

THE NATIONAL COMMERCIAL BANK

(A Saudi Joint Stock Company)

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED**

31 DECEMBER 2014 AND AUDITORS' REPORT

CONTENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

Note No.		Page No.
	AUDITORS' REPORT	
	Consolidated statement of financial position	1
	Consolidated statement of income	2
	Consolidated statement of comprehensive income	3
	Consolidated statement of changes in equity	4
	Consolidated statement of cash flows	5
	Notes to the Consolidated Financial Statements:	
1	General	6
2	Basis of preparation	8
3	Summary of significant accounting policies	11
4	Cash and balances with SAMA	26
5	Due from banks and other financial institutions	27
6	Investments, net	27
7	Financing and advances, net	32
8	Investment in associates, net	38
9	Other real estate, net	39
10	Property and equipment, net	39
11	Goodwill and other intangible assets, net	40
12	Other assets	41
13	Derivatives	41
14	Due to banks and other financial institutions	46
15	Customers' deposits	46
16	Debt securities	47
17	Other liabilities	48
18	Share capital	48
19	Statutory reserve	48
20	Other reserves (cumulative changes in fair values)	48
21	Commitments and contingencies	49
22	Net special commission income	51
23	Fee income from banking services, net	52
24	Trading income, net	52
25	Gains on non-trading investments, net	52
26	Other non-operating (expenses), net	53
27	Basic and diluted earnings per share	53
28	Net dividend and zakat	53
29	Cash and cash equivalents	53
30	Operating segments	54
31	Credit risk	57
32	Market risk	59
33	Liquidity risk	66
34	Geographical concentration of assets, liabilities, commitments and contingencies and credit exposure	70
35	Fair values of financial assets and liabilities	72
36	Determination of fair value and fair value hierarchy	73
37	Related party transactions	74
38	Group's staff compensation	75
39	Capital adequacy	76
40	Material partly-owned subsidiaries	77
41	Investment services	78
42	Comparative figures	78
43	Prospective changes in accounting policies	78
44	Board of directors' approval	78



Ernst & Young & Co. (Public Accountants)
13th Floor - King's Road Tower
King Abdulaziz Road
P. O. Box 1994
Jeddah 21441
Kingdom of Saudi Arabia
Registration Number: 45



Al Fozan & Al Sadhan
9th Floor, Tower A, Zahran Business Centre
Prince Sultan Street
P. O. Box 55078
Jeddah 21534
Kingdom of Saudi Arabia
License No. 46/11/323 issued 11/3/1992

INDEPENDENT AUDITORS' REPORT

To the Shareholders of The National Commercial Bank
(a Saudi Joint Stock Company)

We have audited the accompanying consolidated financial statements of The National Commercial Bank (the "Bank") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes from 1 to 44. We have not audited note 39.2, 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 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 By-Laws. In addition, management is responsible for such internal controls as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with 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 auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

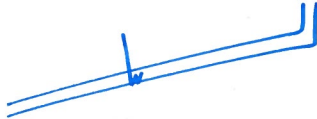
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

Ernst & Young
P. O. Box 1994
Jeddah 21441
Kingdom of Saudi Arabia



Fahad M. Al-Toaimi
Certified Public Accountant
Registration No. 354



KPMG Al Fozan & Al Sadhan
P. O. Box 55078
Jeddah 21534
Kingdom of Saudi Arabia



Abdullah H. Al Fozan
Certified Public Accountant
Registration No. 348



19 Rabi Al Thani 1436H
8 February 2015
Jeddah

The National Commercial Bank
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014 AND 2013

	<u>Notes</u>	<u>2014</u> <u>SR '000</u>	<u>2013</u> <u>SR '000</u>
ASSETS			
Cash and balances with SAMA	4	28,818,569	39,089,688
Due from banks and other financial institutions	5	19,863,020	14,835,201
Investments, net	6	152,903,040	125,294,012
Financing and advances, net	7	220,722,363	187,687,037
Investments in associates, net	8	407,835	828,915
Other real estate, net	9	858,520	216,001
Property and equipment, net	10	3,427,399	2,761,528
Goodwill and other intangible assets, net	11	693,298	873,636
Other assets	12	7,184,040	5,701,223
Total assets		434,878,084	377,287,241
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks and other financial institutions	14	35,449,488	24,732,201
Customers' deposits	15	333,095,491	300,601,422
Debt securities issued	16	9,550,496	1,511,250
Other liabilities	17	9,861,718	7,906,188
Total liabilities		387,957,193	334,751,061
EQUITY			
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK			
Share capital	18	20,000,000	15,000,000
Treasury shares		(190,510)	(177,093)
Statutory reserve	19	17,172,081	15,102,989
Other reserves (cumulative changes in fair values)	20	1,617,888	1,353,948
Retained earnings		7,371,935	9,699,260
Proposed dividend	28	1,296,512	1,645,573
Foreign currency translation reserve		(2,054,269)	(1,690,770)
Total equity attributable to equity holders of the Bank		45,213,637	40,933,907
NON-CONTROLLING INTERESTS	40	1,707,254	1,602,273
Total equity		46,920,891	42,536,180
Total liabilities and equity		434,878,084	377,287,241

The accompanying notes 1 to 44 form an integral part of these consolidated financial statements.

The National Commercial Bank
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEARS ENDED 31 DECEMBER 2014 AND 2013

	<u>Notes</u>	<u>2014</u> <u>SR '000</u>	<u>2013</u> <u>SR '000</u>
Special commission income	22	13,589,138	11,809,692
Special commission expense	22	(2,310,504)	(1,713,488)
Net special commission income		11,278,634	10,096,204
Fee income from banking services, net	23	3,305,117	3,013,112
Exchange income, net		807,569	687,229
Income from FVIS investments, net		108,132	118,655
Trading income, net	24	110,862	100,553
Dividend income		142,664	89,838
Gains on non-trading investments, net	25	519,459	646,092
Other operating (expenses) income, net		(44,252)	105,834
Total operating income		16,228,185	14,857,517
Salaries and employee-related expenses		3,263,958	3,006,443
Rent and premises-related expenses		722,361	609,288
Depreciation of property and equipment	10	500,686	477,890
Amortisation of intangible assets	11	189,337	189,337
Other general and administrative expenses		1,657,977	1,513,206
Impairment charge for financing losses, net	7.3	995,464	795,345
Impairment charge on investments, net	6.7	149,727	40,406
Total operating expenses		7,479,510	6,631,915
Income from operations, net		8,748,675	8,225,602
Other income (expenses)			
Other non-operating income (expenses), net	26	44,516	(236,626)
Net other income (expenses)		44,516	(236,626)
Net income for the year		8,793,191	7,988,976
Net income for the year attributable to:			
Equity holders of the Bank		8,655,150	7,852,199
Non-controlling interests		138,041	136,777
Net income for the year		8,793,191	7,988,976
Basic and diluted earnings per share (expressed in SR per share)	27	4.34	3.94

The accompanying notes 1 to 44 form an integral part of these consolidated financial statements.

The National Commercial Bank
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED 31 DECEMBER 2014 AND 2013

	<u>Notes</u>	<u>2014</u> <u>SR '000</u>	<u>2013</u> <u>SR '000</u>
Net income for the year		8,793,191	7,988,976
Other comprehensive (loss) income items that are or may be reclassified to the consolidated statement of income:			
Foreign currency translation reserve - (losses)		(496,180)	(779,810)
Available for sale financial assets:			
- Net change in fair values		688,031	5,433
- Transfers to consolidated statement of income		(496,257)	(523,266)
- Impairment charge on available for sale investments	6.7	100,048	40,406
Cash flow hedges:			
- Effective portion of change in fair values	13	19,078	(20,403)
- Transfers to consolidated statement of income	13	(12,859)	(40,161)
Total comprehensive income for the year		8,595,052	6,671,175
Attributable to:			
Equity holders of the Bank		8,555,591	6,805,605
Non-controlling interests		39,461	(134,430)
Total comprehensive income for the year		8,595,052	6,671,175

The accompanying notes 1 to 44 form an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2014 AND 2013**

		Attributable to equity holders of the Bank										
		Other reserves										
		Share capital	Treasury shares	Statutory reserve	Available for sale	Cash flow hedge	Retained earnings	Proposed dividend	Foreign currency translation reserve	Total	Non-controlling interests	Total equity
					financial assets							
Notes		SR' 000	SR' 000	SR' 000	SR' 000	SR' 000	SR' 000	SR' 000	SR' 000	SR' 000	SR' 000	SR' 000
2014												
		15,000,000	(177,093)	15,102,989	1,323,153	30,795	9,699,260	1,645,573	(1,690,770)	40,933,907	1,602,273	42,536,180
		-	-	-	257,721	6,219	8,655,150	-	(363,499)	8,555,591	39,461	8,595,052
	19	-	-	2,069,092	-	-	(2,069,092)	-	-	-	-	-
		-	-	-	-	-	12,667	-	-	12,667	(28,450)	(15,783)
		5,000,000	(13,417)	-	-	-	(4,986,583)	-	-	-	-	-
	1.2(b)	-	-	-	-	-	-	-	-	-	93,970	93,970
		-	-	-	-	-	(1,296,512)	1,296,512	-	-	-	-
	17	-	-	-	-	-	(1,047,248)	-	-	(1,047,248)	-	(1,047,248)
	28	-	-	-	-	-	(1,595,707)	(1,645,573)	-	(3,241,280)	-	(3,241,280)
		20,000,000	(190,510)	17,172,081	1,580,874	37,014	7,371,935	1,296,512	(2,054,269)	45,213,637	1,707,254	46,920,891
2013												
		15,000,000	(177,093)	13,623,678	1,765,983	91,359	7,051,299	1,495,975	(1,147,570)	37,703,631	1,700,514	39,404,145
		-	-	-	(442,830)	(60,564)	7,852,199	-	(543,200)	6,805,605	(134,430)	6,671,175
	19	-	-	1,479,311	-	-	(1,479,311)	-	-	-	-	-
		-	-	-	-	-	7,302	-	-	7,302	(29,350)	(22,048)
		-	-	-	-	-	-	-	-	-	-	-
	1.2(b)	-	-	-	-	-	-	-	-	-	65,539	65,539
	28	-	-	-	-	-	(1,645,573)	1,645,573	-	-	-	-
	17	-	-	-	-	-	(889,876)	-	-	(889,876)	-	(889,876)
	28	-	-	-	-	-	(1,196,780)	(1,495,975)	-	(2,692,755)	-	(2,692,755)
		15,000,000	(177,093)	15,102,989	1,323,153	30,795	9,699,260	1,645,573	(1,690,770)	40,933,907	1,602,273	42,536,180

The National Commercial Bank
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2014 AND 2013

	<u>Notes</u>	2014 SR' 000	2013 SR' 000
OPERATING ACTIVITIES			
Net income for the year		8,793,191	7,988,976
Adjustments to reconcile net income to net cash from operating activities:			
Amortisation of premium on non-trading investments, net		199,345	209,356
(Gains) on non-trading investments, net		(519,459)	(646,092)
(Gains) on disposal of property and equipment, net	26	(23,608)	(15,250)
(Gains) on disposal of other real estate, net		(147,898)	(4,000)
Loss on disposal of other repossessed assets		7,304	1,870
Depreciation of property and equipment	10	500,686	477,890
Amortisation of intangible assets	11	189,337	189,337
Impairment charge for financing losses, net	7.3	995,464	795,345
Bank's share in associates' (reversal of impairment) impairment losses,	26	(52,370)	3,716
Impairment charge on investments, net	6.7	149,727	40,406
		10,091,719	9,041,554
Net (increase)/decrease in operating assets:			
Statutory deposits with SAMA		(2,497,646)	(2,253,959)
Due from banks and other financial institutions with original maturity of more than three months		(5,287,683)	(2,459,994)
Held as fair value through income statement (FVIS) investments		(369,522)	(47,002)
Financing and advances		(37,210,618)	(29,680,865)
Other real estate		32,570	72,763
Other assets		(1,241,752)	(1,554,466)
Net increase in operating liabilities:			
Due to banks and other financial institutions		11,511,739	92,651
Customers' deposits		34,858,920	30,833,363
Other liabilities		905,316	456,016
Net cash from operating activities		10,793,043	4,500,061
INVESTING ACTIVITIES			
Proceeds from sale and maturities of non-trading / non-FVIS investments		101,699,095	66,561,047
Purchase of non-trading / non-FVIS investments		(128,691,562)	(75,719,862)
Purchase of property and equipment	10	(1,254,126)	(751,004)
Proceeds from disposal of property and equipment		89,920	37,932
Net cash (used in) investing activities		(28,156,673)	(9,871,887)
FINANCING ACTIVITIES			
Debt securities issued	16	8,204,344	1,511,250
Net movement in non-controlling interests		79,603	57,216
Dividends paid final		(1,595,707)	(1,495,975)
Dividend paid interim		(1,645,573)	(1,196,780)
Net cash from (used in) financing activities		5,042,667	(1,124,289)
Net (decrease) in cash and cash equivalents		(12,320,963)	(6,496,115)
Foreign currency translation reserve - net movement on cash and cash equivalents at the beginning of the year		(293,196)	(997,528)
Cash and cash equivalents at the beginning of the year		30,594,562	38,088,205
Cash and cash equivalents at the end of the year	29	17,980,403	30,594,562
Special commission income received during the year		13,079,439	11,861,290
Special commission expense paid during the year		1,947,801	1,709,860
Supplemental non-cash information			
Movement in other reserve and transfers to consolidated statement of income		298,041	(537,991)

The accompanying notes 1 to 44 form an integral part of these consolidated financial statements.

The National Commercial Bank

(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2014

1. GENERAL

(1.1) Introduction

The financial statements comprise the consolidated financial statements of The National Commercial Bank (the Bank) and its subsidiaries (the Group).

The National Commercial Bank is a Saudi Joint Stock Company formed pursuant to Cabinet Resolution No. 186 on 22 Dhul Qida 1417H (30 March 1997) and Royal Decree No. M/19 on 23 Dhul Qida 1417H (31 March 1997), approving the Bank's conversion from a General Partnership to a Saudi Joint Stock Company.

The Bank commenced business as a partnership under registration certificate authenticated by a Royal Decree on 28 Rajab 1369H (15 May 1950) and is registered under commercial registration No. 4030001588 issued on 27 Dhul Hijjah 1376H (24 July 1957). The Bank initiated business in the name of "The National Commercial Bank" under Royal Decree No. 3737 on 20 Rabi Thani 1373H (26 December 1953). The date of 1 July 1997 was determined to be the effective date of the Bank's conversion from a General Partnership to a Saudi Joint Stock Company.

The Bank operates through its 333 branches (2013: 312 branches), 14 retail service centres (2013: 17 centres), 9 corporate service centres (2013: 10 centres) and 97 QuickPay remittance centers (2013: 57 centres) in the Kingdom of Saudi Arabia and two overseas branches (Lebanon and Bahrain). The Bank's Head Office is located at the following address:

The National Commercial Bank
Head Office
King Abdul Aziz Street
P.O. Box 3555
Jeddah 21481, Saudi Arabia
www.alahli.com

The objective of the Group is to provide a full range of banking services. The Group also provides non-special commission based banking products in compliance with *Shariah* rules, which are approved and supervised by an independent *Shariah* Board.

In an extraordinary general assembly meeting held on 31 March 2014 (corresponding to 30 Jumadi-AlAwal 1435H), the shareholders approved to offer 25% of the Bank's share capital (after capital increase) to the general public under an Initial Public Offering (IPO) and to a minority shareholder of the Bank. The IPO was made for 15% of the Bank's share capital and an additional 10% was allocated to the Public Pension Agency. The shares offered were part of the shareholding of a majority shareholder of the Bank. The IPO was approved by the regulatory authorities and the subscription for the IPO took place between 19 October 2014 to 2 November 2014 and the Bank's shares have been trading on Saudi Stock Exchange (Tadawul) since 12 November 2014.

(1.2) Group's subsidiaries

The details of the Group's subsidiaries are as follows:

(a) NCB Capital Company (NCBC)

In April 2007, the Bank formed a capital market company, namely, NCBC, a Saudi Joint Stock Company formed in accordance with Capital Market Authority's Resolution No. 2-83-2005 dated 21 Jumad Awal 1426H (28 June 2005), and registered in the Kingdom of Saudi Arabia to manage the Bank's investment services and asset management activities. The Bank has a 90.71% (2013: 90.71%) direct ownership interest in NCBC and an indirect ownership of 4.23% (2013: 2.79%) (the indirect ownership is held via an intermediary trust for future grant to NCBC employees).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

1. GENERAL (continued)

(1.2) Group's subsidiaries (continued)

(a.1) Eastgate Capital Holdings Inc. (Eastgate)

The Group has a 66.46% (2013: 65.46%) effective ownership interest in Eastgate Capital Holdings Inc., a Middle East-based private equity firm acquired through its subsidiary, NCBC. NCBC acquired a 77% direct ownership interest and the remaining 23% is owned by the management of Eastgate. On 5 September 2013, NCBC disposed of 7% of its ownership interest in Eastgate Capital Holdings Inc. for a consideration of SR 656 thousands, without losing control.

(a.2) NCBC Investment Management Umbrella Company Plc

The Group has a 70.31% (2013: 93.5%) effective aggregate ownership in NCB Capital Saudi Arabian Equity Fund and NCB Capital GCC Equity Fund both of which are registered in Dublin, Ireland under NCBC Investment Management Umbrella Company Plc. The Funds have been established for investments in GCC and KSA based equities via two special purpose entities (SPVs) incorporated in the Kingdom of Bahrain, namely, NCB Capital KSA Equity Company W.L.L. and NCB Capital GCC Equity Company W.L.L.

(b) Türkiye Finans Katılım Bankası A.Ş. (TFK)

The Bank has a 67.03% (2013: 66.27%) ownership interest in Türkiye Finans Katılım Bankası A.Ş. (the Turkish Bank). The Turkish Bank operates as a participation bank, by collecting funds through current accounts and profit sharing accounts, and lending funds to consumer and corporate customers, through finance leases and profit/loss sharing partnerships. On 29 August 2014 TFK's shareholders resolved to increase the Turkish Bank's capital from Turkish Lira (TL) 1,775 to TL 2,600 million (SR 4,443 million to SR 5,803 million) through capitalization of retained earnings of TL 600 million (SR 984 million) and cash contribution of TL 225 million (SR 375 million). The Bank's share of such cash contribution was TL 169 million (SR 281 million). The increase has been approved by the Turkish Banking Regulatory and Supervision Agency (BRSA).

At 31 December 2014, TFK fully owns the issued share capital of TF Varlık Kiralama AŞ, (TFVK) and TFKB Varlık Kiralama A.Ş., which are special purpose entities (SPVs) established in connection with issuance of sukuks by TFK.

(c) Real Estate Development Company (Redco)

The Bank formed Real Estate Development Company (Redco) as a Limited Liability Company registered in the Kingdom of Saudi Arabia under Commercial Registration number 4030146558 dated 21 Dhul Qida 1424H (corresponding to 13 January 2004). The Bank has a 100% ownership (2013: 100%) in Redco. The objectives of Redco primarily include keeping and managing title deeds and collateralised real estate properties on behalf of the Bank.

(d) Alahli Insurance Service Marketing Company

The Group has 100% (2013: 100%) effective ownership in Alahli Insurance Service Marketing Company, a Limited Liability Company registered in the Kingdom of Saudi Arabia under Commercial Registration number 4030195150 dated Dhul Hijjah 21, 1430H, corresponding to December 8, 2009. The Company is engaged as an insurance agent for distribution and marketing of Islamic insurance products in Saudi Arabia.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

2. BASIS OF PREPARATION

(2.1) Statement of compliance

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

(2.2) Basis of measurement

The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of derivatives, financial assets held for trading, held at Fair Value through Income Statement (FVIS), available for sale investments and other real estate. In addition, financial assets or liabilities that are carried at cost but are hedged in a fair value hedging relationship are carried at fair value to the extent of the risk being hedged.

(2.3) Functional and presentation currency

These consolidated financial statements are presented in Saudi Riyals (SR) which is the Bank's functional currency and have been rounded off to the nearest thousand Saudi Riyals, except as otherwise indicated.

(2.4) Basis of consolidation

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

(2.5) Critical accounting judgements, estimates and assumptions

The preparation of 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 judgment in the process of applying the Group's accounting policies. Such judgments, 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. Actual results may differ from these estimates. Revisions to accounting estimates are recognized in the period in which the estimate is revised and any future period affected.

Significant areas where management has used estimates, assumptions or exercised judgments are as follows:

(a) Impairment charge for financing losses

The Group reviews its non-performing financing and advances at each reporting date to assess whether a specific allowance for financing losses should be recorded in the consolidated statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the specific allowance.

The Group reviews its loan portfolios to assess an additional portfolio (collective) allowance on a periodic basis. In determining whether an impairment loss should be recorded, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

2. BASIS OF PREPARATION (continued)

(2.5) Critical accounting judgements, estimates and assumptions (continued)

(b) Fair value of financial instruments that are not quoted in an active market

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

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

The 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 best economic 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 are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Financial instruments for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy (see note 36).

For assets and liabilities that are recognised in the 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 reporting period.

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

(c) Impairment of available for sale equity investments

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

The Group considers 30% or more, as a reasonable measure for significant decline below its cost, irrespective of the duration of the decline, and is recognized in the consolidated statement of income as impairment charge on investments. Prolonged decline represents decline below cost that persists for 1 year or longer irrespective of the amount and is, thus, recognized in the consolidated statement of income as impairment charge on investments. The previously recognized impairment loss in respect of equity investments cannot be reversed through the consolidated statement of income.

(d) Classification of held to maturity investments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

2. BASIS OF PREPARATION (continued)

(2.5) Critical accounting judgments and estimates (continued)

(e) Going concern

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

(f) Impairment of non-financial assets

The carrying amounts of the non-financial assets are reviewed at each reporting date or more frequently to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The fair value less cost to sell is based on observable market prices or, if no observable market prices exist, estimated prices for similar assets or if no estimated prices for similar assets are available, then based on discounted future cash flow calculations.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

The subsidiaries are regarded as a cash-generating unit for the purpose of impairment testing of their respective goodwill. Impairment losses are recognised in the consolidated statement of income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of other assets including the intangible assets in the unit (group of units) on a pro rata basis on condition that the carrying amount of other assets should not be reduced below their fair values.

Where goodwill forms part of a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative foreign currency translation reserve and unimpaired goodwill is recognised in the consolidated statement of income.

The previously recognized impairment loss in respect of goodwill cannot be reversed through the consolidated statement of income.

Non-financial assets held under Murabaha arrangements are measured at their lower of cost and net realizable value. Net realizable value is the estimated selling price, less selling expenses. Any impairment loss arising as a result of carrying these assets at their net realizable values is recognized in the consolidated statement of income under other operating income, net.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

2. BASIS OF PREPARATION (continued)

(2.5) Critical accounting judgments and estimates (continued)

(g) Determination of control over investment funds

The Group 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.

(h) Provisions for liabilities and charges

The Group receives legal claims in the ordinary course of business. Management makes judgments in assigning the risk that might exists in such claims. It also sets appropriate provisions against probable losses. The claims are recorded or disclosed, as appropriate, in the consolidated financial statements based on the best estimate of the amount required to settle the claim.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Except for the change in accounting policies resulting from new and amended IFRS, as detailed in note 3.1 below, the accounting policies adopted in the preparation of these financial statements are consistent those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2013.

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

(3.1) Changes in accounting policies

The accounting policies adopted are consistent with those used in the preparation of the Group's annual financial statements for the year ended 31 December 2013 except for amendments and revisions to existing standards and a new interpretation mentioned below. The changes do not have any material impact on the financial statements of the Group other than few additional disclosures.

Amendments to existing standards

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

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

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

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

- IASB issued Interpretation 21 Levies that is effective from 1 January 2014. This Interpretation defines a levy as a payment to a government for which an entity receive no specific goods or services and provides guidance on accounting for levies in accordance with the requirement of IAS 37.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.2) Settlement date accounting

All regular way purchases and sales of financial assets are recognized and derecognized on the settlement date, i.e. the date on which the asset is delivered to the counterparty. When settlement date accounting is applied, the Group 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.

(3.3) Derivative financial instruments and hedge accounting

Derivative financial instruments including foreign exchange contracts, special commission rate futures, forward rate agreements, currency and special commission rate swaps, swaptions, currency and special commission rate options (both written and purchased) are measured at fair value. All derivatives are carried at their fair values classified under other assets where the fair value is positive and under other liabilities where the fair value is negative. Fair values are obtained by reference to quoted market prices and/or valuation models as appropriate.

(3.3.1) Derivatives held for trading

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

(3.3.2) Embedded derivatives

Derivatives embedded in other financial instruments are treated as separate derivatives and 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 statement of income. The embedded derivatives separated from the host are carried at fair value in the trading book with changes in fair value recognised in the consolidated statement of income.

(3.3.3) Hedge accounting

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

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 recognized asset or liability, or an unrecognized 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 is either attributable to a particular risk associated with a recognized 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 is documented including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Group 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.

(3.3.4) Fair value hedges

In relation to fair value hedges, which meet the criteria for hedge accounting, any gain or loss from remeasuring the hedging instruments to fair value is recognized immediately in the consolidated statement of income. Any gain or loss on the hedged item attributable to fair value changes relating to the risks being hedged is adjusted against the carrying amount of the hedged item and recognized in the consolidated statement of income (in the same line item as hedging instrument). Where the fair value hedge of a special commission bearing financial instrument ceases to meet the criteria for hedge accounting, the adjustment in the carrying value is amortised to the consolidated statement of income over the remaining life of the instrument.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.3) Derivative financial instruments and hedge accounting (continued)

(3.3.5) Cash flow hedges

In relation to cash flow hedges which meet the criteria for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized initially in other reserves under equity and the ineffective portion, if any, is recognized in the consolidated statement of income. For cash flow hedges affecting future transactions, the gains or losses recognized in other reserves, are transferred to the consolidated statement of income in the same period in which the hedged transaction affects the consolidated statement of income. However, if the Group 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 shall reclassify into the statement of income as a reclassification adjustment the amount that is not to be recognized.

Hedge accounting is discontinued when the hedging instrument is expired or sold, terminated or exercised, or no longer qualifies for hedge accounting, or the forecast transaction is no longer expected to occur or the Group 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 recognized in other reserves from the period when the hedge was effective is transferred from equity to statement of income when the forecasted transaction occurs. Where the hedged forecasted transaction is no longer expected to occur and affects the statement of income, the net cumulative gain or loss recognized in other reserves is transferred immediately to the consolidated statement of income.

(3.4) Foreign currencies

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currency of NCB, NCBC and Redco is Saudi Riyals. The functional currency for the Turkish Bank is Turkish Lira and the functional currency of Eastgate and NCBC Investment Management Umbrella Company Plc is U.S. Dollars.

(a) Transactions and balances

Transactions in foreign currencies are translated into the functional currency at the spot exchange rates prevailing at transaction dates. Monetary assets and liabilities at the year-end (other than monetary items that form part of the net investment in a foreign operation), denominated in foreign currencies, are retranslated into the functional currency at the exchange rates prevailing at the reporting date. Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income. Non-monetary assets measured at fair value in a foreign currency are translated using the exchange rates prevailing at the date when the fair value was determined.

(b) Foreign operations

As at the reporting date, the assets and liabilities of the foreign operations are translated into the Group's presentation currency (Saudi Riyals) at the rate of exchange ruling at the statement of financial position date, equity (pre-acquisition) is translated at historical exchange rate at the date of acquisition and income and expenses of the statement of income are translated at the spot exchange rates prevailing at transaction dates on daily basis. Exchange differences arising on translation are taken directly to a separate component of equity (foreign currency translation reserve) and are recognized in consolidated statement of comprehensive income. However, if the operation is a non-wholly owned subsidiary, then the relevant proportionate share of the foreign exchange translation reserve is allocated to the non-controlling interest. The deferred cumulative amount of exchange differences recognised in equity will be recognised in the statement of income in 'Other operating expenses' or 'Other operating income' at the time of any future disposal or partial disposal with loss of control.

Goodwill and intangible assets arising on the acquisition of the foreign operations and fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at the closing rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.5) Offsetting financial instruments

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

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

(3.6) Revenue / expenses recognition

Special commission income and expenses for all special commission-bearing financial instruments, except for those classified as held for trading or designated at fair value through income statement (FVIS), including fees which are considered an integral part of the effective yield of a financial instrument, are recognized in the consolidated statement of income using the effective special commission rate basis including premiums amortised and discounts accreted during the year. The effective special commission rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability to the carrying amount of the financial asset or financial liability. When calculating the effective special commission rate, the Group estimates future cash flows considering all contractual terms of the financial instrument but excluding future financing losses.

The carrying amount of the 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.

Once 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 rate of special commission used to discount the future cash flows for the purpose of measuring the impairment loss.

The calculation of the effective special commission rate includes all fees paid or received, 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 financial asset or liability.

When the Group enters into a special commission rate swap to change special commission from fixed to floating (or vice versa), the amount of special commission income or expense is adjusted by the net special commission on the swap to the extent hedge is considered to be effective.

Income from FVIS financial instruments relates to financial assets designated as FVIS and includes all realised and unrealised fair value changes.

Exchange income from banking services are recognized when earned.

Dividend income is recognized when the right to receive dividend income is established.

Fees income and expenses are recognized on an accrual basis as the service is provided. Financing commitment fees for financing arrangement that are likely to be drawn down are deferred and recognized as an adjustment to the effective yield on the financing arrangement, if material. Portfolio and other management advisory and service fee income are recognized based on the applicable service contracts, usually on a time-proportionate basis. Fee income received on other services that are provided over an extended period of time, are recognized rateably over the period when the service is being provided, if material.

Other fee expenses mainly relate to transaction and services fee, which are expensed as related services are provided.

(3.7) Trading income (loss), net

Results arising from trading activities include all realized and unrealized gains and losses from changes in fair value and related special commission income or expense, dividends for financial assets held for trading and foreign exchange differences on open positions. This also includes any ineffective portion of the gain or loss on hedging instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.8) Sale and repurchase agreements (continued)

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognized in the statement of financial position as the Group retains substantially all the risks and rewards of ownership. These assets are continued to be measured in accordance with related accounting policies for investments held for trading, available for sale, held to maturity and other investments held at amortised cost. The counterparty liability for amounts received under these agreements is included in "due to banks and other financial institutions or customers' deposits", as appropriate. The difference between sale and repurchase price is treated as special commission expense which is accrued over the life of the repo agreement using the effective special commission rate.

Assets purchased with a corresponding commitment to resell at a specified future date (reverse repo) are not recognized in the statement of financial position, as the Group does not obtain control over the assets. Amounts paid under these agreements are included in "cash and balances with SAMA", "due from banks and other financial institutions" or "financing and advances", as appropriate. The difference between purchase and resale price is treated as special commission income which is accrued over the life of the reverse repo agreement using the effective yield basis.

(3.9) Business combinations

Business combinations are accounted for using the acquisition method of accounting. The cost of an acquisition, being total consideration of the acquisition, is measured as the fair value of the assets given and liabilities incurred or assumed at the date of acquisition, plus costs directly attributable to the acquisition that occurred prior to 1 January 2010. For any subsequent acquisitions, the cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition related costs are expensed as incurred and are included in administrative expenses.

Identifiable assets acquired (including previously unrecognized intangible assets) and liabilities (including contingent liabilities) in an acquisition are measured initially at fair values at the date of acquisition, irrespective of the extent of any non-controlling interest. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions, that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in the consolidated statement of income. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investments or other categories of investments in accordance with the relevant Group's accounting policy.

(a) Subsidiaries

Subsidiaries are entities which are controlled by the Group. To meet the definition of control, all three criteria must be met:

- i) the Group has power over the entity;
- ii) the Group has exposure, or rights, to variable returns from its involvement with the entity; and
- iii) the Group has the ability to use its power over the entity to affect the amount of the entity's returns.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.9) Business combinations (continued)

(b) Non-controlling interests

Non-controlling interests represent the portion of net income and net assets of subsidiaries not owned, directly or indirectly, by the Bank in its subsidiaries and are presented separately in the consolidated statement of income and within equity in the consolidated statement of financial position, separately from Bank equity. Any losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(c) Associates

Associates are enterprises over which the Group exercises significant influence. Investments in associates are initially recognized at cost and subsequently accounted for under the equity method of accounting and are carried in the consolidated statement of financial position at the lower of the equity-accounted or the recoverable amount.

Equity-accounted value represents the cost plus post-acquisition changes in the Group's share of net assets of the associate (share of the results, reserves and accumulated gains/losses based on latest available financial statements) less impairment, if any.

The previously recognized impairment loss in respect of investment in associate can be reversed through the consolidated statement of income, such that the carrying amount of investment in the consolidated statement of financial position remains at the lower of the equity-accounted (before allowance for impairment) or the recoverable amount.

(d) Transactions eliminated on consolidation

Inter-group balances, income and expenses (except for foreign currency transaction gains or losses) arising from inter-group transactions are eliminated in full in preparing the consolidated financial statements.

(3.10) Goodwill and other intangible assets

(a) Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses; impairment loss of goodwill is charged to the consolidated statement of income. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that its carrying value may be impaired.

(b) Other intangible assets

Intangible assets in the statement of financial position comprise of customer deposits relationships, the value of the TFK's brands, and other banking relationships. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over their estimated useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of income under amortization of intangible assets.

Amortisation of intangible assets is calculated using the straight-line method over their estimated remaining useful lives of 2-3 years.

Intangible assets with indefinite lives are reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.11) Investments

All investment securities are financial assets which are initially recognized at cost, being the fair value of the consideration given, including incremental direct transaction costs except for those transaction charges related to investments held as FVIS or for trading, which are not added to the cost at initial recognition and are charged to the consolidated statement of income. Premiums are amortised and discounts accreted using the effective yield basis and are taken to special commission income.

For securities that are traded in organised financial markets, the 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 values of managed assets and investments in mutual funds are determined by reference to declared net asset values which approximate the fair value.

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

Following initial recognition, subsequent transfers between the various classes of investments are not ordinarily permissible.

The subsequent period-end accounting treatment for each class of investment are determined on the basis as set out in the following paragraphs:

(a) Held for trading

Investments classified as held for trading are acquired principally for the purpose of selling or repurchasing in the short term.

Securities which are held for trading are subsequently measured at fair value and any gains or losses arising from a change in fair value are included in the consolidated statement of income in the period in which it arises and are disclosed as trading income.

(b) Held at fair value through income statement (FVIS)

Investments in this category are classified as FVIS on initial recognition. An investment may be designated as FVIS by the management if it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as “an accounting mismatch”) that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on different bases; or a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Group’s key management personnel. These include all hedge fund and mutual fund investments that are managed by the Group, directly or indirectly, and whose performance is evaluated on a fair value basis. Equity instruments that do not have a quoted market price in an active market and whose fair values cannot be reliably measured are not classified under this category.

After initial recognition, investments at FVIS are measured at fair value and any change in the fair value is recognized in the consolidated statement of income for the period in which it arises and are disclosed as income from FVIS investments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.11) Investments (continued)

(c) Available for sale (AFS)

Available for sale investments are non-derivative investments that are designated as AFS or not classified as another category of financial assets, and are intended to be held for an unspecified period of time, which may be sold in response to needs for liquidity or changes in special commission rates, exchange rates or equity prices.

Investments which are classified as available for sale are initially recognised at fair value including direct and incremental transaction costs and subsequently measured at fair value except for unquoted equity securities whose fair value cannot be reliably measured are carried at cost. Any unrealised gains or losses arising from changes in fair value are recognized through the consolidated statement of comprehensive income in "other reserves" under equity until the investments are derecognized or impaired whereupon any cumulative gains or losses previously recognized in equity are reclassified to consolidated statement of income for the period and are disclosed as gains/(losses) on non-trading investments.

For impairment of available for sale investments, see note 3.14(b).

(d) Held to maturity

Investments having fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity are classified as held to maturity. Held to maturity investments are initially recognised at fair value including direct and incremental transaction costs and subsequently measured at amortised cost, less allowance for impairment in their value. Amortised cost is calculated by taking into account any discount or premium on acquisition using the effective yield method. Any gain or loss on such investments is recognized in the consolidated statement of income when the investment is derecognized or impaired.

Investments classified as held to maturity cannot ordinarily be sold or reclassified without impacting the Group's ability to use this classification and cannot be designated as a hedged item with respect to special commission rate or prepayment risk, reflecting the intention to hold them to maturity.

(e) Other investments held at amortised cost

Investments having fixed or determinable payments that are not quoted in an active market are classified as other investments held at amortised cost. Such investments whose fair values have not been hedged are stated at amortised cost using an effective yield basis, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition using effective yield method. Any gain or loss is recognized in the consolidated statement of income when the investment is derecognized and are disclosed as gains/(losses) on non-trading investments.

(3.12) Financing and advances

Financing and advances are non-derivative financial assets originated or acquired by the Group with fixed or determinable payments.

Financing and advances are recognised when cash is advanced to borrowers. They are derecognized when either borrower repays their obligations, or the financing and advances are sold or written off, or substantially all the risks and rewards of ownership are transferred.

Financing and advances are initially measured at fair value of the consideration given.

Following the initial recognition, financing and advances for which fair value has not been hedged are stated at cost less any amount written off and specific and portfolio (collective) allowances for impairment.

For presentation purposes, allowance for financing losses is deducted from financing and advances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.13) Due from banks and other financial institutions

Due from banks and other financial institutions are financial assets which are mainly money market placements with fixed or determinable payments and fixed maturities that are not quoted in an active market. Money market placements are not entered into with the intention of immediate or short-term resale. Due from banks and other financial institutions are initially measured at cost, being the fair value of the consideration given.

Following the initial recognition, due from banks and other financial institutions are stated at cost less any amount written-off and specific allowances for impairment, if any, and a portfolio (collective) allowance for counterparty risk.

(3.14) Impairment of financial assets

An assessment is made at the date of each statement of financial position to determine whether there is objective evidence that a financial asset or a group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss is recognized for changes in its carrying amount as follows:

(a) Impairment of financial assets held at amortised cost

A financial asset is classified as impaired when there is an objective evidence of credit-related impairment as a result of one or more loss event(s) that occurred after the initial recognition of the asset and those loss events have an impact on the estimated future cash flows of the financial asset or group of financial assets and can be reliably estimated.

A specific allowance for financing losses, due to impairment of a financing or any other financial asset held at amortised cost, is established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the specific allowance 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 basis.

In addition to a specific allowance for financing losses of corporate financings, an additional portfolio allowance for collective impairment is made on a portfolio basis for financing losses where there is an objective evidence that unidentified losses exist at the reporting date. These are based on any deterioration in the risk rating (i.e. downward migration of risk ratings) of the financial assets since they were originally granted. This allowance is estimated based on various factors including credit ratings allocated to a borrower or group of borrowers, the current economic conditions, the experience the Group has had in dealing with a borrower or group of borrowers and available historical default information.

Financing and advances are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. In the latter case, renegotiation can result in an extension of the due date of payment or repayment plans under which the Group offers a revised rate of commission to genuinely distressed borrowers. This may result in the asset continuing to be overdue and individually impaired as the renegotiated payments of commission and principal do not recover the original carrying amount of the financing. In other cases, renegotiation leads to a new agreement, which treated as a new financing. Restructuring policies and practices are based on indicators or criteria which, indicate that payment will most likely continue. The financings continue to be subject to an individual or collective impairment assessment, calculated using the financing's original effective yield rate.

Corporate financings are written off when they are determined to be uncollectible. This determination is reached after considering information such as the number of days for which the financing has been past due, significant changes in the borrower financial position such that the borrower can no longer settle its obligations, or to the extent that proceeds from collateral held are insufficient to cover the obligations.

Consumer financings are considered to be impaired when a payment is overdue by 90 days or more. Since the risk metrics for consumer financings are based on a collective "pool" basis, rather than on individual financings, the allowances for consumer financings are also computed on a "pool basis" using the "flow rate" methodology. The allowance coverage is 100% for such non-performing financings which reach the "write-off point" (write-off points are set at 180 days past due).

The carrying amount of the asset is adjusted through the use of an allowance for impairment account and the amount of the adjustment is included in the consolidated statement of income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.14) Impairment of financial assets (continued)

(b) Impairment of financial assets held at fair value

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

If, in a subsequent period, the amount of the impairment loss on debt instruments decreases upon subsequent increase in the fair value and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the issuer's credit rating), the previously recognized impairment loss is reversed by adjusting the provision account. The amount of the reversal is recognized in the consolidated statement of income as a reversal of allowance for impairment on investment.

Where a loss has been recognized directly under equity, the cumulative net loss balance recognized in equity is transferred to the consolidated statement of income as impairment loss when the asset is considered to be impaired.

For equity investments held as available for sale, a significant or prolonged decline in fair value below its cost represents objective evidence of impairment [also see note 2.5(c)]. Unlike debt securities, the previously recognized impairment loss of equity investments cannot be reversed through the consolidated statement of income as long as the asset continues to be recognized, that is, any increase in fair value, after impairment has been recorded, can only be recognized in equity.

The Group writes off its financial assets when the respective business units together with Risk Management determine that the financial assets are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligations, or that proceeds from collateral will not be sufficient to pay back the entire exposure. The financial assets are, then, written off only in circumstances where effectively all possible means of recovery have been exhausted. For consumer financings, write off decisions are generally based on a product specific past due status. When a financial asset is uncollectible, it is written off against the related allowance for impairment, if any, and any amounts in excess of available allowance are directly charged to the consolidated statement of income.

For impairment of non-financial assets, see note [2.5(f)].

(3.15) Other real estate and repossessed assets

The Group, in the ordinary course of business, acquires certain real estate and other assets against settlement of due financing and advances. These are considered as assets held for sale and are initially stated at the lower of net realizable value of due financing and advances or the current fair value of such related assets, less any costs to sell (if material). No depreciation is charged on such assets.

Subsequent to the initial recognition, such assets are revalued on a periodic basis and adjusted for any subsequent provision for unrealized revaluation losses. Previously recognized unrealised revaluation losses of such assets can be reversed through the consolidated statement of income on an individual basis upon subsequent increase in fair value. Any unrealised losses on revaluation (or reversal), realized losses or gains on disposal and net rental income are recognised in the consolidated statement of income as other operating income, net.

The other real estate assets are disclosed in note 9 while other repossessed assets are included in other assets. Gain on disposal of repossessed assets are included in other operating income, net.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.16) Property and equipment

Property and equipment are measured at cost less accumulated depreciation and accumulated impairment loss. Freehold land is not depreciated. Changes in the expected useful lives are accounted for by changing the period or method, as appropriate, and treated as changes in accounting estimates.

The depreciable amount of other property and equipment is depreciated using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	40 years
Leasehold improvements	Over the lease period or useful economic life whichever is shorter
Furniture, equipment and vehicles	4-10 years

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at the date of each statement of financial position.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the consolidated statement of income and are disclosed as other non-operating income (expenses).

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

(3.17) Financial liabilities

All money market deposits, customers' deposits and debt securities issued are initially recognized at cost, net of transaction charges, being the fair value of the consideration received. Subsequently, all commission bearing financial liabilities, are measured at amortised cost by taking into account any discount or premium. Premiums are amortised and discounts are accreted on an effective yield basis to maturity and taken to special commission expense.

(3.18) Financial guarantees and financing commitments

In the ordinary course of business, the Group issues financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value in other liabilities, being the value of the premium received. Subsequent to the initial recognition, the Group's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligations arising as a result of guarantees net of any cash margin. Any increase in the liability relating to the financial guarantee is taken to the consolidated statement of income as impairment charge for financing losses, net. The premium received is recognised in the consolidated statement of income as fee income from banking services on a straight line basis over the life of the guarantee, if material.

The specific and portfolio (collective) allowances for letters of credit, guarantees and acceptances are included and presented under other liabilities.

Financing commitments are firm commitments to provide credit under prespecified terms and conditions.

(3.19) Provisions

Provisions (other than impairment of financing losses and investments) are recognized when a reliable estimate can be made by the Group 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.20) Accounting for leases

(a) Where the Group is the lessee

All leases entered into by the Group are operating leases. Payments made under operating leases are charged to the consolidated statement of income on a straight-line basis over the period of the lease.

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

(b) Where the Group is the lessor

When assets are transferred under a finance lease, including assets under a lease arrangement in compliance with *Shariah* rules (*Ijara*), the present value of the lease payments is recognised as a receivable and disclosed under financing and advances. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return and is disclosed as special commission income.

(3.21) Zakat, overseas income tax and deferred tax

Zakat is the liability of the shareholders. Zakat is computed on the higher of net adjusted income or adjusted shareholders' equity using the basis defined under the Saudi Zakat Regulations. Zakat is paid by the Bank on the shareholder's behalf and is not charged to the consolidated statement of income but is deducted from the gross dividend paid to the shareholders or charged to retained earnings as an appropriation of net income if no dividend has been distributed.

Overseas branches and subsidiaries are subject to income tax as per rules and regulations of the country in which they are incorporated and such taxes are reported under non-operating expenses.

For overseas subsidiaries that are subject to income tax, the deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

(3.22) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents are defined as those amounts included in cash, balances with SAMA, excluding statutory deposits, and due from banks and other financial institutions with original maturity of three months or less.

(3.23) Derecognition of financial instruments

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.24) Investment management services

The financial statements of investment management mutual funds are not included in the consolidated financial statements of the Group. Transactions with the funds are disclosed under related party transactions; the Group's share of these funds is included in held for trading investments.

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

(3.25) Financing products in compliance with Shariah rules

In addition to conventional banking products, the Bank offers its customers certain non-special commission based financing products that comply with Shariah rules. These are approved and overseen by the Bank's Shariah Board.

(3.25.1) Murabaha

Murabaha is a Shariah-compliant form of financing where the Bank, based on requests from its customers, purchases specific commodities and sells them to the customers at an agreed-upon price equal to the Bank's cost plus a specified profit margin, which is payable on a deferred basis in agreed-upon installments. The main uses of Murabaha are in residential, commercial real estate, and trade finance.

(3.25.2) Tayseer

Tayseer Alahli is a Shariah-compliant financing instrument introduced by the Bank for customers in need of cash financing. It involves the Bank buying commodities from international or local markets and selling them to customers at agreed-upon deferred installment terms. Customers, on their own, or by appointing an agent, resell the commodities to third parties for cash. The main uses of Tayseer are in personal finance, credit cards, corporate finance, structured finance, syndications, project finance, as well as interbank transactions.

(3.25.3) Ijara with a promise to transfer ownership

Ijara is a Shariah-compliant form of financing where the Bank, based on requests from customers, purchases assets with agreed-upon specifications on a cash basis and leases them to customers for an agreed-upon rent to be settled in agreed-upon installments. If the assets are in existence then it is considered to be a specified Ijara, while if the assets are not in existence then it is considered to be a forward Ijara in which case it remains a liability on the Bank to deliver the agreed upon usufruct. In the Ijara contract, the Bank promises to transfer ownership of the assets to its customers at the end the lease periods, either by sale at nominal prices or in the form of grants. The main uses of Ijara are in auto lease, residential finance, commercial real estate finance, and structured finance. The main uses of forward Ijara are in project finance as well as structured finance.

(3.25.4) Istisna'a

Istisna'a is a contract for the acquisition of assets to be manufactured in accordance with the specifications of the one who requests the assets to be manufactured/procured. In this product the Bank can either be the manufacturer/procurer (Saani) or the party who is seeking the assets to be manufactured/procured (Mustasni). In project finance, the Bank takes the role of Mustasni and agrees with the customer to deliver specified assets for an agreed upon price. The Bank pays for the asset in staged payments. At the same time, the Bank enters into a forward Ijara and leases the assets to be constructed to the customer with promise to transfer ownership. The main use of Istisna'a is in project finance combined with forward Ijara to finance the construction of new projects.

All the above Shariah-compliant financing products are accounted for in conformity with the accounting policies described in these financial statements. They are included in financing and advances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

(3.26) Shariah-compliant deposit products

The Bank offers its customers certain deposit products that comply with Shariah rules. These are approved and overseen by the Bank's Shariah Board.

(3.26.1) AlKhairaat

AlKhairaat is a Shariah-compliant product based on commodity Murabaha. The Bank acts as an agent for its customers in purchasing commodities on their behalf with their funds and then purchases these commodities for its own account from customers at agreed-upon price and deferred maturities (3,6,9 or 12 months). Being a retail product, customers are allowed to choose the investment amount, tenure, and currency. Since the Bank purchases commodities from its customers, it is liable to them for the capital they invested plus a profit.

(3.26.2) Structured AlKhairaat

This product is an enhanced deposit product which provides a Shariah compliant alternative to structured deposits. It combines a AlKhairaat placement with a promise to enter into a secondary Murabaha transaction for the benefit of the customer where the profit will be linked to a predetermined index. These are capital protected up to a specified percentage (typically 95-100%).

These Shariah-compliant deposit products are accounted for in conformity with the accounting policies described in these financial statements. They are included in customers' deposit.

(3.27) Shariah-compliant treasury products

The Bank offers its customers certain treasury products that comply with Shariah rules. These are approved and overseen by the Bank's Shariah Board and Shariah advisor.

(3.27.1) Structured Hedging Products

These products are offered to clients to hedge their existing exposure to foreign currencies. It is based on the concept of Waad (binding promise) where the Bank promises to buy/sell a particular amount of foreign currency at an agreed upon price. It may include only one Waad or a combination of Waads.

(3.27.2) Structured Investment Products

These products are offered to clients to offer them a return that is typically higher than a standard AlKhairaat. There are based on the Structured AlKhairaat product and are designed to give the customers exposure to a number of indexes including foreign currencies, precious metals and Shariah compliant equity indexes.

(3.27.3) Rates Products

These products are offered to clients who have exposure to fixed/floating rates and need hedging solutions. The products are designed around the concept of Waad to enter into Murabaha where the profit is based on a rates index or formula. It may include only one Waad or a combination of Waads.

(3.27.4) Commodity Products

These products are offered to clients who have exposure to commodity prices and need hedging solutions. These products are designed around the concept of Waad to enter into Murabaha where the profit is based on a commodity price index. It may include only one Waad or a combination of Waads.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.27) Treasury shares

Treasury shares are recorded at acquisition cost and presented as a deduction from equity. Any gains or losses on disposal of such shares are reflected under equity and shall not be recognized in the consolidated statement of income.

(3.28) End of service benefits

The provision for end of service benefits is based on the rules stated under the Saudi Arabian Labor and Workmen Law and in accordance with the local statutory requirements of the foreign branches and subsidiaries. The provision for the Bank is also in line with independent actuarial valuation.

(3.29) Staff compensation

The Bank's Board of Directors and its Nomination, Compensation and Governance Committee oversee the design and implementation of the Bank's Compensation System in accordance with SAMA's Compensation Rules and Financial Stability Board (FSB) Principles and Standards of Sound Compensation Practice.

The Nomination, Compensation and Governance Committee was established by the Board of Directors and is composed of four non-executive members including the Chairman of the Committee. The Committee's role and responsibilities are in line with SAMA's Compensation Rules.

The Committee is responsible for the development and implementation of the compensation system and oversight of its execution, with the objective of preventing excessive risk-taking and promoting corporate financial soundness. The Committee submits its recommendations, resolutions and reports to the Board of Directors for approval.

Key elements of compensation in the Bank:

(3.29.1) Fixed Compensation

The fixed compensation includes salaries, allowances and benefits. Salaries are set in relation to market rates to attract, retain and motivate talented individuals. Salary administration is based on key processes such as job evaluation, performance appraisal and pay scales structure. The competitiveness of pay scales is monitored and maintained through participation in regular market pay surveys.

(3.29.2) Variable Compensation

Variable compensation aims at driving performance and limiting excessive risk taking. The Bank operates two plans under variable compensation:

(a) Short Term Incentive Plan (Annual Performance Bonus)

The annual performance bonus aims at supporting the achievement of a set of annual financial and non-financial objectives. The financial objectives relate to the economic performance of the Bank is business, while the non-financial objectives relate to some other critical objectives relating, for example, to complying with risk and control measures, employees development, teamwork, staff morale etc.

The Bank has established a regular performance appraisal process aimed at assessing employees' performance and contribution. Annual performance bonus payments are based on employee contributions, business performance and the Bank's overall results. The overall annual performance bonus pool is set as a percentage of the Bank's net income, adjusted to reflect the core performance of the employees. The Bank does not operate a guaranteed bonus plan.

The cost of this plan is recognized in the consolidated statement of income of the year to which it relates and is normally paid during the 1st quarter of the following year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.29) Staff Compensation (continued)

(3.29.2) Variable Compensation (continued)

(b) Long Term Performance Plan

This plan aims at driving and rewarding achievements that lead to long term corporate success, measured on the basis of Return On Equity (ROE) attributable to the equity holders of the Bank. The plan is rolled out in 3-year cycles. The Bank's actual performance is assessed at the end of each cycle for determining actual payout amounts.

Although all executives whose roles and accountabilities are likely to influence the Bank's long term success are eligible to participate in this plan, their actual selection to participate in the plan is made through a vetting process to ensure their meeting of some mission critical criteria.

The cost of the plan is estimated by reference to a set of expected return-on-equity forecasts at the beginning of each cycle and is reviewed annually.

The estimated plan cycle cost is apportioned and charged equally to the annual statements of income of the plan years. The estimate is revised annually and the difference between the latter and former estimate is apportioned and charged equally over the balance of the plan cycle.

4. CASH AND BALANCES WITH SAMA

	2014	2013
	<u>SR '000</u>	<u>SR '000</u>
Cash in hand	6,723,337	5,104,443
Balances with SAMA:		
Statutory deposit	19,302,110	16,804,464
Money market placements and current accounts	<u>2,793,122</u>	<u>17,180,781</u>
Total	<u><u>28,818,569</u></u>	<u><u>39,089,688</u></u>

In accordance with article (7) of the Banking Control Law and regulations issued by Saudi Arabian Monetary Agency (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 Gregorian month (see note 33). 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2014	2013
	<u>SR '000</u>	<u>SR '000</u>
Current accounts	7,004,914	4,473,315
Money market placements	12,858,106	10,361,886
Due from banks and other financial institutions	<u>19,863,020</u>	<u>14,835,201</u>

The credit quality of due from banks and other financial institutions is managed using credit ratings, as determined by reputable external credit rating agencies (see note 31).

6. INVESTMENTS, NET

(6.1) Investments are classified as follows:

(a) Held for trading

	Domestic		International		Total	
	2014	2013	2014	2013	2014	2013
	<u>SR '000</u>	<u>SR '000</u>	<u>SR '000</u>	<u>SR '000</u>	<u>SR '000</u>	<u>SR '000</u>
Mutual funds	876,523	575,425	100,184	97,652	976,707	673,077
Held for trading	<u>876,523</u>	<u>575,425</u>	<u>100,184</u>	<u>97,652</u>	<u>976,707</u>	<u>673,077</u>

(b) Held as FVIS

	Domestic		International		Total	
	2014	2013	2014	2013	2014	2013
	<u>SR '000</u>	<u>SR '000</u>	<u>SR '000</u>	<u>SR '000</u>	<u>SR '000</u>	<u>SR '000</u>
Hedge funds	-	-	2,137,905	2,072,015	2,137,905	2,072,015
Held as FVIS	<u>-</u>	<u>-</u>	<u>2,137,905</u>	<u>2,072,015</u>	<u>2,137,905</u>	<u>2,072,015</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

6. INVESTMENTS, NET (continued)

(c) Available for sale

	Domestic		International		Total	
	2014	2013	2014	2013	2014	2013
	SR '000	SR '000	SR '000	SR '000	SR '000	SR '000
Fixed rate securities	-	-	17,725,408	19,697,704	17,725,408	19,697,704
Floating rate securities	-	-	5,630,591	4,535,279	5,630,591	4,535,279
Equity instruments	1,170,148	2,729,063	4,226,392	1,775,447	5,396,540	4,504,510
Available for sale, gross	1,170,148	2,729,063	27,582,391	26,008,430	28,752,539	28,737,493
Allowance for impairment	-	(220,516)	(831,886)	(855,149)	(831,886)	(1,075,665)
Available for sale, net	1,170,148	2,508,547	26,750,505	25,153,281	27,920,653	27,661,828

(d) Held to maturity

	Domestic		International		Total	
	2014	2013	2014	2013	2014	2013
	SR '000	SR '000	SR '000	SR '000	SR '000	SR '000
Fixed rate securities	-	-	1,447,583	1,030,246	1,447,583	1,030,246
Held to maturity	-	-	1,447,583	1,030,246	1,447,583	1,030,246

(e) Other investments held at amortised cost

	Domestic		International		Total	
	2014	2013	2014	2013	2014	2013
	SR '000	SR '000	SR '000	SR '000	SR '000	SR '000
Fixed rate securities	47,699,721	39,157,303	50,187,157	40,181,524	97,886,878	79,338,827
Floating rate securities	6,070,836	5,946,011	16,512,154	8,572,008	22,582,990	14,518,019
Other investments held at amortised cost, gross	53,770,557	45,103,314	66,699,311	48,753,532	120,469,868	93,856,846
Allowance for impairment	-	-	(49,676)	-	(49,676)	-
Other investments held at amortised cost, net	53,770,557	45,103,314	66,649,635	48,753,532	120,420,192	93,856,846
Investments, net	55,817,228	48,187,286	97,085,812	77,106,726	152,903,040	125,294,012

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

6. INVESTMENTS, NET (continued)

(6.2) The analysis of the composition of investments is as follows:

	2014 SR '000			2013 SR '000		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Fixed rate securities	18,813,485	98,246,384	117,059,869	19,974,284	80,093,459	100,067,743
Floating rate securities	5,620,458	22,593,123	28,213,581	4,442,247	14,610,085	19,052,332
Hedge funds	-	2,137,905	2,137,905	-	2,072,015	2,072,015
Equity instruments	1,140,746	4,255,794	5,396,540	2,682,161	1,822,349	4,504,510
Mutual funds and others	976,707	-	976,707	673,077	-	673,077
Investments, gross	26,551,396	127,233,206	153,784,602	27,771,769	98,597,908	126,369,677
Allowance for impairment	(24,274)	(857,288)	(881,562)	(319,792)	(755,873)	(1,075,665)
Investments, net	26,527,122	126,375,918	152,903,040	27,451,977	97,842,035	125,294,012

The above unquoted fixed rate securities and floating rate securities mainly comprise Saudi Government Securities, Foreign Government and Foreign Quasi Government Bonds.

Fixed and floating rate securities also include sovereign, corporate and bank bonds.

Quoted instruments are those which are quoted in an active market. Unquoted instruments also include certain securities which are quoted but for which there is no active market. The carrying value of such securities amounts to SR 59,199 million (2013: SR 49,741 million).

Unquoted equity instruments include unquoted investments amounting to SR 55 million (2013: SR 68 million), net of allowance for impairment, that are carried at cost as their fair values cannot be reliably measured.

Other investments held at amortised cost include investments having an amortized cost of SR 7,883 million (31 December 2013: SR Nil) which are held under a fair value hedge relationship. As at 31 December 2014, the fair value of these investments amounts to SR 8,038 million (31 December 2013: SR Nil).

Investments, net, include Saudi Treasury bills, and Saudi Government Development bonds, and Saudi Government Sukuk, that are issued by the Ministry of Finance of Saudi Arabia amounting to SR 36,636 million, (31 December 2013: SR 27,863 million) and it also include sukuk amounting to SR 30,809 million, (31 December 2013: SR 23,831).

(6.3) Collateral given

The Bank conducts Repo transactions under the terms that are usually based on the applicable GMRA (Global Master Repurchase Agreement) collateral guidelines. The counterparty is allowed to sell or repledge those securities in the event of default by the Bank (see note 14).

The carrying amount and fair value of securities pledged under agreement to repurchase (repo) are as follows:

	2014 SR '000		2013 SR '000	
	Carrying amount	Fair value	Carrying amount	Fair value
Available for sale	3,972,449	3,972,449	5,474,918	5,474,918
Held to maturity	-	-	467,765	526,514
Investments held at amortised cost	2,584,373	2,661,721	1,089,417	1,120,139
Total	6,556,822	6,634,170	7,032,100	7,121,571

The Bank has placed a margin deposit of SR 147 million (2013: SR 263 million) as an additional security for these repo transactions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

6. INVESTMENTS, NET (continued)

(6.4) The analysis of unrealized revaluation gains/losses and fair values of held to maturity investments and other investments held at amortised cost are as follows:

(a) Held to maturity

	2014				2013			
	SR '000				SR '000			
	<u>Carrying value</u>	<u>Gross unrealized gain</u>	<u>Gross unrealized loss</u>	<u>Fair value</u>	<u>Carrying value</u>	<u>Gross unrealized gain</u>	<u>Gross unrealized loss</u>	<u>Fair value</u>
Fixed rate securities	1,447,583	103,842	-	1,551,425	1,030,246	76,430	-	1,106,676
Held to maturity	1,447,583	103,842	-	1,551,425	1,030,246	76,430	-	1,106,676

(b) Other investments held at amortised cost

	2014				2013			
	SR '000				SR '000			
	<u>Carrying value</u>	<u>Gross unrealized gain</u>	<u>Gross unrealized loss</u>	<u>Fair value</u>	<u>Carrying value</u>	<u>Gross unrealized gain</u>	<u>Gross unrealized loss</u>	<u>Fair value</u>
Fixed rate securities	97,886,878	1,075,810	(575,229)	98,387,459	79,338,827	1,397,308	(1,137,476)	79,598,659
Floating rate securities	22,582,990	208,355	(87,956)	22,703,389	14,518,019	267,950	(111,284)	14,674,685
Other investments held at amortised cost, gross	120,469,868	1,284,165	(663,185)	121,090,848	93,856,846	1,665,258	(1,248,760)	94,273,344
Allowance for impairment	(49,676)	-	-	(49,676)	-	-	-	-
Total	120,420,192	1,284,165	(663,185)	121,041,172	93,856,846	1,665,258	(1,248,760)	94,273,344

(6.5) Counterparty analysis of the Group's investments, net of allowance for impairment

	2014	2013
	SR '000	SR '000
Government and Quasi Government	133,481,607	108,020,874
Corporate	8,458,804	9,911,435
Banks and other financial institutions	10,962,629	7,361,703
Total	152,903,040	125,294,012

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

6. INVESTMENTS, NET (continued)

(6.6) Credit quality of investments

The credit quality of investments (excluding investment in equity instruments, hedge funds and mutual funds) is managed using reputable external credit rating agencies.

The table below shows the credit quality by class of asset.

	2014	2013
	<u>SR '000</u>	<u>SR '000</u>
Performing:		
Saudi Government Bonds, Sukuk and Treasury Bills	36,636,451	27,994,537
Investment grade	107,615,881	89,854,617
Non-investment grade	992,728	1,165,150
Unrated	5,889	83,171
Total performing	145,250,949	119,097,475
Less: portfolio (collective) allowance	(57,345)	(84,566)
Net performing	<u>145,193,604</u>	<u>119,012,909</u>

Investments classified under investment grade above comprise of credit exposures equivalent to Aaa to Baa3 ratings determined by reputable rating agencies.

(6.7) Movement in the allowance for impairment on investments

The accumulated credit-related allowance for investments is as follows:

	2014	2013
	<u>SR '000</u>	<u>SR '000</u>
Balance at beginning of the year	1,075,665	1,086,387
Net charge for the year	149,727	40,406
(Written-off) against investments sold	(343,830)	(51,128)
Balance at the end of the year	<u>881,562</u>	<u>1,075,665</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

7. FINANCING AND ADVANCES, NET

(7.1) Financing and advances

	<u>SR '000</u>				
	<u>Credit cards</u>	<u>Consumer</u>	<u>Corporate</u>	<u>Others</u>	<u>Total</u>
2014					
Performing financing and advances	2,857,685	72,358,008	143,384,617	4,403,062	223,003,372
Non-performing financing and advances	80,446	468,914	2,282,069	19,827	2,851,256
Total financing and advances	2,938,131	72,826,922	145,666,686	4,422,889	225,854,628
Allowance for financing losses	(113,890)	(1,258,384)	(3,729,746)	(30,245)	(5,132,265)
Financing and advances, net	2,824,241	71,568,538	141,936,940	4,392,644	220,722,363
	<u>SR '000</u>				
	<u>Credit cards</u>	<u>Consumer</u>	<u>Corporate</u>	<u>Others</u>	<u>Total</u>
2013					
Performing financing and advances	2,421,326	60,342,003	123,921,786	2,924,656	189,609,771
Non-performing financing and advances	62,053	373,211	2,424,432	59,752	2,919,448
Total financing and advances	2,483,379	60,715,214	126,346,218	2,984,408	192,529,219
Allowance for financing losses	(67,922)	(803,085)	(3,902,667)	(68,508)	(4,842,182)
Financing and advances, net	2,415,457	59,912,129	122,443,551	2,915,900	187,687,037

Others include private banking customers and bank loans.

Financing and advances, net, include financing products in compliance with Shariah rules mainly Murabaha, Tayseer and Ijara amounting to SR 172,955 million (2013: SR 155,639 million).

Allowance for financing losses related to financing products in compliance with Shariah rules is SR 4,137 million (2013: SR 3,446 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

7. FINANCING AND ADVANCES, NET (continued)

(7.2) Movements in the allowance for financing losses

The accumulated allowance for financing losses is as follows:

		<u>SR '000</u>			
	<u>Credit cards</u>	<u>Consumer</u>	<u>Corporate</u>	<u>Others</u>	<u>Total</u>
2014					
Balance at beginning of the year	67,922	803,085	3,902,667	68,508	4,842,182
Foreign currency translation adjustment	(3,022)	(7,177)	(76,943)	-	(87,142)
Provided (reversed) during the year	177,740	1,278,832	825,108	(38,263)	2,243,417
Bad debts (written off)	(126,697)	(810,770)	(641,062)	-	(1,578,529)
(Recoveries) of amounts previously provided	(2,053)	(5,586)	(280,024)	-	(287,663)
Balance at the end of the year	113,890	1,258,384	3,729,746	30,245	5,132,265

		<u>SR '000</u>			
	<u>Credit cards</u>	<u>Consumer</u>	<u>Corporate</u>	<u>Others</u>	<u>Total</u>
2013					
Balance at beginning of the year	111,728	808,975	6,008,470	125,956	7,055,129
Foreign currency translation adjustment	(2,217)	(9,526)	(114,106)	-	(125,849)
Provided during the year	77,050	655,031	619,253	-	1,351,334
Bad debts (written off)	(116,463)	(646,390)	(2,428,151)	(57,448)	(3,248,452)
(Recoveries) of amounts previously provided	(2,176)	(5,005)	(182,799)	-	(189,980)
Balance at the end of the year	67,922	803,085	3,902,667	68,508	4,842,182

(7.3) Impairment charge for financing losses in the consolidated statement of income represents:

	2014	2013
	<u>SR '000</u>	<u>SR '000</u>
Additions during the year	2,243,417	1,351,334
(Recoveries) of amounts previously provided	(287,663)	(189,980)
	1,955,754	1,161,354
Allowance against indirect facilities (included in other liabilities) (note 17)	97,379	32,662
(Recoveries) of debts previously written-off	(1,060,739)	(403,209)
Direct write-off	3,070	4,538
Net charge for the year (impairment charge for financing losses, net)	995,464	795,345

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

7. FINANCING AND ADVANCES, NET (continued)

(7.4) Credit quality of financing and advances

The Group uses an internal classification system based on risk ratings for its corporate and middle market customers. The risk rating system, which is managed by specialised unit, provides a rating at the obligor level. The risk rating system includes twenty grades, of which sixteen grades relate to the performing portfolio as follows:

- Level 1: represents very strong quality (i.e. top 8 risk rating grades);
- Level 2: represents good quality (i.e. 9th and 10th risk rating grades);
- Level 3: represents satisfactory quality (i.e. 11th and 12th risk rating grades) and
- Level 4: represents satisfactory quality, with higher risk (i.e. 13th to 16th risk rating grades).

The lowest four grades (i.e. 17th to 20th rating grades) relate to the non-performing portfolio.

The credit quality of financing and advances is managed using internal credit ratings. The table below shows the credit quality by class of asset.

	SR '000			
	Loans and advances			
	<u>Consumer and</u>			
	<u>Credit cards</u>	<u>Corporate</u>	<u>Others</u>	<u>Total</u>
2014				
Performing:				
<u>Neither past due nor impaired</u>				
<u>(performing)</u>				
Level 1	-	102,988,752	1,004,167	103,992,919
Level 2	-	29,354,296	-	29,354,296
Level 3	-	5,362,671	-	5,362,671
Level 4	-	1,538,590	-	1,538,590
Standard - unrated	71,858,076	2,019,065	3,398,895	77,276,036
Total	71,858,076	141,263,374	4,403,062	217,524,512
<u>Past due but not impaired (performing)</u>				
Less than 30 days	2,465,137	1,320,944	-	3,786,081
30-59 days	607,419	485,568	-	1,092,987
60-90 days	285,061	314,731	-	599,792
Sub total	3,357,617	2,121,243	-	5,478,860
Total performing	75,215,693	143,384,617	4,403,062	223,003,372
Less: portfolio (collective) allowance	(1,025,290)	(1,699,964)	(30,245)	(2,755,499)
Net performing	74,190,403	141,684,653	4,372,817	220,247,873
Non-performing:				
Total non-performing	549,360	2,282,069	19,827	2,851,256
Less: specific allowance	(346,984)	(2,029,782)	-	(2,376,766)
Net non-performing	202,376	252,287	19,827	474,490
Total financing and advances, net	74,392,779	141,936,940	4,392,644	220,722,363

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

7. FINANCING AND ADVANCES, NET (continued)

(7.4) Credit quality of financing and advances (continued)

	SR '000			
	Loans and advances			
	Consumer and <u>Credit cards</u>	<u>Corporate</u>	<u>Others</u>	<u>Total</u>
2013				
Performing:				
<u>Neither past due nor impaired</u> <u>(performing)</u>				
Level 1	-	89,291,536	1,000,000	90,291,536
Level 2	-	24,297,814	-	24,297,814
Level 3	-	4,036,836	-	4,036,836
Level 4	-	2,730,051	-	2,730,051
Standard - unrated	59,715,666	1,731,828	1,923,811	63,371,305
Total	59,715,666	122,088,065	2,923,811	184,727,542
<u>Past due but not impaired (performing)</u>				
Less than 30 days	2,387,702	1,043,142	845	3,431,689
30-59 days	450,191	467,170	-	917,361
60-90 days	209,770	323,409	-	533,179
Sub total	3,047,663	1,833,721	845	4,882,229
Total performing	62,763,329	123,921,786	2,924,656	189,609,771
Less: portfolio (collective) allowance	(541,929)	(1,836,079)	(30,245)	(2,408,253)
Net performing	62,221,400	122,085,707	2,894,411	187,201,518
Non-performing:				
Total non-performing	435,264	2,424,432	59,752	2,919,448
Less: specific allowance	(329,078)	(2,066,588)	(38,263)	(2,433,929)
Net non-performing	106,186	357,844	21,489	485,519
Total financing and advances, net	62,327,586	122,443,551	2,915,900	187,687,037

Standard - unrated loans mainly comprise of consumer, credit cards, small businesses and private banking loans.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

7. FINANCING AND ADVANCES, NET (continued)

(7.4) Credit quality of financing and advances (continued)

Collateral

The Group, in the ordinary course of its lending activities, holds collaterals as security to mitigate credit risk in the financing and advances. These collaterals mostly include time and demand and other cash deposits, financial guarantees, local and international equities, real estate and other long term assets. The collaterals are held mainly against commercial and consumer loans and are managed against relevant exposures at their net realizable values.

Fair value of collateral held by Group against financing and advances by each category are as follows:

	2014	2013
	<u>SR '000</u>	<u>SR '000</u>
Neither past due nor impaired	69,253,226	53,413,123
Past due but not impaired	2,991,781	2,495,826
Impaired	794,902	590,744
Total	<u>73,039,909</u>	<u>56,499,693</u>

Those collaterals, which are not readily convertible into cash (i.e. real estate), are accepted by the Group with intent to dispose off in case of default by the customer.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

7. FINANCING AND ADVANCES, NET (continued)

(7.5) Economic sector risk concentrations for the financing and advances and allowances for financing losses are as follows:

	Performing SR' 000	Non- performing SR' 000	Specific allowance SR' 000	Financing and advances, net SR' 000
2014				
Government and quasi Government	2,427,208	-	-	2,427,208
Banks and other financial institutions	5,760,277	3,211	(2,997)	5,760,491
Agriculture and fishing	825,282	25,776	(17,846)	833,212
Manufacturing	30,458,237	484,610	(421,329)	30,521,518
Mining and quarrying	4,219,715	5,265	(2,739)	4,222,241
Electricity, water, gas and health services	10,010,757	8,531	(7,875)	10,011,413
Building and construction	15,892,234	559,573	(512,413)	15,939,394
Commerce	41,480,370	1,044,017	(936,016)	41,588,371
Transportation and communication	12,240,738	42,951	(38,070)	12,245,619
Services	19,679,496	37,146	(32,769)	19,683,873
Consumer loans and credit cards	75,215,693	549,360	(346,984)	75,418,069
Others	4,793,365	90,816	(57,728)	4,826,453
	<u>223,003,372</u>	<u>2,851,256</u>	<u>(2,376,766)</u>	<u>223,477,862</u>
Portfolio (collective) allowance				<u>(2,755,499)</u>
Financing and advances, net				<u><u>220,722,363</u></u>
	Performing SR' 000	Non- performing SR' 000	Specific allowance SR' 000	Financing and advances, net SR' 000
2013				
Government and quasi Government	2,457,470	-	-	2,457,470
Banks and other financial institutions	2,874,054	4,127	(3,880)	2,874,301
Agriculture and fishing	677,142	20,618	(11,903)	685,857
Manufacturing	26,767,947	477,785	(346,275)	26,899,457
Mining and quarrying	3,081,182	2,317	(1,953)	3,081,546
Electricity, water, gas and health services	10,124,612	9,021	(4,362)	10,129,271
Building and construction	13,340,121	585,742	(540,007)	13,385,856
Commerce	34,646,562	1,221,753	(1,076,443)	34,791,872
Transportation and communication	12,805,082	25,583	(23,715)	12,806,950
Services	16,736,394	47,857	(40,168)	16,744,083
Consumer loans and credit cards	62,763,329	435,264	(329,081)	62,869,512
Others	3,335,877	89,380	(56,140)	3,369,117
	<u>189,609,772</u>	<u>2,919,447</u>	<u>(2,433,927)</u>	<u>190,095,292</u>
Portfolio (collective) allowance				<u>(2,408,255)</u>
Financing and advances, net				<u><u>187,687,037</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

7. FINANCING AND ADVANCES, NET (continued)

(7.6) Financing and advances include finance lease receivables (including Ijara in compliance with Shariah rules) which are analysed as follows:

	2014 SR '000	2013 <u>SR '000</u>
Gross receivables from finance leases:		
Less than 1 year	1,219,720	991,142
1 to 5 years	13,387,245	8,718,452
Over 5 years	18,577,964	12,699,540
	33,184,929	22,409,134
Unearned finance income on finance leases	(8,763,470)	(5,419,023)
Net finance lease receivables	24,421,459	16,990,111

Allowance for uncollectable finance lease receivables included in the allowance for financing losses is SR 513 million (2013: SR 330 million).

8. INVESTMENT IN ASSOCIATES, NET

	2014 SR '000	2013 <u>SR '000</u>
Cost:		
At the beginning/end of the year	1,487,450	1,487,450
Disposal	(473,450)	-
At 31 December	1,014,000	1,487,450
Allowance for impairment and share of losses:		
At beginning of the year	(658,535)	(654,819)
Reversal of impairment, net (note 26)	52,370	(3,716)
At 31 December	(606,165)	(658,535)
Investment in associates, net	407,835	828,915

Investment in associates represents a 60% (31 December 2013: 60%) ownership interest in the Commercial Real Estate Markets Company and 30% (31 December 2013: 30%) ownership interest in Al-Ahli Takaful Company, which are both registered in the Kingdom of Saudi Arabia.

During the year ended 31 December 2014, an associate of the Bank (Al Behar Real Estate Investment Company ("the associate")) distributed its capital among its shareholders as a part of its liquidation process and as a consideration transferred the title of certain real estate properties to the Bank. Accordingly, the Bank received properties having a market value of SR 473.4 million, as a result of this, the Bank has reversed previously recognized impairment losses in respect of the associate amounting to SR 253.7 million. Subsequent to the transfer of legal title, the Bank has leased these properties ("leased properties") under an Ijara arrangement for a period of 5 years and recognized a gain on derecognition of the leased properties amounting to SR 146.6 million which is recognised in the consolidated statement of income as a part of other non-operating (expenses) income, net.

The National Commercial Bank
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2014

9. OTHER REAL ESTATE, NET

	2014	2013
	<u>SR '000</u>	<u>SR '000</u>
Cost:		
At beginning of the year	285,972	304,822
Additions	1,153,165	49,552
Disposals	(505,970)	(68,402)
At 31 December	933,167	285,972
Provision and foreign currency translation:		
Foreign currency translation adjustment	(27,066)	(20,493)
Provision for unrealized revaluation losses	(47,581)	(49,478)
At 31 December	(74,647)	(69,971)
Total	858,520	216,001

During 31 December 2014, the Bank received certain real estate properties, amounting to SR 0.6 billion (31 December 2013: SR Nil), as full and final settlement against a previously written-off loan.

10. PROPERTY AND EQUIPMENT, NET

	2014			2013		
	Land, buildings and leasehold improvements	Furniture, equipment and vehicles	Total	Land, buildings and leasehold improvements	Furniture, equipment and vehicles	Total
	<u>SR '000</u>	<u>SR '000</u>	<u>SR '000</u>	<u>SR '000</u>	<u>SR '000</u>	<u>SR '000</u>
Cost:						
At beginning of the year	3,247,168	2,698,413	5,945,581	2,951,701	2,402,233	5,353,934
Foreign currency translation adjustment	(20,188)	(35,975)	(56,163)	(32,174)	(58,271)	(90,445)
Additions	612,214	641,912	1,254,126	328,259	422,745	751,004
Disposals and retirements	(35,004)	(75,619)	(110,623)	(618)	(68,294)	(68,912)
At 31 December	3,804,190	3,228,731	7,032,921	3,247,168	2,698,413	5,945,581
Accumulated depreciation:						
At beginning of the year	1,443,600	1,740,453	3,184,053	1,316,595	1,487,443	2,804,038
Foreign currency translation adjustment	(11,399)	(23,507)	(34,906)	(12,436)	(39,209)	(51,645)
Charge for the year	135,168	365,518	500,686	139,721	338,169	477,890
Disposals and retirements	(12,620)	(31,691)	(44,311)	(280)	(45,950)	(46,230)
At 31 December	1,554,749	2,050,773	3,605,522	1,443,600	1,740,453	3,184,053
Net book value:						
As at 31 December	2,249,441	1,177,958	3,427,399	1,803,568	957,960	2,761,528

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

11. GOODWILL AND OTHER INTANGIBLE ASSETS, NET

(11.1) Net book value

	2014		2013	
	<u>Goodwill</u>	<u>Other</u>	<u>Goodwill</u>	<u>Other</u>
	<u>SR '000</u>	<u>intangibles</u>	<u>SR '000</u>	<u>intangibles</u>
		<u>SR '000</u>	<u>SR '000</u>	<u>SR '000</u>
Cost:				
At beginning of the year	1,330,927	1,043,001	1,579,854	1,238,076
Foreign currency translation adjustment	(117,158)	(91,813)	(248,927)	(195,075)
At 31 December	1,213,769	951,188	1,330,927	1,043,001
Amortisation, impairment and foreign currency translation:				
At beginning of the year	790,030	710,262	937,792	708,040
Amortisation charge for the year	-	189,337	-	189,337
Foreign currency translation adjustment	(69,531)	(148,439)	(147,762)	(187,115)
At 31 December	720,499	751,160	790,030	710,262
Net book value:				
At 31 December	493,270	200,028	540,897	332,739

(11.2) Türkiye Finans Katılım Bankası A.Ş., (TFK)

In accordance with the requirements of International Financial Reporting Standards, the Group's management has carried out an impairment test in respect of the goodwill arising on the acquisition of Türkiye Finans Katılım Bankası A.Ş. (TFK). The recoverable amount of TFK has been determined based on the higher of value in use or fair value less cost to sell. The two key assumptions used in the test are the discount rate and estimated future cash flows from the business.

An average discount rate of 14.7% (2013: 14.2%) was used to discount future cash flows over a five year period.

A real long term growth rate of 4% (2013: 4%) was used in the terminal value calculation.

Using the above rates, the recoverable amount based on value in use was higher than the carrying value; hence no impairment loss on goodwill is required to be recognised in 2014 in respect of TFK.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2014

12. OTHER ASSETS

	2014 <u>SR '000</u>	2013 <u>SR '000</u>
Accrued special commission income receivable:		
- banks and other financial institutions	22,301	22,851
- investments	1,032,445	812,979
- financing and advances	1,183,175	787,065
- derivatives	139,697	45,679
	<u>2,377,618</u>	<u>1,668,574</u>
Total accrued special commission income receivable		
Prepayments and accounts receivable	427,094	406,393
Margin deposits against derivatives and repos (notes 6.3, 14 and 31)	1,018,290	437,307
Assets purchased - Murabaha	916,033	1,008,483
Positive fair value of derivatives, net (note 13)	1,039,048	503,733
Others	1,405,957	1,676,733
	<u>7,184,040</u>	<u>5,701,223</u>
Total		

13. DERIVATIVES

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

(a) Swaps

Swaps are commitments to exchange one set of cash flows for another. For special commission rate swaps, counterparties generally exchange fixed and floating rate special commission payments in a single currency without exchanging principal. For currency swaps, fixed special commission payments and principal are exchanged in different currencies. For cross-currency special commission rate swaps, principal and fixed and floating special commission payments are exchanged in different currencies.

(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 special commission rate futures are transacted in standardized amounts on regulated exchanges. Changes in futures contract values are settled daily.

(c) Forward rate agreements

Forward rate agreements are individually negotiated special commission rate contracts that call for a cash settlement for the difference between a contracted special commission rate and the market rate on a specified future date, based 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2014

13. DERIVATIVES (continued)

(e) Structured derivative products

Structured derivative products provide financial solutions to the customers of the Group to manage their risks in respect of foreign exchange, special commission rate and commodity exposures and enhance yields by allowing deployment of excess liquidity within specific risk and return profiles. The majority of the Group's structured derivative transactions are entered on a back-to-back basis with various counterparties.

(13.1) Derivatives held for trading purposes

Most of the Group'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 profiting from price differentials between markets or products.

(13.2) Derivatives held for hedging purposes

The Group has adopted a comprehensive system for the measurement and management of risk (see note 31 - credit risk, note 32 - market risk and note 33 - liquidity risk). Part of the risk management process involves managing the Group's exposure to fluctuations in foreign exchange and special commission rates to reduce its exposure to currency and special commission rate risks to acceptable levels as determined by the Board of Directors 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 monitored on a daily basis and hedging strategies are used to ensure that positions are maintained within the established limits. The Board of Directors has established the level of special commission rate risk by setting limits on special commission rate gaps for stipulated periods. Asset and liability special commission rate gaps are reviewed on a periodic basis and hedging strategies are used to reduce special commission rate gaps to within the established limits.

As part of its asset and liability management, the Group uses derivatives for hedging purposes in order to adjust its own exposure to currency and special commission rate risks. This is generally achieved by hedging specific transactions as well as strategic hedging against overall statement of financial position exposures. Strategic hedging does not qualify for special hedge accounting and the related derivatives are accounted for as held for trading, such as special commission rate swaps, special commission rate options and futures, forward foreign exchange contracts and currency options.

The Group uses special commission rate swaps to hedge against the special commission rate risk arising from specifically identified fixed special commission rate exposures. The Group also uses special commission rate swaps to hedge against the cash flow risk arising on certain floating rate exposures. In all such cases, the hedging relationship and objective, including details of the hedged items and hedging instrument, are formally documented and the transactions are accounted for as fair value or cash flow hedges.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

13. DERIVATIVES (continued)

The tables below show 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. These notional amounts, therefore, are neither indicative of the Group's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor to market risk.

(SR '000)								
Notional amounts by term to maturity								
2014	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:								
Special commission rate swaps	392,995	(434,800)	38,342,362	638,364	2,984,461	27,317,096	7,402,441	32,715,063
Special commission rate options and futures	56,411	(56,411)	1,472,487	-	-	-	1,472,487	694,363
Forward foreign exchange contracts	90,525	(56,886)	96,510,925	37,870,198	52,834,804	5,805,923	-	79,261,524
Options	2,868	(2,868)	224,869	20,000	22,369	182,500	-	466,788
Structured derivatives	393,031	(393,189)	91,133,259	11,867,137	38,293,905	39,972,217	1,000,000	117,879,501
Held as fair value hedges:								
Special commission rate swaps	16,580	(320,097)	9,268,872	-	-	4,091,536	5,177,336	7,520,130
Held as cash flow hedges:								
Special commission rate swaps	86,638	(96,456)	12,333,122	937,500	391,667	8,239,912	2,764,043	11,169,525
Total fair value, net (notes 12 & 17)	1,039,048	(1,360,707)	249,285,896	51,333,199	94,527,206	85,609,184	17,816,307	

(SR '000)								
Notional amounts by term to maturity								
2013	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:								
Special commission rate swaps	197,790	(187,164)	18,630,106	-	729,836	16,465,104	1,435,166	12,952,404
Special commission rate options and futures	-	-	-	-	-	-	-	-
Forward foreign exchange contracts	117,001	(90,446)	59,929,689	43,592,590	16,320,205	16,894	-	58,024,978
Options	1,860	(1,860)	660,508	545,872	114,636	-	-	3,700,735
Structured derivatives	155,251	(155,664)	42,491,314	5,940,282	18,668,254	17,882,778	-	49,037,201
Held as fair value hedges:								
Special commission rate swaps	-	(155,041)	843,750	-	-	843,750	-	843,750
Held as cash flow hedges:								
Special commission rate swaps	31,831	(48,246)	7,349,059	-	200,000	4,796,559	2,352,500	8,584,364
Total fair value, net (notes 12 & 17)	503,733	(638,421)	129,904,426	50,078,744	36,032,931	40,005,085	3,787,666	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

13. DERIVATIVES (continued)

The table below shows a summary of hedged items and portfolios, the nature of the risk being hedged, the hedging instrument and its fair value.

<u>(SR '000)</u>						
2014	<u>Fair value</u>	<u>Cost</u>	<u>Risk</u>	<u>Hedging instrument</u>	<u>Positive fair value</u>	<u>Negative fair value</u>
Description of hedged items						
Fixed rate instruments	9,683,809	9,268,872	Fair value	Special commission rate swap	16,580	(320,097)
Fixed rate and floating rate instruments	12,366,139	12,333,121	Cash flow	Special commission rate swap	86,638	(96,456)
<u>(SR '000)</u>						
2013	<u>Fair value</u>	<u>Cost</u>	<u>Risk</u>	<u>Hedging instrument</u>	<u>Positive fair value</u>	<u>Negative fair value</u>
Description of hedged items						
Fixed rate instruments	1,010,045	843,750	Fair value	Special commission rate swap	-	(155,041)
Fixed rate and floating rate instruments	7,386,839	7,349,059	Cash flow	Special commission rate swap	31,831	(48,246)

The losses on the hedging instruments for fair value hedges are SR 153 million (2013: SR 58 million). The gains on the hedged items attributable to the hedged risk are SR 153 million (2013: SR 58 million). Thus, the net fair value is SR nil (2013: SR nil).

Approximately 24% (2013: 9%) of the positive fair value of the Group's derivatives are entered into with financial institutions and 76% (2013: 91%) of the positive fair value contracts are with non-financial institutions at the consolidated statement of financial position date. Derivative activities are mainly carried out under the Group's Treasury segment.

Cash flows hedges:

The Bank is exposed to variability in future special commission cash flows on non-trading assets and liabilities which bear special commission at a variable rate. The Bank generally uses special commission rate swaps as hedging instruments to hedge against these special commission rate risks.

Below is the schedule indicating as at 31 December, the periods when the hedged cash flows are expected to occur and when they are expected to affect profit or loss:

	<u>SR' 000</u>			
	<u>Within 1 year</u>	<u>1-3 years</u>	<u>3-5 years</u>	<u>Over 5 years</u>
2014				
Cash inflows (assets)	304,912	539,282	473,261	147,581
Cash outflows (liabilities)	(186,076)	(360,574)	(304,728)	(152,742)
Net cash inflows/outflows	118,836	178,708	168,533	(5,161)
<u>SR' 000</u>				
	<u>Within 1 year</u>	<u>1-3 years</u>	<u>3-5 years</u>	<u>Over 5 years</u>
2013				
Cash inflows (assets)	220,922	319,727	150,280	207,842
Cash outflows (liabilities)	(171,632)	(275,242)	(180,589)	(311,737)
Net cash inflows/outflows	49,290	44,485	(30,309)	(103,895)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

13. DERIVATIVES (continued)

Cash flows hedges (continued)

The net gain on cash flow hedges reclassified to the consolidated statement of income during the year was as follows:

	2014	2013
	<u>SR '000</u>	<u>SR '000</u>
Special commission income	305,178	179,339
Special commission expense	(301,528)	(133,450)
Net gain on cash flow hedges reclassified to the consolidated statement of income	<u>3,650</u>	<u>45,889</u>

Movements in the other reserve of cash flows hedges:

	2014	2013
	<u>SR '000</u>	<u>SR '000</u>
Balance at beginning of the year	30,795	91,359
Net (loss) on cash flow hedges reclassified to the consolidated statement of income	(12,859)	(40,161)
Gains/(losses) from changes in fair value recognised directly in equity, net (effective portion)	19,078	(20,403)
Balance at end of the year	<u>37,014</u>	<u>30,795</u>

The discontinuation of hedge accounting due to disposal of both the hedging instruments and the hedged items, resulted in reclassification of the associated cumulative gains of SR 9.2 million (2013: SR 10.8) from equity to consolidated statement of income, included in the gains above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

14. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2014	2013
	<u>SR '000</u>	<u>SR '000</u>
Current accounts	5,972,734	2,977,296
Money market deposits	22,768,154	14,467,698
Repos (note 6.3)	6,708,600	7,287,207
Total	<u>35,449,488</u>	<u>24,732,201</u>

15. CUSTOMERS' DEPOSITS

	2014	2013
	<u>SR '000</u>	<u>SR '000</u>
Current accounts	251,905,754	234,988,516
Savings	152,178	148,015
Time	67,034,136	53,095,364
Others	14,003,423	12,369,527
Total	<u>333,095,491</u>	<u>300,601,422</u>

Other customers' deposits include SR 4,167 million (2013: SR 3,531 million) of margins held for irrevocable commitments and contingencies.

Foreign currency deposits included in customers' deposits:

	2014	2013
	<u>SR '000</u>	<u>SR '000</u>
Current accounts	15,366,826	30,137,011
Savings	341	374
Time	34,492,715	31,415,619
Others	1,627,972	1,266,922
Total	<u>51,487,854</u>	<u>62,819,926</u>

The National Commercial Bank
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

16. DEBT SECURITIES ISSUED

<u>Issuer</u>	<u>Period of issue</u>	<u>Tenure</u>	<u>Particulars</u>	2014 SR '000	2013 SR '000
National Commercial Bank	Feb 2014	10 years	Non-convertible unlisted sukuk, callable on the 5th anniversary of the issue date, carrying profit payable semi-annually.	5,000,000	-
Türkiye Finans Katılım Bankası A.Ş.	May 2013	5 years	Non-convertible sukuk listed on the Irish Stock Exchange, carrying profit at a fixed rate payable semi-	1,503,544	1,511,250
	April 2014	5 years	Non-convertible sukuk listed on the Irish Stock Exchange, carrying profit at a fixed rate payable semi-	1,867,294	-
	June 2014	5 years	Non-convertible unlisted sukuk, carrying profit at a fixed rate payable semi-annually.	853,578	-
	August 2014	6 months	Non-convertible sukuk listed on the Borsa Istanbul, carrying profit payable semi-annually.	229,450	-
	December 2014	6 months	Non-convertible sukuk listed on the Borsa Istanbul, carrying profit payable quarterly.	96,630	-
Total				9,550,496	1,511,250

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

17. OTHER LIABILITIES

	2014	2013
	<u>SR '000</u>	<u>SR '000</u>
Accrued special commission expense payable:		
- banks and other financial institutions	59,636	35,259
- customers' deposits	275,085	206,296
- debt securities issued	67,423	10,114
- derivatives	324,988	55,451
Total accrued special commission expense payable	<u>727,132</u>	<u>307,120</u>
Negative fair value of derivatives (note 13)	1,360,707	638,421
Zakat (NCB and NCBC)	946,634	889,876
Staff-related payables	2,413,484	1,917,343
Accrued expenses and accounts payable	810,199	730,822
Allowances for indirect facilities (note 7.3)	523,708	430,503
Others	3,079,854	2,992,103
Total	<u>9,861,718</u>	<u>7,906,188</u>

18. SHARE CAPITAL

The authorized, issued and fully paid share capital of the Bank consists of 2,000,000,000 shares of SR 10 each (31 December 2013: 1,500,000,000 shares of SR 10 each) wholly owned by Saudi shareholders. The capital of the Bank excluding treasury shares consists of 1,994,633,531 shares of SR 10 each (31 December 2013: 1,495,975,148 shares of SR 10 each).

The Board of Directors in its meeting held on 29 January 2014 (corresponding to 28 Rabi Al-Awal 1435H) proposed to increase the authorised and issued share capital of the Bank from SR 15 billion to SR 20 billion through capitalization of retained earnings and issuance of 33.33% bonus shares (one share for each three shares held as at 31 December 2013). The proposed increase in share capital was approved by the shareholders in the extraordinary general assembly meeting held on 31 March 2014.

19. STATUTORY RESERVE

In accordance with Saudi Arabian Banking Control Law, a minimum of 25% of the annual net income, inclusive of the overseas branches, is required to be transferred to a statutory reserve until this reserve equals the paid up capital of the Bank.

Pursuant to the Lebanese Money and Credit Law, the Lebanon branch is required to transfer 10% of its annual net income to the statutory reserve. The Turkish Bank transferred 5% of its previous year annual net income to statutory reserve.

The statutory reserves are not currently available for distribution.

20. OTHER RESERVES (cumulative changes in fair values)

Other reserves represent the net unrealized revaluation gains (losses) of cash flow hedges (effective portion) and available for sale investments. The movement of other reserves during the year is included under consolidated statement of other comprehensive income and the consolidated statement of changes in equity. These reserves are not available for distribution.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

21. COMMITMENTS AND CONTINGENCIES

(21.1) Legal proceedings

The Bank was named as one of many Saudi and non-Saudi defendants in certain lawsuits initiated in the United States commencing in 2002. These lawsuits were consolidated in a Federal Court in New York for preliminary pre-trial purposes. During 2004, the Bank filed motions to dismiss the lead lawsuits followed by, in July 2008, with a renewed motion to dismiss all of these lawsuits based on a lack of United States jurisdiction over the Bank. On 16 June 2010, the Presiding Judge granted the Bank's renewed motion to dismiss all of plaintiffs' claims. Thereafter, on 14 July 2011, the Clerk of the Court issued a formal judgment of dismissal. The plaintiffs appealed. Oral arguments followed in December 2012 with the Court of Appeals affirming on 16 April 2013 the trial court's judgment dismissing the claims against the Bank for lack of jurisdiction. On 10 May 2013, the plaintiffs filed a petition for rehearing of the appeal which the Court of Appeals denied on 10 June 2013.

On 9 September 2013, the plaintiffs sought a discretionary further (and final) review of the Court of Appeals' decision by way of a petition for a writ of certiorari to the United States Supreme Court. The Bank joined with other similarly situated defendants (those dismissed for lack of jurisdiction) in a common Brief in Opposition filed in November 2013. On 16 December 2013, the Supreme Court invited the Solicitor General of the United States to submit the views of the U.S. government. In a brief filed on 27 May 2014, the Solicitor General expressed "the view of the United States [that] the petition for certiorari should be denied." The plaintiffs filed a supplemental brief on 9 June 2014 disagreeing with the views of the United States.

On 30 June 2014, the Supreme Court denied plaintiffs' petition for a writ of certiorari ("order of denial"). The plaintiffs then had until 25 July 2014 to submit a petition for rehearing of the order of denial. The Court's rules provide that the order of denial "will not be suspended pending disposition of a petition for rehearing" absent a further order of the Court, and that a petition for rehearing must be limited strictly to "intervening circumstances of a substantial or controlling effect or to other substantial grounds not previously presented." The Bank's US Legal Counsel took the position that the plaintiffs cannot, in good faith, satisfy the rule governing a petition for rehearing given that the Court's order of denial was entered shortly after plaintiffs' response to the Solicitor General's brief, which addressed all relevant issues. Thereafter, the Bank had been advised by its US Legal Counsel that these legal proceedings were substantively concluded in its favor as of 30 June 2014 being the date of the Court's order of denial. Subsequently, the Bank's Legal Counsel has confirmed that the plaintiffs have not filed any petition for rehearing. Accordingly, the aforesaid proceeding stands finally terminated in favor of the Bank.

(21.2) Capital and other non-credit related commitments

The Group's capital commitments as at 31 December 2014 in respect of building and equipment purchases are not material to the financial position of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

21. COMMITMENTS AND CONTINGENCIES (continued)

(21.3) Credit-related commitments and contingencies

Credit-related commitments and contingencies mainly comprise letters of credit, guarantees, acceptances and commitments to extend credit (irrevocable). The primary purpose of these instruments is to ensure that funds are available to customers as required.

Guarantees including standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that customers cannot meet their obligations to third parties, carry the same credit risk as financing and advances.

Cash requirements under guarantees are normally considerably less than the amount of the related commitment because the Group does not generally expect the third party to draw funds under the agreement.

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

Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group 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 financing and advances, guarantees and letters of credit. With respect to credit risk on commitments to extend credit, the Group 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 the commitments could expire or terminate without being funded.

(a) The contractual maturity structure of the Group's credit-related commitments and contingencies is as follows:

	<u>(SR '000)</u>				
2014	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letter of credit	13,694,319	3,957,289	349,444	7,730	18,008,782
Guarantees	11,571,486	21,542,067	15,144,325	5,362,655	53,620,533
Acceptances	2,627,932	1,345,636	74,678	16,401	4,064,647
Irrevocable commitments to extend credit	113,559	2,850,988	6,793,409	-	9,757,956
Total	28,007,296	29,695,980	22,361,856	5,386,786	85,451,918

	<u>(SR '000)</u>				
2013	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letter of credit	16,731,014	2,808,346	920,100	14,020	20,473,480
Guarantees	10,957,279	19,875,983	11,998,811	5,321,763	48,153,836
Acceptances	2,118,005	1,200,104	55,218	7,693	3,381,020
Irrevocable commitments to extend credit	-	876,220	8,448,376	341,250	9,665,846
Total	29,806,298	24,760,653	21,422,505	5,684,726	81,674,182

The National Commercial Bank
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

21. COMMITMENTS AND CONTINGENCIES (continued)

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

	2014	2013
	<u>SR '000</u>	<u>SR '000</u>
Government and quasi Government	7,570,977	5,976,544
Corporate and establishment	59,312,903	58,252,497
Banks and other financial institutions	17,472,026	16,583,853
Others	1,096,012	861,288
Total	<u>85,451,918</u>	<u>81,674,182</u>

(21.4) Operating lease commitments

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

	2014	2013
	<u>SR '000</u>	<u>SR '000</u>
Less than 1 year	238,691	222,329
1 to 5 years	630,876	606,025
Over 5 years	449,882	465,941
Total	<u>1,319,449</u>	<u>1,294,295</u>

22. NET SPECIAL COMMISSION INCOME

	2014	2013
	<u>SR '000</u>	<u>SR '000</u>
Special commission income:		
Investments - available for sale	612,917	491,605
Investments - held to maturity	35,133	51,429
Other investments held at amortised cost	2,550,728	2,132,489
Sub total - investments	<u>3,198,778</u>	<u>2,675,523</u>
Due from banks and other financial institutions	109,916	89,802
Financing and advances	10,280,444	9,044,367
Total	<u>13,589,138</u>	<u>11,809,692</u>
Special commission expense:		
Due to banks and other financial institutions	358,447	270,041
Customers' deposits	1,687,279	1,402,005
Debt securities issued	264,778	41,442
Total	<u>2,310,504</u>	<u>1,713,488</u>
Net special commission income	<u>11,278,634</u>	<u>10,096,204</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

23. FEE INCOME FROM BANKING SERVICES, NET

	2014	2013
	<u>SR '000</u>	<u>SR '000</u>
Fee income:		
Shares brokerage	466,813	323,960
Investment management services	317,332	268,138
Finance and lending	1,545,482	1,471,258
Credit cards	301,725	251,706
Trade finance	699,244	720,892
Others	264,764	194,412
Total	<u>3,595,360</u>	<u>3,230,366</u>
Fee expenses:		
Shares brokerage	89,359	56,589
Investment management services	4,373	10,930
Credit cards	179,617	136,357
Others	16,894	13,378
Total	<u>290,243</u>	<u>217,254</u>
Fees from banking services, net	<u><u>3,305,117</u></u>	<u><u>3,013,112</u></u>

Others include fees and expenses in respect of miscellaneous banking activities.

24. TRADING INCOME, NET

	2014	2013
	<u>SR '000</u>	<u>SR '000</u>
Foreign exchange (loss) / gain	32,074	63,075
Mutual funds	4,827	4,876
Derivatives	73,961	32,602
Total	<u>110,862</u>	<u>100,553</u>

25. GAINS ON NON-TRADING INVESTMENTS, NET

	2014	2013
	<u>SR '000</u>	<u>SR '000</u>
Gains on disposal of available for sale investments, net	496,257	563,565
Gains on disposal of other investments held at amortised cost, net	23,202	82,527
Total	<u>519,459</u>	<u>646,092</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

26. OTHER NON-OPERATING INCOME (EXPENSES), NET

	2014	2013
	<u>SR '000</u>	<u>SR '000</u>
Income tax of foreign operations	(133,820)	(159,695)
Bank's share in associates' gains (losses) (note 8)	52,370	(3,716)
Gain on disposal of property and equipment	23,608	15,250
Net other income (expenses)	102,358	(88,465)
Total	<u>44,516</u>	<u>(236,626)</u>

27. BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share for the years ended 31 December 2014 and 31 December 2013 is calculated by dividing the net income attributable to equity holders of the Bank for the year by the weighted average number of shares outstanding during the year (see note 18). The comparative figure has been recalculated to account for the impact of the bonus issue.

The calculation of diluted earnings per share is not applicable to the Group.

28. NET DIVIDEND AND ZAKAT

During the year, the Board of Directors recommended dividends, net of zakat, for the year as follows:

	Amount SR '000		Rate per share SR	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Interim dividend paid	1,595,707	1,196,780	0.80	0.80
Proposed final dividend	1,296,512	1,645,573	0.65	1.10
Total net dividend	<u>2,892,219</u>	<u>2,842,353</u>	<u>1.45</u>	<u>1.90</u>
Zakat attributable to the Bank	1,020,837	812,519		
Total gross dividend	<u>3,913,056</u>	<u>3,654,872</u>		

Zakat assessments have been finalized with the Department of Zakat and Income Tax (DZIT) for all years up to 2011. The Bank has submitted zakat returns for the years 2012 and 2013 and obtained a final Zakat certificate. The Zakat returns for the years 2012 and 2013 are currently under review by DZIT and Zakat assessment for these years is awaited.

29. CASH AND CASH EQUIVALENTS

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

	2014	2013
	<u>SR '000</u>	<u>SR '000</u>
Cash and balances with SAMA excluding statutory deposits (note 4)	9,516,459	22,285,224
Due from banks and other financial institutions with original maturity of three months or less (note 5)	8,463,944	8,309,338
Total	<u>17,980,403</u>	<u>30,594,562</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2014

30. OPERATING SEGMENTS

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Group management.

The Group has five reportable segments, as described below, which are the Group's strategic divisions. The strategic divisions offer different products and services, and are managed separately based on the Group's management and internal reporting structure.

Retail	- Provides banking services, including financing and current accounts in addition to products in compliance with Shariah rules which are supervised by the independent Shariah Board, to individuals and private banking customers.
Corporate	- Provides banking services including all conventional credit-related products and financing products in compliance with Shariah rules to small sized businesses medium and large establishments and companies.
Treasury	- Provides a full range of treasury products and services, including money market and foreign exchange, to the Group's clients, in addition to carrying out investment and trading activities (local and international) and managing liquidity risk, market risk and credit risk (related to investments).
Capital Market	- Provides wealth management, asset management, investment banking and shares brokerage services (local, regional and international).
International	- Comprises banking services provided outside Saudi Arabia including TFK and the Bank's Beirut branch.

Transactions between the operating segments are recorded as per the Bank and its subsidiaries' transfer pricing system.

The supports and Head Office expenses are allocated to segments using activity-based costing.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2014

30. OPERATING SEGMENTS (continued)

(30.1) The Group's total assets and liabilities at year end, its operating income and expenses (total and main items) and net income for the year, by business segments, are as follows:

	<u>(SR '000)</u>					
2014	<u>Retail</u>	<u>Corporate</u>	<u>Treasury</u>	<u>Capital Market</u>	<u>International</u>	<u>Total</u>
Total assets	88,890,839	122,291,450	168,463,756	1,584,020	53,648,019	434,878,084
Total liabilities	143,451,885	163,911,795	34,292,895	305,194	45,995,424	387,957,193
Fee income from banking services, net	885,432	1,099,453	-	747,243	572,989	3,305,117
Operating income	5,644,465	3,779,562	3,790,261	761,383	2,252,514	16,228,185
Operating expenses of which:	4,351,414	392,038	542,778	413,191	1,780,089	7,479,510
- Depreciation of property and equipment	302,585	50,226	32,982	21,358	93,535	500,686
- Impairment charge for financing losses, net	1,090,100	(486,017)	-	-	391,381	995,464
- Impairment charge on investments, net	-	-	136,555	13,172	-	149,727
Net income (Bank and non-controlling interests)	1,227,972	3,687,856	3,169,374	333,015	374,974	8,793,191

	<u>(SR '000)</u>					
2013	<u>Retail</u>	<u>Corporate</u>	<u>Treasury</u>	<u>Capital Market</u>	<u>International</u>	<u>Total</u>
Total assets	75,251,356	105,615,025	151,175,097	1,217,318	44,028,445	377,287,241
Total liabilities	145,880,810	134,301,586	17,363,289	262,079	36,943,297	334,751,061
Fee income from banking services, net	859,021	1,010,139	-	575,044	568,908	3,013,112
Operating income	5,302,632	3,435,205	3,377,309	604,319	2,138,052	14,857,517
Operating expenses of which:	3,481,920	855,487	362,068	402,402	1,530,038	6,631,915
- Depreciation of property and equipment	295,120	52,992	32,670	21,870	75,238	477,890
- Impairment charge for financing losses, net	451,014	107,068	-	-	237,263	795,345
- Impairment charge on investments, net	-	-	29,861	10,545	-	40,406
Net income (Bank and non-controlling interests)	1,863,542	2,587,735	3,024,871	111,476	401,352	7,988,976

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

30. OPERATING SEGMENTS (continued)

(30.2) The Group's credit exposure, by business segments, is as follows:

	<u>(SR '000)</u>			<u>Capital</u>		
2014	<u>Retail</u>	<u>Corporate</u>	<u>Treasury</u>	<u>Market</u>	<u>International</u>	<u>Total</u>
Statement of financial position assets	71,514,711	112,778,205	157,958,064	212,896	47,750,067	390,213,943
Commitments and contingencies (credit equivalent)	353,212	25,706,787	-	-	15,819,723	41,879,722
Derivatives (credit equivalent)	-	-	2,758,451	-	113,835	2,872,286

	<u>(SR '000)</u>			<u>Capital</u>		
2013	<u>Retail</u>	<u>Corporate</u>	<u>Treasury</u>	<u>Market</u>	<u>International</u>	<u>Total</u>
Statement of financial position assets	58,963,230	98,293,017	126,659,126	141,613	40,087,774	324,144,760
Commitments and contingencies (credit equivalent)	302,106	24,757,199	-	-	14,281,519	39,340,824
Derivatives (credit equivalent)	-	-	1,206,028	-	149,394	1,355,422

The credit exposure of assets as per statement of financial position comprises the carrying value of due from banks and other financial institutions, investments subject to credit risk, financing and advances, accrued special commission income, margin deposits against derivatives and repos and positive fair value of derivatives.

The credit equivalent of commitments and contingencies and derivatives is calculated according to SAMA's prescribed methodology.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

31. CREDIT RISK

The Group manages exposure to credit risk, which is the risk that one party to a financial instrument or transaction will fail to discharge an obligation and will cause the other party to incur a financial loss. Credit exposures arise principally in credit-related risk that is embedded in financing and advances and investments. There is also credit risk in off-balance sheet financial instruments, such as trade-finance related products derivatives and financing commitments.

For financing and advances and off-balance sheet financing to borrowers, the Group assesses the probability of default of counterparties using internal rating models. For investments, due from banks and off-balance sheet financial instruments with international counterparties, the Group uses external ratings of the major rating agencies.

The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Group's risk management policies are designed to identify risks and to set appropriate risk limits and to monitor the risks and adherence to limits. Actual exposures against limits are monitored daily.

The Group manages the credit exposure relating to its trading activities by monitoring credit limits, entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposure. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk. The Group's credit risk for derivatives represents the potential cost to replace the derivative contracts if counterparties fail to fulfill their obligation and the Group assesses counterparties using the same techniques as for its financing activities in order to control the level of credit risk taken.

Concentrations of credit risk may arise in case of sizeable exposure to a single obligor or 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 Group's performance to developments affecting a particular customer, industry or geographical location.

The debt securities included in investments are mainly sovereign risk and high-grade securities. Analysis of investments by counterparty is provided in note (6.5). For details of the composition of the financing and advances refer to note (7.5). Information on credit risk relating to derivative instruments is provided in note (13) and for commitments and contingencies in note (21). The information on the Bank's total maximum credit exposure is given in note (31.1).

Each individual corporate borrower is rated based on an internally developed debt rating model that evaluates risk based on financial, qualitative and industry specific inputs. The associated loss estimate norms for each grade have been developed based on the Group's experience. These risk ratings are reviewed on a regular basis.

Performing credit cards and consumer financing are classified as standard as they are performing and have timely repayment with no past dues.

The Group in the ordinary course of lending activities holds collaterals as security to mitigate credit risk in the financing and advances (refer to note 7.4). These collaterals mostly include time and other cash deposits, financial guarantees from other banks, local and international equities, real estate and other fixed assets. The collaterals are held mainly against commercial and individual loans and are managed against relevant exposures at their net realizable values. The Group holds real estate collateral against transfer of title deed (ifrag) as a collateral but due to the difficulty in seizing and liquidating them, the Group does not consider them as immediate cash flow for impairment assessment for non-performing financing. Financial instruments such as financing and advances and customers' deposits are shown gross on the consolidated statement of financial position and no offsetting has been done. The positive and negative fair values of derivatives are shown gross on the consolidated statement of financial position and no offsetting has been done (refer to notes 12 and 13). Collateral generally is not held against due from banks and other financial institutions, except when securities are held as part of reverse repurchase agreements (refer to note 5). The carrying amount and fair value of securities pledged and the margin deposit under agreements to repurchase (repo) are disclosed in notes 6.3, 12 and 14. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2014 and 31 December 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

31. CREDIT RISK (continued)

The Group seeks to manage its credit risk exposure through the 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 security when appropriate. The Group also seeks additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant financing and advances. The Group monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained periodically.

Specific allowances for financing losses for the impaired lending portfolio are maintained by the Group's Credit Risk Management in addition to credit-related specific allowance for investments. Exposures falling within certain high risk ratings are considered impaired and appropriate specific allowances are individually made. An additional portfolio (collective) allowance is allocated over the performing financing and advances as well as investments [refer to notes (3.14 and 2.5(a)) for accounting policy of impairment of financial assets].

(31.1) Maximum credit exposure

Maximum exposure to credit risk without taking into account any collateral and other credit enhancements is as follows:

	2014	2013
	<u>SR '000</u>	<u>SR '000</u>
Assets		
Due from banks and other financial institutions (note 5)	19,863,020	14,835,201
Investments (note 6.6)	145,193,604	119,012,909
Financing and advances, net (note 7.4)	220,722,363	187,687,037
Other assets - margin deposits against derivatives and repos, and accrued special commission income receivable (note 12)	3,395,908	2,105,881
Total assets	389,174,895	323,641,028
Contingent liabilities and commitments, net (notes 15,17 and 21.3)	80,761,631	77,713,176
Derivatives - positive fair value, net (note 13)	1,039,048	503,733
Total maximum exposure	470,975,574	401,857,937

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

32. MARKET RISK

Market risk is the risk that changes in market prices, such as special commission rate, credit spreads (not relating to changes in the obligor's / issuer's credit standing), equity prices and foreign exchange rates, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Group separates its exposure to market risk between trading and banking books. Trading book is mainly held by the Treasury division and includes positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

Overall authority for market risk is vested in the Board of Directors. The Risk Group is responsible for the development of detailed risk management policies (subject to review and approval by the Board of Directors) and for the day-to-day review of their implementation.

(32.1) MARKET RISK-TRADING BOOK

The principal tool used to measure and control market risk exposure within the Group's trading book is Value at Risk (VaR). The VaR of a trading position is the estimated loss that will arise on the position over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used by the Group is based upon a 99 percent confidence level and assumes a 1-day holding period, except for Fair Value through Income Statement (FVIS) investments which are computed over a 3-month holding period (i.e., VaR is measured daily, except for VaR on FVIS investments which are computed on a monthly basis), to facilitate the comparison with the trading income (loss) which is also computed and reported on a daily and monthly basis respectively for these products. The model computes volatility and correlations using relevant historical market data.

The Group uses VaR limits for total market risk embedded in its trading activities including derivatives related to foreign exchange and special commission rate. The Group also assesses the market risks using VaR in its FVIS investments which are controlled by volume limits. The overall structure of VaR limits is subject to review and approval by the Board of Directors. VaR limits are allocated to the trading book. The daily reports of utilisation of VaR limits are submitted to the senior management of the Group. In addition, regular summaries about various risk measures including the Economic Capital are submitted to the Risk Committee of the Board.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

- (i) A 1-day holding period assumes that it is possible to hedge or dispose of positions within one day horizon. This is considered to be a realistic assumption in most of the cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period.
- (ii) A 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a one percent probability that losses could exceed the VaR.
- (iii) VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day.
- (iv) The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.
- (v) The VaR measure is dependent upon the Group's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

The limitations of the VaR methodology are recognised by supplementing VaR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading book. In addition, the Group uses stress tests to model the financial impact of exceptional market scenarios on individual trading book and the Group's overall trading position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

32. MARKET RISK (continued)

(32.1) MARKET RISK-TRADING BOOK (continued)

The table below shows the VaR related information for the year ended 31 December 2014 and 31 December 2013 for both Held for Trading and Held as FVIS portfolios:

<u>(SR '000)</u>				
Held for Trading				
	Foreign exchange <u>risk</u>	Special commission <u>risk</u>	Overall <u>risk</u>	<u>FVIS</u>
2014				
VaR as at 31 December 2014	362	99	461	747,211
Average VaR for 2014	126	151	277	756,001
<u>(SR '000)</u>				
Held for Trading				
	Foreign exchange <u>risk</u>	Special commission <u>risk</u>	Overall <u>risk</u>	<u>FVIS</u>
2013				
VaR as at 31 December 2013	30	27	57	211,037
Average VaR for 2013	26	26	52	189,540

(32.2) MARKET RISK - BANKING BOOK

Market risk on banking book positions mainly arises from the special commission rate, foreign currency exposures and equity price changes.

(32.2.1) SPECIAL COMMISSION RATE RISK

Special commission rate risk arises from the possibility that changes in special commission rates will affect future cash flows or the fair values of financial instruments. The Group's Assets-Liabilities Committee (ALCO) has established limits on the special commission rate gap. Positions are regularly monitored and reported on a monthly basis to ALCO and hedging strategies are used to ensure positions are maintained within the established limits. In case of stressed market conditions, the asset-liability gap may be monitored more frequently.

The following table depicts the sensitivity due to reasonably possible changes in special commission rates, with other variables held constant, on the Group's consolidated statement of income or equity. The sensitivity of the income is the effect of the assumed changes in special commission rates on the net special commission income for one year, based on the special commission bearing non-trading financial assets and financial liabilities held as at 31 December 2014, including the effect of hedging instruments. The sensitivity of the equity is calculated by revaluing the fixed rate available for sale financial assets, including the effect of any associated hedges, as at 31 December 2014 for the effect of assumed changes in special commission rates. The sensitivity of equity is analyzed by maturity of the assets or cash flow hedge swaps. All significant banking book exposures are monitored and analyzed in currency concentrations and relevant sensitivities are disclosed in local currency. The sensitivity analysis does not take account of actions by the Group that might be taken to mitigate the effect of such changes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

32. MARKET RISK (continued)

(32.2) MARKET RISK - BANKING BOOK (continued)

(32.2.1) SPECIAL COMMISSION RATE RISK (continued)

2014	Increase / decrease in basis points	Sensitivity of special commission income	SR '000								Total		
			Sensitivity of equity (other reserves)										
			<u>Within</u> 3 <u>months</u>		3-12 <u>months</u>		1-5 <u>years</u>		Over <u>5 years</u>				
<u>Currency</u>													
SR	± 10	±	93,388	-	±	-	±	23,434	±	16,243	±	39,677	
USD	± 10	±	3,423	±	29	±	-	±	16,831	±	111,349	±	128,209

2013	Increase / decrease in basis <u>points</u>	Sensitivity of special commission <u>income</u>	SR '000								<u>Total</u>		
			Sensitivity of equity (other reserves)										
			<u>Within 3 months</u>		<u>3-12 months</u>		<u>1-5 years</u>		<u>Over 5 years</u>				
<u>Currency</u>													
SR	± 10	±	103,147	-	±	102	±	4,602	±	14,903	±	19,607	
USD	± 10	±	18,622	±	40	±	1,286	±	14,937	±	49,329	±	65,592

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

32. MARKET RISK (continued)

(32.2) MARKET RISK - BANKING BOOK (continued)

(32.2.1) SPECIAL COMMISSION RATE RISK (continued)

(a) Special commission rate sensitivity of assets, liabilities and off-balance sheet items

The Group manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market special commission rates on its financial position and cash flows. The table below summarizes the Group's exposure to special commission rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorized by the earlier of the contractual re-pricing or the maturity dates. The Group manages exposure to special 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 Group manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

The table below summarizes the Group's exposure to special commission rate risks.

	<u>SR '000</u>				Non-special	
2014	Within 3	3-12	1-5	Over 5	commission	Total
	<u>months</u>	<u>months</u>	<u>years</u>	<u>years</u>	<u>bearing</u>	
Assets						
Cash and balances with SAMA	2,792,980	-	-	-	26,025,589	28,818,569
Due from banks and other financial institutions	7,453,417	5,099,900	375,000	934,453	6,000,250	19,863,020
Investments, net	35,144,130	33,276,571	29,891,833	46,881,073	7,709,433	152,903,040
Financing and advances, net	39,916,305	109,053,158	61,784,986	9,633,368	334,546	220,722,363
Investment in associates, net	-	-	-	-	407,835	407,835
Other real estate, net	-	-	-	-	858,520	858,520
Property and equipment, net	-	-	-	-	3,427,399	3,427,399
Goodwill and other intangible assets, net	-	-	-	-	693,298	693,298
Other assets	-	-	-	-	7,184,040	7,184,040
Total assets	85,306,832	147,429,629	92,051,819	57,448,894	52,640,910	434,878,084
Liabilities and equity						
Due to banks and other financial institutions	22,997,380	8,830,711	3,122,425	-	498,972	35,449,488
Customers' deposits	43,585,941	24,393,664	442,084	-	264,673,802	333,095,491
Debt securities issued	-	326,080	9,224,416	-	-	9,550,496
Other liabilities	-	-	-	-	9,861,718	9,861,718
Equity attributable to equity holders of the Bank	-	-	-	-	45,213,637	45,213,637
Non-controlling interests	-	-	-	-	1,707,254	1,707,254
Total liabilities and equity	66,583,321	33,550,455	12,788,925	-	321,955,383	434,878,084
On-balance sheet gap	18,723,511	113,879,174	79,262,894	57,448,894	(269,314,473)	
Off-balance sheet gap	7,909,957	1,623,096	(6,557,260)	(2,975,793)	-	
Total special commission rate sensitivity gap	26,633,468	115,502,270	72,705,634	54,473,101	(269,314,473)	
Cumulative special commission rate sensitivity gap	26,633,468	142,135,738	214,841,372	269,314,473	-	

The National Commercial Bank
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

32. MARKET RISK (continued)

(32.2) MARKET RISK - BANKING BOOK (continued)

(32.2.1) SPECIAL COMMISSION RATE RISK (continued)

(a) Special commission rate sensitivity of assets, liabilities and off-balance sheet items (continued)

	<u>SR '000</u>					
2013	<u>Within 3</u> <u>months</u>	<u>3-12</u> <u>months</u>	<u>1-5</u> <u>years</u>	<u>Over 5</u> <u>years</u>	<u>Non-special</u> <u>commission</u> <u>bearing</u>	<u>Total</u>
Assets						
Cash and balances with SAMA	17,182,881	-	-	-	21,906,807	39,089,688
Due from banks and other financial institutions	7,587,234	1,387,400	-	-	5,860,567	14,835,201
Investments, net	28,865,401	27,361,052	26,678,227	36,108,227	6,281,105	125,294,012
Financing and advances, net	41,276,826	65,172,535	72,553,934	8,302,473	381,269	187,687,037
Investment in associates, net	-	-	-	-	828,915	828,915
Other real estate, net	-	-	-	-	216,001	216,001
Property and equipment, net	-	-	-	-	2,761,528	2,761,528
Goodwill and other intangible assets, net	-	-	-	-	873,636	873,636
Other assets	-	-	-	-	5,701,223	5,701,223
Total assets	<u>94,912,342</u>	<u>93,920,987</u>	<u>99,232,161</u>	<u>44,410,700</u>	<u>44,811,051</u>	<u>377,287,241</u>
Liabilities and equity						
Due to banks and other financial institutions	17,980,817	3,064,925	3,387,900	-	298,559	24,732,201
Customers' deposits	40,144,428	13,657,159	332,371	-	246,467,464	300,601,422
Debt securities issued	-	-	1,511,250	-	-	1,511,250
Other liabilities	-	-	-	-	7,906,188	7,906,188
Equity attributable to equity holders of the Bank	-	-	-	-	40,933,907	40,933,907
Non-controlling interests	-	-	-	-	1,602,273	1,602,273
Total liabilities and equity	<u>58,125,245</u>	<u>16,722,084</u>	<u>5,231,521</u>	<u>-</u>	<u>297,208,391</u>	<u>377,287,241</u>
On-balance sheet gap	36,787,097	77,198,903	94,000,640	44,410,700	(252,397,340)	
Off-balance sheet gap	927,434	(619,434)	(2,098,000)	1,790,000	-	
Total special commission rate sensitivity gap	<u>37,714,531</u>	<u>76,579,469</u>	<u>91,902,640</u>	<u>46,200,700</u>	<u>(252,397,340)</u>	
Cumulative special commission rate sensitivity gap	<u>37,714,531</u>	<u>114,294,000</u>	<u>206,196,640</u>	<u>252,397,340</u>	<u>-</u>	

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

32. MARKET RISK (continued)

(32.2) MARKET RISK - BANKING BOOK (continued)

(32.2.2) CURRENCY RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Board has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

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

<u>Currency</u>	2014	2013
	SR '000	SR '000
	<u>Long (short)</u>	<u>Long (short)</u>
US Dollar	571,672	109,945
TRY	4,664,978	4,497,811

Long position indicates that assets in a foreign currency are higher than the liabilities in the same currency; the opposite applies to short position.

The table below indicates the extent to which the Group was exposed to currency risk at 31 December 2014 on its significant foreign currency positions. The analysis is performed for reasonably possible movements of the currency rate against the Saudi Riyal with all other variables held constant, including the effect of hedging instruments, on the consolidated statement of income; the effect on equity of foreign currencies other than Turkish Lira (TRY) is not significant. A negative amount in the table reflects a potential net reduction in consolidated statement of income, while a positive amount reflects a net potential increase. The sensitivity analysis does not take account of actions by the Group that might be taken to mitigate the effect of such changes.

<u>Currency</u>	2014				2013			
	<u>SR '000</u>				<u>SR '000</u>			
	Increase/ decrease in currency rate in %	Effect on profit	Effect on equity		Increase/ decrease in currency rate in %	Effect on profit	Effect on equity	
TRY	± 10%	± 37,409	± 466,498		± 10%	± 43,028	± 449,781	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

32. MARKET RISK (continued)

(32.2) MARKET RISK - BANKING BOOK (continued)

(32.2.3) EQUITY PRICE RISK

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the levels of equity index and the value of individual stocks.

The effect on equity (other reserves) as a result of a change in the fair value of equity instruments quoted on Saudi Stock Exchange (Tadawul) and held as available-for-sale at 31 December 2014 and 31 December 2013, due to reasonably possible changes in the prices of these quoted shares held by the Group, with all other variables held constant, is as follows:

	2014		2013	
	SR '000		SR '000	
	Increase / decrease in market prices %	Effect on equity (other reserves)	Increase / decrease in market prices %	Effect on equity (other reserves)
<u>Market index - (Tadawul)</u>				
Impact of change in market prices	± 10%	± 114,075	± 10%	± 268,216

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

33. LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to be less readily available. To mitigate this risk, management has diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, maintaining an appropriate balance of cash, cash equivalents and readily marketable securities and monitors future cash flows and liquidity on a daily basis. The Group has lines of credit in place that it can access to meet liquidity needs.

In accordance with the Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA of 7% of total demand deposits and 4% of savings and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of not less than 20% of the deposit liabilities, in the form of cash, Saudi Government Development Bonds or 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 available with SAMA against Saudi Government Development Bonds up to 75% of the nominal value of bonds held.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. One of these methods is to maintain limits on the ratio of liquid assets to deposit liabilities, set to reflect market conditions. Liquid assets consists of cash, short-term bank deposits and liquid debt securities available for immediate sale and Saudi Government Bonds excluding repos. Deposits liabilities include both customers and Banks, excluding non-resident Bank deposits in foreign currency. The ratio during the year was as follows:

	2014	2013
	%	%
As at 31 December	22%	28%
Average during the year	27%	30%

(33.1) Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2014 and 31 December 2013 based on contractual undiscounted repayment obligations; as special commission payments up to contractual maturity are included in the table, totals do not match with the consolidated statement of financial position. The contractual maturities of 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 expected maturities as shown on note (33.2) below (Maturity analysis of assets and liabilities for the expected maturities). Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

33. LIQUIDITY RISK (continued)

(33.1) Analysis of financial liabilities by remaining contractual maturities (continued)

	SR '000					
<u>Financial liabilities</u>	<u>On demand</u>	<u>Less than 3 months</u>	<u>3 to 12 months</u>	<u>1 to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
As at 31 December 2014						
Due to banks and other financial institutions	5,972,733	23,498,690	4,593,810	1,929,634	-	35,994,867
Customers' deposits	264,886,451	43,516,248	10,586,133	14,409,898	-	333,398,730
Debt securities issued	-	275,609	380,998	5,374,676	5,478,946	11,510,229
Derivative financial instruments (gross contractual amounts payable)	-	45,444,307	93,990,085	84,825,362	17,816,307	242,076,061
Total undiscounted financial liabilities	270,859,184	112,734,854	109,551,026	106,539,570	23,295,253	622,979,887

	SR '000					
<u>Financial liabilities</u>	<u>On demand</u>	<u>Less than 3 months</u>	<u>3 to 12 months</u>	<u>1 to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
As at 31 December 2013						
Due to banks and other financial institutions	2,970,409	17,331,682	2,755,151	2,059,092	-	25,116,334
Customers' deposits	246,713,336	40,093,882	13,791,799	350,920	-	300,949,937
Debt securities issued	-	-	61,230	1,735,756	-	1,796,986
Derivative financial instruments (gross contractual amounts payable)	-	43,603,775	34,741,227	19,180,814	554,444	98,080,260
Total undiscounted financial liabilities	249,683,745	101,029,339	51,349,407	23,326,582	554,444	425,943,517

The contractual maturity structure of the credit-related contingencies and commitments are shown under note (21.3(a)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

33. LIQUIDITY RISK (continued)

(33.2) MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled. See note (33.1) above for the contractual undiscounted financial liabilities.

2014	(SR '000)				
	<u>0-30 days</u>	<u>1 to 12 months</u>	<u>Over 1 year</u>	<u>No-fixed maturity</u>	<u>Total</u>
Assets					
Cash and balances with SAMA	2,792,981	-	6,723,479	19,302,109	28,818,569
Due from banks and other financial institutions	2,281,589	974,844	16,606,587	-	19,863,020
Investments, net	3,183,207	33,965,209	108,037,957	7,716,667	152,903,040
Financing and advances, net	17,045,321	73,497,129	130,179,913	-	220,722,363
Investment in associates, net	-	-	-	407,835	407,835
Other real estate, net	-	-	-	858,520	858,520
Property and equipment, net	-	-	-	3,427,399	3,427,399
Goodwill and other intangible assets, net	-	-	-	693,298	693,298
Other assets	-	-	-	7,184,040	7,184,040
Total assets	25,303,098	108,437,182	261,547,936	39,589,868	434,878,084
Liabilities and equity					
Due to banks and other financial institutions	12,358,315	951,024	16,167,415	5,972,734	35,449,488
Customers' deposits	17,298,594	8,690,121	59,935,223	247,171,553	333,095,491
Debt securities issued	-	-	9,550,496	-	9,550,496
Other liabilities	-	-	-	9,861,718	9,861,718
Total liabilities	29,656,909	9,641,145	85,653,134	263,006,005	387,957,193
Total equity	-	-	-	46,920,891	46,920,891
Total liabilities and equity	29,656,909	9,641,145	85,653,134	309,926,896	434,878,084

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

33. LIQUIDITY RISK (continued)

(33.2) MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

	(SR '000)				
2013	0-30 days	1 to 12 months	Over 1 year	No-fixed maturity	Total
Assets					
Cash and balances with SAMA	17,182,881	-	5,102,343	16,804,464	39,089,688
Due from banks and other financial institutions	1,645,740	721,356	12,468,105	-	14,835,201
Investments, net	5,738,020	24,142,043	89,141,047	6,272,902	125,294,012
Financing and advances, net	39,050,708	44,005,059	104,631,270	-	187,687,037
Investment in associates, net	-	217,840	-	611,075	828,915
Other real estate, net	-	-	-	216,001	216,001
Property and equipment, net	-	-	-	2,761,528	2,761,528
Goodwill and other intangible assets, net	-	-	-	873,636	873,636
Other assets	-	-	-	5,701,223	5,701,223
Total assets	63,617,349	69,086,298	211,342,765	33,240,829	377,287,241
Liabilities and equity					
Due to banks and other financial institutions	14,504,190	402,819	6,847,909	2,977,283	24,732,201
Customers' deposits	13,767,007	6,629,748	45,762,004	234,442,663	300,601,422
Debt securities issued	-	-	1,511,250	-	1,511,250
Other liabilities	-	-	-	7,906,188	7,906,188
Total liabilities	28,271,197	7,032,567	54,121,163	245,326,134	334,751,061
Total equity	-	-	-	42,536,180	42,536,180
Total liabilities and equity	28,271,197	7,032,567	54,121,163	287,862,314	377,287,241

The National Commercial Bank
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

34. GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES, COMMITMENTS AND CONTINGENCIES AND CREDIT EXPOSURE

(34.1) The distribution by geographical region for major categories of assets, liabilities and commitments and contingencies and credit exposure at year end is as follows:

	(SR '000)					
2014	The Kingdom of Saudi Arabia	GCC and Middle East	Europe	Turkey	Other countries	Total
Assets						
Cash and balances with SAMA	26,531,347	17,876	1,837,306	343,477	88,563	28,818,569
Due from banks and other financial institutions	3,658,734	3,204,803	1,309,893	8,669,006	3,020,584	19,863,020
Investments, net	55,817,229	35,507,070	5,165,542	5,081,258	51,331,941	152,903,040
Financing and advances, net	175,311,181	1,891,345	4,481,310	38,582,217	456,310	220,722,363
Investment in associates, net	407,835	-	-	-	-	407,835
Goodwill and other intangible assets, net	-	-	-	693,298	-	693,298
Total	261,726,326	40,621,094	12,794,051	53,369,256	54,897,398	423,408,125
Liabilities						
Due to banks and other financial institutions	2,141,272	14,836,084	4,729,063	8,767,175	4,975,894	35,449,488
Customers' deposits	301,501,631	195,477	24,641	31,302,451	71,291	333,095,491
Debt securities issued	5,000,000	-	-	4,550,496	-	9,550,496
Total	308,642,903	15,031,561	4,753,704	44,620,122	5,047,185	378,095,475
Commitments and contingencies (note 21.3)	49,624,983	3,568,174	2,443,174	17,149,275	12,666,312	85,451,918
Credit exposure (credit equivalent) (note 30.2):						
Commitments and contingencies	26,070,820	1,400,266	1,155,162	8,551,768	4,701,706	41,879,722
Derivatives	1,685,282	333,529	739,640	113,835	-	2,872,286

The National Commercial Bank
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

34. GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES, COMMITMENTS AND CONTINGENCIES AND CREDIT EXPOSURE (continued)

	(SR '000)					
2013	The Kingdom of Saudi Arabia	GCC and Middle East	Europe	Turkey	Other countries	Total
Assets						
Cash and balances with SAMA	37,282,016	47,062	1,386,318	263,866	110,426	39,089,688
Due from banks and other financial institutions	4,292,876	1,649,642	765,358	7,756,561	370,764	14,835,201
Investments, net	48,187,286	24,768,304	4,753,176	2,443,653	45,141,593	125,294,012
Financing and advances, net	152,881,154	720,170	1,343,996	31,899,489	842,228	187,687,037
Investment in associates, net	828,915	-	-	-	-	828,915
Goodwill and other intangible assets, net	-	-	-	873,636	-	873,636
Total	243,472,247	27,185,178	8,248,848	43,237,205	46,465,011	368,608,489
Liabilities						
Due to banks and other financial institutions	399,951	10,050,553	630,754	7,080,023	6,570,920	24,732,201
Customers' deposits	273,372,980	296,464	24,652	26,857,411	49,915	300,601,422
Debt securities issued	-	-	-	1,511,250	-	1,511,250
Total	273,772,931	10,347,017	655,406	35,448,684	6,620,835	326,844,873
Commitments and contingencies (note 21.3)	51,852,554	1,629,267	2,033,437	15,697,651	10,461,273	81,674,182
Credit exposure (credit equivalent) (note 30.2):						
Commitments and contingencies	26,043,287	590,241	610,143	8,234,742	3,862,411	39,340,824
Derivatives	805,038	178,520	222,400	149,464	-	1,355,422

The credit equivalent of commitments and contingencies and derivatives is calculated according to SAMA's prescribed methodology.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

34. GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES, COMMITMENTS AND CONTINGENCIES AND CREDIT EXPOSURE (continued)

(34.2) The distribution by geographical concentration of non-performing financing and advances and specific allowance are as follows:

	<u>(SR '000)</u>		
2014			
	The Kingdom of Saudi Arabia	Turkey	Total
Non performing financing and advances	1,889,278	961,978	2,851,256
Less: specific allowance	(1,682,341)	(694,423)	(2,376,764)
Net	206,937	267,555	474,492
2013			
Non performing financing and advances	2,140,599	778,849	2,919,448
Less: specific allowance	(1,881,544)	(552,385)	(2,433,929)
Net	259,055	226,464	485,519

35. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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 in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

The fair values of on-balance sheet financial instruments, except for other investments held at amortised cost and held-to-maturity investments which are carried at amortised cost, are not significantly different from the carrying values included in the consolidated financial statements. The fair values of financing and advances, commission bearing customers' deposits, due from/to banks and other financial institutions which are carried at amortised 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/to banks and other financial institutions. The estimated fair values of held-to-maturity investments and other investments held at amortised cost are based on quoted market prices when available or pricing models when used in the case of certain fixed rate bonds respectively. The fair values of these investments are disclosed in note 6.4.

The fair values of derivatives and other off-balance sheet financial instruments are based on the quoted market prices when available and/or by using the appropriate valuation techniques.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

36. DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY

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

Level 1: quoted prices in active markets for the same instrument.

Level 2: quoted prices in active markets for similar assets and liabilities or valuation techniques for which all significant inputs are based on observable market data, and

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

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

	(SR '000)			
2014	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Financial assets</u>				
Derivative financial instruments	-	1,039,048	-	1,039,048
Financial assets designated at FVIS	5,688	1,666,531	465,686	2,137,905
Financial assets available for sale	20,667,613	6,175,356	1,077,684	27,920,653
Held for trading	976,707	-	-	976,707
Other investments held at amortized cost, net - fair value hedged (see note (6.2))	-	8,038,110	-	8,038,110
Total	21,650,008	16,919,045	1,543,370	40,112,423
<u>Financial liabilities</u>				
Derivative financial instruments	-	1,360,707	-	1,360,707
Total	-	1,360,707	-	1,360,707

	(SR '000)			
2013	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Financial assets</u>				
Derivative financial instruments	-	503,733	-	503,733
Financial assets designated at FVIS	6,039	1,592,122	473,854	2,072,015
Financial investments available for sale	15,238,429	11,351,195	1,072,204	27,661,828
Held for trading	673,060	-	-	673,060
Other investments held at amortized cost, net - fair value hedged (see note (6.2))	-	-	-	-
Total	15,917,528	13,447,050	1,546,058	30,910,636
<u>Financial liabilities</u>				
Derivative financial instruments	-	638,421	-	638,421
Total	-	638,421	-	638,421

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2014

36. DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

The following table shows a reconciliation from the beginning balances to the ending balances for the fair value measurements in Level 3 of the fair value hierarchy in respect of financial assets designated as FVIS and available for sale.

Movement of level 3 is as follows:

	2014 <u>SR '000</u>	2013 <u>SR '000</u>
Balance at beginning of the year	1,546,058	1,606,133
Total gains/(losses) (realized and unrealized) in consolidated statement of income	-	-
Total gains/(losses) in consolidated statement of comprehensive income	172,679	(118,347)
Purchases	12,090	111,585
(Sales)	(155,418)	(294,003)
(Settlements)	(15,866)	(1,489)
Transfer to/(from) level 3	(16,173)	242,179
Balance at end of the year	<u>1,543,370</u>	<u>1,546,058</u>

37. RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Group transacts business with related parties. In the opinion of the management and the Board, the related party transactions are performed on an arm's length basis. The related party transactions are governed by the limits set by the Banking Control Law and the regulations issued by SAMA. Related party balances include the balances resulting from transactions with Governmental shareholders. All other Government transactions are entered/conducted also at market rates.

(37.1) The balances as at 31 December included in the financial statements are as follows:

	2014 <u>SR '000</u>	2013 <u>SR '000</u>
Bank's Board of Directors and senior executives:		
Financing and advances	260,904	465,982
Customers' deposits	834,107	610,064
Commitment and contingencies	253,397	250,138
Investments	2,181	4,247
Other liabilities - end of service benefits	20,161	20,573
Major shareholders:		
Customers' deposits	28,082,508	18,823,547
Commitment and contingencies	107,953	-
Investments	750,100	237,029
Group's investment funds:		
Investments	876,525	652,345
Customers' deposits	120,806	242,278

Major shareholders represent shareholdings of more than 5% of the Bank's issued share capital. Related parties are the persons or close members of those persons' families and their affiliate entities where they have control, joint control or significant influence over these entities.

The National Commercial Bank
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

37. RELATED PARTY TRANSACTIONS (continued)

(37.2) Income and expenses pertaining to transactions with related parties included in the financial statements are as follows:

	2014	2013
	<u>SR '000</u>	<u>SR '000</u>
Special commission income	68,109	107,256
Special commission expense	261,860	323,182
Fees and commission income and expense, net	305,545	187,619

(37.3) The total amount of compensation paid to key management personnel during the year is as follows:

	2014	2013
	<u>SR '000</u>	<u>SR '000</u>
Directors' remuneration	13,764	13,844
Short-term employee benefits	122,528	109,643
End of service benefits	3,854	3,590

The Bank's Board of Directors includes the Board and Board related committees (Executive Committee, Credit Committee, Risk Management Committee, Compensation and Nomination Committee and Audit Committee). For Bank's senior executives compensation, refer to note 38.

38. GROUP'S STAFF COMPENSATION

The total cost of the Group's compensation is as follows:

Categories of employees	2014			2013		
	<u>Number of employees</u>	Fixed compensation	Variable compensation	<u>Number of employees</u>	Fixed compensation	Variable compensation
		(on accrual basis)	(on cash basis)		(on accrual basis)	(on cash basis)
		<u>SR '000</u>	<u>SR '000</u>		<u>SR '000</u>	<u>SR '000</u>
Senior executives	14	26,583	62,241	14	31,350	60,751
Employees engaged in risk taking activities	296	117,095	45,326	256	94,616	36,134
Employees engaged in control functions	354	122,877	35,721	318	104,782	24,963
Other employee related benefits	-	350,238	-	-	347,836	-
Other employees	6,912	1,222,168	264,793	6,525	1,060,609	295,194
Subsidiaries	4,780	582,691	134,171	4,303	572,131	106,196
Group total	<u>12,356</u>	<u>2,421,652</u>	<u>542,252</u>	<u>11,416</u>	<u>2,211,324</u>	<u>523,238</u>

All forms of payment for fixed and variable compensation are in cash.

The Bank's senior executives are those persons, including an executive director, having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly.

Employees engaged in risk taking activities comprise those officers of the business sectors of Individual Banking, Corporate and Treasury, who are the key drivers in undertaking business transactions, and managing related business risks.

Employees engaged in control functions include employees in Risk Management, Internal Audit, Compliance, Finance and Legal divisions.

The Group's variable compensation recognized as staff expenses in the consolidated statement of income for 2014 is SR 446.7 million (2013: SR 413.5 million) which will be paid to employees during quarter 1 of 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

39. CAPITAL ADEQUACY

(39.1) Capital adequacy ratio

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

The Group monitors the adequacy of its capital using the ratios and weights established by SAMA. These ratios measure capital adequacy by comparing the Group's eligible capital with its statement of financial position assets, commitments and contingencies and notional amount of derivatives at a weighted amount to reflect their relative credit risk, market risk and operational risk. SAMA requires the Bank to hold the minimum level of the regulatory capital and maintain a ratio of total eligible capital to the risk-weighted asset at or above the agreed minimum of 8%. Regulatory Capital is computed for Credit, Market and Operational risks which comprise the Pillar 1 minimum capital requirements.

SAMA has issued the framework and guidance regarding implementation of the capital reforms under Basel III - which are effective from 1 January 2013. Accordingly, the Group's consolidated Risk Weighted Assets (RWA), total eligible capital and related ratios on a consolidated group basis are calculated under the Basel III framework.

The following table summarizes the Bank's Pillar-1 Risk Weighted Assets, Tier 1 and Tier 2 capital and capital adequacy ratios.

	Eligible capital		Capital Adequacy Ratio (Pillar 1)	
	2014	2013	2014	2013
	SR '000	SR '000	%	%
Core capital (Tier 1)	46,061,990	41,630,086	14.7%	16.2%
Supplementary capital (Tier 2)	7,755,498	2,375,797	-	-
Core and supplementary capital (Tier 1 and Tier 2)	53,817,488	44,005,883	17.2%	17.1%

Tier 1 capital of the Group at the year end comprises share capital, statutory reserve, other reserves, retained earnings, proposed dividend and non-controlling interests less treasury shares, goodwill, intangible assets, foreign currency translation reserve and other prescribed deductions. Tier 2 capital comprises of eligible debt securities issued and a prescribed amount of eligible portfolio (collective) allowances less prescribed deductions.

The Group uses the Standardized approach of Basel III to calculate the risk weighted assets and required Regulatory Capital for Pillar -1 (including credit risk, market risk and operational risk). The Group's Risk Management is responsible for ensuring that minimum required Regulatory Capital calculated is compliant with Basel III requirements. Quarterly prudential returns are submitted to SAMA showing the Capital Adequacy Ratio. The following table summarizes the Bank's Risk Weighted Assets.

	Risk weighted assets	
	2014	2013
	SR '000	SR '000
Credit risk	277,142,137	226,641,233
Operational risk	26,973,029	24,479,624
Market risk	8,666,722	5,707,726
Total Pillar-1 - risk weighted assets	312,781,888	256,828,583

(39.2) BASEL III PILLAR 3 DISCLOSURES

Under Basel III Pillar 3, certain quantitative and qualitative disclosures are required, and these disclosures, which are not required to be audited, will be made available on the Bank's website www.alahli.com as required by the Saudi Arabian Monetary Agency (SAMA).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

40. MATERIAL PARTLY-OWNED SUBSIDIARIES

a) Significant restrictions

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory frameworks within which TFK operate. The supervisory frameworks require TFK to keep certain levels of regulatory capital and liquid assets, limits its exposure to other parts of the Group and comply with other ratios. The carrying amounts of TFK's assets and liabilities are SR 53,068 million and SR 48,098 million respectively (2013: SR 40,739 million and SR 35,913 million respectively).

b) Non-controlling interests in subsidiaries

The following table summarises the information relating to the Group's subsidiary (TFK) that has material non-controlling interests (NCI).

	2014 <u>SR '000</u>	2013 <u>SR '000</u>
Summarised statement of financial position		
Financing and advances	38,582,217	31,899,489
Other assets	14,486,129	11,487,247
Liabilities	48,097,653	38,827,175
Net assets	4,970,693	4,559,561
 Carrying amount of NCI	 1,638,837	 1,537,789
 Summarised statement of income		
Total operating income	2,207,944	2,122,870
Net income	593,563	403,611
Total comprehensive income	67,197	(401,133)
 Total comprehensive income allocated to NCI	 22,663	 (135,289)
 Summarised cash flow statement		
Net cash from (used in) operating activities	153,560	(108,298)
Net cash (used in) investing activities	(1,804,765)	(798,120)
Net cash from financing activities	3,401,904	1,185,054
 Net increase in cash and cash equivalents	 1,750,699	 278,636

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

41. INVESTMENT SERVICES

The Bank offers investment management services to its customers through its subsidiary NCB Capital. Assets under management outstanding at 31 December 2014 amounted to SR 53,407 million (2013: SR 49,112 million) (note 3.24).

42. COMPARATIVE FIGURES

Certain prior year figures have been reclassified to confirm to current year presentation, which are not material in nature.

43. PROSPECTIVE CHANGES IN ACCOUNTING POLICIES

Standards issued but not yet effective up to the date of issuance of the Group consolidated financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective. The Group is currently assessing the implications of the below mentioned standards and amendments on the Group's consolidated financial statements and the related timing of adoption.

Following is a summary of the new IFRS and amendments to IFRS effective for annual periods beginning on or after 1 January 2015.

Effective for annual periods	Standard, amendment or interpretation	Summary of requirements
1 January 2018	IFRS 9	Financial Instruments
1 January 2017	IFRS 15	Revenue from contracts with customers
1 January 2016	Amendments of IFRS 11	Accounting for acquisitions of interests in joint operations
1 January 2016	Amendments to IAS 16 and IAS 38	Clarification of acceptable methods of depreciation and amortization
1 January 2016	Amendments to IAS 16	Property plant and equipment
1 July 2014	Amendments to IAS 19	Defined benefit plans: employee contributions
1 July 2014	Amendments to IFRSs	Annual improvements to IFRSs 2010-2012
1 July 2014	Amendments to IFRSs	Annual improvements to IFRSs 2011-2013

44. BOARD OF DIRECTORS' APPROVAL

The consolidated financial statements were approved by the Board of Directors on 8 February 2015 (corresponding to 19 Rabi Al-thani 1436H).