البنك السعودي للاستثمار

The Saudi Investment Bank

Annual Report

2014

The Saudi Investment Bank

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2014
The Saudi

بسم الله الرحمن الرحيم

The Theme

Publication of this report comes in conjunction with the accession to the throne of His Majesty the Custodian of the Two Holy Mosques King Salman bin Abdulaziz, and in allegiance to His Crown Prince His Royal Highness Prince Muqrin bin Abdul Aziz, and in allegiance to the Second Crown Prince His Royal Highness Prince Mohammad bin Naif bin Abdul Aziz.

The Saudi Investment Bank

The Saudi Investment Bank is a Saudi Arabian Joint stock company established by Royal Decree no. M/31 dated June 23, 1976 with its headquarters in Riyadh. The Bank began operations in March 1977, and currently has a network of 48 branches located throughout the Kingdom. The Bank's shareholders' include:

Saudi Shareholders	
• General Organization for Social Insurance	21.50%
• Public Pension Agency	17.30%
• Saudi Oger Ltd	8.50%
• National Commercial Bank	7.30%
• Other Saudi Shareholders	35.40%
	90.00%
Non-Saudi Shareholders	
• J.P. Morgan International Finance Limited	7.50%
• Mizuho Corporate Bank Limited	2.50%
	10.00%

The Saudi Investment Bank operates through its three regional offices and its retail branch network in Saudi Arabia, providing conventional and shariah compliant banking services and products to individuals, small and medium size enterprises, corporates, and public sector entities, including:

- Current and deposit accounts
- Remittances
- Letters of credit
- Trade finance
- Bridging finance
- SIDF co-finance
- Personal banking
- Advisory services
- Short and medium – term lending
- Hedging Solutions (FX, commodities and rates)
- Treasury services
- Cash management
- Letters of guarantee
- Loan syndications
- Fiduciary placements
- E – Banking Services
- Foreign exchange
- Money market
- Local and international shareholding

The Saudi Investment Bank, through its wholly-owned subsidiary, is also a leading participant in providing brokerage services in the Saudi and international markets, as well as offering a wide range of asset management products. Through its Associate companies, the Saudi Investment Bank is also leader in providing insurance, leasing, mortgage, and credit card related products and services in Saudi Arabia.

King Salman Ben Abdulaziz Al-Saud
Custodian of the Two Holy Mosques

His Royal Highness
Prince Muqrin Ben Abdulaziz Al-Saud
Crown Prince, Deputy Prime Minister

His Royal Highness
Prince Mohammed Ben Naif Ben Abdulaziz Al-Saud
Second Crown Prince,
Second Deputy Prime Minister And Minister of Interior

BRANCH LOCATIONS

Central Region

Head Office & Main Branch
P.O. Box 3533, Riyadh 11481 KSA
Tel: 011 477 8433 Fax: 011 479 3285

Treasury
Tel: 011 476 1580/011 479 2851
Fax: 011 476 1976
SWIFT: SIBCSARI

Woroud Branch
Tel: 011 205 2887 Fax: 011 205 4890

Takhassussi Branch
Tel: 011 281 7122 Fax: 011 281 7131

Suwaidi Branch
Tel: 011 267 6016 Fax: 011 425 0849

Malaz Branch
Tel: 011 477 1860 Fax: 011 291 7657

Shifa Branch
Tel: 011 298 4500 Fax: 011 298 3254

Rawabi Branch
Tel: 011 492 1685 Fax: 011 208 0978

Badiah Branch
Tel: 011 418 2652 Fax: 011 418 1539

Rawdah Branch
Tel: 011 208 4670 Fax: 011 208 4636

Nuzha Branch
Tel: 011 453 2345 Fax: 011 454 1708

Rayyan Branch
Tel: 01 208 7580 Fax: 011 493 2504

Ghurnatah Branch
Tel: 011 249 4511 Fax: 011 249 4630

Ghadeer Branch
Tel: 011 275 9172 Fax: 011 275 3628

King Fahad Branch
Tel: 011 229 1602 Fax: 011 229 1572

Khurais Road Branch
Tel: 011 239 0077 Fax: 011 230 8740

Naseem Branch
Tel: 011 235 9888 Fax: 011 235 9703

Al-Rahmaniah Branch
Tel: 011 483 3048 Fax: 011 483 4678

Al-Wadi Branch
Tel: 011 274 2020 Fax: 011 210 7242

Al-Kharj Branch
Tel: 011 544 4033 Fax: 011 544 4865

Al-Aqeeq Branch
Tel: 011 489 5708 Fax: 011 489 5716

Al-Qaseem Region

Buraidah Branch
Tel: 016 327 1777 Fax: 016 369 8752

Onizah Branch
Tel: 016 363 5757 Fax: 016 362 4747

Hail Branch
Tel: 016 538 3200 Fax: 016 533 2186

Western Region

Western Regional and Jeddah Branch
P.O. Box 5577, Jeddah 21432 KSA
Tel: 012 653 1010 Fax: 012 653 2333

Al-Jamea District Branch – Jeddah
Tel: 012 632 0536 Fax: 012 632 6835

Malik Road Branch - Jeddah
Tel: 012 607 8500 Fax: 012 659 5944

Pr. Majeed St. Branch – Jeddah
Tel: 012 675 8666 Fax: 012 674 9603

Al-Safa Branch – Jeddah
Tel: 012 628 4747 Fax: 012 679 3824

Al-Bawadi Branch – Jeddah
Tel: 012 256 7441 Fax: 012 256 7128

Pr.Sultan Branch – Jeddah
Tel: 012 236 4455 Fax: 012 236 4450

Makkah Branch
Tel: 012 544 7755 Fax: 012 560 7315

Aziziyah Branch - Makkah
Tel: 012 559 4477 Fax: 012 527 2213

Taif Branch
Tel: 012 742 9288 Fax: 012 742 9566

Madina Branch - Medina
Tel: 014 848 5511 Fax: 014 848 6548

Khamis Branch - Khamis
Tel: 017 237 7770 Fax: 017 220 8514

Abha Branch - Abha
Tel: 017 225 5889 Fax: 017 225 7300

Najran Branch - Najran
Tel: 017 529 1414 Fax: 017 529 2514

Jazan Branch - Jazan
Tel: 017 323 5812 Fax: 017 323 5823

Tabuk Branch - Tabuk
Tel: 014 428 0055 Fax: 014 422 2895

Eastern Region

Eastern Regional and Al-Khobar Branch
P.O. Box 1581, Al-Khobar 31952 KSA
Tel: 013 882 7999 Fax: 013 8822803

Qurtoba Branch - Al-Khobar
Tel: 013 847 8800 Fax: 013 859 2976

Dammam Branch
Tel: 013 834 2020 Fax: 013 834 9111

Al-Rayan Branch - Dammam
Tel: 013 842 3811 Fax: 013 841 6021

Uhud Branch - Dammam
Tel: 013 818 3838 Fax: 013 822 6972

Qatif Branch
Tel: 013 863 8999 Fax: 013 863 1276

Jubail Branch
Tel: 013 346 9666 Fax: 013 347 6374

Al-Ahsa Branch
Tel: 013 582 4999 Fax: 013 582 6999

Hofuf Branch
Tel: 013 589 3232 Fax: 013 589 2975

Ladies Sections

Main Branch (Ladies) Section
Tel: 011 477 8433 Fax: 011 874 3071

Malaz (Ladies) Section
Tel: 011 478 4570 Fax: 011 476 3385

Al-Rahmaniah (Ladies) Section
Tel: 011 483 3958 Fax: 011 480 8766

Al-Wadi (Ladies) Section
Tel: 011 274 2020 Fax: 011 210 7063

Onizah Branch (Ladies) Section
Tel: 016 361 7744 Fax: 016 365 5192

Taif (Ladies) Section
Tel: 012 742 9288 Fax: 012 742 7587

Al-Safa - Jeddah (Ladies) Section
Tel: 012 628 4747 Fax: 012 271 0046

Aziziyah - Makkah (Ladies) Section
Tel: 012 559 3863 Fax: 012 559 4581

Madina Branch - Medina (Ladies) Section
Tel: 014 848 7038 Fax: 014 848 7265

Khamis Branch - Khamis (Ladies) Section
Tel: 017 237 7770 Fax: 017 220 1681

Qurtoba - Dammam (Ladies) Section
Tel: 013 859 3515 Fax: 013 859 1606

Mr. Abdallah S. Jum'ah
Chairman of the Board

Former President and CEO of Saudi Aramco. Has been a Board Member of many companies including Halliburton. Bachelors Degree in Political Science from the American University of Beirut.

Director General Financial Investments, Public Pension Agency. Held numerous positions with the Saudi Arabian Monetary Agency prior to assuming his current position in July 2006. Currently a board member of several companies. Bachelor in Economics degree from Northeastern University, Boston, Massachusetts.

Mr. Abdulaziz A. Al-Khamis
Vice Chairman of the Board

Mr. Abdul Rahman Al-Rawaf
Board Member

Manager of the Investment Portfolios Department at the General Organization for Social Insurance. Has been a board member of many banks and other companies. Bachelors Degree in Business Administration from Arkansas State University and MPA from the University of Southern California.

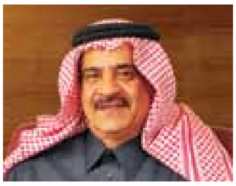
Managing Director of SAVOLA Group. Former CEO of several major companies (such as SAVOLA Group, EMAAR Economic City). Bachelors Degree in Mechanical Engineering from King Fahad University of Petroleum and Minerals, Masters Degree from the University of California at Berkley, and a PhD from the University of Washington at Seattle.

Dr. Abdulraouf M. Mannaa
Board Member

Dr. Abdulaziz Alnowaiser
Board Member

Board member of several public companies and governing authorities, and he also worked as an Assistant Professor of Physics at King Saud University. He holds a BS degree in Mathematics and Physics from the University of California, and an MS and PhD in Physics from Duke University.

Former CEO and Board Member of Bank Al-Jazira. Has extensive banking experience and currently a Board Member of many companies. Bachelors Degree in Business Administration from the University of Oregon.



Mr. Mishari I. Al-Mishari
Board Member

Dr. Fouad Al-Saleh
Board Member

Occupied numerous positions in the government until his retirement as a Colonel in the Ministry of Defense. He is currently a partner in numerous construction related companies. He holds a BS in Mechanical Engineering from St. Martin College, and an MS and PhD in Construction Engineering from the University of Washington.

Former Senior Vice President of Finance of Saudi Aramco. He also served on several company's executive committee's. MBA from the university of Denver and BS degree in Accounting from the University of Texas-Arlington.

Mr. Muhammad Al-Ali
Board Member

Mr. Saleh Al-Athel
Board Member

Progressed through various executive positions within the Saudi Industrial Development Fund until he reached the position of the Assistant Director General. He is a Board member of several companies. He holds a BA in Philosophy and Sociology from Damascus University, and a Higher Diploma in Management from Hartford University.

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Years عاما من التميز

of Excellence

Chairman's Statement

I am pleased to report The Saudi Investment Bank's strong performance in 2014 as evidenced by the solid financial results for the year.

Globally, the year was a mix of political turmoil and continued uncertainty in the financial markets. The year also marked a significant decline in oil prices for the first time in a decade. Amidst these factors, the Bank reported an increase in Net Income of 11.6% to SR1,436 million. Return on equity was 13.0% and Total Assets were SR93.6 billion at year-end. The Bank continues to emphasize capital management and strong capital adequacy ratios. The Bank's Tier I + II regulatory capital ratio was 17.1% at December 31, 2014.

Looking forward to 2015 and beyond, the Board of Directors approved the new Five-Year Strategic Plan, which is business focused and aimed at "Building on Strength" with targets and objectives to drive growth out to 2019. Over the course of the Plan period, the Business Units and Support Functions are committed to delivering on specific initiatives, a key component of which will be to deepen relationships with existing and new clients, and enter new market segments. At the same time, an aggressive program will focus on joint calling and cross selling to increase our share of wallet, demand deposits, and fee income.

We are confident the 2015-2019 Strategic Plan will contribute to our goals of Building Shareholder Value, Enhancing our Market Position, Strengthening the Balance Sheet, Improving Operating Results, and Increasing Efficiency and Visibility.

The Bank remains committed to attracting, developing and retaining high caliber Saudi employees. This is reflected in the launch of the Al-Aqeeq SAIB Academy Training Center, and a Saudization rate of 81% with female staff representing 15%. I am pleased to note that SAIB won the "Great Place to Work Award", and was the only Bank in Saudi Arabia to receive this recognition in 2014. The Bank also received the 2014 King Khalid Responsible Competitiveness Award. The award is given annually to Saudi Arabian companies who demonstrate responsible competitive development and contribute to social responsibility efforts in their communities.

As a result of the Bank's strong performance in 2014, the Board of Directors recommended to the Extraordinary General Assembly a bonus share distribution of one bonus share for each twelve shares outstanding. This will increase the Bank's share capital to SR 6.5 billion and will assist in supporting future growth of the Bank's activities. In addition, the Board recommended a net cash dividend distribution of SR 0.80 per share.

I would like to take this opportunity to express my gratitude to my fellow Board members and to the employees of the Bank for their commitment and professionalism. On behalf of the entire Board of Directors, I also wish to express our appreciation to the Ministry of Finance, the Saudi Arabian Monetary Agency, and the Capital Market Authority. Their continued support has provided the foundations for the Bank's success.

Abdallah S. Jum'ah
Chairman

The Board of Directors of the Saudi Investment Bank ("Bank") is pleased to present its annual report of the Bank's activities as of and for the year ended December 31, 2014.

OVERVIEW

The Bank is a Saudi Arabian joint stock company formed pursuant to a Royal Decree M/31 issued in 1976. The Bank operates forty-eight branches including twelve ladies sections located throughout the Kingdom of Saudi Arabia. The Bank's website address is www.saib.com.sa.

The Bank's major shareholders include:

• General Organization for Social Insurance	21.51%
• Public Pension Agency	17.32%
• Saudi Oger Ltd.	8.59%
• JP Morgan Finance Ltd.,	7.49%
• National Commercial Bank	7.33%

The Bank offers a wide range of conventional and sharia-compliant products and services for corporate clients, individuals, and commercial businesses comprising small and medium size enterprises through the Bank's head office and a network of retail branches located throughout the Kingdom. The Bank also provides tailor-made financial products and services to corporate, government, and public sector entities through its three regional offices located in Riyadh, Jeddah, and Al-Khobar. The Bank, through a wholly–owned subsidiary, also provides brokerage services in the Saudi and international markets, as well as in offering asset management products and services.

The Bank's activities are organized into three major business segments including Retail Banking, Corporate Banking, and Treasury. The Bank has three wholly owned subsidiaries in Saudi Arabia including Alistithmar for Financial Services and Brokerage Company, Saudi Investment Real Estate Company, and Saudi Investment First Company. In addition, the Bank has investments in three associate companies in Saudi Arabia including Amex (Saudi Arabia) Ltd., Saudi Orix Leasing Company, and Amlak International for Finance and Real Estate Development Co.

The Bank has no other subsidiaries nor operates any other businesses and activities outside of Saudi Arabia.

The Bank is subject to all laws and regulations of the Kingdom of Saudi Arabia and is regulated by the Saudi Arabian Monetary Agency ("SAMA"). The Bank also follows regulations issued by the Ministry of Commerce and the Capital Market Authority ("CMA").

Significant highlights for the year included continued improvement in core business and financial ratios, as well as improved service quality, expansion of our personal financing programs and ATM network, and further automation and expansion of the retail banking business. As part of our ongoing retail activities, the Bank continued to enhance the ALASALAH Islamic Banking brand. Under this program, the Bank operates forty-four Shariah compliant branches within the Kingdom. Finally, the Bank continued its extensive credit rating review process with Standard & Poor's and Fitch Ratings, both of which have affirmed the Bank's investment grade ratings of 'A-' / 'A-2' and 'A-' / 'F2', respectively, both with stable outlook.

During 2014, the Bank received various international awards including "Great Place to Work" and the Excellence award from Microsoft. The Bank also received the Corporate Governance award, Al Injaz award for employers, and the King Khaled Award for Responsible Competitiveness. In addition, the Bank also received the highest review according to International Finance Magazine for having the best loyalty program Aseel, and was nominated as one of the best banks in the Arabian countries by Forbes Middle East. Finally, the Bank was honored as one of the best Saudi Banks contributing to the Kafalah program.

OPERATING RESULTS

The Bank's net income for the year ended December 31, 2014 was SAR 1,436 million, an increase of SAR 149 million or 12% over the 2013 net income of SAR 1,287 million. The increase was primarily due to an increase in operating income.

Net special commission income, which includes special commission income from placements, investments, and loans, less special commission expense from deposits and other borrowings, increased to SAR 1,540 million in 2014 compared to SAR 1,365 million in 2013, an increase of SAR 175 million or 13%. This increase was primarily due to an increase in the Bank's loans and advances, investments and placements, and reduced cost of funding.

Fees from banking services totaled SAR 487 million in 2014, compared with SAR 394 million in 2013, an increase of SAR 93 million or 24%. This increase was primarily due to the Bank's continuing focus on developing new business.

Total operating income was SR 2,531 million in 2014, compared to SAR 2,017 million in 2013, an increase of SR 514 million, or 25%. During 2014, the Bank transferred its investment in the Mediterranean and Gulf Cooperative Insurance and Reinsurance Co. (MedGulf) from investment in associates to available for sale investments. This investment was recorded in available for sale investments at its estimated fair value at the time of transfer, with a corresponding gain equal to the difference between the estimated fair value and the carrying amount of the recorded investment in MedGulf. The resulting gain totaling approximately SAR 224 million is included in gains on non-trading investments, net.

Operating expenses before impairment charges for credit losses and non-trading investments were SAR 943 million in 2014 compared to SAR 762 million in 2013. The level of operating expenses in 2014 resulted in a net efficiency ratio of 37.69% compared to 36.36% in 2013. The net efficiency ratio, defined as normal operating expenses before impairment charges, divided by total income excluding non-recurring income, is a key indicator of how resources are controlled and managed.

Impairment charges on non-trading investments were SAR 10 million in 2014 compared to SAR 24 million in 2013, while the provision for credit losses was SAR 221 million in 2014 compared to SAR 105 million in 2013. The 2014 charges reflect the Bank's continued conservative policy of maintaining loss reserves at levels consistent with the size of the loan and investment portfolios and able to absorb likely loss scenarios, while improving asset quality.

The Bank's return on average assets was 1.65% in 2014 compared to 1.84% in 2013. The Bank's return on average equity was 13.00% in 2014 compared to 13.11% in 2013.

The consolidated net income of the Bank's reportable business segments for the years ended December 31, 2014 and 2013 is summarized as follows:

	2014	2013
	SAR '000	SAR '000
Summary of Income		
Retail Banking	317,538	268,537
Corporate Banking	439,804	349,990
Treasury	625,870	635,149
Asset Management and Brokerage	53,267	33,158
Net Income	1,436,479	1,286,834

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Total assets as of December 31, 2014 were SAR 93.6 billion compared to SAR 80.5 billion as of December 31, 2013, an increase of SAR 13.1 billion or 16%.

Investments increased by SAR 4.7 billion, or 27%, to SAR 22.4 billion as of December 31, 2014. Investments classified as investment grade represent 82% of the Bank's investment portfolio as of December 31, 2014.

Net loans and advances increased by SAR 9.9 billion, or 21%, to SAR 57.5 billion as of December 31, 2014. The Bank's non-performing loans and advances reached SAR 436 million as of December 31, 2014 compared to SAR 395 million as of December 31, 2013. The percentage of non-performing loans and advances to total loans and advances decreased to 0.75% as of December 31, 2014 compared to 0.82% in 2013. The allowance for credit losses as of December 31, 2014 totaling SAR 823 million represents 189% of non-performing loans, compared to 178% in 2013.

Customer deposits increased by SAR 13.7 billion, or 22%, to SAR 70.7 billion as of December 31, 2014. Demand deposits increased by SAR 6.6 billion, or 47%, while special commission bearing deposits increased by SAR 7.4 billion, or 17%.

On May 30, 2011, the Bank entered into a five-year medium term loan facility agreement for an amount of SAR 1.0 billion for general corporate purposes with a local bank. The facility has been fully utilized and is repayable in May 2016. On June 24, 2012, the Bank entered into a second five-year medium term loan facility agreement for an amount of SAR 1.0 billion for general corporate purposes with a local bank. The facility has been fully utilized and is repayable in September 2017. The term loans bear commission at variable rates. The Bank has an option to effect early repayment of the term loans subject to the terms and conditions of the related agreements. The agreements above include covenants which require maintenance of certain financial ratios and other requirements, which the Bank is in compliance with as of December 31, 2014.

On June 5, 2014, the Bank concluded the issuance of a SAR 2 billion subordinated debt issue through a private placement to local investors of a Shariah compliant Tier II Sukuk in the Kingdom of Saudi Arabia. The Sukuk has a tenor of ten years with the Bank retaining the right to call the Sukuk at the end of the first five year period, subject to certain regulatory approvals. The Sukuk carries a half yearly profit equal to six month SIBOR plus 1.45%.

TOTAL EQUITY AND CAPITAL ADEQUACY

As of December 31, 2014, the total equity of the Bank increased to SAR 11.9 billion compared to SR 10.3 billion as of December 31, 2013. The total number of shares outstanding is 600 million shares. The ratio of total equity to total assets as of December 31, 2014 was 12.69%, compared to the 2013 level which was also 12.74%. The Bank's leverage increased to 7.90 on December 31, 2014 compared to 7.85 as of December 31, 2013.

During 2014, the Bank distributed dividends equal to SAR 0.80 per share, or SAR 440 million, net of Zakat withheld from Saudi shareholders of SAR 37.5 million. In addition, the Board of Directors proposed a cash dividend of SAR 480 million equal to 0.80 per share, net of Zakat to be withheld from the Saudi shareholders totaling SAR 42 million. The Board of Directors has also proposed a bonus share issue of 50 million shares with a par value of SAR 10 per share, or one bonus share for each twelve shares outstanding. The proposed cash dividend and bonus share issue will be presented for approval in an extraordinary general assembly meeting expected to convene in 2015.

Capital adequacy and regulatory capital are closely monitored by the Bank's management. SAMA also requires the Bank to hold a minimum level of regulatory capital and maintain a ratio of total regulatory capital to risk-weighted assets at or above the minimum requirement 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 consolidated statement of financial position assets, commitments, and notional amounts of derivatives, at a weighted amount to reflect their relative risk.

As of December 31, 2014, the Bank's Tier I plus Tier II capital adequacy ratio was 17.08% compared to 15.12% as of December 31, 2013.

(SR in millions)

	2014	2013	2012	2011	2010
FIVE-YEAR FINANCIAL HIGHLIGHTS					
Total income (1)	2,610	2,178	1,868	1,709	1,844
Total expense (2)	943	762	632	628	570
Operating profit	1,667	1,416	1,236	1,081	1,274
Impairment charges	231	129	324	373	845
Net income	1,436	1,287	912	708	429
Loans and advances, net	57,473	47,567	34,051	27,114	31,002
Investments, net	22,397	17,696	10,912	8,893	8,060
Investments in associates	846	1,071	966	895	865
Total assets	93,626	80,495	59,067	51,946	51,491
Customer deposits	70,733	57,044	40,414	36,770	37,215
Total equity	11,852	10,253	9,379	8,557	8,141
Return on average equity %	13.00	13.11	10.17	8.48	5.51
Return on average assets %	1.65	1.84	1.64	1.37	0.84
Capital adequacy %	17.08	15.12	17.62	19.12	17.29
Equity to total assets %	12.66	12.74	15.88	16.48	15.81

(1) Total income includes total operating income plus share in earnings of associates.
(2) Total expense includes total operating expenses less impairment charges, and amounts attributable to non controlling interests in 2011 and 2010.

GEOGRAPHICAL DISTRIBUTION OF REVENUES

The Bank's total operating income is entirely generated from its operations in the Kingdom of Saudi Arabia and is summarized below in SAR '000.

SR' 000

	Central Region	Western Region	Eastern Region	Total
2014	1,940,419	390,774	199,983	**2,531,176**
2013	1,650,349	260,352	105,963	**2,016,665**

RISK MANAGEMENT

The complexity of today's financial services sector, business operations, and diversity of geographical locations requires the identification, measurement, aggregation, and effective management of risks including an efficient allocation of capital to derive an optimal risk and return ratio. In addition, the stakeholders of the Bank, including the regulators and rating agencies also expect the Bank to have a clear and well documented framework in place that addresses several dimensions of the Bank's business.

The Bank manages its risks in a structured, systematic, and transparent manner through a broad-based Risk Appetite Framework (RAF) approved by the Board of Directors that incorporates comprehensive risk management into the Bank's organizational structure, risk measurement, and monitoring processes. The Bank's RAF is carefully aligned with the Bank's strategy, business planning, capital planning, and policies and documents approved by the Bank's Board of Directors. The Bank's RAF is in compliance with the Financial Stability Board's "Principles for an effective Risk Appetite Framework" dated November 18, 2013, as adopted by SAMA.

The Bank's RAF includes the following key characteristics:

- The nature of risks to be assumed as a result of the Bank's strategy;
- The maximum level of risk at which the Bank can operate (Risk Capacity) and maximum level of risk it should take (Risk Appetite);
- The maximum level of other quantifiable risks that should be taken (Other Risk Limits);
- The desired balance of risk versus returns by Business Line (Business Unit Line Risk Appetite Measurement); and
- The desired risk culture, compensation programs, information technology risk and security, and the overall compliance environment of the Bank (Qualitative Reporting).

In addition to the above, the Bank's Internal Audit function reports to the Audit Committee of the Board of Directors and provides an independent validation of business and support units' compliance with risk policies and procedures and the adequacy and effectiveness of the risk management framework on a bank-wide basis.

The following provides a description of the Bank's significant risks including the methods on how the Bank manages these risks.

Credit Risk

The Bank manages its exposure to credit risk, which is the risk that one party to a financial instrument will not be able to discharge its obligation, which in turn can lead to a financial loss to the Bank. The exposure to credit risk arises primarily from the risks associated with loans and advances, and the investment portfolio. Credit risk is also present in off-balance sheet financial instruments, such as commitments to extend credit.

The Bank has a comprehensive framework of managing credit risk which includes an independent credit risk review function and credit risk monitoring process. The Bank assesses the probability of default of counterparties using internal rating tools. The Bank also uses the external ratings of major rating agencies, where available.

Market Risk

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

a) **Commission rate risk**

Commission rate risk arises from the possibility that changes in commission rates will affect either the fair values or the future cash flows of financial instruments. The Board of Directors has established commission rate gap limits for stipulated periods. The Bank also routinely monitors its positions and uses hedging strategies to ensure maintenance of positions within established gap limits.

b) **Currency risk**
Currency risk is the risk of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are routinely monitored.

c) **Equity price risk**
Equity price risk is the risk of a decrease in fair values of equities in the Bank's investment portfolio as a result of possible changes in levels of equity indices and the value of individual shares. The Board of Directors sets limits on the level of exposure to each industry, and overall portfolio limit, which are independently monitored.

Liquidity Risk

Liquidity risk is the risk that the Bank will be unable to meet its net funding requirements within the required time and at acceptable cost. Liquidity risk can be caused by market disruptions or credit rating downgrades for the Bank, which may cause certain sources of funding to dry up unexpectedly.

The Bank's management carefully monitors the maturity profile of its assets and liabilities to ensure that adequate liquidity is maintained on a daily basis. In addition, the Liquidity Coverage Ratio and Net Stable Funding Ratio are each monitored regularly to be in line with SAMA guidelines. The Bank also conducts regular liquidity stress testing under a variety of scenarios covering both normal and more severely stressed market conditions.

All liquidity policies and procedures are subject to review and approval by the Bank's Asset and Liability Committee.

Operational Risk

Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

The Bank's Operational Risk Management Framework provides a bank-wide definition of operational risk and lays down the processes under which the operational risks are to be identified, assessed, monitored, and controlled. The key components of this framework are comprehensively documented in the Bank's operational risk policies, procedures, and controls.

The continuous assessment of operational risks and their controls in all business and support units of the Bank are monitored through Risk and Control Self-Assessment (RCSA) exercises, close monitoring of agreed action plans as a result of the RCSA exercises, and establishing an Operational Risk Appetite Matrix for the Bank as a whole. This includes monitoring the operational risk losses actually incurred on an ongoing basis and taking corrective actions to eliminate or minimize such losses in the future. The Bank has also developed a set of Key Risk Indicators covering all the business and support units to facilitate pro-active monitoring of operational risks.

BUSINESS CONTINUITY PLAN

The Bank recognizes the importance of planning for Business Continuity and continued to make progress in this area in 2014. An effective Business Continuity Plan ("BCP") will facilitate the Bank in mitigating a serious disruptive crisis in a controlled, timely, and structured manner. It also helps the Bank to effectively manage any disruption in its operations and to recover as quickly and effectively as possible from an unforeseen disaster or emergency that may interrupt normal business operations in full or in part.

During 2014, the Bank further strengthened the testing of its Business Continuity Plan and procedures. Detailed tests were completed on two separate occasions and several other tests were completed during the year. The tests were successful and provide confidence that the Bank will be able to handle such a crisis, should it occur. The Bank will continue testing its process for business continuity at least twice a year.

The Bank has also strengthened the training process for its Business Continuity Plan. In 2014, e-learning modules were introduced for the BCP and it is mandatory for all staff to complete the training session.

In recognition of its BCP efforts, the Bank has received the ISO 22301 certification in 2012 for its Business Continuity Management Process including its Retail Banking, Corporate and Treasury processes. The Bank has also completed its re-certification process. It is worth noting that the Bank was one of the first organizations in the world to receive this certification. The ISO certification is recognition of the fact that, should a crisis happen, the Bank has structured processes to deal with the contingency in a timely and effective manner.

INFORMATION TECHNOLOGY TRANSFORMATION STRATEGY

In order to meet the strong demands of business growth, the Bank has put in place an ambitious five year IT transformation strategy. The strategy, which has been approved by the Bank's Board of Directors, focuses on supporting the Bank's retail and corporate growth, in addition to building strong linkages between the Bank's other business units.

The strategy is supported by comprehensive project charters, standardized project execution, and project governance. Status tracking and monitoring is also controlled by a central project management function. In addition, an IT Governance structure has been implemented and oversight is controlled by an IT steering committee comprised of senior management.

During 2014, several projects were launched to support the growth of the Bank and enhance customer services. These include launching the new Branch Teller Solution via CRM, which allows the branch team to better serve our customers. Also launched was an ATM emergency cash service, which allows customers to withdraw their money 24 hours a day without the need of their cards. The Bank also launched new e-payroll services and e-Trade services, which enable companies to pay salaries, and execute their LCs and LGs electronically. The Bank also launched a new Travel Card, which allows customers to load four selected currencies electronically through FlexxClick and FlexxTouch. The Bank was also the first Bank to launch a loyalty program (WooW), which is unique in its features and easy to use. Finally, the Bank was one of the first Saudi Banks to implement the Interactive Teller Machine.

BUSINESS SEGMENTS

The Bank is managed on a line-of-business basis. Transactions between business segments are conducted on normal commercial terms and conditions through the use of funds transfer pricing and cost allocation methodologies. A detailed summary of the business segment results for 2014 and 2013 is presented in Note 28 to the consolidated financial statements.

The Bank has three significant business segments, each of which is described below.

Retail Banking

Retail Banking offers a wide range of conventional and Sharia-compliant retail services for individuals and commercial businesses comprising small and medium size enterprises through the Head Office and a network of branches throughout Saudi Arabia. Services include current accounts, savings and time deposit accounts. The Bank also offers a full range of Sharia-compliant products through its Shariah-compliant branches, including Islamic Murabaha. The Bank also has a large network of ATM's that covers all regions of Saudi Arabia.

Corporate Banking

Corporate Banking focuses on providing tailor-made financial products and efficient customer services to corporate, government and public sector entities. It operates from three regional headquarters based in Riyadh, Jeddah and Al-Khobar to offer innovative financial solutions to it's customers. The services and products offered include project finance, working capital finance, trade finance and services, import and export documentary credit, standby letters of credit, letters of guarantee, bill discounting, documentary and clean collections, and other trade related products, including conventional and Shariah-compliant products.

Treasury

Treasury is responsible for foreign exchange trading, funding and liquidity management, as well as the Bank's investment securities portfolio and derivative products. It also manages the Bank's asset-liability structure and interest rate risk, and provides guidance for balance sheet volume and pricing parameters.

BRANCH NETWORK

As of December 31, 2014, the Bank's total network included forty-eight branches. Included in this figure are twelve Ladies sections. The Bank added 38 ATM locations during 2014 and currently operates a network of 429 ATMs throughout Saudi Arabia. The Bank also added 1,799 point of sale terminals, bringing the total number of terminals to 3,790.

ALASALAH ISLAMIC BANKING

The Bank provides Sharia-compliant products and services under the ALASALAH Islamic Banking brand. These products have been given special attention to ensure their compliance with Sharia Law and their suitability to the local market in recognition of the increasing demand for Sharia-compliant products and services, and the significance of Islamic Banking as a strategic direction for banks operating in the Kingdom and the region. The Bank now operates forty-four Sharia-compliant branches. The Bank successfully increased its Sharia-compliant loans during the year ended December 31, 2014 to SAR 30.6 billion, an increase of SAR 7.3 billion or 32% over the 2013 amount of SAR 23.3 billion. The Bank also increased its Sharia-compliant deposits during the year ended December 31, 2014 to SAR 49.1 billion, an increase of SAR 10.6 billion or 28% over the 2013 amount of SAR 38.5 billion.

STRATEGIC PARTNERSHIPS

The Bank has three subsidiaries registered in Saudi Arabia as follows:

- Alistithmar for Financial Securities and Brokerage Company, which offers brokerage and other services in the Kingdom of Saudi Arabia. The Bank owns 100% of the SAR 250 million in capital, and the Company does not have any debt instruments issued.
- The Saudi Investment Real Estate Company. The Bank owns 100% of the SAR 500 thousand in capital, and the Company does not have any debt instruments issued.
- Saudi Investment First Company Ltd. The bank owns 100% of the SAR 25 thousand in capital, and the Company does not have any debt instruments issued.

In addition to the above, the Bank has investments in three associate companies in Saudi Arabia as follows:

- Amex (Saudi Arabia) Ltd. - ("ASAL"), a limited liability company with Amex (Middle East), Bahrain. The total capital is SAR 100 million. ASAL is incorporated in Saudi Arabia and the Bank holds a 50% interest. The principal activities of ASAL are to issue credit cards and offer other American Express products in Saudi Arabia.
- Saudi Orix Leasing Company ("Orix"). Orix is a Saudi Arabian closed joint stock company in Saudi Arabia. The total capital is SAR 550 million. Orix has 55 million outstanding shares and the bank holds 20.90 million shares representing 38% of the outstanding shares. The primary business activities of Orix include lease financing services in Saudi Arabia.
- Amlak International for Finance and Real Estate Development Co. ("Amlak"). Amlak is a Saudi Arabian closed joint stock company in Saudi Arabia. The total capital is SAR 900 million. Amlak has 90 million outstanding shares and the Bank holds 29 million shares representing 32% of the outstanding shares. Amlak offers real estate finance products and services.

All the above companies are incorporated and doing business in Saudi Arabia.

During 2014, the Bank transferred its investment in MedGulf from investments in associates to available for sale investments, because this investment no longer qualified to be accounted for as an investment in an associate.

CREDIT RATING

Credit ratings are an integral component for participation in the international financial markets. As the global economy becomes more integrated, credit ratings are necessary not only to ensure funding and obtain access to capital markets, but also to demonstrate a commitment to meeting a high level of internationally recognized credit and risk management standards. During the year, the Bank continued its program of rating reviews with Standard & Poor's Ratings Services (S&P) and Fitch Ratings.

S&P affirmed the Bank's 'A-' / 'A-2' long-term and short-term counterparty credit ratings with a Stable Outlook. S&P defines these ratings as follows:

- **Long-Term Issuer Credit Ratings** – An obligor rated 'A-' has strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in higher-rated categories.
- **Short-Term Issuer Credit Ratings** (less than 12 months) – An obligor rated 'A-2' has satisfactory capacity to meet its financial commitments. However, it is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in the highest rating category.

Fitch also affirmed the Bank's 'A-' / 'F2' long-term and short-term ratings with a Stable Outlook. Fitch defines these ratings as follows:

- **Long-Term Issuer Default Ratings** – 'A-' rating denotes a low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.
- **Short-Term Issuer Default Ratings** (less than 12 months) – 'F2' ratings indicate good credit quality with a satisfactory capacity for timely payment of financial commitments, but the margin of safety is not as great as in the case of the higher ratings.

The Bank's ratings are the result of our financial performance, our asset quality and capitalization levels, supported by a conservative strategy and satisfactory liquidity profile. Our ratings take into consideration the fact that the Bank operates in one of the strongest banking sectors and best regulated markets both in the Middle East and among all emerging markets. The ratings also reflect the strong sovereign credit ratings from S&P and Fitch, in addition to the strong country economic fundamentals.

The credit ratings from S&P and Fitch are considered "Investment Grade Ratings" in the international markets.

PROFIT DISTRIBUTION

The net income of the Bank will be distributed as directed by the Board of Directors in accordance with the provisions of the Banking Control Law, as follows:

a) Withholding the necessary amounts for payment of the Zakat owed by the Saudi shareholders and any income tax owed by the non-Saudi shareholders according to the applicable laws of the Kingdom. The Bank will pay the required amounts to the authorities and deduct the Zakat owed by the Saudi shareholders and any unreimbursed income tax of the non-Saudi shareholders from amounts due to these shareholders, respectively.

b) Allocating not less than 25 percent of the remaining net income, after the deduction of the Zakat and income tax as mentioned in paragraph (a) above, to the Statutory Reserve until this Reserve is equal to at least the Paid-Up Capital.

c) The remainder, after all allocations mentioned in paragraphs (a) and (b) above are made, shall be used in any manner recommended by the Board of Directors and approved by the General Assembly.

In 2014, the Board of Directors proposed a cash dividend of SAR 480 million equal to 0.80 per share, net of Zakat to be withheld from the Saudi shareholders totaling SAR 42 million. The Board of Directors has also proposed a bonus share issue of 50 million shares with a par value of SAR 10 per share, or one bonus share for each twelve shares outstanding. The proposed cash dividend and bonus share issue will be presented for approval in an extraordinary general assembly meeting expected to convene in 2015.

In 2013, The Board of Directors proposed a cash dividend of SAR 440 million equal to SAR 0.80 per share, net of Zakat to be withheld from the Saudi shareholders totaling SAR 37.5 million. The proposed dividend was approved by the Bank's shareholders in an extraordinary general assembly meeting held on Jamada Akhar 1, 1435 (corresponding to April 1, 2014). The net dividends were paid to the shareholders thereafter.

CHANGES IN THE BANK'S OWNERSHIP (BOARD OF DIRECTORS AND SENIOR EXECUTIVES)

The Board of Directors is composed of natural persons represented on the Board in their personal capacities. Below is the list of the overall ownership of Bank's shares and debt instruments by the Board of Directors and senior executives and their immediate relatives who have an interest in such ownership.

Directors

No.	Name	Beginning of the Year		End of the Year		Net Change	Percentage of Change %
		Shares	Debt instruments	Shares	Debt instruments		
1	Abdallah S. Jum'ah	3,666	-	88,913	-	85,247	2,325
2	Abdulrahman Al-Rawwaf	1,222	-	1,333	-	111	9
3	Dr. Albulraoof Mannaa	1,000	-	1,090	-	90	9
4	Saleh Al-Athel	166,707	-	200,866	-	34,159	20.49
5	Mishari Al-Mishari	2,444	-	2,666	-	222	9
6	Dr. Fouad Al-Saleh	159,998	-	200,000	-	40,002	25
7	Abdulaziz Al-Khamis	1,222	-	1,333	-	111	9
8	Dr. Abdulaziz Alnowaiser	1,000		1,090		90	9
9	Mohammad Al-Ali	-	-	2,000	-	2,000	100

Senior Executives

No.	Name	Beginning of the Year		End of the Year		Net Change	Percentage of Change %
		Shares	Debt instruments	Shares	Debt instruments		
1	Musaed Al-Mineefi	1,262,520	-	1,474,467	-	211,947	16.79
2	Ramzi Al-Nassar	186,236	-	120,000	-	(66,236)	(35.56)
3	David Johnson	50,000	-	104,116	-	54,116	108.23

REGULATORY PAYMENTS

Zakat attributable to the Saudi shareholders paid by the Bank is deducted from their share of cash dividends. Any unreimbursed income tax payable by the non-Saudi shareholders on their share of profits is also deducted from cash dividends.

The Bank paid SAR 23.0 million in Zakat on behalf of Saudi shareholders, and SAR 26.8 million of income tax on behalf of its non-Saudi shareholders during the year ended December 31, 2014. The Bank also paid SR 6.9 million in withholding tax on payments to non-residents made during the year ended December 31, 2014.

The Bank has received assessments for additional Zakat, income tax, and withholding tax totaling approximately SAR 16.7 million relating to the Bank's 2003 through 2008 Zakat, Income tax, and withholding tax filings. The bank has filed an appeal for these assessments.

The Bank has received assessments for additional Zakat totalling approximately SAR 383 million relating to the Bank's 2010, 2011 and 2013 Zakat filings. The assessments are primarily due to the disallowance of certain long-term investments from the Zakat base of the Bank. The Bank, in consultation with its Zakat advisors, has filed an appeal with the Department of Zakat and Income Tax, and is awaiting a response. At the current time, a reasonable estimation of the ultimate additional Zakat liability, if any, cannot be reliably determined.

The Bank paid SAR 33.5 million to the General Organization for Social Insurance for its employees, including the employee share of SAR 16.7 million during the year ended December 31, 2014. The Bank also paid approximately SAR 0.5 million for visa and other related governmental fees, and SAR 3.4 million in municipality and related fees during the year ended December 31, 2014.

REGULATORY PENALTIES AND FINES

During 2014, the Bank paid SAR 9.09 million in penalties and fines to the following regulatory agencies:

Saudi Arabian Monetary Agency	9.03 million
Capital Market authority	0.06 million

SAUDIZATION AND TRAINING

As a result of the Bank's continuing commitment to increase Saudization, the percentage of Saudi nationals to total staff as of December 31, 2014 remained strong at 81%. In addition, the Bank has increased its female staff to reach 15% of the total workforce of the Bank.

During the year ended December 31, 2014, the Bank provided a total of 728 separate training courses resulting in 14,162 training days being delivered to the Bank's staff members. On average, staff attended 9.47 training days per employee during 2014.

The Bank continues to conduct training courses through a combination of e-Learning and Face-to-Face training methods for all of the Bank's staff. In the areas of Anti-Money Laundering, Compliance, Fraud, Code-of-Conduct, Business Continuity Planning and Consumer Protection Principles, over 95% of Bank staff completed their training using the blended methods available.

During 2014, the Bank launched its stand-alone 24/7 E-Learning portal known as "SAIB E-Learning Academy". All SAIB employees have access to on-line programs which align Arabic language or sub-titled video and E-Learning programs to SAIB's General Skills development path matrix. To date, 1,362 SAIB members of staff have been issued with licences and have activated their E-Learning Accounts.

The Saudi Investment Bank has an embedded "Life-Long Learning" philosophy and selects, assesses, recognizes, and provides training to staff through a comprehensive support environment. Given this philosophy, the Bank continues to implement several programs designed to target young Saudi Nationals while at the same time, regularly renewing and reviewing the training needs of all employees.

To further support this strategy during 2014, in addition to extending delivery of the Bank's Young Hire Program, which ensures that our newly hired Saudi college and university graduate colleagues are properly trained for the ever more complex challenges they will face in banking, the Bank launched a Corporate Banking Training Program exclusively for new-to-bank Saudi National graduates. The program runs over a six-month period and was delivered by world class International Financial Training Companies.

The Bank also continues to deliver the Bank's Saudi Graduate and Saudi Fast Track (FATRA) programs. Our Saudi Graduate Program is a twelve month program designed to attract and retain the best applicants with targeted candidates having a strong academic background and a high GPA university degree. The Saudi FATRA program is designed to enable existing eligible Saudi staff to develop their business talents and assist them in entering the Bank's top management team of the future.

EMPLOYEE BENEFITS

Benefits payable to employees either at the end of their services or during the term of their employment are accrued in accordance with guidelines set by the Saudi Arabian Labor Regulations and as per the Bank's policies. The amount of provision made during the year ended December 31, 2014 in respect of employees' end of service benefits was SAR 3.9 million. The balance of the accrued benefits outstanding is approximately SAR 95.4 million as of December 31, 2014.

The Bank also offers to its eligible employees ("Employees") equity shares in the Bank under an Employee Stock Grant Plan ("Plan"). Under the terms of the Plan, employees are granted shares which vest over a four-year period. The cost of the plan is measured by the value of the shares on the date purchased by the Bank and recognized over the period in which the service condition is fulfilled using an appropriate valuation model, and ending on the vesting date. Employee stock option shares are recorded by the Bank at cost and presented as a deduction from the Bank's equity as adjusted for any transaction costs, dividends and gains or losses on sales of such shares. During 2014, the Bank vested 1,047,695 shares for a total cost of approximately SAR 22.3 million. The balance of the Plan as of December 31, 2014 is approximately SAR 31.6 million. For further information on this Plan, refer to Note 37 in the consolidated financial statements.

In addition, the Bank grants to its eligible employees other types of security and savings plans that are based on mutual contributions by the Bank and the employees. These contributions are paid to the participating employees at the respective maturity date of each plan. The balance of the accrued benefits outstanding for the Bank's security plan is approximately SAR 4.2 million as of December 31, 2014. The balance of the accrued benefits outstanding for the Bank's savings plan is approximately SAR 62.8 million as of December 31, 2014. The amount of provision made during the year ended December 31, 2014 for these plans was approximately SAR 51.6 million.

RELATED PARTY CONTRACTS

Except for the information presented in Note 34 to the consolidated financial statements, there were no other contracts with parties related to members of the Board of Directors, the Chief Executive Officer, the Chief Financial Officer, or any of their relatives.

COMPOSITION OF THE BOARD OF DIRECTORS

The Board is comprised of the following members:

Name	Position	Classification	Membership in other listed Companies
Mr. Abdallah S. Jum'ah	Chairman	Non-Executive	Zamil Industrial Investment
Mr. Abdulaziz Al-Khamis	Vice Chairman	Non-Executive	National Petrochemical – Saudi International Petrochemical
Mr. Abdulrahman Al-Rawwaf	Board Member	Non-Executive	-
Dr. Abdulraouf Mannaa	Board Member	Non-Executive	SAVOLA Group – Al-Marai – Herfi Food Ser. Co. - Knowledge Economic City

Name	Position	Classification	Membership in other listed Companies
Mr. Mishari Al-Mishari	Board Member	Non-Executive	Saudi Re for Cooperative Reinsurance
Mr. Saleh Al- Athel	Board Member	Independent	Saudi Telecom Company
Dr. Fouad Al Saleh	Board Member	Non-Executive	Saudi Projacs
Dr. Abdulaziz Alnowaiser	Board Member	Independent	-
Mr. Muhammed Al- Ali	Board Member	Independent	-

- Mr. Mohammad Al Ali joined the board on July 1, 2014; his appointment will be presented to the upcoming general assembly announced for on 2015.

The Board of Directors has the following committees:

- The Executive Committee is comprised of five Board members. This committee supervises the credit and financial policies of the Bank.
- The Audit Committee is comprised of five members: two Board members and three non-Board members. The Audit Committee's activities include supervising the Bank's Internal Audit function, recommending the appointment of the external auditors, overseeing the Compliance Committee, and related activities.
- The Nomination and Remuneration Committee is comprised of four Board members. This committee is responsible for recommending to the Board of Directors appointments to membership of the Board in accordance with the approved policies and standards, reviewing on an annual basis the requirements for the suitable skills for membership of the Board of Directors, and reviewing the structure of the Board of Directors and recommending changes thereto. It is also responsible to recommend to the Board the approval of the Bank's compensation policy and amendments thereto, and other activities related to the Bank's compensation policies and guidelines.
- The Risk Committee is comprised of five Board members. This committee supervises the risk management activities of the Bank including market, credit, and operational risks.

The composition of the four Board Committees is presented below:

Executive Committee	Audit Committee	Nomination and Remuneration Committee	Risk Committee
Mr. Abdulaziz Al-Khamis, (Chairman)	Dr. Abdulraouf Mannaa, (Chairman)	Mr. Abdulrahman Al-Rawwaf, (Chairman)	Mr. Abdulaziz Al-Khamis, (Chairman)
Mr. Abdulrahman Al-Rawwaf	Mr. Muhammad Al Ali	Dr. Fouad Al-Saleh	Mr. Abdulrahman Al-Rawwaf
Dr. Fouad Al-Saleh	Mr.Abdullah Al-Anizi (non-board)	Mr. Mishari Al-Mishari	Dr. Fouad Al-Saleh
Mr. Mishari Al-Mishari	Mr. Mnahi Al-Muraki (non-board)	Mr. Saleh Al- Athel	Mr. Mishari Al-Mishari
Mr. Abdulaziz Alnowaiser	Mr. Saleh Al-Khulaifi (non-board)		Mr. Abdulaziz Alnowaiser

*the committee was established on June 1, 2014.

DIRECTORS' ATTENDANCE

Five Board of Directors meetings were held during 2014 as follows:

Date of Meeting	Members Attended
March 9, 2014	Abdallah S. Jum'ah, Abdulrahman Al-Rawwaf, Mishari Al-Mishari, Dr. Abdulraouf Mannaa, Abdulaziz Al-Khamis, Dr. Abdulaziz Alnowaiser, Saleh Al- Athel
June 1, 2014	Abdallah S. Jum'ah, Abdulrahman Al-Rawwaf, Mishari Al-Mishari, Abdulaziz Al-Khamis, Dr Fouad Al-Saleh, Dr Abdulraouf Mannaa, Saleh Al- Athel, Dr Abdulaziz Alnowaiser,
September 10, 2014	Abdallah S. Jum'ah, Abdulrahman Al-Rawwaf, Mishari Al-Mishari, Abdulaziz Al-Khamis, Dr Fouad Al-Saleh, Dr Abdulraouf Mannaa, Saleh Al- Athel, Dr Abdulaziz Alnowaiser, Mohammad Al Ali
December 3, 2014	Abdallah S. Jum'ah, Abdulrahman Al-Rawwaf, Mishari Al-Mishari, Abdulaziz Al-Khamis, Dr Fouad Al-Saleh, Dr Abdulraouf Mannaa, Saleh Al- Athel, Dr Abdulaziz Alnowaiser, Mohammad Al Ali
December 15, 2014	Abdallah S. Jum'ah, Abdulrahman Al-Rawwaf, Mishari Al-Mishari, Abdulaziz Al-Khamis, Dr Fouad Al-Saleh, Dr Abdulraouf Mannaa, Saleh Al- Athel, Dr Abdulaziz Alnowaiser, Mohammad Al Ali

Twelve Executive Committee meetings were held during 2014 as follows:

Date of Meeting	Members Attended
January 26, 2014	Abdulaziz Al-Khamis, Abdulrahman Al-Rawwaf, Mishari Al-Mishari, Dr. Abdulaziz Alnowaiser, Dr. Fouad Al-Saleh
February 24, 2014	Abdulaziz Al-Khamis, Abdulrahman Al-Rawwaf, Dr. Abdulaziz Alnowaiser, Dr. Fouad Al-Saleh
March 17, 2014	Abdulaziz Al-Khamis, Abdulrahman Al-Rawwaf, Mishari Al-Mishari, Dr. Abdulaziz Alnowaiser, Dr. Fouad Al-Saleh
April 20, 2014	Abdulaziz Al-Khamis, Abdulrahman Al-Rawwaf, Mishari Al-Mishari, Dr. Abdulaziz Alnowaiser, Dr. Fouad Al-Saleh
May 18, 2014	Abdulaziz Al-Khamis, Abdulrahman Al-Rawwaf, Mishari Al-Mishari, Dr. Abdulaziz Alnowaiser, Dr. Fouad Al-Saleh
June 1, 2014	Abdulaziz Al-Khamis, Abdulrahman Al-Rawwaf, Mishari Al-Mishari, Dr. Abdulaziz Alnowaiser, Dr. Fouad Al-Saleh
July 6, 2014	Abdulaziz Al-Khamis, Abdulrahman Al-Rawwaf, Mishari Al-Mishari, Dr. Abdulaziz Alnowaiser, Dr. Fouad Al-Saleh
September 9, 2014	Abdulaziz Al-Khamis, Abdulrahman Al-Rawwaf, Mishari Al-Mishari, Dr. Abdulaziz Alnowaiser, Dr. Fouad Al-Saleh
September 21, 2014	Abdulaziz Al-Khamis, Abdulrahman Al-Rawwaf, Mishari Al-Mishari, Dr. Abdulaziz Alnowaiser, Dr. Fouad Al-Saleh

Date of Meeting	Members Attended
October 30, 2014	Abdulaziz Al-Khamis, Abdulrahman Al-Rawwaf, Mishari Al-Mishari, Dr. Abdulaziz Alnowaiser, Dr. Fouad Al-Saleh
November 26, 2014	Abdulaziz Al-Khamis, Abdulrahman Al-Rawwaf, Mishari Al-Mishari, Dr. Abdulaziz Alnowaiser, Dr. Fouad Al-Saleh
December 25, 2014	Abdulaziz Al-Khamis, Abdulrahman Al-Rawwaf, Mishari Al-Mishari, Dr. Abdulaziz Alnowaiser, Dr. Fouad Al-Saleh

Two Nomination and Remuneration Committee meeting was held during 2014 as follows:

Date of Meeting	Members Attended
January 15, 2014	Abdulrahman Al-Rawwaf, Dr. Fouad Al-Saleh and Saleh Al- Athel, Mishari Al-Mishari
November 26, 2014	Abdulrahman Al-Rawwaf, Dr. Fouad Al-Saleh and Saleh Al- Athel, Mishari Al-Mishari

Four Audit Committee meetings were held during 2014 as follows:

Date of Meeting	Members Attended
March 6, 2014	Dr. Abdulraouf Mannaa, Saleh Al-Khulaifi, Abdullah Al-Anizi, Mnahi Al-Muraki, Saleh Al-Athel
June 1, 2014	Dr. Abdulraouf Mannaa, Saleh Al-Khulaifi, Abdullah Al-Anizi, Mnahi Al-Muraki, Saleh Al-Athel
September 9, 2014	Dr. Abdulraouf Mannaa, Saleh Al-Khulaifi, Abdullah Al-Anizi, Mnahi Al-Muraki, Saleh Al-Athel
December 14, 2014	Dr. Abdulraouf Mannaa, Saleh Al-Khulaifi, Abdullah Al-Anizi, Mnahi Al-Muraki, Muhammad Al Ali

One Risk Committee meeting was held during 2014 as follows:

Date of Meeting	Members Attended
November 26, 2014	Abdulaziz Al-Khamis, Abdulrahman Al-Rawwaf, Mishari Al-Mishari, Dr. Abdulaziz Alnowaiser, Dr. Fouad Al-Saleh

DIRECTORS' AND SENIOR EXECUTIVES' REMUNERATION (in SAR'000)

	Six Senior Executives who Received the Highest Remuneration including the CEO and CFO	Independent and Non-Executive Board Members	Executive Board Member
Remuneration	13,686	3,489	-
Allowances	5,922	660	-
Any Other Remuneration payable monthly or yearly	12,236	-	-

BOARD OF DIRECTORS' DECLARATION

The Board of Directors hereby declares that to the best of its knowledge and belief and in all material respects:

- Proper books of account have been maintained;
- The system of internal control is sound in design and has been effectively implemented; and
- There are no significant doubts concerning the bank's ability to continue as a going concern.

AUDITORS

The Extraordinary General Assembly meeting held on April 1, 2014 appointed PricewaterhouseCoopers and Deloitte & Touche as the Bank's auditors for the financial year 2014.

CORPORATE GOVERNANCE IN THE KINGDOM OF SAUDI ARABIA

The Bank substantially complies with all the corporate governance guidelines issued by SAMA in March 2014

The Bank also complies with the guidelines included in the Rules Governing the Companies in the Kingdom of Saudi Arabia issued by the Capital Market Authority on 21/10/1427H corresponding to 12/11/2006G, except for the following:

Rule No.	Rule Requirements	Reason for non-application
Article 6 (d)	Investors who are judicial persons and who act on behalf of others - e.g. investment funds- shall disclose in their annual reports their voting policies, actual voting, and ways of dealing with any material conflict of interests that may affect the practice of the fundamental rights in relation to their investments.	The Bank has no authority over those shareholders with corporate capacity obliging them to disclose their voting and investment policies. Also those investments are immaterial relative to the Bank's total equity.

ACCOUNTING STANDARDS

The Bank follows the Accounting Standards for Financial Institutions promulgated by the Saudi Arabian Monetary Agency (SAMA) and International Financial Reporting Standards (IFRS). The Bank also prepares its consolidated financial statements in compliance with the Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia, and the Bank's Articles of Association.

ANNUAL REVIEW OF THE EFFECTIVENESS OF INTERNAL CONTROL

The Bank's internal control system includes the Bank's Internal Audit, Compliance, and Risk Management Departments. These departments cover all aspects of the internal controls followed by the Bank. This is accomplished through proper mechanisms available to assist in achieving the desired goals of the Bank, while not affecting the objectivity and independence of these departments. These departments operate in accordance with the requirements and supervisory controls provided through the regular annual work plan approved by the relevant committees, which are all under the framework of compliance requirements issued by SAMA.

The Bank's management supports these departments and ensures the effectiveness and integrity of internal control procedures, taking into consideration all internal and external regulations without conflict.

As a result of this control framework, no material issues were reported.

COMMUNITY SERVICE AND SUSTAINABILITY

As Saudi Arabia continues to develop and grow as a regional and global leader, our role as a major financial institution in the Kingdom is paramount. The needs of our shareholders, customers and the communities we serve are changing, and we must continue to adapt and improve our services and products in order to ensure our sustainable development.

Sustainability enables us to consider our impact from many perspectives. Sustainability management draws on our economic, social, and environmental management. The Bank's annual sustainability report presents our performance and commitments in these areas to all of our stakeholders. Our sustainability framework is defined by five key pillars that guide our operations across the business. These pillars include Takleef, Nummow, Rea'ya, Hifth and Awn.

Over the last few years we have made great progress as a leader in the financial sector in the Kingdom of Saudi Arabia. Today, we provide greater access to finance, with dedicated branches and more customers than ever before. We have equally demonstrated an increased capacity in contributing to our social and natural environments. We consider it our social responsibility to contribute to our local communities, and to furthering the development of the Kingdom of Saudi Arabia. We have continued to support social ventures in environmental awareness-raising and financial literacy capacity development.

From an environmental perspective, we have also successfully reduced water and electricity costs per full-time employee in the Bank. Furthermore, we have invested in paper saving mechanisms and endeavored to reduce our fuel consumption to help preserve limited natural resources.

Some of our Corporate Social Responsibilities (CSR) initiatives in 2014 are summarized below.

Launching of the FlexxBike bike sharing project in Dammam, Jeddah and AlAhsa. The Bank introduced the bike sharing concept in the Kingdom as part of its continued efforts to contribute to the community and build sustainable projects. The bike sharing project involved distributing bikes in several cities in the Kingdom allowing the users to rent bicycles free of charge as a means of exercise or transportation.

Sponsoring the International Diabetes day event for staff and customers. For the second year, the Bank built awareness and educated its staff and customers about diabetes in a fun and interactive way.

Supplying wheelchairs for King Faisal Specialist Hospital and Research Centre, awarding 30 Scholarships to students enrolled in Prince Sultan University, and Sponsoring the International Orphans Day along with the Ministry of Social Affairs.

Sponsoring the Itaam Ramadan campaign for leftover food. During the month of Ramadan, the Bank partnered with Itaam to educate housewives about the packing and distribution of leftover food to needy families and charitable organizations.

Sponsoring the municipality Eid activities in Jeddah, Khobar, and Dammam. The Bank is committed to supporting municipalities year long and especially during the Eid activities to bring joy and happiness to the visitors of the main cities.

Sponsoring the International Civil Defence Day for the second year as part of the International Civil Defence Day. As part of this project, the Bank distributed Fireman hats to children allowing them to pretend to be a Fireman for a day.

Sponsoring the Ramadan activities for the Deaf. Several initiatives have taken place during the year but this one is very special due to the talent and determination of the participants in the different contests who have overcome their challenges and disabilities and delivered amazing achievements.

CONCLUSION

It is a pleasure, once again, for the Board of Directors to express its gratitude to the Government of the Custodian of the Two Holy Mosques, and in particular to the Ministry of Finance and National Economy, as well as to the Saudi Arabian Monetary Agency and the Capital Market Authority, for their continued and constructive support. The Board of Directors would also like to thank its shareholders for their cooperation. The Board of Directors acknowledges with appreciation the confidence of the Bank's clients and shareholders, and finally the dedication and loyalty of the Bank's officers and staff.

TEN-YEAR FINANCIAL HIGHLIGHTS

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Summary of Statement of Income (SAR Millions).										
Total income	2,610	2,178	1,868	1,709	1,844	1,633	1,938	1,635	2,556	1,516
Total expense	943	762	632	628	570	556	428	484	454	352
Operating profit	1,667	1,416	1,236	1,081	1,274	1,077	2,510	1,151	2,103	1,164
Impairment Charges	231	129	324	373	845	555	997	329	97	100
Net income	1,436	1,287	912	708	429	522	513	822	2,006	1,064
Summary of Balance Sheet (SAR Millions).										
Loans and advances, net	57,473	47,567	34,051	27,114	31,002	29,785	29,556	23,129	20,691	19,794
Investments, net	22,397	17,696	10,912	8,893	8,060	10,737	12,731	15,811	11,777	11,276
Investments in Associates	846	1,071	966	895	865	817	719	562	-	-
Total assets	93,626	80,495	59,067	51,946	51,491	50,148	53,596	46,542	40,845	39,581
Customers' deposits	70,733	57,044	40,414	36,770	37,215	38,247	40,702	32,768	27,931	27,858
Total shareholders' equity	11,852	10,253	9,379	8,557	8,141	7,428	6,609	6,770	6,001	5,307
RATIOS (%)										
Return on shareholders' equity	13.00	13.11	10.17	8.48	5.51	7.43	7.67	12.88	35.48	24.14
Return on assets	1.65	1.84	1.64	1.37	0.84	1.01	1.03	1.88	4.99	3.12
Capital adequacy	17.08	15.12	17.62	19.12	17.29	14.48	13.71	21.91	24.71	22.56
shareholders' Equity to total assets	12.66	12.74	15.88	16.47	15.81	14.81	12.33	14.55	14.69	13.41

FINANCIAL STATEMENTS & AUDITORS' REPORT

December 31, 2014 and 2013

Consolidated Statement of Financial Position
As of December 31, 2014 and 2013

	Notes	2014 SAR'000	2013 SAR'000
ASSETS			
Cash and balances with SAMA	4	**9,127,694**	6,307,029
Due from banks and other financial institutions	5	**879,496**	5,573,529
Investments, net	6	**22,396,949**	17,696,495
Loans and advances, net	7	**57,472,514**	47,566,871
Investments in associates	8	**846,351**	1,070,648
Property and equipment, net	9	**909,622**	872,534
Other assets	10	**1,993,814**	1,408,307
Total assets		**93,626,440**	80,495,413
LIABILITIES AND EQUITY			
Liabilities			
Due to banks and other financial institutions	12	**5,002,088**	9,828,232
Customer deposits	13	**70,733,411**	57,043,847
Term loans	14	**2,000,000**	2,000,000
Subordinated debt	15	**2,000,000**	-
Other liabilities	16	**2,038,809**	1,370,559
Total liabilities		**81,774,308**	70,242,638
Equity			
Share capital	17	**6,000,000**	5,500,000
Statutory reserve	18	**3,613,000**	3,253,000
Other reserves		**608,891**	(33,664)
Retained earnings		**1,139,792**	1,085,313
Proposed dividends	26	**522,000**	477,500
Employee stock option shares	37	**(31,551)**	(29,374)
Total equity		**11,852,132**	10,252,775
Total liabilities and equity		**93,626,440**	80,495,413

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

Consolidated Income Statement
for the years ended December 31, 2014 and 2013

	Notes	2014 SAR'000	2013 SAR'000
Special commission income	20	**2,165,786**	1,884,161
Special commission expense	20	**626,231**	519,179
Net special commission income		**1,539,555**	1,364,982
Fee income from banking services, net	21	**486,529**	394,205
Exchange income, net		**52,530**	58,415
Dividend income	22	**35,366**	21,963
Gains on non-trading investments, net	23	**412,858**	158,175
Other income		**4,338**	18,925
Total operating income		**2,531,176**	2,016,665
Salaries and employee-related expenses	24	**531,405**	439,020
Rent and premises-related expenses		**105,256**	98,017
Depreciation and amortization	9	**68,895**	71,697
Other general and administrative expenses		**237,356**	152,922
Impairment charge for credit losses, net	7(b)	**221,300**	105,000
Impairment charge for non-trading investments, net	6(f)	**10,000**	24,000
Total operating expenses		**1,174,212**	890,656
Income from operating activities		**1,356,964**	1,126,009
Share in earnings of associates	8(b)	**79,515**	160,825
Net income for the year		**1,436,479**	1,286,834
Basic and diluted earnings per share (expressed in SAR per share)	25	**2.39**	2.14

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

Consolidated Statement of Comprehensive Income
for the years ended December 31, 2014 and 2013

	2014 SAR'000	2013 SAR'000
Net income for the year	1,436,479	1,286,834
Other comprehensive income - items that may subsequently be reclassified to the consolidated income statement:		
Available for sale investments:		
- Net change in fair value	830,864	162,958
- Fair value gain transferred to consolidated income statement on disposal	(188,907)	(158,175)
Share of other comprehensive income of associates	598	545
Total other comprehensive income for the year	642,555	5,328
Total comprehensive income for the year	2,079,034	1,292,162

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

Consolidated Statement of Changes in Equity
for the years ended December 31, 2014 and 2013

	Notes	2014 (SAR'000) Share capital	Statutory reserve	Other reserves	Retained earnings	Proposed dividends	Employee stock option shares	Total equity
Balance at the beginning of the year		5,500,000	3,253,000	(33,664)	1,085,313	477,500	(29,374)	10,252,775
Total comprehensive income for the year		-	-	642,555	1,436,479	-	-	2,079,034
Dividends paid	26	-	-	-	-	(477,500)	-	(477,500)
Bonus shares issued	26	500,000	-	-	(500,000)	-	-	-
Proposed dividends	26	-	-	-	(522,000)	522,000	-	-
Employee stock option shares allocated		-	-	-	-	-	(29,614)	(29,614)
Employee stock option shares vested		-	-	-	-	-	27,437	27,437
Transfer to statutory reserve	18	-	360,000	-	(360,000)	-	-	-
Balance at the end of the year		6,000,000	3,613,000	608,891	1,139,792	522,000	(31,551)	11,852,132

	Notes	2013 (SAR'000) Share capital	Statutory reserve	Other reserves	Retained earnings	Proposed dividends	Employee stock option shares	Total equity
Balance at the beginning of the year		5,500,000	2,931,000	(38,992)	597,979	416,600	(27,761)	9,378,826
Total comprehensive income for the year				5,328	1,286,834			1,292,162
Dividends paid	26	-	-	-	-	(416,600)	-	(416,600)
Proposed dividends	26	-	-	-	(477,500)	477,500	-	-
Employee stock option shares allocated		-	-	-	-	-	(35,368)	(35,358)
Employee stock option shares vested		-	-	-	-	-	33,755	33,755
Transfer to statutory reserve	18	-	322,000	-	(322,000)	-	-	-
Balance at the end of the year		5,500,000	3,253,000	(33,664)	1,085,313	477,500	(29,374)	10,252,775

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

Consolidated Statement of Cash Flows
for the years ended December 31, 2014 and 2013

	Notes	2014 SAR'000	2013 SAR'000
OPERATING ACTIVITIES			
Net income for the year		1,436,479	1,286,834
Adjustments to reconcile net income to net cash from / (used in) operating activities			
Accretion of net discounts on non-trading investments, net		(59,382)	(35,279)
Gains on non-trading investments, net	23	(412,858)	(158,175)
(Gain) loss on sale of property and equipment		148	(757)
Depreciation and amortization	9	68,895	71,697
Impairment charge for credit losses, net	7(b)	221,300	105,000
Impairment charge for non-trading investments, net	6(f)	10,000	24,000
Share in earnings of associates	8(b)	(79,515)	(160,825)
		1,185,067	1,132,495
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA		(915,093)	(646,936)
Due from banks and other financial institutions maturing after ninety days from acquisition date		1,600,000	(700,000)
Loans and advances		(10,126,943)	(13,621,179)
Other assets		(615,121)	(339,893)
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		(4,826,144)	3,559,187
Customer deposits		13,689,564	16,630,276
Other liabilities		695,687	399,106
Net cash from operating activities		687,017	6,413,056
INVESTING ACTIVITIES			
Proceeds from sale of and matured non-trading investments		10,233,905	2,405,318
Purchases of non-trading investments		(13,560,426)	(9,015,615)
Investments in associates	8(b)	(53,999)	-
Dividends received from associates	8(b)	88,673	56,624
Purchases of property and equipment	9	(106,377)	(77,382)
Proceeds from sale of property and equipment		246	804
Net cash used in investing activities		(3,397,978)	(6,630,251)
FINANCING ACTIVITIES			
Proceeds from subordinated debt	15	2,000,000	-
Dividends paid	26	(477,500)	(416,600)
Net cash from (used in) financing activities		1,522,500	(416,600)
Decrease in cash and cash equivalents		(1,188,461)	(633,795)

Continued

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

Consolidated Statement of Cash Flows
for the years ended December 31, 2014 and 2013

Cash and cash equivalents	Notes	2014 SAR'000	2013 SAR'000
Cash and cash equivalents at the beginning of the year		7,866,584	8,500,379
Decrease in cash and cash equivalents		(1,188,461)	(633,795)
Cash and cash equivalents at the end of the year	27	6,678,123	7,866,584
Supplemental special commission information			
Special commission received during the year		2,256,912	1,919,506
Special commission paid during the year		591,404	543,818
Supplemental non-cash information			
Total other comprehensive income for the year		642,555	5,328
Employee stock option shares, net of allocation and vesting		(2,177)	(1,613)
Proposed dividends	26	522,000	477,500

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

1. General

The Saudi Investment Bank (the Bank), a Saudi Joint Stock Company, was formed pursuant to Royal Decree No. M/31 dated 25 Jumada II 1396H, corresponding to June 23, 1976 in the Kingdom of Saudi Arabia. The Bank operates under Commercial Registration No. 1010011570 dated 25 Rabie Awwal 1397H, corresponding to March 16, 1977 through its 48 branches (2013: 48 branches) in the Kingdom of Saudi Arabia. The address of the Bank's Head Office is as follows:

The Saudi Investment Bank
Head Office
P. O. Box 3533
Riyadh 11481, Kingdom of Saudi Arabia

The objective of the Bank is to provide a full range of banking services. The Bank also provides to its customers Shariah compliant (non-interest based) banking products and services, which are approved and supervised by an independent Shariah Board established by the Bank.

These consolidated financial statements include the financial statements of the Bank and the financial statements of the following subsidiaries (collectively referred to as the "Group"):

a) "Alistithmar for Financial Securities and Brokerage Company" (Alistithmar Capital), a limited liability company, registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010235995 issued on 8 Rajab 1428H (corresponding to July 22, 2007), and is 100% owned by the Bank;

b) "Saudi Investment Real Estate Company", a limited liability company, registered in the Kingdom of Saudi Arabia under commercial registration No.1010268297 issued on 29 Jumada Awal 1430H (corresponding to May 25, 2009) and is owned 100% by the Bank. The company has not commenced any significant operations; and

c) "Saudi Investment First Company", a limited liability company, registered in the Kingdom of Saudi Arabia under commercial registration No. 1010427836 issued on 16 Muharram 1436H (corresponding to November 9, 2014) and is owned 100% by the Bank. The company has not commenced any significant operations.

In December 2011, a business transfer agreement was completed between Alistithmar Capital and SAIB BNP Paribas Asset Management Company Limited (AMCO), a former subsidiary of the Bank, whereby Alistithmar Capital acquired the business and net assets of AMCO. All required regulatory actions to legally close AMCO were completed during 2014.

2. Basis of preparation

a) Statement of compliance

These consolidated financial statements are prepared in accordance with the Accounting Standards for Financial Institutions promulgated by the Saudi Arabian Monetary Agency (SAMA), and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). The Bank also prepares its consolidated financial statements to comply with the requirements of the Banking Control Law, the provisions of the Regulations for Companies in the Kingdom of Saudi Arabia, and the Bank's Articles of Association.

b) Basis of measurement

These consolidated financial statements are prepared under the historical cost basis except for the following items in the consolidated statement of financial position:

a) Assets and liabilities held for trading are measured at fair value;

2. Basis of preparation – continued

b) Financial instruments designated as fair value through the consolidated income statement are measured at fair value;
c) Available for sale investments are measured at fair value;
d) Recognized financial assets and financial liabilities designated as hedged items in qualifying fair value hedge relationships are adjusted for changes in fair value attributable to the risk being hedged; and
e) Liabilities for cash-settled share-based payment arrangements are measured at fair value.

During the years ended December 31, 2014 and 2013, the Group had no assets or liabilities which were held as trading, except for certain derivative financial instruments.

c) Functional and presentation currency

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

d) Critical accounting judgements, estimates and assumptions

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

(i) Impairment for credit losses on loans and advances

The Bank reviews its loan portfolios to assess specific and collective impairment at each reporting date. In determining whether an impairment loss should be recorded, the Bank makes judgements as to whether there is any observable data indicating an impairment trigger and followed by a measurable decrease in the estimated future cash flows. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group. Management uses estimates based on historical loss experience for loans with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its future cash flows. The methodology and assumptions used for estimating both the amount and the timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Fair values of financial instruments

The Group measures financial instruments, such as derivatives, at fair value at each consolidated statement of financial position date. Fair values of financial instruments measured at amortized cost are disclosed in Note 6.

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

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

2. Basis of preparation – continued

The principal or the most advantageous market must be accessible to by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

Level 1. Quoted prices in active markets for the same instrument that an entity can access at the measurement date (i.e., without modification or proxy);

Level 2. Quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data; and

Level 3. Valuation techniques for which any significant input is not based on observable market data.

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each financial reporting period.

The Group determines the policies and procedures for both recurring fair value measurement, such as unquoted available for sale financial assets, and for any non-recurring measurement, such as assets held for distribution in discontinued operations.

External valuers are involved from time to time for valuation of certain assets. Involvement of external valuers is decided upon annually. Selection criteria include market knowledge, reputation, independence, and whether professional standards are maintained.

At each financial reporting date, the Group analyzes the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the Group verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Group also compares the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics, and the related risks of the asset or liability, and the level of the fair value hierarchy as explained above.

(iii) Impairment of available-for-sale equity and debt investments

The Bank exercises judgement in considering impairment on the available-for-sale equity and debt investments. This includes determination of a significant or prolonged decline in the fair value below its cost. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. In assessing whether it is prolonged, the decline in fair value is evaluated against the period in which the fair value of the asset has been below its original cost at initial recognition. In making this judgement, the Bank evaluates among other factors, the normal volatility in share/debt price. In addition, the Bank considers impairment to be appropriate when there is objective evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

2. Basis of preparation – continued

(iv) Classification of held to maturity investments

The Bank classifies non-derivative financial assets with fixed or determinable payments and fixed maturities as held to maturity. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity.

(v) Determination of control over investees

The control indicators set out in note 3 (b) are subject to management's judgement. The Group also acts as Fund Manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the Fund (comprising any carried interests and expected management fees) and the investors' rights to remove the Fund Manager. As a result, the Group has concluded that it acts as an agent for the investors in all cases, and therefore has not consolidated the financial statements of these funds.

e) Going concern

The Group'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, management is not aware of any material uncertainties that may cast significant doubt on the Bank's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

f) Provisions for liabilities and charges

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

3. Summary of significant accounting policies

The significant accounting policies adopted in the preparation of these consolidated financial statements are set out below. Except for the change in accounting policies as detailed in note 3 (a) below, the accounting policies adopted in the preparation of these consolidated financial statements are consistent with those used in the previous year.

a) Change in accounting policies

The accounting policies adopted are consistent with those of the annual consolidated financial statements for the year ended December 31, 2013, as described in the annual consolidated financial statements for the year ended December 31, 2013, except for the adoption of the following new standards and other amendments to existing standards mentioned below:

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

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

3. **Summary of significant accounting policies – continued**

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

- IAS 39 amendment applicable from January 1, 2014 added a limited exception to IAS 39, to provide relief from discontinuing an existing hedging relationship when a novation that was not contemplated in the original hedging documentation meets specified criteria.

b) Basis of consolidation

These consolidated financial statements are comprised of 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. Changes are made to the accounting policies of the subsidiaries when necessary to align with the accounting policies of the Group.

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

A structured entity is an entity designed so that its activities are not governed by way of voting rights. In assessing whether the Group has power over such investees in which it has an interest, the Group considers factors such as purpose and design of the investee, its practical ability to direct the relevant activities of the investee, the nature of its relationship with the investee, and the size of its exposure to the variability of returns of the investee. The financial statements of any such structured entities are consolidated from the date the Group gains control and until the date when the Group ceases to control the investee.

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

The Group manages assets held in investment entities on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the Group controls the entity.

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

c) Investments in associates

Investments in associates are initially recognised at cost and subsequently accounted for under the equity method of accounting. Associates are enterprises in which the Bank generally holds approximately 20% to 50% of the voting power or over which it has significant influence and which is neither a subsidiary nor a joint venture.

Investments in associates are carried in the consolidated statement of financial position at cost, plus post-acquisition changes in the Bank's share of the net assets of the associates, less any impairment. Share in earnings of associates include the changes in the Bank's share of the net assets of the associates. The Bank's share of its associates post-acquisition profit or losses is recognized in the consolidated income statement.

3. **Summary of significant accounting policies – continued**

d) Settlement date accounting

All regular-way purchases and sales of financial assets are recognized and derecognized on the settlement date, i.e. the date the asset is delivered to the counterparty. When settlement date accounting is applied, the Bank accounts for any change in fair value between the trade date and the settlement date in the same way as it accounts for the acquired asset. Regular-way purchases or sales. are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

e) Derivative financial instruments and hedge accounting

Derivative financial instruments, including foreign exchange contracts, commission rate futures, forward rate agreements, currency and commission rate swaps, and currency and commission rate options (both written and purchased) are initially recognized at fair value on the date on which the derivatives contract is entered into and are subsequently re-measured at fair value in the consolidated statement of financial position with transactions costs recognized in the consolidated income statement. All derivatives are carried at their fair value as assets where the fair value is positive and as liabilities where the fair value is negative. Fair values are obtained by reference to quoted market prices, discounted cash flow models, and pricing models as appropriate.

The treatment of changes in their fair value depends on their classification into the following categories:

(i) Derivatives held for trading

Any changes in the fair value of derivatives that are held for trading purposes are taken directly to the consolidated income statement and disclosed in trading income. Derivatives held for trading also include those derivatives which do not qualify for hedge accounting including embedded derivatives.

(ii) Embedded derivatives

Derivatives embedded in other financial instruments are treated as separate derivatives and are recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through income statement. The embedded derivatives separated from the host are carried at estimated net fair value with changes in fair value recognised in the consolidated income statement.

(iii) Hedge accounting

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

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

In order to qualify for hedge accounting, the hedge should be expected to be highly effective. i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item, and should be reliably measurable. At inception of the hedge, the risk management objective and strategy are documented including the identification of the hedging instrument. the related hedged item, the nature of the risk being hedged, and how the Bank will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

3. Summary of significant accounting policies – continued

iii (a) Fair Value Hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognized asset or liability or a firm commitment that could affect the consolidated income statement, any gain or loss from re-measuring the hedging instruments to fair value is recognised immediately in the consolidated income statement together with the change in the fair value of the hedged item attributable to the hedged risk.

For hedged items measured at amortised cost, where the fair value hedge of a commission bearing financial instrument ceases to meet the criteria for hedge accounting or is sold, exercised or terminated, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the effective interest rate method. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated income statement.

iii (b) Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of a variability of cash flows attributable to a particular risk associated with a recognised asset or a liability or a highly probable forecasted transaction that could affect the consolidated income statement, the portion of the gain or loss on the hedging instrument that is determined to be an effective portion is recognised directly in other comprehensive income and the ineffective portion, if any, is recognised in the consolidated income statement. For cash flow hedges affecting future transactions, the gains or losses recognised in other reserves, are transferred to the consolidated income statement in the same period in which the hedged transaction affects the consolidated income statement. However, if the Bank expects that all or a portion of a loss recognized in other comprehensive income will not be recovered in one or more future periods, it reclassifies into the statement of income as a reclassification adjustment the amount that is not to be recognized.

Where the hedged transaction results in the recognition of a non-financial asset or a non-financial liability, then at the time such asset or liability is recognised, the associated gains or losses that had previously been recognised directly in other comprehensive income are included in the initial measurement of the acquisition cost or other carrying amount of such asset or liability.

When the hedging instrument is expired or sold, terminated or exercised, or no longer qualifies for hedge accounting, or the transaction is no longer expected to occur or the Bank revokes the designation, then hedge accounting is discontinued prospectively. At that point of time, any cumulative gain or loss on the cash flow hedging instrument that was recognised in other comprehensive income from the period when the hedge was effective is transferred from equity to the statement of income when the forecasted transaction occurs. Where the hedged transaction is no longer expected to occur and affects the statement of income, the net cumulative gain or loss recognised in other comprehensive income is transferred immediately to the consolidated income statement.

f) Foreign currencies

Transactions in foreign currencies are translated into Saudi Arabian Riyals at the 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 consolidated statement of financial position date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year. All differences arising on non-trading activities are taken to other non operating income in the consolidated income statement, with the exception of differences of foreign currency borrowings that provide an effective hedge against a net investment in foreign entity. Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement except for differences arising on the retranslation of available for sale equity instruments. Translation gains or losses on non-monetary items carried at fair value are included as part of the fair value adjustment either in the

3. Summary of significant accounting policies – continued

consolidated income statement or in other comprehensive income depending on the underlying financial asset.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

g) Offsetting financial instruments

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

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

h) Revenue / expense recognition

Special commission income and expense - Special commission income and expense for all special commission earning/bearing financial instruments, are recognised in the consolidated income statement on the effective yield basis. The effective yield is the rate that discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective special commission rate, the Group estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

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

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

The calculation of the effective yield takes into account all contractual terms of the financial instruments (prepayment, options etc.) and includes all fees and points paid or transaction costs, and discounts or premiums that are an integral part of the effective special commission rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Exchange income / Loss - Exchange income/loss is recognized when earned / incurred.

Fee income from banking services that are not an integral component of the effective yield calculation on a financial asset or liability are generally recognized on an accrual basis when the related service is provided. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportionate basis. Fees received on asset management, custody services and other similar services that are provided over an extended period of time, are recognized over the period when the service is being provided. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognized on a straight-line basis over the commitment period. Other fees and commission expense relate mainly to transaction and service fees, and are recognized as expenses as the services are received.

3. Summary of significant accounting policies – continued

Dividend income - Dividend income is recognised when the right to receive payment is established.

Net trading income - Results arising from trading activities include all gains and losses from changes in fair value and related special commission income or expense and dividends for financial assets and financial liabilities held for trading and foreign exchange differences. This includes any ineffectiveness recorded in hedging transactions.

i) Repurchase agreements and reverse repurchase agreements

Underlying assets sold with a simultaneous commitment to repurchase at a specified future date (repurchase agreements) continue to be recognized in the consolidated statement of financial position and are measured in accordance with related accounting policies for investments held as available for sale. The counter-party liability for amounts received under these agreements is included in "Due to banks and other financial institutions" or "Customer deposits", as appropriate. The difference between the sale and repurchase price is treated as special commission expense and accrued over the life of the repurchase agreement on an effective yield basis.

Underlying assets purchased with a corresponding commitment to resell at a specified future date (reverse repurchase agreements) are not recognised in the consolidated statement of financial position, as the Bank does not obtain control over the underlying assets. Amounts paid under these agreements are included in "Cash and balances with SAMA". The difference between the purchase and resale price is treated as special commission income and accrued over the life of the reverse repo agreement on an effective yield basis.

j) Investments

All investment securities are initially recorded at fair value, including any incremental direct transaction cost. Premiums are amortized and discounts are accreted using the effective yield basis and are taken to special commission income.

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

For securities where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the expected cash flows of the security. Where the fair values cannot be derived from active markets or reference prices, 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 judgement 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.

(i) Available for sale

Available for sale investments are those non-derivative equity and debt securities intended to be held for an unspecified period of time, which are neither classified as a held to maturity investment, loans and receivables, nor designated as FVIS, and which may be sold in response to needs for liquidity or changes in special commission rates, exchange rates, or equity prices.

3. Summary of significant accounting policies – continued

Investments which are classified as available for sale are subsequently measured at fair value. For an available for sale investment where the fair value has not been hedged, any gain or loss arising from a change in its fair value is recognized in other comprehensive income. On de-recognition, any cumulative gain or loss previously recognized in other comprehensive income is included in the consolidated income statement.

Special commission income is recognized in the consolidated income statement on an effective yield basis. Dividend income is recognized in the consolidated income statement when the right to receive payment is established. Foreign exchange gains or losses on available for sale debt security investments are recognized in the consolidated income statement.

A security held as available for sale may be reclassified to "other investments held at amortized cost" if it otherwise would have met the definition of "other investments held at amortized cost" and if the Group has the intention and ability to hold that financial asset for the foreseeable future or until maturity.

(ii) Held to maturity

Investments having fixed or determinable payments and a fixed maturity and for which the Bank has a positive intention and ability to hold to maturity are classified as held to maturity. Held to maturity investments are initially recognized at fair value including direct and incremental transaction costs and are subsequently measured at amortized cost, less provision for impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition using an effective yield basis. Any gain or loss on such investments is recognized in the consolidated income statement when the investment is derecognized or impaired.

Investments classified as held to maturity cannot ordinarily be sold or reclassified without impacting the Bank's ability to use this classification and cannot be designated as a hedged item with respect to commission rate or prepayment risk, reflecting the longer-term nature of these investments. However, sales or reclassifications would not impact the Group's ability to use this classification in any of the following circumstances:

- Sales or reclassifications that are so close to maturity that the changes in the market rate of the commission would not have a significant effect on the fair value;
- Sales or reclassifications after the Group has collected substantially all of the assets original principal; and
- Sales or reclassifications attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

k) Loans and advances

Loans and advances are non-derivative financial assets originated or acquired by the Bank with fixed or determinable payments. Loans and advances are recognized when cash is advanced to borrowers. They are derecognized when either borrowers repay their obligations, or the loans are sold or written off, or substantially all the risks and rewards of ownership are transferred.

All loans and advances are initially measured at fair value, including acquisition charges associated with the loans and advances.

Loans and advances originated or acquired by the Bank that are not quoted in an active market and for which fair value has not been hedged, are stated at amortized cost less any amount written off and allowance for credit losses.

3. Summary of significant accounting policies – continued

l) Impairment of financial assets

An assessment is made at each reporting date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired at the reporting date. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognised for changes in its carrying amount.

The Bank considers evidence of impairment for loans and advances and held to maturity investments at both a specific asset and collective level. When a financial asset is uncollectible, it is written off against the related provision for impairment either directly by a charge to the consolidated income statement or through a provision for impairment account. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted, and the amount of the loss has been determined.

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor'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 income statement and included in the relevant impairment charges.

Loans and advances whose terms have been renegotiated are no longer considered to be past due and are treated as new loans. Restructuring policies and practices are based on indicators or criteria which indicate that payment will most likely continue. The loans and advances continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective yield rate.

(i) Impairment of financial assets held at amortized cost

A financial asset or group of financial assets are classified as impaired when there is 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 where a 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.

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

In addition to specific provisions for credit losses, provisions for collective impairment are made on a portfolio basis. The collective impairment provisions are estimated based on various factors including credit ratings allocated to a borrower or group of borrowers, the experience the Bank has had in dealing with a borrower or group of borrowers and available historical default information. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions.

For financial assets at amortised cost, the carrying amount of the asset is adjusted either directly or through the use of an allowance account and the amount of the adjustment is included in the consolidated income statement.

(ii) Impairment of available for sale financial assets

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

3. **Summary of significant accounting policies – continued**

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

For equity investments held as available for sale, a significant or prolonged decline in fair value below its cost represents objective evidence of impairment. The impairment loss cannot be reversed through the 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 other comprehensive income. On derecognition, any cumulative gain or loss previously recognized in other comprehensive income is included in the consolidated income statement.

m) Impairment of non-financial assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining an asset's fair value less costs to sell, an appropriate valuation model is used. These model calculations are corroborated by valuation multiples, or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indications exist, the Bank estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversals are recognised in the consolidated income statement.

Impairment losses relating to goodwill are not reversed in future periods.

n) Other real estate

The Bank, in the ordinary course of business, acquires certain real estate against settlement of loans and advances. Such real estate is considered as held for sale and is initially stated at the lower of net realizable value of the loans and advances and the current fair value of the related properties, less any costs to sell, if material. No depreciation is charged on such real estate. Rental income from other real estate is recognized in the consolidated income statement.

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

o) Property and equipment

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

3. **Summary of significant accounting policies – continued**

Buildings	20 to 30 years
Leasehold improvements	Over the lease period or 5 years, whichever is shorter
Furniture, equipment and vehicles	4 to 5 years

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

p) Financial liabilities

All money market deposits, customer deposits, term loans, and other debt securities in issue are initially recognized at fair value less transaction costs.

Subsequently all commission-bearing financial liabilities other than those where fair values have been hedged 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 taken to special commission expense.

Financial liabilities in an effective fair value hedge relationship are adjusted for fair value changes to the extent of the risk being hedged. The resulting gain or loss is recognized in the consolidated income statement. For financial liabilities carried at amortized cost, any gain or loss is recognized in the consolidated income statement when derecognized.

q) Financial guarantees

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

r) 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 will be required to settle the obligation.

s) Accounting for leases

Leases entered into by the Bank as a lessee, are all operating leases. Payments made under operating leases are charged to the consolidated income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

t) Cash and cash equivalents

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

3. Summary of significant accounting policies – continued

u) 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 the contractual rights to receive the cash flows from the financial asset expires or the asset is transferred and the transfer qualities 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.

v) Zakat and income taxes

Zakat and income taxes are considered as liabilities of the Saudi and foreign shareholders, respectively. Zakat is computed on the Saudi shareholders' share of equity or net income using the basis defined under the Zakat regulations. Income taxes are computed on the foreign shareholders share of adjusted net income for the year under the income tax regulations.

Zakat and income tax are not charged to the Bank's consolidated income statement and are deducted from dividends paid to the shareholders, or reimbursed by the shareholders.

w) Employees' incentive plans

The Bank offers to its eligible employees ("Employees") equity shares in the Bank under an Employee Stock Grant Plan ("the Plan"). This Plan has been approved by SAMA. Under the terms of the Plan, employees are granted shares which vest over a four-year period. The cost of the Plan is measured by the value of the shares on the date purchased and recognized over the period in which the service condition is fulfilled using an appropriate valuation model, and ending on the vesting date. Employee share option shares are recorded by the Bank at cost and are presented as a deduction from the equity as adjusted for any transaction costs, dividends and gains or losses on sales of such shares. The Bank has entered into a custody agreement with an independent third party to administer the Plan on behalf of its employees. Under the provisions of the agreement, the Bank, at no point, becomes the legal owner of the underlying shares.

In addition, the Bank grants to its eligible employees other types of security and savings plans that are based on mutual contributions by the Bank and the employees. These contributions are paid to the participating employees at the respective maturity date of each plan.

x) Short term employee benefits

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

y) Asset management services

The Bank offers asset management services to its customers, through a subsidiary, which include management of certain investment funds in consultation with professional investment advisors. The Bank's share of these funds is included in available for sale investments and fees earned are included in fees from banking services, net.

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in the consolidated financial statements.

3. Summary of significant accounting policies – continued

z) Non-interest based banking products

In addition to conventional banking, the Bank offers to its customers certain non-interest based banking products, which are approved by its Shariah Board.

High level definitions of non-interest based products include:

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

ii. Istisna'a – an agreement between the Bank and a customer whereby the Bank sells to the customer a developed asset according to agreed upon specifications, for an agreed upon price.

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

All non-special interest based banking products are accounted for in conformity with the accounting policies described in these consolidated financial statements.

4. Cash and balances with SAMA

Cash and balances with SAMA are summarized as follows:

	2014 SAR'000	2013 SAR'000
Cash in hand	771,835	643,511
Reverse repurchase agreements and other balances with SAMA	5,026,792	3,249,544
Subtotal (note 27)	5,798,627	3,893,055
Statutory deposit	3,329,067	2,413,974
Total	9,127,694	6,307,029

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

5. Due from banks and other financial institutions

Due from banks and other financial institutions are summarized as follows:

	2014 SAR'000	2013 SAR'000
Current accounts	85,922	909,325
Money market placements	793,574	4,664,204
Total	879,496	5,573,529

6. Investments, net

a) Investment securities are classified as follows:

i) Available for sale

	2014 (SAR'000)			2013 (SAR'000)		
	Domestic	International	Total	Domestic	International	Total
Fixed rate securities	9,452,162	7,311,706	16,763,868	4,660,622	6,828,071	11,488,693
Floating rate securities	2,032,977	1,713,578	3,746,555	1,978,932	2,523,689	4,502,621
Equities	1,877,045	8,636	1,885,681	845,800	8,629	854,429
Mutual funds	30,845	-	30,845	36,495	-	36,495
Allowance for impairment	-	(30,000)	(30,000)	-	(22,786)	(22,786)
Available for sale, net	13,393,029	9,003,920	22,396,949	7,521,849	9,337,603	16,859,452

ii) Held to maturity

	2014 (SAR'000)			2013 (SAR'000)		
	Domestic	International	Total	Domestic	International	Total
Fixed rate securities	-	-	-	-	396,257	396,257
Floating rate securities	-	-	-	650,000	-	650,000
Allowance for impairment	-	-	-	-	(209,214)	(209,214)
Held to maturity, net	-	-	-	650,000	187,043	837,043

iii) Investments, net

	2014 (SAR'000)			2013 (SAR'000)		
	Domestic	International	Total	Domestic	International	Total
Fixed rate securities	9,452,162	7,311,706	16,763,868	4,660,622	7,224,328	11,884,950
Floating rate securities	2,032,977	1,713,578	3,746,555	2,628,932	2,523,689	5,152,621
Equities	1,877,045	8,636	1,885,681	845,800	8,629	854,429
Mutual funds	30,845	-	30,845	36,495	-	36,495
Allowance for impairment	-	(30,000)	(30,000)	-	(232,000)	(232,000)
Investments, net	13,393,029	9,003,920	22,396,949	8,171,849	9,524,646	17,696,495

Investments include SAR 2,896 million (2013: SAR 5,781 million), which have been pledged under repurchase agreements with other banks. The market value of these investments is SAR 2,968 million (2013: SAR 5,841 million).

6. Investments, net – continued

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

i) Available for sale

	2014 (SAR'000)			2013 (SAR'000)		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Fixed rate securities	8,576,911	8,186,957	16,763,868	7,879,925	3,608,768	11,488,693
Floating rate securities	1,580,322	2,166,233	3,746,555	2,895,598	1,607,023	4,502,621
Equities	1,875,545	10,136	1,885,681	844,300	10,129	854,429
Mutual funds	30,845	-	30,845	36,495	-	36,495
Allowance for impairment	-	(30,000)	(30,000)	-	(22,786)	(22,786)
Available for sale, net	12,063,623	10,333,326	22,396,949	11,656,318	5,203,134	16,859,452

ii) Held to maturity

	2014 (SAR'000)			2013 (SAR'000)		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Fixed rate securities	-	-	-	190,053	206,204	396,257
Floating rate securities	-	-	-	650,000	-	650,000
Allowance for impairment	-	-	-	(3,046)	(206,168)	(209,214)
Held to maturity, net	-	-	-	837,007	36	837,043

iii) Investments, net

	2014 (SAR'000)			2013 (SAR'000)		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Fixed rate securities	8,576,911	8,186,957	16,763,868	8,069,978	3,814,972	11,884,950
Floating rate securities	1,580,322	2,166,233	3,746,555	3,545,598	1,607,023	5,152,621
Equities	1,875,545	10,136	1,885,681	844,300	10,129	854,429
Mutual funds	30,845	-	30,845	36,495	-	36,495
Allowance for impairment	-	(30,000)	(30,000)	(3,046)	(228,954)	(232,000)
Investments, net	12,063,623	10,333,326	22,396,949	12,493,325	5,203,170	17,696,495

The unquoted securities above are principally comprised of Saudi Government Development Bonds, Saudi Treasury Bills, and certain Saudi Corporate Bonds. Equities reported under available for sale investments include unquoted shares of SAR 10.1 million (2013: SAR 10.1 million) that are carried at cost, as their fair value cannot be reliably measured.

6. Investments, net – continued

c) The analysis of unrealized gains and losses and fair values of held to maturity investments is as follows:

	2014 (SAR'000)				2013 (SAR'000)			
	Carrying Value	Gross Unrealized gains	Gross Unrealized losses	Fair Value	Carrying Value	Gross Unrealized gains	Gross Unrealized losses	Fair Value
Fixed rate securities	-	-	-	-	187,043	18,804	(8,016)	197,831
Floating rate securities	-	-	-	-	650,000	3,250	-	653,250
Total	-	-	-	-	837,043	22,054	(8,016)	851,081

d) The analysis of investments, net by counterparty is as follows:

	2014 SAR'000	2013 SAR'000
Government and quasi-Government	**10,718,035**	4,536,375
Corporate	**2,331,403**	3,825,332
Banks and other financial institutions	**9,347,511**	9,334,788
Total	**22,396,949**	17,696,495

e) The credit risk exposure of investments is as follows:

	2014 SAR'000	2013 SAR'000
Investment grade	**18,418,747**	14,509,938
Non investment grade	**457,796**	388,238
Unrated	**3,520,406**	2,798,319
Total	**22,396,949**	17,696,495

Investment grade securities generally have external ratings. Unrated investment securities include certain Saudi corporate securities, Saudi equities and mutual funds, and other private equity investments.

f) The movement of the allowance for impairment on investments is as follows:

	2014 SAR'000	2013 SAR'000
Balance at the beginning of the year	**232,000**	298,000
Provided during the year	**10,000**	24,000
Reversals for realized losses (Note 23)	**(212,000)**	(90,000)
Balance at the end of the year	**30,000**	232,000

7. Loans and advances, net

a) Loans and advances, net held at amortized cost are comprised of the following:

	2014 (SAR'000)				
	Overdraft	Consumer	Commercial	Others	Total
Performing loans and advances	5,442,780	11,604,600	40,587,490	223,841	57,858,711
Non performing loans and advances	303,869	132,526	-	-	436,395
Total loans and advances	5,746,649	11,737,126	40,587,490	223,841	58,295,106
Allowance for credit losses	(205,952)	(248,572)	(367,839)	(229)	(822,592)
Loans and advances, net	5,540,697	11,488,554	40,219,651	223,612	57,472,514

	2013 (SAR'000)				
	Overdraft	Consumer	Commercial	Others	Total
Performing loans and advances	4,260,481	9,368,077	34,168,744	78,629	47,875,931
Non performing loans and advances	298,732	96,283	-	-	395,015
Total loans and advances	4,559,213	9,464,360	34,168,744	78,629	48,270,946
Allowance for credit losses	(185,969)	(182,978)	(335,033)	(95)	(704,075)
Loans and advances, net	4,373,244	9,281,382	33,833,711	78,534	47,566,871

Loans and advances above include non-interest based banking products in respect of Murabaha agreements, Istisna'a and Ijarah which are stated at an amortized cost of SAR 30,593 million (2013: SAR 23,255 million).

b) The movement in the allowance for credit losses is as follows:

	2014 (SAR'000)			
	Overdraft	Consumer	Commercial	Total
Balance at the beginning of the year	185,969	182,978	335,128	704,075
Provided / (reversed) during the year	23,896	164,464	32,940	221,300
Bad debts written off, net	(3,913)	(130,078)	-	(133,991)
Recoveries of amounts previously written off	-	31,208	-	31,208
Balance at the end of the year	205,952	248,572	368,068	822,592

	2013 (SAR'000)			
	Overdraft	Consumer	Commercial	Total
Balance at the beginning of the year	352,288	72,562	391,638	816,488
Provided / (reversed) during the year	(67,602)	150,161	22,441	105,000
Bad debts written off, net	(98,717)	(50,941)	(78,990)	(228,648)
Recoveries of amounts previously written off	-	11,196	39	11,235
Balance at the end of the year	185,969	182,978	335,128	704,075

7. Loans and advances, net - continued

c) The credit quality of loans and advances is summarized as follows:

(i) Neither past due nor impaired loans and advances, net are as follows:

	2014 SAR'000	2013 SAR'000
Excellent	50,104	39,327
Strong	22,696,639	15,688,603
Average	14,881,701	14,151,192
Acceptable	7,368,613	7,697,214
Marginal	652,242	641,073
Watch	2,189	35,987
Unrated	11,478,991	9,094,885
Total	57,130,479	47,348,281

The loans and advances that are neither past due nor impaired are described as follows:

Excellent - leader in a stable industry. Better than peers' financials and cash flow. Has access to financial markets under normal market conditions.

Strong - strong market and financial position with a history of successful performance but certain exceptions exist. Financial fundamentals are still better than industry benchmarks. The entity would have access to financial markets under normal conditions.

Average - moderate degree of stability with industry or company specific risk factors. Financial fundamentals are sound within industry benchmarks. Access to financial markets is limited and the entity is susceptible to cyclical changes.

Acceptable - minor weaknesses in industry or company specific risk factors. Some financial fundamentals are inferior to industry benchmarks. Alternative financing could be available but this might be limited to private and institutional sources only.

Marginal - unfavorable industry or company specific risk factors exist. Operating performance and financials are marginal. Alternative sources of finance are unlikely. No new business can be contemplated with this category.

Watch - unfavorable industry or company specific risk factors exist. Risk of non-payment is high. Financial fundamentals are well below industry benchmarks and alternative sources of finance are extremely limited.

Unrated – unrated loans and advances consist of consumer loans with no past due balances.

(ii) Past due but not impaired loans and advances, net are as follows:

	2014 (SAR'000)		
	Overdraft and commercial	Consumer	Total
From 1 day to 30 days	63,144	65,222	128,366
From 31 days to 90 days	6,761	60,317	67,078
From 91 days to 180 days	5,591	-	5,591
More than 180 days	527,197	-	527,197
Total	602,693	125,539	728,232

7. Loans and advances, net – continued

	2013 (SAR'000)		
	Overdraft and commercial	Consumer	Total
From 1 day to 30 days	29,136	11,204	40,340
From 31 days to 90 days	101,817	46,217	148,034
From 91 days to 180 days	88,231	87,130	175,361
More than 180 days	163,915	-	163,915
Total	383,099	144,551	527,650

(iii) The economic sector risk concentrations for loans and advances and allowance for credit losses are as follows:

	2014 (SAR'000)			
	Performing	**Non performing**	**Allowance for credit losses**	**Loans and advances, net**
Government and quasi-Government	**380,590**	-	**(1,653)**	**378,937**
Banks and other financial services	**7,242,559**	-	**(58,956)**	**7,183,603**
Agriculture and fishing	**26,386**	-	**(175)**	**26,211**
Manufacturing	**6,471,749**	**21,024**	**(71,107)**	**6,421,666**
Mining and quarrying	**488,840**	-	**(3,939)**	**484,901**
Building and construction	**4,022,268**	-	**(39,945)**	**3,982,323**
Commerce	**14,020,695**	**165,677**	**(203,102)**	**13,983,270**
Transportation and communication	**1,775,033**	-	**(12,531)**	**1,762,502**
Services	**1,627,659**	**14,071**	**(33,802)**	**1,607,928**
Consumer loans	**11,604,600**	**132,526**	**(248,572)**	**11,488,554**
Other	**10,198,332**	**103,097**	**(148,810)**	**10,152,619**
Total	**57,858,711**	**436,395**	**(822,592)**	**57,472,514**

	2013 (SAR'000)			
	Performing	Non performing	Allowance for credit losses	Loans and advances, net
Government and quasi-Government	388,200	-	(3,882)	384,318
Banks and other financial services	2,530,785	-	(25,308)	2,505,477
Agriculture and fishing	750,683	3,913	(10,929)	743,667
Manufacturing	6,895,716	21,024	(86,790)	6,829,950
Mining and quarrying	419,885	-	(4,199)	415,686
Building and construction	4,712,652	-	(47,127)	4,665,525
Commerce	10,390,307	184,273	(170,199)	10,404,381
Transportation and communication	215,849	-	(2,158)	213,691
Services	2,896,237	14,051	(44,346)	2,865,942
Consumer loans	9,368,077	96,283	(182,978)	9,281,382
Other	9,307,540	75,471	(126,159)	9,256,852
Total	47,875,931	395,015	(704,075)	47,566,871

8. Investments in associates

Investments in associates represent the Bank's share of investments in entities where the Bank has significant influence. These investments are accounted for using the equity method of accounting.

(a) Investments in associates include the Bank's ownership interest in associated companies in the Kingdom of Saudi Arabia, as follows:

	2014	2013
Amex (Saudi Arabia) Limited ("AMEX")	50%	50%
Saudi Orix Leasing Company ("ORIX")	38%	38%
Amlak International for Finance and Real Estate Development Co. ("AMLAK")	32%	32%
Mediterranean and Gulf Cooperative Insurance and Reinsurance Co. (MedGulf)	-	19%

The Bank also has a 20% interest in Naeem Investment Company which has no operations.

(b) The movement of investments in associates is summarized as follows:

	2014 SAR'000	2013 SAR'000
Balance at beginning of the year	**1,070,648**	965,902
Investments	**53,999**	-
Transfer to available for sale investments	**(269,736)**	-
Share of earnings	**79,515**	160,825
Dividends	**(88,673)**	(56,624)
Share of other comprehensive income	**598**	545
Balance at end of the year	**846,351**	1,070,648

During the first quarter of 2014, the Bank transferred its investment in MedGulf from investments in associates to available for sale investments, because this investment no longer qualifies to be accounted for as an investment in an associate. This investment was recorded in available for sale investments at its estimated fair value at the time of transfer, with a corresponding gain equal to the difference between the estimated fair value and the carrying amount of the recorded investment in MedGulf. The resulting gain totaling SAR 223.9 million is included in gains on non-trading investments, net (see note 23).

(c) The Bank's share of the associates' financial statements is summarized below:

	2014 (SAR'000)		
	AMEX	**ORIX**	**AMLAK**
Total assets	**370,929**	**842,814**	**824,497**
Total liabilities	**244,008**	**500,392**	**491,455**
Total equity	**126,921**	**342,423**	**333,042**
Total income	**185,048**	**94,881**	**50,093**
Total expenses	**108,128**	**50,441**	**22,170**

8. Investment in associates - continued

	2013 (SAR'000)			
	AMEX	ORIX	AMLAK	Med Gulf
Total assets	186,761	701,819	609,622	242,852
Total liabilities	94,129	493,391	281,506	53,624
Total equity	92,632	208,428	328,116	189,228
Total income	161,353	82,241	40,711	(34,389)
Total expenses	96,206	44,164	17,428	2,178

9. Property and equipment, net

Property and equipment, net is summarized as follows:

	2014 and 2013 (SAR'000)				
	Land and buildings	Leasehold improvements	Furniture, equipment and vehicles	Total 2014	Total 2013
Cost					
Balance at the beginning of the year	948,604	60,950	406,412	1,415,966	1,345,303
Additions	5,750	21,909	78,718	106,377	77,382
Disposals	-	-	(2,638)	(2,638)	(6,719)
Balance at the end of the year	954,354	82,859	482,492	1,519,705	1,415,966
Accumulated depreciation					
Balance at the beginning of the year	176,146	46,726	320,560	543,432	478,407
Charge for the year	23,761	9,370	35,764	68,895	71,697
Disposals	-	-	(2,244)	(2,244)	(6,672)
Balance at the end of the year	199,907	56,096	354,080	610,083	543,432
Net book value					
As of December 31, 2014	754,447	26,763	128,412	909,622	
As of December 31, 2013	772,458	14,224	85,852		872,534

10. Other assets

Other assets are summarized as follows:

	2014 SAR'000	2013 SAR'000
Accrued special commission receivable:		
- Loans and advances	197,631	279,610
- Investments	116,283	117,433
- Banks and other financial institutions	872	9,350
Total accrued special commission receivable	314,786	406,393
Positive fair value of derivatives (note 11)	820,865	276,751
Zakat and income tax due from shareholders (note 26)	112,622	111,624
Other real estate	152,836	152,836
Customer receivables	160,047	202,341
Property and equipment pending completion	97,744	83,723
All other assets	334,914	174,639
Total	1,993,814	1,408,307

11. Derivatives

In the ordinary course of business, the Bank utilizes the following derivative financial instruments for trading and hedging purposes:

a) Swaps

Swaps are commitments to exchange one set of cash flows for another. For commission rate swaps, counterparties generally exchange fixed and floating rate commission payments in a single currency without exchanging notional amounts. For cross-currency commission rate swaps, notional amounts, and fixed and floating commission payments are exchanged in different currencies. The notional amounts can also vary based upon the agreed terms in the case of variable notional swaps.

b) Forwards and futures

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specified price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. Foreign currency and commission rate futures are transacted in standardized amounts on regulated exchanges and changes in futures contract values are settled daily.

c) Forward rate agreements

Forward rate agreements are individually negotiated commission rate contracts that call for a cash settlement for the difference between a contracted commission rate and the market rate on a specified future date, on a notional principal for an agreed period of time.

d) Options

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

The derivative financial instruments utilized are either held for trading or held for hedging purposes as described below:

a) Held for trading purposes

Most of the Bank's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers and banks in order, inter alia, to enable them to transfer, modify or reduce current and future risks. Positioning involves managing market risk positions with the expectation of profiting from favorable movements in prices, rates or indices. Arbitrage involves identifying, with the expectation of profiting from price differentials, between markets or products.

b) Held for hedging purposes

The Bank has adopted a comprehensive system for the measurement and management of risk. The risk management process involves managing the Bank's exposure to fluctuations in currency and commission rate risks to acceptable levels as determined by the Board of Directors and within the guidelines issued by SAMA.

The Board of Directors has established levels of currency risk by setting limits on counterparty and currency position exposures. Positions are routinely monitored and hedging strategies are used to ensure positions are maintained within the established limits. The Board of Directors has established the level of commission rate risk by setting limits on commission rate gaps for stipulated periods. Asset and liability commission rate gaps are reviewed on a periodic basis and hedging strategies are periodically used to reduce commission rate gap within the established limits.

11. Derivatives - continued

As part of its asset and liability management, the Bank uses derivatives for hedging purposes in order to optimize its own exposure to currency and commission rate risks. This is generally achieved by hedging specific transactions.

The Bank uses forward foreign exchange contracts to also apply various hedging strategies against specifically identified currency risks. In addition, the Bank uses commission rate swaps to hedge against the commission rate risk arising from specifically identified fixed commission-rate exposures.

The tables below summarize the positive and negative fair values of derivative financial instruments, together with the notional amounts, analyzed by the term to maturity and monthly average. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the year-end, do not necessarily reflect the amounts of future cash flows involved. The notional amounts are not indicative of the Bank's exposure to credit risk nor market risk.

The Bank has a put option arising from an existing master agreement entered into by the Bank relating to an associated company. The terms of the agreement give the Bank a put option that is exercisable from 2013 onwards for the remaining term of the agreement. The put option grants the Bank the right to receive a payment in exchange for its shares one year after the option, based on pre-determined formulas included in the agreement. As of December 31, 2014, the estimated fair value of this option is approximately SAR 215.1 million (2013: SAR 108.2 million), and has not been included in the table below.

c) Derivative financial instruments are summarized as follows:

			Notional amounts by term to maturity					
	2014 (SAR'000)							
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading:								
Forward foreign exchange contracts	2,640	2,600	4,790,212	655,161	4,135,051	-	-	6,674,310
Foreign exchange options	112,981	112,104	1,867,642	519,943	1,170,736	176,963	-	2,777,812
Commission rates swaps	356,028	360,102	3,752,291	-	150,000	600,000	3,002,291	3,505,412
Held as fair value hedges:								
Commission rate swaps	134,080	161,847	2,000,829	93,848	450,468	855,889	600,624	1,869,186
Total	605,729	636,653	12,410,974	1,268,952	5,906,255	1,632,852	3,602,915	14,826,720

			Notional amounts by term to maturity					
	2013 (SAR'000)							
	Positive fair value	Negative fair value	Notiona amount	Within 3 months	3 12 months	1 5 years	Over 5 years	Monthly average
Held for trading:								
Forward foreign exchange contracts	9,736	8,645	6,465,351	5,152,397	1,312,954	-	-	1,973,530
Foreign exchange options	82,970	82,599	1,921,591	66,446	168,000	1,687,145	-	424,424
Commission rates swaps	39,642	38,959	2,520,000	-	500,000	379,870	1,640,130	2,111,585
Held as fair value hedges.								
Commission rate swaps	36,208	84,817	2,546,252	220,000	927,130	1,399,122	-	2,133,583
Total	168,556	215,020	13,453,194	5,438,843	2,908,084	3,466,137	1,640,130	6,643,122

11. Derivatives - continued

The gains during the year on hedging instruments for fair value hedges were SAR 4.4 million (2013: gains of SAR 27.5 million). The losses on hedged items attributable to hedged risk were SAR 2.2 million (2013: losses of SAR 24.7 million).

The net negative fair value of all derivatives is approximately SAR 30.9 million (2013: SAR negative 46.5 million).

Approximately 97% (2013: 67%) of the positive fair value of the Bank's derivatives are entered into with financial institutions, and less than 38% (2013: 30%) of the positive fair value contracts are with any single counterparty at the consolidated statement of financial position date. Derivative activities are mainly carried out under the Bank's treasury segment.

12. Due to banks and other financial institutions

Due to banks and other financial institutions is summarized as follows:

	2014 SAR'000	2013 SAR'000
Current accounts	80,810	81,313
Repurchase agreements	2,513,672	4,387,664
Money market deposits	2,407,606	5,359,255
Total	5,002,088	9,828,232

13. Customer deposits

Customer deposits are summarized as follows:

	2014 SAR'000	2013 SAR'000
Demand	19,649,245	13,332,031
Savings	648,766	641,354
Time	49,392,429	42,111,729
Other	1,042,971	958,733
Total	70,733,411	57,043,847

Time deposits include deposits against sale of securities of SAR 1,130 million (2013: SAR 1,541) with agreements to repurchase the same at fixed future dates. Other customer deposits include SAR 428 million (2013: SAR 411 million) of margins held for irrevocable commitments.

The above amounts include foreign currency deposits (equivalent to Saudi Riyals) as follows:

	2014 SAR'000	2013 SAR'000
Demand	494,201	398,770
Savings	225,753	40,921
Time	9,564,383	16,505,126
Other	50,109	98,385
Total	10,334,446	17,043,202

14. Term loans

On May 30, 2011, the Bank entered into a five-year medium term loan facility agreement for an amount of SAR 1 billion for general corporate purposes. The facility has been fully utilized and is repayable in May 2016. On June 24, 2012, the Bank entered into another five-year medium term loan facility agreement for an amount of SAR 1 billion for general corporate purposes. The facility has been fully utilized and is repayable in September 2017.

The term loans bear commission at variable rates. The Bank has an option to effect early repayment of the term loans subject to the terms and conditions of the related agreements. The agreements above include covenants which require maintenance of certain financial ratios and other requirements, with which the Bank is in compliance as of December 31, 2014.

15. Subordinated debt

On June 5, 2014, the Bank concluded the issuance of a SAR 2 billion subordinated debt issue through a private placement of a Shariah compliant Tier II Sukuk in the Kingdom of Saudi Arabia. The Sukuk has a tenor of ten years with the Bank retaining the right to call the Sukuk at the end of the first five year period, subject to certain regulatory approvals. The Sukuk carries a half yearly profit equal to six month SIBOR plus 1.45%.

16. Other liabilities

Other liabilities are summarized as follows:

	2014 SAR'000	2013 SAR'000
Accrued special commission payable		
Banks and other financial institutions	**9,826**	15,253
– Customer deposits	**199,830**	141,050
Total accrued special commission payable	**209,656**	156,303
Negative fair value of derivatives (note 11)	**636,653**	215,020
End of service and other employee - related benefits	**324,196**	352,748
Accrued expenses and other reserves	**238,599**	317,953
Deferred special commission and fee income	**331,761**	204,826
All other liabilities	**297,944**	123,709
Total	**2,038,809**	1,370,559

17. Share capital

As of December 31, 2014, the authorized, issued and fully paid share capital of the Bank consists of 600 million shares of SAR 10 each. The ownership of the Bank's share capital is as follows:

	2014		2013	
	SAR'000	**%**	SAR'000	%
Saudi shareholders	**5,400,000**	**90.0**	4,950,000	90.0
Foreign shareholders:				
J.P. Morgan International Finance Limited	**450,000**	**7.5**	412,500	7.5
Mizuho Corporate Bank Limited	**150,000**	**2.5**	137,500	2.5
	6,000,000	**100**	5,500,000	100.0

During 2014, 50 million bonus shares were issued by the Bank increasing the issued number of shares outstanding from 550 million to 600 million shares (see note 26).

18. Statutory reserve

In accordance with Saudi Arabian Banking Control Law and the Articles of Association of the Bank, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid up capital of the Bank. Accordingly, SAR 360 million has been transferred from 2014 net income (2013: SAR 322 million). The statutory reserve is not available for distribution.

19. Commitments and contingencies

a) Legal proceedings

As of December 31, 2014, there were recurring legal proceedings outstanding against the Bank. No provision has been made in cases where professional legal advice indicates that it is not probable that any significant loss will arise. However, provisions are made for legal cases where management foresees the probability of an adverse outcome. As of December 31, 2014, the Bank's allowance for such cases totaled SAR 4.6 million.

b) Capital commitments

As of December 31, 2014, the Bank had capital commitments of SAR 35.3 million (2013: SAR 97.9 million) in respect of construction for new branches and expansion of its head office.

c) Credit related commitments and contingencies

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

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

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

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

Commitments to extend credit represent the unused portion of authorizations to extend credit, principally in the form of loans and advances, guarantees and letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss, which cannot readily be quantified, is expected to be considerably less than the total unused commitment as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of these commitments could expire or terminate without being funded.

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

	2014 (SAR'000)				
	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	1,239,336	1,129,443	5,171	-	2,373,950
Letters of guarantee	1,806,437	3,854,201	3,085,103	13,714	8,759,455
Acceptances	505,893	273,466	536	-	779,895
Irrevocable commitments to extend credit	-	-	84,606	243,647	328,253
Total	3,551,666	5,257,110	3,175,416	257,361	12,241,553

19. Commitments and contingencies - continued

	2013 (SAR'000)				
	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	1,495,897	884,077	327,468	-	2,707,442
Letters of guarantee	1,518,107	3,114,863	2,660,991	68,341	7,362,302
Acceptances	454,502	643,667	5,843	-	1,104,012
Irrevocable commitments to extend credit	-	-	277,606	241,723	519,329
Total	3,468,506	4,642,607	3,271,908	310,064	11,693,085

The outstanding unused portion of commitments as of December 31, 2014 which can be revoked unilaterally at any time by the Bank, amounts to SAR 24,698 million (2013: SAR 17,675 million).

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

	2014 SAR'000	2013 SAR'000
Government and quasi-Government	**6,842,955**	5,827,479
Corporate	**4,791,232**	5,273,684
Banks and other financial institutions	**298,964**	325,750
Other	**308,402**	266,172
Total	**12,241,553**	11,693,085

d) Assets pledged

Securities pledged under repurchase agreements with other banks include corporate, bank and non-government bonds. Assets pledged as collateral with other financial institutions as security are as follows:

	2014 (SAR'000)		2013 (SAR'000)	
	Assets	**Related Liabilities**	Assets	Related Liabilities
Available for sale investments	**2,895,543**	**2,513,672**	5,575,047	4,191,640
Held to maturity investments	**-**	**-**	206,220	196,024
Total	**2,895,543**	**2,513,672**	5,781,267	4,387,664

The pledged assets presented in the above table are those financial assets that may be repledged or resold by counter parties to whom they have been transferred. These transactions are conducted under terms that are usual and customary to standard securities borrowing and lending activities, as well as requirements determined by exchanges on which the Bank acts as an intermediary.

19. Commitments and contingencies - continued

e) Operating lease commitments

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

	2014 SAR'000	2013 SAR'000
Less than 1 year	30,343	27,635
1 to 5 years	82,326	75,282
Over 5 years	59,326	78,238
Total	171,995	181,155

20. Special commission income and expense

Special commission income and expense is summarized as follows:

	2014 SAR'000	2013 SAR'000
Special commission income:		
Available for sale investments	425,192	352,925
Held to maturity investments	11,570	30,478
Total investments	436,762	383,403
Loans and advances	1,662,355	1,420,317
Due from banks and other financial institutions	66,669	80,441
Total	2,165,786	1,884,161
Special commission expense:		
Customer deposits	434,544	380,195
Due to banks and other financial institutions	126,086	101,990
Term loans	36,492	36,994
Subordinated debt	29,109	-
Total	626,231	519,179

21. Fee income from banking services, net

Fee income from banking services, net is summarized as follows:

	2014 SAR'000	2013 SAR'000
Fee income:		
- Share trading and fund management	134,347	85,437
- Trade finance	105,458	99,561
- Corporate and retail finance	257,033	197,246
- Other banking services	43,520	38,186
Total fee income	540,358	420,430
Fee expense:		
- Custodial services	41,613	20,146
- Other banking services	12,216	6,079
Total fee expense	53,829	26,225
Fee income from banking services, net	486,529	394,205

22. Dividend income

Dividend income is summarized as follows:

	2014 SAR'000	2013 SAR'000
Dividends received from available for sale investments	35,366	21,963

23. Gains on non-trading investments, net

Gains on non-trading investments, net are summarized as follows:

	2014 SAR'000	2013 SAR'000
Realized non-trading investment and other gains	178,239	157,604
Gain on transfer of Medgulf investment to available for sale investments (note 8)	223,951	-
Impairment reserve reversals (note 6f)	212,000	90,000
Realized non-trading investment losses	(201,332)	(89,429)
Gains on non-trading investments, net	412,858	158,175

24. Compensation and related governance and practices

As required by SAMA, the following table summarizes the Bank's employee categories defined in accordance with SAMA's rules on compensation practices. It includes the total amounts of fixed and variable compensation paid to employees, and the forms of such payments, and also includes the variable and other compensation accrued, and other employee benefits and related expenses incurred during the years ended December 31, 2014 and 2013.

	2014 (SAR'000)				
Category	Number of Employees	Fixed Compensation	Variable Compensation		
			Cash	Shares	Total
Senior executives requiring SAMA no objection	19	33,559	16,500	4,492	20,992
Employees engaged in risk taking activities	134	61,125	14,683	4,090	18,773
Employees engaged in control functions	190	45,705	9,535	3,766	13,301
Other employees	1,135	196,435	35,921	9,839	45,760
Outsourced employees	85	9,660	1,898	99	1,997
Totals	1,563	346,484	78,537	22,286	100,823
Variable and other compensation accrued		108,276			
Other employee benefits and related expenses		76,645			
Total salaries and employee related expenses		531,405			

24. Compensation and related governance and practices - continued

Category	Number of Employees	2013 (SAR'000) Fixed Compensation	Variable Compensation Cash	Shares	Total
Senior executives requiring SAMA no objection	15	29,992	12,175	3,263	15,438
Employees engaged in risk taking activities	117	51,213	10,594	2,778	13,372
Employees engaged in control functions	168	39,763	7,512	1,736	9,248
Other employees	1,029	169,716	26,298	5,431	31,729
Outsourced employees	89	10,631	2,174	183	2,357
Totals	1,418	301,315	58,753	13,391	72,144
Variable and other compensation accrued		81,000			
Other employee benefits and related expenses		56,705			
Total salaries and employee related expenses		439,020			

The Board of Directors of the Bank has established a Nomination and Remuneration Committee (the Committee) which is comprised of four board members. The Committee is primarily responsible for recommending appointments to membership of the Board of Directors and key executives of the Bank in compliance with the Bank's Corporate Governance Guidelines, completing annual reviews for the requirements of suitable skills and independence for membership of the Bank's Board of Directors, reviewing the structure of the Board of Directors, establishing policies for the compensation and remuneration of members of the Board of Director's, and overseeing the Bank's employee compensation system's design.

The Committee is also responsible to recommend to the Board of Directors the approval of the Bank's Compensation Policy and any amendments thereto, to ensure the Bank's remuneration policies are in compliance with SAMA guidelines on compensation, to periodically review the Bank's remuneration and compensation policy, to evaluate practices by which compensation is paid, and to determine the performance bonuses for the Bank's employees based on the risk adjusted profit of the Bank.

The Bank's Remuneration and Compensation Policy is designed to attract, retain and motivate high potential employees. Employees participate in various variable pay arrangements. Discretionary variable pay as well as fixed pay reviews are dependent on the achievement of objectives. The Balanced Scorecard concept is used and objectives have typically been categorized into four segments including financial, customer, process, and people.

Financial and non-financial metrics are then used to measure performance against the objectives, which include profitability, expense control, customer satisfaction, employee development, lending guidelines, internal controls, and business systems and processes. Effective risk management is also emphasized to maintain a strong and secure operating platform. A Risk Appetite Framework Policy has been established and compliance thereto is key to all remuneration decisions including variable pay arrangements.

In addition to the above, the Bank's employees are encouraged to participate in employee share savings and incentive schemes. Certain employees are also covered under a Key Employee Stock Option Grant Plan.

The Bank's subsidiaries have adopted a similar approach to remuneration and compensation practices as described above, including policies within a framework of prudent risk management.

The total amount of compensation paid to key management for the year ended December 31, 2014 was SAR 54.6 million (2013: SAR 45.4 million). The post employment benefits accrued or paid to key management for the year ended December 31, 2014 was SAR 1.8 million (2013: SAR 3.0 million).

25. Basic and diluted earnings per share

Basic and diluted earnings per share for the year ended December 31, 2014 and 2013 are calculated by dividing the net income for the year by 600 million shares, after giving effect to the bonus shares issued in 2014 (see note 26). As a result, basic and diluted earnings per share for the year ended December 31, 2013 have been retroactively adjusted to reflect the issuance of the bonus shares.

26. Dividends, zakat and income tax

In 2014, the Board of Directors proposed a cash dividend of SAR 480 million equal to SAR 0.80 per share, net of Zakat to be withheld from the Saudi shareholders totalling SAR 42 million. The Board of Directors has also proposed a bonus share issue of 50 million shares with a par value of SAR 10 per share, or one bonus share for each twelve shares outstanding. The proposed cash dividend and bonus share issue will be presented for approval in an extraordinary general assembly meeting expected to convene in 2015.

In 2013, the Board of Directors proposed a cash dividend of SAR 440 million equal to SAR 0.80 per share, net of Zakat to be withheld from the Saudi shareholders totalling SAR 37.5 million. The Board of Directors also proposed a bonus share issue of 50 million shares with a par value of SAR 10 per share, or one bonus share for each eleven shares outstanding. The proposed cash dividend and bonus share issue were approved by the Bank's shareholders in an extraordinary general assembly meeting held on 1 Jumada' II (corresponding to April 1, 2014). The net dividends were paid and the bonus shares issued to the Bank's shareholders thereafter.

In 2012, The Board of Directors proposed a cash dividend of SAR 385 million equal to SAR 0.70 per share, net of Zakat to be withheld from the Saudi shareholders totalling SAR 31.6 million. The proposed dividend was approved by the Bank's shareholders in an ordinary general assembly meeting held on Rabi' II 29, 1434 (corresponding to March 11, 2013). The net dividends were paid to the Bank's shareholders thereafter.

Any future cash dividends to the Saudi and non-Saudi shareholders will be paid after deducting zakat and any unreimbursed income tax, as follows:

a) Saudi shareholders:

Zakat attributable to the Saudi shareholders for the years 2010 through 2013 amounts to approximately SAR 92.9 million. Estimated Zakat attributable to Saudi shareholders for 2014 is approximately SAR 32.7 million. The total Zakat attributable to Saudi shareholders through 2014 totaling approximately SAR 125.6 million will be deducted from their share of future dividends. The cumulative Zakat from 2010 through 2014 amounts to approximately SAR 0.23 per share.

b) Foreign shareholders:

Estimated Income Tax attributable to the non-Saudi shareholders for 2014 is approximately SAR 21.9 million. There is no unreimbursed income tax for the years prior to 2014.

The Bank has filed the required Income Tax and Zakat returns with the Department of Zakat and Income Tax which are due on April 30 each year, through the year ended December 31, 2013.

The Bank has received assessments for additional Zakat, Income tax, and withholding tax totalling approximately SAR 16.7 million relating to the Bank's 2003 through 2008 Zakat, Income tax, and withholding tax filings. The Bank has filed an appeal for these assessments. The Bank has also received assessments for additional Zakat totalling approximately SAR 383 million relating to the Bank's 2013, 2011 and 2010 Zakat filings. The assessments are primarily due to the disallowance of certain long-term investments from the Zakat base of the Bank. The Bank, in consultation with its Zakat advisors, has filed an appeal with the Department of Zakat and Income Tax, and is awaiting a response. The Bank, along with other Saudi Banks, has formally raised this issue with the Bank's regulator for a satisfactory resolution to this Saudi Banking Industry issue. At the current time, a reasonable estimation of the ultimate additional Zakat liability, if any, cannot be reliably determined.

27. Cash and cash equivalents

Cash and cash equivalents included in the statement of cash flows is comprised of the following:

	2014 SAR'000	2013 SAR'000
Cash and balances with SAMA excluding statutory deposit (note 4)	**5,798,627**	3,893,055
Due from banks and other financial institutions maturing within ninety days from the date of acquisition	**879,496**	3,973,529
Total	**6,678,123**	7,866,584

28. Business segments

Operating segments are identified on the basis of internal reports about components of the Bank that are regularly reviewed by the Bank's Board of Directors in its function as the Chief Decision Maker in order to allocate resources to the segments and to assess their performance.

Transactions between the operating segments are on normal commercial terms and conditions. The revenue from external parties reported to the Board is measured in a manner consistent with that in the consolidated income statement. There are no material items of income or expense between the operating segments. Segment assets and liabilities are comprised of operating assets and liabilities.

The Bank's primary business is conducted in the Kingdom of Saudi Arabia. The Bank's reportable segments are as follows:

Retail banking

Loans, deposits, and other credit products for individuals and small to medium-sized businesses.

Corporate banking

Loans, deposits and other credit products for corporate and institutional customers.

Treasury

Money market, investments, and other treasury services.

Asset management and brokerage

Dealing, managing, advising and custody of securities services.

Commission is charged to operating segments based on funds transfer price (FTP) rates. The net FTP contribution included in the segment information below includes the segmental net special commission income after FTP asset charges and liability credits. All other segment income is from external customers.

a) The segment information provided to the Bank's Board of Directors which includes the reportable segments for the Bank's total assets and liabilities of December 31, 2014 and 2013, its total operating income, total operating expenses, and net income for the years then ended, are as follows:

28. Business segments - continued

	2014 (SAR'000)				
	Retail Banking	Corporate Banking	Treasury	Asset Manage-ment and Brokerage	Total
Total assets	23,193,047	38,278,086	31,796,739	358,568	93,626,440
Total liabilities	16,980,001	12,107,762	52,664,308	22,237	81,774,308
Net FTP contribution	711,643	568,088	229,037	30,787	1,539,555
Fee income from banking services, net	147,490	229,703	15,144	94,192	486,529
Other operating income	63,753	29,951	404,635	6,753	505,092
Total operating income	922,886	827,742	648,816	131,732	2,531,176
Operating expenses before impairment charges	528,261	243,725	92,461	78,465	942,912
Impairment charges, net	77,087	144,213	10,000	-	231,300
Total operating expenses	605,348	387,938	102,461	78,465	1,174,212
Income from operating activities	317,538	439,804	546,355	53,267	1,356,964
Share in earnings from associates	-	-	79,515	-	79,515
Net income for the year	317,538	439,804	625,870	53,267	1,436,479

	2013 (SAR'000)				
	Retail Banking	Corporate Banking	Treasury	Asset Manage-ment and Brokerage	Total
Total assets	19,760,596	30,357,079	29,600,375	777,363	80,495,413
Total liabilities	19,283,662	5,184,039	45,738,965	35,972	70,242,638
Net FTP contribution	531,527	369,244	445,120	19,091	1,364,982
Fee income from banking services, net	113,936	208,071	6,621	65,577	394,205
Other operating income	32,725	28,039	182,169	14,545	257,478
Total operating income	678,188	605,354	633,910	99,213	2,016,665
Operating expenses before impairment charges	381,259	178,756	135,586	66,055	761,656
Impairment charges, net	28,392	76,608	24,000	-	129,000
Total operating expenses	409,651	255,364	159,586	66,055	890,656
Income from operating activities	268,537	349,990	474,324	33,158	1,126,009
Share in earnings from associates	-	-	160,825	-	160,825
Net income for the year	268,537	349,990	635,149	33,158	1,286,834

28. Business segments – continued

b) The Bank's credit exposure by business segment is as follows:

	2014 (SAR'000)				
	Retail Banking	Corporate Banking	Treasury	Asset Management and Brokerage	Total
Statement of consolidated financial position assets	**21,102,669**	**35,936,997**	**24,243,383**	**312,261**	**81,595,310**
Commitments and contingencies	**5,240,957**	**3,511,311**	**219,099**	-	**8,971,367**
Derivatives	-	-	**1,009,576**	-	**1,009,576**

	2013 (SAR'000)				
	Retail Banking	Corporate Banking	Treasury	Asset Management and Brokerage	Total
Statement of consolidated financial position assets	16,469,537	29,882,427	24,818,286	737,313	71,907,543
Commitments and contingencies	4,461,768	3,861,389	238,514	-	8,561,671
Derivatives	-	-	600,561	-	600,561

Credit exposure comprises the carrying value of consolidated statement of financial position assets excluding cash and balances with SAMA, property and equipment, and other assets. The credit equivalent value of commitments, contingencies and derivatives are included in credit exposure.

29. Credit risk

The Bank manages exposure to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities. There is also credit risk in off-statement of consolidated financial position financial instruments, such as loan commitments. The Bank assesses the probability of default of counterparties using internal rating tools. The Bank also uses the external ratings of major rating agencies, where available.

The Bank has a comprehensive framework for managing credit risk which includes an independent credit risk review function and credit risk monitoring process. The Bank seeks to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Bank's risk management policies are designed to identify and to set appropriate risk limits and to monitor the risks and adherence to limits. Actual exposures against limits are routinely monitored. In certain cases, the Bank may also close out transactions or assign them to other counterparties to mitigate credit risk. The Bank's credit risk for derivatives represents the potential cost to replace the derivative contracts if counterparties fail to fulfill their obligation, and to control the level of credit risk taken. The Bank assesses counterparties using the same techniques as for its lending activities.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

29. Credit risk – continued

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

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

The debt securities included in the investment portfolio are mainly corporate and sovereign risk. An analysis of investments by counter-party is provided in Note 6. The details of the composition of loans and advances are provided in Note 7. The information on credit risk relating to derivative instruments is provided in Note 11 and for commitments and contingencies in Note 19. The information on the Bank's credit exposure by business segment is provided in Note 28. The information on credit risk exposure and their relative risk weights is provided in Note 35.

The Bank uses a credit classification system as a tool to assist in managing the quality of credit risk within the lending portfolio. It maintains classification grades that differentiate between performing and impaired portfolios and allocates portfolio provisions and specific provisions, respectively. The Bank determines each individual borrower's grade based on specific objective and subjective financial and business assessments criteria covering debt service, profitability, liquidity, capital structure, industry, management quality, and company standing. The Bank conducts a quality classification exercise over all of its existing borrowers and the results of this exercise are validated by the independent Risk Management Unit established within the Bank for that purpose.

The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products, external economic environment, emerging best practices, and regulatory guidance.

30. Geographical concentration

a) The distribution by geographical region for significant assets, commitments and contingencies and credit exposures is as follows:

	2014 (SAR'000)						
	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	South East Asia	Other Countries	Total
ASSETS							
Cash and balances with SAMA	9,109,943	893	7,433	9,425	-	-	9,127,694
Due from banks and other financial institutions	500,000	261,359	73,290	43,375	711	761	879,496
Investments, net	13,175,242	6,407,319	947,139	1,679,179	-	188,070	22,396,949
Loans and advances, net	57,472,514	-	-	-	-	-	57,472,514
Investments in associates	846,351	-	-	-	-	-	846,351
Total	81,104,050	6,669,571	1,027,862	1,731,979	711	188,831	90,723,004
Commitments and contingencies	10,447,320	380,249	350,969	694,766	-	368,249	12,241,553
Maximum credit exposure (stated at credit equivalent amounts)							
Commitments and contingencies	7,380,247	311,568	291,914	684,084	-	303,554	8,971,367
Derivatives	218,726	64,953	725,897	-	-	-	1,009,576

30. Geographical concentration – continued

	2013 (SAR'000)						
	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	South East Asia	Other Countries	Total
ASSETS							
Cash and balances with SAMA	6,280,647	761	10,376	15,245	-	-	6,307,029
Due from banks and other financial institutions	2,900,096	1,109,696	726,056	535,551	2,042	77	5,573,529
Investments, net	7,982,038	5,999,112	1,423,285	2,058,803	-	233,257	17,696,495
Loans and advances, net	47,461,695	105,176					47,566,871
Investments in associates	1,070,648	-	-	-	-	-	1,070,648
Total	65,695,126	7,214,744	2,159,727	2,909,599	2,042	233,334	78,214,572
Commitments and contingencies	9,802,766	425,656	588,184	563,267	-	313,212	11,693,085
Maximum credit exposure (stated at credit equivalent amounts)							
Commitments and contingencies	7,066,393	272,213	455,454	529,911	-	237,700	8,561,671
Derivatives	152,364	46,914	401,283	-	-	-	600,561

Credit equivalent amounts reflect the amounts that result from translating the Bank's off-statement of consolidated financial position liabilities into the risk equivalent of loans, using credit conversion factors prescribed by SAMA. The credit conversion factor is intended to capture the potential credit risk related to the exercise of that commitment.

b) The distribution by geographical concentration of non-performing loans and advances and allowance for credit losses as of December 31, 2014 and 2013 are entirely in the Kingdom of Saudi Arabia.

31. Market risk

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

a) Market risk-trading book

The Board of Directors has set limits for the acceptable level of risks in managing the trading book. The Bank currently has trading book exposures in foreign exchange contracts and commission rate swaps.

b) Market risk-banking book

Market risk on the banking book mainly arises from commission rate risk, liquidity risk, currency risk, and equity price risk.

(i) Commission rate risk

Commission rate risk arises from the possibility that changes in commission rates will affect either the fair values or the future cash flows of the financial instruments and obligations. The Board of Directors has established commission rate gap limits for stipulated periods. The Bank monitors positions and uses hedging strategies to ensure maintenance of positions within the established gap limits.

31. Market risk - continued

The following table depicts the sensitivity to a reasonably plausible change in commission rates, with other variables held constant, on the Bank's consolidated income statement or equity. The reasonably plausible change is estimated based on the relevant commission rate movements during the last five years (2010-2014). A positive effect shows a potential net increase in the consolidated income or equity, whereas a negative effect shows a potential net reduction in consolidated income or equity.

The sensitivity of net special commission income is the effect of the assumed changes in commission rates on the net commission income for one year, based on the floating rate non-trading financial assets and financial liabilities held as of December 31, 2014 and 2013, including the effect of hedging instruments.

The sensitivity of equity is calculated by revaluing the fixed rate available for sale financial assets, including the effect of any associated hedges as of December 31, 2014 and 2013 for the effect of assumed changes in commission rates. The sensitivity of equity is analyzed by maturity of the asset or swap. The entire banking book exposures are monitored and analyzed by currency and relevant sensitivities and are disclosed in SAR thousands.

		2014 SAR'000	2014 Sensitivity of Equity (SAR'000)				
Currency	Increase (decrease) in basis	Sensitivity of net special commission income	6 months or less	6 to 12 months	1 to 5 years	Over 5 years	Total
SAR	+6/-34	-499/+2,829	-1,032/+5,843	-475 /+2,693	-	-3,058/+17,329	-4,565/+25,865
USD	+35/-1	-17,397/+497	-119/+3	-1,084/+30	-50,271/+1,433	-65,629/+1,875	-117,103/+3,341
EUR	+141/-13	+471/-43	-	-	-	-	-

		2013 SAR'000	2013 Sensitivity of Equity (SAR'000)				
Currency	Increase (decrease) in basis	Sensitivity of net special commission income	6 months or less	6 to 12 months	1 to 5 years	Over 5 years	Total
SAR	+157/-24	-1,824/+279	-5,005/+765	-3,988 /+610	-	-80,508/+12,307	-89,501/+13,682
USD	+100/-18	-90,408/+16,273	-214/+39	-638/+115	-31,469/+5,664	-52,394/+9,431	-84,715/+15,249
EUR	+200/-66	+4,269/-1,409	-	-	-	-	-

The Bank manages exposure to the effects of various risks associated with fluctuations in prevailing levels of market commission rates on its financial position and cash flows.

The Board of Directors sets limits on the level of mismatch of commission rate re-pricing that may be undertaken, which is monitored by the Treasury Unit.

The Bank is exposed to commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period. The Bank manages this risk by matching the re-pricing of assets and liabilities through commission rate risk management strategies.

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

31. Market risk - continued

	2014 (SAR'000)					
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total
Assets						
Cash and balances with SAMA	4,986,000	-	-	-	4,141,894	9,127,894
Due from banks and other financial institutions	879,496	-	-	-	-	879,496
Investments, net	5,094,873	5,581,560	4,737,576	4,006,506	1,976,434	22,396,949
Loans and advances, net	30,119,073	18,861,757	8,096,828	394,856	-	57,472,514
Investments in associates	-	-	-	-	846,351	846,351
Property and equipment, net	-	-	-	-	909,622	909,622
Other assets	316,654	1,677,160	-	-	-	1,993,814
Total	41,396,096	27,120,477	12,834,404	4,401,362	7,874,101	93,626,440
Liabilities and equity						
Due to banks and other financial institutions	5,002,088	-	-	-	-	5,002,088
Customer deposits	25,017,386	24,803,399	-	-	20,912,626	70,733,411
Term loans	2,000,000	-	-	-	-	2,000,000
Subordinated debt	2,000,000	-	-	-	-	2,000,000
Other liabilities	-	2,038,809	-	-	-	2,038,809
Equity	-	-	-	-	11,852,132	11,852,132
Total	34,019,474	26,842,208	-	-	32,764,758	93,626,440
Commission rate sensitivity-On balance sheet	7,376,622	278,269	12,834,404	4,401,362	(24,890,657)	-
Commission rate sensitivity-Off balance sheet	2,922,762	(415,469)	(1,155,889)	(1,351,404)	-	-
Total commission rate sensitivity gap	10,299,384	(137,200)	11,678,515	3,049,958	(24,890,657)	-
Cumulative commission rate sensitivity gap	10,299,384	10,162,184	21,840,699	24,890,657	-	-

31. Market risk - continued

	2013 (SAR'000)					
	Within 3 months	3 12 months	1 5 years	Over 5 years	Non commission bearing	Total
Assets						
Cash and balances with SAMA	3,236,000	-	-	-	3,071,029	6,307,029
Due from banks and other financial institutions	3,973,529	1,600,000	-	-	-	5,573,529
Investments, net	6,845,413	1,753,618	3,940,565	4,287,452	866,446	17,656,495
Loans and advances, net	26,155,933	14,422,670	6,565,279	119,989	-	47,563,871
Investments in associates					1,070,548	1,070,848
Property and equipment, net	-	-	-	-	872,534	872,534
Other assets	409,592	998,715				1,408,307
Total	40,626,467	18,775,003	10,805,845	4,407,441	5,880,657	80,495,413
Liabilities and equity						
Due to banks and other financial institutions	9,040,919	757,313	-	-	-	9,828,232
Customer deposits	27,858,949	14,454,640	208,770	-	14,521,488	57,043,847
Term loans	2,000,000					2,000,000
Other liabilities	184,847	1,185,712	-	-	-	1,370,559
Equity					10,252,775	10,252,775
Total liabilities and equity	39,084,715	16,427,665	208,770	-	24,774,263	80,495,413
Commission rate sensitivity - on balance sheet	1,541,752	2,347,338	10,597,075	4,407,441	(18,893,606)	-
Commission rate sensitivity - on balance sheet	2,826,122	(1,427,132)	(1,398,990)	-	-	-
Total commission rate sensitivity gap	4,367,874	920,206	9,198,085	4,407,441	(18,893,606)	-
Cumulative commission rate sensitivity gap	4,367,874	5,288,080	14,486,165	18,893,606	-	-

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

(ii) Currency risk

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Board of Directors has set limits on currency positions, which are monitored daily. Hedging strategies are also used to ensure that positions and market risks are maintained within the limits.

The table below shows the currencies to which the Bank has a significant exposure as of December 31, 2014 and 2013, on its banking book assets and liabilities and forecasted cash flows. The table depicts the effect of a reasonably plausible movement of the currency rates against the SAR based on historical currency rate movements, with other variables held constant, on the consolidated income (due to the change in the fair value of the currency sensitive banking book assets and liabilities) and equity (due to change in fair value of currency swaps and forward foreign exchange contracts used as cash flow hedges). The reasonably plausible change is estimated based on the relevant foreign exchange rate movements during the last five years (2010 – 2014). A positive effect shows a potential net increase in the consolidated income or equity, whereas a negative effect shows a potential net reduction in consolidated income or equity.

31. Market risk - continued

Currency Exposures as of December 31, 2014	Change in Currency rate in %	Effect on Net Income (SAR'000)	Effect on Equity (SAR'000)
USD	+0.13/-0.09	-3,089/+2,300	+12,953/-9,645
EUR	+11.60/-10.25	+50/-44	+13,226/-11,690
GBP	+4.22/-13.01	+19/-58	-

Currency Exposures as of December 31, 2013	Change in Currency rate in %	Effect on Net Income (SAR'000)	Effect on Equity (SAR'000)
USD	+0.07/-0.08	-119/+128	+7,761/-8,3'2
EUR	+12.74/-11.20	+37/-32	+22,857/-20,103
GBP	+7.89/-12.65	-4,878/+7,816	-

(iii) Currency position

The Bank manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. At the end of the year, the Bank had the following significant net exposures denominated in foreign currencies:

	2014 SAR '000 Long/(short)	2013 SAR '000 Long/(short)
US Dollar	(2,464,988)	(159,877)
Euro	433	290
Pound sterling	446	(61,797)
Japanese yen	13	337
U.A.E Dirham	38,502	5,240
Others	17,926	(19,165)

(iv) Equity price risk

Equity price risk refers to the risk of a decrease in fair values of equities and mutual funds in the Bank's investment portfolio as a result of reasonably plausible changes in levels of equity indices and the value of individual investments.

The following table depicts the effect on the Banks investments in equities and mutual funds from a reasonably plausible change in relevant indices, with other variables held constant, and the related effect on the Bank's equity. The reasonably plausible changes in relevant indices are estimated based on the relevant indices movements during the last five years (2010 - 2014). A positive effect shows a potential increase in consolidated equity, whereas a negative effect shows a potential decrease in consolidated equity.

	as of December 31, 2014		as of December 31, 2013	
Market Indices	Change in equity price %	Effect in SAR'000	Change in equity price %	Effect in SAR'000
TADAWUL	+15.95%/-44.64%	+299,456/-837,872	29.99%/-37.30%	+253,675/-315,442
Unquoted	+5.00%/-5.00%	+507/-507	+5.00%/-5.00%	+506/-506

32. 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 in perspective. Management therefore maintains a healthy balance of cash, cash equivalents, and readily marketable securities as of part of its high liquid assets. Management also monitors the asset and liability maturity profile to ensure that adequate liquidity is maintained. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by the Asset Liability Committee. A summary report, including any exceptions and remedial actions taken, is submitted regularly to The Asset Liability Committee. In addition, the Bank's liquidity coverage ratio and net stable funding ratio are each monitored regularly to be in line with SAMA guidelines. The Bank also conducts regular liquidity stress testing under a variety of scenarios covering both normal and more severely stressed market conditions.

In accordance with Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% (2013: 7%) of total demand deposits and 4% (2013: 4%) of saving and time deposits. 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 balances with SAMA, Saudi Government Development Bonds, or other assets which can be converted into cash within a period not exceeding 30 days. The Bank has the ability to raise additional funds through repo facilities with SAMA against Saudi Government Development Bonds up to 70% of the nominal value of bonds held.

a) Expected contractual maturity profile of assets and liabilities.

The tables below summarize the contractual maturity profile of the Bank's assets and liabilities as of December 31, 2014 and 2013. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the consolidated statement of financial position date to the contractual maturity date, and do not take into account the effective maturities as indicated by the Bank's deposit retention history. The amounts disclosed in the tables are the contractual undiscounted cash flows, whereas the bank manages the inherent liquidity risk based on expected undiscounted cash inflows for both contractual and non-contractual positions.

	2014 (SAR'000)					
	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	4,986,000	-	-	-	4,141,694	9,127,694
Due from banks and other financial institutions	793,574	-	-	-	85,922	879,496
Investments, net	2,623,313	5,717,403	7,278,790	4,801,007	1,976,436	22,396,949
Loans and advances, net	21,711,445	18,217,968	14,601,820	2,941,281	-	57,472,514
Investments in associates	-	-	-	-	846,351	846,351
Property and equipment, net	-	-	-	-	909,622	909,622
Other assets	316,654	1,677,160	-	-	-	1,993,814
Total	30,430,986	25,612,531	21,880,610	7,742,288	7,960,025	93,626,440
Liabilities and equity						
Due to banks and other financial institutions	4,921,278	-	-	-	80,810	5,002,088
Customer deposits	25,017,386	21,026,255	3,777,144	-	20,912,626	70,733,411
Term loans	-	-	2,000,000	-	-	2,000,000
Subordinated debt	-	-	-	2,000,000	-	2,000,000
Other liabilities	-	2,038,809	-	-	-	2,038,809
Equity	-	-	-	-	11,852,132	11,852,132
Total liabilities and equity	29,938,664	23,065,064	5,777,144	2,000,000	32,845,568	93,626,440
Derivatives, commitments and contingencies	4,820,618	11,163,365	4,808,268	3,860,276	-	24,652,527

32. Liquidity risk – continued

	2013 (SAR'000)					
	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	3,236,000				3,071,029	6,307,029
Due from banks and other financial institutions	3,064,204	1,600,000	-	-	909,325	5,573,529
Investments, net	2,966,178	2,356,491	5,985,999	5,521,384	866,443	17,696,495
Loans and advances, net	18,368,850	13,720,709	12,947,205	2,530,107	-	47,566,871
Investments in associates	-	-	-	-	1,070,648	1,070,648
Property and equipment, net	-	-	-	-	872,534	872,534
Other assets	409,592	998,715	-	-	-	1,408,307
Total assets	28,044,824	18,675,915	18,933,204	8,051,491	6,789,979	80,495,413
Liabilities and equity						
Due to banks and other financial institutions	9,040,919	787,313	-	-	-	9,828,232
Customer deposits	27,858,949	14,454,640	208,770	-	14,521,488	57,043,847
Term loans	-	-	2,000,000	-	-	2,000,000
Other liabilities	184,847	1,185,712	-	-	-	1,370,559
Equity	-	-	-	-	10,252,775	10,252,775
Total liabilities and equity	37,084,715	16,427,665	2,208,770	-	24,774,263	80,495,413
Derivatives, commitments and contingencies	8,907,350	7,550,691	6,738,045	1,950,193	-	25,146,279

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

b) Analysis of financial liabilities by remaining contractual maturities

The tables below summarize the maturity profile of the Bank's financial liabilities as of December 31, 2014 and 2013 based on contractual undiscounted repayment obligations. As special commission payments up to contractual maturity are included in the table, the totals do not match with the consolidated statement of financial position. The contractual maturities of liabilities have been determined based on the remaining period at the consolidated statement of financial position date to the contractual maturity date and do not take into account the effective expected maturities. The Bank expects that many customers will not request repayment on the earliest date that the Bank could be required to pay and the tables do not reflect the expected cash flows indicated by the Bank's deposit retention history.

32. Liquidity risk – continued

The undiscounted maturity profile of financial liabilities is as follows:

	2014 (SAR'000)					
	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Non derivatives liabilities	**29,938,664**	**21,026,255**	**5,777,144**	**2,000,000**	**20,993,436**	**79,735,499**
Derivatives	1,268,952	5,906,255	1,632,852	3,602,915	-	12,410,974
Total	31,207,616	26,932,510	7,409,996	5,602,915	20,993,436	92,146,473

	2013 (SAR'000)					
	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Non derivatives liabilities	36,899,868	15,241,953	2,208,770	-	14,521,488	68,872,079
Derivatives	5,438,843	2,908,084	3,466,137	1,640,130	-	13,453,194
Total	42,338,711	18,150,037	5,674,907	1,640,130	14,521,488	82,325,273

33. Fair values of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. The Bank uses the hierarchy disclosed in note 2 (d) (ii) for determining and disclosing the fair value of financial instruments.

The following table shows an analysis of financial assets and liabilities recorded at fair value as of December 31, 2014 and 2013 by level of the fair value hierarchy.

	2014 (SAR '000)			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Derivative financial instruments	-	605,729	215,136	820,865
Financial investments available for sale	12,063,623	10,246,506	86,820	22,396,949
Total	12,063,623	10,852,235	301,956	23,217,814
Financial liabilities:				
Derivative financial instruments	-	636,653	-	636,653
Total	-	636,653	-	636,653

	2013 (SAR '000)			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Derivative financial instruments	-	168,556	108,195	276,751
Financial investments available for sale	11,656,318	5,191,591	11,543	16,859,452
Total	11,656,318	5,360,147	119,738	17,136,203
Financial liabilities:				
Derivative financial instruments	-	215,020	-	215,020
Total		215,020		215,020

33. Fair values of financial assets and liabilities - continued

The fair values of financial instruments that are not included in the consolidated statement of financial position are not significantly different from the carrying values included in the consolidated financial statements. The fair values of loans and advances, held to maturity investments, commission bearing customers' deposits, term loans, and due from and due to banks which are carried at amortized cost, are not significantly different from the carrying values included in the consolidated financial statements, since the current market commission rates for similar financial instruments are not significantly different from the contracted rates, and for the short duration of due from and due to banks.

The estimated fair values of held-to-maturity investments are based on quoted market prices when available or pricing models in the case of certain fixed rate bonds. The fair values of these investments are disclosed in Note 6 (c).

The fair values of derivatives and other off-balance sheet financial instruments are based on quoted market prices when available or by using appropriate valuation models. The total amount of the changes in fair value recognized in the 2014 consolidated income statement, which was estimated using valuation models, is a gain of SAR 106.9 million (2013: SAR 128.3 million).

The value obtained from the relevant valuation model may differ with the transaction price of a financial instrument. The difference between the transaction price and the model value is commonly referred to as 'day one profit and loss'. It is either amortized over the life of the transaction, deferred until the instrument's fair value can be determined using market observable data, or realized through disposal. Subsequent changes in fair value are recognized immediately in the consolidated income statement without reversal of deferred day one profits and losses.

34. Related party transactions

In the ordinary course of its activities, the Bank transacts business with related parties. Related parties, balances, and transactions are governed by the Banking Control Law and other regulations issued by SAMA. During 2014, SAMA issued an update to its Principles of Corporate Governance for Banks operating in Saudi Arabia which specifies the definitions of related parties, the need to process the related transactions fairly and without preference, addresses the potential conflicts of interests involved in such transactions, and mandates transaction disclosure requirements pertaining to the related parties.

During 2014, the Bank updated its Related Party Identification and Disclosure of Transactions Policy to comply with the new Guidelines issued by SAMA, which has been approved by the Bank's Board of Directors. These Guidelines include the following definitions of Related Parties:

- Management of the Bank and/or members of their immediate family;
- Principal shareholders of the Bank and/or members of their immediate family;
- Affiliates of the Bank and entities for which the investment is accounted for by the Equity method of accounting;
- Trusts for the benefit of the Bank's employees such as pension or other benefit plans that are managed by the Bank; and
- Any other parties whose management and operating policies can be directly or indirectly significantly influenced by the Bank.

Management of the Bank includes those persons who are responsible for achieving the objectives of the Bank and who have the authority to establish policies and make decisions by which those objectives are pursued. Management therefore includes the members of the Bank's Board of Directors, and members of the Bank management that require a no objection approval from SAMA.

34. Related party transactions - continued

Immediate family members includes parents, spouses, and offspring and whom either a principal shareholder or a member of management might control or influence or by whom they might be controlled or influenced because of the family relationship.

Principal shareholders include those owners of record of more than five percent of the Bank's voting ownership and/or voting interest of the Bank.

a) The balances as of December 31, 2014 and 2013, resulting from such transactions included in the consolidated financial statements are as follows:

		2014 SAR'000	2013 SAR'000
i.	Principal shareholders of the Bank and/or members of their immediate family:		
	Due from banks and other financial institutions	**111,038**	1,182,715
	Due to banks and other financial institutions	**-**	94,319
	Loans and advances	**611,467**	1,111,334
	Customer deposits	**12,841,895**	6,863,149
	Term loan	**1,000,000**	1,000,000
	Subordinated debt	**704,000**	-
	Commitments and contingencies	**2,725,819**	4,526,169
ii.	Affiliates of the Bank and entities for which the investment is accounted for by the Equity method of accounting:		
	Loans and advances	**771,007**	222,000
	Customer deposits	**91,484**	331,118
	Commitments and contingencies	**712,077**	606,801
iii.	Management of the Bank and/or members of their immediate family:		
	Loans and advances	**98,161**	61,037
	Customer deposits	**209,557**	63,499
iv.	Trusts for the benefit of the Bank's employees such as pension or other benefits plans that are managed by the Bank:		
	Customer deposits and other liabilities	**137,273**	150,258

b) Income and expense pertaining to transactions with related parties included in the consolidated financial statements are as follows:

		2014	2013
i.	Principal shareholders of the Bank and/or members of their immediate family:		
	Special commission income	**40,093**	55,777
	Special commission expense	**68,363**	76,327
	Fees from banking services income	**5,577**	23,379

34. Related party transactions - continued

	2014 SAR'000	2013 SAR'000
ii. Affiliates of the Bank and entities for which the investment is accounted for by the Equity method of accounting:		
Special commission income	**882**	330
Fees from banking services income	**5,368**	288
iii. Management of the Bank and/or members of their immediate family:		
Special commission income	**2,728**	1,004
Special commission expense	**11**	-
Fees from banking services income	**173**	7
iv. Trusts for the benefit of the Bank's employees such as pension or other benefit plans that are managed by the Bank:		
Special commission expense	**511**	327
v. Board of Directors and other Board Committee member remuneration	**4,149**	3,708

The total amount of compensation charged or paid to management personnel during the year is included in Note 24.

35. Capital adequacy and capital structure disclosures

a) 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 the Bank to hold a minimum level of regulatory capital and maintain a ratio of total regulatory capital to risk-weighted assets (RWA) at or above the requirement 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 regulatory capital with its consolidated statement of financial position assets, commitments, and notional amounts of derivatives, at a weighted amount to reflect their relative risk.

35. Capital adequacy and capital structure disclosures - continued

The following table summarizes the Bank's Pillar I RWA, Tier I and Tier II capital, and Capital Adequacy Ratio percentages:

	2014	2013
	SAR'000	SAR'000
Credit Risk RWA	**78,193,597**	67,282,100
Operational Risk RWA	**3,477,661**	3,146,249
Market Risk RWA	**2,475,089**	287,438
Total Pillar- I RWA	**84,146,347**	70,715,787
Tier I Capital	**11,833,837**	10,233,954
Tier II Capital	**2,536,985**	461,023
Total Tier I & II Capital	**14,370,822**	10,694,977
Capital Adequacy Ratio %		
Tier I Ratio	**14.06%**	14.47%
Tier I + Tier II Ratio	**17.08%**	15.12%

As of December 31, 2014 and 2013, the RWA, Tier I and Tier II capital, and capital adequacy ratios are calculated in accordance with SAMA's framework and guidelines regarding implementation of the capital reforms under Basel III which were effective from January 1, 2013.

b) Capital structure disclosures

Certain additional disclosures related to the Bank's capital structure are required under Basel III. These disclosures will be made available to the public on the Banks website (www.saib.com.sa) as required by SAMA. Such disclosures are not subject to review or audit by the external auditors of the Bank.

36. Asset management and brokerage services

The Group offers investment services to its customers, through a subsidiary, which include management of investment funds in consultation with professional investment advisors, with assets under management totalling approximately SAR 4,599 million (2013: SAR 4,342 million). This includes funds managed under Shariah approved portfolios amounting to approximately SAR 1,710 million (2013: SAR 1,069 million).

37. Employee stock options

The Group has share-based payment plans outstanding at the end of the year. Significant features of the existing Plans are as follows:

Grant dates: January 1, 2011, 2012, 2013 and 2014
Maturity dates: Between 2012 and 2018
Vesting period: 4 years per plan
Vesting conditions: participating employees to remain in service
Method of settlement: Shares
Cost to participating employees: SAR 4.58 to SAR 5.00 per share.

37. Employee stock options - continued

The stock options outstanding as of December 31, 2014 and 2013 have a weighted average contractual life of between one and four years.

The stock options are granted only under a service condition with no market condition.

In 2014, the Bank vested 25% of the shares granted in January 2010, 25% of the shares granted in January 2011, and 25% of the shares granted in January 2012, equivalent to 1,047,695 shares, for a total estimated cost of SR 22.3 million.

In 2013, the Bank vested 50% of the shares granted in January 2011, 25% of the shares granted in January 2010, and 25% of the shares granted in January 2009, equivalent to 927,326 shares, for a total estimated cost of SR 13.4 million.

38. Issued IFRS but not yet effective

The Group has chosen not to early adopt the following standards, which are effective for the Bank's 2015 to 2018 financial reporting year.

		Effective for annual periods beginning on or after:
• IFRS 9	Financial instruments	January 1, 2018
• IFRS 15	Revenue from contracts with customers	January 1, 2017
• Amendments of IFRS 11	Accounting for acquisitions of interest in joint operations	January 1, 2016
• Amendments to IAS 16 And IAS 38	Clarification of acceptable methods of Depreciation and amortization	January 1, 2016
• Amendments to IAS 19	Defined benefit plans: employee Contributions	July 1, 2014
• Amendments to IFRSs	Annual improvements to IFRSs 2010-2012 cycle	July 1, 2014
• Amendments to IFRSs	Annual improvements to IFRSs 2011-2013 cycle	July 1, 2014

The Group is currently assessing the implication of the above standards and amendments on the Group and the timing of the adoption of those that are effective for the financial reporting years 2016 to 2018.

39. Comparative figures

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

40. Board of Director's approval

The consolidated financial statements were approved by the Board of Directors on 8th Rabi II 1436H, corresponding to January 28, 2015.

41. Basel III Pillar 3 disclosures (unaudited)

Under Basel III pillar 3, certain disclosures are required, and these disclosures will be made available on the Bank's website **www.saib.com.sa** as required by SAMA. Such disclosures are not subject to review or audit by the external auditors.

Deloitte & Touche
Bakr Abulkhair & Co.
Deloitte.

pwc

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of The Saudi Investment Bank (the "Bank") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at December 31, 2014, the consolidated income statement, statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes from (1) to (40). We have not audited notes (35-b) and (41), nor the information related to "Basel III Pillar 3 disclosures" cross referenced therein, which is not required to be within the scope of our audit.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, auditors consider internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

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

- Present fairly, in all material respects, the financial position of the Group as at December 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with the Accounting Standards for Financial Institutions issued by SAMA and with 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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13 Rabi II, 1436 H
(February 2, 2015)

Qualitative Disclosures Under Pillar III Basel III
for the year ended December 31, 2014 and 2013

INTRODUCTION

The complexity of today's financial services sector, business operations, and diversity of geographical locations requires the identification, measurement, aggregation, and effective management of risks including an efficient allocation of capital to derive an optimal risk and return ratio. In addition, the stakeholders of the Bank, including the regulators and rating agencies also expect the Bank to have a clear and well documented framework in place that addresses several dimensions of the Bank's business.

RISK APPETITE FRAMEWORK

The Saudi Investment Bank (the Bank) manages its risks in a structured, systematic, and transparent manner through a broad-based Risk Appetite Framework (RAF) approved by the Board of Directors that incorporates comprehensive risk management into the Bank's organizational structure, risk measurement, and monitoring processes. The Bank's RAF is carefully aligned with the Bank's strategy, business planning, capital planning, and the policies and documents approved by the Bank's Board of Directors. The Bank's RAF is in compliance with the Financial Stability Board's "Principles for an effective Risk Appetite Framework" dated November 18, 2013, as adopted by the Saudi Arabian Monetary Agency (SAMA).

The Bank's RAF includes the following key characteristics:

- The nature of risks to be assumed as a result of the Bank's strategy;
- The maximum level of risk at which the Bank can operate (Risk Capacity) and the maximum level of risk it should take (Risk Appetite);
- The maximum level of other quantifiable risks that should be taken (Other Risk Limits);
- The desired balance of risk versus returns by Business Line (Business Unit Line Risk Appetite measurements); and
- The desired risk culture, compensation programs, information technology risk and security, and the overall compliance environment of the Bank (Qualitative Reporting).

An annual Risk Appetite Statement (RAS) is developed at the beginning of each year and approved by the Bank's Board of Directors. The RAS establishes the Risk Capacity, Risk Appetite, Other Risk Limits, Business Unit Line Risk Appetite, and Qualitative measurements. These risk measurements are then reported to and monitored by the Asset Liability Committee (ALCO) and the Board Risk Committee on a quarterly basis, and reported to the Board of Directors on an annual basis.

The Board Risk Committee endorses the Bank's RAF and RAS for the Board of Directors approval. Additionally, the Board Risk Committee:

- Ensures that the RAF remains consistent with that of the Bank's short-term and long-term strategy, business and capital plans, as well as the Bank's compensation programs and other Board approved policies;
- Ensures timely monitoring and appropriate action is being taken by management regarding any breaches of Risk Capacity, Risk Appetite, or Other Risk Limits;
- Satisfies itself that there are mechanisms in place to ensure senior management can act in a timely manner to effectively manage, and where necessary mitigate, material adverse risk exposures in particular those that are close to or exceed the approved Risk Capacity, Risk Appetite or Other Risk Limits;

Finally, it ensures that the Bank's risk management is supported by adequate and robust IT and MIS to enable the identification, measurement, assessment and reporting of risk information in a timely and accurate manner.

RISK EXPOSURE AND ASSESSMENT

Risk management is an intrinsic process embedded in all the activities of the Bank and is a core competency for its employees. The Bank manages its credit, market, operational, and liquidity risks using a structured approach integrated with the Bank's RAS and the laid down policies and procedures including the Credit Policy Guide and Treasury Policy Guide. The Bank's risk management function is independent of the Bank's business units.

In addition to the above, the Bank's internal audit function reports to the Board Audit Committee and provides an independent validation of the business and support unit's compliance with risk policies and procedures and the adequacy and effectiveness of the Bank's risk management function.

Through the Bank's comprehensive risk management function, transactions and outstanding risk exposures are quantified and compared against authorized limits, whereas non-quantifiable risks are monitored against policy guidelines and key risk and control indicators. Any discrepancies, excesses, or deviations are escalated for appropriate action. The Bank's risk management function ensures that:

- The Bank's overall business strategy is consistent with its risk policies approved by The Board.
- Appropriate risk management architecture and systems are developed and implemented.
- The portfolio of risks and limits including the Board approved Risk Appetite Framework are routinely monitored, including at appropriate Board Committees and management levels.

The risk management function therefore assists the Board and senior management in controlling and actively managing the Bank's overall risk.

Risk Culture

The Bank's Risk Culture encompasses the accepted norms of behavior for individuals and groups within the Bank that determine the collective ability to identify and understand, openly discuss, and act on the Bank's current and future risks. The Bank's RAF underlines the importance of the Bank's risk culture, which must be grounded in shared values and common understanding, clear communication, and controlling how each employee's activities contribute to the Bank's Risk Profile and Other Risk Limits in line with the successful implementation of its business and risk strategies. The Bank's risk culture affects its risk taking behavior and is an important element of the RAF and RAS by ensuring the Bank's risk taking behavior is translated into measurable metrics through the RAS.

Scope and Nature of Risk Reporting and monitoring Tools

The Bank's comprehensive risk management processes enable the Bank to identify, assess, limit, and monitor risks using a wide range of quantitative and qualitative tools. Some of these tools are common to a number of risk categories, while others are tailored to the particular features of specific risk categories and enable generation of information such as:

- Credit risk in commercial and consumer lending and other asset exposures such as collateral coverage ratios, limit utilization, past due and alerts, among others;
- Quantification of the susceptibility of the market value of single positions or portfolios to changes in market parameters (commonly referred to as sensitivity analysis);
- Quantification of exposure to losses due to extreme movements in market prices or commission rates.

The Bank continuously assesses the adequacy and effectiveness of its reporting and monitoring tools and metrics in light of the changing risk environment.

The Bank's risk management infrastructure (including data aggregation and reporting of risk data, systems and processes, and employee skill sets) responds to and supports its business and risk strategy as well as its current and future risk profile. The Bank therefore has a robust and well developed risk infrastructure in place as it is an essential pre-requisite for the effective measurement, monitoring, reporting, and control of its Risk Capacity, Risk Appetite, Risk Profile and Other Risk Limits. The reporting has been designed in such a way to support customized measurement, monitoring, and control of the Bank's evolving risks.

SCOPE OF APPLICATION

The name of the top corporate entity in the Group to which this framework applies is The Saudi Investment Bank.

The results of subsidiaries acquired or disposed of during the year are fully included in the consolidated statement of financial position and consolidated statement of income from the date of the acquisition or up to the date of disposal, as appropriate. The Bank has the following three subsidiaries:

- Al-Istithmar Capital for Financial Securities and Brokerage Company, a limited liability company, and is 100% owned by the Bank;
- Saudi Investment Real Estate Company, a limited liability company, and is 100% owned by the Bank. The company has not yet commenced any significant operations; and
- Saudi Investment First Company, a limited liability company, registered in the Kingdom of Saudi Arabia on November 9, 2014 and is owned 100% by the Bank. The company has not commenced any significant operations.

In December 2011, a business transfer agreement was completed between Alistithmar Capital and SAIB BNP Paribas Asset Management Company Limited (AMCO), a former subsidiary of the Bank, whereby Alistithmar Capital acquired the business and net assets of AMCO. All required regulatory actions to legally close AMCO were completed during 2014

Investments in associates are initially recognized at cost and subsequently accounted for under the equity method of accounting. The Bank has investments in the following four associates:

- Amex Saudi Arabia Ltd. (ASAL). ASAL is a limited liability company with Amex (Middle East), Bahrain. ASAL is incorporated in Saudi Arabia and the Bank holds a 50% interest. The principal activities of ASAL include the issuance of credit cards and the offer of other American Express products in Saudi Arabia.
- Saudi Orix Leasing Company (Orix). Orix is a Saudi Arabian closed joint stock company in Saudi Arabia and the Bank holds a 38% interest. The principal activities of Orix include lease-financing services in Saudi Arabia.
- Amlak International for Finance and Real Estate Development Co. (Amlak). Amlak is a Saudi Arabian closed joint stock company in Saudi Arabia and the Bank holds a 32% interest. The principal activities of Amlak include real estate finance products and services.

During the first quarter of 2014, the Bank transferred its investment in MedGulf from investments in associates to available for sale investments, because this investment no longer qualified to be accounted for as an investment in an associate.

The Bank also has a 20% interest in Naeem Investment Company, which has no operations.

The Bank has no other subsidiaries nor operates any other business activities outside of Saudi Arabia. The Bank is subject to all laws and regulations of Saudi Arabia and is regulated by the Saudi Arabian Monetary Agency (SAMA). The Bank also follows regulations issued by the Ministry of Commerce and the Capital Market Authority (CMA).

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

CAPITAL STRUCTURE

The authorized, issued and fully paid up capital of the Bank consists of 600 million ordinary shares of SAR 10 each as of December 31, 2014. The Bank's total equity as of December 31, 2014 was SAR 11,852 million (2013: SAR 10,253 million).

Tier I Capital as of December 31, 2014 was SAR 11,834 million, which is considered the core measure of the Bank's financial strength and includes share capital, reserves, retained earnings and minority interests.

Tier II Capital as of December 31, 2014 was SAR 2,537 million, which consists of the allowed portions of general provisions, and qualifying subordinated debt. During 2014, the Bank issued a tier II subordinated debt, Sukuk of SAR 2 Billion.

Tier I and Tier II Capital as of December 31, 2014 was SAR 14,371 million (2013: 10,695 million).

Eligible Reserves are created by appropriations of profit and are maintained for future growth and to meet statutory requirements. The eligible reserves are mainly comprised of statutory reserves, and retained earnings.

CAPITAL ADEQUACY

While managing capital, the Bank's objectives 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 routinely monitored by the Bank's management. SAMA requires the Bank to hold a minimum level of regulatory capital and maintain a ratio of total regulatory capital to risk-weighted assets (RWA) at or above the requirement of 8%.

The Bank monitors the adequacy of its capital using ratios established by SAMA. These ratios measure capital adequacy by comparing its eligible capital with its balance sheet assets, commitments, and notional amount of derivatives at a weighted amount to reflect their relative risk.

As of December 31, 2014 the Bank's Tier I (14.06%) and Tier II (17.08%) ratios were both in compliance with the SAMA's minimum requirements.

Internal Capital Adequacy and Assessment Plan

A comprehensive analysis of capital assessment and adequacy, through the process of an Internal Capital Adequacy Assessment Plan (ICAAP), is carried out by the Bank on an annual basis for which robust models and commonly accepted methodologies are applied for the estimation of the minimum required capital. This process is supported by the use of proprietary capital planning methodologies. The analysis and results thereof are approved by the Board.

Based on the detailed ICAAP analysis, the Bank's balance sheet remains strong, and is adequately capitalized for current and potential risks, which may be manifested during the next year.

Stress Testing Framework

In order to establish a firm and robust stress testing program, the Bank has a comprehensive stress testing framework that allows the Bank to adopt stress testing practices and methodologies that make stress testing an effective and integral part of the Bank's risk management function, as well as to meet regulatory requirements of SAMA.

The Bank has also appointed a Stress Testing Committee (STC) headed by the Chief Risk Officer and has implemented a Bank-wide Stress Testing Policy (STP) which has been approved by the Bank's Board of Directors. The STC, in accordance with the STP, has furthermore appointed a cross-functional team designated as the Stress Testing Team (STT) to conduct the detailed stress testing with the results submitted to the STC for its review and feedback.

The Bank's Stress Testing framework specifies the frequency and schedule of stress tests and reporting of the stress test results in accordance with SAMA's requirements. It also outlines the roles and responsibilities of the Bank's Board of Directors, Asset Liability Committee (ALCO), STC, and STT. It further includes the responsibilities of the Bank's Internal Audit and Compliance Department in the stress-testing program.

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The semi-annual Stress Test results completed during 2014 which were approved by the Board of Directors, show that the Bank is adequately capitalized to withstand liquidity stresses, with the Bank's capital ratio still exceeding the Basel minimum capital ratio even under a severe stress scenario.

RISK MANAGEMENT

Credit Risk Management

The Bank manages exposures to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities. There is also credit risk embedded in off-balance sheet accounts, such as loan commitments.

Credit Risk Management Strategy

The approach to credit risk management is based on a foundation which preserves the independence and integrity of credit risk assessment.

The Bank has a comprehensive framework of managing credit risk which includes an independent credit risk review function and credit risk monitoring process.

Management and reporting processes are therefore combined with clear policies, limits, and approval structures which guide the day-to-day initiation and management of the Bank's credit risk exposure. This approach includes credit limits that are established for all customers after a careful assessment of their creditworthiness.

Standing procedures, outlined in the Bank's Credit Policy Guide approved by the Board of Directors, require that all credit proposals must either be reviewed and approved by the Credit Committee, or the Board's Executive Committee.

Whenever necessary, credit facilities are secured by acceptable forms of collateral to mitigate the related credit risks.

The Board defines the Bank's credit risk management strategy and approves significant credit risk policies to ensure alignment of the Bank's exposure with its overall risk policies.

The Bank also uses external ratings of the major rating agencies, where available.

The Bank also controls credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and by continually assessing the creditworthiness of counterparties.

The Bank's credit risk management policies are also designed to identify and set appropriate risk limits and to monitor the risks and adherence to those limits. Actual exposures against limits are routinely monitored.

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

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Loan Portfolio Concentration risk is well managed and monitored under the Bank's Risk Appetite Framework.

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

The Bank seeks to manage its credit risk exposure through diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations, businesses or industries.

The Bank also takes security when appropriate. In addition, the Bank seeks additional collateral from counterparties as soon as impairment indicators are noticed for the relevant individual loans or advances.

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

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

Credit Risk Management Structure

Senior management and respective committees implement the Board's credit risk strategy and develop policies and procedures for identifying, assessing, monitoring, and controlling credit risk.

The Bank's Executive Committee meets periodically to review loan portfolio quality and standards and to approve credits above predetermined levels. The Bank's Audit Committee appointed by the Board reviews the audit reports submitted by the Bank's Internal Auditor throughout the year.

Key Features of Credit Risk Management

Credit facilities are granted based on detailed credit risk assessments which consider the purpose of the facility and source of repayment, prevailing and potential macro-economic factors, industry trends, and the customer's positioning within its industry peer-group.

In compliance with SAMA regulations, lending to individual board members and related parties is fully secured and monitored by the Credit Committee. Such transactions are made on substantially the same terms, including special commission rates as those prevailing at the time for comparable transactions with unrelated parties.

All new proposals and or material changes to existing credit facilities are reviewed and approved by the Credit Committee and / or by the Executive Committee within the provisions of the Credit Policy Guide approved by the Board.

The credit facility administration process is undertaken by a segregated function to ensure proper execution of all credit approvals and maintenance of documentation, and proactive control over maturities, expiry of limits, collateral valuation, and legal covenants.

Credit Risk Monitoring, Reporting and Measurement System

The Bank's exposures are continuously monitored through a system of triggers and early-warning signals aimed at detecting adverse symptoms that could result in deterioration of credit risk quality. The triggers and early-warning systems are supplemented by facility utilization and collateral valuation monitoring together with a review of upcoming credit facility expiration and market intelligence to enable timely corrective action by management. The results of the monitoring process are reflected in the Bank's internal rating process.

Credit risk is monitored on an ongoing basis with formal monthly and quarterly reporting to the Credit Committee, senior management, and the Board to ensure awareness of shifts in credit quality and portfolio performance along with changing external factors such as economic and business cycles.

Consumer credit risk reporting also includes a daily dashboard for consumer and small business lending, classification, and delinquency monitoring.

Specialized and focused Special Credit Unit teams handle the management and collection of problem credit facilities and take any legal action if required.

Credit Risk Mitigation Strategy

Portfolio diversification is the cornerstone of the Bank's credit risk mitigation strategy, which is implemented through customer, industry, and geographical limit structures.

To ensure diversification at the portfolio level, interrelated companies with the same management or ownership structure are classified and treated as one entity. The Bank limits its credit concentration per entity to twenty five percent of the Bank's capital and reserves as per SAMA regulations.

Credit risk mitigants such as collateral and guarantees are effective mitigating factors within the Bank's portfolio and collateral quality is continuously monitored and assessed.

Past-due and impairment

Credit facilities are classified as past due when a payment has not been received on its contractual payment date, or if the facility is in excess of pre-approved limits.

A credit facility is considered impaired if the interest or a principal installment is past due for more than 90 days and the exposure is downgraded to a non-performing category.

Approaches for Specific and General Impairment

Non-performing loans are managed and monitored as irregular facilities and are classified into Sub-standard and Doubtful categories which are then used to guide the provisioning process of general as well as specific impairment provisions.

The Bank uses a credit classification system as a tool to assist in managing the quality of credit risk within the lending portfolio. The Bank maintains ten classification grades that differentiate between performing, past due but not impaired, and impaired portfolios, and allocates portfolio provisions and specific provisions accordingly.

The Credit Committee conducts quality classification exercises over all of its existing borrowers subject to the guidelines provided in the Credit Policy Guide.

Consumer loan loss provisions are allocated on the basis of portfolio provisioning in compliance with SAMA regulatory requirements.

The adequacy of provisions are regularly reviewed and adjusted according to a portfolio risk analysis undertaken on a monthly basis.

The Bank uses external ratings (where available) from Fitch, S&P and Moody's to supplement internal ratings during the process of determining credit limits. Unrated public issue instruments are risk-weighted at 100% for capital adequacy purposes.

Standardized Approach and Supervisory Risk Weights

The Bank currently uses the Standardized Approach for the credit risk capital calculation charge under SAMA guidelines as amended from time to time. The Bank uses the ratings issued by Standard & Poor's (S&P), Moody's, and Fitch, which are the ECAIs approved by SAMA for the Standardized Approach. There has been no change in the ECAI used by the Bank during 2014. The Bank has not yet implemented the internal ratings-based (IRB) Approach.

The Bank does not use any specific agency exclusively for any particular type of exposure. The available ratings of any of the above three approved ECAIs on the obligors classified as Sovereign, Public Sector Entities, Multilateral Development Banks, Banks and Security Firms, and Corporates are used for risk weighting the exposures on them. The Bank's exposure to the obligors therefore reflects the correct issue rating from an acceptable ECAI long-term issuer rating.

Distinction between long-term and short-term claims is made only in respect of claims on banks. Generally, short-term ratings are deemed to be issue specific to be used only for the rated short-term facility. Short-term ratings are not used for any other short-term claims. If there are three or more assessments with different risk weights, the assessments corresponding to the two lowest risk weights are referred to and the higher of those risk weights is applied.

In general, the Bank follows the guidelines issued by SAMA with respect to the use of ECAI ratings. The alignments of the ratings of each ECAI are made as per the standard mapping published by SAMA.

Exposure Related To Counterparty Credit Risk

The Bank manages and controls credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties.

The Bank's risk management policies are designed to identify and to set appropriate risk limits and to monitor the risks and adherence to limits. Actual exposures against limits are routinely monitored.

In addition to monitoring credit limits, the Bank manages the credit exposure relating to any trading activities. The Bank may close out transactions or assign them to other counterparties to mitigate credit risk.

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

Securitization

The Bank does not have any Securitization exposure or risk.

Market Risk Management

The Bank recognizes market risk as the risk due to potential losses in on-and off-balance sheet positions arising from movements in market prices such as interest rates, foreign exchange rates, equity prices and commodity prices.

Market-Risk Management Framework

The Bank has in place a market-risk management framework which governs the Bank's trading and non-trading activities related to market risk. The Bank separates market risk related activities between its banking book and its trading book. The relevant department heads within the Treasury and Investment Group are responsible for managing market risk arising from any trading investment and asset liability management (ALM) activities within the mandated limits of risk policy of the Bank.

The Bank's Asset Liability Committee (ALCO) is responsible for management and oversight of market risk inherent within the Bank's trading and non-trading activities.

The Market Risk Department is responsible for monitoring and reporting the Bank's market risk exposures.

For regulatory capital purposes, the Bank calculates its market risk capital requirements according to the Standardized methodology.

All activities giving rise to market risk are conducted within a structure of approved credit and position exposure limits.

Monitoring of Market Risk

The main objective of market risk management is to manage the risks resulting from changes in market factors so that they are at acceptable levels and in line with the overall risk management policies of the Bank. The Bank has established a market risk management policy and specified market risk measurements and limits in accordance with the nature and complexities of its financial activities included in the Bank's Treasury Policy Guide approved by the Board of Directors. The ALCO, Treasury and Investment Group and the Market Risk Departments are primarily responsible for managing, monitoring and controlling this risk in accordance with approved policies.

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Liquidity Risk Management

Liquidity risk in the banking book is routinely monitored through liquidity risk limits based on short-term and long-term maturities, loan-to-deposit ratios, and SAMA liquidity ratios such as the daily liquidity ratio, liquidity coverage ratio and net stable funding ratio. The Bank manages it's liquidity through domestic money markets including swaps and repo markets and through international money markets such as US dollar and GCC markets.

Diversification of funding is an important component of the Bank's liquidity management strategy. The two largest components of customer deposits include time deposits and commodity deposits. The Bank conducts liquidity-risk stress tests whereby the stress scenarios incorporate both internal and external liquidity risk factors. The Bank's stress tests in 2014 showed that the Bank has continued to maintain a sufficient excess amount of liquidity in various stressed scenarios.

Interest Rate Risk in the Banking Book

Interest rate risk in the banking book (IRRBB) is the exposure of the Bank's financial position to adverse movements in interest rates. Changes in interest rates affect earnings by changing its net special commission income and also affect the underlying value of assets, liabilities and off-balance sheet financial instruments. The main sources of interest rate risk are repricing risk, yield curve risk, basis risk, and optionality risk.

The Bank's interest rate risk management process includes implementation of interest rate strategies and policies, gap analysis of rate sensitive assets and liabilities in banking activities, as well as a system of internal controls. In particular, they address the need for effective interest rate risk measurement and monitoring and related control functions within the interest rate risk management process.

The Bank has introduced an Interest Rate Risk Management (IRMM) system to manage its interest rate risk and includes a set of strategies, policies, operational procedures, and control practices. The interest-rate risk in the banking book is managed through a gap limit structure and the risk on capital by using economic value analysis which is supplemented by periodic analysis of various scenarios to capture the extreme indicative measure of net special commission income to interest rate changes.

The Bank actively manages interest rate risk in the banking book based on interest rate maturity limits approved by ALCO. All interest rate sensitive assets and liabilities are segregated according to their appropriate interest re-pricing maturity dates, currency and gaps, and are managed accordingly.

The Bank also monitors the potential long-term effects of changes in the interest rates on the present value of all future cash flows by using economic value of equity analysis to analyze and measure the risk on capital.

To hedge and minimize interest risk due to interest rate movements, the Bank uses approved hedging products and strategies to periodically rebalance assets and liabilities to bring interest rate sensitive positions within desired tolerance levels.

Equity Price Risk in the Banking Book

Substantially all of the equities in the banking book are actively quoted on the Saudi stock exchange on a daily basis and are liquid. The Bank follows prudent practices in managing its diversified portfolio of equities and routinely monitors the portfolio for constantly changing market risks.

Investments in associates are strategic in nature and are accounted for using the equity method of accounting.

Operational Risk Management

The Bank manages Operational Risk, which is defined in Basel III and also adopted by the Bank. Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational Risk includes Legal Risk but also excludes Strategic and Reputational Risks.

Operational Risk Strategies and Processes

The Bank's Operational Risk Management Framework approved by the Board provides a structured approach to identify, assess, monitor, and control operational risk through:

- Conducting Risk and Control Self-Assessment (RCSA) workshops;
- Monitoring of agreed Action Plans that have emerged as a result of RCSA workshops;
- Maintaining operational risk loss event databases for analysis and reporting;
- Implementing and monitoring of Key Risk Indicators; and
- Creating awareness about the operational risk management among the Bank employees through e-learning;

An operational risk appetite matrix is also used for monitoring operational risk losses on an ongoing basis.

The key components of this framework are comprehensively documented through policies and procedures.

Structure and Organization of Operational Risk Management Function

ALCO has the overall responsibility of supervising the implementation of the operational risk management framework across the Bank.

The Operational Risk Management Department (ORMD) functions as part of the Risk Management Group. The Bank has adopted a structured and proactive approach for the management of operational risks. The ORMD is subject to regular audit by the Bank's Internal Audit Department.

Scope and Nature of the Operational Risk Management Function

The ORMD collects data related to operational losses from day-to-day operations and feeds the same into the Operational Risk Management system. This covers activities including:

- Feeding the results of RCSA workshops for risk and control assessment;
- Providing follow-up on actions;
- Maintaining an Operational Risk Loss Event Database; and
- Generating various standard reports for monitoring and control.

Any new products of the Bank are also assessed for inherent operational risks. The Bank's insurance contracts are also subject to ORMD review on an annual basis. The outsourcing contracts of the Bank are also reviewed by the ORMD from an operational risk perspective.

The Bank is currently using the Basic Indicator Approach of the Basel III Accord to arrive at the Operational Risk Capital Charge by taking 15% of the average gross income of the Bank for the last three years as defined under section 650 of the Basel III included in the SAMA Basel III guidelines.


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