordance with their contracts. A breakdown of such remunerations is given hereunder:

SAR' 000	Members of Non-Executive Board	Seven Senior Executives including the Chief Executive and Chief Financial Officer
Salaries and remunerations	-	11,707
Periodic and annual allowances and rewards	5,280	9,887
Total	**5,280**	**21,593**

Board committees

The Board of Directors had four committees from the board, the members are formed from the board and independent members from outside the Bank with experience, specialties and executive.

The determination of the authorities and operational procedures of these committees are approved by the Board of Directors, as follows:

Executive Committee

The responsibilities of the Executive Committee is to ensure the effectiveness of the decision-making process at the highest levels in order to achieve the objectives of the Bank with all the flexibility in a timely manner and according to the set schedule, as well as assist the Board in carrying its responsibilities and its role in promoting and monitoring the strategy implementation to support effective performance, review and monitor the Bank's activities on a regular basis and make recommendations necessary, The Executive Committee also is responsible at the same time to discuss the issues that need to be reviewed in-depth and detailed study before submission to the Board for approval and issue a final decision. In addition to any other tasks entrusted to them or assigned by the Board of Directors.

The committee consists of six member from executives and non-executives committee, including Chairman and Chief Executive Officer of the Bank, the Executive Committee held 11 meetings during 2014. The current session of the Executive Committee consists of six members, as follows:

Member name	Position
Dr. Abdulrahman bin Ibrahim Al-Humid	Chairman
Mr. Nasser bin Mohammed Al-Subeaei	Member
Mr. Khalid bin Abdulaziz Al-Mukairin	Member
Mr. Khalid bin Abdulrahman Al-Rajhi	Member
Mr. Abdulrahman bin Mohammed Remzi Addas	Member
Mr.Khalid bin Suleiman Al-Jasser	CEO

Audit Committee

The responsibilities of the Audit Committee include the supervision of the Internal Audit Division including reviewing and approving the internal audit plan, audit procedures and following-up on corrective actions that mitigate the risks of issues reported by the internal audit division. Moreover, the audit committee nominates the external auditors, fixes their remuneration, reviews their work plan and supervises their activities. In addition, the committee review and discusses the comments of external auditors on the Bank's quarterly and annual financial statements and approves the same. Furthermore, the committee reviews the accounting policies adopted by the Bank and assesses the application of controls of the same. It also supervises the special projects, reviews management reports and the accuracy of procedures related to financial disclosures. The committee is also responsible for all other control actions as described in its approved charter. The Audit Committee is directly reporting to the board of directors. During the year 2014, 9 meetings were conducted by the Audit Committee.

The Audit Committee consists of four (4) members: the Chairman of the committee who is a member of the Bank's Board of Directors, and three independent external members, as follows:

Member name	Position
Mr. Ahmed bin Abdulrahman Al-Hossan	Chairman
Dr. Ahmed Abdullah AlMogamis	Independent Members
Mr.Yosuf Ahmed Al Burshaid	Independent Members
Mr. Soliman Nasser AlHatlan	Independent Members

Nominations and Remuneration Committee

The The Committee is responsible for making recommendations to the Board for nomination for the Board membership, performing annual revisions of the requirements for suitable skills for the Board membership, and revising the Board structure. Its tasks also include submitting strengths and weaknesses of the Board and making recommendations for members, ensuring timeliness of holding ordinary meetings of the Board, and documenting its meetings and verifying with caution the independence status of the independent members. The Nominations and Remuneration Committee is also responsible for ensuring that there is no conflict of interests, setting up the reward and incentive policy for the Board and executive based on performance, and following up human resources related issues. During the year 2014, 4 meetings of the Nominations and Remuneration Committee were held.

The Nominations and Remuneration Committee consists of the following five members, four board members from the Banks' board of directors, and one independent external member

Member Name	Position
Mr. Abdulrahman bin Mohammed Remzi Addas	Chairman
Mr. Nasser bin Mohammed Al-Subeaei	Member
Mr. Khalid bin Abdulaziz Al-Mukairin	Member
Eng. Ahmad bin Abdulaziz Al-Ohali	Member
Mr. Khalid Saleh AlHathal	Member

Risk and Compliance Committee

The responsibility of the Risk and Compliance Committee to supervise the risk level and the Compliance of the bank to ensure that work within the approved risk limits and to make sure that the bank has adequate policies and procedures, approved by the authorized, and review the bank internal policies and present it to the Board of Directors for approval, review and approve the working procedures of the Bank and the adoption of the distribution of the amount of accepted credit risk and fulfill fiduciary responsibilities and all the approved risk management and the Board of Audit and periodic evaluation of the risk limits and risks of new products and ensure compliance with the instructions of regulators and the application of appropriate control systems, the Risk and Compliance Committee held 7 meetings during the 2014 year.

The Risk and Compliance Committee consists of the following (7) members, two board members and five of the Bank's employees:

Member Name	Position
Mr. Abdulrhman bin Mohammed Ramzi Addas	Chairman
Mr. Fahad bin Abdullah bindekhayel	Member
Mr. Musaddiq Ijaz	Member
Mr. Mohammed Abdullah Alyahya	Member
Mr. Mostafa A. Abdullatif	Member
Mr. Abdullah Mohammed Balharith	Member
Mr. Abdullah Mohammad Al-Arifi	Member

The Internal Control System

The Board of directors of Bank AlBilad is responsible for setting an adequate and effective system of internal control framework. The Board is overseeing the implementation of sound risk management practices in line with SAMA stipulations and to ensure that the Bank operates within the defined risk appetite and risk tolerance level. The Board regularly monitors the adequacy and the effectiveness of the bank's control framework through its established committees (Audit Committee and Risk & Compliance Committee).

The Bank has adopted a sound internal control framework which comprises the three lines of defense as defined by Basel Committee. The first layer of defense is the Bank's Management being responsible for the appropriate design and functioning of internal control system and sharing the responsibility for operating and maintaining the system with all bank employees. The second layer of defense is the Risk Management and Compliance functions, being responsible to ensure that risks in the Bank have been appropriately identified, measured and managed. These control functions also monitor and ensure that all business functions conduct their activities in accordance with risk management policies and standard operating procedures that have been established by the Bank. The third layer of which is the Internal Audit function, being responsible for independently assessing the effectiveness of the Bank's internal controls including processes created in the first and the second line of defense and provide reasonable assurance on the implementation of a sound risk management, control and governance processes.

Based on the results of the internal controls, the Management considers that the Bank's existing internal control system is adequately designed, operating effectively, and monitored consistently. Nevertheless, the Management continuously endeavors to enhance and further strengthen the internal control system of the Bank.

Shariah Commitment

Bank AlBilad has since its inception committed itself to the application of the Islamic Shariah. The Bank has an approved Shariah Board Charter which grants the Shariah Board total independence from other Bank departments. Most prominent points of this Charter are as follows:

1. The Bank does not implement any product, contract, or agreement unless it has been approved by the Shariah Board.
2. Rulings of the Shariah Board are binding to all Bank departments and its companies.
3. The Shariah Board and Shariah Group contribute to the development of products with respect to their compliance with the Shariah rules.
4. The Shariah Board and Shariah Group contribute to disseminating awareness of the Islamic banking concepts.

Shariah Board

Shariah Board members consist of six scholars who are also specialized in the modern financial transactions. They are:

Member Name	Position
H.E. Shaikh Abdullah bin Sulaiman bin Manea,	Head of the Shariah Board,
H.E. Shaikh Prof. Abdullah bin Muhammad Al-Mutlaq	Deputy
Shaikh Prof. Abdullah bin Mousa Al-Ammar	Member
Shaikh Dr. Muhammad bin Saud Al-Osaimi	Member
Shaikh Dr. Abdulaziz bin Fawzan Al-Fawzan	Member
Shaikh Prof. Yusuf bin Abdullah Al-Shubaili	Member

Preparatory Committee

One of the functions that emanate from the Shariah Board is the "Preparatory Committee", consisting of four members from the members of the Shariah Board. The Preparatory Committee performs many tasks, including the following:

1. Studying the issues forwarded to the Board prior to submission to the Board.
2. Studying the Shariah-related inquiries received from the Bank's employees and customers for appropriate guidance.
3. Studying initiatives for new products and providing necessary guidance.

During the year 2014, the Shariah Board held 9 meetings, and the Preparatory Committee held 17 meetings.

Department of the Shariah Board Secretariat

Department of the Shariah Board Secretariat compiles information on matters submitted to the Board and prepares the relevant research and studies. It is the link between the Shariah Board and the Bank departments. It disseminates awareness of the Islamic banking concept in the Bank.

Shariah Audit Department

The Shariah Audit Department verifies the Bank's compliance with the rulings of the Shariah Board by conducting periodic field visits to the Bank's departments.

The Department checks the products by taking random samples of documents and shares the results of the test with relevant departments, thereby ensuring that reasonable degree of conviction is present as regards the Bank's commitment to Islamic banking.

The Department also responds to customer inquiries and clarifies the mechanism implemented in the Bank's products. It also works to resolve customer complaints and communicates with the relevant departments of the Bank to resolve the same.

Means of Communication with Shareholders

The Board adopts transparency as one of the Bank's main principles. Transparency, however, is one of the corporate governance fundamentals intended to ensure fair and equal treatment of all shareholders and define the Board's responsibility towards the Bank and shareholders in general. The Bank follows the standards and instructions of the Saudi Arabian Monetary Agency (SAMA), the Capital Market Authority (CMA) and the recommendations of the Basel Committee regarding corporate governance. It submits comprehensive information about its activities and businesses as part of the annual report and the brief initial financial statements announced in the local papers, on Tadawul web site, and on the Bank's web site: (www.bankalbilad.com) which contains additional information and features of the Bank. The Bank also pays considerable attention to inquiries received from its stakeholders and to answering such inquiries. Furthermore, it encourages its shareholders to attend the General Assembly meetings where the Bank's activities are discussed.

Due to Regulatory Authorities

(SAR in millions)

	2014	2013
Zakat (1)	**23.0**	18.7
GOSI (2)	**5.8**	4.4

1- Zakat – zakat assessment for the year 2014 will be given to DZIT in the first quarter of the year 2015 and the amount to be paid is SAR 23.0 million (2013: SAR 18.7 million) with zakat assessment.

2- Due to GOSI of SAR 5.8 million (2013: SAR 4.4 million) will be paid in January 2015.

Zakat

The Bank has consistently filed its Zakat returns for the financial years up to and including the year 2013 with the Department of Zakat and Income Tax (the "DZIT") using the same basis for calculation. The Bank has received Zakat assessments for the years from 2006 to 2008 raising additional demands aggregating to SAR 185 million. The basis for this additional Zakat demand is being contested by the Bank in conjunction with all the Banks in Saudi Arabia. The Bank has also formally contested these assessments and is awaiting a response from DZIT.

The Preliminary Committee has upheld the decision of the DZIT in case of the assessment for the year 2006. However, the Bank filed an appeal with the higher Appellate Committee against the Preliminary Committee's ruling.

The zakat assessment for the years 2009 to 2013 have not been finalized by the DZIT and the Bank may not be able to determine reliably the impact of such assessments, however , the assessments may result in additional demand.

Fines imposed on the Bank by the supervisory authorities

The Bank did not get any significant fines during the year 2014, and most of the fines imposed due to operational processes were resolved amicably.

The following table includes the fines imposed on the bank by supervisory authorities:

Supervisory Authority	The number of fines	Total amount
Saudi Arabian Monetary Agency	4	35,944
Ministry of Municipal and Rural Affairs	94	646,300

Dividend Policy

After the deduction of all general expenses, other costs and provision of the required reserve for bad debts, investments losses and unexpected liabilities, the Bank distributes its net profit as per the recommendation of the Board of Directors and in accordance with the Banking supervision law and the guidance of the Saudi Arabian Monetary Agency, as follows:

1. Calculate the due Zakat amount on the shareholders which the Bank pays on behalf of the shareholders.
2. The Bank will transfer 10% (ten percent) of its net profit after deducting Zakat to the statutory reserve until this reserve equals the paid up capital.
3. Five percent (5%) of the paid up capital of the rest of the profit after the deduction of statutory reserve and Zakat will be allocated as dividend in accordance with the Board of Directors' recommendation and the approval of the general assembly meeting. If the rest of the profit is less than 5%, the shareholders do not have the right of dividend payment. The general assembly meeting does not have the right to propose a dividend in excess of the amount recommended by the Board of Directors.
4. The usage of the remaining profit (1,2,3), if any, will be subject to

Board of Directors' recommendation and approval from general assembly meeting.

- With regard to point 2 of dividend policy, the article 13 of the Saudi Arabian Banking Control Law the Saudi Arabian Banking Control Law requires the bank to transfer 25% of its net profit to the statutory reserve .
- Board of Directors has proposed a cash dividend for the year 2014 of SAR 200 million at the rate of 0.5 riyals per share. The dividend based on the list of shareholders as of the date of the General Assembly ,which is expected during the second quarter 2015.

Recommendation of the Capital Increase

Bank board of directors recommended in its meeting held on 08/01/2015 to the General Assembly to increase the company's capital from SAR 4,000 million to SAR 5,000 million with an increase of 25% by the issuance of 1 share for every 4 shares to the shareholders of the bank to become 500 million shares and the capital will increase by capitalizing SAR 1,000 million of retained earnings.

Bank Credit Rating

Moodys has assigned Bank Al Bilad a long-term credit rating of A2 and short term credit rating of P-1.

In a statement released on 20th May 2014, Moodys described that the ratings reflects the bank's strong financial position, strong asset quality and coverage metrics, solid capitalization levels and strong profitability resulting from growing business volume, efficiency gains and the solid contribution of non-funded revenues, in addition to the strong fundamentals of the Saudi economy supporting the growth in the banking sector.

Human Resources

The total number of the Bank's employees as at the end of 2014 was 3,194 (three thousand one hundred and ninety four) employees compared to 2,958 (two thousand nine hundred and fifty eight) employees at the end of 2013. The Saudization percentage at the end of 2014 was 80%. The Bank has organized and implemented specialized training courses for newly-recruited university and administrative institute graduates, in addition to developmental courses offered to all employees. During the year, 3,154 staff members of the Bank underwent various trainings. The Bank recruits employees on the basis of high competence and banking experience and follows ethical and professional standards as referred in Bank's employee code of conduct.

End of Service Benefits

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

Employees Share Plan

The Bank offers its eligible employees an equity-settled share-based payment plan as approved by SAMA. As per the plan, eligible employees of the Bank are offered stock to be withheld out of their annual bonus payments.

The cost of the plan is measured by reference to the fair value at the date on which the stocks are granted.

The cost of the plan is recognized over the period in which the service condition is fulfilled, ending on the date on which the relevant employees become fully entitled to the stock option ('the vesting date'). The cumulative expense recognized for the plan at each reporting date until the vesting date, reflects the extent to which the vesting period has expired and the Bank's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the consolidated statement of income for a year represents the movement in cumulative expense recognized as at the beginning and end of that year.

The Bank, with the approval from SAMA, has entered into an agreement with an independent third-party for custody of the shares under the plan, plus any benefits accrued there-on.

Significant features of the share based payment plan are as follows:

	2014	2013
Grant date	15 September 2014	4 September 2013
Maturity date	1 January 2017	1 January 2016
Number of shares offered on the grant date	329,349	251,300
Share price on the grant date (SAR)	32.79	31.80
Value of shares offered on grant date (SAR'000)	10,799	7,991
Vesting period	3 years	3 years
Vesting condition	Employees to be in service	Employees to remain in service
Method of settlement	Equity	Equity
The movement in the number of shares is as follows	2014	2013
Beginning of the year	781,637	583,407
Granted during the year	329,349	251,300
Forfeited	27,527	53,070
Exercised	388,824	-
End of the year	694,635	781,637

The shares are granted only under a service condition with no market condition associated with them.

Related party balances and transactions

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

a) Directors, and other major shareholders and their affiliates balances

	2014 SAR'000	2013 SAR'000
Bei ajel	**1,509,743**	1,455,432
Musharaka	**30,600**	17,529
Commitments and contingencies	**41,632**	12,334
Demand	**27,036**	43,508
Saving	**4,113**	9,320
Other	**4,093**	-

Major shareholders are those shareholders who own 5% or more of the Bank's issued share capital.

b) Bank's Mutual funds

These are the outstanding balances with Bank's mutual funds as of December 31:	**2014 SAR'000**	2013 SAR'000
Customer deposits	**2,082**	13,529
Investment	**56,918**	28,221
Customer deposits		

c) Income and expense

The following is an analysis of the related party income and expenses included in the consolidated income statement for the years ended December 31:

	2014 SAR'000	2013 SAR'000
Income from financing	**52,381**	44,110
Income from commitments and contingencies	**294**	148
Management fees (AlBilad mutual funds)	**18,086**	14,758
Rent	**4,800**	5,675
Board of Directors' remunerations	**5,280**	5,266

The total amount of compensation paid to key management personal during the year is as flows:

	2014 SAR'000	2013 SAR'000
short-term employee benefits	**48,016**	40,990
Post-employment , treatments and share-based payments	**7,808**	140

Executive management members are those who have the authority and responsibility, directly or indirectly, to plan, steer and control the Bank's activities.

External Auditors

In the General Assembly meeting held on 14 Jumada II 1435, corresponding to April 14, 2014 it was decided to appoint Deloitte & Touche Bakr Abu Alkhair & Co. and Ernst & Young as External Auditors of the Bank for the year 2014. For the year 2015, The appointment of the External Auditors will be at the General Assembly meeting that will be held in the second quarter 2015.

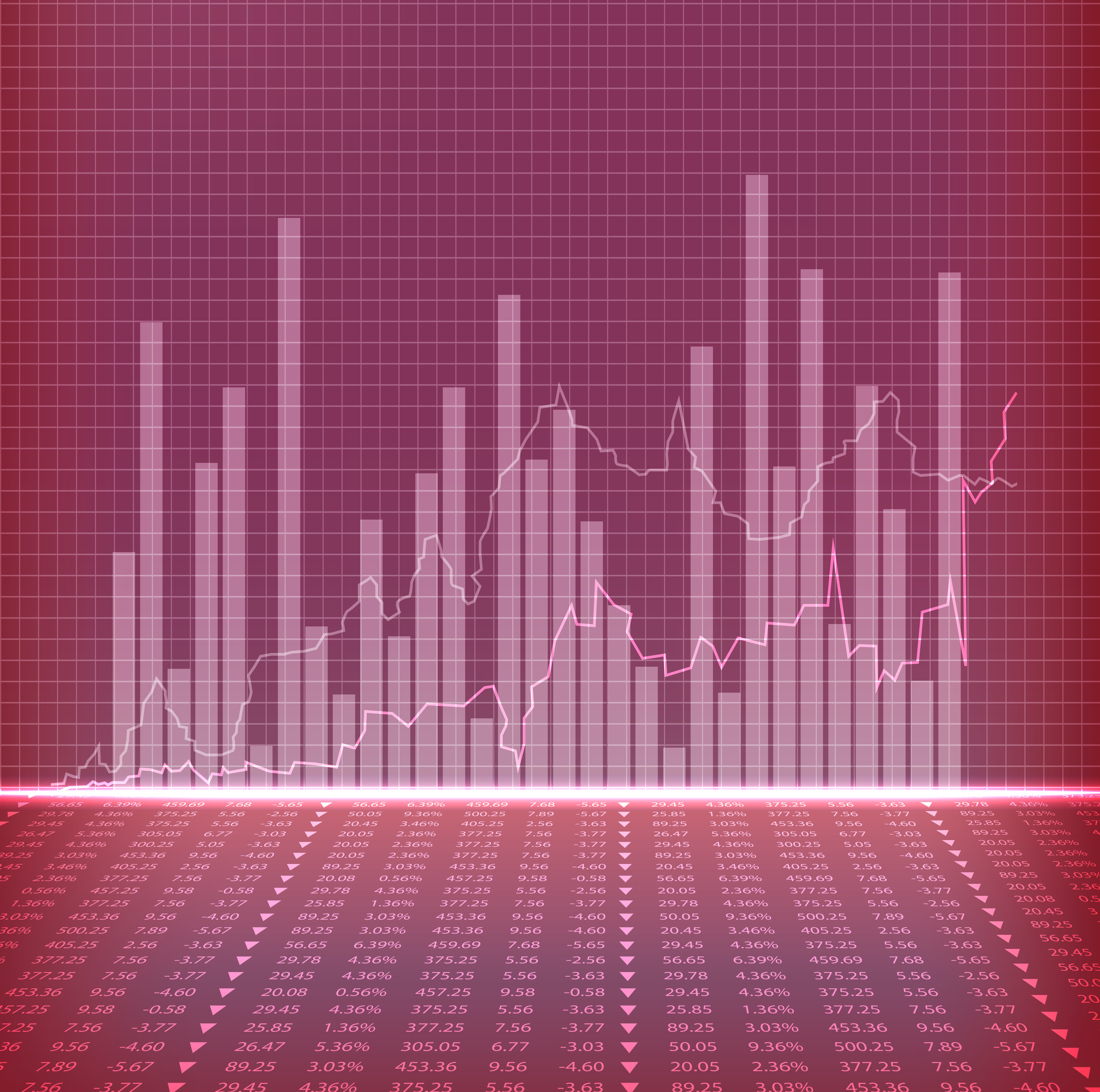
Declaration of the Board of Directors

The Board of Directors confirm the following:-

- That the accounting records are prepared properly.
- That the system of internal control is prepared properly and carried out effectively.
- That there is no doubt mentioned in the bank's ability to continue its activity.
- Bank accounts auditors gave honest audit report on the consolidated financial statements of the Bank for the current fiscal year.
- There are no arrangements or agreements with any of the shareholders or members of the Board of Directors or Senior Executives and hereby waive any salaries or bonuses or compensation or profit.
- There is no interest in the equity category eligible to vote belonging to the persons (other than members of the Board of Directors of the bank and Senior Executives and their spouses and minor children) that informed the bank of those rights.
- There is no any financial obligations list loans to the bank or its subsidiaries or debt instruments convertible or for refund or contractual securities and no debt instruments issued by the bank during the year 2014.
- The Bank did not recover or purchase or cancel any debt instruments or convertible debt instruments or debt-refundable or option rights and others during 2014.

Finally, the Board of Directors, Chief Executive Officer and Bank albilad employees take this opportunity to express our sincere thanks to The Custodian of the Two Holy Mosques King Salman bin Abdulaziz al Saud and Prince Muqrin bin Abdulaziz al Saud , the Crown Prince ,and the Deputy Premier as well to Prince Mohammad bin Naif bin Abdulaziz al Saud , the Deputy Crown Prince , the Second Deputy Premier and the Minister of Interior, for their continued support and encouragement of the banking sector in the Kingdom. Thanks are also extended to the Ministry of Finance, the Ministry of Commerce and Industry, the Saudi Arabian Monetary Agency, and the Capital Market Authority for their continued support and encouragement.

The Board of Directors would like also to thank shareholders, customers and employees for their relentless efforts aimed at improving and developing the Bank's performance towards achieving its objectives.



Consolidated Financial Statements

Deloitte & Touche
Bakr Abulkhair & Co.

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Bank AlBilad (the "Bank") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at December 31, 2014, the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes from 1 to 40. We have not audited note 41, nor the information related to "Disclosures Under Basel III Framework" cross referenced therein, which is not required to be within the scope of our audit.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, auditors consider internal control relevant to the Group'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 Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

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Opinion

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

- present fairly, in all material respects, the financial position of the Group as at December 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with the Accounting Standards for Financial Institutions issued by SAMA and with IFRS; and

- comply with the requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's By-laws in so far as they affect the preparation and presentation of the consolidated financial statements.

Ernst & Young

P O Box 2732
Riyadh 11461
Kingdom of Saudi Arabia

Rashid S. Al Rashoud
Certified Public Accountant
Registration No. 366

Deloitte and Touche
Bakr Abulkhair & Co
P O Box 213
Riyadh 11411
Kingdom of Saudi Arabia

Ehsan A. Makhdoum
Certified Public Accountant
Registration No. 358

30 Rabi Al-Thani 1436H
(19 February 2015)

ERNST & YOUNG

Deloitte & Touche Bakr Abulkhair & Co

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31

	Notes	2014	2013
		SAR' 000	SAR' 000
ASSETS			
Cash and balances with SAMA	4	**4,467,704**	4,186,998
Due from banks and other financial institutions, net	5	**8,784,586**	6,155,497
Investments, net	6	**2,635,330**	1,667,069
Financing, net	7	**28,355,270**	23,415,423
Property and equipment, net	8	**798,369**	762,204
Other assets	9	**188,655**	136,117
Total assets		**45,229,914**	**36,323,308**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks and other financial institutions	10	**1,191,018**	975,616
Customers' deposits	11	**36,723,742**	29,107,718
Other liabilities	12	**1,423,801**	1,139,085
Total liabilities		**39,338,561**	**31,222,419**
Shareholders' equity			
Share capital	13	**4,000,000**	4,000,000
Statutory reserve	14	**768,403**	552,396
Other reserves	6 (a)&16	**22,778**	43,338
Retained earnings		**1,195,557**	547,535
Employee share plan	37	**(95,385)**	(42,380)
Total shareholders' equity		**5,891,353**	**5,100,889**
Total liabilities and shareholders' equity		**45,229,914**	**36,323,308**

The accompanying notes 1 to 41 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEARS ENDED DECEMBER 31

	Notes	2014	2013
		SAR' 000	SAR' 000
INCOME			
Income from investing and financing assets	18	**1,072,694**	974,650
Return on deposits and financial liabilities	19	**(53,517)**	(28,028)
Net income from investing and financing assets		**1,019,177**	**946,622**
Fee and commission income, net	20	**719,096**	665,715
Exchange income, net		**293,433**	245,364
Dividend income	21	**14,002**	13,522
Gains on non-trading investments, net	22	**38,814**	21,904
Other operating income	23	**12,530**	24,101
Total operating income		**2,097,052**	**1,917,228**
EXPENSES			
Salaries and employee related benefits	24	**742,316**	582,247
Rent and premises related expenses		**198,786**	176,860
Depreciation and amortization	8	**95,793**	88,524
Other general and administrative expenses		**203,646**	170,482
(Reversal) / Impairment charge for financing, net	7(أ)	**(7,518)**	175,287
Reversal of Impairment charge on commodity murabaha	5(b)	**-**	(5,340)
Total operating expenses		**1,233,023**	**1,188,060**
Net income for the year		**864,029**	**729,168**
Basic and diluted earnings per share (Saudi Riyals)	**25**	**2.16**	**1.82**

The accompanying notes 1 to 41 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31

	Notes	2014	2013
		SAR' 000	SAR' 000
Net income for the year		**864,029**	729,168
Other comprehensive income:			
Items that can be recycled back to consolidated statement of income in subsequent periods			
- Available for sale financial assets	6(a) & 16		
Net changes in fair value		**18,254**	50,176
Net amount transferred to consolidated statement of income		**(38,814)**	(21,904)
Total comprehensive income for the year		**843,469**	757,440

The accompanying notes 1 to 41 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31

SAR' 000

2014	Notes	Share capital	Statutory reserve	Other reserves	Retained earnings	Employee share plan	Total
Balance at the beginning of the year		4,000,000	552,396	43,338	547,535	(42,380)	5,100,889
Changes in the equity for the year							
Net changes in fair values of available for sale investments		-	-	18,254	-	-	18,254
Net amount transferred to consolidated statement of income		-	-	(38,814)	-	-	(38,814)
Net income recognized directly in shareholders' equity		-	-	(20,560)	-	-	(20,560)
Net income for the year		-	-		864,029	-	864,029
Total comprehensive income for the year		-	-	(20,560)	864,029	-	843,469
Employee share plan reserve	37	-	-	-	-	(53,005)	(53,005)
Transfer to statutory reserve	14	-	216,007	-	(216,007)	-	-
Balance at end of the year		4,000,000	768,403	22,778	1,195,557	(95,385)	5,891,353

SAR' 000

2013	Notes	Share capital	Statutory reserve	Other reserves	Retained earnings	Employee share plan	Total
Balance at the beginning of the year		3,000,000	370,104	15,066	1,022,811	(37,165)	4,370,816
Changes in the equity for the year							
Net changes in fair values of available for sale investments		-	-	50,176	-	-	50,176
Net amount transferred to consolidated statement of income		-	-	(21,904)	-	-	(21,904)
Net income recognized directly in shareholders' equity		-	-	28,272	-	-	28,272
Net income for the year		-	-	-	729,168	-	729,168
Total comprehensive income for the year		-	-	28,272	729,168	-	757,440
Employee share plan reserve	37	-	-	-	-	(5,215)	(5,215)
Issuance of bonus shares	15	1,000,000	-	-	(1,000,000)	-	-
Zakat adjustment	15	-	-	-	(22,152)	-	(22,152)
Transfer to statutory reserve	14	-	182,292	-	(182,292)	-	-
Balance at end of the year		4,000,000	552,396	43,338	547,535	(42,380)	5,100,889

The accompanying notes 1 to 41 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31

	Note	2014	2013
		SAR' 000	SAR' 000
OPERATING ACTIVITIES			
Net income for the year		**864,029**	**729,168**
Adjustments to reconcile net income to net cash from / (used in) operating activities:			
Gains on non-trading investments, net		(38,814)	(21,904)
Gains from disposal of property and equipment, net		(82)	(4,452)
Depreciation and amortization		95,793	88,524
(Reversal) / Impairment charge for financing, net		(7,518)	175,287
Reversal of Impairment charge on commodity murabaha		-	(5,340)
Employee share plan		15,086	7,075
Operating profit before changes in operating assets and liabilities		**928,494**	**968,358**
Net (increase) / decrease in operating assets			
Statutory deposit with SAMA		(582,141)	(232,448)
Due from banks and other financial institutions			
maturing after ninety days from the date of acquisition		(1,345,983)	1,056,496
Investments maturing after ninety days from the date of acquisition		(399,139)	198,431
Financing		(4,932,329)	(5,335,034)
Other assets		(52,538)	(17,764)
Net increase/ (decrease) in operating liabilities			
Due to banks and other financial institutions		215,402	404,786
Customers' deposits		7,616,024	5,366,094
Other liabilities		284,716	44,854
Net cash from operating activities		**1,732,506**	**2,453,773**
INVESTING ACTIVITIES			
Purchase of non-trading investments		(610,363)	(468,774)
Proceeds from sale of non-trading investments		309,404	340,761
Purchase of property and equipment		(132,325)	(523,015)
Proceeds from sale of property and equipment		449	12,964
Net cash used in investing activities		**(432,835)**	**(638,064)**

	Note	2014	2013
		SAR' 000	SAR' 000
FINANCING ACTIVITIES			
Purchase of shares for employee share plan		**(68,091)**	(12,290)
Net cash used in financing activities		**(68,091)**	**(12,290)**
Increase in cash and cash equivalents		**1,231,580**	1,803,419
Cash and cash equivalents at beginning of the year		**7,480,171**	5,676,752
Cash and cash equivalents at end of the year	**26**	**8,711,751**	**7,480,171**
Income received from investing and financing assets		**1,058,539**	987,493
Return paid on deposits and financial liabilities		**37,868**	36,837
Supplemental non cash information			
Net changes in fair value reserve and net amount transferred to consolidated statement of income		**(20,560)**	28,272
Issuance of bonus shares		-	1,000,000
Zakat adjustment	15	-	22,152

The accompanying notes 1 to 41 form an integral part of these consolidated financial statements.


24
ALBILAD

Notes to the Consolidated Financial Statements
For the Year Ended 31 December 2013

1. GENERAL

a. Incorporation and operation

Bank AlBilad (the "Bank"), is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia, was formed and licensed pursuant to Royal Decree No. M/48 dated 21 Ramadan 1425H (corresponding to November 4, 2004), in accordance with the Counsel of Ministers' resolution No. 258 dated 18 Ramadan 1425H (corresponding to November 1, 2004).

The Bank operates under Commercial Registration No. 1010208295 dated 10 Rabi Al Awal 1426H (corresponding to April 19, 2005) and its Head Office is located at the following address:

Bank AlBilad
P.O. Box 140
Riyadh 11411
Kingdom of Saudi Arabia

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries, 'AlBilad Investment Company and 'AlBilad Real Estate Company' (collectively referred to as "the Group"). The subsidiaries are 100% owned by the Bank and are incorporated in the Kingdom of Saudi Arabia.

The Group's objective is to provide a full range of banking services, financing and investing activities through various Islamic instruments. The activities of the Bank are conducted in compliance with Islamic Shariah and within the provisions of the Articles of Association, and the Banking Control Law. The Bank provides these services through 116 banking branches (2013: 102) and 158 exchange and remittance centers (2013: 151) in the Kingdom of Saudi Arabia.

b. Shariah Authority

The Bank has established a Shariah Authority ("the Authority"). It ascertains that all the Bank's activities are subject to its approval and control.

2. BASIS OF PREPARATION

a. Statement of compliance

These consolidated financial statements are prepared in accordance with the Accounting Standards for Financial Institutions promulgated by the Saudi Arabian Monetary Agency ("SAMA") and with International Financial Reporting Standards ("IFRS"). The Bank, in preparation of its consolidated financial statements, complies with the requirements of Banking Control Law and the Regulations of Companies in the Kingdom of Saudi Arabia and the Bank Article of Association.

b. Basis of measurement and presentation

These consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of available-for-sale financial assets.

c. Functional and presentation currency

These consolidated financial statements are presented in Saudi Arabian Riyals (SAR), which is the Group's functional currency. The financial information presented in SAR has been rounded to the nearest thousand except otherwise indicated.

d. Critical accounting judgments and estimates

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

I. Impairment for losses on financing

The Bank reviews its financing portfolio to assess specific and collective impairment on a regular basis. In determining whether an impairment loss should be recorded, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. The evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in the Group.

Management uses estimates based on historical loss experience for financing with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating cash flows. The methodology and assumptions used for estimating both the amount and the timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

II. Fair value of financial instruments

The Group measures financial instruments at fair value at each statement of financial position date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 6.

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

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

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

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

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

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

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

III. Classification of held-to-maturity investments

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

IV. Impairment of available-for-sale equity and Sukuk investment

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

V. Determination of control over investees

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

Investment funds

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

Provisions for liabilities and charges

The Group receives legal claims against it in the normal course of business. Management has made judgments as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depends on the due process being followed as per law.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Changes in accounting policies

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2013 except for the adoption of the following new standards and other amendments to existing standards and a new interpretation mentioned below which had no material impact on the consolidated financial statements of the Group on the current period or prior period and is expected to have an insignificant effect in future periods:

Amendments to existing standards

- Amendments to IFRS 10, IFRS 12 and IAS 27 that provides consolidation relief for investments funds applicable from January 1, 2014. This mandatory consolidation relief provides that a qualifying investment entity is required to account for investments in controlled entities as well as investments in associates and joint ventures at fair value through profit or loss provided it fulfils certain conditions with an exception being that subsidiaries that are considered an extension of the investment entity's investing activities.

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

- IAS 36 amendment applicable retrospectively from January 1, 2014 addresses the disclosure of information about the recoverable amount of impaired assets under the amendments, recoverable amount of every cash generating unit to which goodwill or indefinite-lived intangible assets have been allocated is required to be disclosed only when an impairment loss has been recognised or reversed.

- IAS 39 amendment applicable from January 1, 2014 added a limited exception to IAS 39, to provide relief from discontinuing an existing hedging relationship when a novation that was not contemplated in the original hedging documentation meets specified criteria.
- IASB issued Interpretation 21 Levies that is effective from January 1, 2014. This Interpretation defines levy a payment to a government for which an entity receive no specific goods or services and provides guidance on accounting for levies in accordance with the requirement of IAS 37.

b. Basis of consolidation

These consolidated financial statements comprise the financial statements of the Bank and its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting year as that of the Bank, using consistent accounting policies.

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in these consolidated financial statements from the date that control commences until the date that control ceases.

Subsidiaries are consolidated from the date on which the control is transferred to the Bank and cease to be consolidated from the date on which the control is transferred from the Bank.

Albilad Investment Company and AlBilad Real Estate Company are 100% owned by the Bank and both are incorporated in the Kingdom of Saudi Arabia.

The consolidated financial statements have been prepared using uniform accounting policies and valuation methods for the transactions and other events in similar circumstances.

Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect amount of its returns

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

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights granted by equity instruments such as shares

Inter-group balances and any income and expenses arising from intra-group transactions, are eliminated in preparing these consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

c. Trade date accounting

All regular-way purchases and sales of financial assets are initially recognized and derecognized on the trade date, i.e. the date that the Bank becomes a party to contractual provision of instruments. Regular way purchases or sales of financial assets that require delivery of those assets within the time frame generally established by regulation or convention in the market place.

All other financial asset and liabilities are initially recognized on trade date at which the Group become a party to the contractual provisions of the instrument.

d. Foreign currencies

Transactions in foreign currencies are translated into Saudi Riyals ('SAR') at exchange rates prevailing on the dates of the transactions. Monetary assets and liabilities at year-end, denominated in foreign currencies, are translated into SAR at exchange rates prevailing at the reporting date.

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

e. Offsetting financial instrument

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

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

f. Due from banks and other financial institution

Due from banks and other financial institution are initially measured at fair value and subsequently measured at amortized cost.

g. Investments

The Bank classifies its investments as follows:

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

Available for sale (AFS) investments

AFS investments are non-derivative equity and Sukuk investment that are neither classified as (a) Financing or, (b) held-to-maturity investments.

Available for sale investments are initially recognized at fair value and are subsequently measured at fair value.

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

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

Held to maturity investments

Held to maturity investments are not-derivatives financial assets with fixed and determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold till maturity.

Held to maturity investments are initially recognised at fair value including acquisition charges associated with the investments and are subsequently measured at amortized cost less any amount written off and the provision for impairment.

h. Financing

Financing comprising of Bei-ajel, Installment Sales, Musharakah, and Ijarah originated by the Bank, are initially recognized at fair value including acquisition costs and is subsequently measured at cost less any amounts written off, and provision for impairment, if any. Financing is recognised when cash is advanced to borrowers, and are derecognized when either customer repays their obligations, or the financing are sold or written off, or substantially all the risks and rewards of ownership are transferred.

Bei-ajel and installment sales - These financing contracts are based on Murabaha whereby the Bank sells to customers a commodity or an asset which the Bank has purchased and acquired based on a promise received from the customer to buy. The selling price comprises the cost plus an agreed profit margin. Bei ajel is used for corporate customers whereas installment sales are used for retail customers.

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

Musharakah is an agreement between the Bank and a customer to contribute to a certain investment enterprise or the ownership of a certain property ending up with the acquisition by the customer of the full ownership. The profit or loss is shared as per the terms of the agreement.

i. Impairment of financial assets

Financial assets held to amortized cost

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

Specific provisions are evaluated individually. Considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions. The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- **delinquency in contractual payments of principal or profit;**
- **cash flow difficulties experienced by the customer;**
- **breach of repayment covenants or conditions;**
- **initiation of bankruptcy proceedings against the customer;**
- **deterioration of the customer's competitive position; and**
- **deterioration in the value of collateral.**

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the customer's credit rating), the previously recognized impairment loss is reversed by adjusting the provision account. The amount of the reversal is adjusted in the consolidated statement of income in impairment charge. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted.

In addition to the specific provisions described above, the Bank also makes collective impairment provisions, which are evaluated on a portfolio basis and are created for losses, where there is objective evidence that unidentified losses exist at the reporting date. The amount of the provision is estimated based on the historical default patterns of the counter-parties as well as their credit ratings, taking into account the current economic climate.

Available for sale investments

In the case of debt instruments/ sukuks classified as available-for-sale, the Bank assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statement of income.
If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to credit event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

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

j. Revenue recognition

I. Income and return on financing assets and liabilities

Income from investing and financing assets is recognized in the consolidated statement of income using the effective yield method on the outstanding balance over the term of the contract.

The calculation of effective yield taken into account all cotractual terms of the financial instruments including all fees, transaction costs, discounts that are intergral part of the effective yield method but does not includes the future financing loss. Transactional cost are incremental costs that are directly attributable to acquisition of financing assets.

II. Fees and commission income

Fees and commission income that are integral to the effective commission rate are included in the measurement of the relevant assets.

Fees and commission income that are not integral part of the effective yield calculation on a financial asset or liability is recognized when the related service provided as follows:

- Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportionate basis.

- Fee received on asset management, wealth management, financial planning, custody services and other similar services that are provided over an extended period of time, are recognized over the period when the service is being provided.

- Performance linked fees or fee components are recognised when the performance criteria are fulfilled.

- Financing commitment fees for financing that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective yield on the financing. When a financing commitment is not expected to result in the draw-down of a financing, financing commitment fees are recognised on a straight-line basis over the commitment period.

III. Exchange income/ (loss)

Exchange income/(loss) is recognised as discussed in foreign currencies policy above.

IV. Dividend income

Dividend income from investment in equities is recognized when the right to receive the dividend is established.

V. Gain/ (loss) from non-trading investments

Unrealized gain/ loss for a change in fair value is recognized in consolidated other comprehensive income until the investment is derecognised or impaired where upon any cumulative gains or losses previosuly recognised in consolidated other comprehensive income are recycled back to consolidated statement of income.

k. Derecognition of financial instruments

A financial asset (or a part of a financial asset, or a part of a group of similar financial assets) is derecognised, when the contractual rights to receive the cash flows from the financial asset expire or the asset is transferred and the transfer qualifies for derecognition.

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

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

l. Zakat and Withholding Tax

Under Saudi Arabian Zakat and Income Tax Regulations, Zakat is the liability of the Saudi shareholders. Zakat is computed on the Saudi shareholders' share of equity or net income using the basis defined under the Zakat Regulations.

Zakat is not charged to the Bank's consolidated statement of income as it is deducted from the dividends paid to the Saudi shareholders.

Withholding tax is withheld from payments made to non-resident vendors for services rendered and goods purchased according to the tax law applicable in Saudi Arabia and are directly paid to the Department of Zakat & Income Tax (DZIT) on a monthly basis.

m. Financial guarantees

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

n. Provisions

Provisions are recognized when a reliable estimate can be made by the Bank for a present legal or constructive obligation arising as a result of past events and it is more likely that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are reviewed at each consolidated statement of financial position date and are adjusted to reflect the current best estimate.

o. Accounting for leases

I. Where the Bank is the lessee

Leases that do not transfer to the bank substantially all of the risk and benefits of ownership of the asset are classified as operating leases. Consequently, all of the leases entered into by the Bank are all operating leases. Payments made under operating leases are charged to the consolidated statement of income on a straight-line basis over the period of the lease.

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

The Group evaluates non-lease arrangements such as outsourcing and similar contracts to determine if they contain a lease which is then accounted for separately.

II. Where the Bank is the lessor

When assets are transferred under Ijara Muntahia Bittamleek the present value of the lease payments is recognised as a receivable and disclosed under "Financing". The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return. Assets subject to operating leases are included in the consolidated financial statements as property and equipment. Income from operating lease is recognised on a straight-line (or appropriate) basis over the period of the lease.

p. Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, "cash and cash equivalents" are defined as those amounts included in cash and balances with SAMA excluding statutory deposit, and due from banks and other financial institutions with maturities of three months or less from the date of acquisition which is subject to insignificant changes in their fair value.

q. Property and equipment

Property and equipment are stated at cost and presented net of accumulated depreciation, amortization and impairment, if any. The cost of property and equipment are depreciated or amortized using the straight-line method over the estimated useful lives of the assets, as follows:

Building	33 years
Leasehold improvements	Over lease period or Economic life (10 years), whichever is shorter
Equipment and furniture and Motor Vehicles	4 to 6 years
Computer hardware and software	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in the consolidated statement of income.

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

r. Financial liabilities

All customer deposits, due to banks and other financial institution and other financial liabilities are initially recognized at fair value and subsequently are measured at amortized cost

s. Investment services

The Bank offers investment services to its customers, through its subsidiary, which include management of certain investment funds in consultation with professional investment advisors. The Bank's share of these funds is included in the available-for-sale investment and fee income earned from managing these funds is disclosed under related party transactions.
Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and accordingly, are not included in the Bank's consolidated financial statements.

t. Income excluded from the consolidated statement of income

The Shariah Authority of the Bank conducts from time to time Shariah reviews to ensure compliance of its Shariah decisions. In cases where revenues have been wrongly or inadvertently recognized, the Board of Directors of the Bank shall, at the request of the Chief Executive Officer (CEO), authorize the exclusion of such revenues from the Group income for its final disposal.

u. Employees share plan

The Bank offers its eligible employees an equity-settled share-based payment plan as approved by SAMA. As per the plan, eligible employees of the Bank are offered stock to be withheld out of their annual bonus payments.

The cost of the plan is measured by reference to the fair value at the date on which the stocks are granted.

The cost of the plan is recognized over the period in which the service condition is fulfilled, ending on the date on which the relevant employees become fully entitled to the stock option ('the vesting date'). The cumulative expense recognized for the plan at each reporting date until the vesting date, reflects the extent to which the vesting period has expired and the Bank's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the consolidated statement of income for a year represents the movement in cumulative expense recognized as at the beginning and end of that year.

The Bank, with the approval from SAMA, has entered into an agreement with an independent third-party for custody of the shares under the plan, plus any benefits accrued there-on.

v. Short term employee benefits

Short term employee benefits are measured on an undiscounted basis and is expensed as the related services is provided.

A liability is recognised for the amount expected to be paid under short term cash bonus or profit sharing plan.

w. End of service benefits

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

4. CASH AND BALANCES WITH SAMA

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

	Notes	2014	2013
		SAR' 000	SAR' 000
Statutory deposit	4.1	2,358,857	1,776,717
Cash in hand		1,339,091	1,609,797
Other balances	4.2	769,756	800,484
Total		4,467,704	4,186,998

4.1 In accordance with the Banking Control Law and Regulations issued by SAMA, the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its demand, saving, time and other deposits, calculated at the end of each month. The statutory deposit with SAMA is not available to finance the Bank's day to day operations and therefore is not part of cash and cash equivalents.

4.2 This includes cash management account with SAMA of SAR 615 million (2013: SAR 620 million).

5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS, NET

a. Due from banks and other financial institutions, net as at December 31, comprise the following:

	2014	2013
	SAR' 000	SAR' 000
Current accounts	274,373	266,204
Commodity murabaha	8,601,136	5,980,216
Provision for impairment on commodity murabaha	(90,923)	(90,923)
	8,510,213	5,889,293
Total	8,784,586	6,155,497

b. Movement of allowance for impairment is summarized as follows:

	2014	2013
	SAR' 000	SAR' 000
Balance at the beginning of the year	90,923	96,263
Recovery during the year	-	(5,340)
Balance at end of the year	90,923	90,923

6. INVESTMENTS, NET

Investments in domestic market as at December 31 comprise the following:

SAR' 000	2014		
	Quoted	Unquoted	Total
Available-for-sale investments			
Equities	174,368	150,000	324,368
Mutual fund	152,985	-	152,985
Floating-rate securities - sukuk	256,770	200,000	456,770
	584,123	350,000	934,123
Held at amortized cost			
Commodity murabaha with SAMA	-	1,701,207	1,701,207
Total	584,123	2,051,207	2,635,330

SAR' 000	2013		
	Quoted	Unquoted	Total
Available-for-sale investments			
Equities	178,689	150,000	328,689
Mutual fund	28,221	-	28,221
Floating-rate securities - sukuk	258,000	-	258,000
	464,910	150,000	614,910
Held at amortized cost			
Commodity murabaha with SAMA	-	1,052,159	1,052,159
Total	464,910	1,202,159	1,667,069

a. Movement in other reserves is as follows:

	2014	2013
	SAR' 000	SAR' 000
Balance at the beginning of the year	43,338	15,066
Net changes in fair value	18,254	50,176
Net amount transferred to consolidated statement of income	(38,814)	(21,904)
Balance at end of the year	22,778	43,338

b. The analysis of investments by counter-party is as follows:

	2014	2013
	SAR' 000	SAR' 000
Corporate	884,236	565,543
Banks and other financial institutions	49,887	49,367
SAMA	1,701,207	1,052,159
Total	2,635,330	1,667,069

c. Equities reported under available-for-sale investments include unquoted shares for SAR 150 million (2013: SAR 150 million) and floating rate securities include unquoted sukuks of SAR 200 million (2013: Nil) that are carried at cost.

7. FINANCING, NET

Financing as at December 31, comprise the following:

	2014				
SAR' 000	**Bei ajel**	**Installment sales / Ijarah**	**Musharakah**	**Ijarah**	**Total**
Performing	**16,609,417**	**10,163,859**	**1,417,580**	**558,782**	**28,749,638**
Non-performing	**219,119**	**116,749**	**94,863**	-	**430,731**
Total	**16,828,536**	**10,280,608**	**1,512,443**	**558,782**	**29,180,369**
Allowance for impairment	**(520,519)**	**(164,789)**	**(127,088)**	**(12,703)**	**(825,099)**
Financing, net	**16,308,017**	**10,115,819**	**1,385,355**	**546,079**	**28,355,270**

	2013				
SAR' 000	Bei ajel	Installment sales / Ijarah	Musharakah	Ijarah	Total
Performing	12,306,085	9,486,885	1,530,608	526,288	23,849,866
Non-performing	244,258	122,945	93,665	-	460,868
Total	12,550,343	9,609,830	1,624,273	526,288	24,310,734
Allowance for impairment	(598,813)	(148,241)	(133,083)	(15,174)	(895,311)
Financing, net	11,951,530	9,461,589	1,491,190	511,114	23,415,423

a. Allowance for impairment for financing:

The movement in the impairment provision for financing for the years ended 31 December is as follows:

	2014	2013
	SAR' 000	SAR' 000
Balance at beginning of the year	**895,311**	1,094,019
Provided during the year	**132,953**	196,078
Amounts written off during the year	**(62,694)**	(373,995)
Recoveries of amounts previously provided	**(140,471)**	(20,791)
Balance at end of the year	**825,099**	895,311

b. Economic sector risk concentration for the financing and allowance for impairment are as follows:

	2014			
SAR' 000	**Performing financing**	**Non- performing financing**	**Allowance for impairment**	**Financing, net**
Commercial	**3,221,103**	**78,093**	**(150,836)**	**3,148,360**
Industrial	**3,390,899**	**114,848**	**(117,048)**	**3,388,699**
Building and construction	**5,578,254**	**57,340**	**(183,487)**	**5,452,107**
Transportation and communication	**679,005**	-	**(15,436)**	**663,569**
Services	**2,122,228**	**3,145**	**(51,234)**	**2,074,139**
Agriculture and fishing	**567,631**	-	**(12,904)**	**554,727**
Mining & Quarrying	**629,210**	-	**(14,304)**	**614,906**
Personal	**10,163,859**	**116,749**	**(164,789)**	**10,115,819**
Other	**2,397,449**	**60,556**	**(115,061)**	**2,342,944**
Total	**28,749,638**	**430,731**	**(825,099)**	**28,355,270**

	2013			
SAR' 000	Performing financing	Non- performing financing	Allowance for impairment	Financing, net
Commercial	3,215,514	73,388	(166,163)	3,122,739
Industrial	2,785,084	2,811	(83,115)	2,704,780
Building and construction	3,556,238	61,953	(159,770)	3,458,421
Transportation and communication	308,638	-	(8,899)	299,739
Services	1,486,388	8,981	(51,515)	1,443,854
Agriculture and fishing	669,907	-	(19,315)	650,592
Personal	9,486,885	122,945	(148,241)	9,461,589
Other	2,341,212	190,790	(258,293)	2,273,709
Total	23,849,866	460,868	(895,311)	23,415,423

c. Credit quality of neither past due nor impaired financing

Balances outstanding against each sub-category as at December 31 are as follows:

Excellent:

Strong financial position with excellent liquidity, capitalization, earnings, cash flow, management and capacity to repay are excellent.

Good:

Healthy financial position with good liquidity, capitalization, earnings, cash flow, management and capacity to repay are good.

Satisfactory:

Acceptable financial position with reasonable liquidity, capitalization, earnings, cash flow, management and capacity to repay are good.

Fair risk:

Financial position is fair but volatile. However, capacity to repay remains acceptable.

Watch list:

Cash flow problems may result in delay in payment of profit / installment. Facilities require frequent monitoring. However management considers that full repayment will be received.

The Bank has categorizes its financing portfolio that are neither past due nor impaired into five sub categories as follows:

	2014	2013
Grades	**SAR' 000**	SAR' 000
Excellent	**4,629,296**	3,004,926
Good	**4,303,771**	2,733,131
Satisfactory	**3,556,758**	2,499,553
Fair risk	**5,699,118**	5,375,191
Watch list	**301,920**	710,768
Total Corporate	**18,490,863**	**14,323,569**
Retail - Standard	**9,943,485**	**9,287,095**
Total	**28,434,348**	**23,610,664**

d. quality of the portfolio (individually impaired financing)

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

	2014				
SAR' 000	**Bei Ajel**	**Installment sales / Ijarah**	**Ijarah**	**Musharakah**	**Total**
Individually impaired financing	**219,119**	**116,749**	**-**	**94,863**	**430,731**
Fair value of collateral	**213,524**	**8,863**	**-**	**374,112**	**596,499**

	2013				
SAR' 000	Bei Ajel	Installment sales / Ijarah	Ijarah	Musharakah	Total
Individually impaired financing	244,258	122,945	-	93,665	460,868
Fair value of collateral	410,238	5,980	-	463,749	879,967

e. Credit quality of portfolio (past due but not impaired)

	2014				
SAR' 000	**Bei Ajel**	**Installment sales / Ijarah**	**Ijarah**	**Musharakah**	**Total**
1 to 30 days	**12,135**	**165,382**	**-**	**-**	**177,517**
31 to 90 days	**53,752**	**54,992**	**-**	**29,029**	**137,773**
Total	**65,887**	**220,374**	**-**	**29,029**	**315,290**
Fair value of collateral	**59,835**	**48,585**	**-**	**-**	**108,420**

	2013				
SAR' 000	Bei Ajel	Installment sales / Ijarah	Ijarah	Musharakah	Total
1 to 30 days	34,301	152,512	-	5,111	191,924
31 to 90 days	-	47,278	-	-	47,278
Total	34,301	199,790	-	5,111	239,202
Fair value of collateral	51,309	17,600	-	-	68,909

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

f. Collateral

The Bank in the ordinary course of its financing activities holds collateral as security to mitigate credit risk. The collateral mostly includes deposits, financial guarantees, local equities and real estate. Collateral is principally held against corporate and real estate facilities and is managed against relevant exposures at their net realizable values.

g. Financing lease receivables, which are as follows:

	2014		2013	
	SAR' 000		SAR' 000	
	Retail	**Corporate**	Retail	Corporate
Gross receivables from finance lease :				
Less than 1 year	**187,567**	**560,225**	204,271	529,986
1 to 5 years	**327,754**	-	445,488	-
Over 5 years	**363**	-	363	-
Unearned future finance income on finance lease	**(33,038)**	**(1,443)**	(27,680)	(3,698)
Net receivables from finance lease	**482,646**	**558,782**	622,442	526,288

8. PROPERTY AND EQUIPMENT, NET

Property and equipment, net as at December 31, comprises the following:

SAR' 000	Land and building	Leasehold improvement	Equipment and furniture and Motor Vehicles	Computer hardware and software	Total 2014	Total 2013
Cost						
At the beginning of the year	424,219	464,712	248,073	317,946	1,454,950	953,051
Additions during the year	28,442	59,758	25,687	18,438	132,325	523,015
Disposal	-	(36)	(4,784)	(4,736)	(9,556)	(21,116)
At December 31	452,661	524,434	268,976	331,648	1,577,719	1,454,950
Accumulated depreciation and amortization:						
At the beginning of the year	1,110	262,903	174,304	254,429	692,746	616,826
Charge for the year	533	46,982	25,998	22,280	95,793	88,524
Disposal	-	(24)	(4,645)	(4,520)	(9,189)	(12,604)
At December 31	1,643	309,861	195,657	272,189	779,350	692,746
Net book value:						
At December 31,2014	451,018	214,573	73,319	59,459	798,369	
At December 31, 2013	423,109	201,809	73,769	63,517		762,204

Leasehold improvements include work-in-progress as at December 31, 2014 amounting to SAR 61 Million (2013: SAR 25 million).

9. OTHER ASSETS

Other assets as at December 31,comprises the following:

	2014	2013
	SAR' 000	SAR' 000
Management fee receivable	62,685	41,982
Advances to suppliers	31,048	28,159
Prepaid rent	36,313	24,862
Others	58,609	41,114
Total	188,655	136,117

10. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

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

	2014	2013
	SAR' 000	SAR' 000
Current accounts	87,658	74,560
Time Deposits	1,103,360	901,056
Total	1,191,018	975,616

11. CUSTOMERS' DEPOSITS

Customer deposits as at December 31, comprise the following:

	Notes	2014	2013
		SAR' 000	SAR' 000
Demand	11.1	26,867,287	22,640,801
Saving		3,207,113	3,069,358
Time		5,834,117	2,755,637
Others	11.2	815,225	641,922
Total		36,723,742	29,107,718

11.1 Demand includes foreign currency deposits of SAR 224 million (2013: SAR 303 million).

11.2 Other deposits include deposits on behalf of the Bank's mutual funds of SAR 2.1 million (2013: SAR 13.5 million) and margins held for irrevocable commitments of SAR 813 million (2013: SAR 628 million). Margins includes foreign currency margin of SAR 69 million (2013: SAR 66 million).

12. OTHER LIABILITIES

Other liabilities as of December 31, comprise the following:

	2014	2013
	SAR' 000	SAR' 000
Accounts payable	733,373	577,118
Accrued expenses - Staff	186,022	159,499
Accrued operating expenses	90,527	59,488
Others	413,879	342,980
Total	**1,423,801**	**1,139,085**

13. SHARE CAPITAL

The authorized issued and fully paid capital of the Bank consists of 400 million shares of SAR 10 each (2013: 400 million shares of SAR 10 each).

14. STATUTORY RESERVE

In accordance with Article 13 of the Saudi Arabian Banking Control Law, a minimum of 25% of the annual net income is required to be transferred to the statutory reserve until this reserve equals the paid up capital of the Bank. Accordingly, SAR 216 million (2013: SAR 182 million) has been transferred to the statutory reserve. The statutory reserve is not available for distribution to shareholders.

15. BONUS SHARES

The shareholders' of the Bank in their Extra Ordinary General Assembly meeting held on April 9, 2013 approved the issuance of bonus shares for the year ended December 31, 2012 of 100 million shares of SAR 10 each.

Pursuant to the issuance of bonus shares, the Bank has deducted an amount of SAR 22.1 million, paid to the DZIT, from the retained earnings on behalf of shareholders for the assessment years 2006 to 2011.

16. OTHER RESERVES

Other reserves represent the net unrealized revaluation gains / (losses) on available for sale investments. This reserve is not available for distribution to shareholders.

	2014	2013
Available for sale Investments	**SAR' 000**	SAR' 000
Balance at beginning of the year	**43,338**	15,066
Net change in fair value	**18,254**	50,176
Transfer to consolidated statement of income	**(38,814)**	(21,904)
Net movement during the year	**(20,560)**	28,272
Balance at end of the year	**22,778**	**43,338**

17. COMMITMENTS AND CONTINGENCIES

a. Legal proceedings

As at December 31, 2014, there were legal proceedings, outstanding against the Bank. Provisions have been made for some of these legal cases based on the assessment of the Bank's legal advisers.

b. Capital commitments

As at December 31, 2014, the Bank had capital commitments of SAR 62 million (2013: SAR 46 million) relating to leasehold improvements for its new branches, remittance center, and ATM.

c. Credit related commitments and contingencies

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

Guarantee and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as financing. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement.

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

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

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

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

2014 SAR' 000	Less than 3 months	From 3 months to 12 months	From 1 to 5 Years	More than 5 Years	Total
Letters of credit	**339,130**	**728,157**	**59,018**	-	**1,126,305**
Letters of guarantee	**375,750**	**1,346,302**	**1,721,248**	**81,202**	**3,524,502**
Acceptances	**425,903**	**136,014**	-	-	**561,917**
Irrevocable **commitments to extend credit**	-	-	**651,371**	**51,597**	**702,968**
Total	**1,140,783**	**2,210,473**	**2,431,637**	**132,799**	**5,915,692**

2013 SAR' 000	Less than 3 months	From 3 months to 12 months	From 1 to 5 Years	More than 5 Years	Total
Letters of credit	371,877	590,936	584,712	-	1,547,525
Letters of guarantee	285,808	1,072,591	1,362,849	111,963	2,833,211
Acceptances	262,676	50,950	-	-	313,626
Irrevocable commitments to extend credit	-	-	1,716,661	-	1,716,661
Total	920,361	1,714,477	3,664,222	111,963	6,411,023

The outstanding unused portion of commitments as at December 31, 2014 which can be revoked unilaterally at any time by the Bank, amounts to SAR 7.8 billion (2013: SAR 6.6 billion).

ii. Commitments and contingencies by counter party as of December 31 is as follows :

	2014	2013
	SAR' 000	SAR' 000
Corporate	**5,726,883**	6,144,238
Financial institutions	**156,736**	230,155
Other	**32,073**	36,630
Total	**5,915,692**	6,411,023

d. Operating lease commitments

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

	2014	2013
	SAR' 000	SAR' 000
Less than one year	117,496	112,423
One year to five years	290,801	237,504
Over five years	264,618	198,929
Total	**672,915**	548,856

e. Zakat

The Bank has consistently filed its Zakat returns for the financial years up to and including the year 2013 with the Department of Zakat and Income Tax (the "DZIT") using the same basis for calculation. The Bank has received Zakat assessments for the years from 2006 to 2008 raising additional demands aggregating to SAR 185 million. The basis for this additional Zakat demand is being contested by the Bank in conjunction with all the Banks in Saudi Arabia. The Bank has also formally contested these assessments and is awaiting a response from DZIT.

The Preliminary Committee has upheld the decision of the DZIT in case of the assessment for the year 2006. However, the Bank filed an appeal with the higher Appellate Committee against the Preliminary Committee's ruling.

The zakat assessment for the years 2009 to 2013 have not been finalized by the DZIT and the Bank may not be able to determine reliably the impact of such assessments, however , the assessments may result in additional demand.

18. INCOME FROM INVESTING AND FINANCING ASSETS

Income from investing and financing assets held at amortized cost for the year ended December 31, comprises the following:

	2014	2013
Investments and due from banks and other financial institutions	**SAR' 000**	SAR' 000
Commodity murabaha with		
- SAMA	**9,454**	7,655
- Banks and other financial institutions	**39,588**	47,850
Income from floating rate sukuk	**6,955**	4,053
Financing		
Bei ajel	**523,369**	443,243
Installment sales	**421,233**	400,438
Ijarah	**17,498**	14,814
Mushrakah	**54,597**	56,597
Total	**1,072,694**	974,650

19. RETURN ON DEPOSITS AND FINANCIAL LIABILITES

Return paid on deposits and financial liabilities for the years ended December 31, comprises of following:

	2014	2013
	SAR' 000	SAR' 000
Due to banks and other financial institutions	**1,892**	2,863
Deposits		
- Saving	**4,898**	6,655
- Time	**46,727**	18,510
Total	**53,517**	28,028

20. FEES AND COMMISSION INCOME, NET

Fees and commission income, net for the year ended December 31, comprise the following:

	2014	2013
	SAR' 000	SAR' 000
Fees and commission income		
Remittance	**463,615**	425,653
ATM and point of sale	**98,526**	102,735
Facilities management fee	**65,793**	74,857
Letter of credit and guarantee	**51,594**	44,200
Brokerage income	**47,472**	32,952
Management fee (mutual fund and others)	**43,047**	43,463
Documentation fee	**33,449**	33,023
Others	**15,184**	9,517
Total fees and commission income	**818,680**	766,400
Fees and commission expenses		
ATM and point of sale	**85,862**	87,042
Remittance	**3,169**	3,119
Brokerage expenses	**3,159**	2,610
Others	**7,394**	7,914
Total fees and commission expenses	**99,584**	100,685
Fees and commission income, net	**719,096**	665,715

21. DIVIDEND INCOME

Dividend income for the year ended December 31, comprise the following:

	2014	2013
	SAR' 000	SAR' 000
Available for sale investment		
Quoted	7,110	7,779
Unquoted	6,892	5,743
	14,002	13,522

22. GAINS ON NON-TRADING INVESTMENTS, NET

Gains on non – trading investments for the years ended December 31, comprise the following:

	2014	2013
	SAR' 000	SAR' 000
Available-for-sale investments	38,814	21,904

23. OTHER OPERATING INCOME

Other operating income for the year ended December 31, comprise the following:

	2014	2013
	SAR' 000	SAR' 000
Recovery of written-off financing	12,384	16,189
Gains on sale of property and equipment	82	4,452
Others	64	3,460
Total	12,530	24,101

24. SALARIES AND EMPLOYEE RELATED BENEFITS

The following table summarizes compensation practices and include total of fixed and variable compensation paid to employees during the year ended December 31, 2014, and form of such payments:

	Number of Employees		Fixed compensation		Variable Compensation Paid					
					Cash		Shares		Total	
			SAR' 000							
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Senior executives requiring SAMA no objection	**7**	7	**12,838**	13,976	**6,331**	7,243	**6,964**	-	**13,295**	7,243
Employees engaged in risk taking activities	**199**	99	**53,653**	32,684	**10,496**	3,694	**1,300**	-	**11,824**	3,694
Employees engaged in control functions	**227**	246	**53,728**	54,243	**8,188**	4,722	**809**	-	**8,978**	4,722
Other employees	**2,761**	2,606	**337,262**	255,481	**57,871**	17,855	**2,728**	-	**60,593**	17,855
Outsourced employees	**249**	249	**33,839**	37,598	-	-	-	-	-	-
Total	**3,443**	3,207	**491,320**	393,982	**82,886**	33,514	**11,801**	-	**94,690**	33,514
Variable Compensation accrued			**15,095**	36,034						
Other employee related benefits			**235,901**	152,231						
Total Salaries and employee related expenses			**742,316**	582,247						

The Bank has a very comprehensive Compensation Policy, the aim of which is to recruit, train, develop, promote and retain the best available talents who shall contribute to and assist the bank in realizing its business goals and objectives. The aim of this policy is also to ensure that, at all times, the Bank has the adequate number of employees with the right qualifications, skills and traits to perform jobs that will result in achieving short and long-term objectives and goals of the Bank and are align to the overall risk strategy of the Bank. The Bank encourages internal recruitment to provide its existing employees with career enhancement opportunities as long as this does not conflict with or hinderp the plans of the employee's existing unit.

The Compensation Policy in addition to the monthly remuneration and benefits, includes performance incentive scheme for all employees which is based on the performance of the Bank as a whole, performance of the respective Group / Division / Department and the performance of the individual employee. All these factors are assessed on periodical basis and the results are shared with the stakeholders based on which the incentive is announced at the close of each accounting period.

The Board of Directors of the Bank has established a Nominations and Remuneration Committee, comprising of the following members:

1. Mr. Abdulrahman bin Mohammed Remzi Addas – Chariman.

2. Mr. Nasser bin Mohammed Al-Subeaei – Member.

3. Mr. Khalid bin Abdulaziz Al-Mukairin – Member.

4. Eng. Ahmad bin Abdulaziz Al-Ohali – Member.

5. Mr. Khaled bin Saleh AlHathal – Member.

The mandate of the Committee is to oversee the compensation system design and operation, prepare and periodically review the Compensation Policy and evaluate its effectiveness in line with the industry practice.

25. BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share for the years ended December 31, 2014 and 2013 is calculated by dividing the net income for the year attributable to the equity holders by 400 million shares.

26. CASH AND CASH EQUIVALENTS

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

		2014	2013
	Notes	**SAR' 000**	SAR' 000
Cash	4	**1,339,091**	1,609,797
Due from banks and other financial institutions (maturing within ninety days from acquisition)		**5,602,854**	4,319,748
Held to maturity investment (maturing within ninety days from acquisition)		**1,000,050**	750,142
Balances with SAMA (excluding statutory deposit)	4	**769,756**	800,484
Total		**8,711,751**	7,480,171

27. SEGMENTAL INFORMATION

Operating segments, based on customer, groups are identified on the basis of internal reports about components of the Group that are regularly reviewed by the Assets and Liabilities Committee (ALCO) and, the Chief Operating Decision Maker in order to allocate resources to the segments and to assess its performance. The Group's main business is conducted in the Kingdom of Saudi Arabia.

For management purposes, the Group is divided into the following five operating segments:

Retail banking	Services and products to individuals, including deposits, financing, remittances and currency exchange.
Corporate banking	Services and products to corporate and commercial customers including deposits, financing and trade services.
Treasury	Money market, trading and treasury services.
Investment banking and brokerage	Investment management services and asset management activities related to dealing, managing, arranging, advising and custody of securities.
Other	All other support functions.

Transactions between the above operating segments are under the terms and conditions of the approved Fund Transfer Pricing (FTP) system. The support segments and Head Office expenses are allocated to other operating segments, based on approved criteria.

a. The Group total assets and liabilities, together with its total operating income and expenses, and net income /(loss), for the years ended December 31, for each segment are as follows:

2014						
SAR' 000	**Retail Banking**	**Corporate Banking**	**Treasury**	**Investment banking and brokerage**	**Other**	**Total**
Total assets	13,141,895	19,234,996	11,023,015	357,212	1,472,796	45,229,914
Capital expenditures	62,341	310	1,373	1,172	67,129	132,325
Total liabilities	24,688,068	12,123,331	1,103,361	125,236	1,298,565	39,338,561
Net income from investing and financing assets	413,769	510,816	52,022	310	42,260	1,019,177
Fee, commission and other income, net	722,061	125,378	86,072	78,898	65,466	1,077,875
Total operating income	1,135,830	636,194	138,094	79,208	107,726	2,097,052
Impairment charge for financing, net	79,242	(86,760)	-	-	-	(7,518)
Depreciation and amortization	90,859	3,331	1,100	503	-	95,793
Total operating expenses	972,292	166,057	49,454	43,392	1,828	1,233,023
Net income for the year	163,538	470,137	88,640	35,816	105,898	864,029

			2013			
SAR' 000	Retail Banking	Corporate Banking	Treasury	Investment banking and brokerage	Other	Total
Total assets	12,229,036	14,777,653	7,774,105	288,500	1,254,014	36,323,308
Capital expenditures	64,843	108	94	4,024	453,946	523,015
Total liabilities	19,067,695	10,114,583	901,056	121,079	1,018,006	31,222,419
Net income from investing and financing assets	400,802	462,333	43,998	1,104	38,385	946,622
Fee, commission and other income, net	659,284	114,716	74,888	65,566	56,152	970,606
Total operating income	1,060,086	577,049	118,886	66,670	94,537	1,917,228
Impairment charge for financing, net	63,457	111,830	-	-	-	175,287
Reversal of impairment charge on other financial assets	-	-	(5,340)	-	-	(5,340)
Depreciation and amortization	81,592	5,983	596	353	-	88,524
Total operating expenses	814,519	308,827	30,016	34,698	-	1,188,060
Net income for the year	245,567	268,222	88,870	31,972	94,537	729,168

b. The Group credit exposure by business segments is as follows:

2014 SAR' 000	**Retail banking segment**	**Corporate**	**Treasury**	**Total**
Total asset	**10,115,819**	**18,239,451**	**10,485,793**	**38,841,063**
Commitments and Contingencies	**-**	**2,871,605**	**-**	**2,871,605**

2013 SAR' 000	Retail banking segment	Corporate	Treasury	Total
Total asset	9,461,589	13,953,834	7,207,656	30,623,079
Commitments and Contingencies	-	3,005,530	-	3,005,530

Group credit exposure is comprised of due from bank and other financial institutions, investments and financing. The credit equivalent value of commitments and contingencies are included in credit exposure as calculated in accordance with SAMA regulations.

28. FINANCIAL RISK MANAGEMENT

Banking activities involve varieties of financial risks which are assessed by conducting set of analysis, evaluation, acceptance and management of some degree of risk or combination of risks. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank financial performance with ultimate objective of enhancing the shareholders' value.

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

The Bank's Board of Directors have appointed the Risk and Compliance Committee which has the responsibility to monitor the overall risk process within the bank. The Risk and Compliance Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is the responsible for managing risk decisions and monitoring risk levels. The Risk and Compliance Committee reports on a regular basis to the Board of Directors.

29. CREDIT RISK

The Bank manages exposure to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arrive principally in financing and investment activities. There is also credit risk in off-financial position financial instruments, such as letters of credit, letter of guarantees and financing commitments.

The Bank assesses the probability of default of counterparties using internal rating tools. Also, the Bank uses external ratings of the major rating agencies, where available.

The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Bank's risk management policies are designed to identify and to set appropriate risk limits and to monitor the risks and adherence to limits. Actual exposures against limits are monitored daily. In addition to monitoring credit limits, the Bank manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposure.

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

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

The Bank seeks to manage its credit risk exposure through diversification to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or businesses. It also takes security when appropriate. The Bank also seeks additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant facilities.

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

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

Analysis of investments by counter-party is provided in note 6(b), for financing in note 7 and commitments and contingencies in Note 17. For. The information on the Bank's maximum credit and credit risk exposure by operating business segment given in note 27(b).

a. Geographical Concentration

(a.1) The geographical distribution of major assets, liabilities, commitments and contingencies and credit exposure as of December 31:

2014 SAR' 000	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	South East Asia	Other countries	Total
Assets						
Cash and balances with SAMA	4,467,704	-	-	-	-	4,467,704
Due from banks and other financial institutions, net	6,070,397	2,484,583	81,152	34,435	114,019	8,784,586
Investments, net	2,635,330	-	-	-	-	2,635,330
Financing, net	28,355,270	-	-	-	-	28,355,270
Total	41,528,701	2,484,583	81,152	34,435	114,019	44,242,890
Liabilities						
Due to banks and other financial institutions	493,810	606,253	521	68,260	22,174	1,191,018
Customers' deposits	36,723,742	-	-	-	-	36,723,742
Total	37,217,552	606,253	521	68,260	22,174	37,914,760
Commitments and contingencies	5,915,692	-	-	-	-	5,915,692
Credit risk (stated at credit equivalent amounts) on Commitments and Contingencies	2,871,605	-	-	-	-	2,871,605

2013 SAR' 000	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	South East Asia	Other countries	Total
Assets						
Cash and balances with SAMA	4,186,998	-	-	-	-	4,186,998
Due from banks and other financial institutions, net	3,991,953	1,948,939	93,031	32,482	89,092	6,155,497
Investments, net	1,667,069	-	-	-	-	1,667,069
Financing, net	23,415,423	-	-	-	-	23,415,423
Total	**33,261,443**	**1,948,939**	**93,031**	**32,482**	**89,092**	**35,424,987**
Liabilities						
Due to banks and other financial institutions	188,319	656,682	-	-	130,615	975,616
Customers' deposits	29,107,718	-	-	-	-	29,107,718
Total	**29,296,037**	**656,682**	**-**	**-**	**130,615**	**30,083,334**
Commitments and contingencies	6,410,362	-	-	-	-	6,410,362
Credit risk (stated at credit equivalent amounts) on Commitments and Contingencies	3,005,530	-	-	-	-	3,005,530

Credit equivalent amounts reflect the amounts that result from translating the Bank's off-financial position commitments and contingencies into the risk equivalent of financing facilities using credit conversion factors prescribed by SAMA. Credit conversion factor is used to capture the potential credit risk resulting from the Bank meeting its commitments.

(a.2) The geographical distribution of the impaired investing and financing assets and the allowance for impairments provision for financing and commodity murabaha assets is set out as below:

2014 SAR' 000	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	South East Asia	Other countries	Total
Non- performing financing	430,731	-	-	-	-	430,731
Allowance for impairment for financing	825,099	-	-	-	-	825,099
Non- performing commodity murabaha	-	90,923	-	-	-	90,923
Allowance for impairment for commodity murabaha	-	90,923	-	-	-	90,923

2013 SAR' 000	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	South East Asia	Other countries	Total
Non- performing financing	460,868	-	-	-	-	460,868
Allowance for impairment for financing	895,311	-	-	-	-	895,311
Non- performing commodity murabaha	-	90,923	-	-	-	90,923
Allowance for impairment for commodity murabaha	-	90,923	-	-	-	90,923

30. MARKET RISK

Market risk is the risk that the fair value to future cash flows of the financial instruments will fluctuate due to changes in market variables such as profit rate, foreign exchange rates, and equity prices.

a. Profit rate risk

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

b. Foreign exchange rate risk

(b.1) Foreign exchange rate risk represents the risk of change in the value of financial instruments due to change in exchange rates. The Bank is exposed to the effects of fluctuations in foreign currency exchange rates on both its financial position and on its cash flows. The Bank's management sets limits on the level of exposure by individual currency and in total for intra day positions, which are monitored daily.

The Bank had the following summarized exposure to foreign currency exchange rate risk as at December 31:

SAR' 000	2014		2013	
	Saudi Riyal	Foreign Currency	Saudi Riyal	Foreign Currency
Assets				
Cash and balances with SAMA	**4,398,306**	**69,398**	4,003,877	183,121
Due from banks and other financial institutions, net	**8,139,572**	**645,014**	5,526,957	628,540
Investments, net	**2,635,330**	-	1,667,069	-
Financing, net	**28,092,343**	**262,927**	23,121,870	293,553
Property and equipment, net	**798,369**	-	762,204	-
Other assets	**136,888**	**51,767**	104,311	31,806
Total	**44,200,808**	**1,029,106**	35,186,288	1,137,020
Liabilities and equity				
Due to banks and other financial institutions	**724,429**	**466,589**	82,361	893,255
Customer deposits	**36,423,171**	**300,571**	28,723,751	383,967
Other liabilities	**1,413,294**	**10,507**	1,129,674	9,411
Equity	**5,891,353**	-	5,100,889	-
Total	**44,452,247**	**777,667**	35,036,675	1,286,633

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

The Bank has performed a sensitivity analysis over one year time horizon for the probability of changes in foreign exchange rates, other than US Dollars, using historical average exchange rates and has determined that there is no significant impact on its net foreign currency exposures.

(b.2) Currency Position

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

	2014	2013
	SAR' 000 Long/(short)	SAR' 000 Long/(short)
US Dollar	(174,612)	(558,895)
Kuwaiti Dinar	2,068	8,352
Pakistan Rupees	60,944	43,134
Qatar Riyal	320,102	290,802
UAE Dirham	30,230	32,679
Egyptian Pound	5,282	4,795
Others	7,425	29,520
Total	251,439	(149,613)

c. Investment Price Risk

Investment risk refers to the risk of decrease in fair values of equities, mutual funds and sukuk in the Bank's available-for-sale investment portfolio as a result of reasonable possible changes in levels of Tadawul indices over a one year time horizon and the value of individual stocks.

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

	December 31, 2014		December 31, 2013	
Market Indices	Change in investment price %	Effect in SAR' 000	Change in investment price %	Effect in SAR' 000
Tadawul	±10	58,412	±10	46,491
Unquoted	±2	7,000	±2	3,000

31. LIQUIDITY RISK

Liquidity risk is the risk that the Bank will not be to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately. To mitigate this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents, and readily marketable securities.

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

In accordance with Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% (2013: 7%) of total demand deposits and 4% (2013: 4%) of time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of no less than 20% of its total deposits, in the form of cash and assets, which can be converted into cash within a period not exceeding 30 days.

The Bank has the ability to raise additional funds through special investment arrangements facilities with SAMA.

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

a. The maturity profile of assets, liabilities and equity as at December 31 are as follows:

	SAR' 000					
2014	**Within 3 Months**	**3 months to 1 year**	**One year to 5 years**	**Over 5 years**	**No fixed maturity**	**Total**
Assets						
Cash and balances with SAMA	2,108,847	-	-	-	-	2,108,847
Statutory deposit with SAMA	-	-	-	-	2,358,857	2,358,857
Due from banks and other financial institutions, net	6,737,832	2,046,754	-	-	-	8,784,586
Investments, net	1,450,918	250,289	-	456,770	477,353	2,635,330
Financing, net	7,138,896	12,024,209	8,603,266	588,899	-	28,355,270
Property and equipment, net	-	-	-	-	798,369	798,369
Other assets	-	-	-	-	188,655	188,655
Total assets	17,436,493	14,321,252	8,603,266	1,045,669	3,823,234	45,229,914
Liabilities and equity						
Due to banks and other financial institutions	1,191,018	-	-	-	-	1,191,018
Customers' deposits	33,358,001	3,365,741	-	-	-	36,723,742
Other liabilities	-	-	-	-	1,423,801	1,423,801
Shareholders' equity	-	-	-	-	5,891,353	5,891,353
Total liabilities and equity	34,549,019	3,365,741	-	-	7,315,154	45,229,914

SAR' 000						
2013	Within 3 Months	3 months to 1 year	One year to 5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	2,410,281	-	-	-	-	2,410,281
Statutory deposit with SAMA	-	-	-	-	1,776,717	1,776,717
Due from banks and other financial institutions, net	5,442,081	713,416	-	-	-	6,155,497
Investments, net	1,052,159	-	-	-	614,910	1,667,069
Financing, net	6,247,159	8,358,164	8,125,483	684,617	-	23,415,423
Property and equipment, net	-	-	-	-	762,204	762,204
Other assets	-	-	-	-	136,117	136,117
Total assets	15,151,680	9,071,580	8,125,483	684,617	3,289,948	36,323,308
Liabilities and equity						
Due to banks and other financial institutions	787,298	188,318	-	-	-	975,616
Customers' deposits	26,606,667	2,501,051				29,107,718
Other liabilities	-	-	-	-	1,139,085	1,139,085
Shareholders' equity	-	-	-	-	5,100,889	5,100,889
Total liabilities and equity	27,393,965	2,689,369	-	-	6,239,974	36,323,308

b. Analysis of financial liabilities by the remaining contractual maturities as at December 31, are as follows

SAR' 000						
2014	**Within 3 Months**	**3 months to 1 year**	**One year to 5 years**	**Over 5 years**	**No fixed maturity**	**Total**
Financial liabilities						
Due to banks and other financial institutions	**1,191,067**	-	-	-	-	**1,191,067**
Customers' deposits	**33,359,811**	**3,385,225**	-	-	-	**36,745,036**

2013	Within 3 Months	3 months to 1 year	One year to 5 years	Over 5 years	No fixed maturity	Total
Financial liabilities						
Due to banks and other financial institutions	787,380	188,836	-	-	-	976,216
Customers' deposits	26,606,761	2,521,020	-	-	-	29,127,781

32. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

Determination of fair value and fair value hierarchy

The fair value of on-balance sheet financial instruments are not significantly different from their carrying values included in the consolidated financial statements.

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

Level 1	quoted prices in active markets for the same instrument (i.e. without modification or repacking);
Level 2	quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data; and
Level 3	valuation techniques for which any significant input is not based on observable market data.

SAR' 000	**Level 1**	**Level 2**	**Level 3**	**Total**
2014				
Financial Assets				
Financial investments available for sale	**584,123**	**-**	**350,000**	**934,123**

SAR' 000	Level 1	Level 2	Level 3	Total
2013				
Financial Assets				
Financial investments available for sale	464,910	-	150,000	614,910

Level 3 investments comprise of unquoted available-for-sale investments that are carried at cost.

The fair values of financial instrument at consolidated statement of financial position date are not significantly different from the carrying values included in the consolidated financial statements. The fair values of financing, due from and due to banks and held to maturity investment which are carried at amortized cost are not significantly different from the carrying values included in the consolidated financial statements, since the current market profit rates for similar financial instruments are not significantly different from the contracted rates, and for the short duration of due from and due to banks.

33. RELATED PARTY BALANCES AND TRANSACTIONS

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

a. Directors, and other major shareholders and their affiliates balances:

	2014	2013
	SAR' 000	SAR' 000
Bei ajel	**1,509,743**	1,455,432
Musharaka	**30,600**	17,529
Commitments and contingencies	**41,632**	12,334
Demand	**27,036**	43,508
Saving	**4,113**	9,320
Other	**4,093**	-

Major shareholders are those shareholders who own 5% or more of the Bank's issued share capital.

b. Bank's Mutual funds

These are the outstanding balances with Bank's mutual funds as of December 31:

	2014	2013
	SAR' 000	SAR' 000
Customers' deposits	**2,082**	13,529
Investment	**56,918**	28,221

c. Income and expense

The following is an analysis of the related party income and expenses included in the consolidated statement of income for the years ended December 31:

	2014	2013
	SAR' 000	SAR' 000
Income from financing	52,381	44,110
Income from commitments and contingencies	294	148
Management fees (AlBilad mutual funds)	18,086	14,758
Rent	4,800	5,675
Board of Directors' remunerations	5,280	5,266

The total amount of compensation paid to key management personal during the year is as flows:

	2014	2013
	SAR' 000	SAR' 000
short-term employee benefits	48,016	40,990
Post-employment , treatments and share-based payments	7,808	140

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

34. CAPITAL ADEQUACY

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

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

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

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, are calculated under the Basel III framework.

The following table summarizes the Group's Pillar-I Risk Weighted Assets, Tier I and Tier II Capital and Capital Adequacy Ratios.

	(Unaudited)	
	2014	2013
	SAR' 000	SAR' 000
Credit Risk RWA	**33,786,740**	28,053,891
Operational Risk RWA	**3,553,573**	3,142,572
Market Risk RWA	**448,075**	612,338
Total Pillar-I RWA	**37,788,388**	31,808,801
Tier I Capital	**5,891,353**	5,100,889
Tier II Capital	**422,334**	350,674
Total Tier I & II Capital	**6,313,687**	5,451,563
Capital Adequacy Ratio %		
Tier I ratio	**15.59%**	16.04%
Tier I + Tier II ratio	**16.71%**	17.14%

35. INVESTMENT MANAGEMENT AND BROKERAGE SERVICES

The Bank offers investment management services to its customers through its subsidiary, AlBilad Investment Company. These services include the management of seven mutual funds (2013: six mutual funds) with assets totaling SAR 1,188 million (2013: SAR 1,154 million). All of these funds comply with Shariah rules and are subject to Shariah controls on a regular basis. Some of these mutual funds are managed in association with external professional investment advisors.

The Bank also manages private investment portfolios on behalf of its customers amount to SAR 7,889 Million (2013: SAR 8,234 Million). The financial statements of these funds and private portfolios are not included in the financial statements of the Bank. However, the transactions between the Bank and the funds are disclosed under related party transactions (see Note 33).

36. PROSPECTIVE CHANGES IN THE INTERNATIONAL FINANCIAL REPORTING FRAMEWORK

The Group has chosen not to early adopt the following new standards which have been issued but not yet effective for the group's accounting years beginning after 1 January 2015 and is currently assessing their impact.

Following is a brief on the new IFRS and amendments to IFRS effective for annual periods beginning on or after January 01, 2015.

		Effective for annual periods beginning on or after
IFRS 9	Financial instruments	1 January 2018
IFRS 15	Revenue from contracts with customers	1 January 2017
Amendments of IFRS 15	Accounting for acquisitions of interests in joint operations	1 January 2016
Amendments to IAS 16 and IAS 38	Clarification of acceptable methods of depreciation and amortization	1 January 2016
Amendments to IAS 16 and IAS 41	Agriculture: bearer plants	1 January 2016
Amendments to IAS 19	Defined benefit plans: employee contributions	1 July 2014
Amendments to IFRSs	Annual improvements to IFRSs 2010-2012 cycle	1 July 2014
Amendments of IFRSs	Annual improvements to IFRSs 2011-2013 cycle	1 July 2014

37. Employees share plan (ESP)

Significant features of the share based payment plan is as follows:

	2014	2013
Grant date	**15 September 2014**	4 September 2013
Maturity Date	**1 January 2017**	1 January 2016
Number of share offered on the grant date	**329,349**	251,300
Share price on the grant date (SAR)	**32.79**	31.80
Value of shares offered on grant date (SAR' 000)	**10,799**	7,991
Vesting period	**3 years**	3 years
Vesting condition	**Employees to be in service**	Employees to be in service
Method of settlement	**Equity**	Equity
The movement in the number of shares is as follows	2014	2013
Beginning of the year	**781,637**	583,407
Granted during the year	**329,349**	251,300
Forfeited	**27,527**	53,070
Exercised	**388,824**	-
End of the year	**694,635**	781,637

The shares are granted only under a service condition with no market condition associated with them.

38. Subsequent Event

The Board of Directors in its meeting held on January 08, 2015 has proposed a gross dividend of SAR 200 million i.e. SAR 0.5 per share for the year 2014. Further, the Board of Directors also proposed a bonus issue of one share for every four shares held at the date of General Assembly raising the Bank's capital from SAR 4,000 million to SAR 5,000 million. The bonus share will be issued by capitalizing the retained earnings. The number of shares outstanding after the bonus issuance will be 500 million shares. The recommendation of the board for the cash dividend of SAR 0.5 per share and bonus issue of one share for every four shares held is subjected to the approval of the General Assembly.

39. COMPARATIVE FIGURES

Certain prior year's figures have been reclassified to conform to the current year presentation.

40. BOARD OF DIRECTORS' APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved by the Bank's Board of Directors on 28 Rabi" AlThani 1436H (corresponding to 17 February, 2015).

41. DISCLOSERS UNDER BASEL III FRAMEWORK

Certain additional disclosures are required under the Basel III framework. These disclosures will be made available on the Bank's website (www.bankalbilad.com) within prescribed time as required by SAMA. Such disclosures are not subject to audit by the external auditors of the Bank.

Basel III Quantitative Disclosures

TABLE 2: CAPITAL STRUCTURE

Balance sheet - Step 1

(Table 2(b))

AS AT 31 Dec 2014 **All figures are in SAR'000**

	Balance sheet in Published financial statements	Adjustment of banking a ssociates / other entities (*)	Under regulatory scope of consolidation
	(C)	(D)	(E)
Assets			
Cash and balances at central banks	4,467,704	-	4,467,704
Due from banks and other financial institutions	8,784,586	-	8,784,586
Investments, net	2,635,330	-	2,635,330
Loans and advances, net	28,355,270	-	28,355,270
Debt securities	-	-	-
Trading assets	-	-	-
Investment in associates	-	-	-
Derivatives	-	-	-
Goodwill	-	-	-
Other intangible assets	-	-	-
Property and equipment, net	798,369	-	798,369
Other assets	188,655	-	188,655
Total assets	**45,229,914**	-	**45,229,914**
Liabilities			
Due to Banks and other financial institutions	1,191,018	-	1,191,018
Items in the course of collection due to other banks	-	-	-
Customer deposits	36,723,742	-	36,723,742

TABLE 2: CAPITAL STRUCTURE

Balance sheet - Step 1

(Table 2(b))

AS AT 31 Dec 2014 | **All figures are in SAR'000**

	Balance sheet in Published financial statements	Adjustment of banking associates / other entities (*)	Under regulatory scope of consolidation
	(C)	(D)	(E)
Liabilities			
Retirement benefit liabilities	-	-	-
Taxation liabilities	-	-	-
Accruals and deferred income	-	-	-
Borrowings	-	-	-
Other liabilities	1,423,801	-	1,423,801
Subtotal	39,338,561	-	39,338,561
Paid up share capital	4,000,000	-	4,000,000
Statutory reserves	768,403	-	768,403
Other reserves	(72,607)	-	(72,607)
Retained earnings	1,195,557	-	1,195,557
Minority Interest	-	-	-
Proposed dividends	-	-	-
Total liabilities and equity	45,229,914	-	45,229,914

TABLE 2: CAPITAL STRUCTURE

Balance sheet - Step 2

(Table 2(c))

AS AT 31 Dec 2014 **All figures are in SAR'000**

	Balance sheet in Published financial statements	Adjustment of banking associates / other entities (*)	Under regulatory scope of consolidation
	(C)	(D)	(E)
Assets			
Cash and balances at central banks	4,467,704	-	4,467,704
Due from banks and other financial institutions	8,784,586	-	8,784,586
Investments, net	2,635,330	-	2,635,330
Loans and advances, net	28,355,270	-	28,355,270
of which Collective provisions	477,996	-	477,996
Debt securities	-	-	-
Equity shares	-	-	-
Investment in associates	-	-	-
Derivatives	-	-	-
Goodwill	-	-	-
Other intangible assets	-	-	-
Property and equipment, net	798,369	-	798,369
Other assets	**188,655**	-	**188,655**
Total assets	**45,229,914**	-	**45,229,914**
Liabilities			
Due to Banks and other financial institutions	1,191,018	-	1,191,018
Items in the course of collection due to other banks	-	-	-
Customer deposits	36,723,742	-	36,723,742
Trading liabilities	-	-	-
Debt securities in issue	-	-	-

TABLE 2: CAPITAL STRUCTURE

Balance sheet - Step 2

(Table 2(c))

AS AT 31 Dec 2014 **All figures are in SAR'000**

	Balance sheet in Published financial statements	Adjustment of banking associates / other entities (*)	Under regulatory scope of consolidation
	(C)	(D)	(E)
of which Tier 2 capital instruments			
Derivatives	-	-	-
Retirement benefit liabilities	-	-	-
Taxation liabilities	-	-	-
Accruals and deferred income	-	-	-
Borrowings	-	-	-
Other liabilities	1,423,801	-	1,423,801
Subtotal	39,338,561	-	39,338,561
Paid up share capital	4,000,000	-	4,000,000
of which amount eligible for CET1	4,000,000	-	4,000,000
of which amount eligible for AT1	-	-	-
Statutory reserves	768,403	-	768,403
Other reserves	(72,607)	-	(72,607)
Retained earnings	1,195,557	-	1,195,557
Minority Interest	-	-	-
Proposed dividends	-	-	-
Total liabilities and equity	45,229,914	-	45,229,914

TABLE 2: CAPITAL STRUCTURE

Common template (transition) - Step 3 (Table 2(d)) i
(From January 2013 to 2018 identical to post 2018) With amount subject to Pre- Basel III Treatment

AS AT 31 Dec 2014 | **All figures are in SAR'000**

		Components1 of regulatory capital reported by the bank
	Common Equity Tier 1 capital: Instruments and reserves	
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	4,000,000
2	Retained earnings	1,411,564
3	Accumulated other comprehensive income (and other reserves)	479,789
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	-
5	Common share capital isued by subsidiaries and held by third parties (amount allowed in group CET1)	-
6	**Common Equity Tier 1 capital before regulatory adjustments**	**5,891,353**
	Common Equity Tier 1 capital: Regulatory adjustments	
7	Prudential valuation adjustments	-
8	Goodwill (net of related tax liability)	-
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	-
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-
11	Cash-flow hedge reserve	-
12	Shortfall of provisions to expected losses	-
13	Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)	-
14	Gains and losses due to changes in own credit risk on fair valued liabilities	-
15	Defined-benefit pension fund net assets	-
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-
17	Reciprocal cross-holdings in common equity	-
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-

TABLE 2: CAPITAL STRUCTURE

Common template (transition) - Step 3 (Table 2(d)) i
(From January 2013 to 2018 identical to post 2018) With amount subject to Pre- Basel III Treatment

19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-
20	Mortgage servicing rights (amount above 10% threshold)	-
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-
22	Amount exceeding the 15% threshold	-
23	of which: significant investments in the common stock of financials	-
24	of which: mortgage servicing rights	-
25	of which: deferred tax assets arising from temporary differences	-
26	National specific regulatory adjustments	-
	REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	-
	OF WHICH: [INSERT NAME OF ADJUSTMENT]	-
	OF WHICH:…	-
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-
28	Total regulatory adjustments to Common equity Tier 1	-
29	**Common Equity Tier 1 capital (CET1)**	**5,891,353**
	Additional Tier 1 capital: instruments	-
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-
31	of which: classified as equity under applicable accounting standards	-
32	of which: classified as liabilities under applicable accounting standards	-
33	Directly issued capital instruments subject to phase out from Additional Tier 1	-
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-
35	of which: instruments issued by subsidiaries subject to phase out	-
36	Additional Tier 1 capital before regulatory adjustments	-
Additional Tier 1 capital: regulatory adjustments		
37	Investments in own Additional Tier 1 instruments	-

TABLE 2: CAPITAL STRUCTURE

Common template (transition) - Step 3 (Table 2(d)) i

(From January 2013 to 2018 identical to post 2018) With amount subject to Pre- Basel III Treatment

38	Reciprocal cross-holdings in Additional Tier 1 instruments	-
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-
41	National specific regulatory adjustments	-
	REGULATORY ADJUSTMENTS APPLIED TO ADDITIONAL TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	-
	OF WHICH: [INSERT NAME OF ADJUSTMENT]	-
	OF WHICH: …	-
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-
43	Total regulatory adjustments to Additional Tier 1 capital	-
44	Additional Tier 1 capital (AT1)	-
45	**Tier 1 capital (T1 = CET1 + AT1)**	**5,891,353**
Tier 2 capital: instruments and provisions		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	-
47	Directly issued capital instruments subject to phase out from Tier 2	-
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-
49	of which: instruments issued by subsidiaries subject to phase out	-
50	Provisions	422,334
51	**Tier 2 capital before regulatory adjustments**	**422,334**
	Tier 2 capital: regulatory adjustments	-
52	Investments in own Tier 2 instruments	-
53	Reciprocal cross-holdings in Tier 2 instruments	-
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-

TABLE 2: CAPITAL STRUCTURE

Common template (transition) - Step 3 (Table 2(d)) ii
(From January 2013 to 2018 identical to post 2018) With amount subject to Pre- Basel III Treatment

55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-
56	National specific regulatory adjustments	-
	REGULATORY ADJUSTMENTS APPLIED TO TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	-
	OF WHICH: [INSERT NAME OF ADJUSTMENT]	-
	OF WHICH: …	-
57	Total regulatory adjustments to Tier 2 capital	-
58	Tier 2 capital (T2)	422,334
59	Total capital (TC = T1 + T2)	6,313,687
	RISK WEIGHTED ASSETS IN REPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	-
	OF WHICH: [INSERT NAME OF ADJUSTMENT]	-
	OF WHICH: …	-
60	Total risk weighted assets	37,788,388
Capital ratios		
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	15.6%
62	Tier 1 (as a percentage of risk weighted assets)	15.6%
63	Total capital (as a percentage of risk weighted assets)	16.71%
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer requirement expressed as a percentage of risk weighted assets)	7.0%
65	of which: capital conservation buffer requirement	-
66	of which: bank specific countercyclical buffer requirement	-
67	of which: G-SIB buffer requirement	-
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	6.8%
National minima (if different from Basel 3)		
69	National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	n/a
70	National Tier 1 minimum ratio (if different from Basel 3 minimum)	n/a

TABLE 2: CAPITAL STRUCTURE

Common template (transition) - Step 3 (Table 2(d)) ii
(From January 2013 to 2018 identical to post 2018) With amount subject to Pre- Basel III Treatment

71	National total capital minimum ratio (if different from Basel 3 minimum)	n/a
Amounts below the thresholds for deduction (before risk weighting)		-
72	Non-significant investments in the capital of other financials	-
73	Significant investments in the common stock of financials	-
74	Mortgage servicing rights (net of related tax liability)	-
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-
Applicable caps on the inclusion of provisions in Tier 2		-
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	-
77	Cap on inclusion of provisions in Tier 2 under standardised approach	-
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)		
80	Current cap on CET1 instruments subject to phase out arrangements	-
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-
82	Current cap on AT1 instruments subject to phase out arrangements	-
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-
84	Current cap on T2 instruments subject to phase out arrangements	-
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-

[1]For detailed explanation of rows (1-85), please refer to SAMA circular # BCS 23295 dated 23 July 2012 entitled "Composition of Capital Disclosure Requirements issued by the BCBS in June 2012.
[2] All rows related to IRB Approach are only valid, if SAMA has provided its Regulatory Approval to use IRB Approaches

Note: Items which are not applicable are to be left blank.

TABLE 3: CAPITAL ADEQUACY

AS AT 31 Dec 2014 | **All figures are in SAR'000**

Portfolios	Amount of exposures	Capital requirements
Sovereigns and central banks:		
SAMA and Saudi Government	3,128,613	-
Others	-	-
Multilateral Development Banks (MDBs)	-	-
Public Sector Entities (PSEs)	-	-
Banks and securities firms	8,510,212	199,134
Corporates	14,146,967	1,123,757
Retail non-mortgages	8,802,870	528,172
Small Business Facilities Enterprises (SBFE's)	110,929	6,656
Mortgages		
Residential	1,360,989	108,879
Commercial	4,857,924	388,634
Securitized assets	-	-
Equity	2,178,560	38,188
Others	2,610,845	79,790
Total	**45,707,909**	**2,473,211**

TABLE 3: CAPITAL ADEQUACY

AS AT 31 Dec 2014 — All figures are in SAR'000

	Interest rate risk	Equity position risk	Foreign exchange risk	Commodity risk	Total
Standardised approach	-	-	35,846	-	35,846

AS AT 31 Dec 2014 — All figures are in SAR'000

Particulars	Capital requirement for Operational Risk* (Table 3, (e))
Basic indicator approach;	284,286

AS AT 31 Dec 2014 — All figures are in SAR'000

Particulars	Total capital ratio	Tier 1 capital ratio
Top consolidated level	16.71 %	15.59 %

TABLE 3: CREDIT RISK: GENERAL DISCLOSURES

AS AT 31 Dec 2014 | **All figures are in SAR'000**

Portfolios	Total gross credit risk exposure	Average gross credit risk exposure over the period
Sovereigns and central banks:		
SAMA and Saudi Government	3,128,613	2,993,800
Others	-	-
Multilateral Development Banks (MDBs)	-	-
Public Sector Entities (PSEs)	-	-
Banks and securities firms	8,624,686	6,460,062
Corporates	16,932,001	15,856,383
Retail non-mortgages	8,802,870	8,728,858
Small Business Facilities Enterprises (SBFE's)	147,328	132,826
Mortgages		
Residential	1,360,989	1,406,260
Commercial	4,857,924	4,206,261
Securitized assets	-	-
Equity	2,178,560	2,834,174
Others	2,610,845	3,107,663
Total	**48,643,816**	**45,726,286**

TABLE 4 (STA): CREDIT RISK: GENERAL DISCLOSURES

AS AT 31 Dec 2014 | **All figures are in SAR'000**

	Geographic area						
Portfolios	**Saudi Arabia**	**Other GCC & Middle East**	**Europe**	**North America**	**South East Asia**	**Others countries**	**Total**
Sovereigns and central banks:							
SAMA and Saudi Government	3,128,613	-	-	-	-	-	3,128,613
Others	-	-	-	-	-	-	-
Multilateral Development Banks (MDBs)	-	-	-	-	-	-	-
Public Sector Entities (PSEs)	-	-	-	-	-	-	-
Banks and securities firms	6,165,914	2,439,816	-	-	-	18,956	8,624,686
Corporates	16,932,001	-	-	-	-	-	16,932,001
Retail non-mortgages	8,802,870	-	-	-	-	-	8,802,870
Small Business Facilities Enterprises (SBFE's)	147,328	-	-	-	-	-	147,328
Mortgages							
Residential	1,360,989	-	-	-	-	-	1,360,989
Commercial	4,857,924	-	-	-	-	-	4,857,924
Securitized assets	-	-	-	-	-	-	-
Equity	2,178,560	-	-	-	-	-	2,178,560
Others	2,336,472	44,767	81,152	75,046	34,435	38,973	2,610,845
Total	**45,910,671**	**2,484,583**	**81,152**	**75,046**	**34,435**	**57,929**	**48,643,816**

TABLE 4 (STA): CREDIT RISK: GENERAL DISCLOSURES

AS AT 31 Dec 2014 | All figures are in SAR'000

Industry sector

Portfolios	Government and quasi government	Banks and other financial institutions	Agriculture and fishing	Manufacturing	Mining and quarrying	Electricity, water, gas and health services	Building and construction	Commerce	Transportation and communication	Services	Consumer loans and credit cards	Others	Total
Sovereigns and central banks:													
SAMA and Saudi Government	3,128,613	-	-	-	-	-	-	-	-	-	-	-	3,128,613
Others	-	-	-	-	-	-	-	-	-	-	-	-	-
Multilateral Development Banks (MDBs)	-	-	-	-	-	-	-	-	-	-	-	-	-
Public Sector Entities (PSEs)	-	-	-	-	-	-	-	-	-	-	-	-	-
Banks and securities firms	-	8,624,686	-	-	-	-	-	-	-	-	-	-	8,624,686
Corporates	-	-	571,439	3,830,540	952,918	-	1,865,712	3,698,800	881,101	2,769,206	-	2,362,286	16,932,001
Retail non-mortgages	-	-	-	-	-	-	-	-	-	-	8,802,870	-	8,802,870
Small Business Facilities Enterprises (SBFE's)	-	-	-	17,767	-	-	24,438	33,566	2,569	33,780	-	35,209	147,328
Mortgages													
Residential	-	-	-	-	-	-	-	-	-	-	1,360,989	-	1,360,989
Commercial	-	-	-	-	-	-	4,857,924	-	-	-	-	-	4,857,924
Securitized assets	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity	1,701,207	9,231	14,725	91,273	13,122	-	10,933	-	15,979	20,613	-	301,477	2,178,560
Others	-	-	-	1,610	-	-	663	482	-	155	7,447	2,600,488	2,610,846
Total	**4,829,820**	**8,633,917**	**586,164**	**3,941,189**	**966,040**	**-**	**6,759,670**	**3,732,848**	**899,649**	**2,823,755**	**10,171,306**	**5,299,460**	**48,643,816**

CREDIT RISK: GENERAL DISCLOSURES: TABLE 4 (STA)

AS AT 31 Dec 2014 **All figures are in SAR'000**

	Maturity breakdown									
Portfolios	**Less than 8 days**	**8-30 days**	**30-90 days**	**90-180 days**	**180-360 days**	**1-3 years**	**3-5 years**	**No Maturity**	**Over 5 years**	**Total**
Sovereigns and central banks:										
SAMA and Saudi Government	769,756	2,358,857	-	-	-	-	-	-	-	3,128,613
Others	-	-	-	-	-	-	-	-	-	-
Multilateral Development Banks (MDBs)	-	-	-	-	-	-	-	-	-	-
Public Sector Entities (PSEs)	-	-	-	-	-	-	-	-	-	-
Banks and securities firms	1,707,909	4,081,822	697,366	608,611	1,461,164	5,650	62,164	-	-	8,624,685
Corporates	1,042,424	1,854,763	2,146,459	4,891,419	4,868,119	1,418,422	614,823	-	95,571	16,932,001
Retail non-mortgages	4,778	190,004	441,020	612,214	1,197,513	4,551,340	1,795,318	249	10,435	8,802,870
Small Business Facilities Enterprises (SBFE's)	1,682	9,619	26,127	25,968	31,971	38,180	11,290	-	2,490	147,328
Mortgages										
Residential	190	12,682	26,138	39,459	77,911	335,280	301,767	-	567,562	1,360,989
Commercial	211,344	288,243	1,804,685	935,960	1,122,482	218,574	77,017	-	199,618	4,857,924
Securitized assets	-	-	-	-	-	-	-	-	-	-
Equity	477,353	750,300	700,618	250,289	-	-	-	-	-	2,178,560
Others	1,613,464	-	-	-	-	-	-	997,381	-	2,610,845
Total	**5,828,900**	**9,546,289**	**5,842,413**	**7,363,921**	**8,759,161**	**6,567,445**	**2,862,380**	**997,630**	**875,677**	**48,643,816**

TABLE 4 (STA): CREDIT RISK: GENERAL DISCLOSURES

AS AT 31 Dec 2014 | All figures are in SAR'000

Industry sector	Impaired Loans, Past Due Loans and Allowances (Table 4, (f))									
	Impaired loans	Defaulted	Aging of Past Due Loans (days)				Specific allowances			General allowances
			Less than 90	90-180	180-360	Over 360	Charges during the period	Charge-offs during the period	Balance at the end of the period	
Government and quasi government	-	-	-	-	-	-	-	-	-	-
Banks and other financial institutions	-	-	-	-	-	-	-	-	-	-
Agriculture and fishing	-	-	-	-	-	-	-	-	-	12,904
Manufacturing	114,848	17,148	48,197	14,116	258	2,774	37,148	-	39,963	77,085
Mining and quarrying	-	-	-	-	-	-	-	-	-	14,304
Electricity, water, gas and health services	-	-	-	-	-	-	-	-	-	-
Building and construction	57,337	57,337	43,543	-	-	57,337	(560)	-	56,677	126,810
Commerce	78,093	78,093	1,782	-	6,503	71,590	4,158	-	77,611	73,225
Transportation and communication	-	-	-	-	-	-	-	-	-	15,436
Services	3,145	236	1,394	-	236	-	(5,670)	-	2,990	48,245
Consumer loans and credit cards	116,749	116,749	220,374	33,445	35,679	47,625	87,018	(62,694)	109,302	55,486
Others	60,559	60,559	-	-	-	60,559	(130,232)	-	60,559	54,501
Total	**430,731**	**330,122**	**315,290**	**47,561**	**42,676**	**239,885**	**(8,138)**	**(62,694)**	**347,102**	**477,996**

TABLE 4 (STA): CREDIT RISK: GENERAL DISCLOSURES

AS AT 31 Dec 2014 | All figures are in SAR'000

Impaired Loans, Past Due Loans And Allowances (Table 4, (g))

Geographic area	Impaired loans	Aging of Past Due Loans (days)				Specific allowances	General allowances
		Less than 90	90-180	180-360	Over 360		
Saudi Arabia	430,731	315,290	47,561	42,676	239,885	347,102	477,996
Other GCC & Middle East	-	-	-	-	-	-	-
Europe	-	-	-	-	-	-	-
North America	-	-	-	-	-	-	-
South East Asia	-	-	-	-	-	-	-
Others countries	-	-	-	-	-	-	-
Total	**430,731**	**315,290**	**47,561**	**42,676**	**239,885**	**347,102**	**477,996**

AS AT 31 Dec 2014 | All figures are in SAR'000

Reconciliation Of Changes In The Allowances For Loan Impairment (Table 4, (h))

Particulars	Specific allowances	General allowances
Balance, beginning of the year	417,934	477,376
Charge-offs taken against the allowances during the period	(62,694)	-
Amounts set aside (or reversed) during the period	(139)	(7,379)
Transfers between allowances	(7,999)	7,999
Balance, end of the year	**347,102**	**477,996**

TABLE 5 (STA): CREDIT RISK: DISCLOSURES FOR PORTFOLIOS SUBJECT TO THE STANDARDIZED APPROACH

AS AT 31 Dec 2014 | All figures are in SAR'000

Industry sector	Risk buckets									
	0%	20%	35%	50%	75%	100%	150%	Other risk weights	Unrated	Deducted
Sovereigns and central banks:										
SAMA and Saudi Government	3,128,613	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-
Multilateral Development Banks (MDBs)	-	-	-	-	-	-	-	-	-	-
Public Sector Entities (PSEs)	-	-	-	-	-	-	-	-	-	-
Banks and securities firms	-	5,899,682	-	2,718,999	-	-	6,005	-	-	-
Corporates	-	-	-	200,000	-	16,732,001	-	-	-	-
Retail non-mortgages	-	-	-	-	8,802,870	-	-	-	-	-
Small Business Facilities Enterprises (SBFE's)	-	-	-	-	147,328	-	-	-	-	-
Mortgages										
Residential	-	-	-	-	-	1,360,989	-	-	-	-
Commercial	-	-	-	-	-	4,857,924	-	-	-	-
Securitized assets	-	-	-	-	-	-	-	-	-	-
Equity	1,701,207	-	-	-	-	477,353	-	-	-	-
Others	1,613,464	-	-	-	-	997,381	-	-	-	-
Total	**6,443,284**	**5,899,682**	**-**	**2,918,999**	**8,950,198**	**24,425,648**	**6,005**	**-**	**-**	**-**

TABLE 7 (STA): CREDIT RISK MITIGATION (CRM): DISCLOSURES FOR STANDARDIZED APPROACH

AS AT 31 Dec 2014 | All figures are in SAR'000

Portfolios	Covered by	
	Eligible financial collateral *	Guarantees / credit derivatives *
Sovereigns and central banks:	-	-
SAMA and Saudi Government	-	-
Others	-	-
Multilateral Development Banks (MDBs)	-	-
Public Sector Entities (PSEs)	-	-
Banks and securities firms	-	-
Corporates	543,645	-
Retail non-mortgages	-	-
Small Business Facilities Enterprises (SBFE's)	269,079	-
Mortgages	-	-
Residential	-	-
Commercial	-	-
Securitized assets	-	-
Equity	-	-
Others	-	-
Total	**812,724**	-

TABLE 10: MARKET RISK: DISCLOSURES FOR BANKS USING THE STANDARDIZED APPROACH

AS AT 31 Dec 2014 | All figures are in SAR'000

	Interest rate risk	Equity position risk	Foreign exchange risk	Commodity risk	Total
Capital requirements	-	-	35,846	-	35,846

AS AT 31 Dec 2014 | All figures are in SAR'000

Value Of Investments (Table 13, (b))

	Un-quoted investments		Quoted investments		
	Value disclosed in Financial Statements	Fair value	Value disclosed in Financial State-ments	Fair value	Publicly quoted share values (if materially different from fair value)
Investments	150,000	150,000	327,353	327,353	

AS AT 31 Dec 2014 | All figures are in SAR'000

Investments	Publicly traded	Privately held
Government and quasi government	-	
Banks and other financial institutions	9,231	-
Agriculture and fishing	14,725	-
Manufacturing	91,273	-
Mining and quarrying	13,122	-
Electricity, water, gas and health services	-	-
Building and construction	10,933	-
Commerce	-	-
Transportation and communication	15,979	-
Services	20,613	-
Others	151,477	150,000
Total	327,353	150,000

TABLE 13: EQUITIES: DISCLOSURES FOR BANKING BOOK POSITIONS

AS AT 31 Dec 2014 | All figures are in SAR'000

Gains / Losses Etc. (Table 13, (d) and (e))	
Particulars	**Amount**
Cumulative realized gains (losses) arising from sales and liquidations in the reporting period	
Total unrealized gains (losses)	**(20,560)**
Total latent revaluation gains (losses)*	-
Unrealized gains (losses) included in Capital	-
Latent revaluation gains (losses) included in Capital*	-

*Not applicable to KSA to date

AS AT 31 Dec 2014 | All figures are in SAR'000

Capital Requirements (Table 13, (f))	
Equity grouping	**Capital requirements**
Government and quasi government	-
Banks and other financial institutions	738
Agriculture and fishing	1,178
Manufacturing	7,302
Mining and quarrying	1,050
Electricity, water, gas and health services	-
Building and construction	875
Commerce	-
Transportation and communication	1,278
Services	1,649
Others	24,118
Total	**38,188**

TABLE 14: INTEREST RATE RISK IN THE BANKING BOOK (IRRBB)

AS AT 31 Dec 2014 | All figures are in SAR'000

200bp interest rate shocks for currencies with more than 5 % of Assets or Liabilities	
Rate Shocks	**Change in earning**
Upward rate shocks:	8,422,479
Downward rate shocks:	**(8,422,479)**

Basel III Qualitative Disclosures

Table (1) Scope of Application

a) Scope

These qualitative disclosures sets out Bank AlBilad approach to Capital assessment.

b) Basis of Consolidation

For accounting purposes all entities where control exists, are consolidated in the Group financial statements.

Entities (within the Group) fully consolidated:

1) AlBilad Investment Company:

AlBilad Investment Company is incorporated in Kingdom of Saudi Arabia as Saudi Limited Liability Company since 2007 and is involved in dealing, managing, arranging, advising and custody of securities. Currently, the Bank owns 100% of the ordinary share capital of the company.

2) AlBilad Real Estate Company:

AlBilad Real Estate Company is incorporated in Kingdom of Saudi Arabia since 2006 and is involved in registering the real estate collaterals that the Bank obtains from its customers. Currently, the Bank owns 100% of the ordinary share capital of the company.

c) There are no restrictions, or other major impediments, on transfer of funds or regulatory capital within the Group.

Table (2) Capital Structure

Capital of the bank consists of the following instruments:

1. Eligible Paid-up Share Capital

Ordinary share capital of the Bank consists of 400,000,000 shares of SAR 10 each. All these shares carry equal voting rights and are not redeemable. These shares rank junior to all other capital instruments as other claims on the Bank. The Board of Directors had recommended to increase the capital from SAR 4 billion to SAR 5 billion by issuing bonus shares to its shareholders in the ratio of one share for every 4 shares. The recommendation is subject to approval of the shareholders in the coming General Meeting.

2. Eligible Reserves

Eligible reserves are created by accumulated appropriations of profit and are maintained for future growth.

Table (3) Capital Adequacy

Since 1988, the rules on capital adequacy for banks have built on the recommendations of Basel, a comprehensive set of rules issued by the Bank of International Settlement (BIS). Basel was intended to make the capital requirement more risk-sensitive and incorporate the effects of off-balance-sheet activities. Another aim was to create more homogeneous regulation for banks on a global basis.

As from the introduction of Basel, the regulatory capital of banks has been based on central concepts such as Tier 1 capital, supplementary capital and risk-weighted items. Basel has been adjusted in an ongoing process, for example the introduction of market risk measurement in 1999.

On June 6, 2006, however, new and different minimum capital rules were introduced by SAMA. The new rules build on the recommendations of Basel, also issued by the BIS. Key areas of the regulatory requirements are broader risk management, flexibility and greater risk sensitivity.

Basel uses a three-pillar structure: calculation of minimum capital requirement (Pillar I), supervisory review process (Pillar II) and market discipline/disclosure (Pillar III):

As a general rule, the Basel Committee intends to maintain the current capital level in the banking sector, but some banks will undoubtedly enjoy a capital relief under these requirements. There are a number of different factors that may be beneficial for Bank AlBilad under the new capital adequacy rules:

- Good diversification of credit risk between countries, customer segments and industries
- High and stable internal capital generation
- Sound risk, capital and performance management

The risk-weighted assets in Pillar I (according to Basel guidelines) are calculated using the prescribed Standardized Approach for credit & market risks and the Basic Indicators Approach for operational risk. The Bank conducts a number of stress tests during ICAAP to ensure that its capital is adequate also in unfavorable economic climate. During the tests, the Bank's risk portfolio is exposed to severe stress conditions. The increase in the capital charge resulting from these stress tests is part of the Pillar II capital requirement.

Bank AlBilad's ICAAP policy, which aims to ensure that the Group's capital supports business growth, stipulates that the Bank should maintain an excess cover relative to the statutory requirement. This policy remains unchanged, and Bank AlBilad will also maintain an excess cover relative to the statutory requirement.

Bank AlBilad's capital management aims to ensure efficient use of capital to meet the Bank's overall capital targets.

During 2007, the Bank started working under the Basel capital adequacy rules. Bank AlBilad has chosen to adopt the standardized approach (for credit & market risks) and the basic indicator approach (for operational risk) to calculate the regulatory requirements of capital adequacy.

The Bank's risk profile complies with the capital targets and implies, among other things, that the Bank must have sufficient capital to cover both organic growth and current fluctuations in the Bank's exposure. The Board of Directors defines risk and capital targets, while the Risk & Compliance Committee (RCC) is responsible for ensuring that these targets are met.

The Risk Management Group set up in the Bank receives regular reports on developments in the Bank's balance sheet structure and balance sheet movements, including its capital deployment and risk appetite.

ICAAP

Bank AlBilad's Internal Capital Adequacy Assessment Process (ICAAP) integrates the Group's risk profile, risk management framework with available and required capital.

One of the aims of the ICAAP is to ensure that management adequately identifies and measures the Bank's risks. The process also checks that management takes steps to ensure that the Bank maintains sufficient internal capital relative to its risk profile and that it applies and develops proper risk management systems. Pursuant to regulatory requirements, SAMA will review and assess the Group's application of ICAAP and the quality of the in-house management procedures of which ICAAP forms part.

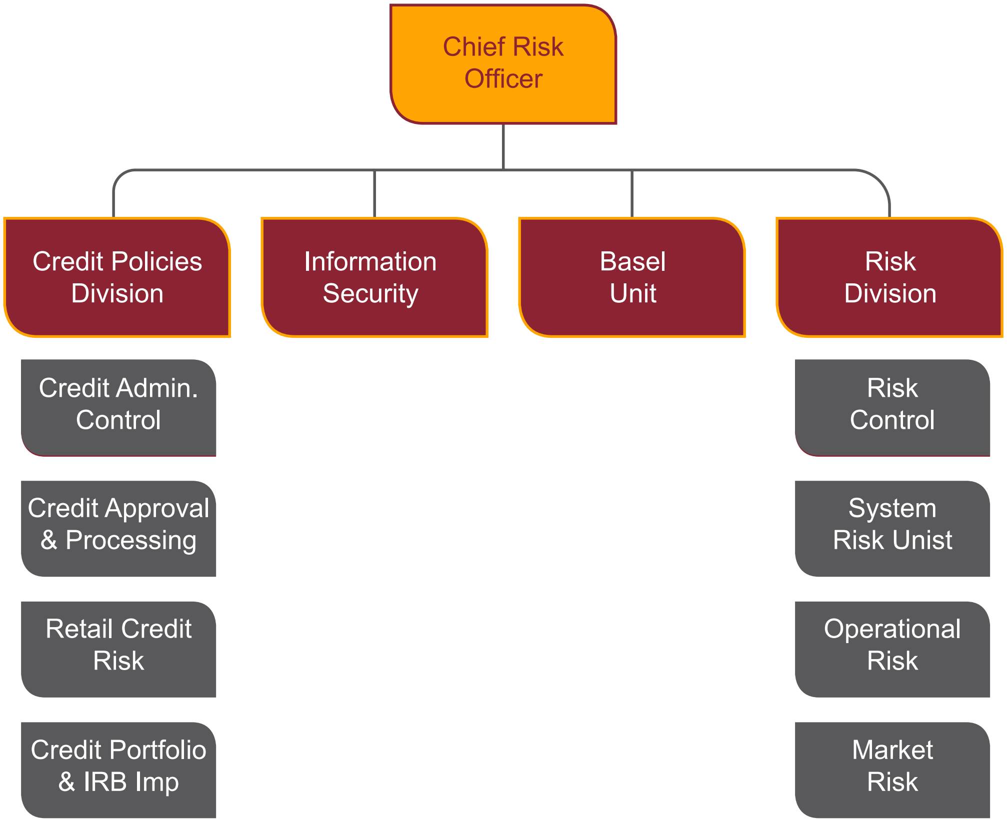
Risk Exposure & Assessment - General Disclosures

A key component of Bank AlBilad's business strategy is for risk management to support the objective of being a strong financial partner with insight and transparency in risk-taking.

The Bank's vision is to adopt best international standards and practices in risk management. Bank AlBilad uses substantial resources to develop procedures and tools that support this vision. Accordingly, the Bank has built up substantial expertise in risk and capital management.

Managing risk is a process operated independently of the business units of Bank AlBilad. It aims to promote a strong risk management culture through a comprehensive set of processes that are designed to effectively identify, measure, monitor and control risk exposures. The Board of Directors and senior management are involved in the establishment of all risk processes and the periodic oversight and guidance of the risk management function. The processes are subject to additional scrutiny by independent Shariah Board as well as internal and external auditors, and the Bank's regulators, which help further strengthen the risk management practices.

The Risk Management Group is organized in the structure as shown below.



Bank AlBilad is exposed to various types of risk that are managed at different levels of the organization. The most important types of risk are as follows:

- **Credit risk:** The risk of losses because counterparties fail to meet all or part of their obligations.
- **Market risk:** The risk of losses because the market value of Bank AlBilad 's assets and liabilities will vary with changes in market conditions.
- **Liquidity risk:** The risk of losses which arises when a bank's normal liquidity reserves remain insufficient to meet its obligations.
- **Operational risk**: The risk of losses owing to deficient or erroneous internal procedures, human or system errors, or external events.

Each individual risk type is defined in accordance with legislative and regulatory requirements and is described in further detail on the web site.

The Group allocates considerable resources to ensuring the ongoing compliance with credit limits and to monitoring its credit portfolio. The Group has a fixed reporting cycle to ensure that the relevant management bodies, including the Board of Directors and the Executive Committee, are kept informed of developments in the credit portfolio, non-performing loans and the like.

Table (4) Credit Risk – General Disclosures

Credit risk reflects the risk of losses because one or more counterparties fail to meet all or part of their obligations. Credit risk makes up the largest part of Bank's risk exposures.

Management of Credit Risk

The Bank measure and manage its credit risk by adhering to the following principles:

- Consistent standards are applied across the bank in the respective credit decision processes through the use of Moody's rating model for all corporate lending customers and NHWI. In retail, for Application scoring an In-house development will be done and for Credit Bureau Scoring BAB is following SIMAH scores.
- The bank deployed customized scorecard and models for both i.e. SME and Corporate in Moody's system. In addition, we are also deploying Moody's Facility Risk Rating model in Moody's system.
- The approval of credit limits for counterparties and the management of its individual credit exposures must fit within the Bank's portfolio guidelines and its credit strategies, and each decision also involves a risk-versus-return analysis.
- Every extension of credit or material change to a credit facility (such as its tenor, collateral structure or major covenants) to any counterparty requires credit approval at the appropriate authority level.
- Bank currently assigns credit approval authorities based on dual sign-off system by business and risk up to a certain level, beyond which the proposals are referred to Credit Committee's, Executive Committee and finally Board for approval.

Strategies

The aims of credit risk management are:

- To maintain a strong culture of responsible lending, supported by a robust risk policy and control framework
- To challenge business originators effectively in defining and implementing risk appetite; and
- To ensure independent, expert scrutiny and approval of credit risks and their mitigation.

Major types of Credit Risk

Credit risk includes concentration, settlement risk.

- Credit Concentration Risk: is a risk in any single exposure or group of exposures with the potential to produce losses large enough (relative to a bank's capital, total assets, or overall risk level) to threaten a bank's health or ability to maintain its core operations. Risk concentrations are arguably the single most important cause of major problems in banks.
- Settlement risk is the risk arising in connection with the settlement of payments for trade in securities and other instruments. The risk arises if payments are remitted before the Bank can ascertain that the corresponding payments have been transferred to one of the Bank's accounts.

Credit Policy

The Credit Policy shall be the primary means of communication through which the Board and Senior Management provide direction to guide and monitor the financing activities so that business goals are achieved without exposing the Bank beyond risk tolerance level approved by Board.

The corner stone of the Credit Policy is as under:

- The Bank shall mainly provide the Short Term Financing to meet working capital needs. However, Medium and Long Term Financing needs will be reviewed on selective basis for commercial clients having good name in the market, established rating and good track record of credit worthiness.
- The financing shall mostly relate to business meeting the risk acceptance criteria.

- The professional conduct and prudent administration of Credit Portfolio, within defined risk limitations, shall have a major contribution to Bank AlBilad's overall objectives of achieving profitable and sustainable growth.
- Bank will not extend any credit facility from time to time which violates the rules and regulations prescribed by SAMA or any other Regulatory Authority.
- The Credit Policy is providing continuity in approach and is taking into account the cyclical aspect of the country's economy.
- All the present and future credit policies of the Bank shall be within the overall framework of Basel Accord to be adopted as per road map provided / to be provided by SAMA.
- Bank will ensure that the facilities allowed are well aligned to customer's business structure, specific needs and debt servicing capacity.
- It is against the Bank's policy to provide financing for speculative purpose and undesirable activities.
- Bank AlBilad attaches importance to establish and extend long-term customer relationships
- Bank AlBilad regularly follows up on developments in the customer's financial situation in order to assess whether the basis for the granting of credit has changed.
- Bank will consider the Term Finance facilities on very selective basis, only to financially sound business entities.
- Guarantees from private individuals are avoided and accepted as incremental comfort.
- The Bank is particularly cautious in its granting of credits to businesses in troubled or cyclical industries

Credit Concentration Risk

Concentration risk denotes the risk arising from an uneven distribution of counterparties in credit or any other business relationship or from concentration in business sectors. Accordingly, concentration risk in credit portfolios comes into being through an uneven distribution of bank loans to individual borrowers (name concentration) or in industry / service sector (sectorial concentration).

Bank AlBilad's identification of risk concentrations in the credit portfolio is included as a credit risk management parameter. The following risk concentrations form a natural part of Bank AlBilad's business strategy:

- Large exposures to a single party
- Large exposures to a particular industry / sector
- Concentration in exposures to a particular rating of customers

Credit Risk – General Disclosures

Default

The definition of default used by the Bank is consistent with the requirements of the Basel guidelines. A receivable is registered as being in default when it is considered unlikely that the customer will fully repay all his obligations to the Bank or its subsidiaries.

Remedial Management

For lending operations, proper care and caution is exercised and all parameter, as laid down under SAMA rules and Bank's own policy are followed. In such cases where there is a ray of hope for its recovery, the finances are also rescheduled and nursed for safe work – out. Whenever such a situation arises the Bank cannot sit idle and watch deterioration in the quality of its assets.

Types of Provisions

1. General Provisions

While for Accounting Financial Statement purposes the guidelines provided in IAS will be followed. The bank start to build general provision for the performing credit portfolio.

2. Specific Provisions

A specific provision must be made of for incurred and expected losses for individually assessed Corporate, Government, Private Banking and other large risk assets to recognize the net realizable value of the risk assets.

Retail risk assets that fall under non performing categories should also be covered by specific provisions.

Write-off procedures

Loans and advances are written off once the usual collection procedure has been completed and the loss on the individual loan or advance can be calculated. Amounts written off are deducted from the allowance account.

The write off proposal is processed after all possible efforts are exhausted to either recover or improve the risk rating including revival/ rehabilitation of the borrower's business without exposing the Bank to unnecessary additional risk. The approving authority will give due consideration to the innovation and ingenuity of proposing officers in improving the risk rating or classification of risk assets, including restructuring of credit facilities. Such proposals should, however, clearly demonstrate improvement in bank's position preferably in both short and long terms.

Credit Risk Mitigation

Bank AlBilad uses a variety of financial and non-financial collateral and guarantees to mitigate the underlying credit risk in its regular lending and treasury operations. There is no collateralisation of treasury operations, i.e. Murabaha deals. Usage of purchased protection in the form of credit derivatives is negligible at this point of time .The bank adheres to the list of acceptable collateral and credit protection provided by SAMA to all banks in the Kingdom (except gold and silver).

Broad collateral types currently used by Bank AlBilad include:

Financial Collateral

- Cash margins
- 'Customer Share' in LC Musharaka transactions
- Financial Guarantee for extending credit or to protect counterparty default or the guarantee from Kafala program.
- Equities of local listed shares approved by the Shariah Board of the bank for corporate lending and share trading. The list of acceptable equities is periodically reviewed by Credit Committee.
- Local and foreign, Mutual Fund units, comprising of listed companies acceptable under Shariah law.

Real Estate collateral

- Commercial Real Estate, used for securing the bank's exposure to corporate and commercial borrowers.
- Residential Real Estate, used for securing a mortgage provided to a retail customer

Guarantees

- Formal and legally enforceable guarantees received from Banks.
- Legally enforceable Personal guarantees

Others

- Assignment of proceeds for revenue generated by projects financed by Bank AlBilad. Each project financed has a separately defined limit which is part of the credit limit provided to the counterparty.
- Assignment of salary account in case of individual borrowers, and each instalment to be deducted from this account at each due date

Valuation of Collaterals

The Credit Committee conducts an independent valuation of the assets being pledged before acceptance and at defined frequencies depending on the nature of collateral. The valuation is conducted by a team of independent valuation experts.

Valuation of collaterals is based on the current market value of the same. Independence of the valuation expert and shall be ensured so that the valuation is not biased to:

- Grant a higher credit limit to the borrower or
- Make a smaller quantum of provisions or
- Continue interest accrual for a problem credit.

The Risk Management Group ensures that the valuation method used, whether internal or external, is based on assumptions that are both reasonable and prudent and all assumptions have been clearly documented.

Collateral is valued, wherever possible, at net realizable value, defined as the current market value less any potential realization costs including but not limited to carrying costs of the repossessed collateral, legal fees or other charges associated with disposing of the collateral.

Bank AlBilad aims to maintain a level of information about pledges and guarantees that is sufficient for it to regularly estimate the value thereof. The value is calculated as the amount received from a forced sale less the costs of realization, including costs for days on the market.

To some extent, the Bank receives guarantees for credit exposures. A large part of these guarantees are provided by enterprises or persons where a Group relationship between the borrower and the guarantor exists. Bank must evaluate the guarantor before accepting the guarantee.

Standardized Approach and Supervisory Risk Weights

For portfolios under the standardized approach, External Credit Assessment Institutions risk assessments are used by Bank AlBilad as part of the determination of risk weightings:

Currently the Bank's corporate portfolio is externally unrated. However, for Financial Institutions, three SAMA recognized External Credit Assessment Agencies were nominated for this purpose, i.e. Moody's Investors Service, Standard and Poor's Ratings Group and the Fitch Group.

Credit ratings of all exposures are individually determined from the above credit rating agencies and mapped to the exposures assigning a risk weight according to the supervisory tables.

The alignment of alphanumeric scales of each agency to risk buckets is similar to BIS and SAMA guidelines.

Claims on sovereigns and their central banks

Credit Assessment	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Below B-	Unrated
Risk Weight	0%	20%	50%	100%	150%	100%

Claims on Banks and Securities Firms (Under Option 2 as required by SAMA)

Credit Assessment	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Below B-	Unrated
Risk Weight under option 2	20%	50%	50%	100%	150%	50%
Risk Weight for Short – Term claims under option 2	20%	20%	20%	50%	150%	20%

Multilateral Development Banks

0% risk weight for qualifying MDB's as per SAMA and in general risk weights to be determined on the basis of individual MDB rating as for option 2 for banks.

Claims on corporate

Credit Assessment	AAA to AA-	A+ to A-	BBB+ to BB-	Below BB-	Unrated
Risk Weight	20%	50%	100%	150%	100%

Claims included in the regulatory non-mortgage retail portfolios

A 75% risk weight to be assigned to such exposures.

Claims secured by residential mortgages

A 100% retail risk weight to be applied to such claims.

Claims secured by commercial real estate

A 100% retail weight to be applied to such claims.

Past Due Loans

Risk Weight %	Level of Provisioning
150	Up to 20%
100	20% to 50%
100	50% and above

Other Assets

The standard risk weight for all other assets will be 100% except gold to be treated equivalent to cash and risk weighted at 0%.

When calculating the risk weighted value of any exposure under the standardized approach, look up function is applied to the central data base maintained in Excel and assigns to each individual exposures.

Table (10) Market Risk: Disclosure For Banks Using Standardized Approaches 2014

Market Risk

Market risk concerns with profit margin rate, yield curves and prices. The market risk arises from the changes in market prices in Murabaha, yield curve, foreign exchange, commodity and equity. The bank exposure for market risk in trading book is limited to the overall exposure in foreign exchange.

The Bank applies the Standardized Approach in calculating market risk capital charge for Pillar I and advanced risk models for Pillar II which include Value-at-Risk and Stress Testing.

Bank AlBilad's market risk capital charge for Pillar I as at the end of December 2014 is approximately SAR 35,846 thousands.

Profit Margin Risk

Profit Margin Risk in the banking book is defined as the impact of the bank's asset and liability exposures to changes in profit margin rates. It arises principally from mismatches between the future re-investment rate and their funding costs, as a result of changes in profit rates.

For the purpose of profit margin risk management, the market risk at Bank AlBilad measures yield curve risk, which expresses the losses if profit margin rates changed for various terms and different currencies.

Foreign Exchange Risk

Foreign Exchange Risk is the risk of losses on the trading and banking book positions in foreign currency because of adverse changes in exchange rates against banks exposures. The overall potential loss is generally calculated using bank net open position as the maximum sum of long and short position currencies.

Policies & Responsibilities

The Board of Directors has approved the limits for the market risk and liquidity risk for the Bank Albilad to be in line with the strategic risk exposure and risk appetite targets as per bank's market risk and liquidity risk policies. In addition, the Asset/Liability Committee regularly monitors and discusses issues within scope of market and liquidity risk.

Bank AlBilad uses both conventional risk measures and advance risk models for measuring risk market and liquidity risk , such as ,Liquidity Mis-matches, Major Depositors Concentration Limits, Loan to Deposit Ratio, Net Non-Core funding dependency ratio, Basel – Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), Profit rate risk, Periodic and Cumulative Gaps and Economic Value at Risk to measure its market risk and liquidity risk exposures and they are reported to:

- Board of Directors and senior management on quarterly/monthly basis;
- SAMA on quarterly / monthly basis; and
- Business units on daily basis.

Bank AlBilad's Value-at-Risk model is currently used for the Pillar II calculation.

Value-at-Risk is a statistical measure of the maximum loss that the Bank may incur on its portfolios over a certain period of time at a certain confidence level. Value-at-Risk is a risk measure that quantifies potential losses under normal market conditions.

A major advantage of using the Value at Risk is that it provides a combined figure for all risk types, which facilitate the monitoring, and control of market risks. In addition it takes into account the market factors volatilities and correlations.

The Bank uses historical simulation to calculate Value-at-risk which assumes normally distributed asset returns. As on 31st December 2014, Bank AlBilad's value at risk is approximately SAR 66,958 thousands. The amount is the maximum that Bank AlBilad would statistically lose at a confidence level of 99%, assuming that the exposure was maintained for 10 working days.

Bank AlBilad conducts stress tests and scenario analyses to measure its risk of loss under unusual market conditions. Standard stress tests estimate Bank AlBilad's losses if positions are exposed to profit margin rate shocks of +/- 200bp.

In addition to standard stress tests, calculations are made for a number of scenarios which are typically defined based on historic events that caused crises in the financial markets. However, current or future events expected to have an effect on the financial markets may also be used as input when defining the stress test scenarios. These scenarios are revised and changed regularly to reflect changes in Bank AlBilad's risk profile and economic events. The analyses are made on the basis of the stress testing recommended by the Basel Committee.

Bank AlBilad also conducts comprehensive stress tests of the model at regular intervals and the results are presented to the senior management. In addition, there are a number of other qualitative requirements to ensure that the model is completely up to date with respect to documentation, calculation methods and control measures.

Certain Bank AlBilad's financial instruments cannot be valued by means of prices in the market; instead they are valued on the basis of pricing models developed internally by the Bank. The Risk Management conducts independent model validation that assesses the ability of the model to price and manage the risk of a given product.

Model validation is made regularly for the new and current models. This is done to ensure that no changes have been made to the product or have taken place in the market which may have an impact on the model accuracy. In addition, continuous procedures have been established to control and validate the market prices used to value and calculate risk.

The measuring, monitoring and management reporting of market risk are reported on daily basis to the senior management and stakeholders. Current market risks are calculated and reported using in-house database.

The limits are established for the trading and banking book of the business unit and these are monitored regularly and sufficient procedures have been established to ensure any breaches of the limit is addressed by the business unit on timely basis.

The Board of Directors, the Asset/ Liability Committee, the Business and risk management stakeholders are updated regularly about the bank's market risks and material events in this area. This reporting includes follow-up on both risks within the individual categories of market risks and the overall risk measures in the form of Value-at-Risk. Similarly, risk reporting has been established for the business units authorized to take market risks.

Liquidity Risk

The risk that the Bank may not be able to meet its obligations when due, at an acceptable market cost, is termed liquidity risk. Liquidity risk is measured by matching assets and liabilities based predefined maturity buckets.

Liquidity risk is defined as the risk of losses result from:

- Bank's funding costs increase disproportionately;
- Lack of funding prevents the Bank from establishing new business; or
- Lack of funding will ultimately prevent the Bank from meeting its obligations.

Liquidity management at Bank AlBilad is based on monitoring and managing operational and structural liquidity risks in various scenarios. The management of operational liquidity risk aims primarily at ensuring that the Bank always has sufficient liquidity in the short term to absorb such net effects of transactions made and expected. In addition to SAMA's liquidity ratio, the bank is also monitoring the Basel - Liquidity Coverage Ratio (LCR) as one of the indicator in assessing the potential termed liquidity risk for the bank.

Bank AlBilad's liquidity risks policies are approved by the Board of Directors. In addition the liquidity contingency plan has been implemented aiming to ensure that Bank AlBilad is sufficiently prepared to take remedial action if an unfavorable liquidity situation is occurred.

Bank AlBilad's policies have been defined with respect to how much negative funding the Bank wishes to accept. In liquidity management, the Bank distinguishes between liquidity in local, and foreign currencies.

The Risk Management has set limits for liquidity risks, which are calculated separately for local and foreign currencies. The Market Risk Department is responsible for ensuring that the Bank complies with the operational liquidity risk limits and any breaches is escalated to senior management timely.

The Key Business & Risk Units stakeholders receive reports on the Bank's liquidity risks regularly. Moreover, the Asset/Liability Committee continuously assesses developments in the Bank's liquidity and plans long-term funding.

Managing Short-Term Liquidity Risk

The management of Bank AlBilad's short-term, or operational, liquidity risk aims primarily at ensuring that the Bank has an adequate liquidity buffer that is able, in the short term, to absorb the net effects of transactions already made and expected changes.

Liquidity is determined on the basis of cash flows of outstanding transactions. The calculation is made taking into account the Bank's holdings of liquid assets. In managing the short-term liquidity risk, the Bank will ensure that the liquidity reserve ratio is higher than minimum threshold established by SAMA.

Managing Long-Term Liquidity Risk

Structural liquidity risk is managed based on considerations of the Bank's long-term liquidity mismatch. The management of this risk aims to ensure that the Bank does not build up an inexpediently large future funding requirement. Determining the structural liquidity is important when the Bank plans its funding activities and pricing.

The Bank manages the structural liquidity risk on the basis of a gap report. The gap report is based on a breakdown of the Bank's assets, liabilities and off-balance sheet items by maturity. For that purpose, the Bank uses the contractually fixed maturity dates for each product.

As part of the management of the Bank's structural liquidity risk, the liquidity position in the gap report is divided into a number of variables such as foreign exchange, product, business area and organizational units. These reports reflect, among other things, that the Bank has a structural liquidity surplus dominated in local currency.

Liquidity Scenario Analysis

Bank AlBilad conducts stress tests to measure the Bank's immediate liquidity risk and to ensure that the Bank has a certain response time if a crisis occurs. The stress tests estimate the structural liquidity risk in various scenarios. The scenario analyses involve bank specific crises and general market crises. In addition, the bank is monitoring the Basel – Net Stable Funding Ratio (NSFR) as one of the indicator in assessing the potential structural liquidity risk for the bank.

The Bank monitors the diversification of products, currencies, maturities, concentration of major depositors and the dependency of the volatile funding from interbank market to ensure that the Bank has a funding base that will protect the Bank to the greatest possible extent if markets come under pressure.

Table (12) OPERATIONAL RISK 2014

Operational Risk

As the Basel Committee defines it, operational risk of loss resulting from inadequate or failed internal processes, people and systems or from external event.

To better manage operational risk, the Bank has set forth a specific strategy within a framework of policies and procedures, and aims at achieving a number of corresponding objectives including:

- Supporting the Bank's objectives
- Identifying and assessing the operational risk of new products as well as current products, activities, and systems
- The total independence and continuity of assessment of procedures, monitoring controls, and performance.

- Limiting operational losses and solving the causing problems at their roots

The Bank is also keen on implementing the operational risk governance mechanism through the following:

- Supervision by the Board of Directors and Senior Management
- Forming a Risk Management Committee for supervising operational risk activities.
- Providing an accurate description of the roles and responsibilities of various operational risk management parties.
- Performing the internal auditing required for independent assessment of operational risk activities and providing reports to the Auditing Committee

To implement the Bank's operational risk management strategy, a number of methods have been adopted to identify, assess, rectify, and monitor the Bank's various activities as follows:

Risk and Control Self-Assessment:

Albilad has applied the risk and control self-assessment governance policy and control elements to identify and assess risks inherent in Bank's products, activities, and operations. Following risk identification, control elements are identified and assessed and the residual risks are assessed followed by defining the action plan required to mitigate the residual risks. The overall assessment of risk and control elements is compared to pre-defined criteria associated with the risk level and boundaries that are acceptable for achieving the targeted returns. Afterwards, the most suitable procedures are taken for enhancing the control environment. The Bank continues to provide employees with training programs that increase awareness of operational risk, thereby, increasing the effectiveness of control elements and identifying existing gaps.

Determining and Analyzing Operational Losses

The database of losses and Internal Auditing Management reports serve to supplement the risk and control self-assessment process and contribute to achieving better results. Albilad's system for data management of operational losses enables the Bank to collect and analyze data and incidents related to these losses – whether they're actual losses, potential losses, or near-miss losses. Risks and control gaps responsible for loss-related incidents are identified. Recommendations for enhancing the associated Control elements are presented in order to manage these identified risks and raise the issue to the management-in-charge to help reduce the financial consequences as much as possible.

Key Risk Indicators

Albilad has adopted a methodology for identifying and analyzing key risk indicators. This helps in identifying the level of risk related to a certain activity or role. Assessment and control are applied throughout the duration of the risk management strategies concerning this specific activity. In addition, weakness are identified and rectified.

The Operational Risk Management methods are directly related to the periodic reporting system that aims to inform all departments and divisions with the operational risks related to their specific activities. The right feedback is sought in order to enhance the required control elements and mitigate these risks. The periodic reports also serves to support Senior Management's prospective decision-making process related to the Bank's activities.

Bankalbilad | Annual Report **2014**

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