



**BANQUE SAUDI FRANSI**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED**  
**31 DECEMBER 2014**

البنك السعودي الفرنسي  
Banque Saudi Fransi  
**JULIEN MAZE**  
M - 145 A



البنك السعودي الفرنسي  
Banque Saudi Fransi  
**PATRICE COUVIGNES**  
MANAGING DIRECTOR



البنك السعودي الفرنسي  
Banque Saudi Fransi  
**ABDULRAHMAN AL-SUHAYER**  
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KPMG Al Fozan & Al Sadhan

## INDEPENDENT AUDITORS' REPORT

### **To the Shareholders of Banque Saudi Fransi (A Saudi Joint Stock Company)**

We have audited the accompanying consolidated financial statements of Banque Saudi Fransi (the "Bank") and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statement of income, statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes from (1) to (42). We have not audited note (39), and the information related to "Basel III - Capital Structure and 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 Articles of Association. In addition, management is responsible for such internal controls as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

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

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

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

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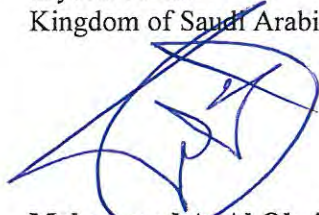
  
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In our opinion, the consolidated financial statements taken as a whole:

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

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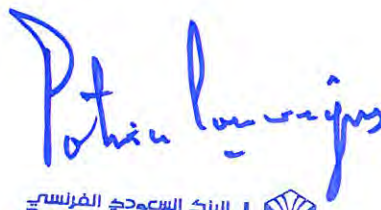


**Tareq A. Al Sadhan**  
Certified Public Accountant  
License Number 352

February 22, 2015  
Jumada Al-Awal 3, 1436



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BANQUE SAUDI FRANSI  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
As at December 31, 2014 and 2013

SAR' 000	Notes	2014	2013
<b>ASSETS</b>			
Cash and balances with SAMA	4	20,013,841	18,139,603
Due from banks and other financial institutions	5	2,008,673	1,545,091
Investments, net	6	45,102,281	34,298,873
Loans and advances, net	7	116,540,684	111,306,904
Investment in associates	8	99,069	166,270
Property and equipment, net	9	605,076	619,918
Other assets	10	4,407,279	3,980,015
<b>Total assets</b>		<b>188,776,903</b>	<b>170,056,674</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Due to banks and other financial institutions	12	3,863,482	3,667,893
Customers' deposits	13	145,275,245	131,601,187
Debt securities and Sukuks	14	9,131,067	7,130,101
Other liabilities	15	4,035,772	4,440,862
<b>Total liabilities</b>		<b>162,305,566</b>	<b>146,840,043</b>
<b>Equity</b>			
Share capital	16	12,053,572	9,040,179
Statutory reserve	17	9,919,264	9,040,179
General reserve	17	982,857	982,857
Other reserves	18	592,944	268,668
Retained earnings		2,251,660	3,884,748
Proposed dividend	28	671,040	-
<b>Total equity</b>		<b>26,471,337</b>	<b>23,216,631</b>
<b>Total liabilities and equity</b>		<b>188,776,903</b>	<b>170,056,674</b>

The accompanying notes 1 to 42 form an integral part of these consolidated financial statements

  
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BANQUE SAUDI FRANSI  
CONSOLIDATED STATEMENT OF INCOME  
For the years ended December 31, 2014 and 2013

SAR' 000	Notes	2014	2013
Special commission income	20	4,565,415	4,257,050
Special commission expense	20	748,439	893,747
<b>Net special commission income</b>		<b>3,816,976</b>	<b>3,363,303</b>
Fees and commission income, net	21	1,291,650	1,149,565
Exchange income, net		354,005	281,839
Trading income, net	22	202,587	105,712
Dividend income	23	16,007	21,423
Gains on non trading investments, net	24	35,273	80,184
Other operating income	25	69,538	50,509
<b>Total operating income</b>		<b>5,786,036</b>	<b>5,052,535</b>
Salaries and employee related expenses		1,062,105	952,546
Rent and premises related expenses		156,173	165,707
Depreciation and amortization	9	125,056	128,483
Other general and administrative expenses		504,004	422,521
Impairment charge for credit losses, net	7	320,934	957,420
Impairment charge for investment, net		45,500	8,529
Other operating expenses	26	56,722	15,077
<b>Total operating expenses</b>		<b>2,270,494</b>	<b>2,650,283</b>
<b>Net operating income</b>		<b>3,515,542</b>	<b>2,402,252</b>
Share in earnings of associates, net	8	799	3,323
<b>Net income for the year</b>		<b>3,516,341</b>	<b>2,405,575</b>
<b>Basic and diluted earnings per share (in SAR)</b>	27	<b>2.92</b>	<b>2.00</b>

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BANQUE SAUDI FRANSI  
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
For the years ended December 31, 2014 and 2013

SAR' 000	Notes	2014	2013
Net income for the year		3,516,341	2,405,575
Other comprehensive income (loss):			
Items that can be recycled back to consolidated statement of income in subsequent periods			
<u>Available for sale investments</u>			
Net change in the fair value	18	168,685	71,286
Net amount transferred to consolidated statement of income	18	(35,913)	(74,034)
<u>Cash flow hedge</u>			
Effective portion of change in the fair value	18	848,868	(77,233)
Net amount transferred to consolidated statement of income	18	(657,364)	(543,729)
Total comprehensive income for the year		3,840,617	1,781,865

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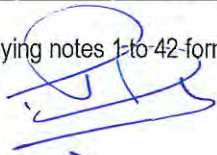
  
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**BANQUE SAUDI FRANSI**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
For the years ended December 31, 2014 and 2013

SAR' 000	Notes	Attributable to equity holders of the Bank							
		Share capital	Statutory reserve	General reserve	Retained earnings	Other reserves		Proposed dividend	Total
						Available for sales investments	Cash flow hedges		
<u>2014</u>									
Balance at the beginning of the year		9,040,179	9,040,179	982,857	3,884,748	(30,625)	299,293	-	23,216,631
Total comprehensive income for the year									
Net Income for the year		-	-	-	3,516,341	-	-	-	3,516,341
Net change in the fair value	18	-	-	-	-	168,685	848,868	-	1,017,553
Net amount transferred to consolidated statement of income	18	-	-	-	-	(35,913)	(657,364)	-	(693,277)
Transfer to statutory reserve	17	-	879,085	-	(879,085)	-	-	-	-
Interim gross dividend for 2014	28	-	-	-	(585,911)	-	-	-	(585,911)
Final Proposed dividend for 2014	28	-	-	-	(671,040)	-	-	671,040	-
Stock dividend	16	3,013,393	-	-	(3,013,393)	-	-	-	-
<b>Balance at the end of the year</b>		<b>12,053,572</b>	<b>9,919,264</b>	<b>982,857</b>	<b>2,251,660</b>	<b>102,147</b>	<b>490,797</b>	<b>671,040</b>	<b>26,471,337</b>
<u>2013</u>									
Balance at the beginning of the year		9,040,179	7,553,621	982,857	3,407,783	(27,877)	920,255	810,000	22,686,818
Total comprehensive income for the year									
Net Income for the year	18	-	-	-	2,405,575	-	-	-	2,405,575
Net change in the fair value	18	-	-	-	-	71,286	(77,233)	-	(5,947)
Net amount transferred to consolidated statement of income		-	-	-	-	(74,034)	(543,729)	-	(617,763)
Transfer to statutory reserve	17	-	1,486,558	-	(1,486,558)	-	-	-	-
Interim gross dividend for 2013	28	-	-	-	(397,810)	-	-	-	(397,810)
Tax and Zakat provision		-	-	-	(44,242)	-	-	-	(44,242)
Final dividend for 2012		-	-	-	-	-	-	(810,000)	(810,000)
<b>Balance at the end of the year</b>		<b>9,040,179</b>	<b>9,040,179</b>	<b>982,857</b>	<b>3,884,748</b>	<b>(30,625)</b>	<b>299,293</b>	<b>-</b>	<b>23,216,631</b>

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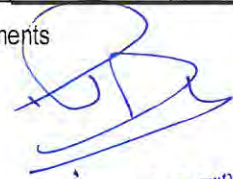
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CONSOLIDATED STATEMENT OF CASH FLOWS  
For the years ended December 31, 2014 and 2013

SAR' 000	Notes	2014	2013
<b>OPERATING ACTIVITIES</b>			
Net income for the year		3,516,341	2,405,575
Adjustments to reconcile net income to net cash from / (used in) operating activities			
Accretion of discounts on non-trading investments, net		(199,035)	(142,556)
Gains on non trading investments, net		(35,273)	(80,184)
Depreciation and amortization		125,056	128,483
Gains on disposal of property and equipment, net		(165)	(217)
Impairment charge for credit losses, net		320,934	957,420
Impairment charge for Investment		68,000	46,329
Share in earnings from associates, net		(799)	(3,323)
Change in fair value of financial instruments		15,479	133,463
		3,810,538	3,444,990
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA	4	(750,726)	(1,471,178)
Investments held as FVIS (trading)		(1,825,101)	(15,390)
Loans and advances, net		(5,557,586)	(9,582,214)
Other assets		(274,637)	1,385,005
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		195,589	(1,994,575)
Customers' deposits		13,701,233	16,025,066
Other liabilities		(405,029)	(544,899)
Net cash from operating activities		8,894,281	7,246,805
<b>INVESTING ACTIVITIES</b>			
Proceeds from sale and maturities of non trading investments		41,854,428	23,408,742
Purchase of non trading investments		(50,466,915)	(30,011,562)
Dividend received from associates		1,260	-
Acquisition of property and equipment		(110,489)	(107,122)
Proceeds from sale of property and equipment		440	243
Net cash used in investing activities		(8,721,276)	(6,709,699)
<b>FINANCING ACTIVITIES</b>			
Repayment of term loans		-	(1,784,400)
Proceeds from issuance of debt securities and Sukuks		2,000,000	-
Dividends paid	28	(585,911)	(1,207,810)
Net cash from / (used in) financing activities		1,414,089	(2,992,210)
Increase / (decrease) in cash and cash equivalents		1,587,094	(2,455,104)
Cash and cash equivalents at the beginning of the year		11,896,047	14,351,151
Cash and cash equivalents at the end of the year	29	13,483,141	11,896,047
Special commission received during the year		4,504,348	4,232,016
Special commission paid during the year		759,490	910,977
<b>Supplemental non cash information</b>			
Net changes in fair value and transfers to consolidated statement of income		324,276	(623,710)

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## **1 General**

Banque Saudi Fransi (BSF the Bank) is a Saudi Joint Stock Company established by Royal Decree No. M/23 dated Jumada Al Thani 17, 1397H (corresponding to June 4, 1977). The Bank formally commenced its activities on Muharram 1, 1398H (corresponding to December 11, 1977), by taking over the operations of the Banque de l'Indochine et de Suez in the Kingdom of Saudi Arabia. The Bank operates under Commercial Registration Number. 1010073368 dated Safar 4, 1410H (corresponding to September 5, 1989 ), through its 82 branches (2013: 83 branches) in the Kingdom of Saudi Arabia, with 3,085 employees (2013: 2,988). The objective of the Bank is to provide a full range of banking services, including Islamic products, which are approved and supervised by an independent Shariah Board. The Bank's Head Office is located at King Saud Road, P.O. Box 56006, Riyadh 11554, Kingdom of Saudi Arabia.

The Bank owns a subsidiary, Saudi Fransi Capital (100% share in equity) engaged in brokerage, asset management and corporate finance business. The Bank owns Saudi Fransi Insurance Agency (SAFIA), Saudi Fransi Financing & Leasing, Sakan Real Estate Financing and Sofinco Saudi Fransi having 100% share in equity. These subsidiaries are incorporated in the Kingdom of Saudi Arabia. Sofinco Saudi Fransi's consumer finance business and related net assets have been transferred to Saudi Fransi Financing & Leasing. The shareholders of the Sofinco Saudi Fransi have agreed to liquidate the company after finalizing the transfer of the assets and liabilities and settlement of all legal obligations. The Bank also owns BSF Sukuk Limited having 100% share in equity, incorporated in the Cayman Islands.

The Bank has investments in associates and owns 27% shareholding in Banque BEMO Saudi Fransi, incorporated in Syria and 32.5% shareholding in Saudi Fransi Corporative Insurance Company (Allianz Saudi Fransi) incorporated in the Kingdom of Saudi Arabia.

## **2 Basis of preparation**

### **a) Statement of compliance**

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

### **b) Basis of measurement and presentation**

The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of derivatives, available for sale and Fair Value through Income Statement (FVIS) financial instruments. In addition, as explained fully in the related notes, financial assets and liabilities that are hedged in a fair value hedging relationship and otherwise are adjusted to record changes in fair value attributable to the risks that are being hedged.

### **c) Functional and presentation currency**

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

## **2 Basis of preparation (continued)**

### **d) Critical accounting judgments, estimates and assumptions**

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

#### **(i) Impairment for credit losses on loans and advances**

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

#### **(ii) Fair value of unquoted financial instruments**

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable market data, however areas such as credit risk (both own and counter party), volatilities and correlations require management to make estimates. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities. Changes in assumptions about these factors could affect reported fair values of financial instruments.

#### **(iii) Impairment of available for sale equity and debt instruments investments**

The Bank 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 its cost. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. In assessing whether it is prolonged, the decline is evaluated against the period in which the fair value of the asset has been below its original cost at initial recognition. In making an assessment of whether an investment in debt instruments is impaired, the Group considers the following factors such as market's assessment of creditworthiness as reflected in the bond yields, rating agencies' assessments of creditworthiness, country's ability to access the capital markets for new debt issuance and probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

In making this judgement, the Bank evaluates among other factors, the normal volatility in share/debt price, deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

#### **(iv) Classification of held to maturity investments**

The Bank follows the guidance or requirement of International Accounting Standard (IAS) 39 "Financial Instruments: Recognition and Measurement" on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity.



## **2 Basis of preparation (continued)**

### **v) Determination of control over investees**

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

### 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. As a result the Group has concluded that it acts as an agent for the investors in all cases, and therefore has not consolidated these funds.

## **3 Summary of significant accounting policies**

The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below. Except for the change in accounting policies resulting from new and amended IFRS and IFRIC guidance, as detailed in note 3 (a) below, the accounting policies adopted in the preparation of these consolidated financial statements are consistent those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2013.

### **a) Change in accounting policies**

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

#### **a) Amendments to existing standard**

-Amendments to IFRS 10, IFRS 12 and IAS 27 that provides consolidation relief for investments 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 that 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 amendments, recoverable amount of every cash generating unit to which goodwill or indefinite-lived intangible assets have been allocated is required to be disclosed only when an impairment loss has been recognised or reversed.

-IAS 39 amendment applicable from 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.

### **3 Summary of significant accounting policies (continued)**

#### **b) Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries (the Group) i.e. Saudi Fransi Capital, Saudi Fransi Insurance Agency, Saudi Fransi Financing and Leasing, Sakan real estate financing, Sofinco Saudi Fransi and BSF Sukuk Limited. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies. Reclassifications have been made wherever necessary to the financial statements of the subsidiaries to bring them in line with the Bank's consolidated financial statements.

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

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

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

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

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. The results of subsidiaries acquired or disposed of during the year, if any, are included in the consolidated statement of income from the effective date of the acquisition or up to the effective date of disposal, as appropriate.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interests
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

Balances between the Bank and its subsidiaries including any income and expenses arising from intra-group transactions, are eliminated in preparing these consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.



### 3 Summary of significant accounting policies (continued)

#### (i) List of significant subsidiaries

The table below provides details of the significant subsidiaries of the Group

Name of the subsidiary	Principal place of business	Ownership interest	
		2014	2013
Saudi Fransi Capital	K.S.A	100%	100%
Saudi Fransi Insurance Agency	K.S.A	100%	100%
Saudi Fransi Financing and Leasing	K.S.A	100%	100%
Sakan real estate financing	K.S.A	100%	100%

Apart from the above subsidiaries, the Bank also owns BSF Sukuk Limited having 100% share in equity, incorporated in the Cayman Islands. Sofinco Saudi Fransi has no material impact on the Group financial statements.

#### (ii) Significant restriction

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 banking subsidiaries operate.

#### c) Investment in associates

Investments in associates are initially recognised at cost and subsequently accounted for under the equity method of accounting. An associate is an entity in which the Bank holds 20% to 50% of the voting power and over which it has significant influence (but not control), over financial and operating policies and which is neither a subsidiary nor a joint venture.

Investments in associates are carried in the statement of financial position at cost, plus post-acquisition changes in the Company's share of net assets of the associate, less any impairment in the value of individual investments. The Bank's shares of its associates' post-acquisition profits or losses are recognized in the statement of income, and its share of post-acquisition movements in other comprehensive income is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

#### d) Settlement and trade date accounting

All regular purchases and sales of financial assets are recognized and derecognized in the consolidated statement of financial position on the settlement date i.e. the date on which the asset is acquired from or delivered to the counter party. The Bank accounts for any change in fair value which is recognized from the trade date. Regular purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or follow convention in the market place.

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

#### e) Derivatives financial instruments and hedge accounting

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

### **3 Summary of significant accounting policies (continued)**

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

#### **i) Derivatives held for trading**

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

#### **ii) Embedded derivatives**

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

#### **iii) Hedge accounting**

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 assets or liabilities in case of portfolio hedging), or an unrecognised firm commitment or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the reported net gain or loss; and (b) cash flow hedges which hedge exposure to variability in cash flows that 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 Bank will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

#### **Fair value hedges**

In relation to fair value hedges, which meet the criteria for hedge accounting, any gain or loss from re-measuring the hedging instruments to fair value is recognized immediately in the consolidated statement of income. The related portion of the hedged item is adjusted against the carrying amount of the hedged item and is recognized in the consolidated statement of income. For hedged items measured at amortised cost, where the fair value hedge of a commission bearing financial instrument ceases to meet the criteria for hedge accounting or is sold, exercised or terminated, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the effective commission rate method. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated statement of income.

#### **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 directly in other comprehensive income 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 comprehensive income, 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 Bank expects that all or a portion of a loss recognized in other comprehensive income will not be recovered in one or more future periods, it shall reclassify into the statement of income as a reclassification adjustment the amount that is not to be recognized.



### **3 Summary of significant accounting policies (continued)**

Where the hedged forecasted transaction results in the recognition of a non financial asset or a non financial liability, then at the time that the asset or liability is recognized, the associated gains or losses that had previously been recognized in other comprehensive income are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability. 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 Bank revokes the designation then hedge accounting is discontinued prospectively. At that point of time, any cumulative gain or loss on the cash flow hedging instrument that was recognised in other comprehensive income from the period when the hedge was effective is transferred from equity to 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 recognised in "other comprehensive income" is transferred immediately to the consolidated statement of income for the year.

#### **f) Foreign currencies**

Transactions in foreign currencies are translated into Saudi Arabian Riyals at exchange rates prevailing at transaction dates. Monetary assets and liabilities denominated in foreign currencies at the year-end are translated into Saudi Arabian Riyals at the rates of exchange prevailing at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year adjusted for effective commission rate and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income, except for differences arising on the retranslation of available for sale equity instruments and effective cash flow hedges in foreign currencies. Realized and unrealized gains or losses on exchange are credited or charged to exchange income or when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges to the extent hedges are effective. Translation gains or losses on non-monetary items carried at fair value are included as part of the fair value adjustment on investment securities available for sale, unless the non-monetary items have an effective hedging strategy.

Non-monetary assets and liabilities denominated in foreign currencies measured at fair value are translated using the exchange rate at the date when the fair value was determined.

#### **g) Offsetting financial instruments**

Financial assets and liabilities are offset and reported net in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts, or 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.

#### **h) Revenue / expense recognition**

##### **Special commission income and expense**

Special commission income and expense for all special commission bearing financial instruments, except for those classified as held for trading or designated as at fair value through income statement, (FVIS) are recognized in the consolidated statement of income using the effective commission rate basis. The effective commission rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective commission rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

### **3 Summary of significant accounting policies (continued)**

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

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

The calculation of the effective yield takes into account all contractual terms of the financial instruments (prepayment, options etc.) and includes all fees and points paid or 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.

#### **Exchange income / loss**

Exchange income / loss is recognised when earned / incurred.

#### **Fees and commission income**

Fees and commissions are recognized when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred and, together with the related direct costs, are recognized as an adjustment to the effective yield on the loan. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportionate basis. Fees received on asset management, wealth management, financial planning, custody services and other similar services that are provided over an extended period of time, are recognized over the period when the service is being provided. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period. Other fees and commission expense, which relate mainly to transaction and service fees, are expensed as the services are received.

#### **Dividend income**

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

#### **Trading income**

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

#### **Income / (loss) from FVIS financial instruments**

Net income from FVIS financial instruments relates to financial assets and liabilities designated as FVIS and include all realised and unrealised fair value changes, interest, dividends and foreign exchange differences.

#### **i) Sale and repurchase agreements**

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos), continue to be recognized in the consolidated statement of financial position and are measured in accordance with related accounting policies for investments held as FVIS (held for trading), available for sale, held to maturity and other investments held at amortized cost. The counter-party 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 and is accrued over the life of the repo agreement, on an effective yield basis.

### **3 Summary of significant accounting policies (continued)**

Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos), are not recognized in the consolidated statement of financial position, as the Bank 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 "Loans and advances", as appropriate. The difference between purchase and resale price is treated as special commission income and is accrued over the life of the reverse repo agreement, on an effective yield basis.

#### **j) Investments**

All investment securities are initially recognized at fair value and with the exception of FVIS investments which also include acquisition charges associated with the investment. Premiums are amortized and discounts are accreted using the effective yield basis and are taken to special commission income. Amortized cost is calculated by taking into account any discount or premium on acquisition.

For securities that are traded in organized financial markets, fair value is determined by reference to exchange quoted market bid prices at the close of business on the reporting date without deduction for transaction costs. Fair value of managed assets and investments in mutual funds are determined by reference to declared net asset values.

For securities where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the expected cash flows or the underlying net asset base 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 models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

Following initial recognition, subsequent transfers between the various categories of investments are not ordinarily permissible. The subsequent period end reporting values for the various categories of investments are determined as follows:

#### **i) Held as fair value through income statement (FVIS)**

Investments held as FVIS are classified as either investment held for trading or those designated as fair value through income statement on initial recognition. Investments classified as trading are acquired principally for the purpose of selling or repurchasing in short term or if designated as such by the management in accordance with criteria laid down in IAS 39. After initial recognition, investments at FVIS are measured at fair value and any change in the fair value is recognised in the consolidated statement of income for the year in which it occurs. Transaction costs, if any, are not added to the fair value measurement at initial recognition of FVIS investments. Special commission income, dividend income and gain or loss incurred on financial assets held as FVIS are reflected as trading income or expense in the consolidated statement of income.

#### **ii) Available for sale**

Available for sale investments are those non-derivative equity and debt securities which are neither classified as Held to maturity investments, loans and receivables nor designated as FVSI, that 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. Unrealised gain or loss arising from a change in an investment's fair value is recognised in other comprehensive income. On de-recognition, any cumulative gain or loss previously recognized in other comprehensive income is included in the consolidated statement of income.



### **3 Summary of significant accounting policies (continued)**

Special commission income is recognised in the consolidated statement of income on an effective yield basis. Dividend income is recognised in the consolidated statement of income when the Bank becomes entitled to the dividend. Foreign exchange gains or loss on available for sale debt security investments are recognised in the consolidated statement of income.

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

#### **iii) Held to maturity**

Investments which have fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold up to the maturity, other than those classified as "Other investments held at amortised cost", 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 amortized cost, less provision for impairment in their value. Amortized cost is calculated by taking into account any discount or premium on acquisition using an effective yield basis. Any gain or loss on such investments is recognized in the consolidated statement of income when the investment is de-recognized or impaired.

Investments classified as held to maturity cannot ordinarily be sold or reclassified without impacting the Bank's ability to use this classification and cannot be designated as a hedged item with respect to special commission rate or prepayment risk, reflecting the longer term nature of these investments.

#### **iv) Other investments held at amortized cost**

Investments with fixed or determinable payments that are not quoted in an active market are classified as 'other investments held at amortized cost'. Other investments held at amortized cost, where the fair value has not been hedged are stated at amortized cost using the effective yield basis, less provision for impairment. Any gain or loss is recognized in the consolidated statement of income when the investment is derecognized or impaired.

#### **k) Loans and advances**

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

All loans and advances are initially measured at fair value, including acquisition charges associated with the loans and advances except for loans held as FVIS.

Following the initial recognition subsequent transfers between the various categories of loans and advances is not ordinarily permissible. The subsequent period end reporting values for various classes of loans and advances are determined on the basis as set out in the following paragraphs:

##### **(i) Available for sale**

Loans and advances which are not part of a hedging relationship and are available for sale, are subsequently measured at fair value and gains or losses arising from changes in fair value are recognized directly in 'other reserves' under shareholders' equity until the loans or advances are de-recognized or impaired, at which time the cumulative gain or loss previously recognized in other reserves is included in the consolidated statement of income for the year.

### **3 Summary of significant accounting policies (continued)**

#### **(ii) Loans and advances held at amortized cost**

Loans and advances originated or acquired by the Bank that are not quoted in an active market and for which the fair value has not been hedged, are stated at amortised cost.

For loans and advances which are hedged, the related portion of the hedged fair value is adjusted against the carrying amount.

For presentation purposes, impairment charge for credit losses is deducted from loans and advances.

#### **l) Due from banks and other financial institutions**

Due from banks and other financial institutions are financial assets which include 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. They are initially measured at cost, being the fair value of the consideration given.

Following the initial recognition, these are stated at cost less any amount written off and provisions for impairment, if any.

#### **m) Impairment of financial assets**

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

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

The Bank considers evidence of impairment for loans and advances and held to maturity investments at both a specific asset and collective level.

#### **i) Impairment of available for sale financial assets**

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

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

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

### **3 Summary of significant accounting policies (continued)**

#### **ii) Financial assets carried at amortized cost**

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

A loan is classified as impaired when, in management's opinion, there has been deterioration in credit quality to the extent that there is no longer reasonable assurance of timely collection of the full amount of principal and special commission income.

Impairment charge for credit losses is based upon the management's judgment of the adequacy of the provisions. Such assessment takes into account the composition and volume of the loans and advances, the general economic conditions and the collectability of the outstanding loans and advances. Considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the required level of provisions. Such estimates are necessarily based on assumptions about several factors and actual results may differ resulting in future changes in such provisions.

Specific provisions are evaluated individually for all different types of loans and advances, whereas additional provisions are evaluated based on collective impairment of loans and advances, and are created for credit losses where there is an objective evidence that the unidentified potential losses are present at the reporting date. The amount of the specific provision is the difference between the carrying amount and the estimated recoverable amount. The collective provision is based upon deterioration in the internal grading or external credit ratings allocated to the borrower or group of borrowers, the current economic condition in which the borrowers operate and the experience and historical default patterns that are embedded in the components of the credit portfolio. These internal grading take into consideration factors such as any deterioration in country risk, industry, as well as identified structural weaknesses or deterioration in cash flows.

Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted, and the amount of the loss has been determined. Once a financial asset has been written down to its estimated recoverable amount, special commission income is thereafter recognized based on the rate of special commission that was used to discount the future cash flows for the purpose of measuring the recoverable amount. When a financial asset is uncollectible, it is written off against the related provision for impairment through allowance for impairment account.

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

Loans whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. Restructuring policies and practices are based on indicators or criteria which, indicate that payment will most likely continue. The loans continue to be subject to an individual or collective impairment assessment.

#### **n) Other real estate**

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

Subsequent to the initial recognition, such real estate is revalued on a periodic basis and unrealized losses on revaluation, and losses or gains on disposal, are charged or credited to operating income or expense.

### **3 Summary of significant accounting policies (continued)**

#### **o) Property and equipment**

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

Buildings	33 years
Leasehold improvements	Over the lease period or economic life (state in No. of years for e.g.10 years) whichever is shorter
Furniture, equipment and vehicles	4 to10 years

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

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

#### **p) Financial Liabilities**

All money market deposits, placements, customers' deposits and term loans are initially recognized at cost, being the fair value of the consideration received less transaction costs.

Subsequently all commission bearing financial liabilities, where fair values have been hedged, are measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium. Premiums are amortized and discounts are accreted on an effective yield basis to maturity and taken to special commission income or expense.

Financial liabilities for which there is an associated fair value hedge relationship are adjusted for fair value to the extent of the risk being hedged, and the resultant gain or loss is recognized in the consolidated statement of income. For commission bearing financial liabilities carried at amortized cost, any gain or loss is recognized in the consolidated statement of income when derecognized or impaired.

In the ordinary course of business, the Bank gives financial guarantees, consisting of letter of credit, guarantees and acceptances. Financial guarantees are initially recognised in the consolidated financial statements at fair value in other liabilities, being the value of the premium received. Subsequent to the initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligations arising as a result of guarantees.

Fee received is recognised in the consolidated statement of income on a straight line basis over the life of the guarantee.

#### **q) Provisions**

Provisions are recognized when the Group has a present legal or constructive obligation arising from past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the costs to settle the obligation can be reliably measured or estimated.

#### **r) Accounting for leases**

##### **i) Where the Bank is the lessee**

Leases entered into by the Bank are all operating leases. Payments made under operating leases are charged to the consolidated statement of income on a straight line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.



### **3 Summary of significant accounting policies (continued)**

#### **ii) Where the Bank is the lessor**

When assets are sold under a finance lease including assets under Islamic lease arrangement, the present value of the lease payments is recognized as a receivable and is disclosed under loans and advances. The difference between the gross receivable and the present value of the receivable is recognized as unearned finance income. Lease income is recognized over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

#### **s) 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 deposit, and due from banks and other financial institutions maturing within ninety days from the date of acquisition.

#### **t) De-recognition of financial instruments**

A financial asset or a part of financial assets, or a part of group of similar financial assets is derecognized when the contractual rights to the cash flows from the financial asset expires and if the Bank has transferred substantially all the risks and rewards of ownership. Where the Bank has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognised only if the Bank has not retained control of the financial asset. The Bank recognises separately as assets or liabilities any rights and obligations created or retained in the process. A financial liability or a part of a financial liability can only be derecognised when it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expired.

#### **u) Zakat and income tax**

Under Saudi Arabian Zakat and Income tax laws, zakat and income tax are the liabilities of Saudi and foreign shareholders, respectively. Zakat is computed on the Saudi shareholders' share of equity and /or net income using the basis defined under the zakat regulations. Income tax is computed on the foreign shareholders' share of net income for the year.

Zakat and income tax are not charged to the consolidated statement of income as they are deducted from the dividends paid to the shareholders. If no dividend is declared then zakat is deducted from the retained earnings and tax is deducted from the retained earnings in proportion to foreign shareholding and remaining tax is claimed from the foreign shareholders.

#### **v) Investment management, brokerage and corporate finance services**

The Bank offers investment management, brokerage and corporate finance services to its customers, through its subsidiaries, which include management of certain investment funds in consultation with professional investment advisors and brokerage services. The Bank's share of these funds is included in the available for sale investments and fees earned are disclosed under related party transactions.

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

#### **w) Non-commission based banking products**

In addition to the conventional banking, the Bank offers its customers certain non-commission based banking products, which are approved by its Shariah Board, as follows:

### 3 Summary of significant accounting policies (continued)

#### High level definitions of non-commission based banking products

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

(ii) **Mudarabah** is an agreement between the Bank and a customer whereby the Bank invests in a specific transaction. The Bank is called "rabb-ul-mal" while the management and work is exclusive responsibility of the customer who is called "mudarib". The profit is shared as per the terms of the agreement but the loss is borne by the Bank.

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

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

(v) **Tawaraq** is a form of Murabaha transactions where the Bank purchases a commodity and sells it to the customer. The customer sells the underlying commodity at spot and uses the proceeds for his financing requirements.

All Islamic banking products are accounted for in accordance with IFRS and are in conformity with the accounting policies described in these consolidated financial statements.

#### x) Short term employee benefits

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

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

### 4 Cash and balances with SAMA

SAR' 000	2014	2013
Cash on hand	887,225	834,328
Statutory deposit	8,539,373	7,788,647
Current account	46,316	31,693
Money market placements	10,540,927	9,484,935
<b>Total</b>	<b>20,013,841</b>	<b>18,139,603</b>

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

**5 Due from banks and other financial institutions**

SAR' 000	2014	2013
Current accounts	1,398,673	1,276,217
Money market placements	610,000	268,874
<b>Total</b>	<b>2,008,673</b>	<b>1,545,091</b>

Balances due from banks and other financial institutions are investment grade. Investment grade includes due from banks and other financial institutions having credit exposure equivalent to Standard and Poor's rating of AAA to BBB.

**6 Investments, net**

**a) These comprise the following:**

SAR' 000	2014			2013		
	Domestic	International	Total	Domestic	International	Total
<b>i) Held as FVIS</b>						
Fixed rate securities	2,085,050	57,302	2,142,352	155,158	164,354	319,512
Floating rate securities	-	-	-	1,530	-	1,530
Other	8,920	-	8,920	5,130	-	5,130
<b>Held as FVIS</b>	<b>2,093,970</b>	<b>57,302</b>	<b>2,151,272</b>	<b>161,818</b>	<b>164,354</b>	<b>326,172</b>
<b>ii) Available for sale (AFS)</b>						
Fixed rate securities	405,592	1,113,631	1,519,223	53,624	491,011	544,635
Floating rate securities	3,170,274	94,287	3,264,561	2,617,852	131,489	2,749,341
Equities	508,371	34,385	542,756	490,434	56,833	547,267
Other	3,513,520	-	3,513,520	4,025,936	-	4,025,936
<b>Available for sale</b>	<b>7,597,757</b>	<b>1,242,303</b>	<b>8,840,060</b>	<b>7,187,846</b>	<b>679,333</b>	<b>7,867,179</b>
<b>iii) Held to maturity</b>						
Fixed rate securities	2,271	-	2,271	3,639	-	3,639
Other	10,000	-	10,000	10,000	-	10,000
<b>Held to maturity</b>	<b>12,271</b>	<b>-</b>	<b>12,271</b>	<b>13,639</b>	<b>-</b>	<b>13,639</b>
<b>iv) Other investments held at amortized cost, net</b>						
Fixed rate securities	34,013,678	-	34,013,678	26,006,883	-	26,006,883
Floating rate notes	85,000	243,750	328,750	85,000	266,250	351,250
<b>Other investments held at amortized cost, gross</b>	<b>34,098,678</b>	<b>243,750</b>	<b>34,342,428</b>	<b>26,091,883</b>	<b>266,250</b>	<b>26,358,133</b>
Allowance for impairment	-	(243,750)	(243,750)	-	(266,250)	(266,250)
<b>Other investments held at amortized cost, net</b>	<b>34,098,678</b>	<b>-</b>	<b>34,098,678</b>	<b>26,091,883</b>	<b>-</b>	<b>26,091,883</b>
<b>Investments, net</b>	<b>43,802,676</b>	<b>1,299,605</b>	<b>45,102,281</b>	<b>33,455,186</b>	<b>843,687</b>	<b>34,298,873</b>

**6 Investments, net (continued)**

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

SAR' 000	2014			2013		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Fixed rate securities	1,409,605	36,267,919	37,677,524	741,438	26,133,231	26,874,669
Floating rate securities / notes	631,583	2,961,728	3,593,311	716,597	2,395,524	3,112,121
Equities	504,156	38,600	542,756	327,175	225,222	552,397
Other	70,079	3,462,361	3,532,440	-	4,025,936	4,025,936
	2,615,423	42,730,608	45,346,031	1,785,210	32,779,913	34,565,123
Allowance for impairment	-	(243,750)	(243,750)	-	(266,250)	(266,250)
<b>Investments, net</b>	<b>2,615,423</b>	<b>42,486,858</b>	<b>45,102,281</b>	<b>1,785,210</b>	<b>32,513,663</b>	<b>34,298,873</b>

c) The analysis of unrealized gains and losses and the fair values of held to maturity investments and other investments held at amortized cost, are as follows:

SAR' 000	2014				2013			
	Carrying value	Gross unrealized gains	Gross unrealized losses	Fair Value	Carrying value	Gross unrealized gains	Gross unrealized losses	Fair Value
<b>i) Held to maturity</b>								
Fixed rate securities	2,271	67	-	2,338	3,639	187	-	3,826
Other	10,000	213	-	10,213	10,000	-	(87)	9,913
<b>Total</b>	<b>12,271</b>	<b>280</b>	<b>-</b>	<b>12,551</b>	<b>13,639</b>	<b>187</b>	<b>(87)</b>	<b>13,739</b>
<b>ii) Other investments held at amortized cost</b>								
Fixed rate securities	34,013,678	14,441	(13,385)	34,014,734	26,006,883	21,961	(14,759)	26,014,085
Floating rate notes	328,750	-	(638)	328,112	351,250	-	-	351,250
Allowance for impairment	(243,750)	-	-	(243,750)	(266,250)	-	-	(266,250)
<b>Total</b>	<b>34,098,678</b>	<b>14,441</b>	<b>(14,023)</b>	<b>34,099,096</b>	<b>26,091,883</b>	<b>21,961</b>	<b>(14,759)</b>	<b>26,099,085</b>

The fair value of the fixed rate securities disclosed above is considered as level 2 for fair value hierarchy disclosure purpose.

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

SAR' 000	2014	2013
Government and quasi government	37,021,254	26,809,053
Corporate	5,796,743	5,999,570
Banks and other financial institutions	2,212,150	1,404,300
Other	72,134	85,950
<b>Total</b>	<b>45,102,281</b>	<b>34,298,873</b>



**6 Investments, net (continued)**

**e) Credit risk exposure on investments**

SAR' 000	2014	2013
Saudi government bonds	36,267,919	26,133,231
Investment grade	2,754,788	1,764,084
Unrated	6,079,574	6,401,558
<b>Total</b>	<b>45,102,281</b>	<b>34,298,873</b>

Saudi government bonds comprise Saudi government development bonds and treasury bills. Investment grade includes investments having credit exposure equivalent to Standard and Poor's rating of AAA to BBB. Unrated investments include local equities, foreign equities, funds and Mudarabah SAR 4,075 million (2013: SAR 4,244 million).

**f) Movement of allowance for impairment of investments and other assets:**

SAR' 000	2014	2013
Balance at the beginning of the year	410,440	465,750
Provided during the year	75,389	50,944
Recoveries during the year	(48,746)	(46,554)
Written off during the year	-	(59,700)
<b>Balance at the end of the year</b>	<b>437,083</b>	<b>410,440</b>

Investments held as FVIS represent investments held for trading and include Islamic securities (Sukuk) of SAR 12 million (2013: SAR 40 million).

Available for sale investments include Islamic securities (Sukuk) of SAR 3,159 million (2013: SAR 2,207 million).

Unquoted investments include Saudi Government Bonds and treasury bills of SAR 33,600 million (2013: SAR 26,133 million).

Saudi Istithmar Mutual Fund SAR Nil million (2013: SAR 71 million) and unquoted equity shares of SAR 39 million (2013: SAR 225 million) which are carried at cost as their fair value cannot be reliably measured, are also included under equities available for sale.

**7 Loans and advances, net**

**a) Loans and advances are classified as follows:**

**Loans and advances held at amortised cost**

SAR' 000	2014				
	Overdraft & Commercial loans	Credit Cards	Consumer Loans	Other	Total
Performing loans and advances - gross	100,301,744	544,420	8,683,773	8,131,472	117,661,409
Non performing loans and advances, net	865,990	54,571	261,894	-	1,182,455
<b>Total loans and advances</b>	<b>101,167,734</b>	<b>598,991</b>	<b>8,945,667</b>	<b>8,131,472</b>	<b>118,843,864</b>
Allowance for impairment	(1,882,291)	(51,085)	(369,804)	-	(2,303,180)
<b>Loans and advances held at amortised cost, net</b>	<b>99,285,443</b>	<b>547,906</b>	<b>8,575,863</b>	<b>8,131,472</b>	<b>116,540,684</b>

**7 Loans and advances, net (continued)**

SAR' 000	2013				
	Overdraft & Commercial loans	Credit Cards	Consumer Loans	Other	Total
Performing loans and advances- gross	95,089,258	588,391	8,554,922	7,775,266	112,007,837
Non-performing loans and advances, net	1,164,505	54,660	297,476	733	1,517,374
<b>Total loans and advances</b>	<b>96,253,763</b>	<b>643,051</b>	<b>8,852,398</b>	<b>7,775,999</b>	<b>113,525,211</b>
Allowance for impairment	(1,748,083)	(54,983)	(414,508)	(733)	(2,218,307)
<b>Loans and advances held at amortised cost, net</b>	<b>94,505,680</b>	<b>588,068</b>	<b>8,437,890</b>	<b>7,775,266</b>	<b>111,306,904</b>

b) Movement in allowance for impairment of credit losses are classified as follows:

i) Movement in allowance for impairment of credit losses

SAR' 000	2014				
	Overdraft & Commercial loans	Credit Cards	Consumer Loans	Other	Total
Balance at beginning of the year	1,748,083	54,983	414,508	733	2,218,307
Provided during the year	478,916	44,054	191,401	-	714,371
Written off during the year	(4,932)	(38,132)	(192,997)	-	(236,061)
Recoveries of amounts previously provided	(339,776)	(9,820)	(43,108)	(733)	(393,437)
<b>Balance at the end of the year</b>	<b>1,882,291</b>	<b>51,085</b>	<b>369,804</b>	<b>-</b>	<b>2,303,180</b>

SAR' 000	2013				
	Overdraft & Commercial loans	Credit Cards	Consumer Loans	Other	Total
Balance at beginning of the year	1,087,214	64,835	398,482	1,764	1,552,295
Provided during the year	820,999	47,795	234,913	143	1,103,850
Written off during the year	(64,294)	(44,395)	(182,719)	-	(291,408)
Recoveries of amounts previously provided	(95,836)	(13,252)	(36,168)	(1,174)	(146,430)
<b>Balance at the end of the year</b>	<b>1,748,083</b>	<b>54,983</b>	<b>414,508</b>	<b>733</b>	<b>2,218,307</b>

The impairment charge for credit losses includes provisions made against non performing commitments and contingencies.

The net charge to income (provision net of recoveries) of SAR 321 million (2013: SAR 957 million) in respect of impairment charge for credit losses for the year is net of recoveries of SAR 393 million (2013: SAR 146 million). The allowance for impairment includes SAR 1,210 million (2013: SAR 923 million) evaluated on a collective impairment basis.

Non performing loans and advances are disclosed net of accumulated special commission in suspense of SAR 146 million (2013: SAR 121 million).

**7 Loans and advances, net (continued)**

**ii) Movement of collective impairment provision:**

SAR' 000	2014	2013
Balance at the beginning of the year	923,410	778,910
Provided during the year	286,146	204,000
Written off during the year	-	(59,500)
<b>Balance at the end of the year</b>	<b>1,209,556</b>	<b>923,410</b>

**c) Credit quality of loans and advances**

**i) Neither past due nor impaired**

SAR' 000	2014				
	Overdraft & Commercial loans	Credit Cards	Consumer Loans	Other	Total
Very strong quality including sovereign (A+ to B)	27,094,707	6,410	581	2,077,089	29,178,787
Good quality (C+ to C)	45,979,942	9,958	2,726	2,538,021	48,530,647
Satisfactory quality (C- to E +)	24,509,476	457,254	8,421,176	3,287,630	36,675,536
Special mention (E to E -)	2,473,964	1,155	11,657	228,732	2,715,508
<b>Total</b>	<b>100,058,089</b>	<b>474,777</b>	<b>8,436,140</b>	<b>8,131,472</b>	<b>117,100,478</b>
SAR' 000	2013				
	Overdraft & Commercial loans	Credit Cards	Consumer Loans	Other	Total
Very strong quality including sovereign (A+ to B)	32,897,932	2,832	817	2,950,478	35,852,059
Good quality (C+ to C)	31,088,432	8,869	2,934	2,290,643	33,390,878
Satisfactory quality (C- to E +)	28,616,119	479,710	7,967,358	2,356,872	39,420,059
Special mention (E to E -)	2,063,949	1,237	52,088	177,273	2,294,547
<b>Total</b>	<b>94,666,432</b>	<b>492,648</b>	<b>8,023,197</b>	<b>7,775,266</b>	<b>110,957,543</b>

**Very strong quality:** Capitalization, earnings, financial strength, liquidity, management, market reputation and repayment ability are excellent.

**Good quality:** Capitalization, earnings, financial strength, liquidity, management, market reputation and repayment ability are good.

**Satisfactory quality:** Facilities require regular monitoring due to financial risk factors. Ability to repay remains at a satisfactory level.

**Special mention:** Facilities require close attention of management due to deterioration in the borrowers' financial condition. However, repayment is currently protected.

**7 Loans and advances, net (continued)**

**ii) Ageing of loans and advances (past due but not impaired)**

SAR' 000	2014				
	Overdraft & Commercial loans	Credit Cards	Consumer Loans	Other	Total
From 1 day to 30 days	163,614	54,015	195,968	-	413,597
From 31 days to 90 days	43,801	14,825	44,029	-	102,655
From 91 days to 180 days	23,669	803	7,636	-	32,108
More than 180 days	12,571	-	-	-	12,571
<b>Total</b>	<b>243,655</b>	<b>69,643</b>	<b>247,633</b>	<b>-</b>	<b>560,931</b>

SAR' 000	2013				
	Overdraft & Commercial loans	Credit Cards	Consumer Loans	Other	Total
From 1 day to 30 days	23,571	57,971	364,161	-	445,703
From 31 days to 90 days	76,410	18,760	78,254	-	173,424
From 91 days to 180 days	32,116	15,258	71,582	-	118,956
More than 180 days	290,729	3,754	17,728	-	312,211
<b>Total</b>	<b>422,826</b>	<b>95,743</b>	<b>531,725</b>	<b>-</b>	<b>1,050,294</b>



**7 Loans and advances, net (continued)**

iii) Economic sector risk concentrations for the loans and advances and allowance for impairment losses are as follows:

SAR' 000	Performing	Non Performing, net	Allowance for impairment losses	Loans and advances, net
<b>2014</b>				
Government and quasi Government	3,336,693	-	-	3,336,693
Banks and other financial institutions	1,728,722	-	(29,968)	1,698,754
Agriculture and fishing	2,328,176	17,659	(31,904)	2,313,931
Manufacturing	23,969,862	34,614	(274,916)	23,729,560
Mining and quarrying	4,484,044	-	(21,056)	4,462,988
Electricity, water, gas and health services	8,907,837	-	(48,165)	8,859,672
Building and construction	10,674,651	194,387	(412,950)	10,456,088
Commerce	21,749,707	344,365	(482,499)	21,611,573
Transportation and communication	8,212,209	2,981	(114,893)	8,100,297
Services	7,626,016	174,159	(234,861)	7,565,314
Consumer loans and credit cards	9,228,193	316,465	(420,889)	9,123,769
Others	15,415,299	97,825	(231,079)	15,282,045
<b>Total</b>	<b>117,661,409</b>	<b>1,182,455</b>	<b>(2,303,180)</b>	<b>116,540,684</b>
<b>2013</b>				
Government and quasi Government	3,626,500	-	-	3,626,500
Banks and other financial institutions	2,060,308	-	(4,791)	2,055,517
Agriculture and fishing	2,736,682	17,659	(20,116)	2,734,225
Manufacturing	21,898,288	34,197	(235,221)	21,697,264
Mining and quarrying	4,111,457	74	(7,995)	4,103,536
Electricity, water, gas and health services	8,640,541	-	(42,405)	8,598,136
Building and construction	7,992,709	201,215	(301,085)	7,892,839
Commerce	21,914,399	607,561	(626,839)	21,895,121
Transportation and communication	7,907,229	19,984	(106,699)	7,820,514
Services	6,228,927	251,136	(262,038)	6,218,025
Consumer loans and credit cards	9,143,313	352,136	(469,491)	9,025,958
Others	15,747,484	33,412	(141,627)	15,639,269
<b>Total</b>	<b>112,007,837</b>	<b>1,517,374</b>	<b>(2,218,307)</b>	<b>111,306,904</b>

Loans and advances include Islamic related products of SAR 67,183 million (2013: SAR 62,446 million).

**d) Collateral**

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

**e) Loans and advances include finance lease receivables, which are analyzed as follows:**

SAR' 000	2014	2013
<b>Gross receivable from finance leases:</b>		
1 to 5 years	492,736	617,421
More than 5 years	7,134,205	7,010,725
	<b>7,626,941</b>	<b>7,628,146</b>
<b>Net receivable from finance leases</b>	<b>7,626,941</b>	<b>7,628,146</b>

## 8 Investment in associates

SAR' 000	2014	2013
<b>Opening balance</b>	166,270	171,948
Sale / transfer of investments	-	24,999
Impairment provision	(68,000)	(34,000)
Share of earnings	799	3,323
<b>Closing balance</b>	<b>99,069</b>	<b>166,270</b>

Investment in associates represents 27% shareholding in interest in the Banque BEMO Saudi Fransi (2013: 27%) and 32.5% shareholding in Saudi Fransi Cooperative Insurance Company (Allianz Saudi Fransi) (2013: 32.5%) incorporated in the Kingdom of Saudi Arabia. The quoted price of the Bank's investment in Saudi Fransi Cooperative Insurance Company (Allianz Saudi Fransi) as at December 31, 2014 was SAR 222 million (2013 :SAR 520 million).

The Bank's share of associates' financial statements:

SAR' 000	Banque Bemo Saudi Fransi - Syria		Allianz Saudi Fransi	
	2014	2013	2014	2013
Total assets	771,559	832,176	527,893	479,547
Total liabilities	707,711	768,327	467,840	423,365
Total equity	63,848	63,849	60,053	56,182
Total income	32,297	40,198	149,530	131,387
Total expenses	19,357	26,134	144,367	127,222

## 9 Property and equipment, net

SAR' 000	Land and buildings	Leasehold improvements	Furniture, equipment and vehicles	2014 Total	2013 Total
<b>Cost</b>					
Balance at the beginning of the year	575,332	94,558	754,454	1,424,344	1,389,827
Additions	10,281	13,599	86,609	110,489	107,122
Disposals and retirements	-	(29,988)	(50,309)	(80,297)	(72,605)
<b>Balance at the end of the year</b>	<b>585,613</b>	<b>78,169</b>	<b>790,754</b>	<b>1,454,536</b>	<b>1,424,344</b>
<b>Accumulated depreciation and amortization</b>					
Balance at the beginning of the year	233,340	5,151	565,935	804,426	748,521
Charge for the year	17,004	32,339	75,713	125,056	128,483
Disposals and retirements	-	(29,930)	(50,092)	(80,022)	(72,578)
<b>Balance at the end of the year</b>	<b>250,344</b>	<b>7,560</b>	<b>591,556</b>	<b>849,460</b>	<b>804,426</b>
<b>Net book value as at December 31, 2014</b>	<b>335,269</b>	<b>70,609</b>	<b>199,198</b>	<b>605,076</b>	
<b>Net book value as at December 31, 2013</b>	<b>341,992</b>	<b>89,407</b>	<b>188,519</b>		<b>619,918</b>

Leasehold improvements as at December 31, 2014 include work in progress amounting to SAR 3 million (2013: SAR 20 million). Furniture, equipment and vehicles include information technology related assets.

## 10 Other assets

SAR' 000	2014	2013
Accrued special commission receivable – Banks and other financial institutions	281	349
– Investments	135,775	86,207
– Loans and advances	293,415	281,848
Total accrued special commission receivable	429,471	368,404
Accounts receivable	665,998	384,794
Positive fair value of derivatives (note 11)	2,632,447	2,772,572
Other real estate	451,670	87,800
Others	227,693	366,445
<b>Total</b>	<b>4,407,279</b>	<b>3,980,015</b>

## 11 Derivatives

In the ordinary course of business, the Bank 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 commission rate swaps, counterparties generally exchange fixed and floating rate commission payments in a single currency without exchanging principal. For currency rate swaps, fixed and floating commission payments and principal 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 commission rate futures are transacted in standardized amounts on regulated exchanges and changes in futures contract values are settled daily.

### c) Forward rate agreements

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

### d) Options

Options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, to either buy or sell at 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.

### Held for trading purposes

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

## 11 Derivatives (continued)

### Held for hedging purposes

The Bank has adopted a comprehensive system for the measurement and the management of risk. Part of the risk management process involves managing the Bank's exposure to fluctuations in foreign exchange and commission rates to reduce its exposure to currency and commission rate risks to an acceptable level as determined by the Board of Directors in accordance with the guidelines issued by SAMA. The Board of Directors has established the 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 positions are maintained within the established limits. The Board of Directors has also established the level of commission rate risk by setting commission rate sensitivity limits. Commission rate exposure in terms of the sensitivity is reviewed on a periodic basis and hedging strategies are used to reduce the exposure within the established limits.

As part of its asset and liability management the Bank uses derivatives for hedging purposes in order to adjust its own exposure to currency and commission rate risks. This is generally achieved by hedging specific transactions as well as strategic hedging against overall consolidated 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.

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

### Cash flow hedges

The Bank is exposed to variability in future commission income cash flows on non-trading assets and liabilities which bear variable commission rate. The Bank uses commission rate swaps as cash flow hedges of these commission rate risks. Also, as a result of firm commitments in foreign currencies, such as its issued foreign currency debt, the Bank is exposed to foreign exchange and commission rate risks which are hedged with cross currency commission rate swaps. 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:

SAR' 000	Within 1 year	1-3 years	3-5 years	Over 5 years
<b>2014</b>				
Cash inflows (assets)	1,373,043	2,127,041	1,080,938	2,600
Cash out flows (liabilities)	(387,696)	(1,975,426)	(989,115)	(1,845)
Net cash inflow	985,347	151,615	91,823	755
<b>2013</b>				
Cash inflows (assets)	1,113,656	1,617,193	851,267	7,373
Cash out flows (liabilities)	(224,829)	(1,393,566)	(1,147,747)	(10,198)
Net cash inflow / (outflow)	888,827	223,627	(296,480)	(2,825)

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

SAR' 000	2014	2013
Special commission income	1,291,388	1,026,964
Special commission expense	(634,024)	(483,235)
Net gain on cash flow hedges transferred to consolidated statement of income	657,364	543,729

## 11 Derivatives (continued)

The tables below show the positive and negative fair values of derivative financial instruments held, together with their 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 Bank's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor to market risk.

Derivative financial instruments SAR' 000			Notional amounts by term to maturity					
	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
<b>2014</b>								
<b>Held for trading</b>								
Commission rate swaps	1,169,854	1,187,968	128,091,488	7,603,337	21,049,073	91,754,196	7,684,882	133,213,875
Commission rate futures and options	93	-	35,032,365	-	7,880,405	24,309,130	2,842,830	29,304,576
Forward rate agreements	-	-	-	-	-	-	-	-
Forward foreign exchange contracts	99,195	69,062	65,425,936	33,859,410	23,228,152	8,338,374	-	52,921,021
Currency options	57,593	-	58,472,384	9,445,606	27,375,734	21,651,044	-	49,440,275
Others	24,291	4,240	2,027,163	461,385	253,739	1,312,039	-	2,264,292
<b>Held as fair value hedges</b>								
Commission rate swaps	36,208	10,197	5,581,500	2,437,500	67,500	3,076,500	-	5,118,090
<b>Held as cash flow hedges</b>								
Commission rate swaps	1,245,213	2,967	71,020,073	3,235,000	7,379,659	60,297,414	108,000	57,459,011
<b>Total (notes 10 and 15)</b>	<b>2,632,447</b>	<b>1,274,434</b>	<b>365,650,909</b>	<b>57,042,238</b>	<b>87,234,262</b>	<b>210,738,697</b>	<b>10,635,712</b>	<b>329,721,140</b>
Derivative financial instruments SAR' 000			Notional amounts by term to maturity					
	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
<b>2013</b>								
<b>Held for trading</b>								
Commission rate swaps	1,663,653	1,514,732	127,501,940	12,600,990	18,887,099	87,924,624	8,089,227	125,242,521
Commission rate futures and options	397	-	22,811,569	2,400,000	2,673,000	17,022,319	716,250	29,772,794
Forward rate agreements	-	-	-	-	-	-	-	583,333
Forward foreign exchange contracts	82,196	29,333	42,187,353	32,311,363	9,444,710	431,280	-	42,575,651
Currency options	18,549	-	23,616,374	6,339,206	11,453,907	5,823,261	-	32,460,816
Others	24,709	-	2,704,447	519,946	899,761	1,284,740	-	2,192,146
<b>Held as fair value hedges</b>								
Commission rate swaps	19,514	11,026	5,584,000	-	2,500	5,317,500	264,000	5,616,400
<b>Held as cash flow hedges</b>								
Commission rate swaps	964,240	119,800	54,858,960	2,318,750	5,571,872	46,295,338	673,000	50,679,816
<b>Total</b>	<b>2,773,258</b>	<b>1,674,891</b>	<b>279,264,643</b>	<b>56,490,255</b>	<b>48,932,849</b>	<b>164,099,062</b>	<b>9,742,477</b>	<b>289,123,477</b>
<b>Fair value of netting arrangements</b>	<b>(686)</b>	<b>(686)</b>	<b>(42,500)</b>	<b>(37,500)</b>	<b>(5,000)</b>	<b>-</b>	<b>-</b>	<b>(45,000)</b>
<b>Total after netting (notes 10 and 15)</b>	<b>2,772,572</b>	<b>1,674,205</b>	<b>279,222,143</b>	<b>56,452,755</b>	<b>48,927,849</b>	<b>164,099,062</b>	<b>9,742,477</b>	<b>289,078,477</b>

Commission rate swaps include the notional amount of SAR Nil million (2013: SAR 42 million) with an aggregate positive fair value and a negative fair value of SAR Nil million (2013: SAR 0.7 million) which are netted out for credit exposure purposes as the Bank intends to settle these on a net basis.



## 11 Derivatives (continued)

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

SAR' 000						
Description of hedged items	Fair value	Cost	Risk	Hedging instrument	Positive fair value	Negative fair value
<b>2014</b>						
Fixed commission rate loans	340,275	331,500	Fair value	Commission rate swap	-	10,197
Fixed commission rate debt securities and sukuk	5,231,067	5,250,000	Fair value	Commission rate swap	36,208	-
Floating commission rate investments	1,387,203	1,367,500	Cash flow	Commission rate swap	19,830	128
Floating commission rate loans	69,687,770	69,652,573	Cash flow	Commission rate swap	1,225,383	2,839
<b>2013</b>						
Fixed commission rate loans	345,663	334,000	Fair value	Commission rate swap	-	11,026
Fixed commission rate debt securities and sukuk	5,230,101	5,250,000	Fair value	Commission rate swap	19,514	-
Floating commission rate investments	821,393	826,250	Cash flow	Commission rate swap	1,742	6,600
Floating commission rate loans	54,049,438	54,032,710	Cash flow	Commission rate swap	962,498	113,200

The net gains on the hedging instruments for fair value hedge are SAR 26 million (2013: SAR 8 million). The net gains on the hedged item attributable to the hedged risk are SAR 10 million (2013: SAR 8 million).

Approximately 78% (2013: 77%) of the net positive fair values of the Bank's derivatives are entered into with financial institutions and less than 14% (2013: 20%) of the net positive fair values of the derivatives are with any single counterpart group at the reporting date. The derivative activities are mainly carried out under Bank's treasury banking segment.

## 12 Due to banks and other financial institutions

SAR' 000	2014	2013
Current accounts	406,153	555,407
Money market deposits	3,457,329	3,112,486
<b>Total</b>	<b>3,863,482</b>	<b>3,667,893</b>

## 13 Customers' deposits

SAR' 000	2014	2013
Demand	102,369,250	82,924,578
Saving	437,508	449,120
Time	38,215,470	45,059,599
Other	4,253,017	3,167,890
<b>Total</b>	<b>145,275,245</b>	<b>131,601,187</b>

Other customers' deposits include SAR 2,091 million (2013: SAR 1,588 million) related to margins held for irrevocable commitments.

### 13 Customers' deposits (continued)

Time deposits include Islamic related products of SAR 16,257 million (2013: SAR 21,449 million).

Customers' deposits include foreign currency deposits as follows:

SAR' 000	2014	2013
Demand	8,883,271	7,083,524
Saving	11,724	12,234
Time	13,124,821	14,329,196
Other	896,605	394,580
<b>Total</b>	<b>22,916,421</b>	<b>21,819,534</b>

### 14 Debt securities and Sukuks

In 2010, the Bank issued USD 650 million in 5 year non-convertible and unsecured fixed rate bonds, under its USD 2 Billion Euro Medium Term Note programme which is listed on the London Stock Exchange. The bonds pay a semi-annual coupon of 4.25% and are to be used for general banking purposes. The Bank also raised funds through medium term Sharia compliant sukuk of USD 750 million for 5 years in May 2012, under a USD 2 Billion programme listed on the London Stock Exchange. In addition, the Bank issued a privately placed SAR 1,900 million unsecured subordinated sukuk in December 2012 for a period of 7 years. The sukuk is settled through the Tadawul depository system. However, the Bank has an option to repay the unsecured subordinated sukuk after 5 years, subject to prior approval of SAMA and terms and conditions of the agreement.

In addition to the above, the Bank also issued a private placed SAR 2,000 million unsecured subordinated sukuk in June 2014 for a period of 10 years. The sukuk is settled through Tadawul depository system. However, the Bank has an option to repay the unsecured subordinated sukuk after 5 years, subject to prior approval of SAMA and terms and conditions of the agreement.

### 15 Other liabilities

SAR' 000	2014	2013
Accrued special commission payable – Banks and other financial institutions	958	232
– customers' deposits	48,880	68,476
– debt securities and sukuk	54,354	46,535
<b>Total accrued special commission payable</b>	<b>104,192</b>	<b>115,243</b>
Accounts payable and accrued expenses	1,733,280	1,826,838
Negative fair value of derivatives (note 11)	1,274,434	1,674,205
Others	923,866	824,576
<b>Total</b>	<b>4,035,772</b>	<b>4,440,862</b>

## 16 Share capital

The authorised, issued and fully paid share capital of the Bank consists of 1,205 million shares of SAR 10 each (December 31, 2013: 904 Million shares of SAR 10 each). In accordance with the shareholders' resolution passed at the Extra Ordinary General Assembly Meeting held on April 16, 2014, a stock dividend issue of 301.3 million shares at a nominal value SAR 10 each was approved to the existing shareholders, on the basis of 1 stock dividend shares for every 3 shares held, through the capitalization of retained earnings. Accordingly, share capital of the Bank has increased from SAR 9,040 million to SAR 12,053 million.

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

SAR' 000	%	2014	2013
Saudi shareholders	68.9	8,303,572	6,227,679
Credit Agricole Corporate and Investment Bank (CA-CIB)	31.1	3,750,000	2,812,500
<b>Total</b>	<b>100</b>	<b>12,053,572</b>	<b>9,040,179</b>

## 17 Statutory and general reserve

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

An amount of SAR 879 million (2013: SAR 1,487 million) has been transferred from the retained earnings to statutory reserve during the year. This reserve is not available for distribution.

The Bank had appropriated SAR 983 million to general reserve from retained earnings.

## 18 Other reserves

SAR' 000	Cash flow hedges	Available for sale investments	Total
<b>2014</b>			
<b>Balance at beginning of the year</b>	<b>299,293</b>	<b>(30,625)</b>	<b>268,668</b>
Net change in fair value	848,868	168,685	1,017,553
Transfer to consolidated statement of income	(657,364)	(35,913)	(693,277)
Net movement during the year	191,504	132,772	324,276
<b>Balance at the end of the year</b>	<b>490,797</b>	<b>102,147</b>	<b>592,944</b>
<b>2013</b>			
<b>Balance at beginning of the year</b>	<b>920,255</b>	<b>(27,877)</b>	<b>892,378</b>
Net change in fair value	(77,233)	71,286	(5,947)
Transfer to consolidated statement of income	(543,729)	(74,034)	(617,763)
Net movement during the year	(620,962)	(2,748)	(623,710)
<b>Balance at the end of the year</b>	<b>299,293</b>	<b>(30,625)</b>	<b>268,668</b>

Other reserves represent the net unrealized revaluation gains / (losses) of cash flow hedges and available for sale investments. These reserves are not available for distribution.

## **18 Other reserves (continued)**

Transfer to consolidated statement of income from available for sale reserve represents, gains and losses on disposal of available for sale investments amounting to SAR 36 million (2013: SAR 74 million). Accordingly, the cumulative gain or loss recognised previously in other comprehensive income and gain or loss on disposal of investments during the year and impairment charges have been transferred to consolidated statement of income. For cash flow hedges, the amount shown as balance of reserves as at December 31, 2014 is expected to affect the consolidated statement of income in the coming one to five years.

## **19 Commitments and contingencies**

### **a) Legal proceedings**

As at December 31, 2014 there were 18 (2013: 20) legal proceedings outstanding against the Bank. No material provision has been made as the related professional legal advice indicates that it is unlikely that any significant loss will arise.

### **b) Capital commitments**

As at December 31, 2014 the Bank had capital commitments of SAR 45 million (2013: SAR 47 million) in respect of buildings and equipment purchases.

### **c) Credit related commitments and contingencies**

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

Guarantees and standby letters of credit, which represent irrecoverable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans and advances.

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

Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement.

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

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

**19 Commitments and contingencies (continued)**

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

SAR' 000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
<b>2014</b>					
Letters of credit	7,008,627	3,965,672	463,478	-	11,437,777
Letters of guarantee	13,264,978	20,530,667	23,758,487	632,636	58,186,768
Acceptances	1,633,151	1,675,252	342,170	-	3,650,573
Irrevocable commitments to extend credit	355,954	998,692	2,384,647	47,250	3,786,543
<b>Total</b>	<b>22,262,710</b>	<b>27,170,283</b>	<b>26,948,782</b>	<b>679,886</b>	<b>77,061,661</b>
<b>2013</b>					
Letters of credit	12,780,109	2,979,663	843,016	-	16,602,788
Letters of guarantee	11,396,466	18,302,287	16,690,715	519,594	46,909,062
Acceptances	1,564,257	892,516	199,164	-	2,655,937
Irrevocable commitments to extend credit	161,264	452,617	3,879,623	48,300	4,541,804
<b>Total</b>	<b>25,902,096</b>	<b>22,627,083</b>	<b>21,612,518</b>	<b>567,894</b>	<b>70,709,591</b>

The outstanding unused portion of non-firm commitments which can be revoked unilaterally at any time by the Bank as at December 31, 2014 is SAR 105,533 million (2013: SAR 96,025 million).

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

SAR' 000	2014	2013
Government and quasi government	49,903	43,156
Corporate	66,663,203	58,132,996
Banks and other financial institutions	10,130,790	12,307,279
Other	217,765	226,160
<b>Total</b>	<b>77,061,661</b>	<b>70,709,591</b>

d) Operating lease commitments

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

SAR' 000	2014	2013
Less than 1 year	28,119	7,896
1 to 5 years	84,574	98,114
Over 5 years	151,361	142,791
<b>Total</b>	<b>264,054</b>	<b>248,801</b>

**20 Special commission income and expense**

SAR' 000	2014	2013
<b>Special commission income</b>		
Investments		
– Available for sale	185,757	187,775
– Held to maturity	146	14,259
– Other investments held at amortized cost	310,836	198,622
	496,739	400,656
Due from banks and other financial institutions	27,202	29,964
Loans and advances	4,041,474	3,826,430
<b>Total</b>	<b>4,565,415</b>	<b>4,257,050</b>
<b>Special commission expense</b>		
Due to banks and other financial institutions	18,700	12,495
Customers' deposits	530,942	700,226
Term loans and debt securities	198,797	181,026
<b>Total</b>	<b>748,439</b>	<b>893,747</b>

**21 Fees and commission income, net**

SAR' 000	2014	2013
<b>Fees and commission income</b>		
- Share trading, brokerage, fund management and corporate finance	360,015	266,631
- Trade finance	451,973	422,677
- Project finance and advisory	345,361	331,633
- Card products	139,025	132,846
- Other banking services	179,657	149,101
<b>Total fees and commission income</b>	<b>1,476,031</b>	<b>1,302,888</b>
<b>Fees and commission expense</b>		
- Share trading and brokerage	58,252	45,776
- Custodial services	5,262	4,074
- Card products	119,913	102,814
- Other banking services	954	659
<b>Total fees and commission expense</b>	<b>184,381</b>	<b>153,323</b>
<b>Fees and commission income, net</b>	<b>1,291,650</b>	<b>1,149,565</b>

**22 Trading income, net**

SAR' 000	2014	2013
Foreign exchange (losses) / gains, net	(1,004)	(68)
Investments- held as FVIS (trading), net	17,414	7,663
Derivatives, net	186,177	98,117
<b>Total</b>	<b>202,587</b>	<b>105,712</b>

## 23 Dividend income

SAR' 000	2014	2013
Available for sale investments	16,007	21,423

## 24 Gains on non-trading investments, net

SAR' 000	2014	2013
Available for sale	35,273	80,184

## 25 Other operating income

SAR' 000	2014	2013
Gains on disposal of property and equipment	250	227
Recoveries of written off loans	63,352	49,217
Other	5,936	1,065
<b>Total</b>	<b>69,538</b>	<b>50,509</b>

## 26 Other operating expenses

SAR' 000	2014	2013
Loss on disposal of property and equipment	84	11
Provision on other assets	7,389	4,615
Other	49,249	10,451
<b>Total</b>	<b>56,722</b>	<b>15,077</b>

## 27 Basic and diluted earnings per share

Basic and diluted earnings per share for the years ended December 31, 2014 and 2013 are calculated by dividing the net income for the year attributable to equity holders' of the Bank by 1,205 million shares .

## 28 Gross dividend, zakat and income tax

The Board of Directors has proposed final net dividend of SAR 0.50 (2013: SAR Nil) per share for the year which is subject to the approval of the shareholders at the Annual General Assembly Meeting and the regulatory agencies. The Board of Directors has declared interim gross dividend of SAR 586 million (SAR 0.45 net per share). Total gross dividend to Saudi shareholders was SAR 866 million and total dividend to foreign shareholders was SAR 391 million.



## 28 Gross dividend, zakat and income tax (continued)

### Gross dividend

SAR' 000	2014	2013
Interim dividend	585,911	397,810
Final proposed gross dividend	671,040	-
<b>Total</b>	<b>1,256,951</b>	<b>397,810</b>

The zakat and income tax, attributable to Saudi and foreign shareholders are as follows:

#### i) Zakat

Zakat attributable to the Saudi shareholders for the year amounted approximately to SAR 77 million (2013: SAR 56 million) which will be deducted from their share of dividend.

The Bank has filed its Zakat returns for the financial years up to and including the year 2013 with the Department of Zakat and Income Tax (the "DZIT"). The Bank has received Zakat assessments for the years up to 2009 raising additional demands aggregating to SAR 156 Million. The above additional exposure is mainly on account of disallowance of certain long-term investments and addition of term borrowings by the DZIT. The basis for this additional aggregate Zakat liability is being contested by the Bank in conjunction with all the Banks in Saudi Arabia. The Bank has also formally contested these assessments and is awaiting a response from DZIT.

The zakat assessment for the years 2010 to 2013 have not been finalized by the DZIT and the Bank may not be able to determine reliably the impact of such assessments.

#### ii) Income tax

Income tax payable in respect of foreign shareholder – CA-CIB's current year's share of income tax is approximately SAR 227 million (2013: SAR 154 million) which will be deducted from their share of dividend.

## 29 Cash and cash equivalents

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

SAR' 000	2014	2013
Cash and balances with SAMA excluding statutory deposit (note 4)	11,474,468	10,350,956
Due from banks and other financial institutions maturing within ninety days from the date of acquisition	2,008,673	1,545,091
<b>Total</b>	<b>13,483,141</b>	<b>11,896,047</b>

### 30 Employees compensation practices

SAR' 000	2014				
Categories of employees	Number of employees	Fixed compensation	Variable compensation	Total compensation	Forms of payment
Senior executives	21	37,215	46,397	83,612	Cash
Employees engaged in risk taking activities	295	170,153	86,550	256,703	Cash
Employees engaged in control functions	288	88,109	29,208	117,317	Cash
Other employees	2,481	432,784	65,948	498,732	Cash
<b>Total</b>	<b>3,085</b>	<b>728,261</b>	<b>228,103</b>	<b>956,364</b>	

SAR' 000	2013				
Categories of employees	Number of employees	Fixed compensation	Variable compensation	Total compensation	Forms of payment
Senior executives	18	33,903	39,610	73,513	Cash
Employees engaged in risk taking activities	279	159,207	68,129	227,336	Cash
Employees engaged in control functions	245	77,508	19,380	96,888	Cash
Other employees	2,446	412,619	47,068	459,687	Cash
<b>Total</b>	<b>2,988</b>	<b>683,237</b>	<b>174,187</b>	<b>857,424</b>	

#### Senior executives:

This comprises senior management having responsibility and authority for formulating strategies, directing and controlling the activities of the Bank including MD.

#### Employees engaged in risk taking activities:

This comprises managerial staff within the business lines (Corporate, Retail, Treasury and Investment banking and Brokerage), who are responsible for executing and implementing the business strategy on behalf of the Bank. This includes those involved in recommending and evaluating credit limits and credit worthiness, pricing of loans, undertaking and executing business proposals, treasury dealing activities, investment management and brokerage services.

#### Employees engaged in control functions:

This refers to employees working in divisions that are not involved in risk taking activities but engaged in review functions (Risk Management, Compliance, Corporate Governance, Legal, Internal Audit, Finance and Accounting). These functions are fully independent from risk taking units.

#### Other employees:

This includes all other employees of the Bank, excluding those already reported under the above categories.

### 30 Employees compensation practices (continued)

#### Governance of Compensation

The Board of Directors of BSF, through the Nomination and Compensation Committee (NCCOM) is responsible for the overall design and oversight of the compensation and performance management system.

#### NCCOM: Terms of Reference

- a. Overseeing the compensation system's design and operation on behalf of the Board of Directors;
- b. Preparing the Compensation Policy and placing it before the Board for approval;
- c. Periodically reviewing the Compensation Policy on its own or when advised by the Board, and making recommendations to the Board for amending/updating the Policy;
- d. Periodically evaluating the adequacy and effectiveness of the Compensation Policy to ensure that its stated objectives are achieved;
- e. Evaluating practices by which compensation is paid for potential future revenues whose timing and likelihood remain uncertain;
- f. Making recommendations to the Board on the level and composition of remuneration of key executives of the Bank. The key executives for this purpose will include all those executives whose appointment is subject to no objection by SAMA;
- g. Determination of bonus pool based on risk-adjusted profit of the Bank for payment of performance bonus;
- h. Reviewing compliance of the Compensation Policy with these Rules and the FSB principles and Standards;
- i. Performing any other related tasks to comply with the regulatory requirements.
- j. Considering the suitability of candidates for membership of the Board in accordance with the Articles of Association and approved policies and standards;
- k. Undertaking an annual review of the requirement of suitable skills and qualifications for the membership of the Board;
- l. Recommending to the Board criteria for the composition of the Board and its Committees, including the number of Board members, and independence of directors;
- m. Conducting an annual evaluation of the independent status of each candidate proposed for election at the General Assembly meeting and reporting the results of such evaluation to the Board;
- n. Satisfying itself to the Board and its committees, as applicable, are in compliance with all regulatory requirements, including its composition;
- o. Assisting the Board in reviewing the adequacy of the succession planning process and oversee its implementation;
- p. Reviewing the performance and making recommendations to the Board regarding the compensation of the Senior Management of BSF;
- q. Reviewing and assessing the adequacy of this Charter every three years and submitting this Charter and any amendments to the Board for approval;
- r. Conducting self-evaluation to assess the Committee's contribution and effectiveness in fulfilling its mandate and present it to the Board every three years.

#### Salient Features of BSF Compensation Policy

Operating in Saudi Arabia the sole Middle Eastern country member of the G20, BSF Management working closely with the Board of Directors' has an ingrained culture and track record of running prudent compensation policy during periods of both prosperity and financial crisis. BSF follows strict governance-orientated compensation practices. BSF compensation system promotes meritocracy, controls excessive risk-taking and ensures effective risk management. The compensation policy as recently amended by the NCCOM and approved by the Board, conforms to compensation related corporate governance and supports the SAMA rules and Financial Stability Board (FSB) guidelines. It is structured to meet challenges i.e. attracting, retaining and motivating highly skilled staff, recognizing that:

- a) BSF success heavily depends on the talents and efforts of highly skilled individuals;
- b) Competition within the Kingdom and the Gulf's financial services industry for qualified talents has often been intense.

### **30 Employees compensation practices (continued)**

In line with the Saudi banking industry practices, BSF uses a mix of fixed and variable compensation. The former is driven by job size, responsibility, supply and jobs' relative worth in the market. The latter is driven by performance thus payment is based on meeting pre-agreed targets.

The fixed compensation package is composed of base salary, allowances and fringe benefits. As a standard practice in the Kingdom, the fixed income is driven by a base pay that is regularly benchmarked and compared with competition to ensure competitiveness.

As per Saudi banking industry practice, BSF pays a Performance Bonus, the variable component. As a form of incentive, the Bonus Pool is set by Management and NCCOM working closely with Chief Risk Officer, Chief Financial Officer and Human Resources Manager based on the year's performance or net profit adjusted to the full range of identifiable risks.

BSF as part of its reward philosophy aims on the perfect blend of benefits that is externally competitive to retain, motivate and engage. A level playing field has always been an important consideration in our reward strategy. BSF has designed its compensation structure with prudence. Variable pay deferral, for instance, is generally a sound way to encourage long-term commitment. But doing so when most banks, both in the country and in the region are still paying one-time in cash, requires a degree of caution.

Allocation of Bonus to Groups and Divisions is based on Key Performance Indicator (KPI) target achievements. Distribution of bonus to individual employees is based on review of performance by respective supervisors measured in terms of meeting the KPI target.

### **31 Operating segments**

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

Transactions between operating segments are approved by the management as per agreed terms and are reported according to the Bank's internal transfer pricing policy. These terms are in line with normal commercial terms and conditions. The revenue from external parties report to the Board is measured in a manner consistent with that in the consolidated statement of income.

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since December 31, 2013. The Bank's primary business is conducted in the Kingdom of Saudi Arabia.

#### **a) The Bank's reportable segments under IFRS 8 are as follows:**

**Retail Banking** – incorporates private and small establishment customers' demand accounts, overdrafts, loans, saving accounts, deposits, credit and debit cards, consumer loans, certain forex products and auto leasing.

**Corporate Banking** – incorporates corporate and medium establishment customers' demand accounts, deposits, overdrafts, loans and other credit facilities and derivative products.

**Treasury** – incorporates treasury services, trading activities, investment securities, money market, Bank's funding operations and derivative products.

**Investment banking and brokerage** – Investment management services and asset management activities related to dealing, managing, arranging, advising and custody of securities, retail investments products, corporate finance and international and local shares brokerage services and insurance.

### 31 Operating segments (continued)

The Bank's total assets and liabilities as at December 31, 2014 and 2013, its total operating income and expenses, share in earnings / (losses) of associates and its net income attributable to equity holders of the Bank for the years then ended by operating segments, are as follows:

SAR' 000	Retail banking	Corporate banking	Treasury	Investment banking and brokerage	Total
<b>2014</b>					
Total assets	14,190,365	105,680,567	66,824,672	2,081,299	188,776,903
Investment in associates	-	-	99,069	-	99,069
Total liabilities	70,327,832	75,836,737	14,301,294	1,839,703	162,305,566
Total operating income	1,419,493	2,740,813	1,263,336	362,394	5,786,036
Share in earnings of associates, net	-	-	799	-	799
Total operating expenses	1,249,599	577,286	257,821	185,788	2,270,494
Net income for the year	169,894	2,163,527	1,006,314	176,606	3,516,341
<b>Results</b>					
Net special commission income	1,093,793	1,960,513	709,040	53,630	3,816,976
Fees and commission income, net	211,257	777,068	(5,438)	308,763	1,291,650
Exchange income, net	54,144	-	299,861	-	354,005
Trading income, net	-	-	202,587	-	202,587
Impairment charges for credit losses, net	211,650	109,284	-	-	320,934
Depreciation and amortization	79,795	25,643	10,320	9,298	125,056
<b>2013</b>					
Total assets	14,343,939	100,396,037	53,413,201	1,903,497	170,056,674
Investment in associates	-	-	166,270	-	166,270
Total liabilities	66,101,013	65,806,674	13,230,948	1,701,408	146,840,043
Total operating income	1,450,363	2,518,980	806,201	276,991	5,052,535
Share in earnings of associates, net	-	-	3,323	-	3,323
Total operating expenses	1,193,618	1,115,353	177,096	164,216	2,650,283
Net income for the year	256,745	1,403,627	632,428	112,775	2,405,575
<b>Results</b>					
Net special commission income	1,166,997	1,780,745	375,797	39,764	3,363,303
Fees and commission income, net	193,184	732,538	(13,384)	237,227	1,149,565
Exchange income, net	46,399	-	235,440	-	281,839
Trading income, net	-	-	105,712	-	105,712
Impairment charges for credit losses, net	234,883	722,537	-	-	957,420
Depreciation and amortization	89,738	17,074	12,047	9,624	128,483

### 31 Operating segments (continued)

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

SAR' 000	Retail banking	Corporate banking	Treasury	Total
<u>2014</u>				
Statement of financial position assets	13,235,023	105,421,209	62,230,561	180,886,793
Commitments and contingencies	212,243	41,648,213	-	41,860,456
Derivatives	-	-	5,313,007	5,313,007
<u>2013</u>				
Statement of financial position assets	13,459,226	100,155,404	49,202,579	162,817,209
Commitments and contingencies	253,457	37,580,607	-	37,834,064
Derivatives	-	225	4,441,349	4,441,574

Credit exposure comprises the carrying value of consolidated statement of financial position assets excluding cash, property and equipment, other assets and credit equivalent value of commitments, contingencies and derivatives. The credit equivalent value of commitments, contingencies and derivatives are calculated as per the Saudi Arabian Monetary Agency (SAMA) guidelines.

### 32 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and will cause the other party to incur a financial loss. Credit exposures arise principally in lending activities that lead to loans and advances, and investing activities. There is also credit risk on credit related commitments and contingencies and derivatives.

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

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

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

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

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

## **32 Credit risk (continued)**

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

On an ongoing basis, the Bank continues to improve its organization and resources in order to achieve strict, prudent and exhaustive risk management. Credit risk management function under the Chief Risk Officer is independent of the Business Lines and has the responsibility of the pre-approval credit granting due diligence and ongoing monitoring of the credit portfolio. Credit granting is done through a credit committee approach. There are multiple credit committees with delegated authority for credit approval with the highest committee being the Executive Committee of the Board. The delegation to the credit committees is through a risk metric dependent on requested quantum of credit facilities and the credit risk rating. The credit granting due diligence process in the Bank is governed by the tenets in the Credit Policy approved by the Board Risk Committee.

The Credit Policy lays down credit underwriting standards through the risk acceptance criteria for different sections of the Banking book. The risk acceptance criteria are decided by the Board Risk Committee. The risk acceptance criteria in turn have to broadly conform to the approved risk appetite statement of the Bank. In order to avoid sectorial credit concentrations and achieve diversification of the loan portfolio the Credit Policy lays down economic sector caps for sectors with relatively large exposures. The sectorial exposure are reviewed and monitored at regular intervals.

Credit risk assessment is done through the in house credit risk rating system. The Corporate credit risk rating system has 7 investment grades, 6 non-investment grades and two default grades. All credit risk ratings are subject to annual review and credit risk ratings are refreshed at yearly intervals. The final credit risk rating that is assigned to a borrower is the one that is approved by the delegated Credit Committee. There are various rating methodologies for different sections of the Banking book. The Bank has a close monitoring mechanism to review the credit quality and rating migrations and periodical reports are submitted to the Board Risk Committee.

The Bank gives utmost importance to the ability of the obligors to service debt from their core business generated cash flows. Collateral is never the principal rationale for granting credit. However collateral is taken as a risk mitigant and as a secondary means of repayment for perceived weakness in credit quality. Accepted collaterals are valued at periodical intervals and reviewed for marketability and enforcement.

The Bank reviews its loan portfolios to assess Specific Provisions for impaired credits on a quarterly basis. The quantum of Specific Provisions set up is based on the difference between carrying amount of the loan and the estimated recoverable amount.

The debt securities included in the investment portfolio are mainly sovereign risk. For analysis of investments by counterparty and the details of the composition of investments, and loans and advances, refer to notes 6 and 7, respectively. Information on credit risk relating to derivative instruments is provided in note 11 and for commitments and contingencies in note 19.



32 Credit risk (continued)

Geographical concentration

- a) The distribution by geographical region for major categories of assets, liabilities, commitments and contingencies and credit exposure accounts is as follows:

SAR' 000	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	Other Countries	Total
<b>2014</b>						
<b>Assets</b>						
Cash and balances with SAMA	20,013,841	-	-	-	-	20,013,841
Due from banks and other financial institutions	500,000	227,464	230,596	1,045,182	5,431	2,008,673
Investments and investment in associates, net	43,859,547	1,334,470	7,333	-	-	45,201,350
Loans and advances, net	115,332,313	846,954	150,980	-	210,437	116,540,684
<b>Total</b>	<b>179,705,701</b>	<b>2,408,888</b>	<b>388,909</b>	<b>1,045,182</b>	<b>215,868</b>	<b>183,764,548</b>
<b>Liabilities</b>						
Due to banks and other financial institutions	59,438	3,593,908	157,747	11,110	41,279	3,863,482
Customers' deposits	144,984,224	171,634	27,528	58	91,801	145,275,245
Debt securities & sukuks	3,900,000	-	2,416,784	-	2,814,283	9,131,067
<b>Total</b>	<b>148,943,662</b>	<b>3,765,542</b>	<b>2,602,059</b>	<b>11,168</b>	<b>2,947,363</b>	<b>158,269,794</b>
<b>Commitments and contingencies</b>	<b>67,161,591</b>	<b>1,618,010</b>	<b>5,674,397</b>	<b>289,793</b>	<b>2,317,869</b>	<b>77,061,660</b>
<b>Credit exposure (credit equivalent value)</b>						
Commitments and contingencies	37,149,146	809,787	2,787,666	146,036	967,821	41,860,456
Derivatives	2,081,204	445,333	2,782,021	4,449	-	5,313,007
<b>2013</b>						
<b>Assets</b>						
Cash and balances with SAMA	18,139,603	-	-	-	-	18,139,603
Due from banks and other financial institutions	225,000	161,967	223,092	900,821	34,211	1,545,091
Investments and investment in associates, net	33,511,261	905,350	41,425	7,106	1	34,465,143
Loans and advances, net	110,005,804	1,094,828	139,794	-	66,478	111,306,904
<b>Total</b>	<b>161,881,668</b>	<b>2,162,145</b>	<b>404,311</b>	<b>907,927</b>	<b>100,690</b>	<b>165,456,741</b>
<b>Liabilities</b>						
Due to banks and other financial institutions	69,790	3,329,409	180,839	30,893	56,962	3,667,893
Customers' deposits	131,271,837	156,857	102,640	376	69,477	131,601,187
Debt securities & sukuks	1,900,000	-	2,417,601	-	2,812,500	7,130,101
<b>Total</b>	<b>133,241,627</b>	<b>3,486,266</b>	<b>2,701,080</b>	<b>31,269</b>	<b>2,938,939</b>	<b>142,399,181</b>
<b>Commitments and contingencies</b>	<b>58,295,349</b>	<b>851,248</b>	<b>5,029,969</b>	<b>163,240</b>	<b>6,369,785</b>	<b>70,709,591</b>
<b>Credit exposure (credit equivalent value)</b>						
Commitments and contingencies	31,296,698	1,363,902	3,634,882	134,247	1,404,335	37,834,064
Derivatives	1,354,933	134,665	2,561,701	390,235	40	4,441,574

### 32 Credit risk (continued)

Credit equivalent amounts reflect the amounts that result from translating the Bank's credit related commitments and contingencies and derivatives liabilities into the risk equivalent of loans using credit conversion factors prescribed by SAMA. Credit conversion factor is meant to capture the potential credit risk related to the exercise of the commitment.

- b) The distribution by geographical concentration of non - performing loans and advances and impairment for credit losses are as follows:

SAR ' 000	2014		2013	
	Non performing, net	Allowance for impairment of credit losses	Non performing, net	Allowance for impairment of credit losses
Kingdom of Saudi Arabia	1,182,455	2,303,180	1,517,374	2,218,307
<b>Total</b>	<b>1,182,455</b>	<b>2,303,180</b>	<b>1,517,374</b>	<b>2,218,307</b>

Allowance for impairment of credit losses includes specific and collective provisions.

### 33 Market risk

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

The market risk for the trading book is managed and monitored using VaR methodology. Market risk for non-trading book is managed and monitored using a combination of VaR, stress testing and sensitivity analysis.

#### a) Market risk -Trading book

The Board has set limits for the acceptable level of risks in managing the trading book. In order to manage the market risk in trading book, the Bank applies on a daily basis a VaR (Value at Risk) methodology in order to assess the market risk positions held and also to estimate the potential economic loss based on a set of assumptions and changes in market conditions.

A VaR methodology estimates the potential negative change in market value of a portfolio at a given confidence level and over a specified time horizon. The Bank uses simulation models to assess the possible changes in the market value of the trading book based on historical data. VaR models are usually designed to measure the market risk in a normal market environment and therefore the use of VaR has limitations because it is based on historical correlations and volatilities in market prices and assumes that the future movements will follow a statistical distribution.

The VaR that the Bank measures is an estimate, using a confidence level of 99% of the potential loss that is not expected to be exceeded if the current market positions were to be held unchanged for one day. The use of 99% confidence level depicts that within a one-day horizon, losses exceeding VaR figure should occur, on average, not more than once every hundred days.

The VaR represents the risk of portfolios at the close of a business day, and it does not account for any losses that may occur beyond the defined confidence interval. The actual trading results however, may differ from the VaR calculations and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions.

### 33 Market risk (continued)

To overcome the VaR limitations mentioned above, the Bank also carries out stress tests of its portfolio to simulate conditions outside normal confidence intervals. The potential losses occurring under stress test conditions are reported regularly to the Bank's ALCO committee for their review.

The Bank's VaR related information for the year ended December 31, 2014 and 2013 are follows:

SAR ' 000	Foreign exchange rate	Special commission rate risk	Overall Trading
<b><u>2014</u></b>			
VaR as at December 31, 2014	17	1,673	1,672
Average VaR for 2014	90	1,182	1,220
Maximum VaR for 2014	633	4,377	4,396
Minimum VaR for 2014	3	354	357
<b><u>2013</u></b>			
VaR as at December 31, 2013	49	3,867	3,873
Average VaR for 2013	123	1,387	1,391
Maximum VaR for 2013	617	4,239	4,247
Minimum VaR for 2013	5	211	287

Overall Trading VaR incorporates compensation effect of positions coming from realized P&L in foreign currencies.

#### b) Market risk non- trading book

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

##### i) Special commission rate risk

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

The following table depicts the sensitivity to a reasonable possible change in special commission rates, with other variables held constant, on the Bank's consolidated statement of income or equity. The sensitivity of the special commission income is the effect of the assumed changes in special commission rates with a lowest level at 0%, on the net special commission income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at December 31, 2014, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing the fixed rate available for sale financial assets, including the effect of any associated hedges as at December 31, 2014 for the effect of assumed changes in special commission rate. The sensitivity of equity is analyzed by maturity of the asset or swap. All the banking book exposures are monitored and analyzed in currency concentrations and relevant sensitivities are disclosed in SAR thousands.

**33 Market risk (continued)**

SAR' 000	2014						
Currency	BPS change	Sensitivity of special commission income	Sensitivity of Equity				Total
			6 months or less	Over 6 month to 1 year	Over 1 year to 5 years	Over 5 years	
USD	+100	(124,321)	(606)	(834)	(15,480)	(1)	(16,921)
	-100	42,117	606	834	15,480	1	16,921
SAR	+100	(16,294)	(1,698)	(3,845)	(49,754)	(194,172)	(249,469)
	-100	(62,655)	1,698	3,845	49,754	194,172	249,469

SAR' 000	2013						
Currency	BPS change	Sensitivity of special commission income	Sensitivity of Equity				Total
			6 months or less	Over 6 month to 1 year	Over 1 year to 5 years	Over 5 years	
USD	+100	(123,676)	(650)	(43)	(2,963)	(321)	(3,977)
	-100	37,207	650	43	2,963	321	3,977
SAR	+100	(72,193)	(1,648)	(2,842)	(27,900)	(185,109)	(217,499)
	-100	20,012	1,648	2,842	27,900	185,109	217,499

**Special commission rate sensitivity of assets, liabilities and derivatives**

The Bank 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 Board sets limits on the level of mismatch of special commission rate re-pricing that may be undertaken, which is monitored daily by the Bank's Treasury.

The table below summarises the Bank's exposure to special commission rate risks. Included in the table are the Bank's financial instruments at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

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

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**33 Market risk (continued)**

	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total
<b>SAR' 000</b>						
<b>2014</b>						
<b>Assets</b>						
Cash and balances with SAMA	10,540,927	-	-	-	9,472,914	20,013,841
Due from banks and other financial institutions	610,000	-	-	-	1,398,673	2,008,673
Investments and investment in associates ,net	16,859,869	19,530,912	5,440,790	2,667,875	701,904	45,201,350
Loans and advances, net	61,241,824	41,234,195	13,589,396	386,438	88,831	116,540,684
Property and equipment, net	-	-	-	-	605,076	605,076
Other assets	-	-	-	-	4,407,279	4,407,279
<b>Total assets</b>	<b>89,252,620</b>	<b>60,765,107</b>	<b>19,030,186</b>	<b>3,054,313</b>	<b>16,674,677</b>	<b>188,776,903</b>
<b>Liabilities and shareholders' equity</b>						
Due to banks and other financial institutions	3,457,329	-	-	-	406,153	3,863,482
Customers' deposits	27,528,906	11,123,767	736,456	-	105,886,116	145,275,245
Debt securities and Sukuk	6,316,784	-	2,814,283	-	-	9,131,067
Other liabilities	-	-	-	-	4,035,772	4,035,772
Shareholders' equity	-	-	-	-	26,471,337	26,471,337
<b>Total liabilities and shareholders' equity</b>	<b>37,303,019</b>	<b>11,123,767</b>	<b>3,550,739</b>	<b>-</b>	<b>136,799,378</b>	<b>188,776,903</b>
Net gap between assets and liabilities	51,949,601	49,641,340	15,479,447	3,054,313	(120,124,701)	
Net gap between derivative financial instruments	(59,602,920)	2,608,562	56,861,653	132,705	-	-
<b>Total commission rate sensitivity gap</b>	<b>(7,653,319)</b>	<b>52,249,902</b>	<b>72,341,100</b>	<b>3,187,018</b>	<b>(120,124,701)</b>	
<b>Cumulative commission rate sensitivity gap</b>	<b>(7,653,319)</b>	<b>44,596,583</b>	<b>116,937,683</b>	<b>120,124,701</b>	<b>-</b>	<b>-</b>
<b>2013</b>						
<b>Assets</b>						
Cash and balances with SAMA	9,484,935	-	-	-	8,654,668	18,139,603
Due from banks and other financial institutions	268,874	-	-	-	1,276,217	1,545,091
Investments and investment in associates ,net	9,079,542	17,585,834	4,496,146	2,584,954	718,667	34,465,143
Loans and advances, net	67,732,058	31,987,376	8,163,981	3,201,012	222,477	111,306,904
Property and equipment, net	-	-	-	-	619,918	619,918
Other assets	-	-	-	-	3,980,015	3,980,015
<b>Total assets</b>	<b>86,565,409</b>	<b>49,573,210</b>	<b>12,660,127</b>	<b>5,785,966</b>	<b>15,471,962</b>	<b>170,056,674</b>
<b>Liabilities and shareholders' equity</b>						
Due to banks and other financial institutions	2,643,736	468,750	-	-	555,407	3,667,893
Customers' deposits	39,117,245	4,995,872	1,960,158	-	85,527,912	131,601,187
Debt securities	1,900,000	-	5,230,101	-	-	7,130,101
Other liabilities	-	-	-	-	4,440,862	4,440,862
Shareholders' equity	-	-	-	-	23,216,631	23,216,631
<b>Total liabilities and shareholders' equity</b>	<b>43,660,981</b>	<b>5,464,622</b>	<b>7,190,259</b>	<b>-</b>	<b>113,740,812</b>	<b>170,056,674</b>
Net gap between assets and liabilities	42,904,428	44,108,588	5,469,868	5,785,966	(98,268,850)	-
Net gap between derivative financial instruments	(50,448,523)	5,710,103	44,183,186	555,234	-	-
<b>Total commission rate sensitivity gap</b>	<b>(7,544,095)</b>	<b>49,818,691</b>	<b>49,653,054</b>	<b>6,341,200</b>	<b>(98,268,850)</b>	
<b>Cumulative commission rate sensitivity gap</b>	<b>(7,544,095)</b>	<b>42,274,596</b>	<b>91,927,650</b>	<b>98,268,850</b>	<b>-</b>	<b>-</b>

### 33 Market risk (continued)

Net gap between derivative financial instruments represents the net notional amounts of these financial instruments, which are used to manage the special commission rate risk.

The effective special commission rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortized cost and a current market rate for a floating rate instrument or an instrument carried at fair value.

#### ii) Currency Risk

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

The table below shows the currencies to which the Bank has a significant exposure as at December 31, 2014 and 2013 on its non-trading monetary assets and liabilities and forecasted cash flows. The analysis calculates the effect of reasonable possible movement of the currency rate against SAR, with all other variables held constant, on the consolidated statement of income (due to the fair value of the currency sensitive non-trading monetary assets and liabilities) and equity (due to change in fair value of commission rate swaps used as cash flow hedges). A positive effect shows a potential increase in the consolidated statement of income or equity; whereas a negative effect shows a potential net reduction in the consolidated statement of income or equity.

SAR' 000	2014			2013		
Currency Exposures	Change in Currency Rate in %	Effect on Net Income	Effect on Equity	Change in Currency Rate in %	Effect on Net Income	Effect on Equity
USD	+5	(12,824)	121	+5	(11,815)	41
EUR	-3	(178)	-	-3	(731)	-

There is no material impact on equity and net income due to change in other foreign currencies.

#### iii) Currency position

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

SAR' 000	2014 (Short) / long	2013 (Short) / long
US Dollar	(142,218)	(39,497)
Euro	5,926	24,359
Pound Sterling	(1,298)	165
Other	12,194	4,144
<b>Total</b>	<b>(125,396)</b>	<b>(10,829)</b>

### 33 Market risk (continued)

#### iv) Equity Price Risk

Equity price risk refers to the risk of decrease in fair values of equities in the Bank's non-trading investment portfolio as a result of reasonable possible changes in levels of equity indices and the value of individual stocks.

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

SAR' 000	2014		2013	
Market Indices	Change in equity Price %	Effect on market value	Change in equity Price %	Effect on market value
Tadawul	+5	24,423	+5	15,072
Tadawul	-5	(24,423)	-5	(15,072)

There is no material impact on market value due to change in prices of listed international securities.

### 34 Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to become unavailable immediately. To mitigate this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining an appropriate balance of cash, cash equivalents, and readily marketable securities.

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

In accordance with the Banking Control Law and the Regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% of total customers' demand deposits, and 4% of due to banks and other financial institutions (excluding balances due to SAMA and non-resident foreign currency deposits), saving deposits, time deposits, margins of letters of credit and guarantee, excluding all type of repo deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of not less than 20% of its deposit liabilities, in the form of cash, Saudi Government securities or assets which can be converted into cash within a period not exceeding 30 days. The Bank can also raise additional funds through repo facilities available with SAMA against its holding of Saudi Government securities up to 75% of the nominal value of securities.

#### a) Maturity analysis of assets and liabilities

The table below summarizes the maturity profile of the Bank's assets and liabilities. The expected maturities of assets and liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date and do not take into account of the effective maturities as indicated by the Bank's deposit retention history. Management monitors the maturity profile to ensure that adequate liquidity is maintained. For presentation purposes all demand, saving and other deposit balances have been shown in no fixed maturity.



**34 Liquidity risk (continued)**

SAR' 000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
<b>2014</b>						
<b>Assets</b>						
Cash and balances with SAMA	10,540,927	-	-	-	9,472,914	20,013,841
Due from banks and other financial institutions	610,000	-	-	-	1,398,673	2,008,673
Investments and investment in associates, net	15,075,546	18,780,195	6,644,255	3,999,450	701,904	45,201,350
Loans and advances, net	51,766,617	21,951,685	26,257,625	13,708,399	2,856,358	116,540,684
Property and equipment, net	-	-	-	-	605,076	605,076
Other assets	-	-	-	-	4,407,279	4,407,279
<b>Total assets</b>	<b>77,993,090</b>	<b>40,731,880</b>	<b>32,901,880</b>	<b>17,707,849</b>	<b>19,442,204</b>	<b>188,776,903</b>
<b>Liabilities and shareholders' equity</b>						
Due to banks and other financial institutions	3,457,329	-	-	-	406,153	3,863,482
Customers' deposits	24,997,398	9,201,897	3,687,893	-	107,388,057	145,275,245
Debt securities and sukuks	2,416,784	-	4,714,283	2,000,000	-	9,131,067
Other liabilities	-	-	-	-	4,035,772	4,035,772
Shareholders' equity	-	-	-	-	26,471,337	26,471,337
<b>Total liabilities and shareholders' equity</b>	<b>30,871,511</b>	<b>9,201,897</b>	<b>8,402,176</b>	<b>2,000,000</b>	<b>138,301,319</b>	<b>188,776,903</b>
<b>SAR' 000</b>	<b>Within 3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>No fixed maturity</b>	<b>Total</b>
<b>2013</b>						
<b>Assets</b>						
Cash and balances with SAMA	9,484,935	-	-	-	8,654,668	18,139,603
Due from banks and other financial institutions	268,874	-	-	-	1,276,217	1,545,091
Investments and investment in associates, net	7,723,408	16,222,508	6,109,406	3,691,154	718,667	34,465,143
Loans and advances, net	43,315,298	19,194,683	25,043,762	19,601,421	4,151,740	111,306,904
Property and equipment, net	-	-	-	-	619,918	619,918
Other assets	-	-	-	-	3,980,015	3,980,015
<b>Total assets</b>	<b>60,792,515</b>	<b>35,417,191</b>	<b>31,153,168</b>	<b>23,292,575</b>	<b>19,401,225</b>	<b>170,056,674</b>
<b>Liabilities and shareholders' equity</b>						
Due to banks and other financial institutions	2,643,736	468,750	-	-	555,407	3,667,893
Customers' deposits	37,253,077	4,995,872	2,477,547	25,000	86,849,691	131,601,187
Debt securities and sukuks	-	-	5,230,101	1,900,000	-	7,130,101
Other liabilities	-	-	-	-	4,440,862	4,440,862
Shareholders' equity	-	-	-	-	23,216,631	23,216,631
<b>Total liabilities and shareholders' equity</b>	<b>39,896,813</b>	<b>5,464,622</b>	<b>7,707,648</b>	<b>1,925,000</b>	<b>115,062,591</b>	<b>170,056,674</b>

### 34 Liquidity risk (continued)

#### b) Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Bank's financial liabilities as at December 31, 2014 and 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 based on the remaining period at the reporting date to the contractual maturity date and do not take into account the effective expected maturities. The Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

SAR' 000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
<b>2014</b>						
Due to banks and other financial institutions	3,457,612	561	-	-	406,153	3,864,326
Customers' deposits	25,005,645	9,293,461	3,848,320	-	107,388,057	145,535,483
Debt securities and Sukuks	2,484,631	203,540	5,096,555	2,206,855	-	9,991,581
<b>Total</b>	<b>30,947,888</b>	<b>9,497,562</b>	<b>8,944,875</b>	<b>2,206,855</b>	<b>107,794,210</b>	<b>159,391,390</b>
<b>Derivatives:</b>						
Contractual amount payable	(30,463,882)	4,499,141	25,964,512	2,462,810	-	2,462,581
Contractual amount receivable	90,595,187	(6,074,847)	(88,969,035)	(2,572,697)	-	(7,021,392)
<b>Total undiscounted financial liabilities</b>	<b>91,079,193</b>	<b>7,921,856</b>	<b>(54,059,648)</b>	<b>2,096,968</b>	<b>107,794,210</b>	<b>154,832,579</b>
<b>2013</b>						
Due to banks and other financial institutions	3,112,622	1,437	-	-	555,407	3,669,466
Customers' deposits	37,279,041	5,023,762	2,554,335	28,107	86,849,691	131,734,936
Debt securities	56,553	169,659	5,618,231	1,941,720	-	7,786,163
<b>Total</b>	<b>40,448,216</b>	<b>5,194,858</b>	<b>8,172,566</b>	<b>1,969,827</b>	<b>87,405,098</b>	<b>143,190,565</b>
<b>Derivatives:</b>						
Contractual amount payable	(15,010,479)	6,041,898	10,022,458	(847,136)	-	206,741
Contractual amount receivable	71,519,938	(14,156,388)	(62,140,103)	761,010	-	(4,015,543)
<b>Total undiscounted financial liabilities</b>	<b>96,957,675</b>	<b>(2,919,632)</b>	<b>(43,945,079)</b>	<b>1,883,701</b>	<b>87,405,098</b>	<b>139,381,763</b>

### 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. 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.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

### **35 Fair values of financial assets and liabilities (continued)**

#### **Valuation models**

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premium used in estimating discount rates, bond and equity prices and foreign currency exchange rates.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. The Bank uses widely recognized valuation models for determining the fair value of common and simpler financial instruments. Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple over-the-counter derivatives such as interest rate swaps.

Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Valuation models that employ significant unobservable inputs require a higher degree of management judgment and estimation in the determination of fair value. Management judgment and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of the probability of counterparty default and prepayments and selection of appropriate discount rates. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties; to the extent that the Bank believes that a third party market participant would take them into account in pricing a transaction. Fair values aims also to reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank and the counterparty where appropriate.

#### **Valuation Framework**

The Bank has an established control framework with respect to the measurement of fair values. This framework includes a Market Risk Department, which is independent of Front Office management and reports to the Chief Risk Officer, and which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements. Specific controls include:

- verification of observable pricing;
- re-performance of model valuations;
- a review and approval process for new models and changes to models involving Risk Division;
- back-testing of models against observed market transactions;
- analysis and investigation of significant daily valuation movements

When third party information, such as broker quotes or pricing services, is used to measure fair value, Market Risk Department assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS. This includes:

- verifying that the broker or pricing service is approved by the Bank for use in pricing the relevant type of financial instrument;
- understanding how the fair value has been arrived at and the extent to which it represents actual market transactions;
- when prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement; and
- if a number of quotes for the same financial instrument have been obtained, then how fair value has been determined using those quotes

### 35 Fair values of financial assets and liabilities (continued)

Any significant valuation issue is reported at a regular frequency (in addition to whenever deemed necessary) to the Bank Market Risk Committee in order to take appropriate actions accordingly.

#### Determination of fair value and fair value hierarchy

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

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

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

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

SAR' 000	Level 1	Level 2	Level 3	Total
<b>2014</b>				
<b><u>Financial assets</u></b>				
Derivative financial instruments	-	2,632,447	-	2,632,447
Financial investments designated at FVIS (trading)	123,177	2,028,095	-	2,151,272
Financial investments available for sale				
	1,944,951	3,394,148	3,500,961	8,840,060
<b>Total</b>	<b>2,068,128</b>	<b>8,054,690</b>	<b>3,500,961</b>	<b>13,623,779</b>
<b><u>Financial Liabilities</u></b>				
Derivative financial instruments negative fair value	-	1,274,434	-	1,274,434
<b>Total</b>	<b>-</b>	<b>1,274,434</b>	<b>-</b>	<b>1,274,434</b>
<b>2013</b>				
<b><u>Financial assets</u></b>				
Derivative financial instruments	-	2,772,572	-	2,772,572
Financial investments designated at FVIS(trading)	201,932	124,239	-	326,171
Financial investments available for sale	998,169	2,617,853	4,251,158	7,867,180
<b>Total</b>	<b>1,200,101</b>	<b>5,514,664</b>	<b>4,251,158</b>	<b>10,965,923</b>
<b><u>Financial Liabilities</u></b>				
Derivative financial instruments negative fair value	-	1,674,205	-	1,674,205
<b>Total</b>	<b>-</b>	<b>1,674,205</b>	<b>-</b>	<b>1,674,205</b>

Financial investments available for sale include Mudarabah SAR 3,462 million (2013: SAR 4,026 million) which are classified as level 3.

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:

**35. Fair values of financial assets and liabilities (continued)**

**Financial investments classified as available for sale (AFS)**

<b>SAR' 000</b>	<b>2014</b>	<b>2013</b>
<b>Balance at the beginning of the year</b>	<b>4,251,158</b>	<b>3,532,535</b>
Other comprehensive income / (losses):	-	(1,000)
Issues	<b>1,220,000</b>	<b>2,440,000</b>
Settlements	<b>(1,783,575)</b>	<b>(1,720,377)</b>
Transferred out of Level 3	<b>(186,622)</b>	-
<b>Balance at the end of the year</b>	<b>3,500,961</b>	<b>4,251,158</b>

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

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

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

The estimated fair values of the held to maturity investments and other investments held at amortized cost are based on quoted market prices when available or pricing models when used in the case of certain fixed rate bonds. Consequently, differences can arise between carrying values and fair value estimates. The fair values of these investments are disclosed in note 6. The fair values of derivatives are based on the quoted market prices when available or by using the appropriate valuation technique.

**36 Related party transactions and balances**

In the ordinary course of its activities, the Bank transacts business with related parties. In the opinion of the management and the Board, the related party transactions are carried out on an arm's length basis. The related party transactions are governed by limits set by the Banking Control Law and Regulations issued by SAMA. The balances as at December 31, 2014 and 2013 resulting from such transactions included in the consolidated financial statements are as follows:

<b>SAR' 000</b>	<b>2014</b>	<b>2013</b>
<b>CA-CIB Group</b>		
Due from banks and other financial institutions	<b>155,678</b>	53,858
Due to banks and other financial institutions	<b>18,636</b>	119,504
Derivatives at fair value, net	<b>64,116</b>	47,675
Commitments and contingencies	<b>3,296,579</b>	3,051,105
<b>Associates</b>		
Investments	<b>99,069</b>	166,270
Due to banks and other financial institutions	<b>67,403</b>	75,760

### 36 Related party transactions and balances (continued)

<b>Directors, auditors, other major shareholders' and their affiliates</b>		
Loans and advances	2,543,586	2,323,046
Customers' deposits	6,595,563	3,991,011
Derivatives at fair value, net	29,424	-
Commitments and contingencies	593,864	561,650
<b>Bank's mutual funds</b>		
Investments	-	70,819
Derivatives at fair value, net	1,377	-
Customers' deposits	207,038	234,779

Other major shareholders represent shareholdings excluding the foreign shareholder of more than 5% of the Bank's share capital.

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

<b>SAR' 000</b>	<b>2014</b>	<b>2013</b>
Special commission income		
-CA-CIB group	1,606	1,148
-Directors, auditors, other major shareholders' and their affiliates	51,322	48,145
-Associates	4	-
-Bank's mutual funds	3	44
Total Special commission income	52,935	49,337
Special commission expense		
-CA-CIB group	700	390
-Directors, auditors, other major shareholders' and their affiliates	38,812	45,140
-Associates	6	12
-Bank's mutual funds	60	3,535
Total Special commission expense	39,578	49,077
Fees, commission income and others, net	33,232	13,985
Directors' fees	3,651	3,852
Other general and administrative expenses	1,489	1,108

The total amount of short term benefits paid to key management personnel during the year was SAR 105 million (2013: SAR 113 million). The key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly.

### 37 Capital adequacy

The Bank's objectives when managing capital are, to comply with the capital requirements set by SAMA; to safeguard the Bank's ability to continue as a going concern; and to maintain a strong capital base. Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management.

The Bank monitors the adequacy of its capital using ratios established by SAMA. These ratios measure capital adequacy by comparing the Bank's eligible capital with its statement of financial position assets, commitments and notional amount of derivatives at a weighted amount to reflect their relative risk. SAMA requires holding the minimum level of the regulatory capital of and maintaining a ratio of total regulatory capital to the risk-weighted asset (RWA) at or above the agreed minimum of 8%.

### 37 Capital adequacy (continued)

SAMA has issued the framework and guidance regarding implementation of the capital reforms under Basel III - which are effective from January 1, 2013. Accordingly, the Group's consolidated Risk Weighted Assets (RWA), total capital and related ratios on a consolidated group basis, calculated under the Basel III framework. The RWAs, total capital and related ratios as at December 31, 2014 and 2013 are calculated using the framework and the methodologies defined under the Basel III framework.

SAR' 000	2014	2013
Credit Risk RWA	163,526,870	153,855,918
Operational Risk RWA	9,825,237	8,979,637
Market Risk RWA	5,138,115	3,048,275
Total RWA	178,490,222	165,883,830
Tier I Capital	26,373,178	23,056,227
Tier II Capital	4,425,556	2,793,813
Total Tier I & II Capital	30,798,734	25,850,040
Capital Adequacy Ratio %		
Tier I ratio	14.78%	13.90%
Tier I + Tier II ratio	17.26%	15.58%

### 38 Investment management, brokerage and corporate finance services

The Bank offers investment services to its customers through its subsidiary, which include management of certain investment funds in consultation with professional investment advisors as well as brokerage services. Income from the subsidiaries is included in the consolidated statement of income under fees and commission income, net.

Determining whether the Bank controls such an investment fund usually depends on the assessment of the aggregate economic interests of the Bank in the Fund (comprising of its investments, any carried profit and expected management fees) and the investors' rights to remove the Fund Manager. As a result of the above assessment, the Bank has concluded that it acts as an agent for the investors in all cases, and therefore has not consolidated these funds. However, the Bank's share of these funds is included in the available for sale investments and fees earned are disclosed under related party transactions. The value of the mutual funds and other private investment portfolio managed by the Bank through its subsidiary was SAR 4,971 million (2013: SAR 4,911 million).

The Bank through its subsidiary offers Islamic investment management services to its customers, which include management of certain investment funds in consultation with professional investment advisors, having net asset values as of December 31, 2014 totalling SAR 2,468 million (2013: SAR 2,007 million).

### 39 Disclosure under BASEL III framework

Certain qualitative and quantitative disclosures are required under the Basel III framework. These disclosures will be made available on the Bank's website [www.alfransi.com.sa](http://www.alfransi.com.sa) within prescribed time as required by SAMA. Such disclosures are not subject to audit by the external auditors of the Bank."

#### 40 Prospective changes in International Financial Reporting Framework

The Bank has chosen not to early adopt the following amendments to existing standards and newly issued standards but not yet effective for the Bank's accounting years beginning on or after 1 January 2015 and is currently assessing their impact.

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

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

#### 41 Comparative figures

Prior year figures have been reclassified wherever necessary to conform to current year's presentation.

#### 42 Board of Directors approval

The consolidated financial statements were approved by the Board of Directors on February 19, 2015 corresponding to 30 Raby' al-Thaany 1436H