



INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED
September 30, 2014


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





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

Report on Review of Interim Condensed Consolidated Financial Statements

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

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Banque Saudi Fransi (the "Bank") and its subsidiaries as of September 30, 2014, the related interim condensed consolidated statements of income and comprehensive income for the three-month and nine-month periods then ended, and the interim condensed consolidated statements of changes in equity and cash flows for the nine-month period then ended and the notes from (1) to (16) for the nine-month period then ended. We have not reviewed note 17, nor the information related to "Basel III Pillar III Disclosures" cross-referenced therein, which is not required to be within the scope of our review. The Bank's management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with applicable Accounting Standards for Financial Institutions, certain capital adequacy disclosure requirements issued by the Saudi Arabian Monetary Agency ("SAMA") and with International Accounting Standard No. 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with generally accepted standards in the Kingdom of Saudi Arabia applicable to review engagements and with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia and International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with applicable Accounting Standards for Financial Institutions issued by SAMA and International Accounting Standard No. 34.


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Other Regulatory Matters

As required by SAMA, certain capital adequacy information has been disclosed in note 16 of the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in note 16 to the relevant analysis prepared by the Bank for submission to SAMA and found no material inconsistencies.

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04 Muharram 1436H
(October 28, 2014)



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BANQUE SAUDI FRANSI
INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at

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SAR '000	Notes	Sep 30, 2014 (Unaudited)	Dec 31, 2013 (Audited)	Sep 30, 2013 (Unaudited)
ASSETS				
Cash and balances with SAMA		10,308,529	18,139,603	11,341,508
Due from banks and other financial institutions		2,967,959	1,545,091	5,789,184
Investments, net	3	47,078,229	34,298,873	33,207,158
Loans and advances, net	4	118,223,940	111,306,904	112,573,265
Investment in associates	5	117,086	166,270	165,865
Property and equipment, net		604,559	619,918	617,825
Other assets		3,941,014	3,980,015	4,348,232
Total assets		183,241,316	170,056,674	168,043,037
LIABILITIES AND EQUITY				
Liabilities				
Due to banks and other financial institutions		12,051,258	3,667,893	7,987,482
Customers' deposits	6	131,941,533	131,601,187	124,958,967
Debt securities and Sukuks	7	9,129,623	7,130,101	7,131,605
Other liabilities		4,878,057	4,440,862	4,689,769
Total liabilities		158,000,471	146,840,043	144,767,823
Equity				
Share capital	13	12,053,572	9,040,179	9,040,179
Statutory reserve		9,475,184	9,040,179	7,915,245
General reserve		982,857	982,857	982,857
Other reserves		213,163	268,668	556,646
Retained earnings		2,516,069	3,884,748	4,780,287
Total equity		25,240,845	23,216,631	23,275,214
Total liabilities and equity		183,241,316	170,056,674	168,043,037

The accompanying notes 1 to 17 form an integral part of these interim condensed consolidated financial statements.


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BANQUE SAUDI FRANSI
INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME
Unaudited

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SAR '000	For the three months ended		For the nine months ended	
	Sep 30, 2014	Sep 30, 2013	Sep 30, 2014	Sep 30, 2013
Special commission income	1,163,522	1,088,380	3,402,607	3,174,137
Special commission expense	183,396	218,780	556,076	674,795
Net special commission income	980,126	869,600	2,846,531	2,499,342
Fee and commission income, net	322,389	269,058	991,479	879,506
Exchange income, net	92,790	73,482	260,205	212,856
Trading income, net	51,678	30,765	165,149	43,531
Dividend income	11,608	8,758	16,007	19,951
Gains on non-trading investments, net	13,650	22,429	33,635	77,210
Other operating income	14,418	9,966	53,150	39,353
Total operating income	1,486,659	1,284,058	4,366,156	3,771,749
Salaries and employee related expenses	274,027	242,563	778,550	706,720
Rent and premises related expenses	39,965	42,024	117,725	121,074
Depreciation and amortization	31,246	31,908	92,276	96,928
Other general and administrative expenses	142,237	105,133	381,080	318,957
Impairment charge for credit losses, net	72,551	169,006	286,499	404,442
Impairment charge for investments, net	-	8,500	36,750	(8,375)
Other operating expenses	1,570	441	6,462	2,482
Total operating expenses	561,596	599,575	1,699,342	1,642,228
Net operating income	925,063	684,483	2,666,814	2,129,521
Share in earnings / (losses) of associates, net	546	958	(1,184)	2,417
Net income for the period	925,609	685,441	2,665,630	2,131,938
Weighted average number of outstanding shares	1,205,357	1,205,357	1,205,357	1,205,357
Basic and diluted earnings per share for the period (SAR) - Note 13	0.77	0.57	2.21	1.77

The accompanying notes 1 to 17 form an integral part of these interim condensed consolidated financial statements.


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BANQUE SAUDI FRANSI
INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Unaudited

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SAR '000	For the three months ended		For the nine months ended	
	Sep 30, 2014	Sep 30, 2013	Sep 30, 2014	Sep 30, 2013
Net income for the period	925,609	685,441	2,665,630	2,131,938
Other comprehensive income (loss):				
Items that can be recycled back to interim condensed consolidated statement of income in future				
<u>Available for sale investments</u>				
Net change in the fair value	51,832	29,132	88,547	63,553
Income transferred to interim condensed consolidated statement of income	(13,650)	(22,429)	(33,635)	(72,807)
<u>Cash flow hedge</u>				
Net change in the fair value	(188,468)	121,750	371,879	72,876
Income transferred to interim condensed consolidated statement of income	(168,325)	(135,282)	(482,296)	(399,354)
Total comprehensive income for the period	606,998	678,612	2,610,125	1,796,206

The accompanying notes 1 to 17 form an integral part of these interim condensed consolidated financial statements.


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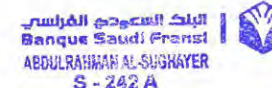
BANQUE SAUDI FRANSI
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Unaudited

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SAR '000	Share capital	Statutory reserve	General reserve	Retained earnings	Other reserves		Proposed dividend	Total
					Available for sale investments	Cash flow hedge		
<u>For the nine months period ended September 30, 2014</u>								
Balance at the beginning of the period	9,040,179	9,040,179	982,857	3,884,748	(30,625)	299,293	-	23,216,631
Total comprehensive income for the period:								
Net income for the period	-	-	-	2,665,630	-	-	-	2,665,630
Net change in the fair value	-	-	-	-	88,547	371,879	-	460,426
Net amount transferred to interim condensed consolidated statement of income	-	-	-	-	(33,635)	(482,296)	-	(515,931)
Interim gross dividend (note 14)	-	-	-	(585,911)	-	-	-	(585,911)
Transferred to statutory reserves	-	435,005	-	(435,005)	-	-	-	-
Stock dividend - (note 13)	3,013,393	-	-	(3,013,393)	-	-	-	-
Balance at the end of the period	12,053,572	9,475,184	982,857	2,516,069	24,287	188,876	-	25,240,845
<u>For the nine months period ended September 30, 2013</u>								
Balance at the beginning of the period	9,040,179	7,553,621	982,857	3,407,783	(27,877)	920,255	810,000	22,686,818
Total comprehensive income for the period:								
Net income for the period	-	-	-	2,131,938	-	-	-	2,131,938
Net change in the fair value	-	-	-	-	63,553	72,876	-	136,429
Net amount transferred to interim condensed consolidated statement of income	-	-	-	-	(72,807)	(399,354)	-	(472,161)
Statutory reserve	-	361,624	-	(361,624)	-	-	-	-
Final dividend paid for 2012	-	-	-	-	-	-	(810,000)	(810,000)
Interim gross dividend	-	-	-	(397,810)	-	-	-	(397,810)
Balance at the end of the period	9,040,179	7,915,245	982,857	4,780,287	(37,131)	593,777	-	23,275,214

The accompanying notes 1 to 17 form an integral part of these interim condensed consolidated financial statements.


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BANQUE SAUDI FRANSI
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASHFLOWS
Unaudited

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SAR '000		For the nine months ended	
	Note	Sep 30, 2014	Sep 30, 2013
<u>OPERATING ACTIVITIES</u>			
Net income for the period		2,665,630	2,131,938
Adjustments to reconcile net income to net cash from operating activities:			
Accretion of discounts on non trading investments, net		(149,848)	(106,597)
Gains on non trading investments, net		(33,635)	(77,210)
Depreciation and amortization		92,276	96,928
Gain on disposal of property and equipment, net		(108)	(141)
Impairment charge for credit losses, net		286,499	404,442
Impairment charge for investment in associate		48,000	8,500
Share in losses / (earnings) of associates, net		1,184	(2,417)
Change in fair value of financial instruments		9,927	69,776
Operating income before changes in operating assets and liabilities		2,919,925	2,525,219
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA		(660,824)	(939,103)
Investments held as FVIS (trading)		(1,197,067)	(3,265)
Loans and advances, net		(7,205,196)	(10,227,277)
Other assets		(108,319)	1,308,683
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		8,383,365	2,325,014
Customers' deposits		368,444	9,382,428
Other liabilities		437,256	(251,872)
Net cash from operating activities		2,937,584	4,119,827
<u>INVESTING ACTIVITIES</u>			
Proceeds from sales and maturities of non trading investments		23,760,342	12,407,810
Purchase of non trading investments		(35,105,496)	(17,946,569)
Dividend received from subsidiary		1,260	7,418
Purchase of property and equipment		(77,192)	(73,448)
Proceeds from sale of property and equipment		383	141
Net cash used in investing activities		(11,420,703)	(5,604,648)
<u>FINANCING ACTIVITIES</u>			
Sukuk and term loan		2,000,000	(1,784,400)
Dividend paid		(585,911)	(1,207,810)
Net cash from / (used in) financing activities		1,414,089	(2,992,210)
Decrease in cash and cash equivalents		(7,069,030)	(4,477,031)
Cash and cash equivalents at the beginning of the period	10	11,896,047	14,351,151
Cash and cash equivalents at the end of the period		4,827,017	9,874,120
Special commission received during the period		3,243,761	3,133,596
Special commission paid during the period		626,474	664,544
<u>Supplemental non-cash information</u>			
Net changes in fair value and transferred to interim condensed consolidated statement of income		(55,505)	(335,732)

1. General

Banque Saudi Fransi (the Bank) is a Saudi Joint Stock Company established by Royal Decree No. M/23 dated Jumada Al Thani 17, 1397H (corresponding to June 4, 1977). The Bank formally commenced its activities on Muharram 1, 1398H (corresponding to December 11, 1977), by taking over the branches of the Banque de l'Indochine et de Suez in the Kingdom of Saudi Arabia. The Bank operates under Commercial Registration Number 1010073368 dated Safar 4, 1410H (corresponding to September 5, 1989), through its 82 branches (September 30, 2013: 84 branches) in the Kingdom of Saudi Arabia, employing 2,990 people (September 30, 2013: 2,937). The objective of the Bank is to provide a full range of banking services, including Islamic products, which are approved and supervised by an independent Shariah Board. The Bank's Head Office is located at Al Maa'ther Street, P.O. Box 56006, Riyadh 11554, Kingdom of Saudi Arabia.

The Bank owns a subsidiary, Saudi Fransi Capital (100% share in equity) engaged in brokerage, asset management and corporate finance business. The Bank owns Saudi Fransi Insurance Agency (SAFIA), Saudi Fransi Financing & Leasing, Sofinco Saudi Fransi and Sakan Real Estate Financing having 100% share in equity. These subsidiaries are incorporated in the Kingdom of Saudi Arabia. The Bank also owns BSF Sukuk Limited having 100% share in equity, incorporated in the Cayman Islands.

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

2. Basis of preparation

These interim condensed consolidated financial statements are prepared in accordance with the accounting standards for financial institutions promulgated by the Saudi Arabian Monetary Agency (SAMA) and IAS 34 – Interim Financial Reporting. The Bank also prepares its interim condensed consolidated financial statements to comply with the Banking Control Law and the Regulations for Companies in the Kingdom of Saudi Arabia.

The preparation of interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The interim condensed consolidated financial statements do not include all information and disclosures required for the annual consolidated financial statements, and should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2013.

The accounting policies used in the preparation of these interim condensed consolidated financial statements are consistent with those of the annual consolidated financial statements for the year ended December 31, 2013 as described in the annual consolidated financial statements for the year ended December 31, 2013 except for the adoption of amendments to the existing standards as mentioned below which has had no financial impact on the interim condensed consolidated financial statements of the Bank.

Amendments to existing standards

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

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

2. Basis of preparation (continued)

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

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

The new standards, amendments to standards and interpretations to International Financial Reporting Standards which are mandatory for the first time for the financial year beginning January 2014 did not result in material amendments to the presentation and disclosure of the accompanying interim condensed consolidated financial statements.

These interim condensed consolidated financial statements are expressed in Saudi Arabian Riyals (SAR) and are rounded off to the nearest thousands.

Basis of consolidation

The interim condensed consolidated financial statements comprise the financial statements of the Bank and its subsidiaries; i.e. Saudi Fransi capital, Saudi Fransi Insurance Agency, Financing & Leasing, Sofinco Saudi Fransi, Sakan real estate financing and BSF Sukuk Limited. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies. Adjustments have been made wherever necessary in the financial statements of the subsidiaries to align with the Bank's interim condensed consolidated financial statements.

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

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

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

3. Investments, net

Investment securities are classified as follows:

SAR '000	Sep 30, 2014 (Unaudited)	Dec 31, 2013 (Audited)	Sep 30, 2013 (Unaudited)
Held as FVIS	1,523,238	326,172	314,046
Available for sale	7,879,070	7,867,179	7,900,837
Held to maturity	12,913	13,639	304,408
Other investments held at amortised cost	37,663,008	26,091,883	24,687,867
Total	47,078,229	34,298,873	33,207,158

Investments held as FVIS represent investments held for trading.

4. Loans and advances, net

SAR'000	Sep 30, 2014 (Unaudited)	Dec 31, 2013 (Audited)	Sep 30, 2013 (Unaudited)
Consumer loans	8,769,286	9,810,808	9,913,101
Commercial loans and overdrafts	102,005,810	93,833,372	94,198,563
Credit cards	564,710	588,391	624,662
Others	7,931,485	7,775,266	8,325,509
Performing loans and advances	119,271,291	112,007,837	113,061,835
Non-performing loans and advances ,net	1,285,434	1,517,374	1,251,738
Gross loans and advances	120,556,725	113,525,211	114,313,573
Allowance for impairment	(2,332,785)	(2,218,307)	(1,740,308)
Loans and advances, net	118,223,940	111,306,904	112,573,265

5. Investment in associates

SAR '000	Sep 30, 2014 (Unaudited)	Dec 31, 2013 (Audited)	Sep 30, 2013 (Unaudited)
Cost	151,645	151,645	201,644
Share of earnings / (losses), net	47,441	48,625	(27,279)
Impairment provision	(82,000)	(34,000)	(8,500)
Total	117,086	166,270	165,865

Impairment charge for investments, net includes impairment charged against an associate amounting to SAR Nil million for the three months period ended 30 September 2014 (September 30, 2013: SAR 8.5 million).

6. Customers' deposits

SAR'000	Sep 30, 2014 (Unaudited)	Dec 31, 2013 (Audited)	Sep 30, 2013 (Unaudited)
Demand	85,065,052	82,924,578	77,101,186
Saving	427,896	449,120	429,315
Time	42,980,724	45,059,599	43,812,932
Other	3,467,861	3,167,890	3,615,534
Total	131,941,533	131,601,187	124,958,967

7. Debt securities and Sukuks

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

8. Derivatives

The table below sets out the positive and negative fair values of derivative financial instruments held, together with their notional amounts. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the end of period, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Bank's exposure to credit risk (which is generally limited to the positive fair value of the derivatives) nor to market risk.

SAR '000	Sep 30, 2014 (Unaudited)			Dec 31, 2013 (Audited)			Sep 30, 2013 (Unaudited)		
	Positive fair value	Negative fair value	Notional amount	Positive fair value	Negative fair value	Notional amount	Positive fair value	Negative fair value	Notional amount
Held for trading									
Special commission rate swaps	1,137,978	1,041,793	116,663,501	1,663,653	1,514,732	127,501,940	1,773,804	1,573,545	124,214,064
Special commission rate futures and options	637	-	32,081,156	397	-	22,811,569	1,816	882	24,166,936
Forward foreign exchange contracts	110,135	69,599	50,262,276	82,196	29,333	42,187,353	86,293	51,047	46,245,052
Currency options	53,056	4,336	57,599,543	18,549	-	23,616,374	18,899	-	27,564,683
Others	20,227	-	2,063,101	24,709	-	2,704,447	24,943	-	2,305,693
Held as fair value hedges									
Special commission rate swaps	20,377	7,360	5,581,500	19,514	11,026	5,584,000	-	11,424	5,586,500
Held as cash flow hedges									
Special commission rate swaps	820,827	45,737	70,792,526	964,240	119,800	54,858,960	1,018,234	31,345	50,642,830
Total	2,163,237	1,168,825	335,043,603	2,773,258	1,674,891	279,264,643	2,923,989	1,668,243	280,725,758
Value of netting arrangements	-	-	-	(686)	(686)	(42,500)	(794)	(794)	(47,500)
Total after netting	2,163,237	1,168,825	335,043,603	2,772,572	1,674,205	279,222,143	2,923,195	1,667,449	280,678,258

Special commission rate swaps include the notional amount of SAR Nil million (December 31, 2013: SAR 42 million and, September 30, 2013: SAR 48 million), with an aggregate positive fair value and a negative fair value of SAR Nil million (December 31, 2013: SAR 0.7 million and September 30, 2013: SAR 0.8 million) which are netted off for credit exposure purposes, as the Bank intends to settle these on a net basis.

9. Credit related commitments and contingencies

The Bank's credit related commitments and contingencies are as follows:

SAR '000	Sep 30, 2014 (Unaudited)	Dec 31, 2013 (Audited)	Sep 30, 2013 (Unaudited)
Letters of credit	11,521,648	16,602,788	15,620,737
Letters of guarantee	53,841,841	46,909,062	46,138,669
Acceptances	3,233,888	2,655,937	2,865,912
Irrevocable commitments to extend credit	3,937,494	4,541,804	4,544,236
Total	72,534,871	70,709,591	69,169,554

10. Cash and cash equivalents

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

SAR '000	Sep 30, 2014 (Unaudited)	Dec 31, 2013 (Audited)	Sep 30, 2013 (Unaudited)
Cash and balances with SAMA excluding statutory deposit	1,859,058	10,350,956	4,084,936
Due from banks and other financial institutions maturing within three months from the date of acquisition	2,967,959	1,545,091	5,789,184
Total	4,827,017	11,896,047	9,874,120

11. Segment information

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

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

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since 31 December 2013.

The Bank is organised into the following main operating segments:

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

11. Segment information (continued)

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

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

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

The Bank's total assets and liabilities as at September 30, 2014 and 2013, together with total operating income, total operating expenses and net income for the nine months period ended, by operating segments, are as follows:

(Unaudited) SAR '000"	Retail banking	Corporate banking	Treasury	Investment banking and brokerage	Total
<u>September 30, 2014</u>					
Total assets	14,349,901	106,456,373	59,954,237	2,480,805	183,241,316
Total liabilities	65,880,977	66,537,574	23,268,056	2,313,864	158,000,471
Total operating income	1,081,864	2,030,440	967,965	285,887	4,366,156
Total operating expenses	913,396	487,142	156,906	141,898	1,699,342
Share in (losses) of associates, net	-	-	(1,184)	-	(1,184)
Net income for the period	168,468	1,543,298	809,875	143,989	2,665,630
Impairment charges for credit losses, net	136,789	149,710	-	-	286,499
<u>September 30, 2013</u>					
Total assets	15,669,168	101,047,334	49,517,925	1,808,610	168,043,037
Total liabilities	53,969,170	70,828,218	18,335,582	1,634,853	144,767,823
Total operating income	1,085,206	1,904,216	572,069	210,258	3,771,749
Total operating expenses	870,894	522,486	123,656	125,192	1,642,228
Share in earnings of associates, net	-	-	2,417	-	2,417
Net income for the period	214,312	1,381,730	450,830	85,066	2,131,938
Impairment charges for credit losses, net	168,165	236,277	-	-	404,442

12. Fair values of financial assets and liabilities

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

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

Level 1: quoted prices in active markets for the same instrument (i.e. without modification or 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 any significant input is not based on observable market data.

SAR' 000	Level 1	Level 2	Level 3	Total
<u>September 30, 2014</u>				
Financial assets				
Derivative financial instruments positive fair value	-	2,163,237	-	2,163,237
Financial investments designated at FVIS (trading)	142,241	1,380,997	-	1,523,238
Financial investments available for sale	1,013,998	3,157,432	3,707,640	7,879,070
Total	1,156,239	6,701,666	3,707,640	11,565,545
Financial Liabilities				
Derivative financial instruments negative fair value	-	1,168,825	-	1,168,825
Total	-	1,168,825	-	1,168,825
<u>September 30, 2013</u>				
Financial assets				
Derivative financial instruments positive fair value	-	2,923,195	-	2,923,195
Financial investments designated at FVIS (trading)	124,920	189,126	-	314,046
Financial investments available for sale	2,366,217	818,000	4,716,620	7,900,837
Total	2,491,137	3,930,321	4,716,620	11,138,078
Financial Liabilities				
Derivative financial instruments negative fair value	-	1,667,449	-	1,667,449
Total	-	1,667,449	-	1,667,449

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

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

The estimated fair values of the held to maturity investments and other investments held at amortized cost, are based on quoted market prices when available or pricing models when used in the case of certain fixed rate bonds. Consequently, differences can arise between carrying values and fair value estimates. The fair values of derivatives are based on the quoted market prices when available or by using the appropriate valuation technique. Financial investments available for sale comprise Mudarabah SAR 3,496 million (September 30, 2013 :SAR 4,492 million) which is classified as level 3. There is no significant movement of financial assets under level 3.

13. Share capital, Earnings per share and statutory reserve

The authorised, issued and fully paid share capital of the Bank consists of 1,205 million shares of SAR 10 each (December 31, 2013 : 904 Million shares of SAR 10 each and September 30, 2013: 904 million shares of SAR 10 each). In accordance with the shareholders' resolution passed at the Extra Ordinary General Assembly Meeting held on April 16, 2014, a stock dividend issue of 301.3 million shares at a nominal value SAR 10 each was approved to the existing shareholders, on the basis of 1 stock dividend shares for every 3 shares held, through the capitalization of retained earnings. Accordingly, share capital of the Bank has increased from SAR 9,040 million to SAR 12,053 million.

Basic and diluted earnings per share for the periods ended September 30, 2014 and 2013 are calculated by dividing the net income for the period by 1,205.3 million shares.

The Saudi Arabian Banking Control Law requires a minimum of 25% of the net income to be transferred to the statutory reserve before declaration of any distribution of profits until this reserve equals to paid up capital of the Bank. Accordingly, an amount of SAR 435 million has been transferred to the statutory reserve.

14. Interim dividends

The Board of Directors recommended on July 9, 2014 an interim gross dividend of SAR 586 million. Zakat attributable to Saudi shareholders for the period amounted to SAR 30 million approximately. This will be deducted from their share of the dividend, resulting in net dividend to Saudi shareholders of SAR 0.45 per share. The income tax liability of the foreign shareholders will be deducted from their share of the dividend.

15. Comparative figures

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

16. Capital Adequacy

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

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

Bank's total risk weighted assets and total Tier I & II Capital are as follows:

SAR' 000	Sep 30, 2014 (Unaudited)	Dec 31, 2013 (Audited)	Sep 30, 2013 (Unaudited)
Credit Risk RWA	163,114,663	153,855,918	156,452,232
Operational Risk RWA	9,619,750	8,979,637	8,869,788
Market Risk RWA	2,942,019	3,048,275	2,620,463
Total RWA	175,676,432	165,883,830	167,942,483
Tier I Capital	25,132,766	23,056,227	22,984,269
Tier II Capital	4,678,160	2,793,813	2,803,354
Total Tier I & II Capital	29,810,926	25,850,040	25,787,623
Capital Adequacy Ratio %			
Tier I ratio	14.31%	13.90%	13.69%
Tier I + Tier II ratio	16.97%	15.58%	15.36%

17. Basel III - Capital Structure

Certain disclosures on the Bank's capital structure are required to be published on the Bank's website. In due course, these disclosures will be published on the Bank's website (www.Alfransi.com.sa) as required by SAMA. Such disclosures are not subject to review by the external auditors of the Bank.