ANNUAL REPORT

2014

البنك السعودي الهولندي
Saudi Hollandi Bank

Custodian of the Two Holy Mosques

King Salman Bin Abdulaziz Al-Saud

His Royal Highness

Prince Mohammad Bin Nayef Al-Saud

Crown Prince,Deputy Prime Minister

Minister of Interior

His Royal Highness

Prince Mohammad Bin Salman Al-Saud

Second Crown Prince

Minister of Defence

Contents

Page

Financial Highlights

2010 - 2014

Total Operating Income (in SAR Million)

	2014	2013	2012	2011	2010
Special commission income, net	1,966	1,624	1,372	1,290	1,287
Total non-special commission income	1,216	992	847	716	667
Total operating income	3,182	2,616	2,219	2,005	1,954
Operating expenses	1,011	895	847	818	772
Net operating income	2,171	1,721	1,373	1,187	1,182
Impairment charge for credit losses & investments, net	346	219	120	171	398
Net income	1,821	1,502	1,253	1,032	790

Balance Sheet (in SAR Million)

Shareholders' equity	10,742	9,401	8,306	7,408	6,387
Customers' deposits	76,814	61,875	53,914	44,689	41,604
Loans and advances to customers, net	65,148	53,211	45,276	37,410	35,039
Investments, net	18,784	16,849	11,379	11,503	11,752
Total assets	96,619	80,468	68,506	57,197	53,882

Number of Shares Outstanding (in thousands)	476,280	396,900	396,900	330,750	330,750
Number of Employees	1,637	1,534	1,499	1,406	1,439
Number of Branches	55	48	45	44	44

Financial Indicators

Net earnings per share (SAR)	3.82	3.15	2.63	2.17	1.66
Payout ratio (dividend/net profit) %	34.00	31.19	35.48	36.54	-
Net asset value per share (SAR)	22.55	19.74	17.44	15.55	13.41

* All financial indicators have been restated to reflect bonus shares issued.

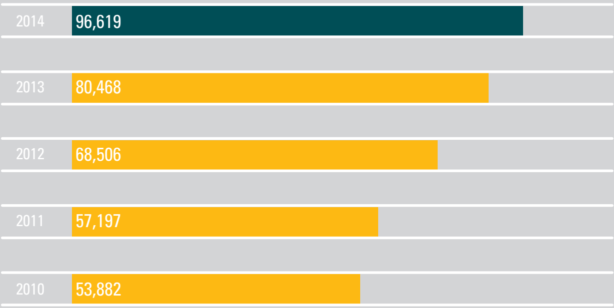
Ratios

Return on average equity %	18.08	16.96	15.95	14.96	13.15
Return on average assets %	2.06	2.02	1.99	1.85	1.40
Capital adequacy ratio % (Tier 1 plus Tier 2)	15.85	18.32	17.60	16.60	16.35
Efficiency ratio %	31.78	34.20	38.10	40.00	39.52

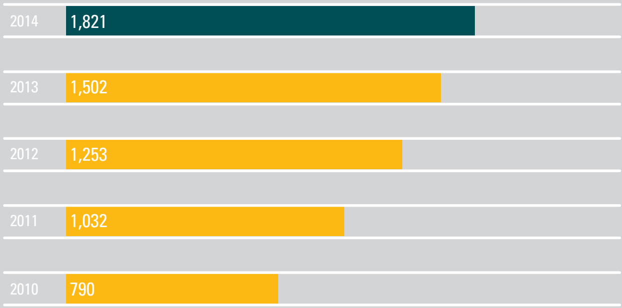
Credit Ratings

Rating Agency	Long-Term	Short-Term
Moody's	A1	P-1
Fitch	A-	F2

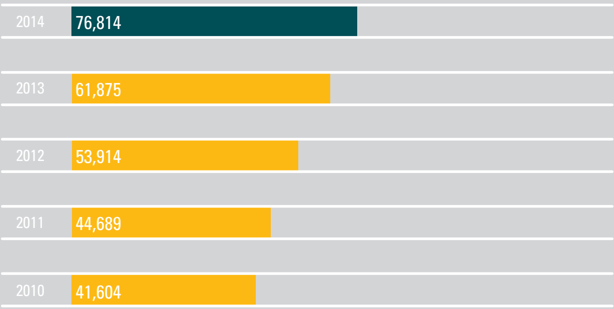
Total Assets (Amounts in SAR Millions)



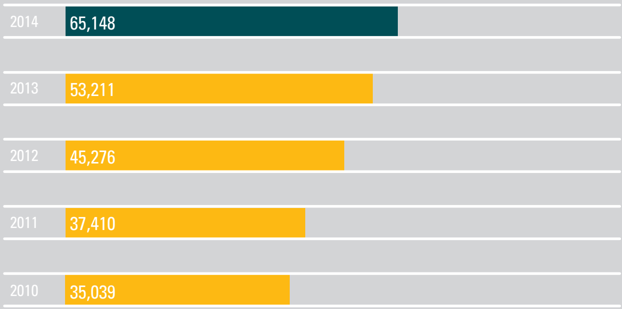
Net Income (Amounts in SAR Millions)



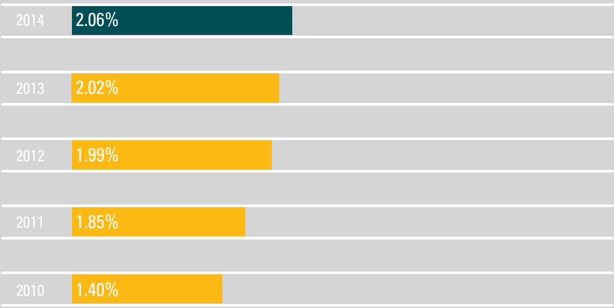
Customers' Deposits (Amounts in SAR Millions)



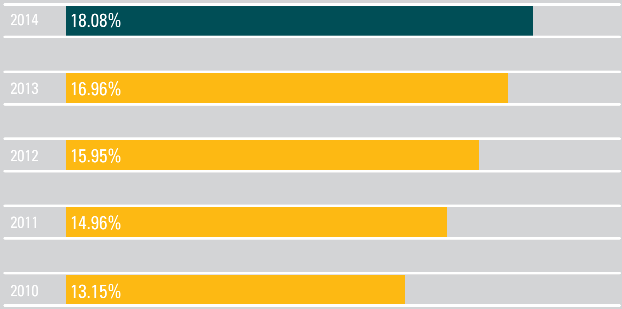
Loans & Advances (Amounts in SAR Millions)



Return on Average Assets (%)



Return on Average Equity (%)



	2014	2013	2012	2011	2010
Total Assets	96,619	80,468	68,506	57,197	53,882
Total Liabilities	85,877	71,067	60,200	49,789	47,495
Net Assets	10,742	9,401	8,306	7,408	6,387

Board of Directors

Saudi Hollandi Bank
A Saudi joint stock company

Commercial Registration Number
1010064925

Share Capital
SAR 4,762,800,000 fully paid
represented by 476,280,000 shares of SAR 10 each

Shareholders
Saudi nationals 60%, ABN AMRO Bank N.V. 40%

Head Office
P. O. Box 1467, Riyadh 11431, Kingdom of Saudi Arabia

Website
www.shb.com.sa

Telephone
+ 966 11 401 0288

Engr. Mubarak Abdullah Al Khafrah
Chairman

Mrs. Lubna Sulaiman Olayan
Vice Chairperson

Mr. Sulaiman Abdullah Al Kadi
Board Member

Mr. Abdulhadi Ali Shayif
Board Member

Mr. Jan Koopman
Board Member

Mr. Eyad Abdulrahman Al Hussain
Board Member

Mr. Javier Maldonado
Board Member

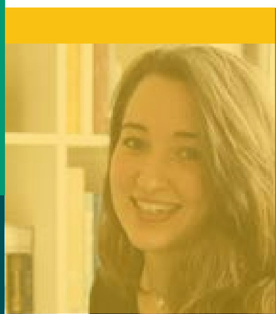
Dr. Bernd van Linder
Managing Director

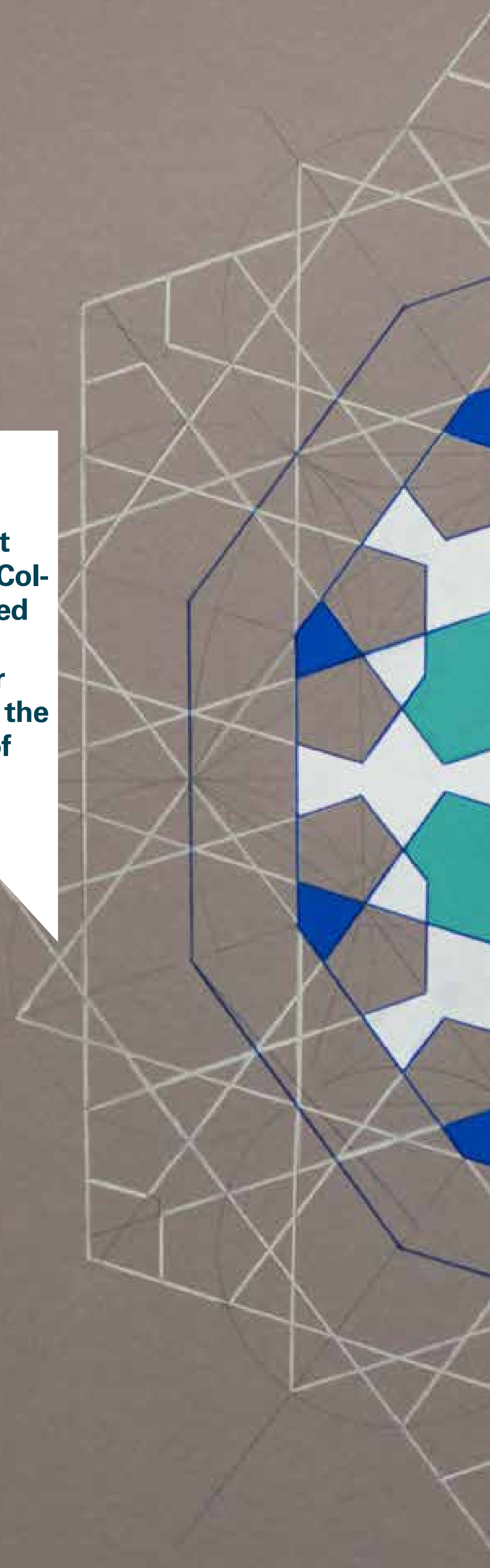
Mr. Ahmed Farid Al-Aulaqi
Board Member

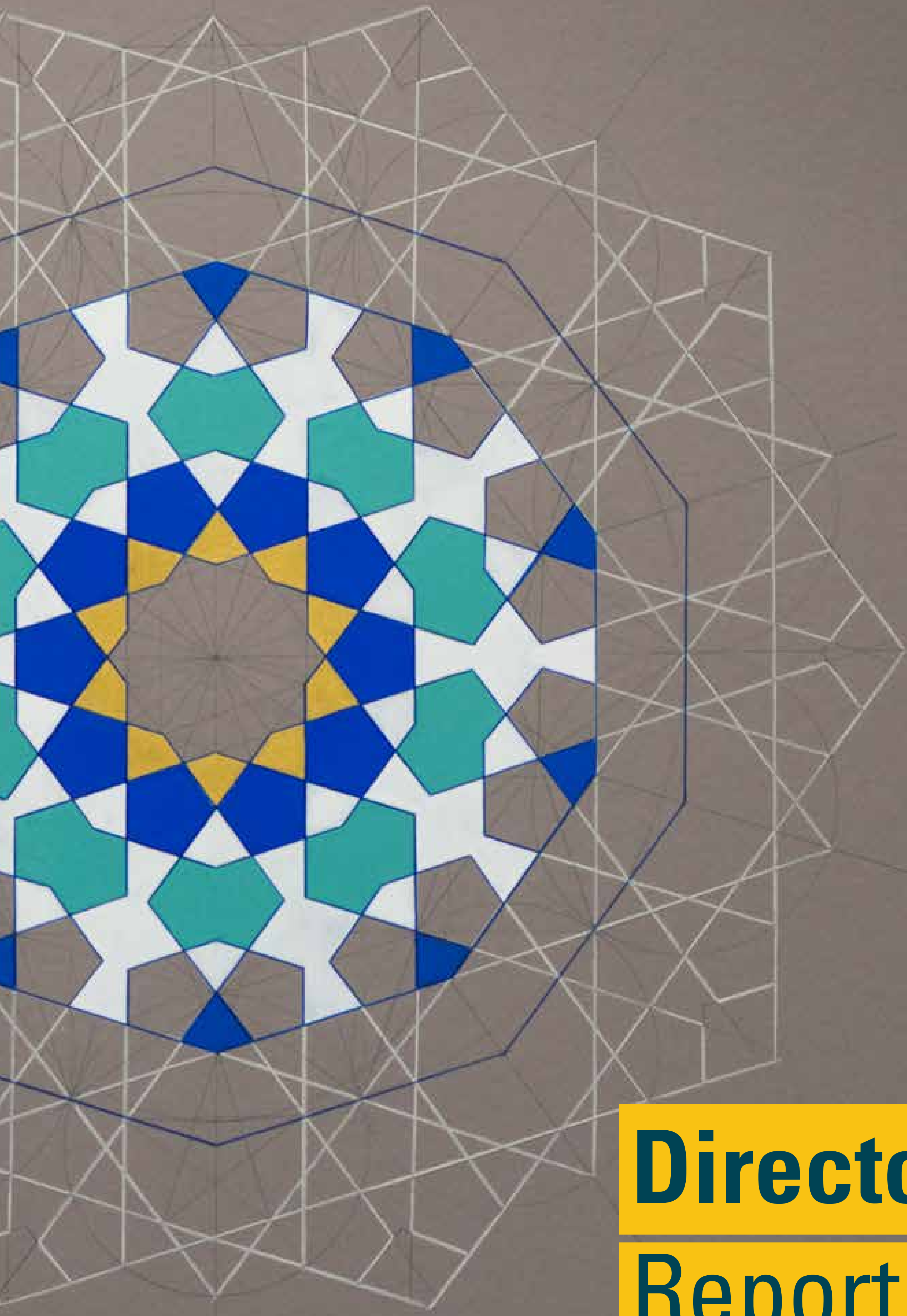
Mr.Soren Kring Nikolajsen
Board Member

Dana **Awartani**

Awartani Is a Saudi artist who studied modern art at the Central Saint Martins College but was more attracted to the study of Islamic art. She graduated with honor and a master degree from the Prince's (Charles) School of Traditional Arts.







Directors' Report

Directors' Report

For The Year Ended 31 December 2014

INTRODUCTION

The Board of Directors of Saudi Hollandi Bank is pleased to present its annual report to the Bank's valued shareholders for the financial year ended 31 December 2014.

During 2014, the Bank reported the strongest set of results in its 89 year history. The Bank worked hard to grow its customer base of institutions, corporations, and individuals and as a result achieved substantial increases in its assets, deposits and non-funded income. In the process it increased net profit by 21.3% to a record SAR 1,821 million. It also grew its balance sheet to SAR 96.62 billion, an increase of 20%, and did so whilst maintaining its conservative provisioning policy, which was reflected in a non-performing loan coverage ratio of 161%. The Bank's capital base was again strengthened through a high level of retained earnings.

The Bank's success was not only reflected in its financial results. Thanks to a focused approach to serving customer needs throughout the Kingdom, it received recognition from a number of respected industry observers, winning 12 awards during the year, including the award for Best Banking Group in Saudi Arabia from World Finance and Best SME Bank in the MENA region from Banker Middle East.

Taken together, these results position Saudi Hollandi Bank as one of the strongest financial service providers in the Kingdom, offering an extensive range of corporate and retail banking products and services to customers through an expanding branch network and alternative channels, such as internet banking. More details on each of the Bank's business segments and its markets can be found in the Business Review section of this report.

1 - BUSINESS SEGMENTS

The Bank is organised into three main business segments: Corporate Banking, Personal Banking and Treasury. In addition, it provides brokerage, asset management and investment banking services through Saudi Hollandi Capital, a wholly-owned subsidiary. Other subsidiaries are the bancassurance distribution arm, Saudi Hollandi Insurance Agency Company and Saudi Hollandi Real Estate Company. The Bank also holds 20% in Wataniya Insurance Company.

The key services provided under each of the main business segments are:

i) Corporate Banking

The Corporate Banking Group provides institutional, corporate and commercial customers with a wide range of products and services including term loans, trade finance, guarantees and corporate finance and advisory. It also offers an extensive range of Shari'ah-compliant corporate products under Islamic structures.

ii) Personal Banking

The Personal Banking Group operates through a national network of branches and ATMs, complemented by a range of phone banking and e-banking services.

Products and services in this segment include: current and time deposit accounts, personal loans, home finance, credit cards, internet banking and telephone banking. Tailored "Preferred Banking" and "Taqdeer" services are available to qualifying customers who place sufficient funds with the Bank. Share trading services and fund management products are available through Saudi Hollandi Capital. The Bank also offers a wide range of ladies banking services through a network of ladies branches.

iii) Treasury

Saudi Hollandi Bank's Treasury unit provides hedging and investment products for customers. The Treasury department has retained its leading position in foreign exchange cash products as well as in its structured derivatives businesses in foreign exchange and special commission rates. Moreover, Treasury is among the most active interbank market makers in Saudi Riyal-denominated foreign exchange and special commission rate products.

The assets, liabilities and results of these segments are set out in Note 28 of the Consolidated Financial Statements.

The activities and services of Saudi Hollandi Bank's subsidiaries and associates are:

Saudi Hollandi Capital (SHC). A wholly-owned subsidiary, SHC commenced business activities in early 2008 following SAMA and CMA approval. Since then it has been involved in a number of significant transactions, acting as principal and agent in retail equity brokerage, asset management, corporate finance and investment advisory activity, as well as debt arrangement and securities custody services.

Saudi Hollandi Real Estate Company (SHREC). A wholly-owned subsidiary, SHREC commenced its business activities in early 2010 following SAMA approval. SHREC is involved in the registration of real estate title deeds in support of the Bank's Home Finance products.

Saudi Hollandi Insurance Agency Company (SHIAC). A wholly-owned subsidiary, SHIAC commenced its operations in 2012 and is licensed in insurance agency activities.

Wataniya Insurance Company. The Bank purchased a 20% equity stake in Wataniya Insurance Company in 2008 which enabled the Bank to broaden its insurance agency capabilities to complement its retail banking offering. Wataniya was incorporated in 2010.

Further details of subsidiaries and associates are covered in Note 1 to the Consolidated Financial Statements and section 11 of this report.

THE BANK INCREASED NET PROFIT BY

21.30%

OVER LAST YEAR TO A RECORD SAR1,821 MILLION

2 - STRATEGY

The Bank's strategy supports the pursuit of its primary objectives: to diversify and expand the Bank's customer base in Corporate Banking, and to expand its business with Small and Medium-Sized Enterprises (SMEs), whilst focusing on becoming the Bank of choice for its chosen customer segments in Personal Banking. These core objectives will continue to drive business planning and management decision-making.

The following are highlights in each segment:

The Corporate Banking Group

The Bank is a long-established market player in the provision of corporate banking products and services to some of the most respected businesses in the Kingdom. The Corporate Banking Group aims to provide the best solutions with flawless service, focusing on mid to large corporate customers.

Corporate Banking comprises two segments: Institutional Banking for very large corporations and Corporate Banking for mid-size enterprises; the latter being one of the targeted areas for balance sheet volume growth. This segmentation focuses resources to ensure that customer expectations are exceeded.

Corporate Banking's outstanding efforts and achievements during 2014 were acknowledged by an award of Excellence in Corporate Banking from International Alternative Investment Review, one of the world's leading observers on the global economy and sustainability, an addition to the Bank's rapidly growing list of honors and accomplishments.

The Personal Banking Group

The Personal Banking Group aims to become a leading financial services provider to mass affluent individuals and professionals in Saudi Arabia by offering comprehensive and high-quality personalised products and services.

In 2014, Personal Banking continued to focus its activities on customer demands for easy and straightforward products and services that meet their lifestyle requirements and that provide a positive experience. A number of new initiatives were launched in Personal Finance and Home Finance which led to a significant portfolio increase of SAR 3.3 billion. The Bank's products were recognised by the industry and as a result the Bank was awarded "Best Home Finance Product" and "Best Personal Finance propositions" from Banker Middle East and World Finance, respectively. The Personal Banking Group expanded its branch network with 7 additional branches this year, while non interest-bearing customer deposits increased by 21%.

The Bank currently operates 55 branches across the Kingdom, including 14 ladies banking centers. In addition to expanding its branch network, the Bank also expanded its ATM network, installing 113 new ATMs to bring the total number to 382 across the Kingdom.

The Bank's internet and mobile banking platform provides highly functional and user-friendly services. The number of retail internet banking users increased by 35% during the year, which in turn led to a 37% increase in electronic transactions. Overall, the Bank reached an all time high of 84% of non-cash transactions being conducted through electronic channels, with only 16% executed through branches.

Saudi Hollandi Bank has been honored by Global Banking & Finance as the Best Internet Bank in Saudi Arabia for 2014.

Small and Medium-Sized Enterprises

Small and Medium-Sized Enterprises (SMEs) form part of the Personal Banking Group in the financial statements disclosure of operating segments. The Bank's success in serving SMEs continued, with growth in assets of 45%. The Bank remained strongly committed to the Kafalah programme (a collaboration between the Ministry of Finance and Saudi banks which aims to promote financing to SMEs). In order to facilitate the further development of the sector, the Bank launched a non-financial advisory portal enabling SMEs to access developmental tools free of cost. SMEs is one of the targeted segment areas for balance sheet volume growth.

Treasury, Saudi Hollandi Capital (SHC), Saudi Hollandi Real Estate Company (SHREC) and Islamic Banking.

THE BANK CURRENTLY OPERATES 55 BRANCHES ACROSS THE KINGDOM, INCLUDING 14 LADIES BANKING CENTERS.

Treasury, SHC and SHREC provide products, services and advisory expertise specifically to the Bank's corporate and personal banking businesses. The Treasury unit provides corporate and personal banking customers with hedging solutions and investment yield enhancement offerings. SHC offers a full range of brokerage, asset management and investment banking products. SHREC provides real estate purchase and registration services in support of the Bank's Home Finance business.

Additionally, the Bank continues to invest in its Islamic business and is aiming to be a leader in this field.

3 - RISK MANAGEMENT

3.1 Background

Risk management is of paramount importance in a banking environment. Sound risk management ensures that all material risks are identified, measured, monitored and reported and that the risk appetite set by the Board is adhered to in the pursuit of the Bank's strategic objectives.

Saudi Hollandi Bank's risk management approach is guided by its Risk Governance Framework. This framework sets out the Bank's risk management principles, the roles and responsibilities of the Risk Management function and the methods used to manage risk. These methods include internal policies, procedures, limits, stress-testing, risk monitoring and reporting and regulatory requirements, as set out by the Saudi Arabian Monetary Agency ("SAMA"). Risk management methods extend to specific guidance and techniques to be considered when structuring transactions.

The Board Risk Committee ("BRC") provides guidance and strategic direction to management with respect to the Bank's Risk Governance Framework. The BRC is responsible for advising the Board on matters such as risk appetite setting and strategy, risk assessment processes, policies, regulatory developments and risk infrastructure considerations, and it will provide remedial guidance should material breaches of limits occur.

3.2 Overview of risk-weighted assets and capital approach

The Bank's main business currently is corporate relationship banking in the Kingdom of Saudi Arabia. A large proportion of the corporate customer base has a long-standing relationship with the Bank. Typically these customers have stable credit histories and have experienced at least one economic downturn. These characteristics enable the Bank to take a long-term view and to have confidence in lending through the business cycle.

One of the Bank's strategic goals is to diversify its credit risk by growing its SME assets, mid-sized corporate assets, and consumer lending assets. For each of these target growth segments, the Bank has specific risk policies, procedures and controls and experienced risk management staff.

Being predominantly a commercial bank, SHB's balance sheet is dominated by credit risk assets, as demonstrated in its Pillar I risk-weighted assets as at the end of 2014.

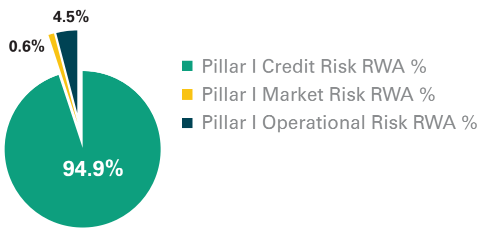


Figure 1 Risk-Weighted Assets by type

The Bank assesses the sufficiency of its capital against the risk types to which it is exposed through its annual Internal Capital Adequacy Assessment Plan, a Basel II and SAMA requirement.

3.3 Principal risk-types and controls

The following section provides an overview of the principal risk-types the Bank is exposed to and the associated risk management approach.

The vast majority of principal risk-types have an associated risk-appetite metric forming part of the Risk Appetite Statement set by the Board. On a regular basis the Board, or its committees, monitor the results of these risk appetite metrics so it can observe whether the Bank is operating within the prescribed limits or whether management is required to take remedial action.

The Bank's Risk Appetite Statement and metrics are reviewed on an annual basis with adjustments made where appropriate, taking into account the business environment and strategic developments.

3.3.1 Credit Risk

Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to the Bank. Credit risk arises from the Bank's direct lending operations, its issuance of guarantees, bonds and like instruments, trade finance activities and in its investment and trading activities.

The Bank controls credit risk by monitoring credit exposures, limiting transactions with specific counterparties, continually assessing the creditworthiness of counterparties and through the appropriate structuring of transactions including the use of collateral.

Management monitors the market value of collateral on a regular basis and requests additional collateral in accordance with the underlying agreement, if required. In addition, management also specifically monitors the market value of collateral during its review of the adequacy of the allowances for impairment losses. Management regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

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

The Bank's financial performance can be impacted through credit risk concentrations. Concentrations of credit risk arise when a number of obligors / borrowers are engaged in similar business activities 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. Concentration risk can arise from large exposures to a single borrower or group of related borrowers. Management seeks to manage concentration of credit risk through the diversification of lending activities.

The debt securities included in the investment portfolio are mainly sovereign risk. Analysis of investments by class of obligor / issuer is provided in note 6 of the consolidated financial statements. For details of the composition of loans and advances refer to note 7 to the consolidated financial statements. Information on credit risk relating to derivative instruments and commitments and contingencies are provided in note 29 and 19 respectively to the consolidated financial statements. Information on the Bank's maximum credit exposure by operating segment is provided in note 28 to the consolidated financial statements.

3.3.2 Operational Risk

Operational risk is the risk of loss, whether direct or indirect, to which the Bank is exposed due to inadequate or failed internal processes or systems, human error, or external events.

The Bank follows the accepted 'best practice' methodology of risk assessments and control evaluations for the identification of residual operational risks for both existing products and processes as well as for proposed new products and processes.

Operational risks are identified and assessed using the Risk and Control Self-Assessment and Key Risk Indicator tools. A register of risks, controls and mitigating actions is maintained in a central control repository. The Operational Risk Management ("ORM") function manages operational risk for new or changed initiatives/products through the Operational Risk Assessment Procedure.

All operational losses are recorded in the Bank's Governance, Risk and Control system (GRC). Losses are analysed in depth by the ORM function which can result in policies and processes being revised, or other controls being adopted, to mitigate the prospect of any similar loss re-occurrence.

3.3.3 Business Continuity Management

Business Continuity Management (BCM) is defined as the capability of an organisation to continue the delivery of products and services at acceptable, predefined levels following an event. In order to minimise the risk of business disruption and to respond in an organised way to any potentially disruptive incident and to resume 'business as usual' as soon as possible, the Bank has a Business Continuity Plan (BCP).

The activation of the BCP is authorised through the Command & Control Centre (CCC), which is the decision making authority during the entire period of a crisis until 'business as usual' resumes. The CCC team comprises senior management with nominated alternates for back-up. This centralised approach ensures efficiency and effectiveness in the business recovery process while minimising uncertainty in responsibilities and the potential duplication of efforts. A number of key-business continuity risk scenarios are identified, of varying severity levels, that could give rise to the BCP being initiated.

Regular reports are circulated to senior management that cover the status of all the key BCM initiatives, completed tasks and ongoing tasks.

3.3.4 Market Risk

Market risk is the risk of losses arising from movements in financial market prices (including foreign exchange, commission rates, credit spread, equities and commodities) that will change the carrying value of certain of the Bank's assets and liabilities.

The Bank is exposed to market risk due to its trading activities, which cover both facilitation of customer activity and proprietary trading.

The market risk for the trading book is managed and monitored using a variety of measures including a Value at Risk (VaR) methodology. Market risk for the non-trading book is managed and monitored using a combination of VaR, stress testing and sensitivity analysis.

3.3.4.1 Market Risk - Trading Book

The Board of Directors has set limits for the acceptable level of risk in managing the trading book. In order to manage market risk in the trading book, management applies a VaR methodology daily to assess the market risk positions held and also to estimate the potential loss based on a set of assumptions and changes in market conditions.

A VaR methodology estimates the potential negative change in the 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 as it is based on historical correlations and volatilities in market prices and assumes that future movements will follow a statistical distribution. The VaR model that management uses provides 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 a 99% confidence level implies that within a one-day horizon, losses exceeding the VaR figure should occur, on average, not more than once every one hundred days.

THE BANK'S SUCCESS IN SERVING SMES CONTINUED, WITH GROWTH IN ASSETS OF

45.00%

Whilst a useful tool, VaR does have a number of limitations. In particular, VaR is based on the risk of portfolios at the close of a business day. It does not account for any losses that may occur beyond the defined confidence interval. The actual trading results may differ from the VaR calculations, and the calculation does not provide a meaningful indication of profits and losses in stressed market conditions.

To overcome the VaR limitations mentioned above, management maintains a framework of non-modeled limits that show potential loss for a given change in a market factor and makes no assumption about the behaviour of market factors. Furthermore, management employs stop loss limits on market risk positions and 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 Asset and Liability Committee (ALCO) for review.

3.3.4.2 Market Risk-Non-Trading / Banking Book:

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

- **Commission Rate Risk**

Commission rate risk in the banking book arises from the changes to cash flows on financial assets and liabilities as a result of commission rate changes. The Bank is exposed to commission rate risk as a result of mismatches or gaps in the amount of assets and liabilities and other derivative financial instruments that mature or re-price in a given period. This risk is managed by matching the re-pricing of assets and liabilities through risk management strategies. The Board of Directors has established commission rate gap limits for stipulated periods. These limits are monitored daily by the Bank's Treasury Division. Management monitors positions and where necessary uses hedging strategies to ensure maintenance of positions within established gap limits.

- **Currency Risk**

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

Exposure to the effects of fluctuations in prevailing foreign currency exchange rates on the Bank's financial position and cash flows is managed by the Board of Directors setting limits on the level of exposure by currency and in total. These limits are monitored daily.

• **Equity Price Risk**

Equity price risk refers to the risk of a decrease in the fair values of equities in the Bank's non-trading investment portfolio as a result of changes in levels of equity indices or the value of individual stocks. The Bank has exposure to equity price risk as it holds equities in its investment portfolio - see Note 31 of the Consolidated Financial Statements.

3.3.5 Liquidity Risk

Liquidity risk is the risk that the Bank is unable to meet its financial obligations in a timely manner at reasonable prices. Financial obligations include liabilities to depositors, payments due under derivative contracts, settlement of repurchase transactions, and lending and investment commitments.

The management of liquidity is a core function of the Bank, being inherent in the maturity transformation process that underlies corporate and retail banking.

To mitigate liquidity risk, diversified funding sources are sought by the Bank and assets are managed considering liquidity positions to maintain a healthy balance of cash, cash equivalents and readily marketable securities. The Bank has in place a suite of liquidity monitoring tools which are a mixture of internal and regulatory measures including those set out under the Basel III accord. These include both short-term and longer-term measures under normal and stressed conditions.

The Bank has a Contingency Funding Plan in place that sets out the plan of action the Bank would use to fund business activity in crisis situations and periods of market stress.

3.3.6 Macro-economic and business cycle risk

Macro-economic and business cycle risk is the risk to earnings as a result of fluctuations in the business cycle. The Bank considers increased financial risk from an economic downturn as part of its assessment of credit risk, market risk and commission rate risk. Having done this, the Bank assesses potential incremental risks to financial performance not covered by the aforementioned risk types, such as a reduction in fee income.

The risks posed from an economic downturn and the severity and length thereof are uncertain and historical data can be no more than indicative. As such, specific risk mitigants cannot be precise. An economic downturn would reduce business activity and therefore reduce the Bank's ability to write new business and generate income.

3.3.7 Strategic risk

Strategic risk relates to institutional changes in strategy and changes in fundamental market conditions.

Strategic risk is a key consideration when business planning is undertaken. Excessive strategic risk may arise as the result of planning to enter into new markets, into new products, or through geographical expansion. Management does not believe that there are any 'high-risk' initiatives currently envisaged that would give rise to Strategic Risk.

The Bank has several committees that contribute to the reduction of strategic risk. The Strategic Business & Technology Steering Committee provides the governance framework for the effective selection of investments in portfolios of projects for the Bank. The Contracts Committee closely governs the contract approval process. The Senior Management Committee monitors business performance against strategic goals.

3.3.8 Reputational Risk

Reputational risk covers the risk of losses due to other market participants, including customers,forming an adverse opinion of the Bank, irrespective of whether this opinion is based on fact or merely perception. Given the nature of reputational risk, risk measurement can be considered both qualitatively and quantitatively.

THE PERSONAL BANKING GROUP EXPANDED ITS BRANCH NETWORK WITH ADDITIONAL BRANCHES THIS YEAR

7

The Bank has an obligation to its stakeholders to uphold ethical business conduct at all times. By doing so, the Bank is safeguarding and enhancing its reputation for probity, transparency and accountability. The Bank has very little appetite for reputational risk and seeks to avoid instances giving rise to reputational risk where possible and to mitigate any incidences that may occur.

The Bank's principal strategy for managing reputational risk is focused on guiding corporate and employee behaviour using the following core components:

• SHB's corporate values;

• SHB's business principles;

• SHB's reputational risk management policy;

• Policies and procedures covering day to day activities of the Bank.

Among the applicable policies and standards are those dealing with Customer Acceptance and Anti-money Laundering, credit policies, the Bank's Code of Conduct, and a staff whistle-blowing policy.

The Bank quantitatively measures reputational risks using performance indicators such as customer complaints and staff turnover as compared to market trends. The results from these metrics are observed by management regularly. A consistently negative trend in any of the measures would result in direct and immediate action being taken by management.

3.3.9 Risks in the Islamic Banking Division

The Bank considers risks within its Islamic Banking Division separately. The principal risk areas are commodities fulfillment and handling, operational risks and reputational risks. For all these areas, specific processes, controls and procedures are in place.

Any failure by the Bank to conduct its business in compliance with Shari'ah approvals issued by its Shari'ah Board could cause a serious reputational risk. The Bank follows a strict policy of zero tolerance in failure to comply with the Shari'ah Board's approvals and therefore places emphasis on the following:

a) It is mandatory for all staff who are involved with any aspect of Islamic Banking business to complete the AlYusr Accreditation Programme that consists of basic and advanced level Islamic Banking training

b) Product and business/branch level workshops are conducted to enhance staff understanding of Islamic Banking business

c) Prior to the launch of any new Islamic product, sales and other relevant staff are given training on the product structure and procedures

d) The Bank regularly arranges customer seminars to increase its customers' understanding of Islamic Banking and finance concepts in general, and Islamic products offered by the bank in particular

e) Shari'ah audits are carried out on a regular basis to ensure Shari'ah compliance.

3.3.10 Other risk types

Other risks that the Bank considers in the course of business are securitisation and syndication risk, activities in which it is not currently active. Global risk is considered in the context of macro-economic and business cycle risk.

3.3.11 Stress-testing

The Bank runs a stress testing programme at the enterprise-wide level focusing on the key risk types to which it is exposed. 'Stress testing' refers to various techniques (quantitative and/or qualitative) used to gauge the Bank's vulnerability to exceptional but plausible events. The Bank's stress testing programme incorporates the guidelines set out by SAMA and the principles set out by the Basel committee and represents a key-component of the Bank's Risk Governance Framework.

A major objective of stress-testing is to demonstrate that the Bank is adequately capitalised and liquid to absorb a stress event and in particular would be able to restore its financial standing and operations to normal levels without undue reliance on external parties. Sensitivities that are identified during the stress-testing process are to be followed up with management actions with the intention of mitigating their potential impact in the event of an actual stress.

Further details to the risks the Bank is exposed to are detailed in Notes 29, 31 and 32 of the Consolidated Financial Statements.

4- CREDIT RATING:

Saudi Hollandi Bank's credit rating has been assessed by Moody's and Fitch Group:

Credit Rating Agency	Rating
Moody's	A1
Fitch Group	A-

5- FINANCIAL HIGHLIGHTS

The Board of Directors is pleased to report a record net profit of SAR 1,821 million, a 21.3% increase compared with 2013. Year-on-year revenue increased by 21.64%, with net special commission income increasing by 21.06%, driven by balance sheet growth. Fee income increased by 22.58%, driven by strong growth from all divisions of the Bank.

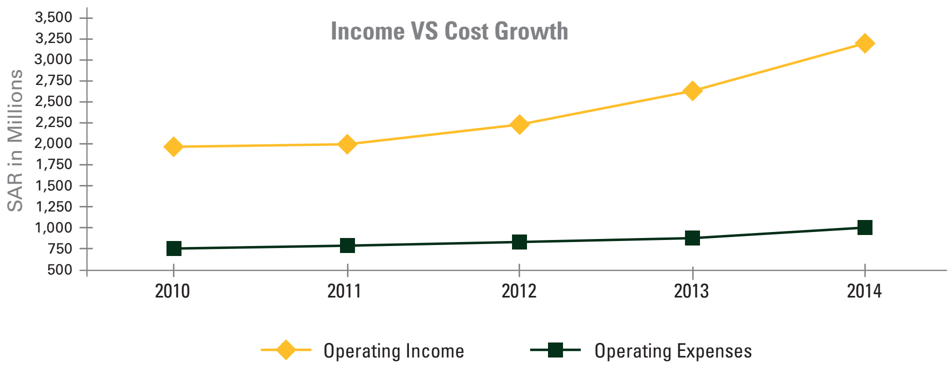
The Bank achieved the largest balance sheet in its history at SAR 96.62 billion. Loans and advances at SAR 65.15 billion were 22.43% above the 2013 year-end closing balance. During 2014, there was a continued emphasis on credit quality and risk-reward ratios. The Bank has maintained its conservative approach to provisioning. The coverage of NPLs in 2014 was 161%; the non-performing loans to gross loan ratio at year-end closed at 1.27 %, down from 1.36%.

The Bank's long established corporate banking franchise was positioned well to benefit from the Kingdom's continued economic expansion. During the year, trade services fee income increased by 32.22%, corporate finance and advisory fees increased by 11.20% and, in concert with the Treasury unit, foreign exchange income increased by 32.20%.

In Personal Banking, momentum continued during the year with fees and commission increasing by 31%. Notably, the year-end balance sheet for Personal Banking closed at a new record high, largely due to the Bank's success in the Personal Loans and Home Loans segments.

A key strategic objective is cost control with operating expenses and capital expenditure being constantly scrutinised. The cost-income ratio for the year was 31.8%; lower than the prior year at 34.2% as cost-saving initiatives continued to translate into operational efficiencies.

The Income vs. Cost growth graph below (excluding provisions) displays the success of the Bank's tight cost management during 2014 and in the preceding years.



Saudi Hollandi Bank Annual Dinner 2014

Key Business Unit financial data

SAR ' mln and rounded off	Corporate Banking	Consumer Banking	Treasury	Investment banking and Invest. Services	Others	Total
Total assets	52,094	13,330	24,290	536	6,369	96,619
Total liabilities	36,546	21,341	3,055	28	24,907	85,877
Net operating income for the year	1,399	310	441	38	(363)	1,825

Key Bank-wide financial data and ratios

5-year trend SAR millions and rounded off	2014	2013	2012	2011	2010
Loans	65,148	53,211	45,276	37,410	35,039
Investments	18,784	16,849	11,379	11,503	11,752
Total Assets	96,619	80,468	68,506	57,197	53,882
Deposits	76,814	61,875	53,914	44,689	41,604
Due to banks	3,055	2,494	1,475	1,611	2,857
Subordinated debt	3,900	4,625	2,900	1,500	1,500
Shareholders' Equity	10,742	9,401	8,306	7,408	6,387
Net Profit	1,821	1,502	1,253	1,032	790
Earning per Share – SAR	3.82	3.15	2.63	2.17	1.66
Gross Dividends per share - SAR	1.30*	1.18	1.12	1.14	Nil

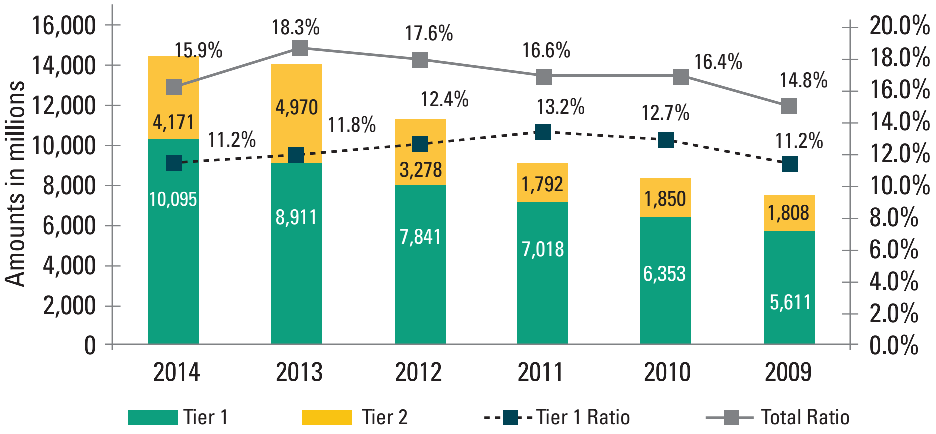
*Proposed dividend per share

*All financial indicators have been restated to reflect bonus shares issued

5-year trend SAR millions	2014	2013	2012	2011	2010
NPLs	842	739	722	735	931
NPL%	1.3	1.4	1.6	1.9	2.6
Coverage %	160.6	161.5	152.8	145.5	124.4
Capital ratios (%)					
- Tier 1	11.2	11.8	12.4	13.2	12.7
- Total	15.9	18.3	17.6	16.6	16.4
Loans to deposit (%)	80.9	80.3	79.9	81.4	81.3
Liquidity ratio (%)	24.00	25.8	27.0	26.2	28.8

The Bank's capital ratios remained strong with the total capital ratio closing the year at 15.85% and the Tier 1 ratio closing the year at 11.22; both ratios factor-in the proposed dividend for 2014. These robust capital levels will allow the Bank to meet its growth strategy and dividend policy throughout 2015 and beyond.

CAPITAL AND CAPITAL RATIOS



Conclusion

During 2014, the Bank continued its journey of success and delivered a strong financial performance with record net profits. The Bank closed the year with the largest balance sheet in its history whilst maintaining its disciplined approach to asset quality and risk-returns, and its prudent approach to provisioning and a focus on portfolio diversification.

THE BANK ACHIEVED THE LARGEST BALANCE SHEET IN ITS HISTORY AT SAR **96.62** BILLION.

6- GEOGRAPHICAL CONCENTRATION

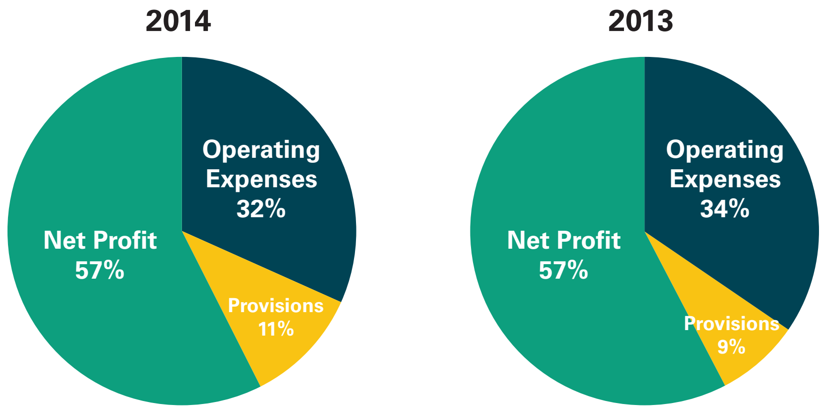
Geographical distribution of credit risk is as follows:

2014 SAR '000	Saudi Arabia	Other GCC and Middle East	Europe	North America	South East-Asia	Other Countries	Total
Assets							
Cash and Balances with SAMA	9,523,463	-	-	-	-	-	9,523,463
Due from banks and other financial institutions	1,019	90,685	394,846	42,155	3,819	6,265	538,789
Investments, net	17,640,811	668,009	375,400	-	-	99,747	18,783,967
Loans and advances, net	65,147,828	-	-	-	-	-	65,147,828
Total	92,313,121	758,694	770,246	42,155	3,819	106,012	93,994,047
Commitments and Contingencies	30,268,760	407,784	1,008,126	63,591	11,202	303,465	32,062,928
Maximum credit exposure (stated at credit equivalent amounts)							
Commitments and Contingencies	14,099,623	152,192	492,811	33,484	5,601	222,065	15,005,776
Derivatives	1,007,657	119,221	841,184	3,839	-	2	1,971,903

The three subsidiaries of the Bank, SHC, SHREC and SHIAC, have no exposures outside the Kingdom. Further details are provided in Note 30 to the Consolidated Financial Statements.

7- KEY PROFIT AND LOSS ITEMS AS A PERCENTAGE OF TOTAL INCOME

The graph below displays the major profit and loss lines as a percentage of total income.



The table below shows the variation in the key profit and loss lines between 2014 and 2013:

SAR millions	2014	2013	change %
Total Income	3,182	2,616	22%
Operating expenses	1,011	895	13%
Provisions (net)	346	218	59%
Other	(4.4)	(0.8)	450%
Net Profit	1,821	1,502	21%
Earnings per share (SAR)	3.82	3.15	21%

8-FINANCIAL REPORTING STANDARDS & AUDIT

The Bank prepares its Consolidated Financial Statements in accordance with accounting standards for financial institutions set out by the Saudi Arabian Monetary Agency and International Financial Reporting Standards. These include International Accounting Standards and interpretations issued by the International Accounting Standards Board as required by the Saudi Arabian Monetary Agency.

Proper books of account have been maintained. The Bank has an Internal Audit department which submits its reports to the Audit Committee, which in turn reports to the Board of Directors who have oversight of the Bank's Internal Audit System. The Audit Committee oversees the proper functioning and independence of the Internal Audit department and considers its recommendations. The Audit Committee has periodic discussions with management, the internal auditors and the external auditors on matters affecting consolidated financial statements, internal controls and various governance and control issues and advises the Board of Directors accordingly. The Board acknowledges receipt of that advice.

9- EFFECTIVENESS OF INTERNAL CONTROL SYSTEM

The Board of Directors, assisted by the Audit Committee, is responsible for ensuring that an adequate and effective internal control system exists in the Bank and that senior management is maintaining and monitoring the performance of that system.

Management is responsible for the appropriate design and functioning of the internal control system, while the Risk Management, Internal Audit and Compliance departments are responsible for the continuous monitoring and evaluation of the system. The external auditors are responsible for determining the adequacy of the system of internal controls to decide on the level of reliance they can place on the effectiveness of the Bank's internal controls and to design their audit procedures.

All employees are ultimately responsible for operating and maintaining an efficient internal control system at their respective levels.

Systems and procedures have been designed for effective and efficient operations, safeguarding assets against unauthorised use or dispositions, maintaining proper accounting records, providing reliable financial information used within the business or for publications, compliance with applicable laws and regulations and for monitoring internal policies in relation to business performance. The system in place is designed to manage, rather than to eliminate, the risks of failure to achieve business objectives. It can only provide reasonable and not absolute assurance against material errors, losses or fraud.

During its normal course of business, the Bank is exposed to credit, market and operational risks. Policies, procedures and processes are in place to identify, measure, control, and mitigate such risks. There is an ongoing process for identifying, evaluating, and managing the significant risks faced by the Bank and for ensuring there are appropriate controls in place to manage them. In addition to regular reviews by the concerned departments, exposures to these risks are covered by various management committees within the Bank.

Systems and procedures are in place to identify, control, and report on the major risks including credit, changes in the market prices of financial instruments, liquidity, operational errors, and fraud. Exposure to these risks throughout the Bank is monitored by each of the Operational Risk Committee, the Asset and Liability Committee ("ALCO"), and the Head Office Credit Committee (the Bank's Senior Credit Committee). These exposures are also monitored by the Executive Committee and the Board Risk Committee.

The Internal Audit function provides management with an independent and objective assessment of the effectiveness of the internal control framework. This objective is achieved by following a risk based Audit plan which is approved by the Audit Committee. The Operational Risk Management and Compliance functions also monitor the control environment during their respective reviews in close coordination with each other.

As part of the Bank's commitment to provide an effective internal control system which ensures that all material risks that could adversely affect the achievement of the Bank's goals are recognised and are continually assessed, a state-of-the-art Governance, Risk and Control system (GRC) has been put in place. The GRC initiative is a joint effort by Operational Risk Management, Compliance, Internal Audit and Information Security. This unified platform to collect and monitor the risks, controls, deficiencies and actions also ensures that the control activities form an integral part of the daily activities of the Bank. The control activities are being defined for every business level and every department with automated follow-up on non-compliance through approval workflows.

The Bank's GRC thus facilitates a unified picture of risk factors and thresholds. It clarifies responsibilities and creates more transparency in risk ownership allowing the Bank to close any control gaps and to present a full coverage of the various types of risks. Moreover, the Bank's GRC goes hand in hand with the integration of risk management with the Bank's governance processes as it consolidates all risk registers and controls to optimise the functions of all the Bank's internal control departments. The Bank also continually refines and realigns its GRC initiatives as markets and circumstances change to avert future risks. The initiative will also involve a communication and training programme to ensure that all staff fully understand and adhere to policies and procedures affecting their duties and responsibilities.

By considering all the factors in the preceding paragraphs, the control environment in place and the yearly reviews of its effectiveness, the Board is of the opinion that the functioning of the internal control system is effective and nothing has come to the attention of the Board that causes it to believe that the system of internal control has not been properly designed or implemented or that effective and efficient internal controls have not been in place throughout the year 2014.

10- SAUDI HOLLANDI BANK'S ETHICAL STANDARDS AND CODE OF CONDUCT

The Saudi Hollandi Bank ethical standards and Code of Conduct represent a standard and a guide for high ethical principles and professional business dealings practices. Through its Code of Conduct, the Bank is committed to instill and maintain a culture of professionalism where the utmost ethical standards prevail. The Bank's Code of Conduct is based on fundamental principles of integrity; confidentiality and professionalism. It applies to all Directors, employees, consultants, affiliates and any other person that may represent the Bank. Saudi Hollandi Bank operates under the governing authority of its Board of Directors, which oversees the implementation and effectiveness of the Bank's ethical standards and Code of Conduct.

11- SUBSIDIARIES AND ASSOCIATES

A. Saudi Hollandi Capital

Saudi Hollandi Capital (SHC) was formed in accordance with the Capital Market Authority's (CMA) Resolution number 1-39-2007 under commercial registration number 1010242378 dated 30 Dhul Hijja 1428 H (corresponding to January 09, 2008) to take over and manage the Bank's Investment Services and Asset Management activities related to dealing, managing, arranging, advising and taking custody of securities regulated by CMA. SHC is effectively wholly-owned by the Bank through direct and beneficial ownership and commenced its operations effective 2 Rabi'II 1429H (corresponding to April 9, 2008). SHC head office is in Riyadh, and it is operating within the Kingdom.

The authorised, issued and fully paid-up share capital of Saudi Hollandi Capital is SAR 400 million, consisting of 400,000 shares of SAR 1,000 each.

B. Saudi Hollandi Real Estate Company

Saudi Hollandi Real Estate Company (SHREC), an effectively wholly-owned subsidiary of the Bank through direct and beneficial ownership, was established under commercial registration number 1010250772 dated 21 Jumada I 1429H (corresponding to May 26, 2008) with the approval of the Saudi Arabian Monetary Agency (SAMA). SHREC engages in the activities of the purchase, sale and leasing of real estate. It further engages in the registration of real estate title deeds of financed products and manages real estate funds. SHREC head office is in Riyadh, and it is operating within the Kingdom.

The authorised, issued and fully paid-up share capital of Saudi Hollandi Real Estate Company is SAR 500,000, consisting of 500 shares of SAR 1,000 each.

C. Saudi Hollandi Insurance Agency Company

Saudi Hollandi Insurance Agency Company (SHIAC), an effectively wholly-owned subsidiary of the Bank through direct and beneficial ownership was established under commercial registration number 1010300250 dated 29 Muharram 1432H (corresponding to January 4, 2011) with the approval of SAMA. The Company was formed to act as an agent for Wataniya Insurance Company (WIC), an associate, selling its products. SHIAC head office is in Riyadh, and it is operating within the Kingdom.

The authorised, issued and fully paid-up share capital of Saudi Hollandi Insurance Agency Company is SAR 500,000, consisting of 50,000 shares of SAR 10 each.

D. Wataniya Insurance Company

The Bank purchased a 20% equity stake in the Wataniya Insurance Company during 2008 at a cost of SAR 20 million. It is classified as an associate company. This strategic acquisition enables the Bank to have an insurance capability to complement the existing retail banking offering. Wataniya was incorporated on 15th May 2010 and commenced trading on 1st July 2010.

12- LONG TERM BORROWINGS

As of 31st December 2014, the borrowings comprise of two outstanding Shari'ah-compliant subordinated Sukuk. The 2012 Sukuk of SAR 1,400 million will mature in 2019 and the 2013 Sukuk issue of SAR 2,500 million will mature in 2023. Both of these Sukuk are callable at the option of Saudi Hollandi Bank after five years of their issuance date, subject to SAMA approval. The Bank exercised its option to call the 2009 Sukuk for SAR 725 million by paying the investors the redemption amount in full in December 2014.

Further details are provided in Note 14 of the Consolidated Financial Statements.

13- DIVIDEND POLICY

A. Article (49) of the Bank's articles of association states that the net annual profits shall be distributed after deducting all general expenses, other expenses and after taking necessary provisions for possible credit and investment losses and contingent liabilities, and any other necessary deductions proposed by the Board of Directors in accordance with the Saudi Arabian Banking Control Law. After these deductions, dividend distribution is subject to the following:

I. The Zakat due on the Saudi shareholders and tax on the non-Saudi shareholders will be calculated based on their share of the net profit. These deductions will be made under the laws of the Kingdom of Saudi Arabia. The Bank shall pay these amounts to the concerned authority;

II. Twenty five percent of the net profit after deduction of Zakat and tax as specified in item (I) shall be allocated for the purpose of constituting a statutory reserve until this reserve becomes at least equal to the paid up capital;

III. Out of the remaining net profit, after deducting the Zakat, income tax and any statutory reserve requirements, five percent at least of the paid up capital shall be allocated for distribution to the Saudi and non-Saudi shareholders based on their respective contribution to the share capital according to what was proposed by the Board of Directors and approved by the General Assembly. In case such remaining net profit is not sufficient for paying such dividend, shareholders will not be entitled to claim the balance of the said percentage in the subsequent year or years. The General Assembly is not allowed to propose dividends in excess of what was proposed by the Board of Directors;

IV. The remaining amount, after the allocations as stated in Item I, II, III, if any, shall be utilised at the Board's recommendation, and as approved by the General Assembly;

V. The share percentage of Saudi and non-Saudi shareholders is to be maintained when determining the necessary deduction for the statutory reserve and other reserves from the net profit after deducting Zakat and taxes, provided these two groups (Saudi and non-Saudi Shareholders) shall contribute to these reserves pro-rata to their share in the capital which shall be deducted from their respective share in the net profit.

B. Guiding Principles

In reviewing and setting the annual dividend policy the Board and senior management will be guided by the following principles:

I. Dividend sustainability:

To build long-term shareholder value and market confidence in the Bank's future, the amount and frequency of dividends to be paid shall be evaluated based on the Bank's ability to continue paying at an equal or increased level in the foreseeable future. Risks that may threaten the Bank's ability to maintain current levels of dividends need to be identified and evaluated;

II. Growth of the Bank:

The amount, frequency and type of dividends paid shall not impede the ability of the Bank to meet its strategic growth plans;

III. Capital management:

During the annual review and while setting the dividend policy for the current year, the Board and senior management must ensure that the Bank:

- maintains sufficient levels of capital to meet the minimum regulatory requirements as set by SAMA;
- maintains sufficient levels of capital levels to support the Bank's strategic growth objectives as presented in the Bank's ICAAP;
- considers any proposed changes to future minimum capital levels made by the Basel committee; does not hold capital in excess of the requirements as summarised in items I) and II) above.

14- PROPOSED CASH DIVIDEND AND BONUS SHARES

The proposed gross dividend for 2014 amounts to SAR 619.16 million, a 32.2% increase over the prior year. This will be subject to approval at the Extraordinary General Shareholders Assembly due in the first quarter of 2015. It shall be paid to the shareholders in the locations and on the dates as set by the Board of Directors.

The Board also proposed an increase in the Bank's capital by 20% from SAR 4,762.8 million to SAR 5,715.36 million, which will be facilitated through the distribution of 1 bonus share for every 5 shares held. This proposal is subject to the approval of the Extraordinary General Shareholders Assembly to be held in the first quarter of 2015.

15- SIGNIFICANT SHAREHOLDINGS

Material shareholdings (i.e. in excess of 5%) during 2014.

	1 January 2014		31 December 2014		
	Shares Held	%	Shares Held	%	Change%
ABN AMRO Bank N. V.	158,760,000	40.00	190,512,000	40.00	-
Olayan Saudi Investment Company	86,715,000	21.85	103,813,391	21.80	(0.05)
General Organization for Social Insurance	41,331,999	10.41	49,598,398	10.41	-

16- RELATED PARTY TRANSACTIONS

During its ordinary course of business, the Bank conducts business with its related parties. These transactions are done undergoing the same fair dealing conditions of other parties and are subject to the limits stipulated in the Banking Control Law and instructions issued by the Saudi Arabian Monetary Agency as well as the Bank's internal related party transaction policy.

Note 34 to the audited Consolidated Financial statements summarises all related party transactions.

THE BANK'S CAPITAL RATIOS REMAINED STRONG WITH THE TOTAL CAPITAL RATIO CLOSING THE YEAR AT

15.85%

17- BOARD OF DIRECTORS

The membership status of the Bank's directors during 2014 and their directorships in Joint-Stock Companies were as follows:

Name	Membership Status	Directorship in other Joint-Stock companies
Eng. Mubarak Abdullah Al-Khafrah (Chairman)	Independent	National Industrialization Co, Malath Insurance Co., Gulf Chemicals & Industrial Oils Co., Tasnee & Sahara Olefins Co.
Mrs. Lubna Sulaiman Al-Olayan (Vice Chairperson)	Non-Executive	Schlumberger Co.
Mr. Sulaiman Abdullah Al-Kadi	Independent	Saudi Electricity Co., Chemical Development Co., Basic Chemical Industries Co., Saudi United Cooperative Insurance Company
Mr. Abdulhadi Ali Shayif	Independent	Arab Cement Co. Ltd, Byblos Bank, Bupa Arabia Insurance Company
Mr. Eyad Adbulrahman Al-Hussain	Non-Executive	-
Mr. Ahmed Farid Al-Aulaqi	Independent	Saudi Tunisian Bank, Safanad Investment Company, Tawuniya Insurance Company
Mr. Jan Koopman	Non-Executive	-
Dr. Bernd van Linder	Executive	Wataniya Insurance Co.
Mr. Javier Maldonado	Non-Executive	-
Mr. Soren Kring Nikolajsen	Non-Executive	-

The Board of Directors convened four times during the year as per the table below.

Name	Sessions Attended	30 Jan 2014	23 April 2014	10 July 2014	14 Dec 2014
Eng. Mubarak Abdullah Al-Khafrah (Chairman)	4	√	√	√	√
Mrs. Lubna Sulaiman Al-Olayan	3	√	√	X	√
Mr. Abdulhadi Ali Shayif	4	√	√	√	√
Mr. Sulaiman Abdullah Al-Kadi	4	√	√	√	√
Mr. Eyad Adbulrahman Al-Hussain	4	√	√	√	√
Mr. Ahmed Farid Al-Aulaqi	4	√	√	√	√
Mr. Javier Maldonado	4	√	√	√	√
Mr. Jan Koopman	4	√	√	√	√
Mr. Soren Kring Nikolajsen	4	√	√	√	√
Dr. Bernd van Linder	4	√	√	√	√

*√ : Present X: Absent

Board Committees:

The Board of Directors has four committees - the Executive Committee, the Audit Committee, the Nomination and Remuneration Committee, and the Board Risk Committee.

I. Executive Committee

The Executive Committee is empowered by the Board of Directors in accordance with article 26 of the Bank's Articles of Association. The Executive Committee shall assist the Board of Directors within the powers determined for it by the Board, and deal with all matters referred to it by the Board, though the committee shall not have power to alter any decision, rules or regulations taken or laid down by the Board. The Executive Committee consists of the Chairman and four members of the Board.

The Executive Committee convened six times during the year.

Members

Eng. Mubarak Abdullah Al-Khafrah (Chairman)

Mrs. Lubna Sulaiman Al-Olayan

Mr. Abdulhadi Ali Shayif

Mr. Javier Maldonado

Dr. Bernd van Linder

II. Audit Committee

The Audit Committee is a sub committee appointed by the Board of Directors. The Committee is responsible for monitoring all control issues of the Bank. This Committee oversees the functioning and independence of the Internal Audit department and considers its recommendations. The Committee has periodic discussions with management, the internal auditors and the external auditors on matters affecting Consolidated Financial Statements and internal controls and advises the Board of Directors accordingly.

The Audit Committee convened four times during the year.

Members

Mr. Sulaiman Abdullah Al-Kadi (Chairman)

Mr. Saleh Hassan Husain

Mr. Muffadal Abbas Mohammed Ali

III. Nomination and Remuneration Committee

In accordance with article (15) of the Corporate Governance regulation Issued by CMA decision no. 1-212-2006 dated 21/10/1427H corresponding to 12/11/2006 and after having the approval of General Shareholders Assembly in its meeting held on 29th March 2008, the Board of Directors established a separate committee for nomination and remuneration. The duties and responsibilities of the Nomination and Remuneration Committee include the following:

1. Recommendation of appointments to the Board;

2. Annual review of the requirement of suitable skills for membership of the Board of Directors;

3. Review the structure of the Board of Directors and the absence of conflict of interest of their membership;

4. Establish clear policies for the remuneration of Board members and the Bank's senior management.

The Nomination and Remuneration Committee convened four times during the year.

Members

Mr. Abdulhadi Ali Shayif (Chairman)

Mrs. Lubna Sulaiman Al-Olayan

Engr. Mubarak Abdullah Al-Khafrah

Mr. Javier Maldonado

Mr. Sulaiman Abdullah Al-Kadi

Mr. Ahmed Farid Al-Aulaqi

The Bank's compensation policies have also been amended where necessary to comply with the Basel accord.

IV. Board Risk Committee

In accordance with article (78) of the Saudi Arabian Monetary Agency's Corporate Governance Principles issued in June 2012, the Board of Directors established a separate committee for risk governance, headed by a non-executive director to assist the Board in overseeing the risk management process. The Board Risk Committee reports directly to the Board of Directors. The Committee's responsibilities include the following:

1. Provide oversight and advice to the Board in relation to current and potential risk exposures, including, but not limited to, credit, market, liquidity, operational, compliance, legal, strategic and reputational risks;

2. Evaluate, monitor and oversee the adequacy and effectiveness of the Banks' risk management framework to ensure appropriate risk identification, measurement, aggregation and reporting including the determination of risk appetite and tolerance;

3. Assist the Board on any other matter upon request.

The Committee held its first meeting in the 4th quarter of 2014, immediately after being established.

Members

Mr. Ahmed Farid Al-Aulaqi (Chairman)

Mr. Eyad Adbulrahman Al-Hussain

Mr. Soren Kring Nikolajsen

Internet Banking award for best performing branches

THE BOARD ALSO PROPOSED AN INCREASE IN THE BANK'S CAPITAL BY 20% FROM SAR 4,762.8 MILLION TO SAR

5,715.36 MILLION

18- BOARD OF DIRECTORS AND SENIOR EXECUTIVE COMPENSATION

(All amounts in SAR '000)

Details	Executive Board Members	Non-Executive Board Members	Six Executive Managers in the Bank Receiving Highest Compensation, including MD and CFO
Salaries & Compensations	Nil	Nil	9,108
Allowances	Nil	Nil	3,311
Annual & Periodical Remunerations	Nil	Nil	Nil
Incentives	Nil	Nil	12,630
Any other Compensations or benefits (in kind paid monthly or annually)	Nil	3,036	Nil

19- DIRECTORS & SENIOR MANAGEMENT INTERESTS (INCLUDING THEIR SPOUSES AND MINORS)

Board Members

Including the 1,000 qualification shares held by each Board Member during their term of office, shares held by the Directors at the beginning and end of 2014 are set out in the table below.

Name	Shares Held as of 1st Jan 2014	Shares Held as of 31st Dec 2014
Eng. Mubarak Abdullah Al-Khafrah (Chairman)	7,500	9,000
Mrs. Lubna Sulaiman Al-Olayan	21,150	25,380
Mr. Ahmed Farid Al-Aulaqi	1,200	1,440
Mr. Sulaiman Abdullah Al-Kadi	8,229	22,347
Mr. Abdulhadi Ali Shayif	100,000	100,000
Mr. Eyad Adbulrahman Al-Hussain	-	-
Members appointed by ABN AMRO	4,000	4,000
Dr. Bernd van Linder	-	-

Senior Management:

Shares held by senior management at the beginning and end of 2014 are set out in the table below:

Name	Shared Held as of 1st Jan 2014	Shared Held as of 31st Dec 2014
Mr. Lav Kataria	33	-
Mr. Yaqoob Al-Oraini	1,057	4,515
Mr. Fawaz Al-Onazi	1,587	199

20- EXTERNAL AUDITORS

At the Extraordinary General Meeting of the Bank's shareholders held on 17/06/1435H (18 March,2014), Messrs Deloitte & Touche Bakr Abulkhair & Co. and KPMG Al Fozan & Al Sadhan were appointed as joint external auditors for the year ended 31 December 2014 for a total remuneration of SAR 980,000.

21- PAYMENT OF ZAKAT, INCOME TAX & OTHERS

Zakat and income tax are paid as follows:

a. Saudi Shareholders

Zakat attributable to Saudi Shareholders for the year is an estimated SAR 64 million (2013: SAR 49 million), which will be deducted from their share of future dividends. Zakat of SAR 86.34 million paid in prior years will be deducted from the current year's proposed dividend resulting in a net dividend of SAR 1 per share (2013: SAR 1 per share).

b. Non-Saudi Shareholders

Income tax payable on the current year's share of income of foreign shareholders is an estimated

SAR 140 million (2013: SAR 119 million). A tax liability amounting to SAR 64 million will be deducted from current year's proposed dividend resulting in a net dividend of SAR 0.92 per share (2013: SAR 0.55 per share).

c. Governmental agencies

The below table displays the major payments made to governmental agencies.

Payment (SAR 000)	2014	2013
Zakat & Income Tax	222,283	178,496
GOSI	50,627	43,959
Visas and passports	604	675
Total	273,514	223,130

22- SHARE PLAN

In January 2008, the Bank and its Subsidiaries ("the Group") launched an equity settled share-based payment plan ("the Plan") for executives and senior employees ("eligible employees"). The initial Plan was approved by the Board of Directors in their meeting held on 10 Dhu-al-Qa'dah 1428H (corresponding November 20, 2007) and SAMA in their letter dated 26 Safar 1429H (corresponding March 4, 2008). The vesting conditions were amended in 2009 as per approval by the Board of Directors in their meeting held on 5 Shabaan 1430H (corresponding July 27, 2009) and SAMA in their letter dated 20 Dhualqada 1430H (corresponding November 9, 2009). According to the amended Plan, eligible employees will receive shares in the Bank if the following terms and conditions are met:

- Eligible employees are required to continue their employment with the Group for a period of two years from the grant date to have half of their shares vest and another year for the remainder to vest; and

- The Group achieves specific growth thresholds as approved by the Board of Directors where each threshold will accrue a certain value of shares to the eligible employees.

Under the provisions of the Plan, the Group at no point becomes the legal owner of the underlying shares. Until such time as these shares vest they will not carry voting rights. As per the Plan, SHC manages the Staff Share Plan Fund ("the Fund") which will operate in accordance with the terms and conditions as approved by the Board of Directors in their above referred meeting and by SAMA in their above referred letter. Any further modifications in the terms and conditions of the Plan require prior approval of SAMA. Due to restrictions regarding its operations as agreed by SAMA the results and assets and liabilities of the Fund are not consolidated in these consolidated financial statements.

23-APPLICABLE REGULATIONS

Saudi Hollandi Bank has adhered to the provisions of the Banking Control Law, Saudi Companies' Law, and regulations issued by the Saudi Arabian Monetary Agency (SAMA) and the Capital Market Authority (CMA). In the event of conflicting regulation, the Bank adheres to the existing rules governing banks and joint stock companies prior to the foundation of the Capital Market Authority.

During 2014 the Bank paid SAR 192,300 in respect of penalties levied by regulatory authorities in the Kingdom as per the following table:

Authority Imposing the Penalty	Amount (SAR)
Saudi Arabian Monetary Agency	62,300
Capital Market Authority	30,000
ATM signage penalty	100,000
Total	192,300

24- DECLARATIONS

The Board of Directors hereby declares that:

- Proper books of account have been maintained;
- The Bank prepares its Consolidated Financial Statements in accordance with accounting standards for financial institutions promulgated by the Saudi Arabian Monetary Agency and International Financial Reporting Standards, including International Accounting Standards, consistent with interpretations issued by the International Accounting Standards Board and as required by the Saudi Arabian Monetary Agency;
- The system of internal control is sound in design and has been effectively implemented;
- The Bank has no existing contracts in which a

Director, the MD, the CFO or a party related to any of them has a material interest;

- There is no doubt as to the Bank's ability to continue as a going concern.

The Bank has implemented all provisions of the Corporate Governance Regulations issued by CMA with the exception of applying the Accumulative Voting method for the nomination of the Board Members which was not approved by the Extra-Ordinary General Shareholders Meeting held on 6th October 2012.

CONCLUSION

The Board of Directors of Saudi Hollandi Bank extends its regards and gratitude to the government of the Custodian of the Two Holy Mosques, His Majesty, and to HRH the Crown Prince, HRH the Second Deputy Minister, HE the Minister of Finance, HE the Minister of Commerce & Industry, HE the Governor of the Saudi Arabian Monetary Agency and HE the Chairman of the Capital Market Authority for their continued support to the banking community.

The Board of Directors also extends its thanks and appreciation to the shareholders, customers and correspondents of Saudi Hollandi Bank for their continuing confidence and support.

Finally, appreciation must be given to the Bank's management and staff for their dedication and teamwork, without which this year's achievements would not have been possible.

Board of Directors

Members of the Bank's Senior Management

Front row,
from left to right

Ms. Maha Al Sudairi
Board Secretary & Governance

Mrs. May Al Hoshan
Human Resources

Mr. Lav Kataria
Chief Operating Officer

Dr. Bernd van Linder
Managing Director

Mr. Mohammed Al Shaikh
Treasury

Mr. Mofeed Al Jishi
Institutional Banking

Mr. Khaldon Al Fakhri
Risk Management

Back row,
from left to right

Mr. Ali Imran
Personal Financial Services & Islamic Banking

Mr. Fawaz Al Kassar
Internal Audit

Mr. Marouf Shweikeh
Legal Affairs

Mr. Yaqoob Al Oraini
Compliance

Mr. Hussam Al Khayal
Corporate Banking

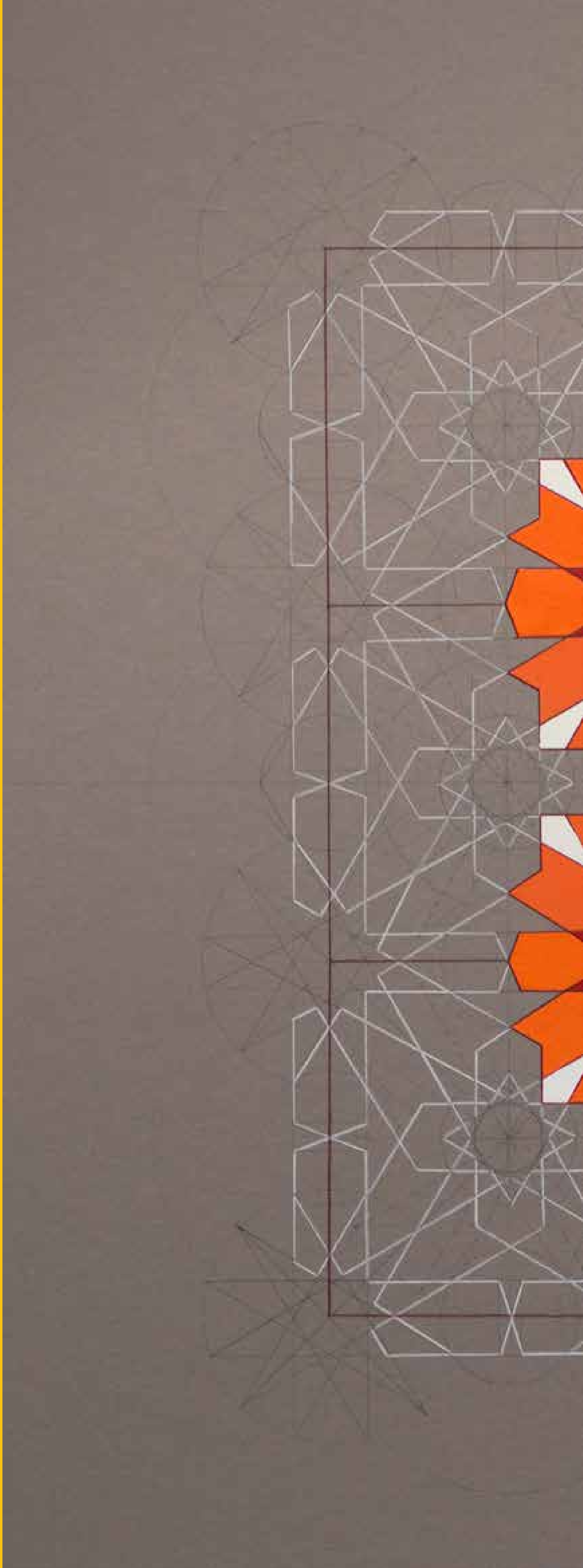
Mr. Frank Hamer
Transaction Banking

Mr. Majed Al Ghanemi
Information Technology

Mr. John Macedo
Finance

Mr. Bandar Al Gaeiti
Branch Network

Awartani specialized in heritage arts (traditional artisanal) ranging from painting to arabesque, ceramics, calligraphy, icons and drawing on glass, then she turned to ceramics, painting, and using geometry in several ways.



Business Review

Business Review

Trading Overview

This year was characterised by two contrasting economic trends: the first half saw high levels of confidence and optimism, reflected in a strong performance by the Tadawul, but the second saw caution on the back of sharply falling oil prices. Nevertheless, this was another year of solid growth for the Kingdom's banking sector and against this backdrop Saudi Hollandi Bank delivered yet another record performance, with solid growth in assets, deposits, net interest income and non-funded income. In all, this was the fourth successive year of over 20% net profit growth; a major achievement for the bank as it approaches its 90th anniversary.

Year-on-year net profit increased by 21.3 percent to a new record of SAR 1,821 million, with total operating income increasing by 22 percent. Net loans and advances increased by 22 percent to SAR 65,148 million. This record was achieved whilst maintaining a total capital adequacy ratio of 15.9% and non-performing loan coverage ratio of 161%.

Non-interest income increased by 23 percent driven by strong fee income growth across the majority of the businesses, whilst cost management continued to be a key focus, with operating expenses and capital expenditure under constant scrutiny to ensure the Bank remains as efficient as possible.

A pleasing aspect of this performance was the fact that all business lines contributed equally to the success. In Retail Banking the Bank combined another strong performance in home finance with an unprecedented growth in non-interest bearing deposits and personal loans. The mid-market corporate business showed impressive growth, as did the award-winning SME business, and institutional banking grew strongly once again and continues to be the main profit generator for the Bank. On the product side, both treasury and trade finance once again delivered record results.

Overall Retail Banking assets grew by 40% as the Personal Banking Group continued to focus its activities on customer demands and a number of new initiatives were launched in home and personal finance which helped to increase the Bank's lending portfolio by SAR3.3 billion. PBG also added 7 branches to its growing network and added 113 new ATMs, bringing the total to 382 across the Kingdom, all of which helped to grow non interest-bearing customer deposits by 20%.

Corporate Banking supports SMEs, mid-sized corporate and large corporate customers and in 2014 the Bank further increased its presence in all segments by opening new corporate centers in Jubail and Al Ahsa. This helped to broaden its market impact. Core income increased, driven by increased non-funded income from resilient performances in trade services, derivatives and foreign exchange. The expansion in mid-market corporate banking also supported the further diversification of the customer base, adding 167 new corporate customers, contributing to a total of over 650 new customers added over the last four years.

Institutional Banking continued to outperform, registering record growth in both assets and income and, even with a slight compression of margins on assets, overall profitability has increased substantially.

On the back of the strong growth in institutional business, the Bank delivered an increase in Treasury revenues of 27% over the previous year. In line with strategy, the vast majority of these revenues were generated from providing treasury solutions to the corporate customer base. Income from FX transactions grew by an impressive 32% and revenues from hedging solutions increased by 22% year-on-year. In addition to the growth of customer business, a more active management of the investment book continued and resulted in realized gains on the sale of investments and dividend income.

New SHB Branch

2014 proved to be another record year for Trade Finance with revenues increasing more than 30% year-on-year. In Cash Management, the focus last year was on enhancing the delivery channels to customers and the Bank extended its corporate internet banking offer by new point of sale products, as well as cash collection and delivery.

The Financial Institutions Group (FIG) succeeded in maintaining its position as a leader in correspondent banking and volume of business and revenues from these activities, especially in trade and cash management, marked significant growth over the previous year.

All of Institutional Banking, Corporate Banking and SME Banking contributed to record results in arrangement fees and trade income. Combined with the strong results from Treasury, this has resulted in non-funded income equalling 38% of total income.

In investment banking, aided by an improved domestic economic picture and increased trading volumes, Saudi Hollandi Capital (SHC) reported a jump in revenues across all of its businesses, with net income boosted by tight cost controls. Over the year, investment banking revenues more than doubled and share brokerage and fund management revenues increased by 37%.

The Bank further embedded its commitment to invest in local Saudi talent, taking its overall Saudization rate close to 88% while encouraging leadership development and cross-functional mobility at all levels and the Bank launched a graduate programme specifically designed to prepare young Saudis for employment in the SME sector.

CORPORATE BANKING GROUP

Through its Corporate Banking business, the Bank supports mid-sized corporate and large corporate customers. Coverage is segmented to provide a coherent focus on each segment: the Corporate Banking Group deals with mid-market corporate companies and our Institutional Banking Group focuses on the largest companies.

In 2014 we further increased our presence in all segments by opening new corporate centers in Jubail and Al Ahsa to enable us to be even closer to our customers and to quickly act on opportunities, which is particularly important in the Kingdom's fast-growing cities.

We continued to deepen our relationships with core clients through our investment in new products and capabilities that drive capital efficiency and through our lending commitments to support companies in the Kingdom. Across all segments, we continued to increase our cross-selling, which resulted in record revenues in trade services, hedging products and foreign exchange. All of this enabled us to increase our market share and our share of wallet for the third year running.

TRANSACTION BANKING GROUP

With the roll out of our new corporate internet banking portal we transformed the Corporate Banking Services Group into the newly-formed Transaction Banking Group (TBG), focused on Trade Finance, Cash Management, Islamic Banking and Financial Institutions.

2014 proved to be another record year for Trade Finance with revenues increasing more than 30% year-on-year. The Bank structured numerous deals and held seminars and workshops across the Kingdom, maintaining its reputation as a pioneer in this area.

In Cash Management, our focus was on enhancing our delivery channels to our customers. Our corporate internet banking offering is complemented by solutions in point of sale as well as cash collection and delivery.

Customer demand for Shariah-compliant products grew further and once again the Bank responded by innovating in home financing and SME offerings, helping to increase Islamic assets. In Treasury, we continued to close Shariah-compliant hedging and commodity transactions. Our Islamic Financing Department continued to play an active role in assisting the relationship teams in Corporate and Institutional Banking in offering these products to our customers.

As always, to ensure that transactions and procedures are performed according to Shariah requirements, routine audits were performed along with the engagement of members from the Bank's Shariah Committee and we continued to provide training sessions on the latest trends and thinking in Islamic banking.

Our Financial Institutions Group (FIG) succeeded in maintaining its position as a leader in correspondent banking. FIG is now managing relationship with more than 450 correspondent banks in 60 countries of which half are actively banking with us for their trade and treasury requirements. In 2014 the volume of business and revenues from correspondent banking activities, especially in trade and cash management, marked significant growth over the previous year.

The Bank received several awards from Banker Middle East magazine

THE PERSONAL BANKING GROUP

Through its Personal Banking Group (PBG), Saudi Hollandi Bank aims to become a leading financial services provider to 'mass affluent' individuals and professionals in the Kingdom by offering a comprehensive and high quality personalized service.

In 2014, PBG continued to focus its activities on customer demands for straight forward products and services that meet their lifestyle requirements and that are easy to use. A number of new value propositions were launched in home and personal finance which lead to an increase in the Bank's lending portfolio by SAR 3.8 billion. PBG also added 7 branches to its growing network and added 113 new ATMs, bringing the total number of ATMS to 382 across the Kingdom, all of which helped to grow non interest-bearing customer deposits faster than market. During the year our products received industry recognition and we won "Best Home Finance Product" and "Best Personal Finance propositions" from Banker Middle East and World Finance magazines respectively.

The Bank's success in serving Small and Medium Enterprises (SME) continued, visible in a strong growth in assets, and our strong commitment to the government's Kafalah programme, which promotes financing for SMEs. Reflecting our support for this important engine of growth for the economy, we launched a non-financial advisory portal, offering SMEs free access to developmental tools and guidance on a range of business issues.

Elsewhere in PBG, the internet and mobile banking platforms provided highly functional and user-friendly services. The number of retail internet banking users increased by 35% during the year, which in turn led to a 37% increase in electronic transactions. Overall we reached an all-time high in alternative channel usage alongside transactions through the branch network, earning us the accolade of Best Internet Bank in Saudi Arabia from Global Banking & Finance magazine.

TREASURY

The treasury team delivered a record set of results that supported the Bank's strong growth in 2014. In spite of the continuing backdrop of challenges arising from low-interest-rates and a tight credit environment in global financial markets combined with elevated competition at the local level, these achievements were made possible by actively managing the Bank's balance sheet to diversify funding sources and ensure that optimum liquidity levels were maintained and proactively addressing the balance of risk-reward in the investment portfolio and acted on opportunities to maintain superior returns. Treasury also played a pivotal role in enhancing the collaboration across business segments for effective cross-selling by expanding its clientele base and range of products, driven by the Bank's team spirit of putting the customer at the center of its activities. This resulted in delivering record sales revenue and boosting its market share during the year.

Treasury also continued to invest in both its high-performing team and in the processes and control systems as part of its continuing programmes to further develop its resources and improve capabilities to deliver sustainable growth in future aligned with the Bank's strategic plan.

SAUDI HOLLANDI CAPITAL (SHC)

Aided by an improved domestic economic picture and increased trading volumes, Saudi Hollandi Capital (SHC) reported a jump in revenues across all of its businesses, with net income boosted by tight cost controls. Over the year, investment banking revenues more than doubled, share brokerage and fund management revenues increased by 37%.

In brokerage, growth was mainly driven by local equity trading, with SHC outperforming the market to increase its overall share. This was particularly visible with the most active high net worth customers and in areas such as margin trading, both of which are areas of future investment and growth.

In asset management good performance was reported across the board in mutual funds. The Bank's Saudi Equity Fund and its AlYusr Saudi Equity Fund strongly outperformed the TASI benchmark and overall it ranked at or near the top for money market, equity and multi-asset funds in terms of performance. Towards the end of the year, a new IPO fund was launched.

In investment banking, the year's highlight was the closing of the Al-Ahlia Co-operative Insurance rights issue, in which SHC was the financial advisor, lead manager and sole underwriter. It was the first tradable rights issue for an insurance company launched under the new rules and was widely regarded by the market as a success.

HUMAN RESOURCES

The Bank further embedded its commitment to invest in local Saudi talent, taking its overall Saudization rate close to 88% and managed our human capital efficiently, growing our total workforce to 1,637.

A new addition to our work in helping to embed a performance culture was the launch during the year of an internal employee engagement initiative, which identified a refreshed set of behavioural values and began to communicate and explain them in a bank-wide programme. Similarly, emphases on leadership development and cross-functional mobility at all levels were two important themes and we launched a graduate programme specifically designed to prepare young Saudis for employment in SME banking.

OPERATIONS AND TECHNOLOGY

The Operations and Technology teams continued to improve core delivery and infrastructure capabilities to ensure resilient support for business growth and a superior customer service for our customers.

The Bank migrated its legacy trade processing platform onto the globally recognized Trade Innovation (TI) platform and upgraded its internet banking system to include an integrated cash and trade capability. This will provide the bank with a significant competitive advantage in transaction banking products. Continued investments in business continuity, document archival and information security capabilities ensured even greater levels of stability and control for the Bank and its customers.

YEAR-ON-YEAR NET PROFIT INCREASED BY 21.3% TO A NEW RECORD OF SAR

1,821 MILLION

Management Training Program 2014

Independent Auditors' Report

For The Year Ended 31 December 2014

TO THE SHAREHOLDERS OF SAUDI HOLLANDI BANK

(A SAUDI JOINT STOCK COMPANY)

We have audited the accompanying consolidated financial statements of Saudi Hollandi Bank (the "Bank") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at December 31, 2014, the consolidated income statement and the consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes from 1 to 41. We have not audited note 36, nor the information related to "Disclosures under Basel III framework", cross referenced therein, which are not required to be within the scope of our audit.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the 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.

OPINION

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

- present fairly, in all material respects, the financial position of the Group as at December 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with Accounting Standards for Financial Institutions issued by SAMA and with International Financial Reporting Standards; and

- comply with the requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's By-Laws in so far as they affect the preparation and presentation of the consolidated financial statements.

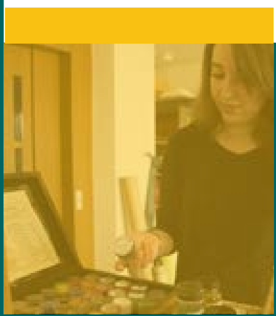
Deloitte & Touche
Bakr Abulkhair & Co. | P.O. Box 213 |
Riyadh 11411 | Kingdom of Saudi Arabia

KPMG Al Fozan & Al Sadhan
P.O. Box 92876 | Riyadh 11663 |
Kingdom of Saudi Arabia

Ehsan A. Makhdoum
Certified Public Accountant
Registration No. 358

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

Dana tries through her art to reconnect geometric art with the oriental spirit. By ornamenting the Holy Quran and the arabesque art, she has blended the oriental sense with the spirit of modern time, creating a mixture of boldness and simplicity. On paper, Dana shows the highest degrees of expression, and looking at her drawings takes you into a fascinating spiritual horizons.



Financial Statements

Consolidated Statement of Financial Position

As at December 31,

Amounts in SAR'000

ASSETS	Notes	2014	2013
Cash and balances with SAMA	4	9,523,463	6,662,522
Due from banks and other financial institutions	5	538,789	1,751,367
Investments, net	6	18,783,967	16,849,162
Loans and advances, net	7	65,147,828	53,211,260
Investment in an associate	8	12,793	17,233
Property and equipment, net	9	526,388	504,802
Other assets	10	2,085,990	1,471,915
Total assets		96,619,218	80,468,261

LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities

Due to banks and other financial institutions	12	3,054,640	2,494,278
Customers' deposits	13	76,813,865	61,875,449
Subordinated debt	14	3,900,000	4,625,000
Other liabilities	15	2,108,831	2,072,106
Total liabilities		85,877,336	71,066,833

SHAREHOLDERS' EQUITY

Share capital	16	4,762,800	3,969,000
Statutory reserve	17	3,536,355	3,081,128
General reserve		130,000	130,000
Other reserves	18	3,564	21,690
Reserve for bonus shares	16	952,560	793,800
Retained earnings		709,306	915,348
Proposed gross dividends	26	619,164	468,342
Share based plan reserve	38	28,133	22,120
Total shareholders' equity		10,741,882	9,401,428
Total liabilities and shareholders' equity		96,619,218	80,468,261

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

Consolidated Income Statement

For the year ended December 31,

Amounts in SAR'000

	Notes	2014	2013
Special commission income	20	2,485,924	2,095,505
Special commission expense	20	520,145	471,793
NET SPECIAL COMMISSION INCOME		1,965,779	1,623,712
Fee and commission income, net	21	863,972	732,225
Exchange income, net		160,137	121,133
Trading income, net	22	166,168	136,399
Dividend income from available for sale investments		6,033	3,276
Gains / (losses) on non-trading investments, net	23	20,062	(750)
Total operating income		3,182,151	2,615,995
Salaries and employee-related expenses	24	573,781	508,856
Rent and premises-related expenses		102,902	83,899
Depreciation and amortisation	9	104,143	96,112
General and administrative expense		230,369	206,208
Impairment charges for credit losses, net	7(b)	345,607	218,497
Total operating expenses		1,356,802	1,113,572
OPERATING INCOME		1,825,349	1,502,423
Share in loss of an associate	8	(4,440)	(817)
Net income for the year		1,820,909	1,501,606
Basic and diluted earnings per share (Expressed in SAR per share)	25	3.82	3.15

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

Consolidated Statement of Comprehensive Income

For the year ended December 31,

Amounts in SAR'000

	Note	2014	2013
NET INCOME FOR THE YEAR		1,820,909	1,501,606
OTHER COMPREHENSIVE (LOSS) / INCOME:			
ITEMS THAT CAN BE RECLASSIFIED BACK TO CONSOLIDATED STATEMENT OF INCOME IN SUBSEQUENT PERIODS			
AVAILABLE FOR SALE FINANCIAL ASSETS:			
- Net change in fair value	18	139	19,329
- Net amounts transferred to consolidated income statement	18	(18,265)	1,796
		(18,126)	21,125
CASH FLOW HEDGES:			
- Net amounts transferred to consolidated income statement	18	-	6,355
Total other comprehensive (loss) / income		(18,126)	27,480
Total comprehensive income for the year		1,802,783	1,529,086

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

Consolidated Statement of Changes In Shareholders' Equity

For the year ended December 31,

Amounts in SAR'000

					OTHER RESERVES						
2014	**Notes**	**Share capital**	**Statutory reserve**	**General reserve**	**Available for sale investments**	**Cash flow hedges**	**Reserve for bonus shares**	**Retained earnings**	**Proposed gross dividends**	**Share based plan reserve**	**Total shareholders' equity**
Balance at beginning of the year		3,969,000	3,081,128	130,000	21,690	-	793,800	915,348	468,342	22,120	9,401,428
Total comprehensive income for the year		-	-	-	(18,126)	-	-	1,820,909	-	-	1,802,783
Share based plan transactions		-	-	-	-	-	-	-	-	6,013	6,013
Transfer to statutory reserve	17	-	455,227	-	-	-	-	(455,227)	-	-	-
Proposed bonus shares	16	-	-	-	-	-	952,560	(952,560)	-	-	-
Bonus shares issued	16	793,800	-	-	-	-	(793,800)	-	-	-	-
Proposed gross dividends	26	-	-	-	-	-	-	(619,164)	619,164	-	-
Dividends paid		-	-	-	-	-	-	-	(468,342)	-	(468,342)
Balance at the end of the year		4,762,800	3,536,355	130,000	3,564	-	952,560	709,306	619,164	28,133	10,741,882
2013											
Balance at beginning of the year		3,969,000	2,705,726	130,000	565	(6,355)	-	1,051,286	444,528	11,229	8,305,979
Total comprehensive income for the year		-	-	-	21,125	6,355	-	1,501,606	-	-	1,529,086
Share based plan transactions	38	-	-	-	-	-	-	-	-	10,891	10,891
Transfer to statutory reserve	17	-	375,402	-	-	-	-	(375,402)	-	-	-
Proposed bonus shares		-	-	-	-	-	793,800	(793,800)	-	-	-
Proposed gross dividends	26	-	-	-	-	-	-	(468,342)	468,342	-	-
Dividends paid		-	-	-	-	-	-	-	(444,528)	-	(444,528)
Balance at the end of the year		3,969,000	3,081,128	130,000	21,690	-	793,800	915,348	468,342	22,120	9,401,428

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

Consolidated Statement of Cash Flows

For the year ended December 31,

Amounts in SAR'000

	Notes	2014	2013
OPERATING ACTIVITIES			
Net income for the year		1,820,909	1,501,606
Adjustments to reconcile net income to net cash from operating activities:			
(Accretion of discounts) and amortisation of premium on non-trading investments, net		(103,727)	(80,491)
Gain on sale of property and equipment		(400)	(73)
(Gains) / losses on non-trading investments, net		(20,062)	750
Gain on investments held as FVIS		(236)	-
Depreciation and amortisation	9	104,143	96,112
Impairment charges for credit losses, net	7(b)	345,607	218,497
Share in loss of an associate	8	4,440	817
Share based plan transactions		13,085	10,891
		2,163,759	1,748,109
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA		(648,325)	(496,551)
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		937,000	(937,000)
Loans and advances, net		(12,282,175)	(8,596,542)
Other assets		(808,484)	(187,113)
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		560,362	1,019,355
Customers' deposits		14,938,416	7,961,777
Other liabilities		36,725	161,167
Net cash from operating activities		4,897,278	673,202
INVESTING ACTIVITIES			
Proceeds from sale and maturity of non-trading investments		15,624,169	8,503,821
Purchase of non-trading investments		(17,453,075)	(13,866,435)
Purchase of property and equipment	9	(125,729)	(112,147)
Proceeds from sale of property and equipment		400	73
Net cash used in investing activities		(1,954,235)	(5,474,688)
FINANCING ACTIVITIES			
Proceeds from issuance of subordinated debt		-	2,500,000
Repayment of subordinated debt		(725,000)	(775,000)
Dividends paid net of Zakat and income tax recovered from shareholders		(281,005)	(346,348)
Net cash (used in) / from financing activities		(1,006,005)	1,378,652
Net increase / (decrease) in cash and cash equivalents		1,937,038	(3,422,834)
Cash and cash equivalents at beginning of the year		4,373,210	7,796,044
Cash and cash equivalents at end of the year	27	6,310,248	4,373,210
Special commission received during the year		2,463,310	2,071,901
Special commission paid during the year		451,980	446,430
Supplemental non-cash information			
Net changes in fair value and transfers to consolidated income statement		(18,126)	27,480

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

Notes To The Consolidated Financial Statements

For the year ended December 31,

Amounts in SAR'000

1. GENERAL

Saudi Hollandi Bank (the "Bank"), is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia and was formed pursuant to Royal Decree No. M/85 dated 29 Dhul Hijjah 1396H (corresponding to December 21, 1976). The Bank commenced business on 16 Shaaban 1397H (corresponding to August 1, 1977) when it took over the operations of Algemene Bank Nederland N.V. in the Kingdom of Saudi Arabia. The Bank operates under commercial registration No. 1010064925 dated 6 Jumada II 1407H (corresponding to February 5, 1987) through its 55 branches (2013: 48 branches) in the Kingdom of Saudi Arabia. The registered address of the Bank's head office is:

Saudi Hollandi Bank
Head Office
Al-Dhabab Street
P O Box 1467
Riyadh 11431
Kingdom of Saudi Arabia

The objective of the Bank and its following subsidiaries (collectively referred to as "the Group") is to provide a full range of banking and investment services. The Group also provides to its customers Islamic (non commission based) banking products which are approved and supervised by an independent Shariah Board established by the Bank.

The consolidated financial statements comprise of the financial statements of the Bank and its subsidiaries. The details of these subsidiaries are set out below:

Saudi Hollandi Capital (SHC)

SHC, a limited liability company incorporated in the Kingdom of Saudi Arabia, a wholly owned subsidiary of the Bank, was formed in accordance with the Capital Market Authority's (CMA) Resolution number 1-39-2007 under commercial registration number 1010242378 dated 30 Dhul Hijjah 1428H (corresponding to January 9, 2008) to take over and manage the Group's Investment Services and Asset Management activities regulated by CMA related to dealing, managing, arranging, advising and taking custody of securities. SHC commenced its operations effective 2 Rabi'II 1429H (corresponding to April 9, 2008).

Saudi Hollandi Real Estate Company (SHREC)

SHREC, a limited liability company incorporated in the Kingdom of Saudi Arabia, a wholly owned subsidiary of the Bank through direct ownership was established under commercial registration number 1010250772 dated 21 Jumada I 1429H (corresponding to May 26, 2008) with the approval of the Saudi Arabian Monetary Agency (SAMA). The Company was formed to register real estate assets under its name which are received by the Bank from its borrowers as collateral.

Saudi Hollandi Insurance Agency Company (SHIAC)

SHIAC, a limited liability company incorporated in the Kingdom of Saudi Arabia, a wholly owned subsidiary of the Bank through direct ownership was established under commercial registration number 1010300250 dated 29 Muharram 1432H (corresponding to January 4, 2011) with the approval of SAMA. The Company was formed to act as an agent for Wataniya Insurance Company (WIC), an associate, for selling its insurance products.

2. BASIS OF PREPARATION

a) Statement of compliance

The consolidated financial statements are prepared in accordance with Accounting Standards for Financial Institutions promulgated by SAMA and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The consolidated financial statements are prepared to comply with the requirements of the Banking Control Law, the provisions of the Regulations for Companies in the Kingdom of Saudi Arabia and the Bank's By-Laws.

b) Basis of measurement and presentation

The consolidated financial statements are prepared under the historical cost convention except for the following measured at fair value:

— derivatives which are held at fair value;

— available for sale investments;

— recognised financial assets and financial liabilities designated as hedged items in qualifying fair value hedge relationships which are adjusted for changes in fair value attributable to the risk being hedged.

— liabilities for share based payments

c) Functional and presentation currency

These consolidated financial statements are presented in Saudi Arabian Riyals (SAR), which is the Group's functional currency. Financial information has been rounded off to the nearest thousand, except where otherwise indicated.

d) Critical accounting judgements, estimates and assumptions

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

(i) Impairment for losses on loans and advances

Management reviews its loan portfolio to assess specific and collective impairment on a monthly basis. In determining whether an impairment loss should be recorded, management applies judgement when assessing 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 similar credit risk characteristics where objective evidence of impairment exists. 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 loss experience.

(ii) Fair value of financial instruments

The Group measures financial instruments, such as, derivatives, FVIS and available for sale investments at fair value at each statement of financial position date. Fair values of financial instruments measured at amortised cost and held to maturity investments are disclosed in Note 6(d).

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

— In the principal market for the asset or liability, or

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

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

External valuers are involved for valuation of significant assets, such as properties and AFS financial assets, and significant liabilities, such as contingent consideration. Involvement of external valuers is decided upon annually by the valuation committee after discussion with and approval by the Bank's audit committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

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

The Group exercises judgement to consider impairment on the available-for-sale equity and debt investments. This includes determination of a significant or prolonged decline in the fair value below its cost. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. In assessing whether it is prolonged, the decline is evaluated against the period in which the fair value of the asset has been below its original cost at initial recognition. In making this judgement, the Group 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 Group follows the guidance of IAS 39 in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. In making this judgement, Management evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than in certain specific circumstances – for example, selling close to maturity or an insignificant amount, it will be required to reclassify the entire class as available-for-sale investments.

(v) Determination of control over investees

The control indicators as set out in note 3 (a) are subject to management's judgement 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. See notes 6 and 37.

e) Provisions for liabilities and charges

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

f) Going concern

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Change in accounting policies

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2013 except for the adoption of the following amendments to existing standards and a new interpretation mentioned below, resulting from new and amended IFRS and IFRIC guidance, which has had no material impact on the annual consolidated financial statements of the Group on the current year or prior years and is expected to have an insignificant effect in future periods:

(i) Amendments to existing standards and a new interpretation

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

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

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

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

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

— Annual Improvements to IFRSs 2010 - 2012 Cycle that includes amendments to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 38 and IAS 24. This was effective July 1, 2014.

— Annual Improvements to IFRSs 2011 - 2013 Cycle that includes amendments to IFRS 1, IFRS 3 and IFRS 13.This was effective July1, 2014.

— Amendments to IAS 19 Employee Benefits clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. This was effective July 1, 2014.

a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Saudi Hollandi Bank and its subsidiaries drawn up to December 31 of each year. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank and changes have been made to their accounting policies where necessary to align them with the accounting policies of the Bank.

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

The results of subsidiaries acquired or disposed of during the year, if any, are included in the consolidated income statement from the date of the acquisition or up to the date of disposal, as appropriate. The consolidated financial statements have been prepared using uniform accounting policies and valuation methods for like transactions and other events in similar circumstances.

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. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

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, if any) 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 the consolidated comprehensive income to consolidated income statement or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

b) Investments in associates

Investments in associates are initially recognised at cost and subsequently accounted for under the equity method of accounting based on annual audited or latest available reviewed financial statements. An associate is an entity in which the Group 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 consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets, less any impairment in the value of individual investments. The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in consolidated statement of comprehensive income is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains and losses on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. The consolidated income statement reflects the Group's share of the results of associate's operations. When there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses it in the consolidated statement of changes in shareholders' equity.

The Group's share of profit / loss of an associate is shown on the face of the consolidated income statement. This is the profit / loss attributable to equity holders of the associate and, therefore, is profit / loss after tax and non-controlling interests in the subsidiaries of the associate. The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on its investment in its associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the 'share of earning of an associate' in the consolidated income statement.

c) Trade date accounting

All ‘regular-way’ purchases and sales of financial assets are recognised and derecognised on trade date, i.e. the date that the Group becomes a party to the contractual provisions of the instrument. ‘Regular-way’ purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

d) Derivative financial instruments and hedge accounting

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

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

i) Derivatives held for trading

Any changes in the fair value of derivatives held for trading are taken directly to the consolidated income statement and disclosed in net 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 income statement (FVIS). Embedded derivatives separated from the host contracts are carried at fair value in the trading portfolio with changes in fair value recognised in the consolidated income statement.

iii) Hedge accounting

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

For the purpose of hedge accounting, hedges are classified into two categories: (a) fair value hedges that hedge the exposure to changes in the fair value of a recognised 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 losses; and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or to a highly probable forecasted transaction that affects the reported net gains or loss.

In order to qualify for hedge accounting, hedge should be expected to be highly effective, i.e. changes in the fair value or cash flows of the hedging instruments 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 management will assess the effectiveness of the hedging relationship. Subsequently hedges are assessed for effectiveness on an on-going basis.

Fair Value Hedges

When a derivative is designated as a hedging instrument in a fair value hedge relationship, any gain or loss from re-measuring the hedging instruments to fair value is recognised in the consolidated income statement together with the change in the fair value of the hedged item attributable to the hedged risk.

Where the fair value hedge of a commission bearing hedged item measured at amortized cost 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. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated income statement.

Cash Flow Hedges

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

Where the hedged forecasted transaction results in the recognition of a non- financial asset or a non-financial liability, then at the time such asset or liability is recognised the associated gains or losses that had previously been recognised directly in other comprehensive income are included in the initial measurement of the acquisition cost or other carrying amount of such asset or liability. When the hedging instrument is expired or sold, terminated or exercised, or no longer qualifies for hedge accounting, or the 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 income statement when the forecasted transaction occurs. Where the hedged forecasted transaction is no longer expected to occur and affects the income statement, the net cumulative gain or loss recognised in "comprehensive income" is transferred immediately to the consolidated income statement for the period.

e) Foreign currencies

The Group's consolidated financial statements are presented in Saudi Arabian Riyals, which is also the Bank's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are translated into Saudi Arabian Riyals at the spot rates prevailing at transaction dates. Monetary assets and liabilities at year-end (other than monetary items that form part of the net investment in a foreign operation), denominated in foreign currencies, are translated into Saudi Arabian Riyals at 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 the effective interest rate and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year. All differences arising on non-trading activities are taken to other non-operating income in the income statement, with the exception of differences on foreign currency borrowings that provide an effective hedge against a net investment in foreign entity.

Foreign exchange gains or losses from settlement of transactions and translation of period end monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement, except for differences arising on the retranslation of available for sale equity instruments 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 items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

f) 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 recognised amounts and when the Group intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

g) Revenue / expense recognition

i) Special commission income and expenses

Special commission income and expenses for all commission-bearing financial instruments, except for those classified as held for trading or at fair value through income statement (FVIS), are recognised in the consolidated income statement using effective commission rate. 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 Group estimates future cash flows considering all contractual terms of the financial instrument but excluding future credit losses.

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

Subsequent to the recognition of an impairment loss on a financial asset or a group of financial assets, commission income continues to be recognised on the effective commission rate basis, on the asset's carrying value net of impairment provisions.

The calculation of the effective commission rate 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 commission rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or a liability.

ii) Exchange income / (loss)

Exchange income / (loss) is recognised when earned/incurred, as discussed in the foreign currencies policy above.

iii) Fee and commission income

Fee and commission income that are integral to the effective commission rate are included in the measurement of the relevant assets. Fee and commission income that are not integral part of the effective commission rate calculation on a financial asset or liability are recognised when the related service is provided as follows:

— Portfolio and other management advisory and service fees are recognised over the period of applicable service contracts usually on time proportionate basis.

— Fee received on asset management, wealth management, financial planning, custody services and other similar services that are provided over an extended period of time, are recognised over the period when the services are being provided.

— Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective commission rate on the loan. 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 Fee and commission expense relate mainly to transaction and service fees and are expensed as the services are received and are disclosed net of the related fee and commission income.

iv) Dividend income

Dividend income is recognised when the right to receive dividend is established. Dividends are reflected as a component of net trading income, net income from FVIS financial instruments or other operating income based on the classification of the related equity instrument.

v) Income / (Loss) from FVIS financial instruments (Fair value through Income Statement)

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

vi) Net trading income / (loss)

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

h) Day one profit

Where the transaction price differs from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognises the difference between the transaction price and fair value (a 'Day one' profit) in the consolidated income statement in 'Net trading income'. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognised in the consolidated income statement when the inputs become observable, or when the instrument is derecognised.

i) Sale and repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the consolidated statement of financial position as the Group retains substantially all the risks and rewards of ownership. These assets are continued to measure in accordance with related accounting policies for investments held as FVIS, available for sale, held to maturity and other investments held at amortized cost. The transactions are treated as collateralised borrowing and counter-party liability for amounts received under these agreements is included in "Due to banks and other financial institutions" or "Customer deposits", as appropriate.

The difference between sale and repurchase price is treated as special commission expense and accrued over the life of the repo agreement on an effective commission rate basis. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repo) are not recognised in the consolidated statement of financial position, as the Group does not obtain control over the assets. Amounts paid under these agreements are included in "Cash and balances with SAMA", "Due from banks and other financial institutions" or "Loans and advances", as appropriate. The difference between purchase and resale price is treated as special commission income and accrued over the life of the reverse repo agreement on an effective commission rate basis.

j) Investments

Initial recognition

All investment securities are initially recognised at fair value, plus for investments not held as FVIS, incremental direct transaction costs and are subsequently accounted for depending on their classification as either held to maturity, FVIS, available for sale or other investments held at amortised cost. Premiums are amortised and discounts accreted using the effective commission rate basis and are taken to special commission income.

Determination of Fair value

For securities traded in organised financial markets, fair value is determined by reference to quoted market average bid / ask prices at the close of business. Fair value of managed assets and investments in mutual funds are determined by reference to declared net asset values which approximate the fair value.

For securities where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the expected cash flows 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 mathematical models.

Reclassification

Investments at FVIS are not reclassified subsequent to their initial recognition, except that non-derivative FVIS instrument, other than those designated as FVIS upon initial recognition (i.e. trading investments), may be reclassified out of the FVIS category if they are no longer held for the purpose of being sold or repurchased in the near term, and the following conditions are met:

— If the investments would have met the definition of "held at amortised cost" and had not been required to be classified as held for trading at initial recognition, these may be reclassified if the Group has the intention and ability to hold the investments for the foreseeable future or until maturity.

— If the investments would not have met the definition of held at amortised cost, and then it is reclassified out of the trading category only in 'rare circumstances'.

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 amortised cost" and if the Group has the intention and ability to hold that financial asset for the foreseeable future or until maturity.

Subsequent measurement

The investments under each class are accounted for and presented using the basis set out in the following paragraphs

i) Held as FVIS

Investments in this category are classified if they are held for trading or designated by management as FVIS on initial recognition. Investments classified as trading are acquired principally for the purpose of selling or repurchasing in the short term and are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recognized in net trading income / (loss).

An investment may be designated at FVIS by the management, at initial recognition if doing so significantly reduces measurement inconsistencies which would otherwise arise except for equity instruments that do not have a quoted price in an active market and whose fair values cannot be reliably measured.

Investments at FVIS are recorded in the consolidated statement of financial position at fair value. Changes in the fair value are recognised in the consolidated income statement for the year in which it arises. Special commission income and dividend income on financial assets held as FVIS are reflected as either trading income or income from FVIS financial instruments in the consolidated income statement.

ii) Available for sale

Available-for-sale investments (AFS) are those non-derivative equity and debt securities which are neither classified as held to maturity (HTM) investments, other investments held at amortized cost (OI) nor designated as FVIS, 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 AFS 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 gains or losses arising from a change in its fair value is recognised in other comprehensive income until the investment is de-recognised, recognised or impaired whereupon any cumulative gain or loss previously recognized in other comprehensive income is reclassified to consolidated income statement.

iii) Held to maturity

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

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

However, sales and reclassifications in any of the following circumstances would not impact the Group's ability to use this classification;

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

iv) Other investments held at amortised cost

Investment securities with fixed or determinable payments that are not quoted in an active market are classified as Other investments held at amortised cost (OI). Such investments whose fair values have not been hedged are stated at amortised cost using effective commission rate method basis, less provision for impairment. Any gain or loss is recognised in the consolidated income statement when the investment is derecognised or impaired.

k) Loans and advances

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

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

Loans and advances originated or acquired by the Group that are not quoted in an active market and for which fair value has not been hedged, are stated at amortised cost less any amount written off and impairment for credit losses. For loans and advances which are hedged, the related portion of the hedged fair value is adjusted against the carrying amount.

l) Impairment of financial assets

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 net present value of future anticipated cash flows from that asset is determined and any impairment loss, is recognised for changes in its carrying amounts.

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

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

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

(i) Impairment of financial assets held at amortised cost

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

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

Consumer loans are considered to be impaired when a payment is overdue for specified number of days as per related product programmes. Since the risk metrics for consumer loans are based on a collective "pool" basis, rather than on individual loans, the provisions for consumer loans are also computed on a "pool basis" using the 'flow rate" methodology. The provision coverage is 70% for the non-performing loans (other than home loans), which are overdue by 90 days whereas the loans are considered as a total write off once overdue by 180 days.

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

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, calculated using the loan's original effective commission rate.

Loans and advances are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. In the latter case, renegotiation can result in an extension of the due date of payment or repayment plans under which the Group offers a revised rate of commission to genuinely distressed borrowers. This results in the asset continuing to be overdue and individually impaired as the renegotiated payments of commission and principal do not recover the original carrying amount of the loan. In other cases, renegotiation lead to a new agreement, this is treated as a new loan. 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, calculated using the loan's original effective commission rate.

(ii) Impairment of available-for-sale financial assets

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

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

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

m) Other real estate

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

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

n) Impairment of non–financial assets

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

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

o) Property and equipment

Property and equipment are measured at cost less accumulated depreciation and accumulated impairment loss. Freehold land is not depreciated. Changes in the expected useful life are accounted for by changing the period or method, as appropriate, and treated as changes in accounting estimates. The cost of other property and equipment is depreciated / amortised on the straight-line method over the estimated useful lives of the assets as follows:

Buildings	33 years
Leasehold improvements	Over the shorter of lease period or economic useful life i.e. 10 years
Furniture and fixtures, computer hardware and software and motor vehicles	4 to 10 years

The residual values and useful lives of assets 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 income statement.

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

p) Financial liabilities

All money market deposits, customer deposits, subordinated debts and other debt securities in issue are initially recognised at fair value less transaction costs. Financial liabilities at FVIS are recognised initially at fair value and transaction costs are taken directly to the consolidated statement of income. Subsequently all commission-bearing financial liabilities other than those held at FVIS or where fair values have been hedged are measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium. Premiums are amortised and discounts accreted on an effective commission rate method to maturity and taken to special commission expense.

Financial liabilities are designated as FVIS on initial recognition if doing so significantly reduces measurement inconsistencies which would otherwise arise. After initial recognition these liabilities are measured at fair value and the resulting gain or loss is included in the consolidated statement of income.

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

q) Financial guarantees and loan commitments

In the ordinary course of business, the Group issues financial guarantees, letters of credit 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 Group's liability under each guarantee is measured at the higher of the unamortised premium and the best estimate of expenditure required to settle any financial obligations arising as a result of guarantees. Any increase in the liability relating to the financial guarantee is taken to the consolidated income statement in ''impairment charge for credit losses, net''. The premium received is recognised in the consolidated income statement in ''fees and commission income, net'' on a straight line basis over the life of the guarantee.

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

r) Provisions

Provisions are recognised when Management can reliably estimate a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation.

s) Accounting for leases

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

When an operating lease is terminated before the lease period has expired, any penalty required to be paid to the lessor is recognised as an expense in the period in which termination takes place.

t) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, "cash and cash equivalents" include notes and coins on hand, balances with SAMA excluding statutory deposit, and due from banks and other financial institutions with original maturity of three months or less which are subject to insignificant risk of changes in their fair value.

u) Derecognition of financial instruments

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

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

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

v) Share based plan transactions

The Group's share plan is classified as an equity settled plan. The fair value of shares which the Group expects will eventually vest is determined at the grant date and is expensed on a straight line basis over the vesting period with corresponding increase in staff share based plan reserve. Details regarding the plan and determination of the fair value are set out in Note 38.

At each reporting date, management revises its estimates of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in the consolidated income statement over the remaining vesting period, with a corresponding adjustment to the staff share base plan reserve..

w) End of service benefits

The liability for employees' end of service benefits is determined based on an actuarial valuation conducted by an independent actuary. The actuarial valuation process takes into account the provisions of the Saudi Arabian Labour and Workmen law..

x) Short term employee benefits

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

y) Zakat and income tax

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

Zakat and income taxes are not charged to the Group's consolidated income statement and are deducted from current and future dividends payable to shareholders.

z) Investment management services

The Group offers investment services to its customers through its subsidiary SHC. The services include the management of certain investment funds in consultation with professional investment advisors. The Group's share of these funds is included in FVIS or available-for-sale investments and fees earned are disclosed under related parties' transactions.

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

aa) Non-commission based banking products

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

High level definitions of non-commission based products

(i) Murabaha is an agreement whereby the Group sells to a customer a commodity or an asset, which the Group 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) Ijarah is an agreement whereby the Group, 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.

(iii) Musharaka is an agreement between the Group 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.

(iv) Tawaruq is a form of Murabaha transactions where the Group 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 non-commission based banking products are included in "loans and advances" and "customer deposits" are in conformity with the related accounting policies described in these consolidated financial statements.

4. CASH AND BALANCES WITH SAMA

	2014	2013
Cash in hand	569,803	390,803
Statutory deposit	3,752,004	3,103,679
Current accounts	247,690	177,061
Reverse repo with SAMA	4,953,966	2,990,979
Total	9,523,463	6,662,522

In accordance with the requirements of the Banking Control Law and Regulations issued by SAMA, the Group is required to maintain a statutory deposit with SAMA at stipulated percentages of its demand, savings, time and other deposits, calculated at the end of each month. The statutory deposit with SAMA is not available to finance the Group's day-to-day operations and therefore does not form part of cash and cash equivalents (Note-27).

5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2014	2013
Current accounts	351,089	804,827
Money market placements	187,700	946,540
Total	538,789	1,751,367

6. INVESTMENTS, NET

a) Investments are classified as follows:

	Domestic		International		Total	
i) Available- for- sale, net	**2014**	2013	**2014**	2013	**2014**	2013
Fixed rate securities	33,056	51,850	-	-	33,056	51,850
Floating rate securities	168,000	168,000	-	-	168,000	168,000
Equities	230,488	259,714	-	-	230,488	259,714
Mutual funds	135,382	52,031	-	-	135,382	52,031
Total available-for-sale, net	566,926	531,595	-	-	566,926	531,595

Equities reported under available for sale investments include unquoted shares of SAR 3.4 million (2013: SAR 3.4 million) that are carried at cost. In the opinion of management the fair value approximates the carrying value of these investments.

	Domestic		International		Total	
ii) Other investments held at amortised cost	**2014**	2013	**2014**	2013	**2014**	2013
Fixed rate securities	15,746,287	13,488,239	684,091	1,241,612	16,430,378	14,729,851
Floating rate securities	1,301,903	1,094,876	399,001	397,011	1,700,904	1,491,887
Total other investments held at amortised cost	17,048,190	14,583,115	1,083,092	1,638,623	18,131,282	16,221,738
	Domestic		**International**		**Total**	
iii) Held to maturity	**2014**	2013	**2014**	2013	**2014**	2013
Fixed rate securities	25,695	35,821	-	-	25,695	35,821
Floating rate securities	-	-	60,064	60,008	60,064	60,008
Total held to maturity	25,695	35,821	60,064	60,008	85,759	95,829
Total investments, net	17,640,811	15,150,531	1,143,156	1,698,631	18,783,967	16,849,162

b) Investments reclassification

Management identified certain AFS investments, for which at July 1, 2008, it had a clear intention to hold the instruments for the foreseeable future rather than to exit or trade in the short term. As a result these instruments were reclassified at that date from AFS to OI at fair value. Had the reclassification not been made, other reserves would have included unrealised fair value gains amounting to SAR 12.7 million (2013: SAR 5.6 million) and the shareholders' equity would have been higher by the same amount.

The following table shows carrying values and fair values of the reclassified investments:

	2014		2013	
	Carrying value	Fair value	Carrying value	Fair value
AFS securities reclassified to OI	148,516	149,617	146,482	142,457

Further, with effect from July 20, 2011, the Group had reclassified certain trading investments amounting to SAR 17.5 million to OI, as it no longer had the intention to hold these investments for the purpose of selling in the short term. The Group had the intention and ability to hold these reclassified investments for the foreseeable future or until maturity. These investments matured during the current year.

c) The composition of investments is as follows:

	2014			2013		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Fixed rate securities	815,452	15,673,677	16,489,129	1,508,437	13,309,085	14,817,522
Floating rate securities	1,295,968	633,000	1,928,968	1,251,895	468,000	1,719,895
Equities	227,050	3,438	230,488	256,276	3,438	259,714
Mutual Funds	135,382	-	135,382	52,031	-	52,031
Total investments, net	2,473,852	16,310,115	18,783,967	3,068,639	13,780,523	16,849,162

Unquoted securities principally comprise of treasury bills and other Saudi Government Bonds. Such securities are traded in the inter-bank market within Saudi Arabia and values are determined according to an appropriate pricing model.

d) The analysis of unrealised gains and losses and fair values of other investments held at amortised cost and held to maturity, are as follows:

	2014				2013			
i) Other investments held at amortised cost	Carrying value	Gross unrealised gains	Gross unrealised losses	Fair value	Carrying value	Gross unrealised gains	Gross unrealised losses	Fair value
Fixed-rate securities	16,430,378	26,889	(26,985)	16,430,282	14,729,851	44,047	(64,906)	14,708,992
Floating rate securities	1,700,904	3,748	(10)	1,704,642	1,491,887	8,601	(4,033)	1,496,455
Total	18,131,282	30,637	(26,995)	18,134,924	16,221,738	52,648	(68,939)	16,205,447

	2014				2013			
ii) Held to maturity	Carrying value	Gross unrealised gains	Gross unrealised losses	Fair value	Carrying value	Gross unrealised gains	Gross unrealised losses	Fair value
Fixed-rate securities	25,695	1,467	-	27,162	35,821	2,753	-	38,574
Floating rate securities	60,064	-	(2,720)	57,344	60,008	-	(2,724)	57,284
Total	85,759	1,467	(2,720)	84,506	95,829	2,753	(2,724)	95,858

e) The analysis of investments by counter party is as follows:

	2014	2013
Government and quasi-government	15,695,809	13,748,486
Corporates	1,357,136	1,334,965
Banks and other financial institutions	1,592,202	1,710,242
Others	138,820	55,469
Total investments, net	18,783,967	16,849,162

Other investments held at amortized cost amounting to SAR 5,060 million (2013: SAR 3,350 million) are pledged under repurchase agreements with customers. The market value of these investments is SAR 5,059 million (2013: SAR 3,345 million).

f) Credit risk exposures of investments

	2014	2013
Saudi Sovereign bonds	14,213,977	11,849,560
Investments grade	3,748,997	4,376,903
Unrated	820,993	622,699
Total investments, net	18,783,967	16,849,162

Investment grade includes those investments having an external agency ratings of AAA to BBB-. Where specific bonds are not rated, but the issuer of the bond has been rated, issuer ratings have been used. Bonds falling in to this category amounted to SAR 1,979 million (2013: SAR 1,936 million).

7. LOANS AND ADVANCES, NET

a) Loans and advances held at amortised cost

2014	Overdraft	Credit Cards	Consumer loans	Commercial loans	Total
Performing loans and advances, gross	3,142,126	271,756	11,342,508	50,901,867	65,658,257
Non performing loans and advances, net	303,769	5,568	36,422	495,863	841,622
Total loans and advances	3,445,895	277,324	11,378,930	51,397,730	66,499,879
Allowances for impairment of credit losses	(340,385)	(6,616)	(138,920)	(866,130)	(1,352,051)
Total loans and advances, net	3,105,510	270,708	11,240,010	50,531,600	65,147,828

2013	Overdraft	Credit Cards	Consumer Loans	Commercial Loans	Total
Performing loans and advances, gross	2,189,802	249,392	8,066,492	43,159,518	53,665,204
Non performing loans and advances, net	341,647	4,879	40,064	352,029	738,619
Total loans and advances	2,531,449	254,271	8,106,556	43,511,547	54,403,823
Allowances for impairment of credit losses	(364,446)	(6,007)	(116,366)	(705,744)	(1,192,563)
Total loans and advances, net	2,167,003	248,264	7,990,190	42,805,803	53,211,260

b) Movements in allowances for impairment of credit losses

2014	Overdraft	Credit Cards	Consumer Loans	Commercial Loans	Total
Balance at beginning of the year	364,446	6,007	116,366	705,744	1,192,563
Provided during the year	100,223	16,709	94,748	218,218	429,898
Recoveries of amounts previously provided	(13,131)	(10,874)	(31,917)	(28,369)	(84,291)
	87,092	5,835	62,831	189,849	345,607
Bad debts written off	(111,153)	(5,226)	(40,277)	(29,463)	(186,119)
Balance at the end of the year	340,385	6,616	138,920	866,130	1,352,051

2013	Overdraft	Credit Cards	Consumer Loans	Commercial Loans	Total
Balance at beginning of the year	455,211	11,326	75,670	561,342	1,103,549
Provided during the year	85,061	11,455	101,436	206,113	404,065
Recoveries of amounts previously provided	(83,936)	(10,273)	(29,648)	(61,711)	(185,568)
	1,125	1,182	71,788	144,402	218,497
Bad debts written off	(91,890)	(6,501)	(31,092)	-	(129,483)
Balance at the end of the year	364,446	6,007	116,366	705,744	1,192,563

During the current year, the Bank revisited the allocation of collective impairment of credit losses across products. Accordingly comparative figures are also presented on a consistent basis.

c) Credit quality of loans and advances

i) Loans and advances neither past due nor impaired

The Group has categorised the loans and advances portfolio that is neither past due nor impaired into three sub categories according to its internal rating system, i.e. strong, satisfactory and watch.

Loans and advances under the Strong category are performing, have sound fundamental characteristics and include those that exhibit neither current nor potential weaknesses.

Loans and advance under the Satisfactory category are loans where borrowers are capable to meet their financial obligations in the medium term, but could be impacted by adverse business or economic conditions.

The Watch category includes loans and advances that are performing, current and up to date in terms of principal and special commission payments. However, they require close management attention as they may have potential weaknesses that could, at some future date, result in the deterioration of the repayment prospects of either the principal or the special commission. Loans and advances in the watch category are not expected to expose the Group to high enough level of risk to warrant a worse classification.

2014	Overdraft	Credit Cards	Consumer Loans	Commercial loans	Total
Strong	749,133	-	-	25,192,681	25,941,814
Satisfactory	2,233,702	247,183	11,055,133	25,158,210	38,694,228
Watch	58,889	-	-	438,816	497,705
Total	3,041,724	247,183	11,055,133	50,789,707	65,133,747

2013	Overdraft	Credit Cards	Consumer Loans	Commercial loans	Total
Strong	742,008	-	-	23,138,087	23,880,095
Satisfactory	1,348,061	225,809	7,742,122	19,383,338	28,699,330
Watch	70,224	-	-	380,845	451,069
Total	2,160,293	225,809	7,742,122	42,902,270	53,030,494

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

2014	Overdraft	Credit Cards	Consumer Loans	Commercial Loans	Total
From 1 day to 30 days	62,751	16,955	213,809	84,481	377,996
From 31 days to 90 days	37,651	7,618	73,566	7,614	126,449
From 91 days to 180 days	-	-	-	20,065	20,065
More than 180 days	-	-	-	-	-
Total	100,402	24,573	287,375	112,160	524,510

2013	Overdraft	Credit Cards	Consumer Loans	Commercial Loans	Total
From 1 day to 30 days	21,523	16,427	277,114	111,839	426,903
From 31 days to 90 days	3,456	7,156	47,256	117,378	175,246
From 91 days to 180 days	4,530	-	-	-	4,530
More than 180 days	-	-	-	28,031	28,031
Total	29,509	23,583	324,370	257,248	634,710

During the current year, the basis used for categorization of loans and advances portfolio was reassessed and the comparative figures are also presented on a consistent basis.

d) Economic sector risk concentration for loans and advances and allowances for impairment are as follows:

2014	Performing	Non performing	Allowances for impairment	Loans and advances, net
Government and quasi-government	1,263,299	-	-	1,263,299
Banks and other financial institutions	2,485,717	-	-	2,485,717
Agriculture and fishing	1,065,303	-	-	1,065,303
Manufacturing	10,416,664	39,372	(39,372)	10,416,664
Mining and quarrying	312,759	-	-	312,759
Electricity, water, gas and health services	1,987,431	33,677	(33,677)	1,987,431
Building and construction	8,563,054	349,851	(349,851)	8,563,054
Commerce	18,000,160	298,674	(298,674)	18,000,160
Transportation and communication	870,344	-	-	870,344
Services	5,338,646	19,060	(19,060)	5,338,646
Consumer loans and credit cards	11,614,264	41,990	(29,391)	11,626,863
Others	3,740,616	58,998	(58,998)	3,740,616
	65,658,257	841,622	(829,023)	65,670,856
Portfolio impairment allowance	-	-	(523,028)	(523,028)
Total	65,658,257	841,622	(1,352,051)	65,147,828

2013	Performing	Non performing	Allowances for impairment	Loans and advances, net
Government and quasi-government	1,535,354	-	-	1,535,354
Banks and other financial institutions	2,282,368	-	-	2,282,368
Agriculture and fishing	914,817	-	-	914,817
Manufacturing	9,445,016	99,701	(99,701)	9,445,016
Mining and quarrying	290,965	-	-	290,965
Electricity, water, gas and health services	1,872,189	8,300	(8,300)	1,872,189
Building and construction	6,076,752	231,321	(231,321)	6,076,752
Commerce	14,943,638	275,291	(275,291)	14,943,638
Transportation and communication	768,524	7,800	(7,800)	768,524
Services	4,166,079	2,495	(2,495)	4,166,079
Consumer loans and credit cards	8,315,884	44,943	(35,930)	8,324,897
Others	3,053,618	68,768	(68,768)	3,053,618
	53,665,204	738,619	(729,606)	53,674,217
Portfolio impairment allowance	-	-	(462,957)	(462,957)
Total	53,665,204	738,619	(1,192,563)	53,211,260

As at December 31 2013, the Group had master netting arrangements with certain customers, where there was a legal right and an intention to settle on a net basis. This resulted in loans and advances and customers' deposits amounting to SAR 411.05 million being netted off under the said arrangements. However, as at December 31 2014, there were no such netting off arrangements.

Loans and advances, include Islamic products amounting to SAR 32.10 billion (2013: SAR 24.32 billion)

e) Collateral

The Group, in the ordinary course of its lending activities holds collateral to mitigate the associated credit risk. These mostly consists of time, demand and other cash deposits, financial guarantees, local and international equities, real estate and other fixed assets. Collateral is mainly held against commercial and consumer loans and are managed against relevant exposures at their net realisable value.

8. INVESTMENT IN AN ASSOCIATE

	2014	2013
Balance at beginning of the year	17,233	18,050
Share in loss of an associate	(4,440)	(817)
Balance at end of the year	12,793	17,233

Investment in an associate represents a 20% (2013: 20%) shareholding in Wataniya Insurance Company formed in the Kingdom of Saudi Arabia, pursuant to Royal Decree No. M/53 dated Shawwal 21, 1430H (corresponding to October 10, 2009).

9. PROPERTY AND EQUIPMENT, NET

Property and equipment details are as follows:

Cost:	Land and Buildings	Leasehold Improvements	Computer hardware / software	Furniture / Fixtures	Motor Vehicles	Capital Work In Progress (CWIP)	Total
Balance at beginning of the year	187,577	286,900	776,634	188,313	5,154	129,642	1,574,220
Additions during the year	-	-	-	-	1,287	124,442	125,729
Disposal during the year	-	-	-	-	(441)	-	(441)
Transfers from CWIP during the year	6,313	27,073	89,397	25,634	-	(148,417)	-
Balance at end of the year	**193,890**	**313,973**	**866,031**	**213,947**	**6,000**	**105,667**	**1,699,508**
Accumulated depreciation/ amortisation:							
Balance at beginning of the year	47,160	248,584	605,048	164,705	3,921	-	1,069,418
Charge for the year	5,755	15,752	73,669	8,537	430	-	104,143
Disposal during the year	-	-	-	-	(441)	-	(441)
Balance at end of the year	**52,915**	**264,336**	**678,717**	**173,242**	**3,910**	**-**	**1,173,120**
Net book value:							
As at 31 December 2014	**140,975**	**49,637**	**187,314**	**40,705**	**2,090**	**105,667**	**526,388**
As at 31 December 2013	140,417	38,316	171,586	23,608	1,233	129,642	504,802

10. OTHER ASSETS

Accrued special commission receivable:	2014	2013
Banks and other financial institutions	135	10,109
Investments	37,744	44,797
Loans and advances	238,467	200,567
Others	66,952	65,211
Total accrued special commission receivable	343,298	320,684
Accounts receivable	1,387,695	860,899
Positive fair value of derivatives (note 11)	354,622	286,343
Others	375	3,989
Total	2,085,990	1,471,915

11. DERIVATIVES

In the ordinary course of business, the Group utilises 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 cross-currency commission rate swaps, principal and fixed and floating commission payments are exchanged in different currencies.

b) Forwards and futures

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specified price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Foreign currency and commission rate futures are transacted in standardised 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 of the difference between a contracted commission rate and the market rate on a specified future date and are based on a notional principal and an agreed period of time.

d) Options

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

Derivatives held for trading purposes

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

Derivatives held for hedging purposes

The Group has adopted a comprehensive process for the measurement and management of risk. Part of the risk management process involves managing the Group's exposure to fluctuations in foreign exchange and commission rates to acceptable levels as determined by the Board of Directors and within guidelines issued by SAMA.

The Board of Directors has established levels of currency risk by setting limits on counterparty and currency positions. Positions are monitored on a daily basis and hedging strategies are used to ensure that positions are maintained within the established limits. The Board of Directors has also established the levels of commission rate risk by setting limits on special commission rate gaps for stipulated periods. Asset and liability commission rate gaps are reviewed on a periodic basis and hedging strategies are used to reduce commission rate gaps within the established limits. As part of its asset and liability management process, the Group 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.

The Group uses commission rate swaps to hedge against the commission rate risk arising from specifically identified fixed commission rate exposures. The Group 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.

The tables below summarises the positive and negative fair values and notional amounts of derivative financial instruments, analysed by the term to maturity and monthly average. The notional amounts, which provide an indication of the volumes of transactions outstanding at year-end, do not necessarily reflect the amounts of future cash flows involved. These notional amounts are, therefore, neither indicative of the Group's exposure to market risk and credit risk. The latter is generally limited to the positive fair value of derivatives.

2014 Derivative financial instruments	Positive fair value	Negative fair value	Notional amount total	Notional amounts by maturity				Monthly Average
				Within three months	3- 12 Months	1-5 Years	Over 5 Years	
Held for trading:								
Commission rate swaps	121,637	35,434	27,079,104	606,375	2,722,187	22,079,658	1,670,884	26,713,272
Foreign exchange and commodity forward contracts	113,854	96,299	21,060,276	9,417,218	11,643,058	-	-	20,539,454
Currency and commodity options	119,130	119,130	44,267,042	8,904,006	20,494,383	14,868,653	-	37,459,040
Forward rate agreements	-	-	-	-	-	-	-	-
Commission rate options	1	1	1,000,000	-	1,000,000	-	-	1,018,273
Held as fair value hedges:								
Commission rate swaps	-	2,402	187,730	56,319	93,865	37,546	-	301,630
Total	354,622	253,266	93,594,152	18,983,918	35,953,493	36,985,857	1,670,884	

2013 Derivative financial instruments	Positive fair value	Negative fair value	Notional amount total	Notional amounts by maturity				Monthly Average
				Within three months	3- 12 Months	1-5 Years	Over 5 Years	
Held for trading:								
Commission rate swaps	139,669	70,968	23,343,399	937,977	2,726,619	18,170,022	1,508,781	22,013,974
Foreign exchange and commodity forward contracts	81,976	34,313	15,641,511	9,439,627	6,201,884	-	-	20,771,284
Currency and commodity options	64,653	64,653	27,548,514	5,997,229	12,970,597	8,580,688	-	29,381,505
Forward rate agreements	44	-	200,000	-	200,000	-	-	200,000
Commission rate options	1	1	1,219,279	219,279	-	1,000,000	-	1,219,279
Held as fair value hedges:								
Commission rate swaps	-	5,958	375,630	1,000	163,772	173,353	37,505	505,443
Total	286,343	175,893	68,328,333	16,595,112	22,262,872	27,924,063	1,546,286	

The gross positive and negative fair values of commission rate swaps amounted to SAR 1,074 million (2013: SAR 1,020 million) and SAR 990 million (2013: SAR 957 million) respectively. The fair values of these derivatives, as presented in the above table, are on net basis as certain derivatives can be settled under master netting arrangements.

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

Description of hedged items 2014	Fair value	Hedge inception value	Risk	Hedging Instrument	Positive fair value	Negative fair value
Fixed commission rate investments	199,766	187,700	Fair Value	Commission rate swaps	-	2,402
Description of hedged items 2013	Fair value	Hedge inception value	Risk	Hedging Instrument	Positive fair value	Negative fair value
Fixed commission rate investments	370,464	348,797	Fair Value	Commission rate swaps	-	5,680
Loans and advances	27,998	27,333	Fair Value	Commission rate swaps	-	278

The net losses on the hedging instruments held for fair value hedge are SAR 3.56 million (2013: SAR 5.96 million). The net fair value of the derivatives is SAR 101.36 million (2013: SAR 110.45 million). The net gains on the hedged items attributable to the hedged risk are SAR 3.58 million (2013: SAR 16.86 million).

Approximately 26.5% (2013: 67.7%) of the positive fair value of the Group's derivatives are entered into with financial institutions and less than 17% (2013: 11%) of the total positive fair value of the derivatives are with any single counterparty at the reporting date. Derivative activities are carried out by the Group's treasury segment.

12. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2014	2013
Current accounts	1,473,553	1,302,974
Money market deposits	1,581,087	1,191,304
Total	3,054,640	2,494,278

13. CUSTOMERS' DEPOSITS

	2014	2013
Time	45,257,743	35,575,566
Demand	29,964,157	24,951,832
Saving	407,754	434,877
Others	1,184,211	913,174
Total	76,813,865	61,875,449
Time deposits include:		
i) Deposits under repurchase agreements with customers	5,072,314	3,367,370
ii) Islamic deposits	19,549,247	16,914,356

Customers' deposits include SAR 967 million (2013: SAR 713 million) of margins held for irrevocable commitments and non commission based deposits amounting to SAR 31 billion (2013: SAR 25 billion).

Foreign currency deposits at December 31, 2014 are as follows:

	2014	2013
Time	3,533,264	4,952,255
Demand	3,355,694	2,761,124
Saving	34,574	27,765
Others	130,041	123,349
Total	7,053,573	7,864,493

14. SUBORDINATED DEBT

Subordinated debt represents the following debt securities:

Issued on December 12, 2013:

The Group issued SAR 2,500 million unsecured subordinated Tier II Sukuk which are due in 2023. The Group has the option, subject to the prior written approval of SAMA, to redeem these Sukuk at their redemption amount in December 2018 or in the event of certain changes affecting the taxation and regulatory capital treatment of these Sukuk. The commission rate paid on the above averaged 6 months SIBOR plus 155 basis points (2013: 6 months SIBOR plus 155 basis points).

Issued on November 26, 2012:

The Group issued SAR 1,400 million unsecured subordinated Tier II Sukuk which are due in 2019. The Group has the option, subject to the prior written approval of SAMA, to redeem these Sukuk at their redemption amount in November 2017 or in the event of certain changes affecting the taxation and regulatory capital treatment of these Sukuk. The commission rate paid on the above averaged 6 months SIBOR plus 115 basis points (2013: 6 months SIBOR plus 115 basis point).

Issued on December 30, 2009:

The Group issued SAR 725 million unsecured subordinated Sukuk "Mudaraba Certificates", which were due in 2019 with an option to call at the end of five years (2014) . The Group exercised the option of early redemption of these certificates at their redemption amount in December 2014. The commission rate paid on the above averaged 6 months SIBOR plus 190 basis points (2013: 6 months SIBOR plus 190 basis points). All the required approvals from regulatory authorities were obtained for the purpose of redemptions.

The Group has not defaulted on any principal or commission repayments and there has been no breaches with regard to any of these liabilities during 2014 or 2013.

15. OTHER LIABILITIES

	2014	2013
Accrued special commission payable:		
Banks and other financial institutions	203	195
Customer deposits	215,194	143,977
Subordinated debt	6,029	6,603
Others	74,048	76,534
Total accrued special commission payable	295,474	227,309
Accrued expenses and accounts payable	1,256,759	1,322,238
Negative fair value of derivatives (note 11)	253,266	175,893
Others	303,332	346,666
Total	2,108,831	2,072,106

16. SHARE CAPITAL

The authorised, issued and fully paid share capital consists of 476.28 million (2013: 396.90 million) shares of SAR 10 (2013: SAR 10) each.

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

	Percentage	2014	2013
Saudi shareholders	60%	2,857,680	2,381,400
ABN AMRO Bank N.V. (The Netherlands)	40%	1,905,120	1,587,600
Total	100%	4,762,800	3,969,000

The Extraordinary General Assembly approved during its meeting held on March 18, 2014 the proposal of the Board of Directors to increase the Bank's share capital by SAR 793.8 million through bonus shares of one for every five shares held.

On December 17, 2014, the Board of Directors has approved the transfer of SAR 952.6 million to a reserve with the intention to increase the Bank's share capital through a one-for-five bonus share dividend subject to a final approval of the Extraordinary General Assembly meeting.

17. STATUTORY RESERVE

In accordance with Saudi Arabian Banking Control Law and the By-Laws 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 share capital of the Bank. Accordingly, SAR 455.23 million (2013: SAR 375.40 million) has been transferred from net income. The statutory reserve is not available for distribution.

18. OTHER RESERVES

2014	Available for sale investments	Cash flow hedges	Total
Balance at beginning of the year	21,690	-	21,690
Net change in fair value	139	-	139
Net amounts to consolidated income statement	(18,265)	-	(18,265)
Balance at end of the year	3,564	-	3,564

2013	Available for sale investments	Cash flow hedges	Total
Balance at beginning of the year	565	(6,355)	(5,790)
Net change in fair value	19,329	-	19,329
Net amounts to consolidated income statement	1,796	6,355	8,151
Balance at end of the year	21,690	-	21,690

19. COMMITMENTS AND CONTINGENCIES

a) Legal proceedings

As at December 31, 2014 and 2013, there were certain legal proceedings outstanding against the Group that arose in the normal course of business. No provision has been made during the year (2013: Nil) as professional legal advice indicates that it is not probable that any further losses will arise with respect to these proceedings.

b) Capital commitments

The Group has capital commitments of SAR 63.51 million (2013: SAR 41.28 million) in respect of leasehold improvements and computer hardware and software purchases.

c) Credit related commitments and contingencies

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

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

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

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

Commitments to extend credit represent the unused portion of authorisations 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 Group is potentially exposed to a loss of an amount equal to the total unused commitments. However, the likely amount of loss, which cannot readily be quantified, is expected to be considerably less than the total unused commitment as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The total outstanding commitments to extend credit do not necessarily represent future cash requirements as many of the commitments could expire or terminate without being funded.

i) The contractual maturities of the Group's commitments and contingencies are as follows:

2014	Within 3 months	3 to 12 months	1 to 5 Years	Over 5 Years	Total
Letters of guarantee	2,879,290	9,763,949	10,325,112	211,399	23,179,750
Letters of credit	2,006,054	2,760,395	155,277	-	4,921,726
Acceptances	2,002,663	507,577	178,759	-	2,688,999
Irrevocable commitments to extend credit	1,308	-	410,466	860,679	1,272,453
Total	6,889,315	13,031,921	11,069,614	1,072,078	32,062,928

2013	Within 3 months	3 to 12 months	1 to 5 Years	Over 5 Years	Total
Letters of guarantee	2,111,972	7,966,129	9,259,428	174,901	19,512,430
Letters of credit	2,166,986	3,385,254	157,073	-	5,709,313
Acceptances	2,155,141	516,792	17,962	-	2,689,895
Irrevocable commitments to extend credit	31,879	4,031	358,557	1,782,148	2,176,615
Total	6,465,978	11,872,206	9,793,020	1,957,049	30,088,253

The outstanding unused portion of commitments that can be revoked unilaterally at any time by the Group amounts to SAR 18.95 billion (2013: SAR 13.48 billion).

ii) Commitments and contingencies by counterparty are as follows:

	2014	2013
Government and quasi-government	119,662	202,070
Corporate	29,199,688	26,233,613
Banks and other financial institutions	2,371,012	3,375,331
Other	372,566	277,239
Total	32,062,928	30,088,253

d) Operating lease commitments

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

	2014	2013
Less than 1 year	62,120	49,657
1 to 5 years	187,527	150,963
Over 5 years	165,706	127,673
Total	415,353	328,293

20. SPECIAL COMMISSION INCOME AND EXPENSE

Special commission income

Investments:	2014	2013
Available for sale	7,637	4,960
Held to maturity	2,968	3,497
Other investments held at amortised cost	218,537	192,613
	229,142	201,070
Due from banks and other financial institutions	16,416	22,766
Loans and advances	2,240,366	1,871,669
Total	2,485,924	2,095,505

Special commission expense	2014	2013
Due to banks and other financial institutions	2,753	7,276
Customers' deposits	397,530	375,993
Subordinated debt	119,862	88,524
Total	520,145	471,793

21. FEE AND COMMISSION INCOME, NET

	2014	2013
Fee and commission income:		
Share brokerage and fund management	66,297	48,368
Trade finance	347,540	262,859
Corporate finance and advisory	386,389	347,616
Credit card products	103,812	100,431
Other banking services	48,192	47,967
Total fee and commission income	952,230	807,241
Fee and commission expenses:		
Credit card products	63,903	60,296
Other banking services	24,355	14,720
Total fee and commission expenses	88,258	75,016
Fee and commission income, net	863,972	732,225

22. TRADING INCOME, NET

	2014	2013
Foreign exchange, net	96,292	58,639
Derivatives	69,640	77,405
Others	236	355
Total	166,168	136,399

23. GAINS / (LOSSES) ON NON-TRADING INVESTMENTS, NET

	2014	2013
Available for sale investments	20,062	(750)
Total	20,062	(750)

24. SALARIES AND EMPLOYEE-RELATED EXPENSES

The following table summarizes the Group's employee categories defined in accordance with SAMA's rules on compensation practices and includes the total amounts of fixed and variable compensation paid to employees during the year ended December 31, 2014 and December 31, 2013, and the forms of such payments.

2014 Categories of employees	Number of employees	Fixed compensation paid	Variable Compensation		
			Cash	Shares	Total
Senior executives who require SAMA's no objection	16	23,326	8,724	8,177	40,227
Employees engaged in control and risk management functions	109	29,980	3,654	1,117	34,751
Employees engaged in risk taking activities	507	118,800	15,377	7,551	141,728
Other employees	1,763	233,156	20,649	4,163	257,968
Total	2,395	405,262	48,404	21,008	474,674
Variable Compensation accrued during the year		65,612			
Other employee related expenses paid during the year		91,297			
Other employee related expenses accrued during the year		11,610			
Total Salaries and employee related expenses		573,781			

2013 Categories of employees	Number of employees	Fixed compensation paid	Variable Compensation		
			Cash	Shares	Total
Senior executives who require SAMA's no objection	16	22,101	6,629	6,624	35,354
Employees engaged in control and risk management functions	96	28,055	3,361	1,402	32,818
Employees engaged in risk taking activities	452	105,706	16,276	6,385	128,367
Other employees	1,620	206,824	23,911	4,862	235,597
Total	2,184	362,686	50,177	19,273	432,136
Variable Compensation accrued during the year		51,700			
Other employee related expenses paid during the year		83,398			
Other employee related expenses accrued during the year		11,072			
Total Salaries and employee related expenses		508,856			

Senior executives requiring SAMA's no objection:

This comprises senior management having responsibility and authority for formulating strategies and directing and controlling the activities of the Group. This covers the Managing Director (MD) and certain other employees directly reporting to the MD.

Employees engaged in control and risk management functions:

This refers to employees working in divisions that are not involved in risk taking activities but are engaged in review and control functions, for example Risk Management, Compliance, Internal Audit, Operations and Finance. These functions are fully independent from the risk taking units.

Employees engaged in risk taking activities:

This comprises staff within business lines (Corporate Banking, Personal Banking, Treasury and SHC), who are responsible for executing and implementing the business strategy on behalf of the Group, for example staff involved in recommending credit limits, pricing of loans, undertaking and executing business proposals, treasury dealing activities, investment management and brokerage services.

Other employees:

This includes all other employees of the Group, excluding those already mentioned above.

Group Compensation policy:

The purpose of the policy is to establish and apply compensation policies and processes which support delivery of business strategy, reinforce the desired organisational culture, reflect prudent risk management and comply with SAMA Regulations.

The Group's compensation policy is aimed at rewarding both risk-adjusted performance and appropriate behaviour in line with the Group's core values. To this end, performance measurements are risk adjusted and reviewed by the independent Risk Management function. In addition, the Compensation Policy is reviewed by Risk Management to ensure rewards are adjusted for the level of risk incurred.

The Board of Directors are responsible for ensuring the effective implementation of the compensation policy. The Board is advised by the Nominations and Remuneration Committee (The "Committee"), which comprises of six Non Executive Directors out of which two are independent. The Committee receives reports and recommendations from Executive Management supported by Human Resources. The Committee reviews and approves all compensation decisions relating to all employees.

Heads of business units and control functions being monitored and/or controlled by Internal Audit, Compliance, Risk Management and Credit Risk will not have any input to compensation decisions of employees in the control functions. Compensation recommendations are determined based on a clear understanding of the intended total reward package and decisions are taken considering the balance between external competitiveness and affordability together with focusing attention on building motivational and performance related compensation arrangements.

25. 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 the equity holders by 476.28 million shares to give a retroactive effect of change in the number of shares increased as a result of the bonus shares (Note-16).

26. PROPOSED GROSS DIVIDENDS, ZAKAT AND INCOME TAX

The Board of Directors has proposed gross final dividends of SAR 619.16 million for the current year (2013: SAR 468.34 million). The dividends are paid to the Saudi and non-Saudi shareholders after deduction of Zakat and income tax respectively as follows:

a) Saudi shareholders:

Zakat attributable to Saudi Shareholders for the year is an estimated SAR 64 million (2013: SAR 49 million), which will be deducted from their share of future dividends. Zakat of SAR 86.34 million paid in prior years will be deducted from the current year's proposed dividend resulting in a net dividend of SAR 1 per share (2013: SAR 1 per share).

b) Non-Saudi shareholders:

Income tax payable on the current year's share of income of foreign shareholders is an estimated SAR 140 million (2013: SAR 119 million). Tax liability amounting to SAR 64 million will be deducted from current year's proposed dividend resulting in a net dividend of SAR 0.92 per share (2013: SAR 0.55 per share).

c) Status of Zakat and tax assessments:

The Bank has filed its Zakat and tax 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 and tax assessments for the years 2005 to 2009 and a partial assessment for the year 2010 raising additional demands aggregating to SAR 115 million. This additional exposure is mainly relating to Zakat arising on account of disallowances of certain long term investments by the DZIT. The basis for this additional 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 and tax assessment for the years 2011 to 2013 have not been finalized by the DZIT and the Bank is not be able to determine reliably the impact of such assessments.

27. CASH AND CASH EQUIVALENTS

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

	2014	2013
Cash and balances with SAMA excluding statutory deposit (note 4)	5,771,459	3,558,843
Due from banks and other financial institutions maturing within three months or less from the acquisition date	538,789	814,367
Total	6,310,248	4,373,210

28. OPERATING SEGMENTS

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the senior management responsible for operational decision making in the Bank in order to allocate resources to the segments and to assess performance. Transactions between operating segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between operating segments, resulting in funding cost transfers. Commission is charged to operating segments based on a pool rate, which approximates the marginal cost of funds. The revenue from external parties reported to the senior management, is measured in a manner consistent with that in the consolidated income statement. There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since December 31, 2013. Following are the reportable operating segments of the Group:

Corporate banking

The corporate banking group offers a range of products and services to corporate and institutional customers. It accepts customer deposits and provides financing, including term loans, overdrafts, syndicated loans and trade finance services. Services provided to customers include internet banking, global transaction services and a centralised service that manages all customer transfers, electronic or otherwise.

Personal banking

The personal banking group operates through a national network of branches and ATMs supported by a 24-hour phone banking centre. The group accepts customers' deposits in various savings and deposit accounts and provides retail banking products and services, including consumer loans, overdrafts and credit cards to individuals and small-to-medium-sized enterprises.

Treasury

Treasury transacts mainly in money market, foreign exchange, commission rate and other derivatives for corporate and institutional customers as well as for the Group's own benefit. It is also responsible for managing the Group's investment portfolio.

Investment banking and investment services

The investment banking and investment services group offers security dealing, managing, arranging, advising and maintaining custody services in relation to securities.

Others

Others include the group-wide assets and liabilities management of the Group's operations other than the Treasury's core activities, maintaining group-wide liquidity and managing its consolidated financial position. It also includes the net interdepartmental revenues / charges on Funds Transfer Pricing based on the Group's methodology as approved by ALCO, the unallocated income and expenses relating to Head Office and other departments and the unallocated assets and liabilities.

a) The following is an analysis of the Group's assets, revenues and results by operating segments for the years ended December 31, 2014 and 2013.

2014	Corporate Banking	Personal Banking	Treasury	Investment banking and investment services	Others	Total
Total assets	52,094,272	13,330,038	24,289,515	535,817	6,369,576	96,619,218
Total liabilities	36,545,798	21,341,065	3,054,640	28,449	24,907,384	85,877,336
Net special commission income	1,113,419	692,550	454,360	3,959	(298,509)	1,965,779
Fee and commission income, net	669,941	181,198	-	77,226	(64,393)	863,972
Trading income, net	113,373	3,667	47,486	1,575	67	166,168
Total operating income	2,016,523	917,518	527,941	82,760	(362,591)	3,182,151
Impairment charge for credit losses, net	276,941	68,666	-	-	-	345,607
Depreciation and amortisation	36,727	58,802	8,614	-	-	104,143
Total operating expenses	617,162	607,972	87,024	44,644	-	1,356,802
Net operating income for the year	1,399,361	309,546	440,917	38,116	(362,591)	1,825,349

2013	Corporate Banking	Personal Banking	Treasury	Investment banking and investment services	Others	Total
Total assets	43,856,382	9,552,567	21,608,741	505,568	4,945,003	80,468,261
Total liabilities	31,552,195	20,331,500	2,494,278	24,771	16,664,089	71,066,833
Net special commission income	927,858	559,103	384,751	4,808	(252,808)	1,623,712
Fee and commission income, net	596,565	138,600	-	54,106	(57,046)	732,225
Trading income, net	85,445	7,573	45,898	4,356	(6,873)	136,399
Total operating income	1,701,957	734,133	433,925	63,270	(317,290)	2,615,995
Impairment charge for credit losses, net	145,527	72,970	-	-	-	218,497
Depreciation and amortisation	32,985	55,226	7,901	-	-	96,112
Total operating expenses	452,961	544,073	74,904	41,634	-	1,113,572
Net operating income for the year	1,248,996	190,060	359,021	21,636	(317,290)	1,502,423

b) The Group's credit exposure by operating segment is as follows:

2014	Corporate Banking	Personal Banking	Treasury	Total
Non derivative financial assets	52,094,272	13,330,038	19,335,549	84,759,859
Commitments and contingencies	15,005,776	-	-	15,005,776
Derivatives	-	-	1,971,903	1,971,903

2013	Corporate Banking	Personal Banking	Treasury	Total
Non derivative financial assets	43,856,382	9,552,567	18,617,762	72,026,711
Commitments and contingencies	14,523,365	-	-	14,523,365
Derivatives	-	-	1,312,922	1,312,922

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

29. CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities. There is also a credit risk on credit related commitments, contingencies and derivatives. The Group controls credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties.

In addition to monitoring credit limits, the Group 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 management may also close out transactions or assign them to other counterparties to mitigate credit risk. The Group's credit risk on derivatives represents the potential cost to replace the derivative contracts if counterparties fail to fulfill their obligation. To control the level of credit risk taken, management assesses counter parties 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 Group's performance to developments affecting a particular industry or geographical location.

Management seeks to manage concentration of credit risk through the diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or businesses. It also takes security when appropriate or seeks additional collateral from the counterparty as soon as impairment indicators are noticed.

Management monitors on a regular basis the market value of collateral and requests additional collateral in accordance with the underlying agreement, if required. In addition it also specifically monitors the market value of collateral during its review of the adequacy of the allowances for impairment losses. Management regularly reviews its risk management policies and systems to reflect changes in markets products and emerging best practice.

The debt securities included in the investment portfolio are mainly sovereign risk. Analysis of investments by class of counter party is provided in note 6. For details of the composition of loans and advances refer to note 7. Information on credit risk relating to derivative instruments and commitments and contingencies are provided in note 11 and 19 respectively. Information on the Group's maximum credit exposure by operating segment is provided in note 28.

The Group's maximum exposure to credit risk computed as per SAMA guidelines as at December 31, 2014 and 2013, without taking into account of any collateral held or credit enhancements attached is reflected below:

	2014	2013
Due from banks and other financial institutions	538,789	1,751,367
Investments, net	18,783,967	16,849,162
Loans and advances, net	65,147,828	53,211,260
Derivatives	1,971,903	1,312,922
Credit related commitments and contingencies	15,005,776	14,523,365
Total	101,448,263	87,648,076

The Group uses a credit classification system as a tool to assist in managing the quality of credit risk within the lending portfolio. In addition to the three categories mentioned in note 7, management maintains further classification grades that differentiates between performing and impaired portfolios and allocates portfolio and specific allowances respectively. Management determines each individual borrower's grade based on specific objectives and criteria such as activity, cash flows, capital structure, security, quality of management and borrower's character. A further quality classification is performed over existing borrowers and the results of this exercise are validated by the independent risk management unit.

30. GEOGRAPHICAL CONCENTRATION

The Group's credit exposure by geographical region is as follows:

2014	Saudi Arabia	Other GCC and Middle East	Europe	North America	South East Asia	Other Countries	Total
Assets							
Cash and balances with SAMA	9,523,463	-	-	-	-	-	9,523,463
Due from banks and other financial institutions	1,019	90,685	394,846	42,155	3,819	6,265	538,789
Investments, net	17,640,811	668,009	375,400	-	-	99,747	18,783,967
Loans and advances, net	65,147,828	-	-	-	-	-	65,147,828
Total	92,313,121	758,694	770,246	42,155	3,819	106,012	93,994,047
Liabilities							
Due to banks and other financial institutions	766,318	1,730,059	477,303	58,344	189	22,427	3,054,640
Customers' deposits	76,813,865	-	-	-	-	-	76,813,865
Subordinated debt	3,900,000	-	-	-	-	-	3,900,000
Other liabilities	2,062,257	2,395	37,777	6,402	-	-	2,108,831
Total	83,542,440	1,732,454	515,080	64,746	189	22,427	85,877,336
Commitments and contingencies	30,268,760	407,784	1,008,126	63,591	11,202	303,465	32,062,928
Maximum credit exposure (stated at credit equivalent amounts)							
Commitments and contingencies	14,099,623	152,192	492,811	33,484	5,601	222,065	15,005,776
Derivatives	1,007,657	119,221	841,184	3,839	-	2	1,971,903

2013	Saudi Arabia	Other GCC and Middle East	Europe	North America	South East Asia	Other Countries	Total
Assets							
Cash and balances with SAMA	6,662,522	-	-	-	-	-	6,662,522
Due from banks and other financial institutions	632,663	453,663	481,263	166,699	2,665	14,414	1,751,367
Investments, net	15,150,531	1,223,963	375,050	-	-	99,618	16,849,162
Loans and advances, net	53,211,260	-	-	-	-	-	53,211,260
Total	75,656,976	1,677,626	856,313	166,699	2,665	114,032	78,474,311
Liabilities							
Due to banks and other financial institutions	1,475,198	928,018	39,892	35,256	368	15,546	2,494,278
Customers' deposits	61,875,449	-	-	-	-	-	61,875,449
Subordinated debt	4,625,000	-	-	-	-	-	4,625,000
Other liabilities	2,059,149	8,545	3,834	564	-	14	2,072,106
Total	70,034,796	936,563	43,726	35,820	368	15,560	71,066,833
Commitments and contingencies	27,287,819	366,408	604,424	148,218	2,023	1,679,361	30,088,253
Maximum credit exposure (stated at credit equivalent amounts)							
Commitments and contingencies	13,149,403	262,938	376,165	62,394	1,011	671,454	14,523,365
Derivatives	564,855	41,276	703,235	3,554	2	-	1,312,922

Credit equivalent amounts reflect the amounts that result from translating the Group's contingent liabilities and commitments into the risk equivalent of loans, using credit conversion factors prescribed by SAMA. The Credit conversion factor is meant to capture the potential credit risk related to the exercise of that commitment. Impaired loans and advances and allowances for credit losses are all within the Kingdom of Saudi Arabia.

31. MARKET RISK

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

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

a) Market risk - Trading book

The Board of Directors has set limits for the acceptable level of risk in managing the trading book. In order to manage market risk in the trading book, Management applies a VaR methodology daily 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 the market value of a portfolio at a given confidence level and over a specified time horizon. The Group 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.

VaR that management uses 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 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.

To overcome the VaR limitations mentioned above, management maintains a framework of non-modeled limits that show potential loss for a given change in a market factor and makes no assumption about the behaviour of market factors. Furthermore, management employs stop loss limits on market risk positions and 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 Asset and Liability Committee (ALCO) for review.

The Group's VaR related information for the year ended December 31, 2014 is as provided below. Total VaR takes into account correlations across asset classes and accordingly it is not the total of individual VaR.

2014 (VaR)	Foreign exchange rate risk	Special Commission rate risk	Foreign Exchange Forwards	Overall Risk
As at December 31	142	433	7	582
Average for the year	218	696	60	974

2013 (VaR)	Foreign exchange rate risk	Special Commission rate risk	Foreign Exchange Forwards	Overall Risk
As at December 31	108	871	34	1,013
Average for the year	172	499	70	741

b) Market risk – Non-trading or banking book

Market risk on non-trading or banking positions mainly arises from commission rate, foreign currency exposures and equity price changes.

i) Commission rate risk

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

The following table depicts the sensitivity to a reasonable possible change in commission rates, with other variables held constant, on the Group's consolidated income statement or equity. The sensitivity of the income is the effect of the assumed changes in commission rates on the net commission income for one year, based on the floating rate non-trading financial assets and financial liabilities held at year end 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 at year end for the effect of assumed changes in commission rates. The sensitivity of equity is analyzed by maturity of the asset or swap.

Banking book exposures are monitored and analyzed in currency concentrations and relevant sensitivities are disclosed in SAR million below:

2014

Currency	Increase/ (decrease) in basis points	Special commission income	Sensitivity of equity				
			6 months or less	6 to12 months	1-5 Yrs	Over 5Years	Total
USD	25 (25)	(2) 2	- -	- -	- -	- -	- -
SAR	25 (25)	49 (49)	(8) 8	(16) 16	(48) 48	- -	(72) 72
Others	25 (25)	1 (1)	- -	- -	- -	- -	- -

2013

Currency	Increase/ (decrease) in basis points	Special commission income	Sensitivity of equity				
			6 months or less	6 to12 months	1-5 Yrs	Over 5Years	Total
USD	25 (25)	(5) 5	- -	- -	- -	- -	- -
SAR	25 (25)	32 (32)	(7) 7	(17) 17	(155) 155	- -	(179) 179
Others	25 (25)	1 (1)	- -	- -	- -	- -	- -

The exposure to the effect of various risks associated with fluctuations in the prevailing levels of market commission rates on the Group's financial position and cash flows is managed.

The Board of Directors sets limits on the level of commission rate re-pricing mismatch that may be undertaken. These limits are monitored daily by the Group's Treasury. The Group is exposed to commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and other derivative financial instruments that mature or re-price in a given period. This risk is managed by matching the re-pricing of assets and liabilities through risk management strategies. The table below summarises the Group's exposure to commission rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of the contractual re-pricing or the maturity dates.

2014 Assets	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Non commission bearing	Total
Cash and balances with SAMA	4,953,966	-	-	-	4,569,497	9,523,463
Due from banks and other financial institutions	187,700	-	-	-	351,089	538,789
Investments, net	6,633,427	9,969,422	109,778	1,705,470	365,870	18,783,967
Loans and advances, net	41,302,544	12,821,658	5,041,286	5,982,340	-	65,147,828
Investment in an associate	-	-	-	-	12,793	12,793
Property and equipment, net	-	-	-	-	526,388	526,388
Other assets	-	-	-	444,722	1,641,268	2,085,990
Total	53,077,637	22,791,080	5,151,064	8,132,532	7,466,905	96,619,218

	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Non commission bearing	Total
Liabilities and shareholders' equity						
Due to banks and other financial institutions	1,557,744	18,144	5,200	-	1,473,552	3,054,640
Customers' deposits	30,840,151	13,911,342	1,265,379	-	30,796,993	76,813,865
Other liabilities	-	-	-	-	2,108,831	2,108,831
Subordinated debt	-	3,900,000	-	-	-	3,900,000
Shareholders' equity	-	-	-	-	10,741,882	10,741,882
Total liabilities and shareholders' equity	32,397,895	17,829,486	1,270,579	-	45,121,258	96,619,218
Commission rate sensitivity - financial position gap	20,679,742	4,961,594	3,880,485	8,132,532	(37,654,353)	-
Commission rate sensitivity on derivative financial instruments	1,156,678	(485,432)	(624,879)	(77,597)	31,230	-
Total commission rate sensitivity gap	21,836,420	4,476,162	3,255,606	8,054,935	(37,623,123)	-
Cumulative commission rate sensitivity gap	21,836,420	26,312,582	29,568,188	37,623,123	-	-

2013 Assets	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Non commission bearing	Total
Cash and balances with SAMA	2,990,979	-	-	-	3,671,543	6,662,522
Due from banks and other financial institutions	946,540	-	-	-	804,827	1,751,367
Investments, net	4,952,099	9,223,435	617,250	1,744,633	311,745	16,849,162
Loans and advances, net	32,310,142	10,143,253	6,455,174	4,302,691	-	53,211,260
Investment in an associate	-	-	-	-	17,233	17,233
Property and equipment, net	-	-	-	-	504,802	504,802
Other assets	-	-	-	-	1,471,915	1,471,915
Total	41,199,760	19,366,688	7,072,424	6,047,324	6,782,065	80,468,261

	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Non commission bearing	Total
Liabilities and shareholders' equity						
Due to banks and other financial institutions	1,185,154	1,150	5,000	-	1,302,974	2,494,278
Customers' deposits	30,734,219	5,244,082	717,453	-	25,179,695	61,875,449
Subordinated debt	-	4,625,000	-	-	-	4,625,000
Other liabilities	-	-	-	-	2,072,106	2,072,106
Shareholders' equity	-	-	-	-	9,401,428	9,401,428
Total liabilities and shareholders' equity	31,919,373	9,870,232	722,453	-	37,956,203	80,468,261

Commission rate sensitivity - financial position gap	9,280,387	9,496,456	6,349,971	6,047,324	(31,174,138)	-
Commission rate sensitivity on derivative financial instruments	1,045,442	(722,274)	(406,335)	(7,659)	90,826	-
Total commission rate sensitivity gap	10,325,829	8,774,182	5,943,636	6,039,665	(31,083,312)	-
Cumulative commission rate sensitivity gap	10,325,829	19,100,011	25,043,647	31,083,312	-	-

Commission rate sensitivity gap represents the net notional amounts of derivative financial instruments that are used to manage commission rate risk. The effective yield of a monetary financial instrument is the yield that the Group earns from its clients taking into consideration the contractual commission rate.

ii) Currency risk

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Board of Directors have set limits on positions by currencies, which are monitored daily. Hedging strategies are also used to ensure that positions are maintained within these limits. The table below shows the currencies to which the Group has a significant exposure as at year end on its non-trading monetary assets and liabilities and forecasted cash flows. The analysis calculates the effect on the consolidated income statement (due to the fair value of the currency sensitive non-trading monetary assets and liabilities) of a potential movement in the foreign currency against SAR, with all other variables held constant. A positive effect shows a potential increase in consolidated income statement or equity, whereas a negative effect shows a potential net reduction in consolidated income statement or equity.

2014		
Currency exposure	**Change in Currency Rate (%)**	**Effect on Net Income**
USD	5 (5)	(19,681) 19,681
CHF	5 (5)	(4) 4
EUR	5 (5)	(100) 100
GBP	5 (5)	(61) 61
JPY	5 (5)	8 (8)
Others	5 (5)	(88) 88

2013		
Currency exposure	**Change in Currency Rate (%)**	**Effect on Net Income**
USD	5 (5)	(12,667) 12,667
CHF	5 (5)	(3,484) 3484
EUR	5 (5)	898 (898)
GBP	5 (5)	(25) 25
JPY	5 (5)	20 (20)
Others	5 (5)	155 (155)

Exposure to the effects of fluctuations in prevailing foreign currency exchange rates on the Group's financial position and cash flows is managed by the Board of Directors setting limits on the level of exposure by currency and in total for both overnight and intra-day positions. These limits are monitored daily.

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

	Long / (short) SAR ' 000	
	2014	2013
US Dollar	(393,612)	(253,344)
Swiss Franc	(80)	(69,676)
Euro	(1,990)	17,955
Pound Sterling	(1,216)	**(505)**
Japanese Yen	159	409
Others	(1,762)	3,101

iii) Equity price risk

Equity price risk refers to the risk of a decrease in the fair values of equities in the Group'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:

Market Indicies	2014		2013	
	Change in equity prices%	Effect in SAR m	Change in equity prices%	Effect in SAR m
Tadawul	+5	11,353	+5	12,814
	-5	(11,353)	-5	(12,814)
	+10	22,705	+10	25,628
	-10	(22,705)	-10	(25,628)

32. LIQUIDITY RISK

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up at short notice. To mitigate this risk, management has diversified funding sources and assets are managed considering liquidity positions to maintain a healthy balance of cash and cash equivalents and readily marketable securities.

i) Maturity profile of assets and liabilities

The tables below summarise the maturity profile of the Group's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period to contractual maturity date as at year end and do not take into account the effective maturities as indicated by the Group's deposit retention history. Management monitors the maturity profile to ensure that adequate liquidity is maintained. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of both the Bank and other 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 % (2013: 7%) of total demand deposits and 4% (2013: 4 %) of savings and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of no less than 20% of its deposits liabilities, in the form of cash, Saudi Government Development Bonds or assets which can be converted into cash within a period not exceeding 30 days or the Bank may raise additional funds through repo facilities available with SAMA against securities issued by the Saudi Government up to 75% of the nominal value of bonds held.

ii) The maturity profile of assets and liabilities at year end is as follows:

2014 Assets	No fixed maturity	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total
Cash and balances with SAMA	3,752,004	5,771,459	-	-	-	9,523,463
Due from banks and other financial institutions	351,089	187,700	-	-	-	538,789
Investments, net	365,870	5,319,248	9,774,841	917,364	2,406,644	18,783,967
Loans and advances, net	2,631,696	17,779,707	12,745,931	19,962,190	12,028,304	65,147,828
Investment in an associate	12,793	-	-	-	-	12,793
Property and equipment, net	526,388	-	-	-	-	526,388
Other assets	2,085,990	-	-	-	-	2,085,990
Total	9,725,830	29,058,114	22,520,772	20,879,554	14,434,948	96,619,218
	No fixed maturity	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total
Liabilities and shareholders' equity						
Due to banks and other financial institutions	1,473,552	1,557,744	18,144	5,200	-	3,054,640
Customers' deposits	31,556,122	30,081,022	13,911,342	1,265,379	-	76,813,865
Other liabilities	2,108,831	-	-	-	-	2,108,831
Subordinated debt	-	-	-	1,400,000	2,500,000	3,900,000
Shareholders' equity	10,741,882	-	-	-	-	10,741,882
Total	45,880,387	31,638,766	13,929,486	2,670,579	2,500,000	96,619,218

2013 Assets	No fixed maturity	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total
Cash and balances with SAMA	3,103,679	3,558,843	-	-	-	6,662,522
Due from banks and other financial institutions	804,827	946,540	-	-	-	1,751,367
Investments, net	311,745	3,471,204	9,060,942	1,721,639	2,283,632	16,849,162
Loans and advances, net	1,735,858	15,783,093	10,687,065	16,570,573	8,434,671	53,211,260
Investment in an associate	17,233	-	-	-	-	17,233
Property and equipment, net	504,802	-	-	-	-	504,802
Other assets	1,471,915	-	-	-	-	1,471,915
Total	7,950,059	23,759,680	19,748,007	18,292,212	10,718,303	80,468,261
	No fixed maturity	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total
Liabilities and shareholders' equity						
Due to banks and other financial institutions	1,302,974	1,185,154	1,150	5,000	-	2,494,278
Customers' deposits	26,299,883	29,314,031	5,544,082	717,453	-	61,875,449
Other liabilities	2,072,106	-	-	-	-	2,072,106
Subordinated debt	-	-	-	-	4,625,000	4,625,000
Shareholders' equity	9,401,428	-	-	-	-	9,401,428
Total	39,076,391	30,499,185	5,545,232	722,453	4,625,000	80,468,261

The cumulative maturity of commitments and contingencies and derivatives are given in note 19 (c) and note 11 of the consolidated financial statements respectively.

iii) Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at year end 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 year end to the contractual maturity date and do not take into account the effective expected maturities. The Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and therefore the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

2014 Financial Liabilities	No fixed maturity	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Due to banks and other financial institutions	1,473,552	1,557,750	19,580	5,298	-	3,056,180
Customers' deposits	31,556,122	30,167,067	14,126,814	1,288,537	-	77,138,540
Subordinated debts	-	26,957	69,391	2,100,105	2,878,857	5,075,310
Derivatives						
Contractual amounts payable	-	(66,676)	(214,139)	(696,942)	(134,291)	(1,112,048)
Contractual amounts receivable	-	74,956	240,205	735,590	139,156	1,189,907
Total undiscounted financial liabilities	33,029,674	31,760,054	14,241,851	3,432,588	2,883,722	85,347,889

2013 Financial Liabilities	No fixed maturity	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Due to banks and other financial institutions	1,302,974	1,186,198	1,159	5,290	-	2,495,621
Customers' deposits	26,299,883	29,413,139	5,595,905	842,229	-	62,151,156
Subordinated debts	-	6,603	112,910	1,086,934	5,356,397	6,562,844
Derivatives						
Contractual amounts payable	-	(65,752)	(208,396)	(657,724)	(155,513)	(1,087,385)
Contractual amounts receivable	-	70,064	227,042	680,639	168,266	1,146,011
Total undiscounted financial liabilities	27,602,857	30,610,252	5,728,620	1,957,368	5,369,150	71,268,247

33. FAIR VALUES OF FINANCIAL INSTRUMENTS

Determination of fair value and the fair value hierarchy

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

Level 1: Quoted prices in active markets for the same instrument (i.e., without modification or repacking):

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

Level 3: Valuation techniques for which significant inputs are not based on observable market data.

2014 Financial assets	Level 1	Level 2	Level 3	Total
Derivative financial instruments	-	354,622	-	354,622
Financial investments available for sale	362,432	201,056	3,438	566,926
Total	362,432	555,678	3,438	921,548
Financial liabilities				
Derivative financial instruments	-	253,266	-	253,266
Total	-	253,266	-	253,266
2013 Financial assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative financial instruments	-	286,343	-	286,343
Financial investments available for sale	308,307	219,850	3,438	531,595
Total	308,307	506,193	3,438	817,938
Financial liabilities				
Derivative financial instruments	-	175,893	-	175,893
Total	-	175,893	-	175,893

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 financial instruments included in the consolidated statement of financial position, except for those held to maturity, other investments held at amortised costs, loans and advances and customers' deposits that are carried at amortised cost, are not significantly different from the carrying values included in the consolidated financial statements. The estimated fair values of other investments held at amortised cost and held-to-maturity investments are based on quoted market prices, when available, or pricing models in the case of certain fixed rate bonds. The fair values of these investments are disclosed in note 6. The fair value of loans and advances held at amortised cost and commission-bearing customers' deposits are not significantly different from their book values since the current market commission rates for similar financial assets are not significantly different from the contracted rates. The fair values of due from banks and other financial institutions and due to financial institutions are not significantly different from the carrying values since the underlying amounts for these categories are for shorter durations which indicates that their booking rates are not significantly different from the current market rates. The fair value of subordinated debt approximates carrying value since this is a floating rate liability with commission rates re-priced every six months.

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

34. RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Group transacts business with related parties. The related party transactions are performed on an arm's length basis. Banking transactions with related parties are governed by limits set by the Banking Control Law and regulations issued by SAMA.

The balances at reporting date, resulting from such transactions are as follows:

	2014	2013
ABN AMRO Bank N.V.		
Due from banks and other financial institutions	107,608	175,888
Investments	93,850	93,763
Due to banks and other financial institutions	42,343	45,932
Derivatives at fair value, net	(8,456)	(1,559)
Commitments and contingencies	151,965	101,234
Associates & other major shareholders and their affiliate entities with significant influence:		
Loans and advances	603,101	590,166
Derivatives at fair value, net	5,007	(14,747)
Investments	40,000	40,000
Customers' deposits	7,356,400	5,757,398
Subordinated debt	697,000	797,000
Commitments and contingencies	2,803	5,743
Mutual funds managed by the Group:		
Investments	135,382	52,031
Loans and advances	23,885	17,354
Subordinated debt	15,000	17,500
Customers' deposits, net	408,935	88,563

Other major shareholders represent shareholdings (excluding the non-Saudi shareholder) of more than 5% of the Bank's issued share capital. Income and expenses pertaining to transactions with related parties included in the consolidated financial statements are as follows:

	2014	2013
Special commission income	15,404	20,186
Special commission expense	92,614	87,458
Fees from banking services, net	3,632	1,998
Fees from management services	12,835	14,317
General and administrative expenses	594	609
Directors' remuneration	3,720	3,720
Compensation paid to key management personnel	40,227	35,354

Key management personnel are those persons having responsibility and authority for formulating strategies and directing and controlling the activities of the Group.

35. CAPITAL ADEQUACY

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

Capital adequacy and the use of regulatory capital are monitored daily by management. SAMA requires holding the minimum level of regulatory capital and maintaining a ratio of total regulatory capital to the Risk-Weighted Assets (RWA) at or above the agreed minimum of 8%.

Management monitors the adequacy of its capital using ratios established by SAMA. These ratios expressed as a percentage, measure capital adequacy by comparing the Group's eligible capital with its consolidated statement of financial position assets, commitments and contingencies and notional amount of derivatives at amounts weighted to reflect their relative risk.

The components of risk weighted assets (RWA), capital and ratios are as follows:

	2014	2013
Credit Risk RWA	85,399,158	71,695,801
Operational Risk RWA	4,041,288	3,653,600
Market Risk RWA	558,494	440,854
Total Pillar-I RWA	89,998,940	75,790,255
Tier I Capital	10,094,585	8,910,966
Tier II Capital	4,171,160	4,970,076
Total Tier I & II Capital	14,265,745	13,881,042
Capital Adequacy Ratio %		
Tier I	11.22	11.76
Tier I + Tier II	15.85	18.32

36. DISCLOSURES 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.shb.com.sa within prescribed time as required by SAMA. Such disclosures are not subject to audit by the external auditors of the Group.

37. INVESTMENT MANAGEMENT AND BROKERAGE SERVICES

The Group offers investment management services to its customers that include the management of investment funds with total assets of SAR 3.03 billion (2013: SAR 2.01 billion) in consultation with professional investment advisors. This includes funds managed under Shariah approved portfolios amounting to SAR 1.21 billion (2013: SAR 0.83 billion). The financial statements of these funds are not consolidated with the consolidated financial statements of the Group. The Group's investment in these funds is included in available for sale investments. Fees earned from management services are disclosed under "related party transactions". Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and, therefore, are not included in the consolidated financial statements.

38. STAFF SHARE BASED PLAN RESERVE

In January 2008, the Group launched an equity settled share-based payment plan (the "Plan") for executives and senior employees (eligible employees). The initial Plan was approved by the Board of Directors in their meeting held on 10 Dhu-al-Qa'dah 1428H (corresponding November 20, 2007) and SAMA in their letter dated 26 Safar 1429H (corresponding March 4, 2008). The vesting conditions were amended in 2009 as approved by the Board of Directors in their meeting held on 5 Shabaan 1430H (corresponding July 27, 2009) and SAMA in their letter dated 20 Dhualqada 1430H (corresponding November 9, 2009). According to the amended Plan, eligible employees will receive shares in the Bank if the following terms and conditions are met:

— Eligible employees are required to continue their employment with the Group for a period of two years from the grant date to have half of their shares vest and another year for the remainder to vest; and

— The Group achieves specific growth thresholds as approved by the Board of Directors where each threshold will accrue a certain value of shares to the eligible employees.

Under the provisions of the Plan, the Group at no point becomes the legal owner of the underlying shares. Until such time as these shares vest they will not carry voting rights. As per the plan, SHC manages the Staff Share Plan Fund (the Fund) which will operate in accordance with the terms and conditions as approved by the Board of Directors in their above referred meeting and by SAMA in their above referred letter. Any further modifications in the terms and conditions of the plan require prior approval of SAMA. Due to restrictions regarding its operations as agreed by SAMA the results and assets and liabilities of the Fund are not consolidated in these consolidated financial statements of the Group.

During 2008, the Fund purchased 2.15 million Bank's shares for a total consideration of SR 114 million which are held by it in fiduciary capacity until the shares vest to the eligible employees. During 2012, the Fund purchased further one million shares worth of SAR 27 million. At the vesting date the ownership of these shares will pass to the employees. The acquisition of shares was financed by the Bank and the amount is included in Other Assets.

The number of shares granted is calculated in accordance with the performance based formula approved by the Board of Directors and is subject to approval of the Nomination and Remuneration Committee.

In accordance with the terms of the Plan, shares will be granted to eligible employees annually and will vest as described above. The first tranch was granted in 2008 and was vested in year 2011. The second tranch was granted in March 2011 and vested in January 2013 and 2014. The Group granted third, fourth and fifth tranch of the Plan in March 2012, 2013 and 2014 respectively. These Plans are currently under their vesting periods. The Plan details are as follows:-

	Grant in 2014	Grant in 2013	Grant in 2012
Plan commencement date	March 2014	March 2013	March 2012
Value of shares granted on the grant date	21,007,936	18,623,988	15,775,890
Fair value per share at grant date	40.24	27.24	30
Number of shares granted	522,066	683,700	525,863
Vesting period	March 2016 - 2017	March 2015 - 2016	March 2014 - 2015
Method of settlement	Bank's shares	Bank's shares	Bank's shares

The following is the movement in number of shares in grant at December 31, 2014

	Number of shares	
	2014	2013
Beginning of the year	1,343,611	878,729
Granted during the year	816,524	707,555
Shares vested during the year	(393,386)	(141,309)
Forfeited during the year	(168,404)	(101,364)
	1,598,345	1,343,611

39. PROSPECTIVE CHANGES IN THE INTERNATIONAL FINANCIAL REPORTING FRAMEWORK

The Group has chosen not to early adopt the following new standards which have been issued but not yet effective for the Bank's accounting years beginning on or after January 2015 and is currently assessing their impact. Following is a brief on the new IFRS and amendments to IFRS effective for annual periods beginning on or after January 1, 2015.

i) - IFRS 9 Financial Instruments

IFRS 9 Financial Instruments (2009) issued in November 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 Financial Instruments (2010) revised in October 2010 includes the requirements for the classification and measurement of financial liabilities and carrying over the existing derecognition requirements from IAS 39 Financial Instruments: Recognition and Measurement. This is effective for annual periods beginning on or after January 1, 2018.

IFRS 9 Financial Instruments (2013) was revised in November 2013 to incorporate a hedge accounting chapter and permit the early application of the requirements for presenting in other comprehensive income the own credit gains or losses on financial liabilities designated under the fair value option without early applying the other requirements of IFRS 9. This is effective for annual periods beginning on or after January 1, 2018.

ii) - IFRS 7 Financial Instruments: Disclosures

IFRS 7 Financial Instruments: Additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9. This is effective from the date of IFRS 9 adoption.

Amendments to IFRS 7 Financial Instruments: Disclosures relating to disclosures about the initial application of IFRS 9. This is effective from the date of IFRS 9 adoption.

iii) - IFRS 15 Revenue from Contracts with Customers

IFRS 15 Revenue from Contracts with Customers was issued in May 2014 which established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective from January 2017.

iv) - Amendments of IFRS 11

Accounting for acquisitions of interests in joint operations applicable from 1 January 2016.

v) - Amendments to IAS 16 and IAS 38

These amendments clarify acceptable methods of depreciation and amortization and are applicable from 1 January 2016.

vi) - Amendments to IAS 27

Amendments to IAS 27 allow an entity to account for investments in subsidiaries, joint ventures and associates either at cost, in accordance with IAS 39/IFRS 9 or using the equity method in an entity's separate financial statements. This is effective for annual periods beginning on or after January 1, 2016.

vii) - Amendments to IFRS 10 and IAS 28

These amendments clarify that the recognition of the gain or loss on the sale or contribution of assets between an investor and its associate or joint venture depends on whether the assets sold or contributed constitute a business. This is effective for annual periods beginning on or after January 1, 2016.

viii) - Amendments to IFRS 10, IFRS 12 and IAS 28

These amendments clarifying certain aspects of applying the consolidation exception for investment entities. This is effective for annual periods beginning on or after January 1, 2016.

ix) - Amendments to IAS 1

Amendments to IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports. This is effective for annual periods beginning on or after January 1, 2016

x) - Amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34

Annual Improvements to IFRSs 2012 - 2014 cycle that include amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34. This is effective for annual periods beginning on or after January 1, 2016.

40. COMPARATIVE FIGURES

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

41. BOARD OF DIRECTORS' APPROVAL

The consolidated financial statements were approved by the Board of Directors on Rabi Al-Awwal 8, 1436H (corresponding to January 28, 2015).