

ALINMA BANK
(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS
(AUDITED)
FOR THE YEAR ENDED
DECEMBER 31, 2014



KPMG Al Fozan & Al Sadhan

**Independent Auditors' report to the to the shareholders of
Alinma Bank
(A Saudi Joint Stock Company)**

We have audited the accompanying consolidated financial statements of Alinma Bank and its subsidiaries (the "Bank"), which comprise the consolidated statement of financial position as at December 31, 2014, and 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 38. We have not audited note 34, nor the information related to "Basel III Pillar 3 and Capital Structure disclosures" cross referenced therein, which is not required to be within the scope of our audit.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the 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, the auditors consider internal control relevant to the Bank's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

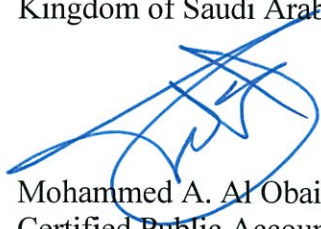
**Independent Auditors' report to the to the shareholders of
Alinma Bank
(A Saudi Joint Stock Company) (continued)**

Opinion

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

- present fairly, in all material respects, the financial position of the Bank as at December 31, 2014, and its financial performance and cash flows for the year then ended in accordance with Accounting Standards for Financial Institutions issued by SAMA and with International Financial Reporting Standards; and
- comply with the requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's Articles of Association in so far as they affect the preparation and presentation of the consolidated financial statements.

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21 Rabi Al Thani 1436H
(February 10, 2015)

ALINMA BANK
(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 Saudi Arabian Monetary Agency	4	6,065,881	4,972,467
Due from banks and other financial institutions	5	10,317,854	4,972,181
Investments	6	8,036,151	5,399,466
Financing, net	7	53,636,981	44,923,623
Property and equipment, net	8	1,543,578	1,474,912
Other assets	9	1,261,414	1,258,583
TOTAL ASSETS		80,861,859	63,001,232
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Due to banks and other financial institutions	10	32,657	200,736
Customers' deposits	11	59,427,825	42,762,623
Other liabilities	12	3,462,145	3,205,942
TOTAL LIABILITIES		62,922,627	46,169,301
SHAREHOLDERS' EQUITY			
Share capital	13	15,000,000	15,000,000
Statutory reserve	14	1,013,556	697,448
Net change in fair value of available for sale investments		(21,094)	80,862
Other reserves		23,006	10,250
Retained earnings		1,268,285	1,197,992
Proposed dividend	21	810,100	-
Treasury shares	15	(154,621)	(154,621)
TOTAL SHAREHOLDERS' EQUITY		17,939,232	16,831,931
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		80,861,859	63,001,232

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

ALINMA BANK
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF INCOME
For the year ended December 31

	Notes	2014 SAR'000	2013 SAR'000
Income from investments and financing	17	2,285,724	2,020,699
Return on time investments	17	(210,776)	(185,864)
Income from investments and financing activities, net	17	2,074,948	1,834,835
Fees from banking services, net	18	396,213	272,598
Exchange income, net		57,487	30,829
Income/ (loss) from FVSI financial instruments, net		(3,084)	16,734
Gain on sale of available for sale investments, net		75,152	94,951
Dividend income		17,531	21,707
Other operating income		1,592	7,421
Total operating income		2,619,839	2,279,075
Salaries and employee related expenses	19	637,027	492,591
Rent and premises related expenses		108,492	92,083
Depreciation and amortization	8	153,552	154,141
Other general and administrative expenses		285,866	250,843
Charge for impairment of financial assets		161,673	274,224
Total operating expenses		1,346,610	1,263,882
Net operating income		1,273,229	1,015,193
Share of loss from associate	6.3	(8,798)	(10,436)
Net income for the year		1,264,431	1,004,757
Basic and diluted earnings per share (SAR)	20	0.85	0.68

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

ALINMA BANK
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31

	<u>2014</u>	<u>2013</u>
	<u>SAR'000</u>	<u>SAR'000</u>
Net income for the year	1,264,431	1,004,757
Other comprehensive income to be reclassified to consolidated statements of income in subsequent periods:		
Net change in fair value of available for sale investments	(26,804)	142,029
Net gain realized on 'available for sale' investments	<u>(75,152)</u>	<u>(94,951)</u>
Total comprehensive income for the year	<u>1,162,475</u>	<u>1,051,835</u>

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

ALINMA BANK

(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended December 31

2014 (SAR '000)	Notes	Share capital	Statutory reserve	Net change in fair value of available for sale investments	Other reserves	Retained earnings	Proposed dividend	Treasury shares	Total
Balance at the beginning of the year		15,000,000	697,448	80,862	10,250	1,197,992	-	(154,621)	16,831,931
Net income for the year		-	-	-	-	1,264,431	-	-	1,264,431
Net change in fair value of available for sale investments		-	-	(26,804)	-	-	-	-	(26,804)
Net amount realized on 'available for sale' investments		-	-	(75,152)	-	-	-	-	(75,152)
Total comprehensive income		-	-	(101,956)	-	1,264,431	-	-	1,162,475
Transfer to statutory reserve	14	-	316,108	-	-	(316,108)	-	-	-
Zakat	21	-	-	-	-	(67,930)	-	-	(67,930)
Proposed dividend	21	-	-	-	-	(810,100)	810,100	-	-
Employee share based plan reserve		-	-	-	12,756	-	-	-	12,756
Balance at the end of the year		15,000,000	1,013,556	(21,094)	23,006	1,268,285	810,100	(154,621)	17,939,232

2013 (SAR '000)	Notes	Share capital	Statutory reserve	Net change in fair value of available for sale investments	Other reserves	Retained earnings	Proposed dividend	Treasury shares	Total
Balance at the beginning of the year		15,000,000	446,259	33,784	-	1,338,775	-	(154,621)	16,664,197
Net income for the year		-	-	-	-	1,004,757	-	-	1,004,757
Net change in fair value of available for sale investments		-	-	142,029	-	-	-	-	142,029
Net amount realized on 'available for sale' investments		-	-	(94,951)	-	-	-	-	(94,951)
Total comprehensive income		-	-	47,078	-	1,004,757	-	-	1,051,835
Transfer to statutory reserve	14	-	251,189	-	-	(251,189)	-	-	-
Zakat	21	-	-	-	-	(894,351)	-	-	(894,351)
Employee share based plan reserve		-	-	-	10,250	-	-	-	10,250
Balance at the end of the year		15,000,000	697,448	80,862	10,250	1,197,992	-	(154,621)	16,831,931

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended December 31

	Notes	2014 SAR' 000	2013 SAR' 000
OPERATING ACTIVITIES			
Net income for the year		1,264,431	1,004,757
Adjustments to reconcile net income to net cash from / (used in) operating activities:			
Depreciation and amortization	8	153,552	154,141
(Gain)/loss on disposal of property and equipment, net		(455)	3,932
Unrealised loss /(gain) from FVSI financial instruments, net		1,908	(14,826)
Dividend income		(17,531)	(21,707)
Charge for impairment of financial assets		161,673	274,224
Employees share based plan reserve		12,756	10,250
Share of loss from associate	6.3	8,798	10,436
		<u>1,585,132</u>	<u>1,421,207</u>
Net (increase)/decrease in operating assets:			
Statutory deposit with SAMA	4	(721,122)	(503,389)
Due from banks and other financial institutions with original maturity of more than ninety days		(1,692,594)	1,506,340
Investments		(2,749,346)	(3,387,755)
Financing		(8,857,957)	(7,970,143)
Other assets		(762)	(450,389)
Net increase/(decrease) in operating liabilities:			
Due to banks and other financial institutions		(168,079)	(2,213,796)
Customers' deposits		16,648,128	10,554,420
Other liabilities		256,203	481,789
Net cash from /(used) in operating activities		<u>4,299,603</u>	<u>(561,716)</u>
INVESTING ACTIVITIES			
Acquisition of property and equipment		(225,437)	(219,120)
Proceeds from disposal of property and equipment		3,674	33,959
Dividends received		17,531	21,707
Net cash used in investing activities		<u>(204,232)</u>	<u>(163,454)</u>
FINANCING ACTIVITY			
Zakat paid		(70,000)	(100,000)
Net cash used in financing activity		<u>(70,000)</u>	<u>(100,000)</u>
Net increase/(decrease) in cash and cash equivalents		<u>4,025,371</u>	<u>(825,170)</u>
Cash and cash equivalents at beginning of the year		6,040,732	6,865,902
Cash and cash equivalents at end of the year	22	<u>10,066,103</u>	<u>6,040,732</u>
Income received from investments and financing		2,357,735	1,917,476
Return paid on time investments		180,357	147,456
Supplemental non-cash information:			
Net changes in fair value of 'available for sale' investments		(26,804)	142,029

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

ALINMA BANK
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2014 and 2013

1. General

a) Incorporation

Alinma Bank, a Saudi Joint Stock Company, was formed and licensed pursuant to Royal Decree No. M/15 dated 28 Safar 1427H (corresponding to March 28, 2006), in accordance with the Council of Ministers' Resolution No. 42 dated 27 Safar 1427H (corresponding to March 27, 2006). It operates under Ministerial Resolution No.173 and Commercial Registration No.1010250808 both dated 21/05/1429H (corresponding to May 26, 2008) and provides banking services through 58 branches (2013: 55) in the Kingdom of Saudi Arabia. The address of the Bank's head office is as follows:

Alinma Bank
Head Office
King Fahad Road
P.O. Box 66674
Riyadh 11586
Kingdom of Saudi Arabia

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

Subsidiary	Bank ownership	Establishment date	Main Activities
Alinma Investment Company	100%	07 Jumada II 1430H (corresponding to May 31, 2009)	Asset management, custodianship, advisory, underwriting and brokerage services
Al-Tanweer Real Estate Company	100%	24 Sha'aban 1430H (corresponding to August 15, 2009)	Formed principally to hold legal title of properties financed by the Bank.
Alinma Insurance Agency Cooperative	100%	29 Rabi Awaal 1435H (corresponding to January 30, 2014)	Insurance agent for Alinma Tokio Marine (an associated company)

The Bank provides a full range of banking and investment services through products and instruments that are in accordance with Shariah, its Articles of Association and within the provisions of laws and regulations applicable to banks in the kingdom of Saudi Arabia.

b) Shariah Board

The Bank has established a Shariah Board in accordance with its commitment to comply with Islamic Shariah Laws. Shariah Board ascertains that all the Bank's activities are subject to its review and approval.

2. Basis of preparation

a) Statement of compliance

These consolidated financial statements have been prepared:

- i) in accordance with the Accounting Standards for Financial Institutions promulgated by the Saudi Arabian Monetary Agency (“SAMA”) and International Financial Reporting Standards (“IFRS”); and
- ii) in compliance with the provisions of the Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and the Articles of Association of the Bank.

b) Basis of measurement and presentation

The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of the financial instruments held at fair value through statement of income (“FVSI”), available for sale (AFS) investments and employees share based programs.

c) Functional and presentation currency

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

d) Critical accounting judgments, estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting judgments, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgment in the process of applying the Bank’s accounting policies. Such judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advices and expectations of future events that are believed to be reasonable under the circumstances. Significant areas where management has used estimates, assumptions or exercised judgments are valuation of investments (note 3f), impairment of financial assets (3h), depreciation/amortization of property and equipment (3i), actuarial valuation (3s) and assessment of control over investees (3v).

e) Going concern

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

3. Summary of significant accounting policies

The accounting policies adopted are consistent with those described in the annual consolidated financial statements for the year ended December 31, 2013, except for the adoption of the following relevant new standards and amendments to the existing standards that are applicable to the Bank during 2014:

Standards and amendments	Effective date	Brief description of changes
Amendments to IFRS 10 “Consolidated Financial Statements” and IFRS 12 “Disclosure of interest in other entities”	January 01, 2014	These amendments provide consolidation relief for investment funds if they fulfill certain specified conditions.
Amendments to IAS 32 “Financial Instruments: Presentation”	January 01, 2014	It clarifies: 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 process receivables and payables in a single settlement process or cycle.
Amendment to IAS 36 “ Impairment of assets”	January 01, 2014	It requires certain disclosure of information about the recoverable amount of impaired assets.

These adoptions have no material impact on the consolidated financial statements other than certain additional disclosures.

The Bank has chosen not to early adopt the amendments and revisions to the International Financial Reporting Standards which have been published and are mandatory for compliance by the banks for the accounting years beginning on or after January 1, 2015 (note 36).

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

a) Basis of consolidation

The 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 the entities that are controlled by the Bank. The Bank controls an entity when, it has power over the investee entity, it is exposed, or has a right, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over that entity.

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

- The contractual arrangement with the other voters of the investee entity
- Rights arising from other contractual arrangements
- Bank's current and potential voting rights granted by equity instruments such as shares

The Bank re-assesses whether or not it controls an investee entity if facts and circumstances indicate that there are changes to one or more elements of control.

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

The consolidated financial statements have been prepared using uniform accounting policies and valuation methods for like transactions and other events in similar circumstances. The accounting policies adopted by the subsidiaries are consistent with that of Bank's accounting policies. Adjustments, if any, are made to the financial statements of the subsidiaries to align with the Bank's financial statements.

Since the subsidiaries are fully owned by the Bank, there is no non-controlling interest to be disclosed.

Inter-group balances and any income and expenses arising from inter-group transactions, are eliminated in preparing these consolidated financial statements.

b) 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 on which the Bank becomes a party to the contractual provision of the instrument). Regular way purchases or sales of financial assets require delivery of those assets within the time frame generally established by regulation or convention in the market place.

All other financial assets and liabilities are also initially recognized on the trade date at which the Bank becomes a party to the contractual provision of the instrument.

c) Foreign currencies

Transactions in foreign currencies are translated into Saudi Arabian Riyals at the spot exchange rates prevailing at transaction dates. Monetary assets and liabilities at year-end, denominated in foreign currencies, are translated into Saudi Arabian Riyals at the exchange rates prevailing at the reporting date. Realized and unrealized gains or losses on exchange are recognized in the consolidated statement of income.

d) Offsetting

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

Income and expenses are not offset in the consolidated statement of income unless required by any accounting standard.

e) Revenue/expenses recognition

Income from investments and financing

Revenue and expenses related to profit bearing financial instruments are recognized in the consolidated statement of income on the effective yield basis. The effective yield is the rate that exactly discounts the estimated future cash flows through the expected life of the financial asset or liability (or where appropriate, a short period) to its carrying amount. When calculating the effective yield the Bank estimates future cash flows considering all contractual terms including all fees, transaction costs, discounts that are an integral part of the effective yield but does not include the future financing losses. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of financial asset or liability.

The carrying amount of the financial asset or liability is adjusted if the Bank revises its estimates of payments or receipts. The change in carrying amount is recorded as income/expense.

Exchange income/loss

Exchange income/loss is recognized when earned/incurred.

Fees from banking services, net

Fees from banking services that are not an integral part of the effective yield calculation on the financial assets are recognized when the related service is provided. Management, Administration, Advisory and Arrangement fees are recognized based on the applicable service contracts as and when services are rendered.

Fees and commission expense relate mainly to transaction and service fees, and are expensed as the transaction is completed or the services are received.

Dividend income

Dividend income is recognized when the right to receive income is established. Dividends from FVSI investments are reflected as a component of income from FVSI financial instruments, net.

Income / (Loss) from FVSI financial instruments, net

Net income/(loss) from FVSI financial instruments relates to financial assets designated as FVSI and include all realized and unrealized fair value changes, profit, dividends and foreign exchange differences.

f) **Investments**

All investment securities are initially recognized at fair value and are subsequently accounted for depending on their classification as either held as FVSI, available for sale or other investments held at amortised cost. Except for investments held as FVSI, incremental direct transaction cost is also added to the fair value of investment upon initial recognition. Premiums are amortised and discounts accreted using the effective yield basis and charged to consolidated statement of income.

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

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

Following initial recognition, subsequent transfers between the various classes of investments are permissible only if certain conditions are met. The subsequent period-end reporting values for each class of investment are determined on the basis as set out in the following paragraphs.

Held as FVSI

Investments in this category are classified as either investment held for trading or those designated as FVSI on initial recognition. Investments classified as trading are acquired principally for the purpose of selling in short term.

Investments at FVSI are recorded in the consolidated statement of financial position at fair value. Changes in the fair value are recognized in the consolidated income statement for the year in which it arises. Transaction costs, if any, are not added to the fair value measurement at initial recognition of FVSI investments and are expensed through consolidated statement of income. Dividend income on financial assets held as FVSI is reflected as "Income from FVSI financial instruments, net" in the consolidated income statement.

Available for sale

These are investments neither classified as Held to maturity nor designated as FVSI and are intended to be held for an unspecified period of time, which may be sold in response to needs for liquidity, changes in profit rates or changes in equity prices. Available for sale investments are subsequently measured at fair value. Unrealized gain or loss arising from a change in its fair value is recognized in other comprehensive income (OCI). On de-recognition, any cumulative gain or loss previously recognized in OCI is charged to income in the consolidated statement of income.

Investments held at amortized cost

These are commodity Murabahas held at amortized cost. These are initially recognized at cost, including associated acquisition charges representing the fair value of amounts paid. Subsequently these are measured at amortized cost net of impairment, if any.

Investments in associates

An associate is an entity where the Bank has significant influence (but not control) over its financial and operating policies and which is neither a subsidiary nor a joint venture. Investments in associates are accounted for under the equity method whereby investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the Bank's share of net assets in the associate, less impairment in the value of investments if any.

The Bank's share of its associate's post-acquisition profits or losses is recognized in the consolidated statement of income, and its share of movements in other comprehensive income is recognized in reserves.

When the Bank's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables (if applicable), the Bank does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

g) Financing

Financing assets are originated or acquired by the Bank with fixed or determinable payments. These are recognized upon actual disbursements. Financing assets are derecognized upon repayment, or when sold or written off, or upon transfer of substantially all risk and rewards of ownership.

All financing are initially measured at fair value including the associated acquisition charges. Subsequently these are measured at amortized cost less impairment (if any).

Financing primarily includes Murabaha, Ijarah, Musharaka and Bei Ajel products. A brief description of these products is as follows:

Murabaha: is an agreement whereby the Bank sells to a customer certain commodity or an asset, which the Bank has initially purchased on behalf of the customer. The selling price comprises of cost plus an agreed profit margin.

Ijarah: is an agreement whereby the Bank, acting as a lessor, purchases or constructs an asset according to the customer (lessee) request, based on his promise to lease the asset for an agreed rent over a specific period. Ijarah could conclude either by transferring the ownership of the leased asset to the lessee at an agreed amount or by termination of lease and re-possession of underlying asset.

Musharaka: is an agreement between the Bank and the customer to contribute to a certain investment enterprise or property and concludes by transferring the full ownership of the underlying investment to the customer. The profit or loss is shared as per the terms of the agreement.

Bei Ajel: is an agreement whereby the Bank sells to a customer certain commodity or an asset on a negotiated price.

h) Impairment of financial assets

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

Impairment of financial assets held at amortised cost

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

In addition to a specific provision for losses, an additional portfolio provision for collective impairment is made on a portfolio basis for losses where there is objective evidence that unidentified losses exist at the reporting date. The provision is estimated based on various factors including obligor's credit rating, probability of default, structural weaknesses and /or deterioration in cash flows.

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the obligor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the consolidated statement of income, under charge for impairment on financial assets.

Impairment of available for sale financial assets

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

For sukuk and like instruments having fixed or determinable maturities, the Bank assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated income statement.

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

i) Property and equipment

Property and equipment are measured at cost and presented net of accumulated depreciation/ amortization and impairment loss if any. Land is not depreciated. The cost of other property and equipment is depreciated and amortized on the straight-line method over the estimated useful lives of the assets as follows:

Buildings	33 years
Furniture, equipment	5-10 years
Leasehold improvements	the shorter of lease period or 10 years

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Depreciation is charged from the month of addition and up till the month preceding disposal.

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

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

j) Other real estate

The Bank, in the ordinary course of business, acquires certain real estate properties in settlement of due financing. Such properties are considered as assets held for sale and are initially stated at the lower of net realisable value of due financing and the current fair value of the related properties, less any costs to sell. No depreciation is charged on such properties.

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

k) Financial Liabilities

All customer deposits and amount due to banks and other financial institutions are initially recognized at fair value.

Subsequently, all profit-bearing financial liabilities are measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium. Premiums are amortized and discounts accreted on an effective yield basis to maturity and charged to consolidated statement of income.

l) Financial guarantees

In ordinary course of business, the Bank gives financial guarantees, consisting of letter of credit, guarantees, standby letter of credits and acceptances. Financial guarantees are initially recognized in the consolidated financial statements at fair value 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 recognized as "charge for impairment of financial assets", in the consolidated statement of income.

The commission received is recognised in the consolidated statement of income under "Fees from banking services, net" on a straight line basis over the life of the guarantee.

m) Provisions

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

n) Accounting for Ijarah (leases)

Where the Bank is the lessor

When assets are leased under (Ijarah), the present value of the lease payments is recognised as a receivable and disclosed under “Financing”. Lease income is recognized over the term of the lease on net investment basis, using the effective yield method, which reflects a constant periodic rate of return.

Where the Bank is the lessee

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 additional payment required to be made is recognized as an expense in the period in which termination takes place.

o) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, “cash and cash equivalents” are defined as amounts included in cash, balances with SAMA excluding statutory deposits, and due from banks and other financial institutions with an original maturity of ninety days or less from the date of acquisition.

p) De-recognition of financial instruments

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

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

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

q) Short term employee benefits

Short term employee benefits are measured on an undiscounted basis and are expensed as the related services are provided. A liability is recognized for the amount expected to be paid under short term cash bonus or share based plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided to the Bank and the obligation can be estimated reliably.

r) Share based payments

The Bank offers its eligible employees two types of plans (the “Plans”). Brief description of the Plans as approved by SAMA is as follows:

Employee Share Participation Scheme (ESPS)

Under the terms of ESPS, the eligible employees are offered shares at a pre-determined strike price on the grant date. Deductions are made on a monthly basis from the employee salary over the vesting period of three

years. On the completion of the vesting period, should the employees decide not to exercise their options, they will be entitled to receive their contribution along with any profit earned thereon.

Employee Share Grant Scheme (ESGS)

Under the terms of ESGS, eligible employees are granted shares with a vesting period of 3-5 years. At the maturity of the vesting period, the Bank delivers the underlying allotted shares to the employee.

The cost of shares in the schemes is measured by reference to the fair value at the grant date. The management is of the view that the fair value at grant date approximates its market value.

The cost of the schemes is recognized over the period during which the service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the shares ('the vesting date'). The cumulative expense recognized for the schemes 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 reporting period represents the movement in cumulative expense recognized as at the beginning and end of that period.

s) **End of service benefits**

Benefits payable to the employees of the Bank at the end of their services are accrued based on actuarial valuation in accordance with Saudi Arabian Labor laws. These are included in other liabilities in the consolidated statement of financial position.

t) **Zakat**

Zakat is calculated in accordance with the Zakat rules and regulations applicable in the Kingdom of Saudi Arabia and is considered as a liability of the shareholders to be deducted from retained earnings/future dividends and hence not charged to the consolidated statement of income. Zakat is recorded as and when paid.

u) **Treasury Shares**

These are recorded at cost and presented as a deduction from the equity as adjusted for any transaction cost, dividends and gains or losses on sale of such shares. Subsequent to their acquisition, these are carried at the amount equal to consideration paid.

v) **Investment management services**

The Bank provides investment management services to its customers, through its subsidiary which includes management of certain mutual funds. Determining whether the Bank controls such an investment fund usually depends on the assessment of the aggregate economic interests of the Bank in the fund (comprising of its investments, any carried profit and expected management fees) and the investors rights to remove the Fund Manager.

As a result of the above assessment, the Bank has concluded that it acts as an agent for the investors in all cases, and therefore has not consolidated these funds. Fee earned are disclosed in consolidated statement of income. The Bank's share of investments is included under 'available for sale' investments in the consolidated statement of financial position.

4. Cash and balances with Saudi Arabian Monetary Agency (SAMA)

	2014 SAR'000	2013 SAR'000
Cash in hand	1,287,943	987,697
Statutory deposit	2,896,734	2,175,612
Cash management account with SAMA	1,734,000	1,700,000
Current accounts	221	1,944
Others	146,983	107,214
Total	6,065,881	4,972,467

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 customers' deposits as calculated at the end of each month. The statutory deposit is not available to finance the Bank's day to day operations and therefore does not form part of cash and cash equivalents.

5. Due from banks and other financial institutions

	2014 SAR'000	2013 SAR'000
Current accounts	114,661	151,080
Murabahas with banks and other financial institutions	10,203,193	4,821,101
Total	10,317,854	4,972,181

6. Investments

	Notes	2014 SAR'000	2013 SAR'000
Murabahas with SAMA, (at amortized cost)		6,000,000	3,550,000
Available for sale investments	6.1	1,897,758	1,708,007
Held as FVSI investments	6.2	113,640	107,908
Investment in associate	6.3	24,753	33,551
Total	6.4	8,036,151	5,399,466

6.1 Available for sale investments

	2014 SAR'000	2013 SAR'000
Sukuks	1,087,086	1,087,117
Equities	534,937	228,783
Others	275,735	392,107
Total	1,897,758	1,708,007

The above investments are mainly in quoted securities and include investment amounting to SAR 38.2 million (2013: SAR 261.7 million) in funds operating outside the Kingdom of Saudi Arabia.

6.2 Held as FVSI investments

These are held for trading investments in quoted equities of domestic market.

6.3 Investment in associate

Investment in associate represents the Bank's share of investment (28.75%) in Alinma Tokio Marine (a cooperative insurance company). The company has a paid up share capital of SAR 200 million. It has been established under Commercial Registration No.1010342537 dated 28 Rajab 1433H (corresponding to June 18, 2012).

	<u>2014</u> <u>SAR'000</u>	<u>2013</u> <u>SAR'000</u>
Opening balance	33,551	43,987
Share of loss for the year	(8,798)	(10,436)
	<u>24,753</u>	<u>33,551</u>

6.4 Analysis of investments by type

	<u>2014</u> <u>SAR'000</u>	<u>2013</u> <u>SAR'000</u>
Fixed-rate investments	6,000,000	3,550,000
Floating-rate investments	1,087,086	1,087,117
Equities	648,576	315,155
Others	300,489	447,194
Total	<u>8,036,151</u>	<u>5,399,466</u>

6.5 Analysis of investments by counter-parties

	<u>2014</u> <u>SAR'000</u>	<u>2013</u> <u>SAR'000</u>
Government and quasi government	6,234,884	3,661,440
Corporate	1,801,267	1,738,026
Total	<u>8,036,151</u>	<u>5,399,466</u>

6.6 Analysis of investments by credit quality

	<u>2014</u> <u>SAR'000</u>	<u>2013</u> <u>SAR'000</u>
Investment Grade	7,087,086	4,637,117
Equities and others	949,065	762,349
Total	<u>8,036,151</u>	<u>5,399,466</u>

The above classification reflects the implicit rating of the securities issued by the counterparties.

7. Financing, net (at amortized cost)

2014	SAR'000				
	Performing	Non-performing	Total	Allowance for impairment	Net
Retail	11,907,369	238,146	12,145,515	(166,405)	11,979,110
Corporate	42,038,020	112,174	42,150,194	(112,174)	42,038,020
Total	53,945,389	350,320	54,295,709	(278,579)	54,017,130
Collective provision					(380,149)
Financing, net					53,636,981

2013	SAR'000				
	Performing	Non-performing	Total	Allowance for impairment	Net
Retail	9,386,549	190,653	9,577,202	(129,818)	9,447,384
Corporate	35,748,812	111,829	35,860,641	(55,915)	35,804,726
Total	45,135,361	302,482	45,437,843	(185,733)	45,252,110
Collective provision					(328,487)
Financing, net					44,923,623

7.1 Movement in allowance for impairment of financing:

2014	SAR'000		
	Retail	Corporate	Total
Balance at the beginning of the year	129,818	55,915	185,733
Provided during the year	38,625	56,259	94,884
Bad debts written off	(91)	-	(91)
Reversals/recoveries of amounts previously provided	(1,947)	-	(1,947)
Balance at the end of the year	166,405	112,174	278,579
Collective provision	46,863	333,286	380,149
Total	213,268	445,460	658,728

2013	SAR'000		
	Retail	Corporate	Total
Balance at the beginning of the year	77,985	-	77,985
Provided during the year	55,128	55,915	111,043
Bad debts written off	(339)	-	(339)
Reversals/recoveries of amounts previously provided	(2,956)	-	(2,956)
Balance at the end of the year	129,818	55,915	185,733
Collective provision	46,863	281,624	328,487
Total	176,681	337,539	514,220

7.2 Credit quality of financing portfolio:

The Bank follows robust credit evaluation process anchored on strong credit policies, extensive due diligence and credit review/approval process combined with stringent credit administration and limit monitoring.

For the purpose of the internal risk rating, the Bank has implemented the Moody's Risk Analyst Tool (MRA). The MRATool, which is also being used by several leading banks globally and in the Kingdom, enables the Bank to assign internal risk ratings to individual obligors. The internal risk rating indicates the one year probability of credit default (PDs). Credit risks of the Retail portfolio is estimated based on personal credit worthiness scores, and is not subject to the MRA tool rating.

The Credit Risk Policy defines a 10 point rating scale with 1 (best) through 10 (worst). As part of the Bank's financing policy, only obligors with risk rating of 1 to 6 are considered as eligible for financing. Bank has reviewed and validated the MRA rating system; and as an outcome, calibrated the score range with rating grades and associated PDs.

7.2.1 Neither past due nor impaired:

Bank's internal risk rating scale	Credit risk quality rating definition	2014 SAR'000	2013 SAR'000
1 - 4	Investment Grade	23,830,755	17,124,721
5 - 6	Below Investment Grade	17,950,459	18,552,174
7	Watch list	-	-
		41,781,214	35,676,895
	Unrated exposure (Retail)	11,891,999	9,377,205
Total		53,673,213	45,054,100

Rating Scale (1 – 4) represents: Substantially credit risk free, Exceptionally strong credit quality, Excellent credit risk quality, Very good credit risk quality.
 Rating Scale (5 – 6) represents: Good to Satisfactory credit quality.
 Rating Scale (7) represents: Watch list category.

7.2.2 Aging of Financing (Past due but not impaired):

2014	SAR'000		
	Retail	Corporate	Total
From 1 day to 30 days	9,112	237,355	246,467
From 31 days to 90 days	6,258	19,451	25,709
From 91 days to 180 days	-	-	-
More than 180 days	-	-	-
Total	15,370	256,806	272,176

2013	SAR'000		
	Retail	Corporate	Total
From 1 day to 30 days	7,544	71,917	79,461
From 31 days to 90 days	1,800	-	1,800
From 91 days to 180 days	-	-	-
More than 180 days	-	-	-
Total	9,344	71,917	81,261

7.3 Economic sectors risk concentration for financing and allowance for impairment are as follows:

	SAR'000			
2014	<u>Performing</u>	<u>Non- performing</u>	<u>Allowance for impairment</u>	<u>Financing, net</u>
Government and quasi government	9,657,454	-	-	9,657,454
Manufacturing	5,817,486	-	-	5,817,486
Electricity, water, gas & health services	108,510	-	-	108,510
Building, construction and real estate	15,696,933	-	-	15,696,933
Services	807,494	-	-	807,494
Consumer financing	11,907,369	238,146	(166,405)	11,979,110
Commerce	6,242,422	112,174	(112,174)	6,242,422
Others	3,707,721	-	-	3,707,721
	<u>53,945,389</u>	<u>350,320</u>	<u>(278,579)</u>	<u>54,017,130</u>
Collective provision				(380,149)
Financing, net				<u>53,636,981</u>

	SAR'000			
2013	<u>Performing</u>	<u>Non- performing</u>	<u>Allowance for impairment</u>	<u>Financing, net</u>
Government and quasi government	9,608,615	-	-	9,608,615
Manufacturing	4,744,659	-	-	4,744,659
Electricity, water, gas & health services	958,723	-	-	958,723
Building, construction and real estate	11,917,266	-	-	11,917,266
Services	1,878,354	-	-	1,878,354
Consumer financing	9,386,549	190,653	(129,818)	9,447,384
Commerce	4,317,700	111,829	(55,915)	4,373,614
Others	2,323,495	-	-	2,323,495
	<u>45,135,361</u>	<u>302,482</u>	<u>(185,733)</u>	<u>45,252,110</u>
Collective provision				(328,487)
Financing, net				<u>44,923,623</u>

7.4 Collateral

The Bank, in the ordinary course of business holds collateral as security to mitigate credit risk. These collateral mostly includes customers' deposits, financial guarantees, equities, real estate and other fixed assets. The Bank held collateral of SAR 53,616 million (2013: SAR 39,012 million) against its secured financing.

7.5 Financing includes Ijarah as follows:

	2014 SAR'000	2013 SAR'000
Less than 1 year	1,356,279	730,797
1 to 5 years	6,825,126	6,535,945
Over 5 years	17,409,870	13,460,079
Gross receivables from Ijarah	25,591,275	20,726,821
Unearned future finance income on Ijarah	(6,435,237)	(4,880,848)
Specific provision	(609)	(608)
Net receivables from Ijarah	19,155,429	15,845,365

8. Property and equipment, net

	SAR'000				
	Land and buildings	Leasehold improvements	Furniture and equipment	Total 2014	Total 2013
Cost:					
Balance at beginning of the year	713,888	255,228	1,074,199	2,043,315	1,878,350
Additions	111,416	24,979	89,042	225,437	219,120
Disposals	-	-	(4,934)	(4,934)	(54,155)
Balance at end of the year	825,304	280,207	1,158,307	2,263,818	2,043,315
Accumulated depreciation:					
Balance at beginning of the year	22,644	81,583	464,176	568,403	430,526
Charge for the year	9,987	25,921	117,644	153,552	154,141
Disposals	-	-	(1,715)	(1,715)	(16,264)
Balance at end of the year	32,631	107,504	580,105	720,240	568,403
Net book value-as at December 31, 2014	792,673	172,703	578,202	1,543,578	
Net book value-as at December 31, 2013	691,244	173,645	610,023		1,474,912

Property and equipment includes work in progress as at December 31, 2014 amounting to SAR 103 million (2013: SAR 93 million).

Furniture and equipment includes information technology-related assets as follows:

Information technology related assets:	Tangible	Intangible	Total
	SAR'000		
Cost	437,148	600,428	1,037,576
Accumulated depreciation/amortization	(207,157)	(279,939)	(487,096)
Net book value-as at December 31, 2014	229,991	320,489	550,480
Net book value-as at December 31, 2013	231,928	337,370	569,298

9. Other assets

	Note	2014 SAR'000	2013 SAR'000
Accrued income receivable on:			
- Due from banks and financial institutions		24,159	36,374
- Investments		18,365	15,523
- Financing		440,031	502,669
Total		482,555	554,566
Prepaid rental		32,283	32,406
Advances to suppliers		7,947	2,368
Other real estate	9.1	80,300	90,000
Other prepayments		41,026	40,022
Others		617,303	539,221
Total		1,261,414	1,258,583

9.1. This represents the properties held for sale which were acquired in settlement of financing due from a customer.

10. Due to banks and other financial institutions

	Note	2014 SAR'000	2013 SAR'000
Time investments from banks and other financial institutions	10.1	29,959	200,000
Others		2,698	736
Total		32,657	200,736

10.1 It represents Murabaha, Mudaraba and Wakala with banks.

11. Customers' deposits

i) Customers' deposits include the following:

	Note	2014 SAR'000	2013 SAR'000
Demand		32,013,183	21,999,085
Customers' time investments	11.1	26,822,730	20,488,205
Others	11.2	591,912	275,333
Total		59,427,825	42,762,623

11.1 It represents Murabaha and Mudaraba with customers.

11.2 Others represent cash margins for letters of credit and guarantees.

ii) The above includes foreign currency deposits as follows:

	2014 SAR'000	2013 SAR'000
Demand	2,339,091	1,339,464
Customers' time investments	4,078,346	4,796,824
Other	168,574	47,879
Total	6,586,011	6,184,167

12. Other liabilities

	2014 SAR'000	2013 SAR'000
Accrued profit payable on:		
- Customers' time investments	98,641	68,186
- Time investments from banks and other financial institutions	3	39
Total	98,644	68,225
Accrued expenses	217,137	133,226
Outward drafts payable	2,333,072	2,450,592
Accounts payable	221,443	92,589
Advance rentals	559,965	448,117
Others	31,884	13,193
Total	3,462,145	3,205,942

13. Share capital

The authorized, issued and fully paid share capital of the Bank consists of 1,500 million shares (2013: 1,500 million shares) of SAR 10 each.

The ownership of the Bank's share capital is as follows:

	2014	2013
	Percentage	
Public Pension Agency ("PPA")	10.71	10.71
Public Investment Fund ("PIF")	10.00	10.00
General Organization for Social Insurance ("GOSI")	10.00	10.00
General public and others	69.29	69.29
Total	100.00	100.00

14. Statutory reserve

In accordance with the Banking Control Law in the Kingdom of Saudi Arabia, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid up capital of the Bank. Accordingly, SAR 316.1 million (2013: SAR 251.19 million) has been transferred from the net income for the year to statutory reserve. The statutory reserve is not available for distribution.

15. Treasury shares

These shares have been acquired, after due approvals, for discharging the obligations of employees share based plans.

16. Commitments and contingencies

a) Legal proceedings

As at December 31, 2014 there were no significant legal proceedings outstanding against the Bank.

b) Capital commitments

As at December 31, 2014, the Bank had capital commitments of SAR 88.6 million (2013: SAR 84.5 million) relating to property and equipment.

c) Credit related commitments and contingencies

Credit related commitments and contingencies comprise letters of guarantee, letters of credit, acceptances and unused irrevocable commitments to extend financing facilities. The primary purpose of these instruments is to ensure that funds are available to customers as required. Letters of 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 investments and 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 invoke such commitments.

Documentary letters of credit are generally collateralised by the underlying assets to which they relate, and therefore have significantly lower risk.

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

Commitments to extend credit represent the unused portion of approved credit, principally in the form of financing, guarantees and letters of credit. With respect to these commitments, the Bank is exposed to an insignificant potential credit risk as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of these commitments could expire or terminate without being funded.

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

	SAR'000				
2014	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	892,421	605,805	22,636	-	1,520,862
Letters of guarantee	471,747	1,026,383	2,867,323	21,579	4,387,032
Acceptances	309,664	9,976	-	-	319,640
Irrevocable commitments to extend credit	1,948,122	-	-	-	1,948,122
Total	3,621,954	1,642,164	2,889,959	21,579	8,175,656

2013	SAR'000				
	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	961,931	851,138	5,953	-	1,819,022
Letters of guarantee	412,543	1,612,662	550,578	16,468	2,592,251
Acceptances	221,980	14,386	-	-	236,366
Irrevocable commitments to extend credit	3,145,333	-	-	-	3,145,333
Total	4,741,787	2,478,186	556,531	16,468	7,792,972

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

	2014 SAR'000	2013 SAR'000
Government and quasi government	1,901,210	713,035
Corporate	5,196,058	6,427,098
Banks and other financial institutions	1,078,388	652,839
Total	8,175,656	7,792,972

iii) 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 16,425 million (2013: SAR 9,426 million).

d) Operating lease commitments

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

	2014 SAR'000	2013 SAR'000
Less than one year	101	556
One year to five years	153,877	172,620
Over five years	212,427	197,690
Total	366,405	370,866

17. Income from investments and financing activities, net

	2014 SAR'000	2013 SAR'000
Income from investments and financing:		
Investments (Murabaha with SAMA)	29,142	25,193
Investments in Sukuk	21,374	17,552
Murabaha with banks and other financial institutions	46,916	59,410
Financing	2,188,292	1,918,544
Total	2,285,724	2,020,699
Return on time investments:		
Customers' time investments	(209,074)	(179,217)
Time investments from banks and other financial institutions	(1,702)	(6,647)
Total	(210,776)	(185,864)
	2,074,948	1,834,835

18. Fees from banking services, net

	2014 SAR'000	2013 SAR'000
Income on:		
Corporate finance and advisory	157,571	149,692
Trade services	49,196	24,333
Card services	154,352	120,592
Fund management and other banking services	113,242	37,864
	474,361	332,481
Expense on:		
Card services	(74,405)	(57,600)
Other fees	(3,743)	(2,283)
	396,213	272,598

19. Salaries and employee related expenses

The following table summarizes the Bank's employee categories defined in accordance with SAMA's rules on compensation practices.

SAR'000

Categories of employees	Number of employees		Fixed compensation		Variable Compensation paid					
					Cash		Shares		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Senior executives requiring SAMA no objections	15	15	30,284	26,229	10,470	9,569	-	-	10,470	9,569
Employees engaged in risk taking activities	450	348	135,261	109,396	22,880	17,655	-	-	22,880	17,655
Employees engaged in control functions	114	112	40,328	54,972	6,389	7,522	-	-	6,389	7,522
Other employees	1,199	1,190	256,545	226,916	31,628	25,740	-	-	31,628	25,740
Outsourcing employees (engaged in risk taking activities)	-	-	-	-	-	-	-	-	-	-
	1,778	1,665	462,418	417,513	71,367	60,486	-	-	71,367	60,486
Variable compensation accrued			119,339	45,471						
Other employee related benefits			55,270	29,607						
Total	1,778	1,665	637,027	492,591	71,367	60,486	-	-	71,367	60,486

19.1 Salient features of Compensation Policy

As an integral part of the compensation governance, the Bank follows appropriate compensation practices in line with the SAMA guidelines and Financial Stability Board (FSB) Principles/Standards. The Bank has implemented a "Compensation & Allowances" policy approved by the Board of Directors (the "Board").

The Bank has also established a Nomination and Compensation Committee. It has been mandated by the Board to review and recommend sound compensation policies for adoption by the Bank.

While developing and implementing such policies, the Bank has sought to align the same with the risks related to capital, liquidity and sustainability as well as timing of revenue streams.

The Bank has adopted fixed as well as variable compensation schemes. The variable component is aligned not only with the aforesaid risks but also with the overall performance of the Bank and the individual, and risk involved in the relevant job function. The Bank consistently evaluates its compensation policies against the industry and makes necessary revisions as and when required.

20. Earnings per share

Basic and diluted earnings per share are calculated by dividing the net income by the weighted average number of outstanding shares which were (Basic:1,485 million, diluted 1,490 million) shares at the end of the year, after accounting for treasury shares.

21. Proposed dividend and zakat

	2014 SAR'000	2013 SAR'000	2014	2013
			SAR per share	
Proposed net of zakat dividend (5%)	745,148	-	0.50	-
Estimated zakat for the year	64,952	-	0.04	-
Proposed gross dividend (5.4%)	810,100	-	0.54	-

The Bank has filed its Zakat returns for the years up to and including the financial year 2013 with the Department of Zakat and Income Tax (DZIT). Zakat amounting to SAR 962.3 million related to the years up to and including financial year 2013 have been set-off with retained earnings while the estimated zakat for the year ended December 31, 2014 amounting to SAR 64.95 million has been deducted from the proposed gross dividend for the year.

22. Cash and cash equivalents

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

	2014 SAR'000	2013 SAR'000
Cash in hand	1,287,943	987,697
Balances with SAMA excluding statutory deposit	1,881,204	1,809,158
Due from banks and other financial institutions maturing within ninety days of acquisition	6,896,956	3,243,877
Total	10,066,103	6,040,732

23. Operating segments

Operating segments are identified on the basis of internal reports about activities of the Bank that are regularly reviewed by the key decision makers including CEO and the Assets and Liabilities Committee (ALCO), in order to allocate resources to the segments and to assess their performance.

The Bank's primary business is conducted in Saudi Arabia. Transactions between the operating segments are on terms as approved by the management. Majority of the segment assets and liabilities comprise operating assets and liabilities.

The Bank's reportable segments are as follows:

a) Retail banking

Financing, deposit and other products/services for individuals and small businesses.

b) Corporate banking

Financing, deposit and other products and services for corporate and institutional customers.

c) Treasury

Murabahas with banks, investments and treasury services.

d) Investment and brokerage

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

Profit is charged or credited to operating segments using internally developed Fund Transfer Pricing (FTP) rates which approximate the marginal cost of funds.

Following is an analysis of the Bank's assets, liabilities, income and results by operating segments:

2014	SAR '000				
	Retail	Corporate	Treasury	Investment & brokerage	Total
Total assets	13,550,763	42,998,935	23,428,187	883,974	80,861,859
Total liabilities	37,451,678	6,874,566	17,964,879	631,504	62,922,627
Income from investments and financing, net	740,407	969,924	361,851	2,766	2,074,948
Fees from banking services and other income	99,915	225,057	133,482	86,437	544,891
Total operating income	840,322	1,194,981	495,333	89,203	2,619,839
Charge for impairment of assets	36,678	124,995	-	-	161,673
Depreciation and amortization	77,104	48,767	26,681	1,000	153,552
Other operating expenses	567,560	271,042	140,240	52,543	1,031,385
Total operating expenses	681,342	444,804	166,921	53,543	1,346,610
Net operating income	158,980	750,177	328,412	35,660	1,273,229
Share of loss from associate	-	-	(8,798)	-	(8,798)
Net income	158,980	750,177	319,614	35,660	1,264,431

2013	SAR '000				
	Retail	Corporate	Treasury	Investment & brokerage	Total
Total assets	11,182,470	36,953,160	14,360,520	505,082	63,001,232
Total liabilities	25,238,662	6,464,671	14,155,670	310,298	46,169,301
Income from investments and financing, net	555,322	946,927	329,874	2,712	1,834,835
Fees from banking services and other income	76,094	178,309	151,511	38,326	444,240
Total operating income	631,416	1,125,236	481,385	41,038	2,279,075
Charge for impairment of assets	52,173	222,051	-	-	274,224
Depreciation and amortization	76,178	55,687	21,355	921	154,141
Other operating expenses	466,098	239,669	93,604	36,146	835,517
Total operating expenses	594,449	517,407	114,959	37,067	1,263,882
Net operating income	36,967	607,829	366,426	3,971	1,015,193
Share of loss from associate	-	-	(10,436)	-	(10,436)
Net income	36,967	607,829	355,990	3,971	1,004,757

The Bank's credit exposure by operating segments is as follows:

2014	SAR '000				
	Retail	Corporate	Treasury	Investment & brokerage	Total
On balance sheet assets	11,932,247	41,704,734	17,387,211	166,052	71,190,244
Commitments and contingencies	-	8,175,656	-	-	8,175,656
Total	11,932,247	49,880,390	17,387,211	166,052	79,365,900

2013	SAR '000				
	Retail	Corporate	Treasury	Investment & brokerage	Total
On balance sheet assets	9,400,520	35,523,102	9,591,650	182,324	54,697,596
Commitments and contingencies	-	7,792,972	-	-	7,792,972
Total	9,400,520	43,316,074	9,591,650	182,324	62,490,568

Credit exposure comprises the carrying value of balance sheet assets, excluding cash, property and equipment, and other assets. The credit equivalent value of commitments and contingencies are included in credit exposure.

24. Credit risk

Credit risk is the most significant risk for the Bank's business. It is defined as the risk that a counterparty may fail to meet its obligations to the Bank and, therefore, could result in a financial loss for the Bank. While credit exposures arise principally from financing and investment, there is also credit risk in off-balance sheet financial instruments, such as letters of credit/acceptances, letters of guarantee, and other forms of financial commitments.

The Bank actively manages its credit risk exposure through the establishment of Credit Risk Policies and procedures which provide guidance, among others, on target market, risk acceptance criteria, minimum disclosure from customers, standard due diligence process, review and approval process, documentation, concentration limits, and day to day account management and problem recognition/remedial action. Bank has a robust Credit Risk Stress Testing process, used to evaluate the potential impact of negative factors on asset quality, risk ratings, profitability and capital allocations.

To ensure proper check and balance of generating business and taking on credit risks, the Bank has an independent Risk Management Group (RMG) led by a Chief Risk Officer (CRO), tasked with the responsibility of implementing, reviewing and safeguarding the Credit and other Risk Policies.

Analysis of investments is provided in note (6). For details of the composition of financing refer note (7). For commitments and contingencies refer note (16).

24.1 Geographical concentration of financial assets with credit risk exposure, financial liabilities, commitments and contingencies.

2014	SAR'000				
	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	Other countries	Total
Financial assets					
Cash and balances with SAMA	6,065,881	-	-	-	6,065,881
Due from banks and other financial institutions	4,397,903	4,443,967	1,452,876	23,108	10,317,854
Investments	7,997,901	-	13,200	25,050	8,036,151
Financing, net	53,636,981	-	-	-	53,636,981
Other assets	1,180,158	-	-	-	1,180,158
Total financial assets	73,278,824	4,443,967	1,466,076	48,158	79,237,025
Financial liabilities					
Due to banks and other financial institutions	2,698	29,959	-	-	32,657
Customers' deposits	59,427,825	-	-	-	59,427,825
Other liabilities	2,902,180	-	-	-	2,902,180
Total financial liabilities	62,332,703	29,959			62,362,662
Commitments and contingencies	8,175,656	-	-	-	8,175,656
Maximum credit exposure (stated at credit equivalent amounts) of commitments and contingencies	3,206,953	-	-	-	3,206,953

2013	SAR'000				
	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	Other countries	Total
Financial assets					
Cash and balances with SAMA	4,972,467	-	-	-	4,972,467
Due from banks and other financial institutions	3,081,639	1,187,489	580,594	122,459	4,972,181
Investments	5,137,775	-	261,691	-	5,399,466
Financing, net	44,923,623				44,923,623
Other assets	1,183,787	-	-	-	1,183,787
Total financial assets	59,299,291	1,187,489	842,285	122,459	61,451,524
Financial liabilities					
Due to banks and other financial institutions	200,000	-	-	736	200,736
Customers' deposits	42,762,623	-	-	-	42,762,623
Other liabilities	2,757,825	-	-	-	2,757,825
Total financial liabilities	45,720,448	-	-	736	45,721,184
Commitments and contingencies	7,792,972	-	-	-	7,792,972
Maximum credit exposure (stated at credit equivalent amounts) of commitments and contingencies	3,468,963	-	-	-	3,468,963

24.2 The distributions by geographical concentration of impaired financing and allowances for impairment on financing are as follows:

2014	SAR'000				
	Kingdom of Saudi Arabia	Other GCC and Middle East countries	Europe	Other countries	Total
Non performing financing, net	350,320	-	-	-	350,320
Allowances for impairment on financing	658,728	-	-	-	658,728

2013	SAR'000				
	Kingdom of Saudi Arabia	Other GCC and Middle East countries	Europe	Other countries	Total
Non performing financing, net	302,482	-	-	-	302,482
Allowances for impairment on financing	514,220	-	-	-	514,220

25. Market risk

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

i. Market risk – trading book

The Bank holds an insignificant market risk on its trading book position of equities in local currency which is regularly marked to market and losses or gains on equity prices are taken directly into consolidated statement of income.

ii. Market risk – non trading book

Market risks on its non-trading book mainly arise from profit rate risk and to a very minor extent from currency risks. It also faces price risks on those securities held as “available for sale.”

a) Profit rate risk

It arises from changes in profit rates which will affect either the fair values or the future cash flows of the financial instruments. Treasury imputes the funding costs based on the yield curve and the margins are also adjusted to account for liquidity premium based on the duration of the financing.

Given the asset and liabilities configuration of the Bank, where the profit rate sensitive assets are much greater than profit rate sensitive liabilities, potential increases in profit rates during the next 12 months will have no material adverse impact on the consolidated statement of income of the Bank.

Yield sensitivity of assets, liabilities and off balance sheet items

The Bank manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market profit rates on its financial position and cash flows. The Bank uses the SAIBOR for SAR and the LIBOR for USD lending as a benchmark rate for different maturities. At times when these benchmark rates are not representative of the actual transactions in the market, marginal cost-of-fund is provided by Treasury. The Bank charges profit rates based on the maturity of loans (longer term loans usually require a higher profit rate) based on marginal costs of funds.

The table below summarizes the Bank’s exposure to profit rate risks. Included in the table are the Bank’s financial instruments at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates.



2014	SAR'000					
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-profit bearing	Total
Assets						
Cash and balances with SAMA	-	-	-	-	6,065,881	6,065,881
Due from banks and other financial institutions	8,064,586	187,587	1,951,020	-	114,661	10,317,854
Investments	6,000,000	-	1,087,086	-	949,065	8,036,151
Financing, net	16,185,304	18,823,411	16,768,896	1,859,370	-	53,636,981
Property and equipment, net	-	-	-	-	1,543,578	1,543,578
Other assets	-	-	-	-	1,261,414	1,261,414
Total assets	30,249,890	19,010,998	19,807,002	1,859,370	9,934,599	80,861,859
Liabilities & shareholders' equity						
Due to banks and other financial institutions	29,959	-	-	-	2,698	32,657
Customer deposits	12,846,356	7,064,567	6,911,807	-	32,605,095	59,427,825
Other liabilities	-	-	-	-	3,462,145	3,462,145
Shareholders' equity					17,939,232	17,939,232
Total liabilities & shareholders' equity	12,876,315	7,064,567	6,911,807	-	54,009,170	80,861,859
Yield sensitivity - On statement of financial position	17,373,575	11,946,431	12,895,195	1,859,370	(44,074,571)	
Yield sensitivity - Off statement of financial position	3,621,954	1,642,164	2,889,959	21,579	-	8,175,656
Total Yield sensitivity gap	20,995,529	13,588,595	15,785,154	1,880,949		
Cumulative yield sensitivity gap	20,995,529	34,584,124	50,369,278	52,250,227		

2013	SAR'000					
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-profit bearing	Total
Assets						
Cash and balances with SAMA	-	-	-	-	4,972,467	4,972,467
Due from banks and other financial institutions	3,689,641	943,937	187,523	-	151,080	4,972,181
Investments	1,350,000	2,200,000	-	1,087,117	762,349	5,399,466
Financing, net	10,148,775	11,727,659	17,682,148	5,365,041	-	44,923,623
Property and equipment, net					1,474,912	1,474,912
Other assets					1,258,583	1,258,583
Total assets	15,188,416	14,871,596	17,869,671	6,452,158	8,619,391	63,001,232
Liabilities & shareholders' equity						
Due to banks and other financial institutions	200,000	-	-	-	736	200,736
Customer deposits	11,872,248	8,610,194	5,763	-	22,274,418	42,762,623
Other liabilities	-	-	-	-	3,205,942	3,205,942
Shareholders' equity	-	-	-	-	16,831,931	16,831,931
Total liabilities & shareholders' equity	12,072,248	8,610,194	5,763	-	42,313,027	63,001,232
Yield sensitivity - On statement of financial position	3,116,168	6,261,402	17,863,908	6,452,158	(33,693,636)	-
Yield sensitivity - Off statement of financial position	4,741,787	2,478,186	556,531	16,468		7,792,972
Total yield sensitivity gap	7,857,955	8,739,588	18,420,439	6,468,626		
Cumulative yield sensitivity gap	7,857,955	16,597,543	35,017,982	41,486,608		

b) Currency risk

Represents the risks of change of value of financial instruments due to changes in foreign exchange rates. The Risk Appetite Framework and policies contain limits for positions by currencies. However, the Bank has negligible exposure in foreign exchange because its assets and liabilities are mainly denominated in Saudi Riyals and to a smaller extent in United States Dollars (USD) or in USD pegged currencies.

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

	2014 SAR'000	2013 SAR'000
Assets		
Cash & balances with SAMA	84,678	96,941
Due from banks and other financial institutions	5,397,833	3,514,530
Investments	38,250	261,694
Financing, net	183,652	187,523
Other assets	19,518	35,926
Total currency risk on assets	5,723,931	4,096,614
Liabilities		
Due to banks and other financial institutions	30,048	43
Customers' deposits	6,586,013	6,184,167
Other liabilities	227,399	213,829
Total currency risk on liabilities	6,843,460	6,398,039

The table below shows the currencies to which the Bank has a significant exposure as at December 31:

	2014 SAR'000	2013 SAR'000
USD	(1,495,403)	(3,155,814)
Euro	1,539	(65)
UAE Dirham	8,416	(482)
BHD	352,502	852,367
QAR	1,664	(363)
Others	11,753	2,932
Total	(1,119,529)	(2,301,425)

c) **Equity price risk**

Equity price risk refers to the risk of decrease in fair values of equities. The Bank's portfolio of investments 'available for sale' is regularly marked to market and changes, if any, are taken into the shareholder's equity.

26. Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. 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 into consideration, maintaining an adequate balance of cash and cash equivalents. The Bank has a Market Risk Management team under the Risk Management Group that regularly monitors the liquidity risk of the bank.

In accordance with Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% of total demand deposits and 4% of customers' time investments.

In addition to the statutory deposit, the Bank also maintains liquid reserves of no less than 20% of its deposit liabilities, in the form of cash and assets, which can be converted into cash within a period not exceeding 30 days.

a) Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Bank's financial liabilities at December 31, 2014 and 2013 based on contractual undiscounted repayment obligations whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

As profit payments up to contractual maturity are included in the table, totals do not match with the figures as appearing in the consolidated statement of financial position.

2014	SAR'000					
	Within 3 months	3 months to 12 months	1 to 5 years	Over 5 years	No fixed maturity	Total
Liabilities						
Due to banks and other financial institutions	32,677	-	-	-	-	32,677
Customers' deposits	45,499,359	7,136,877	7,276,809	-	-	59,913,045
Other liabilities	-	-	-	-	3,462,145	3,462,145
Total liabilities	45,532,036	7,136,877	7,276,809	-	3,462,145	63,407,867

2013	SAR'000					
	Within 3 months	3 months to 12 months	1 to 5 years	Over 5 years	No fixed maturity	Total
Liabilities						
Due to banks and other financial institutions	200,098	-	-	-	736	200,834
Customers' deposits	34,194,829	8,711,316	6,043	-	-	42,912,188
Other liabilities	-	-	-	-	3,205,942	3,205,942
Total liabilities	34,394,927	8,711,316	6,043	-	3,206,678	46,318,964

b) The tables below show the maturity profile of the assets and liabilities:

The maturities of assets and liabilities have been determined on the basis of the remaining period at reporting date and does not reflect the effective maturities as indicated by the historical experience.

2014	SAR'000					
	Within 3 months	3 months to 12 months	1 to 5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	6,065,881	-	-	-	-	6,065,881
Due from banks and other financial institutions	8,179,247	187,587	1,951,020	-	-	10,317,854
Investments	6,113,639	659,987	150,671	1,087,086	24,768	8,036,151
Financing, net	7,279,078	12,556,044	22,174,369	11,627,490	-	53,636,981
Property and equipment, net	-	-	-	-	1,543,578	1,543,578
Other assets	-	-	-	-	1,261,414	1,261,414
Total	27,637,845	13,403,618	24,276,060	12,714,576	2,829,760	80,861,859
Liabilities and shareholders' equity						
Due to banks and other financial institutions	32,657	-	-	-	-	32,657
Customers' deposits	45,451,451	7,064,567	6,911,807	-	-	59,427,825
Other liabilities	-	-	-	-	3,462,145	3,462,145
Shareholders' equity	-	-	-	-	17,939,232	17,939,232
Total	45,484,108	7,064,567	6,911,807	-	21,401,377	80,861,859
Commitments & contingencies	3,621,954	1,642,164	2,889,959	21,579	-	8,175,656

2013	SAR'000					
	Within 3 months	3 months to 12 months	1 to 5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	4,972,467	-	-	-	-	4,972,467
Due from banks and other financial institutions	3,840,721	943,937	187,523	-	-	4,972,181
Investments	1,457,908	2,428,784	392,106	1,087,117	33,551	5,399,466
Financing, net	5,635,147	6,467,494	22,991,198	9,829,784	-	44,923,623
Property and equipment, net	-	-	-	-	1,474,912	1,474,912
Other assets	-	-	-	-	1,258,583	1,258,583
Total	15,906,243	9,840,215	23,570,827	10,916,901	2,767,046	63,001,232
Liabilities and shareholders' equity						
Due to banks and other financial institutions	200,736	-	-	-	-	200,736
Customers' deposits	34,146,666	8,610,194	5,763	-	-	42,762,623
Other liabilities	-	-	-	-	3,205,942	3,205,942
Shareholders' equity	-	-	-	-	16,831,931	16,831,931
Total	34,347,402	8,610,194	5,763	-	20,037,873	63,001,232
Commitments & contingencies	4,741,787	2,478,186	556,531	16,468	-	7,792,972

27. Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk arises throughout the Bank and from almost any activity.

The Bank has an Operational Risk Team as a part of Risk Management Group which is tasked with monitoring and controlling the Operational Risks of the Bank. Functions of this unit are guided by the Operational Risk Policy and Framework. To systematize the assessment and mitigation of operational risks, the Business Environment and Internal Control Framework is established through Risk Control and Self-Assessment (RCSA) along with establishing Key Risk Indicators (KRIs) for all Business and support units. These risk metrics are proactively monitored by Operational Risk department on a regular basis. In addition, the Bank has a successfully tested and documented business continuity plan and operational disaster recovery site.

28. Sharia'h non-compliance risk

Being an Islamic bank, the Bank is exposed to the risk of Sharia'h non-compliance. To mitigate such risk, extensive Sharia'h Policies and procedures are in place. Further the Bank has established a Shaira'h Board and a Sharia'h Compliance Audit Unit to monitor such risk.

29. Reputational risk

Reputational risk covers the potential adverse effects resulting from negative publicity about the Bank's products, services, competence, integrity and reliability.

As an Islamic bank, one of the major sources of Reputational risk is Sharia'h non-compliance. The other sources of negative publicity could be major frauds, customer complaints, regulatory actions and negative perceptions about the Bank's financial condition. The Bank has put in place controls around reputation risk in order to mitigate and avoid such risks. Currently, the Bank measures the Reputational risk through a Scorecard based approach, where Risk Management group compiles the results of assessments made by business heads to derive the Bank overall reputational risk indicators.

30. Fair values of financial assets and liabilities

Fair value is the price that would be received on sale of an asset or paid to discharge 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 takes place either:

- In the accessible 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

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

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

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

Level 2: quoted prices in active market 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.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

2014	SAR '000			Total
	Level 1	Level 2	Level 3	
Financial assets held as FVSI	113,640	-	-	113,640
Financial assets held as 'available for sale'	710,672	1,087,086	100,000	1,897,758
Total	824,312	1,087,086	100,000	2,011,398

2013	SAR '000			Total
	Level 1	Level 2	Level 3	
Financial assets held as FVSI	107,908	-	-	107,908
Financial assets held as 'available for sale'	1,708,007	-	-	1,708,007
Total	1,815,915	-	-	1,815,915

In the absence of active market, during the year certain available for sale investments amounting to SAR 1,087 million has been reclassified from Level 1 to Level 2.

31. Employees share based plans

Significant features of the employee share based schemes outstanding at the end of the year are as follows:

Nature of scheme	ESPS	ESGS
No. of outstanding Schemes	One	One
Grant date	June 01, 2013	April 01, 2013
Maturity date	May 31, 2016	March 31, 2018
Number of shares granted	2,414,288	2,863,000
Vesting period	3 years	3-5 years
Value of shares granted (SAR)	33,800,032	37,648,450
Strike price per share at grant date (SAR)	11.5	-
Fair value per share at grant date (SAR)	14.0	13.15
Vesting conditions	Employee remains in service and meets prescribed performance criteria	Employee remains in service and meets prescribed performance criteria
Method of settlement	Equity	Equity
Valuation model used	Market Value	Market Value
Weighted average remaining contractual life	1.42 years	3.25 years

The movement in weighted average price and in the number of shares in the employees share participation scheme is as follows:

	Weighted average exercise price (SAR)		Number of shares in scheme	
	2014	2013	2014	2013
Beginning of the year	11.5	-	2,580,654	-
Granted during the year	-	11.5	-	2,580,654
Forfeited	-	-	(166,366)	-
Exercised/expired	-	-	-	-
End of the year	11.5	11.5	2,414,288	2,580,654
Exercisable at year end	-	-	-	-

These rights are granted only under a service/performance condition with no market condition associated with it. Total amount of expense recognized during the year in these consolidated financial statements in respect of these schemes was SAR 12.8 million. (2013: 10.3 million).

32. Related party balances and transactions

In the ordinary course of its activities, the Bank transacts business with related parties. Related party transactions are governed by limits set by the Banking Control Law and regulations issued by SAMA.

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

	<u>2014</u> <u>SAR'000</u>	<u>2013</u> <u>SAR'000</u>
Directors, key management personnel, Bank's mutual funds, major shareholders and affiliates		
Financing	15,026	5,956
Customers' deposits	7,881,848	5,107,447
End of service benefit	11,310	8,962
Investments in associates	24,753	33,551
Financing and investments in Mutual funds	1,271,457	88,895
Deposits from Mutual funds	487,240	11,668

(ii) Income and expenses pertaining to transactions with related parties included in the consolidated statement of income are as follows:

	<u>2014</u> <u>SAR'000</u>	<u>2013</u> <u>SAR'000</u>
Income on financing	13,736	355
Return on time investments	78,737	70,823
Fee from banking services, net	65,513	1,864
Directors' remuneration	2,798	2,651

The advances and expenses related to executives are in line with the normal employment terms.

(iii) The total amount of compensation to key management personnel during the year is as follow:

	<u>2014</u> <u>SAR'000</u>	<u>2013</u> <u>SAR'000</u>
Short-term employees benefits	44,064	42,652
End of service benefit	2,347	2,111

33. Capital adequacy

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

Capital adequacy and the use of regulatory capital are monitored by the Bank's management. SAMA requires to hold and maintain ratio of total regulatory capital to the risk-weighted assets at or above the Basel prescribed minimum of 8%.

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

SAMA has issued the framework and guidance for implementation of capital reforms under Basel III, which are effective from January 01, 2013. Accordingly, the risk weighted assets, total capital and related ratios are calculated using Basel III framework.

Particulars	2014 SAR'000	2013 SAR'000
Credit Risk Weighted Assets	60,266,168	50,231,214
Operational Risk Weighted Assets	4,203,105	3,433,374
Market Risk Weighted Assets	5,670,815	6,830,683
Total Pillar-I Risk Weighted Assets	70,140,088	60,495,271
Tier I Capital	17,939,232	16,831,931
Tier II Capital	380,149	328,487
Total Tier I & II Capital	18,319,381	17,160,418
Capital Adequacy Ratio %		
Tier I ratio	26%	28%
Tier I + Tier II ratio	26%	28%

34. BASEL III Pillar 3 and Capital Structure disclosures

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

35. Investment management and brokerage services

The Bank offers investment management services to its customers through its subsidiary which include management of funds with total assets under management of SAR 4,216 million (2013: SAR 247.7 million).

36. Prospective changes in the International Financial Reporting Standards

The Bank has chosen not to early adopt the amendments and revisions to the following standards which have been published and are mandatory for compliance by the Banks effective from accounting period beginning on or after January 1, 2015.

Standard, and amendments	Effective date	Brief description of changes
IFRS 9 “Financial Instruments”	January 01, 2018	IFRS 9 retains but simplifies the measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity’s business model and the contractual cash flow characteristics of the financial asset. It also changes the impairment of financial assets from incurred loss to expected loss model.
IFRS 15 “ Revenue from contracts with customers	January 01, 2017	IFRS 15 is a converged standard from the IASB and FASB on revenue recognition. The standard will improve the financial reporting and comparability of revenue in the financial statements.
Amendments to IFRS 11 “Accounting for acquisitions of interests in joint operations”	January 01, 2016	These amendments provide guidance to account for the acquisition of an interest in a joint operation that constitutes a business.

Other than IFRS 9, the amendments are not likely to have any material impact on the Bank’s consolidated financial statements except for certain additional disclosures. The Bank will be assessing the implications of IFRS 9 in due course.

37. Comparative figures

Figures have been rearranged or reclassified wherever necessary for the purpose of better presentation, however, no significant rearrangements or reclassifications have been made in these consolidated financial statements.

38. Approval of the consolidated financial statements

These consolidated financial statements were approved by the Board of Directors of the Bank on 06 Rabi II, 1436H (corresponding to 26 January, 2015).