BANK ALBILAD
(A Saudi Joint Stock Company)

Consolidated Financial Statements
For the year ended December 31, 2014

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.

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

ارنست ويونغ
ترخيص
مهني رقم ٤٥
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PROFESSIONAL LICENCE No. 45
ERNST & YOUNG

ديلويت آند توش
بكر أبو الخير وشركاهم
محاسبون قانونيون
ترخيص رقم ٩٦
LIC. 96
C.P.A
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BANK ALBILAD
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31

	Notes	**2014 SAR' 000**	2013 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
Employees 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.

BANK ALBILAD
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEARS ENDED DECEMBER 31

	Notes	**2014 SAR' 000**	2013 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(a)	**(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

	Note	**2014 SAR' 000**	2013 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.

BANK ALBILAD
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31

2014 **SAR' 000**	**Notes**	**Share capital**	**Statutory reserve**	**Other reserves**	**Retained earnings**	**Employees 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**
Employees 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**

2013 SAR' 000	Notes	Share capital	Statutory reserve	Other reserves	Retained earnings	Employees 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
Employees 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.

BANK ALBILAD
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31

	Notes	2014 SAR' 000	2013 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)
Employees 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)
FINANCING ACTIVITIES			
Purchase of shares for employees 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.

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.

(vi) 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 - 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

<u>Financial assets held to maturity</u>

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 maturity, 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 revenue 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 revenue 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 SAR' 000**	2013 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 SAR' 000	2013 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 SAR' 000	2013 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:

	2014		
	Quoted SAR' 000	**Unquoted SAR' 000**	**Total SAR' 000**
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 to maturity			
Commodity murabaha with SAMA	**-**	**1,701,207**	**1,701,207**
Total	**584,123**	**2,051,207**	**2,635,330**

	2013		
	Quoted SAR' 000	Unquoted SAR' 000	Total SAR' 000
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 to maturity			
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 SAR' 000	2013 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 SAR' 000	2013 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:

SAR' 000	**2014**				
	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				
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 December 31, is as follows:

	2014 SAR' 000	2013 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	**Performing financing SAR' 000**	**Non-performing financing SAR' 000**	**Allowance for impairment SAR' 000**	**Financing, net SAR' 000**
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	Performing financing SAR '000	Non-performing financing SAR '000	Allowance for impairment SAR '000	Financing, net SAR '000
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
Mining & Quarrying	-	-	-	-
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:

Grades	**2014** **SAR' 000**	2013 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	**Bei Ajel SAR' 000**	**Installment sales / Ijarah SAR' 000**	**Ijarah SAR' 000**	**Musharakah SAR' 000**	**Total SAR' 000**
Individually impaired financing	**219,119**	**116,749**	**-**	**94,863**	**430,731**
Fair value of collateral	**213,524**	**8,863**	**-**	**374,112**	**596,499**

2013	Bei Ajel SAR' 000	Installment sales / Ijarah SAR' 000	Ijarah SAR' 000	Musharakah SAR' 000	Total SAR' 000
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	**Bei Ajel SAR' 000**	**Installment sales / Ijarah SAR' 000**	**Ijarah SAR' 000**	**Musharakah SAR' 000**	**Total SAR' 000**
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					
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 includes Ijarah receivables, which are as follows:

	2014 SAR'000		2013 SAR'000	
	Retail	Corporate	Retail	Corporate
Gross receivables from finance ijarah :				
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 ijarah	**(33,038)**	**(1,443)**	(27,680)	(3,698)
Net receivables from finance ijarah	**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:

		2014	2013
	Notes	**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 **SAR' 000**	2013 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.

Available for sale Investments	**2014** **SAR' 000**	2013 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 3months	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 SAR' 000	2013 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 SAR' 000	2013 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 SAR185 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 to maturity for the year ended December 31, comprises the following:

	2014	2013
	SAR' 000	SAR' 000
Investments and due from banks and other financial institutions		
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 year ended December 31, comprises of following:

	2014 SAR' 000	2013 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 SAR' 000	2013 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:

Available for sale investment	2014 SAR' 000	2013 SAR' 000
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 SAR 000**		**Variable Compensation Paid**					
					Cash SAR' 000		**Shares SAR' 000**		**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 Ramzi Addas – Chariman.
2. Mr. Nasser bin Mohammed AlSubaie – Member.
3. Mr. Khaled bin Abdulaziz AlMogairen – Member.
4. Mr. Ahmed bin Abdul Aziz Alohali – 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:

	Notes	**2014** **SAR' 000**	2013 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:

SAR' 000	2014					
	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

SAR' 000	2013					
	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 for 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						
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:

	2014		2013	
	Saudi Riyal SAR ' 000	**Foreign Currency SAR ' 000**	Saudi Riyal SAR ' 000	Foreign Currency SAR ' 000
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 SAR' 000 Long/(short)	2013 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:

2014 **SAR' 000**	**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

2013 SAR'000	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

2014 SAR' 000	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 SAR' 000						
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.

2014 **SAR' 000**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial Assets				
Financial investments available for sale	**584,123**	**-**	**350,000**	**934,123**
2013 SAR' 000				
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:

	2014 **SAR' 000**	2013 SAR' 000
a) Directors, and other major shareholders and their affiliates balances:		
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.

	2014 **SAR' 000**	2013 SAR' 000
b) Bank's Mutual funds:		
These are the outstanding balances with Bank's mutual funds as of December 31:		
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 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

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 11	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 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.

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.