BANK ALJAZIRA

(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014 AND AUDITORS' REPORT

EY
Building a better working world

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Kingdom of Saudi Arabia
License No. 46/11/323 issued 11/3/1992

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Bank AlJazira
(a Saudi Joint Stock Company)

We have audited the accompanying consolidated financial statements of Bank AlJazira (the "Bank") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at December 31, 2014, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and the other explanatory notes from 1 to 42. We have not audited note 42, nor the information related to "Basel III Pillar 3 Disclosures" cross-referenced therein, which is not required to be within the scope of our audit.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Accounting Standards for Financial Institutions issued by the Saudi Arabian Monetary Agency ("SAMA"), International Financial Reporting Standards, the provisions of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's By-Laws. In addition, management is responsible for such internal control 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 auditor considers internal control relevant to the preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

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INDEPENDENT AUDITORS' REPORT (continued)

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 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.

For Ernst & Young

Husam Faisal Bawardi
Certified Public Accountant
Licence Number 393

For KPMG Al Fozan & Al Sadhan

Ebrahim Oboud Baeshen
Certified Public Accountant
Licence Number 382

17 February 2015
28 Rabi Al Thani 1436H

Bank AlJazira

(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2014

	Notes	2014 SR'000	2013 SR'000
ASSETS			
Cash and balances with SAMA	3	**6,552,141**	7,306,158
Due from banks and other financial institutions	4	**4,908,991**	3,073,795
Investments	5	**11,334,970**	12,597,125
Loans and advances, net	6	**41,244,551**	34,994,759
Investment in an associate	7	**125,588**	121,489
Other real estate	6 e	**660,097**	672,485
Property and equipment, net	8	**598,920**	507,766
Other assets	9	**1,128,671**	702,831
Total assets		**66,553,929**	59,976,408
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Due to banks and other financial institutions	11	**3,736,476**	4,358,738
Customers' deposits	12	**54,569,273**	48,082,525
Subordinated Sukuk	13	**1,000,000**	1,000,000
Other liabilities	14	**1,090,134**	806,600
Total liabilities		**60,395,883**	54,247,863
SHAREHOLDERS' EQUITY			
Share capital	15	**4,000,000**	3,000,000
Statutory reserve	16	**1,405,500**	1,762,500
General reserve	16	**68,000**	68,000
Other reserves	17	**(141,317)**	1,649
Retained earnings		**825,863**	896,396
Total shareholders' equity		**6,158,046**	5,728,545
Total liabilities and shareholders' equity		**66,553,929**	59,976,408

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

Bank AlJazira

(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2014

	Notes	2014 SR'000	2013 SR'000
Special commission income	19	**1,954,869**	1,645,129
Special commission expense	19	**(509,787)**	(422,182)
Net special commission income		**1,445,082**	1,222,947
Fees and commission income, net	20	**648,052**	468,090
Exchange income, net		**56,822**	34,784
Trading income, net	21	**30,444**	55,738
Dividend income	22	**2,670**	6,407
Gain on non-trading investments	23	**3,684**	23,432
Other income	24	**39,491**	27,909
Total operating income		**2,226,245**	1,839,307
Salaries and employee-related expenses	35	**721,872**	629,982
Rent and premises-related expenses		**112,514**	86,537
Depreciation	8	**79,394**	71,417
Other general and administrative expenses		**356,399**	256,296
Impairment charge for credit losses, net	6c	**383,107**	136,343
Other operating expenses		**4,331**	7,085
Total operating expenses		**1,657,617**	1,187,660
Operating income		**568,628**	651,647
Share of profit / (loss) of an associate	7	**3,839**	(1,011)
Net income for the year		**572,467**	650,636
Basic and diluted earnings per share (expressed in SR per share)	25	**1.43**	1.63

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

Bank AlJazira
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2014

	Notes	2014 SR'000	2013 SR'000
Net income for the year		**572,467**	650,636
Other comprehensive income:			
Items that are or may be reclassified to statement of income:			
Cash flow hedges:			
Fair value (loss) / gain on cash flow hedges	17	**(146,939)**	29,111
Net amount transferred to consolidated statement of income	17	**2,819**	13,302
Items not to be reclassified to statement of income:			
Net changes in fair value of investments classified as at Fair Value Through Other Comprehensive Income (FVTOCI)		**1,154**	23,643
Total other comprehensive (loss) / income for the year		**(142,966)**	66,056
Total comprehensive income for the year		**429,501**	716,692

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2014

2014	Notes	Share capital SR'000	Statutory reserve SR'000	General reserve SR'000	Other reserves SR'000	Retained earnings SR'000	Total SR'000
Balance at January 1, 2014		**3,000,000**	**1,762,500**	**68,000**	**1,649**	**896,396**	**5,728,545**
Net income for the year		-	-	-	-	**572,467**	**572,467**
Other comprehensive loss		-	-	-	**(142,966)**	-	**(142,966)**
Total comprehensive (loss) / income for the year		-	-	-	**(142,966)**	**572,467**	**429,501**
Transfer to statutory reserve	16	-	**143,000**	-	-	**(143,000)**	-
Issuance of bonus share	15	**1,000,000**	**(500,000)**	-	-	**(500,000)**	-
Balance at December 31, 2014		**4,000,000**	**1,405,500**	**68,000**	**(141,317)**	**825,863**	**6,158,046**
2013							
Balance at January 1, 2013 (Restated)		3,000,000	1,599,500	68,000	(37,644)	381,997	5,011,853
Net income for the year		-	-	-	-	650,636	650,636
Other comprehensive income		-	-	-	66,056	-	66,056
Gain on sale of investments classified as at FVTOCI		-	-	-	(26,763)	26,763	-
Total comprehensive income		-	-	-	39,293	677,399	716,692
Transfer to statutory reserve	16	-	163,000	-	-	(163,000)	-
Balance at December 31, 2013		3,000,000	1,762,500	68,000	1,649	896,396	5,728,545

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

Bank AlJazira
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2014

	Notes	2014 SR'000	2013 SR'000
OPERATING ACTIVITIES			
Net income for the year		**572,467**	650,636
Adjustments to reconcile net income to net cash from / (used in) operating activities:			
Trading income, net		**(30,444)**	(55,738)
Gain on non-trading investments	23	**(3,684)**	(23,432)
Depreciation	8	**79,394**	71,417
Dividend income	22	**(2,670)**	(6,407)
Gain on disposal of property and equipment		**-**	(7,723)
Loss on sale / write-off of property and equipment, net		**884**	331
Impairment charge for credit losses, net	6 c	**383,107**	136,343
Share of (profit) / loss of an associate	7	**(3,839)**	1,011
		995,215	766,438
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA		**(446,525)**	(531,685)
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		**(918,750)**	374,500
Investments held as at FVTIS		**(31,185)**	685,438
Loans and advances		**(6,632,899)**	(5,234,320)
Other real estate, net		**12,388**	(12,039)
Other assets		**(337,483)**	(43,042)
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		**(622,262)**	1,072,694
Customers' deposits		**6,486,748**	7,407,235
Other liabilities		**55,556**	(113,428)
Net cash (used in) / from operating activities		**(1,439,197)**	4,371,791
INVESTING ACTIVITIES			
Proceeds from sales and maturities of FVTOCI and amortised cost investments		**3,408,244**	4,733,497
Acquisition of amortised cost investments		**(2,084,381)**	(8,881,782)
Investment in an associate	7	**-**	(122,500)
Acquisition of property and equipment	8	**(171,487)**	(129,249)
Proceeds from disposal of property and equipment		**55**	23,561
Dividends received	22	**2,670**	6,407
Net cash from / (used in) investing activities		**1,155,101**	(4,370,066)
Net (decrease) / increase in cash and cash equivalents		**(284,096)**	1,725
Cash and cash equivalents at the beginning of the year		**7,090,500**	7,088,775
Cash and cash equivalents at the end of the year	27	**6,806,404**	7,090,500
Special commission income received during the year		**1,670,308**	1,573,072
Special commission expense paid during the year		**330,892**	400,579

Supplemental non-cash information

Net changes in fair value and tranfers to the consolidated statement of income		**(144,120)**	**42,413**

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

1. GENERAL

These financial statements comprise the financial statements of Bank AlJazira (the "Bank") and its subsidiaries (collectively referred to as the "Group"). Bank AlJazira is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia and formed pursuant to Royal Decree number 46/M dated Jumad Al-Thani 12, 1395H (June 21, 1975). The Bank commenced its business on Shawwal 16, 1396H (October 9, 1976) with the takeover of The National Bank of Pakistan's branches in the Kingdom of Saudi Arabia under commercial registration number 4030010523 dated Rajab 29, 1396H (July 27, 1976) issued in Jeddah. The Bank operates through its 70 branches (2013: 62 branches) in the Kingdom of Saudi Arabia and employed 2,015 staff (2013: 1,779 staff). The Bank's Head Office is located at the following address:

Bank AlJazira
Nahda District, Malik Road, P.O. Box 6277
Jeddah 21442
Kingdom of Saudi Arabia

The objective of the Bank is to provide a full range of Shari'ah compliant (non-interest based) banking products and services comprising of Murabaha, Istisna'a, Ijarah, Tawaraq, Musharaka, Wa'ad Fx and Sukuk which are approved and supervised by an independent Shari'ah Board established by the Bank.

The Bank's subsidiaries are as follows:

	Country of incorporation	**Nature of business**	**Ownership (direct and indirect) December 31, 2014**	Ownership (direct and indirect) December 31, 2013
AlJazira Capital Company	Saudi Arabia	Brokerage and asset management	100%	100%
Aman Development and Real Estate Investment Company	Saudi Arabia	Holding and managing collaterals on behalf of the Bank	100%	100%

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

i. Statement of compliance

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

ii. Basis of measurement and presentation

The consolidated financial statements are prepared on the historical cost convention except for the measurement at fair value of derivatives, financial instruments held as at Fair Value Through Income Statement (FVTIS) and Fair Value Through Other Comprehensive Income Statement (FVTOCI). In addition, financial assets or liabilities that are hedged in a fair value hedging relationship, and otherwise carried at cost, are carried at fair value to the extent of the risk being hedged.

iii. Functional and presentation currency

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

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currency of AlJazira Capital Company and Aman Development and Real Estate Investment Company is also the Saudi Arabian Riyal (SR).

b) Basis of consolidation

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

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

i. Subsidiaries

Subsidiaries are entities which are controlled by the Bank. The Bank controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. To meet the definition of control, all the following three criteria must be met:

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Basis of consolidation (continued)

i. Subsidiaries (continued)

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 criteria of control.

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 of during the year, if any, are included in the consolidated statement of income from the date of the acquisition or up to the date of disposal, as appropriate.

ii. Non-controlling interests

Non-controlling interests represent the portion of net income and net assets of subsidiaries not owned, directly or indirectly, by the Bank in its subsidiaries and are presented separately in the consolidated statement of income and within equity in the consolidated statement of financial position, separately from the Bank's equity. Any losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance. Changes in the Bank's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

iii. Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions are eliminated in preparing the 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.

iv. Investment in an associate

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

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

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on its investment in its associates. 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 'share of profit / (loss) of an associate' in the consolidated statement of income.

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

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Changes in accounting policies

The accounting policies used in the preparation of these annual 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 amendments to existing standards, as mentioned below, which had an insignificant financial impact on the annual consolidated financial statements of the Group for the current year or prior year and are expected to have an insignificant effect in future periods:

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

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

- IAS 36 amendment applicable retrospectively from 1 January 2014 addresses the disclosure of information about the recoverable amount of impaired assets under the amendment. The recoverable amount of every cash generating unit to which goodwill or indefinite-lived intangible assets has 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.

- IASB issued Interpretation 21 Levies that is effective from 1 January 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Critical accounting judgements, estimates and assumptions

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

i. Business model for managing financial assets

In making an assessment of whether a business model's objective is to hold assets in order to collect contractual cash flows, the Group considers at which level of its business activities, such assessment should be made. Generally, a business model is a matter of fact which can be evidenced by the way the business is managed and the information provided to management. However, in some circumstances it may not be clear whether a particular activity involves one business model with some infrequent asset sales or whether the anticipated sales indicate that there are two different business models.

In determining whether its business model for managing financial assets is to hold assets in order to collect contractual cash flows the Group considers:

- management's stated policies and objectives for the portfolio and the operation of those policies in practice;
- how management evaluates the performance of the portfolio;
- whether management's strategy focuses on earning contractual special commission income;
- the degree of frequency of any expected asset sales;
- the reason for any asset sales; and
- whether assets that are sold are held for an extended period of time relative to their contractual maturity or are sold shortly after acquisition or an extended time before maturity.

ii. Contractual cash flows of financial assets

The Group exercises judgement in determining whether the contractual terms of financial assets it originates or acquires give rise on specific dates to cash flows that are solely payments of principal and commission income on the principal outstanding and so may qualify for amortised cost measurement. In making the assessment the Group considers all contractual terms, including any prepayment terms or provisions to extend the maturity of the assets, terms that change the amount and timing of cash flows and whether the contractual terms contain leverage.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

iii. Impairment of financial assets

At each reporting date the Group assesses whether there is objective evidence that financial assets carried at amortised cost are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

The Group considers evidence of impairment for loans and advances and investment securities measured at amortised cost at both a specific asset and collective level. All individually significant loans and advances and investment securities measured at amortised cost are assessed for specific impairment. All individually significant loans and advances and investment securities measured at amortised cost found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and investment securities measured at amortised cost that are not individually significant are collectively assessed for impairment by grouping together loans and advances and investment securities measured at amortised cost with similar risk characteristics.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective yield rate. Impairment losses are recognised in the consolidated statement of income and reflected in impairment for credit losses. Commission on impaired assets continues to be recognised through the unwinding of the discount.

When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through consolidated statement of income.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

iii. Impairment of financial assets (continued)

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

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 yield 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 Bank 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 leads 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 yield rate.

iv. Fair value of financial instruments

The Group measures the financial instruments, such as derivatives, financial instruments held at Fair Value Through Income Statement (FVTIS) and Fair Value Through Other Comprehensive Income (FVTOCI), at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortized cost are disclosed in note 5 (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 to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

iv. Fair value of financial instruments (continued)

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using other valuation techniques.

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

Financial instruments for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy (refer note 33)

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

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

v. Impairment of non-financial assets

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

v. Impairment of non-financial assets (continued)

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

vi. Determination of control over investment funds

The Group acts as Fund Manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the Fund (comprising any carried interests and expected management fees) and the investors rights to remove the Fund Manager.

vii. Provisions for liabilities and charges

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

viii. Going concern

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

e) Settlement date accounting

All regular way purchases and sales of financial assets are recognised and derecognised on the settlement date, i.e. the date on which the asset is delivered to the counterparty. Changes in fair value between the trade date and the settlement date are accounted for in the same way as acquired assets. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or convention in the market place.

f) Derivative financial instruments and hedge accounting

Derivative financial instruments including forward rate agreements, special commission rate swaps and commission rate options (both written and purchased) are initially measured 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. The transaction costs associated with these agreements are recognised in the consolidated statement of income.

All derivatives are carried at their fair value as assets, where the fair value is positive, and as liabilities, where the fair value is negative. Fair values are obtained by reference to quoted market prices, discounted cash flow models and pricing models, as appropriate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Derivative financial instruments and hedge accounting (continued)

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

i. Derivatives held for trading

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

ii. Embedded derivative

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

iii. Hedge accounting

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

For the purpose of hedge accounting, hedges are classified into two categories:

(a) fair value hedges which hedge the exposure to changes in the fair value of a 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 loss; and

(b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or to a highly probable forecasted transaction that will affect the reported net gain or loss.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Derivative financial instruments and hedge accounting (continued)

iii. Hedge accounting (continued)

Fair value hedges

Fair value hedges are used to hedge the exposure to changes in fair value of a recognized asset or liability, or an unrecognized firm commitment or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the reported net gain or loss.

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect the consolidated statement of income, changes in fair value of the derivative are recognised immediately in the consolidated statement of income together with change in the fair value of the hedged item attributable to the hedged risk under non-trading gains / losses in the consolidated statement of income.

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

Cash flow hedge

Cash flow hedges are used to hedge the exposure to variability in cash flows that are attributable to a particular risk associated with a recognized asset or liability or highly probable forecast transaction and could affect the reported gain or loss.

For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is initially recognized directly in other comprehensive income. The ineffective portion of the gain or loss on the hedging instrument is recognized immediately in trading income, net.

For cash flow hedges affecting future transactions, the gains or losses recognised in other reserves are transferred to the consolidated statement of income in the same period in which the hedge transactions affects the consolidated statement of income.

When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income and is recognized when the hedged forecast transaction is ultimately recognized in the consolidated statement of income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the consolidated statement of income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Foreign currencies

Transactions denominated in foreign currencies are translated into Saudi Arabian Riyals (SR) at exchange rates prevailing at transaction dates. Monetary assets and liabilities at the year end, denominated in foreign currencies, are translated into SR at the spot exchange rates prevailing at the year end.

Foreign exchange gains or losses from settlement of transactions and translation of year end monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income. Translation gains or losses on non-monetary items carried at fair value are included as part of the fair value adjustment either in the consolidated statement of income or in other comprehensive income depending on the underlying financial asset.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of 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.

h) Offsetting financial instruments

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

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

i) Revenue /expense recognition

Special commission income and expenses

Special commission income and expenses arising on financial assets and financial liabilities, except for those classified as FVTIS and FVTOCI, including the fees which are considered an integral part of the effective yield of a financial instrument, are recognised in the consolidated statement of income using the effective yield basis and include premiums amortised and discounts accreted during the year.

The effective yield rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability to the carrying amount of the financial asset or financial liability. When calculating the effective 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 yield rate and the change in carrying amount is recorded as income or expense.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Revenue /expense recognition (continued)

Special commission income and expenses (continued)
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 yield basis, on the asset's carrying value net of impairment provisions. The calculation of the effective yield rate takes into account all contractual terms of the financial instrument and includes all fees and points paid or received, transaction costs, and discounts or premiums that are an integral part of the effective yield rate.

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

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

Exchange income / (loss)
Exchange income / (loss) is recognised when earned / incurred. See note 2(g).

Fees and commissions
Fees and commissions are recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred and, together with the related direct cost, are recognised if material, as an adjustment to the effective yield rate on the loan. Portfolio and other management advisory and service fees, including fees for managing investment funds, are recognised based on the applicable service contracts, usually on a time-proportionate basis i.e. as and when the services are rendered. Performance linked fees or fee components are recognised when the performance criteria are fulfilled. Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

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

j) Trading income / (loss), net

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 designated as at FVTIS and foreign exchange differences. This includes any ineffectiveness recorded in hedging transactions.

k) 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 risk and rewards of the ownership and are measured in accordance with related accounting policies for investments designated as at FVTIS, FVTOCI and amortised cost, whichever is applicable. The transactions are treated as collateralised borrowings and counterparty liabilities and amounts received under these agreements are included in "due to SAMA" or "due to banks and other financial institutions" or "customers' deposits", as appropriate. The difference between the sale and repurchase price is treated as special commission expense and is accrued over the life of the repo agreement using the effective yield rate. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the consolidated statement of financial position, as the Group does not obtain control over the assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Sale and repurchase agreements (continued)

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 the purchase and resale price is treated as special commission income and is accrued over the life of the reverse repo agreement using the effective yield rate.

l) Investments

A financial asset is measured initially at fair value plus, for an item not through statement of income, transaction costs that are directly attributable to acquisition or issue. IFRS 9 requires all financial assets to be classified and subsequently measured at either amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. At inception, the financial asset is classified at amortized cost or fair value.

i. Investments in debt instruments classified as at amortised cost:

Debt instruments that meet the following conditions are subsequently measured at amortised cost less impairment loss:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and commission on the principal amount outstanding.

If a financial asset does not meet both of these conditions, then it is measured at fair value.

The Group makes an assessment of a business model at portfolio level as this reflects best the way the business is managed and information is provided to management.

In making an assessment of whether an asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows, the Group considers:

- management's stated policies and objectives for the portfolio and the operation of those policies in practice;
- how management evaluates the performance of the portfolio;
  whether the management's strategy focuses on earning contractual special commission income;
- the degree of frequency of any expected asset sales;
- the reason for any asset sales; and
- whether assets that are sold are held for an extended period of time relative to their contractual maturity or are sold shortly after acquisition or an extended time before maturity.

Financial assets held for trading are not held within a business model whose objective is to hold the asset in order to collect contractual cash flows.

Income is recognised on an effective yield basis for debt instruments measured subsequently at amortised cost. Commission income is recognised in the consolidated statement of income.

Debt instruments that are measured at amortised cost are subject to impairment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Investments (continued)

ii. Financial assets classified as at Fair Value Through Income Statement (FVTIS)

Investments in equity instruments are classified as at FVTIS, unless the Group designates an investment that is not held for trading as at Fair Value Through Other Comprehensive Income (FVTOCI) on initial recognition.

A financial asset or financial liability is held for trading if:

(a) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
(b) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
(c) it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Debt instruments that do not meet the amortised cost criteria are measured at FVTIS. In addition, debt instruments that meet the amortised cost criteria but are designated as at FVTIS are measured at Fair Value Through Income Statement.

A debt instrument may be designated as at FVTIS upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Debt instruments are reclassified from amortised cost to FVTIS when the business model is changed such that the amortised cost criteria are no longer met. Reclassification of debt instruments that are designated as at FVTIS on initial recognition is irrevocable.

Financial assets at FVTIS are measured at fair value at the end of each reporting period, with any gains or losses arising on remeasurement recognised in the consolidated statement of income.

Commission income on debt instruments as at FVTIS is included in the consolidated statement of income.

Dividend income on investments in equity instruments at FVTIS is recognised in the consolidated statement of income when the Group's right to receive the dividend is established and is included in the consolidated statement of income.

iii. Investment in equity instruments designated as at Fair Value Through Other Comprehensive Income (FVTOCI)

On initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation as at FVTOCI is not permitted if the equity investment is held for trading.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Investments (continued)

iii. Investment in equity instruments designated as at Fair Value Through Other Comprehensive Income (FVTOCI) (continued)

Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in other reserves. Gains and losses on such equity instruments are never reclassified to the consolidated statement of income and no impairment is recognised in the consolidated statement of income. Investments in unquoted equity instruments are measured at fair value. The cumulative gains or losses will not be reclassified to the consolidated statement of income on disposal of the investments.

On initial recognition the Group designates all investments in equity instruments that are not FVTIS as at FVTOCI.

Dividends on these investments in equity instruments are recognised in the consolidated statement of income when the Group’s right to receive the dividend is established, unless the dividend clearly represent a recovery of part of the cost of the investment.

Fair value reserve includes the cumulative net change in fair value of equity investment measured at FVTOCI. When such equity instruments are derecognised, the related cumulative amount in the fair value reserve is transferred to retained earnings.

m) 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 derecognized when either the borrower repays its obligations, or the loans are sold or written off, or substantially all the risks and rewards of ownership are transferred. Loans and advances are initially measured at fair value of the consideration given.

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

All loans and advances are carried at amortised cost calculated using the effective yield rate.

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

n) Due from banks and other financial institutions

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

o) 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 the contractual rights to the cash flows from the financial asset expires.

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.

On derecognition of a financial asset, measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in consolidated statement of income.

On derecognition of a financial asset that is classified as FVTOCI, the cumulative gain or loss previously accumulated in other comprehensive income is not reclassified to consolidated statement of income, but is transferred to retained earnings.

p) Other real estate and repossessed assets

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 the net realizable value of due loans and advances and the current fair value of related properties, less any costs to sell. No depreciation is charged on such real estate. Rental income from other real estate is recognised in the consolidated statement of income.

Subsequent to the initial recognition, such real estate is revalued on a periodic basis. Any unrealised losses on revaluation, realized losses or gains on disposal and rental income are recognised in the consolidated statement of income. Any subsequent revaluation gain in the fair value less costs to sell of these assets to the extent this does not exceed the cumulative write down is recognised in the consolidated statement of income. Gains or losses on disposal are recognised the in consolidated statement of income.

q) Property and equipment

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

Buildings	33 years
Leasehold improvements	Over the lease period or 10 years, whichever is shorter
Furniture, equipment and vehicles	4 to10 years

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

q) Property and equipment (continued)

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

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

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.

r) Financial liabilities

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

s) Financial guarantees and loan commitments

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

Any increase in the liability relating to the financial guarantee is taken to the consolidated statement of income in impairment charge for credit losses. The premium received is recognised in the consolidated statement of income 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.

t) Provisions

Provisions (other than provisions for credit losses and investments) are recognised when a reliable estimate can be made by the Group for a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

u) Accounting for leases

i. Where the Bank is the lessee

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

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

ii. Where the Bank is the lessor

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

Assets subject to operating leases are included in the consolidated financial statements as property and equipment. Income from operating lease is recognised on a straight-line (or appropriate) basis over the period of the lease.

v) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents includes notes and coins on hand, balances with SAMA, excluding statutory deposits, 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 values.

w) Zakat and income tax

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

Zakat and income taxes, relating to the shareholders of the Bank, are not charged to the Group's consolidated statement of income as they are deducted from the dividends paid to the shareholders. If no dividend is distributed, the amount is accounted for as a receivable from the shareholders and will be deducted from future dividends and a corresponding liability is accounted for as payable to the Department of Zakat and Income Tax (DZIT).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

x) Fiduciary assets

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.

y) Employees' benefits

Defined unfunded benefit plan

End-of-service benefits as required by Saudi Arabia Labor Law, are required to be provided based on the employees' length of service.

The Group's net obligations in respect of defined unfunded benefit plans ("the obligations") is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognized past service costs. The discount rate used is the market yield on government bonds at the reporting date that have maturity dates approximating the terms of the Group's obligations. The cost of providing benefits under the defined benefit plans is determined using the projected unit credit method to determine the Group's present value of the obligation.

The defined benefit liability comprises the present value of defined benefit obligation as adjusted for any past service cost not yet recognized and any unrecognized actuarial gains/losses.

Short term benefits

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

A liability is recognized for the amount expected to be paid under short term cash bonus or profit sharing plans if 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.

z) Shari'ah compliant (non-interest based) banking products

The Bank offers its customers Shari'ah compliant (non-interest based) banking products, which are approved by its Shari'ah Board, as follows:

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

z) Shari'ah compliant (non-interest based) banking products (continued)

Ijarah is an agreement whereby the Bank, acting as a lessor, purchases or constructs an asset for lease according to the customer request (lessee), based on the customer's 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.

Musharaka is an agreement between the Bank and a customer to contribute to a certain investment enterprise or the ownership of a certain property resulting in the acquisition by the customer of the full ownership. The profit or loss is shared as per the terms of the agreement.

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

Wa'ad Fx is an agreement whereby a client in consideration for the payment of a fee agrees to enter into one or series of trades. One party (promisor) gives a commitment as unilateral undertaking to a second party (promisee).

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

Sukuk are Islamic instruments which represents an individual proportionate ownership interest in an asset and corresponding right to the income streams generated by the asset.

All Shari'ah compliant (non-interest based) products are accounted for using International Financial Reporting Standards and in conformity with the accounting policies described in these financial statements.

3. CASH AND BALANCES WITH SAMA

	2014 SR'000	2013 SR'000
Cash in hand	**728,663**	844,205
Balances with SAMA:		
Statutory deposit	**2,863,478**	2,416,953
Cash lending	**2,960,000**	4,045,000
Total	**6,552,141**	7,306,158

In accordance with article 7 of the Banking Control Law and regulations issued by the Saudi Arabian Monetary Agency (SAMA), the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its demand, time and other deposits, calculated at the end of each Gregorian month (see note 32). The statutory deposit with SAMA is not available to finance the Bank's day-to-day operations and therefore is not part of cash and cash equivalents.

4. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2014 SR'000	2013 SR'000
Current accounts	**808,991**	536,295
Money market placements	**4,100,000**	2,537,500
Total	**4,908,991**	3,073,795

The money market placements represent funds placed on a Shari'ah compliant (non-interest based) Murabaha basis.

5. INVESTMENTS

a) As of December 31, 2014 investments are classified as follows:

i) Designated as at FVTIS

	2014 SR'000		
	Domestic	**International**	**Total**
Mutual funds	**174,582**	**154,948**	**329,530**
Equities	**68,674**	**-**	**68,674**
	243,256	**154,948**	**398,204**

ii) FVTOCI

	2014 SR'000		
	Domestic	**International**	**Total**
Equities	**3,250**	**7,182**	**10,432**

iii) Amortised cost

	2014 SR'000		
	Domestic	**International**	**Total**
Sukuk investments	**10,926,334**	**-**	**10,926,334**
Grand Total	**11,172,840**	**162,130**	**11,334,970**

5. INVESTMENTS (continued)

b) As of December 31, 2013 investments were classified as follows:

i) Designated as at FVTIS

	2013 SR'000		
	Domestic	International	Total
Mutual funds	160,514	152,736	313,250
Equities	23,326	-	23,326
	183,840	152,736	336,576

ii) FVTOCI

	2013 SR'000		
	Domestic	International	Total
Equities	3,250	6,028	9,278

iii) Amortised cost

	2013 SR'000		
	Domestic	International	Total
Murabaha investments	913,533	-	913,533
Sukuk investments	9,899,868	1,437,870	11,337,738
Total	10,813,401	1,437,870	12,251,271
Grand Total	11,000,491	1,596,634	12,597,125

5. INVESTMENTS (continued)

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

	2014			2013		
	Quoted SR'000	**Unquoted SR'000**	**Total SR'000**	Quoted SR'000	Unquoted SR'000	Total SR'000
Murabaha investments	**-**	**-**	**-**	-	913,533	913,533
Sukuk investments	**2,683,473**	**8,242,861**	**10,926,334**	2,446,150	8,891,588	11,337,738
Equities	**75,668**	**3,438**	**79,106**	29,166	3,438	32,604
Mutual funds	**329,530**	**-**	**329,530**	313,250	-	313,250
Total Investments	**3,088,671**	**8,246,299**	**11,334,970**	2,788,566	9,808,559	12,597,125

d) The analysis of unrealized gains and losses and the fair values of investments at amortised cost are as follows:

	2014				2013			
	Carrying value SR'000	**Gross unrealized gains SR'000**	**Gross unrealized losses SR'000**	**Fair value SR'000**	Carrying value SR'000	Gross unrealized gains SR'000	Gross unrealized losses SR'000	Fair value SR'000
Murabaha investments	**-**	**-**	**-**	**-**	913,533	-	-	913,533
Sukuk investments	**10,926,334**	**29,063**	**(4,260)**	**10,951,137**	11,337,738	17,338	(4,792)	11,350,284
Total	**10,926,334**	**29,063**	**(4,260)**	**10,951,137**	12,251,271	17,338	(4,792)	12,263,817

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

	2014 SR'000	2013 SR'000
Government and quasi Government	**5,445,786**	6,362,433
Corporate	**2,318,655**	2,906,817
Banks and other financial institutions	**3,570,529**	3,327,875
Total	**11,334,970**	12,597,125

The fair values of investments carried at amortised cost are not significantly different from their carrying values. The Sukuk investments (disclosed in 5d) are quoted in a market but not actively traded.

Equities reported under FVTOCI includes unquoted shares of SR 3.4 million (2013: SR 3.4 million) that are carried at cost, as their fair value cannot be reliably measured.

Mutual funds domiciled in the Kingdom of Saudi Arabia with underlying investments outside the Kingdom of Saudi Arabia are classified under the International category.

6. LOANS AND ADVANCES, NET

Consumer includes loans and advances related to individuals for personal needs and credit card balances.

Commercial include loans and advances to corporate, medium and small sized business and institutional customers.

Others include loans and advances to staff.

a) Loans and advances, net comprise the following:

	SR'000			
2014	**Consumer**	**Commercial**	**Others**	**Total**
Performing loans and advances	**14,868,491**	**26,360,158**	**284,539**	**41,513,188**
Non-performing loans and advances	**223,416**	**146,444**	**-**	**369,860**
Total loans and advances	**15,091,907**	**26,506,602**	**284,539**	**41,883,048**
Provision for credit losses				
Specific provision	**(172,674)**	**(50,442)**	**-**	**(223,116)**
Portfolio provision	**(182,828)**	**(232,553)**	**-**	**(415,381)**
Total provision for credit losses	**(355,502)**	**(282,995)**	**-**	**(638,497)**
Loans and advances, net	**14,736,405**	**26,223,607**	**284,539**	**41,244,551**

	SR'000			
2013	Consumer	Commercial	Others	Total
Performing loans and advances	12,184,052	22,822,891	219,871	35,226,814
Non-performing loans and advances	220,486	208,886	-	429,372
Total loans and advances	12,404,538	23,031,777	219,871	35,656,186
Provision for credit losses				
Specific provision	(90,333)	(88,934)	-	(179,267)
Portfolio provision	(126,628)	(355,532)	-	(482,160)
Total provision for credit losses	(216,961)	(444,466)	-	(661,427)
Loans and advances, net	12,187,577	22,587,311	219,871	34,994,759

Loans and advances, net represents Shari'ah Compliant (non-interest based) products in respect of Murabaha agreements, Ijarah, Istisna'a, Musharaka and Tawaraq.

Loans and advances include net receivables from Ijarah finance amounting to SR 9.05 billion (2013: SR 7.75 billion)

6. LOANS AND ADVANCES, NET (continued)

b) Movements in provision for credit losses are as follows:

	SR'000		
2014	**Consumer**	**Commercial**	**Total**
Balance at the beginning of the year	**216,961**	**444,466**	**661,427**
Provided during the year	**155,241**	**301,450**	**456,691**
Bad debts written off	**(1,255)**	**(429,917)**	**(431,172)**
Recoveries / reversals of amounts previously provided	**(15,445)**	**(33,004)**	**(48,449)**
Balance at the end of the year	**355,502**	**282,995**	**638,497**

	SR'000		
2013	Consumer	Commercial	Total
Balance at the beginning of the year	227,989	1,149,781	1,377,770
Provided during the year	98,831	87,541	186,372
Bad debts written off	(83,023)	(769,925)	(852,948)
Recoveries / reversals of amounts previously provided	(26,836)	(22,931)	(49,767)
Balance at the end of the year	216,961	444,466	661,427

c) Net impairment charge for credit losses for the year in the consolidated statement of income is as follows:

	2014 SR'000	2013 SR'000
Additions during the year, net	**456,691**	186,372
Recoveries of amounts previously provided	**(48,449)**	(49,767)
Recoveries of debts previously written off	**(25,135)**	(262)
Impairment charge for credit losses, net	**383,107**	136,343

6. LOANS AND ADVANCES, NET (continued)

d) Economic sector risk concentrations for the loans and advances and provision for credit losses are as follows:

2014	**Performing SR'000**	**Non performing, net SR'000**	**Provision for credit losses SR'000**	**Loans and advances, net SR'000**
Government and quasi Government	**1,126,077**	**-**	**-**	**1,126,077**
Banks and other financial institutions	**630,365**	**-**	**-**	**630,365**
Manufacturing	**6,170,870**	**-**	**-**	**6,170,870**
Mining and quarrying	**80,684**	**-**	**-**	**80,684**
Building and construction	**1,358,151**	**221**	**-**	**1,358,372**
Commerce	**9,124,416**	**72,919**	**(49,517)**	**9,147,818**
Transportation and communication	**218,190**	**-**	**-**	**218,190**
Services	**446,061**	**60,575**	**-**	**506,636**
Consumer loans and credit cards	**14,868,491**	**223,417**	**(172,674)**	**14,919,234**
Share trading	**3,403,162**	**3,269**	**-**	**3,406,431**
Others	**4,086,721**	**9,459**	**(925)**	**4,095,255**
	41,513,188	369,860	(223,116)	41,659,932
Portfolio provision	-	-	(415,381)	(415,381)
Total	**41,513,188**	**369,860**	**(638,497)**	**41,244,551**

2013	Performing SR'000	Non performing, net SR'000	Provision for credit losses SR'000	Loans and advances, net SR'000
Government and quasi Government	515,777	-	-	515,777
Banks and other financial institutions	1,036,051	-	-	1,036,051
Agriculture and fishing	27,104	-	-	27,104
Manufacturing	5,930,793	90,343	(22,586)	5,998,550
Mining and quarrying	640,692	-	-	640,692
Building and construction	716,424	-	-	716,424
Commerce	8,367,742	51,319	(34,379)	8,384,682
Transportation and communication	280,425	-	-	280,425
Services	393,670	55,118	(30,575)	418,213
Consumer loans and credit cards	12,184,052	220,486	(90,333)	12,314,205
Share trading	2,806,397	3,269	-	2,809,666
Others	2,327,687	8,837	(1,394)	2,335,130
	35,226,814	429,372	(179,267)	35,476,919
Portfolio provision	-	-	(482,160)	(482,160)
Total	35,226,814	429,372	(661,427)	34,994,759

6. LOANS AND ADVANCES, NET (continued)

d) Economic sector risk concentrations for the loans and advances and provision for credit losses are as follows (continued):

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

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

	2014 **SR'000**	2013 SR'000
Collateral against performing loans	**17,955,136**	13,931,573
Collaterals against non-performing loans	**84,434**	86,740
Total	**18,039,570**	14,018,313

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

e) Other real estate, net

	2014 **SR'000**	2013 SR'000
Balance at the beginning of the year	**672,485**	660,446
Disposals	**(12,388)**	(1,961)
	660,097	658,485
Reversal of provision made for unrealised revaluation losses	**-**	14,000
Balance at the end of the year	**660,097**	672,485

7. INVESTMENT IN AN ASSOCIATE

The Group holds a 35% shareholding in AlJazira Takaful Ta'wuni Company ("ATT"). The details related to ATT are more fully explained in note 28 and note 38 to these consolidated financial statements. The market value of investment in ATT as of December 31, 2014 is SR 794.29 million (2013: 655.38 million).

The following table summarises the latest available financial information of ATT as at December 31 and for the year then ended:

	2014 **SR'000**	2013 SR'000
Total assets	**358,619**	350,965
Total liabilities	**(4,310)**	(3,852)
Proportion of Group's ownership	**35%**	35%
Carrying amount of the investment	**125,588**	121,489

	2014 **SR'000**	2013 SR'000
Total profit / (loss) for the year	**10,970**	(2,889)
Group's share of profit / (loss) for the year (35%)	**3,839**	(1,011)

The following table summarises the movement of the investment in associate during the year:

	2014 **SR'000**	2013 SR'000
Balance at the beginning of the year	**121,489**	-
Investment during the year	-	122,500
Share in profit / (loss) for the year	**3,839**	(1,011)
Other adjustment	**260**	-
Balance at the end of the year	**125,588**	121,489

8. PROPERTY AND EQUIPMENT, NET

	Land and buildings SR'000	**Leasehold improvements SR'000**	**Furniture, equipment and vehicles SR'000**	**Capital work in progress SR'000**	**Total 2014 SR'000**	Total 2013 SR'000
Cost						
Balance at the beginning of the year	**161,425**	**338,575**	**565,098**	**60,027**	**1,125,125**	1,013,332
Additions	**-**	**6,676**	**21,362**	**143,449**	**171,487**	129,249
Transfers	**-**	**44,028**	**20,262**	**(64,290)**	**-**	-
Disposals	**-**	**-**	**(44,239)**	**-**	**(44,239)**	(17,456)
Balance at the end of the year	**161,425**	**389,279**	**562,483**	**139,186**	**1,252,373**	1,125,125
Accumulated depreciation						
Balance at the beginning of the year	**4,888**	**191,604**	**420,867**	**-**	**617,359**	547,229
Charge for the year	**152**	**28,989**	**50,253**	**-**	**79,394**	71,417
Disposals	**-**	**-**	**(43,300)**	**-**	**(43,300)**	(1,287)
Balance at the end of the year	**5,040**	**220,593**	**427,820**	**-**	**653,453**	617,359
Net book value						
At December 31, 2014	**156,385**	**168,686**	**134,663**	**139,186**	**598,920**	
At December 31, 2013	156,537	146,971	144,231	60,027		507,766

9. OTHER ASSETS

	2014 SR'000	2013 SR'000
Accrued special commission receivable:		
Banks and other financial institutions	**7,108**	3,611
Investments	**71,007**	70,009
Loans and advances	**306,791**	246,471
Derivatives	**16,918**	11,470
Total accrued special commission receivable	**401,824**	331,561
Advances, prepayments and other receivables	**166,026**	138,825
Positive fair value of derivatives	**239,279**	122,456
Margin deposits against derivatives	**248,925**	84,300
Others	**72,617**	25,689
Total	**1,128,671**	702,831

10. DERIVATIVES

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

a) Swaps

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

b) Options (Wa'ad Fx)

Foreign exchange options are transactions, whereby a client, in consideration for the payment of a fee agrees to enter into one or a series of trades in which one party (promisor) gives a commitment as an unilateral undertaking, to a second party (promisee).

An option can be a unilateral promise or combination of promises. The Group enters into the option depending on the client's risk profile, whereby the client may promise to buy, sell or buy and sell a currency with or without conditions for hedging its exposure.

10.1 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 in order, to 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, with the expectation of profiting from, price differentials between markets or products.

10.2 Held for hedging purposes

The Group uses Shari'ah compliant derivatives for hedging purposes in order to reduce its exposure to commission rate risk and foreign exchange risk.

The Group has adopted a comprehensive system 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 reduce its exposure to currency and commission rate risks to acceptable levels as determined by the Board of Directors within the guidelines issued by SAMA.

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

The Group also uses special commission rate swaps to hedge against the cash flow risk arising on certain special commission 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.

10. DERIVATIVES (continued)

10.2 Held for hedging purposes (continued)

Cash flow hedges

The Group is exposed to variability in future special commission cash flows on non-trading assets and liabilities which bear special commission rate risk. The Group uses special commission rate swaps as hedging instruments to hedge against these special commission rate risks. Below is the schedule indicating as at December 31, the periods when the hedged cash flows are expected to occur and when they are expected to affect the consolidated statement of income:

2014 **SR'000**	Within 1 year	1-3 years	3-5 years	Over 5 years
Cash inflows (assets)	18,930	30,677	26,155	64,046
Cash out flows (liabilities)	-	-	-	-
Net cash inflow	18,930	30,677	26,155	64,046

2013 SR'000	Within 1 year	1-3 years	3-5 years	Over 5 years
Cash inflows (assets)	19,389	33,910	28,954	67,850
Cash out flows (liabilities)	-	-	-	-
Net cash inflow	19,389	33,910	28,954	67,850

The gains / (loss) on cash flow hedges reclassified to the consolidated statement of income during the year is as follows:

	2014 **SR'000**	2013 SR'000
Special commission income	**899**	977
Special commission expense	**(1,742)**	(1,185)
Net losses on cash flow hedges reclassified to the consolidated statement of income	**(843)**	(208)

10. DERIVATIVES (continued)

Movement in other reserves of cash flow hedges:

	2014 SR'000	2013 SR'000
Balance at the beginning of the year	**(3,061)**	(45,474)
(Losses) /gains from change in fair value recognised directly in equity, net (effective portion)	**(146,939)**	29,111
Losses removed from equity and transferred to consolidated statement of income	**2,819**	13,302
Balance at the end of the year	**(147,181)**	(3,061)

The discontinuation of hedge accounting due to the disposal of both the hedging instruments and the hedged items, resulted in the reclassification of the related cumulative losses of SR 1.976 million (2013: SR 13.094 million) from equity to the consolidated statement of income. This amount is included in the losses above.

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

2014
SR'000

				Notional amounts by term to maturity				
	Positive fair value	**Negative fair value**	**Notional amount**	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Monthly average**
Held for trading								
Options	59,133	59,133	5,187,560	983,866	2,283,694	1,920,000	-	4,158,876
Forwards	-	-	-					129,464
FX swaps	-	-	599,344	599,344	55,336	-	-	394,034
Special commission rate swaps	179,802	179,802	5,939,438	-	-	3,333,122	2,606,316	5,201,026
Held as cash flow hedges:								
Special commission rate swaps	344	139,704	3,186,562	-	-	304,688	2,881,875	2,214,651
Total	**239,279**	**378,639**	**14,912,904**	**1,583,210**	**2,339,030**	**5,557,810**	**5,488,191**	**12,098,051**

10. DERIVATIVES (continued)

	2013 SR'000							
				Notional amounts by term to maturity				
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading								
Options	4,746	4,746	1,901,150	635,690	852,960	412,500	-	4,424,433
Forwards	555	564	40,726	40,726	-	-	-	40,726
FX swaps	-	71	562,500	562,500	-	-	-	562,500
Special commission rate swaps	91,789	91,789	4,154,006	-	-	2,110,236	2,043,770	3,957,102
Held as cash flow hedges:								
Special commission rate swaps	25,366	20,024	2,635,313	-	-	503,438	2,131,875	2,131,797
Total	122,456	117,194	9,293,695	1,238,916	852,960	3,026,174	4,175,645	11,116,558

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

	SR'000					
Description of hedged items	**Fair value**	**Hedge inception value**	**Risk**	**Hedging instrument**	**Positive fair value**	**Negative fair value**
2014						
Floating commission rate investments	**3,199,249**	**3,186,562**	**Cash flow**	**Commission rate swap**	**344**	**139,705**
2013						
Floating commission rate investments	2,630,823	2,635,313	Cash flow	Commission rate swap	25,366	20,024

11. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2014 SR'000	2013 SR'000
Current accounts	**63,239**	27,225
Money market deposits from banks and other financial institutions	**3,673,237**	4,331,513
Total	**3,736,476**	4,358,738

12. CUSTOMERS' DEPOSITS

	2014 SR'000	2013 SR'000
Demand	**26,436,759**	19,158,001
Time	**27,129,743**	27,432,544
Other	**1,002,771**	1,491,980
Total	**54,569,273**	48,082,525

Time deposits comprise deposits received on Shari'ah Compliant (non-interest based) Murabaha basis.

Other customers' deposits include SR 445 million (2013: SR 491 million) of margins held for irrevocable contingencies and commitments.

The above includes foreign currency deposits as follows:

	2014 SR'000	2013 SR'000
Demand	**605,906**	503,945
Time	**2,877,273**	4,384,545
Other	**47,518**	47,581
Total	**3,530,697**	4,936,071

The foreign currency deposits are mainly in US dollars to which the SR is pegged; hence the sensitivity with respect to foreign currency risk is not material.

13. SUBORDINATED SUKUK

On March 29, 2011, the Bank issued 1,000 Subordinated Sukuk Certificates of SR 1 million each, with a profit distribution rate based on 6 months Saudi Inter-Bank Offered Rate (SIBOR), reset semi-annually in advance, plus a margin of 170 basis point per annum and payable semi-annually in arrears on March 29 and September 29 each year until March 29, 2021, on which date the Sukuk will expire or mature. The proceeds of the Sukuk were used by the Bank for strengthening its capital base as the Sukuk comprises Tier II capital for Saudi Arabian regulatory purposes. The obligation of the issuer to the Sukukholders is not secured by any assets or security or guaranteed by third party and is subordinated. The Sukuk is due in 2021 with a step up in margin to 550 basis points in 2016. The Group has a call option which can be exercised after March 29, 2016 on meeting certain conditions and as per the terms mentioned in the related Offering Circular dated March 28, 2011. The Sukuk may also be called upon occurrence of certain other conditions as per the terms specified in the above Offering Circular. The intention of the Bank is to exercise the call option in 2016. The Sukuk is registered with Saudi Stock Exchange (Tadawul).

14. OTHER LIABILITIES

	2014 SR'000	2013 SR'000
Accrued special commission payable:		
Banks and other financial institutions	**36,937**	28,339
Customers' deposits	**90,835**	77,984
Subordinated Sukuk	**7,037**	7,037
Total accrued special commission payable	**134,809**	113,360
AlJazira Philanthropic Program (see note below)	**49,433**	63,623
Accounts payable	**215,403**	255,807
Dividend payable	**26,604**	26,652
Negative fair value of derivatives	**378,639**	117,193
Other	**285,246**	229,965
Total	**1,090,134**	806,600

During 2006, the Board of Directors approved the contribution to a philanthropic program to carry out the Bank's social responsibilities towards the Saudi society, through the charitable contributions to various benevolent efforts that promote the general welfare of the society.

For this purpose, the Bank contributed SR 100 million to this program during 2006.

A Social Committee has been established to coordinate this program, consisting of three board members, and it is the intention of the Board of Directors to seek assistance of other independent members from the business community and the Shari'ah Board of the Bank to overview and provide guidance for the activities of the program.

15. SHARE CAPITAL

The shareholders of the Bank in their meeting held on May 20, 2014 (corresponding to 21 Rajab 1435) approved the increase in the Bank's share capital from SR 3 billion to SR 4 billion through the issuance of bonus shares to shareholders of the Bank (one share for each three shares). The legal formalities relating to the increase in share capital have been completed. Accordingly the authorized, issued and fully paid share capital of the Bank consists of 400 million shares of SR 10 each (2013: 300 million shares of SR 10 each).

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

	2014	2013
Saudi shareholders	**92.23 %**	94.17 %
Non Saudi shareholder - National Bank of Pakistan	**5.83 %**	5.83 %
Non Saudi shareholder - others	**1.94 %**	- %

16. STATUTORY AND GENERAL RESERVES

In accordance with Saudi Arabian Banking Control Law and the Articles of Association of the Bank, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid-up capital of the Bank. Accordingly SR 143 million has been transferred from net income (2013: SR 163 million). The statutory reserve is currently not available for distribution.

In addition, when considered appropriate, the Bank makes an appropriation to a general reserve for general banking risks.

17. OTHER RESERVES

2014	Cash flow hedges SR' 000	Fair value reserve SR' 000	Total SR' 000
Balance at beginning of the year	(3,061)	4,710	**1,649**
Net change in fair value	(146,939)	1,154	**(145,785)**
Transfer to consolidated statement of income	2,819	-	**2,819**
Net movement during the year	(144,120)	1,154	**(142,966)**
Balance at end of the year	**(147,181)**	**5,864**	**(141,317)**

17. OTHER RESERVES (continued)

2013	Cash flow hedges SR' 000	Fair value reserve SR' 000	Total SR' 000
Balance at beginning of the year	(45,474)	7,830	(37,644)
Net change in fair value	29,111	23,643	52,754
Transfer to consolidated statement of income	13,302	-	13,302
Transfer to retained earnings	-	(26,763)	(26,763)
Net movement during the year	42,413	(3,120)	39,293
Balance at end of the year	(3,061)	4,710	1,649

18. COMMITMENTS AND CONTINGENCIES

a) Legal proceedings

At December 31, 2014, there were legal proceedings of a routine nature outstanding against the Group. No significant provision has been made as related professional legal advice indicates that it is unlikely that any significant loss will eventually arise.

b) Capital commitments

At December 31, 2014, the Group had capital commitments of SR 105.278 million (2013: SR 40.375 million) in respect of the construction of branches and IT related projects.

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 standby 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 related commitment because the Group does not generally expect the third party to draw funds under the agreement.

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

18. COMMITMENTS AND CONTINGENCIES (continued)

c) Credit related commitments and contingencies (continued)

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

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

			(SR'000)		
2014	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Letters of credit	**823,316**	**231,128**	**-**	**-**	**1,054,444**
Letters of guarantee	**740,846**	**1,922,450**	**959,060**	**62,649**	**3,685,005**
Acceptances	**330,387**	**-**	**-**	**-**	**330,387**
Irrevocable commitments to extend credit	**-**	**-**	**76,167**	**110,007**	**186,174**
Total	**1,894,549**	**2,153,578**	**1,035,227**	**172,656**	**5,256,010**

			(SR'000)		
2013	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	834,197	234,472	19,312	-	1,087,981
Letters of guarantee	965,271	1,393,150	882,266	25,981	3,266,668
Acceptances	448,563	-	-	-	448,563
Irrevocable commitments to extend credit	-	83,282	151,459	365,939	600,680
Total	2,248,031	1,710,904	1,053,037	391,920	5,403,892

The outstanding unused portion of commitments as at December 31, 2014, which can be revoked unilaterally at any time by the Group, amounts to SR 3.58 billion (2013: SR 1.9 billion).

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

	2014 SR'000	2013 SR'000
Corporate	**5,174,893**	5,287,470
Banks and other financial institutions	**81,117**	116,422
Total	**5,256,010**	5,403,892

18. COMMITMENTS AND CONTINGENCIES (continued)

d) Operating lease commitments

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

	2014 **SR'000**	2013 SR'000
Less than 1 year	**9,711**	9,711
1 to 5 years	**30,611**	35,327
Over 5 years	**16,184**	37,590
Total	**56,506**	82,628

19. NET SPECIAL COMMISSION INCOME

	2014 **SR'000**	2013 SR'000
Special commission income		
Investments held as at amortised cost	**314,886**	193,799
Due from banks and other financial institutions	**33,419**	24,877
Derivatives	**118,626**	54,742
Loans and advances	**1,487,938**	1,371,711
Total	**1,954,869**	1,645,129
Special commission expense		
Due to banks and other financial institutions	**22,544**	26,201
Customers' deposits	**284,759**	281,621
Subordinated Sukuk	**27,357**	27,467
Derivatives	**172,043**	82,359
Others	**3,084**	4,534
Total	**509,787**	422,182
Net special commission income	**1,445,082**	1,222,947

20. FEES AND COMMISSION INCOME, NET

	2014 SR'000	2013 SR'000
Fees and commission income		
Local share trading	**364,476**	244,659
Takaful Ta'wuni (insurance) wakala fees	**21,976**	21,076
Loan commitment and management fees	**205,532**	165,180
Trade finance	**48,989**	40,931
International share trading	**5,566**	3,108
Mutual funds fees	**32,962**	20,660
Fees from ATM transactions	**31,099**	30,496
Others	**71,195**	31,155
Total fees and commission income	**781,795**	557,265
Fees and commission expense		
Brokerage fees	**(133,689)**	(89,050)
Takaful Ta'wuni – sales commission	**(54)**	(125)
Total	**648,052**	468,090

21. TRADING INCOME, NET

	2014 SR'000	2013 SR'000
Equities	**9,261**	16,719
Mutual funds	**11,472**	29,291
Derivatives	**9,711**	9,728
Total	**30,444**	55,738

Trading income contains unrealized income of SR 17.387 million (2013: 44.286 million).

22. DIVIDEND INCOME

	2014 SR'000	2013 SR'000
Dividend income on investments made in equity securities	**2,670**	6,407

23. GAIN ON NON-TRADING INVESTMENTS

	2014 SR'000	2013 SR'000
Held as at amortised cost investments	**3,684**	23,432

24. OTHER OPERATING INCOME

	2014 SR'000	2013 SR'000
Rental income	**-**	333
Gain on sale of property and equipment and others	**30,191**	9,671
Other	**9,300**	17,905
Total	**39,491**	27,909

25. EARNINGS PER SHARE

Basic earnings per share for the years ended December 31, 2014 and December 31, 2013 is calculated by dividing the net income for the year attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the year. The weighted average number of ordinary shares outstanding during the year ended December 31, 2014 and December 31, 2013 was 400 million to give a retroactive effect to the increase in the number of shares as a result of the bonus share issue. (note 15).

The calculations of basic and diluted earnings per share are same for the Bank.

26. ZAKAT AND INCOME TAX

The Bank has filed its Zakat returns for the financial years up to and including the year 2013 with the Department of Zakat and Income Tax (DZIT). The Bank has received Zakat assessments for the year(s) up to 2009 raising additional demands aggregating to SR 286.7 million. The above additional exposure is mainly on account of disallowance of certain long-term investments by the DZIT. The basis for this additional aggregate Zakat liability is being contested by the Bank in conjunction with all the Banks in Saudi Arabia. The Bank has also formally contested these assessments and is awaiting a response from DZIT.

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

27. CASH AND CASH EQUIVALENTS

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

	2014 SR'000	2013 SR'000
Cash and balances with SAMA, excluding statutory deposit	**3,566,163**	4,766,705
Due from banks and other financial institutions with an original maturity of three months or less from the date of acquisition (note 4)	**3,240,241**	2,323,795
Total	**6,806,404**	7,090,500

28. OPERATING SEGMENTS

The operating segments have been identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief decision maker in order to allocate resources to the segments and to assess their performance.

All of the Group's operations are based in the Kingdom of Saudi Arabia.

Transactions between business segments are recorded based on the Group's transfer pricing methodologies. Segment assets and liabilities mainly comprise operating assets and operating liabilities.

For management reporting purposes, the Group is organized into following main operating segments:

Personal banking

Deposit, credit and investment products for individuals.

Corporate banking
Loans, deposits and other credit products for corporate, small and medium sized business and institutional customers.

Brokerage and asset management
Provides shares brokerage services to customers (this segment includes the activities of the Bank's subsidiary AlJazira Capital Company).

Treasury
Treasury includes money market, foreign exchange, trading and treasury services.

Takaful Ta'wuni
Takaful Ta'wuni provides protection and saving products services and is fully Shari'ah compliant and is a substitute for conventional life insurance products.

The current Takaful segment represents the insurance portfolio which will be transferred to AlJazira Takaful Ta'wuni (ATT) at an agreed value and date duly approved by SAMA. The details related to ATT are more fully explained in note 7 and note 38 to these consolidated financial statements.

28. OPERATING SEGMENTS (continued)

The Group's total assets and liabilities and its income from operations and net income for the year by operating segment are as follows:

(SR'000)

2014	Personal banking	Corporate banking	Treasury	Brokerage and asset management	Takaful Ta'wuni	Others	Total
Total assets	**18,939,307**	**23,577,234**	**23,138,752**	**766,188**	**6,860**	**125,588**	**66,553,929**
Total liabilities	**26,094,025**	**24,601,413**	**9,563,292**	**92,322**	**44,831**	**-**	**60,395,883**
Total operating income	**739,724**	**558,507**	**614,794**	**346,388**	**22,217**	**(55,385)**	**2,226,245**
Net special commission	**510,214**	**411,911**	**514,781**	**9,733**	**295**	**(1,852)**	**1,445,082**
Trading, fee and commission income, net	**177,280**	**124,759**	**20,954**	**333,129**	**21,922**	**452**	**678,496**
Share of profit of an associate	**-**	**-**	**-**	**-**	**-**	**3,839**	**3,839**
Operating expenses:							
- Impairment charge for credit losses, net	**(117,527)**	**(265,580)**	-	-	-	-	**(383,107)**
- Depreciation	**(42,586)**	**(18,830)**	**(8,211)**	**(7,813)**	**(1,954)**	**-**	**(79,394)**
Total operating expenses	**(761,182)**	**(601,277)**	**(124,745)**	**(150,235)**	**(24,854)**	**4,676**	**(1,657,617)**
Net (loss) / income	**(21,458)**	**(42,770)**	**490,049**	**196,153**	**(2,637)**	**(46,870)**	**572,467**

28. OPERATING SEGMENTS (continued)

(SR'000)

2013	Personal banking	Corporate banking	Treasury	Brokerage and asset management	Takaful Ta'wuni	Others	Total
Total assets	17,379,558	20,558,555	21,230,439	675,775	10,592	121,489	59,976,408
Total liabilities	19,038,108	27,287,895	7,815,633	58,854	47,373	-	54,247,863
Total operating income	547,923	491,845	542,697	274,695	21,385	(39,238)	1,839,307
Net special commission	394,643	374,645	445,395	7,949	433	(118)	1,222,947
Trading, fee and commission income, net	111,335	102,565	23,429	265,548	20,951	-	523,828
Share in loss of an associate	-	-	-	-	-	(1,011)	(1,011)
Operating expenses:							
- Impairment charge for credit losses, net	(62,961)	(73,382)	-	-	-	-	(136,343)
- Depreciation	(42,744)	(10,272)	(7,532)	(8,549)	(2,320)	-	(71,417)
Total operating expenses	(648,279)	(256,955)	(110,064)	(145,782)	(31,946)	5,366	(1,187,660)
Net (loss) / income	(100,356)	234,890	432,633	128,913	(10,561)	(34,883)	650,636

28. OPERATING SEGMENTS (continued)

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

	(SR'000)						
2014	**Personal banking**	**Corporate banking**	**Brokerage and asset management**	**Treasury**	**Takaful Ta'wuni**	**Others**	**Total**
Assets	**18,565,313**	**22,903,405**	**-**	**16,421,616**	**-**	**-**	**57,890,334**
Commitments and contingencies	**-**	**3,517,319**	**-**	**-**	**-**	**-**	**3,517,319**
Derivatives	**-**	**-**	**-**	**149,129**	**-**	**-**	**149,129**

	(SR'000)						
2013	Personal banking	Corporate banking	Brokerage and asset management	Treasury	Takaful Ta'wuni	Others	Total
Assets	15,250,085	19,798,787	-	15,430,119	-	-	50,478,991
Commitments and contingencies	-	3,131,470	-	-	-	-	3,131,470
Derivatives	-	-	-	92,937	-	-	92,937

Credit exposure comprises the carrying value of the consolidated statement of financial position assets excluding cash, property and equipment, other real estate, investment in equities and mutual funds and certain other assets. Additionally the credit equivalent values of commitments, contingencies and derivatives are also included in the credit exposure (refer note 29).

29. CREDIT RISK

Credit risk, which is the result of a delay or failure by a counterparty to meet its financial and/or contractual obligations to the Bank, is managed in accordance with the Bank's comprehensive risk management control framework. Three credit committees are responsible for the oversight of credit risk, The Board Risk Committee, the Executive Committee and the Management Credit Committee. These committees have clearly defined mandates and delegated authorities, which are reviewed regularly.

The Bank assesses the probability of default of counterparties using either internal rating models or external ratings as assessed by major rating agencies.

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

The Bank's credit policy aims at maintaining the high quality of the loan portfolio and ensuring proper risk diversification. The credit policy sets the basic criteria for acceptable risks and identifies risk areas that require special attention.

The Bank manages the credit exposures relating to its trading activities by monitoring credit limits, entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposure.

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

The debt securities included in the investment portfolio are mainly sovereign risk. Analysis of investments by counter-party is provided in note 5. For details of the composition of loans and advances, refer to note 6. Information on credit risk relating to commitments and contingencies is provided in note 18. Information on the Bank's maximum credit exposure by operating segment is given in note 28.

The Bank in the ordinary course of its lending activities will often seek to take collateral to provide an alternative source of repayment in the event that customers or counterparties are unable to meet their obligations. Assets taken as collateral include promissory note, time and other cash deposits, financial guarantees, local and international equities subject to an appropriate margin to reflect price volatility, real estate and other physical assets. The Bank holds real estate collateral against the transfer of title deed. Collateral generally is not held over due from banks and other financial institutions, except when securities are held as part of reverse repurchase. Collateral usually is not held against investment securities, and no such collateral was held at December 31, 2014 and December 31, 2013. Customer agreements often include requirements for provision of additional collateral should valuations decline or credit exposure increase.

29. CREDIT RISK (continued)

The Bank uses an internal credit classification and review system to manage the credit risk within its wholesale loans portfolio. The classification system includes ten grades, of which seven grades relate to the performing portfolio as follows:

- Standard-low risk: represents risk ratings 1 to 3;
- Standard-medium risk: represents risk ratings 4 to 6; and
- Special mention: represents risk rating 7
- Start-up category that represents loans to newly formed businesses/ projects.

Three grades relate to the non-performing portfolio (substandard, doubtful and loss; risk ratings 8 to 10). Loans and advances under the standard category are performing, have sound fundamental characteristics and include those that exhibit neither actual nor potential weaknesses. Specific provisions for impairment are maintained in respect of the non performing portfolio based on each borrower's grade, which is determined by the Group's Credit Control Division using specific criteria such as activities, cash flows, capital structure, securities and delinquency. Portfolio provisions are created for losses, where there is objective evidence that unidentified losses are present at the reporting date. These are estimated based upon credit grading allocated to the borrower or group of borrowers as well as the current economic climate in which the borrowers operate together with the experience and the historical default patterns that are embedded in the components of the credit portfolio. The Bank's Internal Audit Division independently reviews the overall system on a regular basis.

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

29. CREDIT RISK (continued)

a) Credit quality of financial assets (loans and advances and due from banks and other financial institutions)

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

	SR'000					
	Loans and advances				Due from banks and other financial institutions	
2014	**Consumer**	**Commercial**	**Others**	**Subtotal**		**Total**
Performing						
Neither past due nor impaired (performing)						
Standard – low risk	**-**	**5,390,105**	**-**	**5,390,105**	**4,908,991**	**10,299,096**
Standard – medium risk	**-**	**12,235,464**	**-**	**12,235,464**	**-**	**12,235,464**
Standard – unclassified	**14,740,324**	**7,091,648**	**284,539**	**22,116,511**	**-**	**22,116,511**
Sub total - standard	**14,740,324**	**24,717,217**	**284,539**	**39,742,080**	**4,908,991**	**44,651,071**
Special mention	**-**	**1,505,997**	**-**	**1,505,997**	**-**	**1,505,997**
Sub total	**14,740,324**	**26,223,214**	**284,539**	**41,248,077**	**4,908,991**	**46,157,068**
Past due but not impaired						
Less than 30 days	**78,734**	**129,543**	**-**	**208,277**	**-**	**208,277**
30-60 days	**12,741**	**1,404**	**-**	**14,145**	**-**	**14,145**
60-90 days	**8,645**	**4,166**	**-**	**12,811**	**-**	**12,811**
Over 90 days	**28,047**	**1,831**	**-**	**29,878**	**-**	**29,878**
Total performing	**14,868,491**	**26,360,158**	**284,539**	**41,513,188**	**4,908,991**	**46,422,179**
Less: portfolio provision	**(182,828)**	**(232,553)**	**-**	**(415,381)**	**-**	**(415,381)**
Net performing	**14,685,663**	**26,127,605**	**284,539**	**41,097,807**	**4,908,991**	**46,006,798**
Non-performing						
Total non-performing	**223,416**	**146,444**	**-**	**369,860**	**-**	**369,860**
Less: Specific provision	**(172,674)**	**(50,442)**	**-**	**(223,116)**	**-**	**(223,116)**
Net-non performing	**50,742**	**96,002**	**-**	**146,744**	**-**	**146,744**

29. CREDIT RISK (continued)

a) Credit quality of financial assets (loans and advances and due from banks and other financial institutions) (continued)

	SR'000					
	Loans and advances				Due from banks and other financial institutions	
2013	Consumer	Commercial	Others	Subtotal		Total
Performing						
Neither past due nor impaired (performing)						
Standard – low risk	-	4,934,289	-	4,934,289	3,073,795	8,008,084
Standard – medium risk	-	10,905,630	-	10,905,630	-	10,905,630
Standard – unclassified	12,129,984	4,491,107	219,871	16,840,962	-	16,840,962
Sub total - standard	12,129,984	20,331,026	219,871	32,680,881	3,073,795	35,754,676
Special mention	-	2,261,796	-	2,261,796	-	2,261,796
Sub total	12,129,984	22,592,822	219,871	34,942,677	3,073,795	38,016,472
Past due but not impaired						
Less than 30 days	26,461	125,853	-	152,314	-	152,314
30-60 days	2,035	1,211	-	3,246	-	3,246
60-90 days	2,351	74,552	-	76,903	-	76,903
Over 90 days	23,221	28,453	-	51,674	-	51,674
Total performing	12,184,052	22,822,891	219,871	35,226,814	3,073,795	38,300,609
Less: portfolio provision	(126,628)	(355,532)	-	(482,160)	-	(482,160)
Net performing	12,057,424	22,467,359	219,871	34,744,654	3,073,795	37,818,449
Non-performing						
Total non-performing	220,486	208,886	-	429,372	-	429,372
Less: Specific provision	(90,333)	(88,934)	-	(179,267)	-	(179,267)
Net-non performing	130,153	119,952	-	250,105	-	250,105

Standard unclassified mainly comprise of loans given to individuals for personal needs, credit cards, small business, employee and share trading loans.

Others mainly comprise employee loans.

29. CREDIT RISK (continued)

Performing loans as at December 31, 2014 include renegotiated loans restructured due to deterioration in the borrower's financial position) of SR 1.52 billion (2013: SR 698.4 million).

The special mention / watchlist 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 might, at some future date, result in the deterioration of the repayment prospects of either the principal or the special commission payments. The special mention / watchlist loans and advances do not expose the Bank to sufficient risk to warrant a lower classification.

b) Credit quality of investments

The credit quality of investments comprising solely of debt instruments held as at amortised cost (all debt instruments are under amortised cost category) is managed using reputable external rating agencies.

Unrated investments are debt instruments which have not been rated by any external credit rating agency.

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

	2014 SR'000	2013 SR'000
Performing		
Government Murabaha investments	**-**	913,533
High grade (AAA – BBB)	**8,513,548**	11,179,371
Standard grade (BA1 – B2)	**-**	-
Sub-standard grade (BA3 – C)	**-**	-
Unrated	**2,412,786**	158,367
Total performing and overall investments	**10,926,334**	12,251,271

As at December 31, 2014 and December 31, 2013, no provision was required for the impairment in the value of investments held as at amortised cost.

29. CREDIT RISK (continued)

c) An economic sector analysis of the Bank's loans and advances

The tables below show an economic sector analysis of the Bank's loans and advances, net of specific and portfolio provisions; after taking into account total collateral held for both performing and non-performing loans and advances. Collateral includes time and cash deposits, local and international equities, real estate, counter guarantees and assignment of receivables.

	Maximum exposure		
2014	On-balance sheet position, net of provisions SR'000	Off-balance sheet credit – related commitments and contingencies, net of provisions SR'000	Total SR'000
Government and quasi government	**1,126,076**	**24,351**	**1,150,427**
Banks and other financial institutions	**630,365**	**616,820**	**1,247,185**
Agriculture and fishing	**-**	**2,490**	**2,490**
Manufacturing	**6,170,870**	**616,265**	**6,787,135**
Mining and quarrying	**80,684**	**76,537**	**157,221**
Electricity, water, gas and health services	**-**	**1,477**	**1,477**
Building and construction	**1,358,372**	**2,208,114**	**3,566,486**
Commerce	**9,147,818**	**692,053**	**9,839,871**
Transportation and communication	**218,190**	**64,562**	**282,752**
Services	**506,636**	**153,710**	**660,346**
Consumer loans and credit cards	**14,736,405**	**-**	**14,736,405**
Share trading	**3,406,431**	**-**	**3,406,431**
Other	**3,862,704**	**799,631**	**4,662,335**
Maximum exposure	**41,244,551**	**5,256,010**	**46,500,561**
Less: collateral for performing and non-performing	**(18,039,570)**	**(2,298,877)**	**(20,338,447)**
Net maximum exposure	**23,204,981**	**2,957,133**	**26,162,114**

29. CREDIT RISK (continued)

c) An economic sector analysis of the Bank's loans and advances (continued)

	Maximum exposure		
2013	On-balance sheet position, net of provisions SR'000	Off-balance sheet credit – related commitments and contingencies, net of provisions SR'000	Total SR'000
Government and quasi government	507,819	83,282	591,101
Banks and other financial institutions	1,020,066	447,222	1,467,288
Agriculture and fishing	26,686	106,701	133,387
Manufacturing	5,907,042	828,826	6,735,868
Mining and quarrying	630,807	157,323	788,130
Electricity, water, gas and health services	-	29	29
Building and construction	705,370	1,757,879	2,463,249
Commerce	8,255,574	1,004,230	9,259,804
Transportation and communication	276,098	53,520	329,618
Services	412,139	112,383	524,522
Consumer loans and credit cards	12,187,577	-	12,187,577
Share trading	2,766,365	-	2,766,365
Other	2,299,216	852,497	3,151,713
Maximum exposure	34,994,759	5,403,892	40,398,651
Less: collateral for performing and non-performing	(14,018,313)	(2,460,415)	(16,478,728)
Net maximum exposure	20,976,446	2,943,477	23,919,923

d) Maximum credit exposure

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

	2014 SR'000	2013 SR'000
Assets		
Due from banks and other financial institutions (note 4)	**4,908,991**	3,073,795
Investments (note 5)	**11,334,970**	12,597,125
Loans and advances, net (note 6)	**41,244,551**	34,994,759
Other assets - margin deposits against derivatives and accrued special commission receivable (note 9)	**650,749**	415,861
Total assets	**58,139,261**	51,081,540
Contingencies and commitments, net (note 18)	**2,957,133**	2,943,477
Derivatives - positive fair value, net (note 10)	**239,279**	122,456
Total maximum exposure	**61,335,673**	54,147,473

30. GEOGRAPHICAL CONCENTRATION

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

(SR'000)

2014 Assets	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	South East Asia	Other countries	Total
Cash and balances with SAMA	6,552,141	-	-	-	-	-	**6,552,141**
Due from banks and other financial institutions	3,729,887	569,273	84,292	523,776	387	1,376	**4,908,991**
Investments	11,327,788	188	-	6,994	-	-	**11,334,970**
Loans and advances, net	41,236,791	7,594	-	-	-	166	**41,244,551**
Investment in an associate	125,588	-	-	-	-	-	**125,588**
Total	**62,972,195**	**577,055**	**84,292**	**530,770**	**387**	**1,542**	**64,166,241**
Commitments and contingencies	**4,957,586**	**253,376**	**29,108**	**3,385**	**12,155**	**400**	**5,256,010**
Credit exposure (credit equivalent)							
Commitments and contingencies	**3,229,954**	**135,590**	**59,649**	**85,177**	**6,749**	**200**	**3,517,319**
Derivatives	**81,976**	**3,050**	**22,547**	**41,556**	-	-	**149,129**

30. GEOGRAPHICAL CONCENTRATION (continued)

(SR'000)

2013 Assets	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	South East Asia	Other countries	Total
Cash and balances with SAMA	7,306,158	-	-	-	-	-	7,306,158
Due from banks and other financial institutions	2,556,258	70,878	46,519	397,460	1,296	1,384	3,073,795
Investments	11,000,490	630,188	114,456	63,710	38,281	750,000	12,597,125
Loans and advances, net	34,872,673	17,312	-	-	75,556	29,218	34,994,759
Investment in an associate	121,489	-	-	-	-	-	121,489
Total	55,857,068	718,378	160,975	461,170	115,133	780,602	58,093,326
Commitments and contingencies	4,955,856	286,825	61,123	600	5,436	94,052	5,403,892
Credit exposure (credit equivalent)							
Commitments and contingencies	2,942,584	148,289	31,357	300	2,718	6,222	3,131,470
Derivatives	36,308	3,050	22,446	31,133	-	-	92,937

Credit equivalent of commitments and contingencies is calculated according to SAMA's prescribed methodology.

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

	Non performing loans, net		**Impairment for credit losses**	
	2014 SR' 000	2013 SR' 000	**2014 SR' 000**	2013 SR' 000
Kingdom of Saudi Arabia	**369,860**	429,372	**638,497**	661,427

31. MARKET RISK

Market risk is the risk that the Group's earnings or capital, or its ability to meet business targets, will be adversely affected by changes in the level or volatility in market prices, such as special commission rates, credit spreads (not relating to changes in the obligor's / issuer's credit standing), equity prices and foreign exchange rates. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios mainly are held by the Treasury division and include equity investments and mutual funds that are managed on a fair value basis.

The Board approves market risk appetite for trading and non-trading activities. The Market Risk Policy Committee is responsible for the Market Risk Framework and under the delegated authority of the Board sets a limits framework within the approved market risk appetite. A daily market risk report details the Group's market risk exposures against agreed limits. This daily report is reviewed by the Treasurer and Chief Risk Officer. The market risk for the trading book and non-trading book is managed and monitored using sensitivity analysis.

a) MARKET RISK TRADING BOOK

Market risk on trading mainly arises from the foreign currency exposures and changes in equity prices and the net asset values of mutual funds.

i) FOREIGN EXCHANGE RISK

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

31. MARKET RISK (continued)

a) MARKET RISK TRADING BOOK (continued)

i) FOREIGN EXCHANGE RISK (continued)

At the end of the year, the Group has the following significant exposure in its trading book, denominated in foreign currencies as at December 31:

	2014 **SR'000**	2013 SR'000
US Dollar	11,265	26,279
Euro	14,646	15,838
Pound Sterling	27,864	24,135
Japanese Yen	40,827	39,458

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

Currency	**2014**		2013	
	Increase in currency rate in %	**Effect on net income SR'000**	Increase in currency rate in %	Effect on net income SR'000
US Dollar	**± 0.17**	**± 19**	± 0.070	± 18
Euro	**± 6.27**	**± 918**	± 7.360	± 1,166
Pound Sterling	**± 5.71**	**± 1,591**	± 7.530	± 1,817
Japanese Yen	**± 7.98**	**± 3,258**	±12.290	± 4,849

31. MARKET RISK (continued)

a) MARKET RISK TRADING BOOK (continued)

ii) EQUITY PRICE RISK

Equity price risk is the risk that the fair values of mutual funds decrease as a result of changes in the levels of equity index and the value of individual stocks deriving the net asset value of the funds.

The financial instruments included in the FVTIS portfolio are equity securities held by mutual funds owned by the Group. The Group manages the risk relating to the mutual funds by monitoring changes in net asset value of the mutual funds. The investments in equity securities and mutual funds held by the Group are managed by the Group in conjunction with professional investment advisors, and the equity price risk is monitored by the Group on a portfolio basis for each mutual fund. The effect on the consolidated statement of income as a result of a change in the fair value of equity instruments held for trading at December 31, 2014 and December 31, 2013 due to reasonably possible changes in the underlying respective fund's net asset value, with all other variables held constant, is as follows:

	2014		2013	
Portfolio	**Increase / decrease in equity price %**	**Effect on consolidated statement of income SR'000**	Increase / decrease in equity price %	Effect on consolidated statement of income SR'000
Al Thoraiya	**± 4.17**	**± 2,118**	± 16.970	± 8,706
Al Khair	**± 5.12**	**± 1,612**	± 22.670	± 6,614
Al Mashareq	**± 7.12**	**± 2,809**	± 56.720	± 21,713
Al Qawafel	**± 2.37**	**± 2,534**	± 25.500	± 26,396
Global Emerging Market	**± 5.12**	**± 1,701**	± 22.670	± 7,703
Others	**± 2.37**	**± 1,605**	± 25.500	± 14,535

The effect on the consolidated statement of income as a result of a change in the fair value of equity instruments held at FVTIS at December 31, 2014 due to reasonably possible changes in the following market index, with all other variables held constant, is as follows:

	2014		2013	
Market index	**Increase / decrease in index %**	**Effect on consolidated statement of income SR'000**	Increase / decrease in index %	Effect on consolidated statement of income SR'000
Tadawul	**2.37**	**1,628**	25.5	5,948

31. MARKET RISK (continued)

b) MARKET RISK – NON TRADING OR BANKING BOOK

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

i) SPECIAL COMMISSION RATE RISK

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

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

Currency	**2014**		2013	
	Increase / decrease in basis points	**Sensitivity of special commission income SR'000**	Increase / decrease in basis points	Sensitivity of special commission income SR'000
SR	**+25**	**5,726**	+25	3,352
SR	**-25**	**(5,726)**	-25	(3,352)
USD	**+25**	**1,652**	+25	(697)
USD	**-25**	**(1,652)**	-25	697
AED	**+25**	**3**	+25	3
AED	**-25**	**(3)**	-25	(3)

31. MARKET RISK (continued)

b) MARKET RISK – NON TRADING OR BANKING BOOK (continued)

i) SPECIAL COMMISSION RATE RISK (continued)

Commission rate sensitivity of assets, liabilities and off-balance sheet items

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

The table below summarizes the Group's exposure to commission rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorized by the earlier of the contractual re-pricing or the maturity dates. The Group is exposed to commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period. The Group manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

	(SR'000)						
2014	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total	Effective commission rate
Assets							
Cash and balances with SAMA	**2,960,000**	**-**	**-**	**-**	**3,592,142**	**6,552,142**	**-**
Due from banks and other financial institutions	**3,443,750**	**656,250**	**-**	**-**	**808,991**	**4,908,991**	**0.42%**
Investments	**3,845,840**	**587,939**	**304,846**	**6,187,709**	**408,636**	**11,334,970**	**2.64%**
Loans and advances, net	**13,366,928**	**17,896,589**	**9,464,707**	**231,787**	**284,539**	**41,244,550**	**3.82%**
Investment in associate					**125,588**	**125,588**	**-**
Other real estate, net	**-**	**-**	**-**	**-**	**660,097**	**660,097**	**-**
Property and equipment, net	**-**	**-**	**-**	**-**	**598,920**	**598,920**	**-**
Other assets	**-**	**-**	**-**	**-**	**1,128,671**	**1,128,671**	**-**
Total assets	**23,616,518**	**19,140,778**	**9,769,553**	**6,419,496**	**7,607,584**	**66,553,929**	

31. MARKET RISK (continued)

b) MARKET RISK – NON TRADING OR BANKING BOOK (continued)

i) SPECIAL COMMISSION RATE RISK (continued)

(SR'000)

2014	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total	Effective commission rate
Liabilities and equity							
Due to banks and other financial institutions	**3,673,166**	**-**	**-**	**-**	**63,310**	**3,736,476**	**0.39%**
Customers' deposits	**16,739,991**	**10,269,442**	**120,310**	**-**	**27,439,530**	**54,569,273**	**0.93%**
Subordinated Sukuk	**-**	**1,000,000**	**-**	**-**	**-**	**1,000,000**	**2.69%**
Other liabilities	**-**	**-**	**-**	**-**	**1,090,134**	**1,090,134**	-
Equity	**-**	**-**	**-**	**-**	**6,158,046**	**6,158,046**	-
Total liabilities and Equity	**20,413,157**	**11,269,442**	**120,310**	-	**34,751,020**	**66,553,929**	
On-balance sheet Gap	**3,203,361**	**7,871,336**	**9,649,243**	**6,419,496**	**(27,143,436)**	**-**	
Commission rate sensitivity – off balance sheet	**1,500,000**	**1,686,563**	**(304,688)**	**(2,881,875)**	**-**	**-**	
Total commission rate sensitivity gap	**4,703,361**	**9,557,899**	**9,344,555**	**3,537,621**	**(27,143,436)**	**-**	
Cumulative commission rate sensitivity gap	**4,703,361**	**14,261,260**	**23,605,815**	**27,143,436**	**-**	**-**	

(SR'000)

2013	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total	Effective commission rate
Assets							
Cash and balances with SAMA	4,045,000	-	-	-	3,261,158	7,306,158	-
Due from banks and other financial institutions	1,787,500	750,000	-	-	536,295	3,073,795	0.61%
Investments	3,501,533	1,868,104	881,823	5,999,811	345,854	12,597,125	2.10%
Loans and advances, net	10,831,342	14,304,443	9,398,724	254,482	205,768	34,994,759	4.05%
Investment in associate	-	-	-	-	121,489	121,489	-
Other real estate, net	-	-	-	-	672,485	672,485	-
Property and equipment, net	-	-	-	-	507,766	507,766	-
Other assets	-	-	-	-	702,831	702,831	-
Total assets	20,165,375	16,922,547	10,280,547	6,254,293	6,353,646	59,976,408	

31. MARKET RISK (continued)

b) MARKET RISK – NON TRADING OR BANKING BOOK (continued)

i) SPECIAL COMMISSION RATE RISK (continued)

(SR'000)

2013	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total	Effective commission rate
Liabilities and equity							
Due to banks and other financial institutions	4,331,513	-	-	-	27,225	4,358,738	0.66%
Customers' deposits	13,606,805	13,403,359	823,863	-	20,248,498	48,082,525	1.13%
Subordinated Sukuk	-	1,000,000	-	-	-	1,000,000	-
Other liabilities	-	-	-	-	806,600	806,600	-
Equity	-	-	-	-	5,728,545	5,728,545	-
Total liabilities and Equity	17,938,318	14,403,359	823,863	-	26,810,868	59,976,408	
On-balance sheet gap	2,227,057	2,519,188	9,456,684	6,254,293	(20,457,222)	-	
Commission rate sensitivity – off balance sheet	1,698,750	936,563	(503,438)	(2,131,875)	-	-	
Total commission rate sensitivity gap	3,925,807	3,455,751	8,953,246	4,122,418	(20,457,222)	-	
Cumulative commission rate sensitivity gap	3,925,807	7,381,558	16,334,804	20,457,222	-	-	

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

31. MARKET RISK (continued)

b) MARKET RISK – NON TRADING OR BANKING BOOK (continued)

ii) CURRENCY RISK

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

At the end of the year, the Group has the following significant net exposures denominated in foreign currencies as at December 31:

	2014 **SR' 000** **Long / (Short)**	2013 SR'000 Long /(Short)
USD	**912,003**	1,218,519
AED	**15,520**	14,406

The table below indicates the currencies to which the Group has significant exposure as at December 31, 2014. The analysis is performed for a reasonable possible movement of the currency rate against the Saudi Arabian Riyal with all other variables held constant, including the effect of hedging instrument, on the consolidated statement of income. A negative amount in the table reflects a potential net reduction in consolidated statement of income, while a positive amount reflects a net potential increase. The sensitivity analysis does not take account of actions that might be taken by the Group to mitigate the effect of such changes.

Currency	**2014**		2013	
	Increase / decrease in currency rate in %	**Effect on net income SR'000**	Increase/ decrease in currency rate in %	Effect on net income SR'000
USD	**+0.05**	**456**	± 0.05	609
AED	**+0.05**	**8**	± 0.05	7

31. MARKET RISK (continued)

b) MARKET RISK – NON TRADING OR BANKING BOOK (continued)

iii) EQUITY PRICE RISK

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

The effect on shareholders' equity (other reserves) as a result of a change in the fair value of equity instruments as at FVTOCI at December 31, 2014 and December 31, 2013 due to reasonably possible changes in the following market indexes, with all other variables held constant, is as follows:

Market index	**2014**		2013	
	Increase / decrease in index %	**Effect on shareholders' equity (other reserve) SR'000**	Increase / decrease in index %	Effect on shareholders' equity (other reserve) SR'000
New York Stock Exchange	**5.12%**	**358**	22.67%	1,324

32. LIQUIDITY RISK

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

In accordance with the Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA at 7% of total demand deposits and 4% of savings and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of not less than 20% of the deposit liabilities, in the form of cash or assets that can be converted into cash within a period not exceeding 30 days. The Bank has the ability to raise additional funds through repo facilities available with SAMA up to 75% of the value of Murabaha placements with SAMA.

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

32. LIQUIDITY RISK (continued)

	2014	2013
	%	%
As at December 31	**29**	38
Average during the period	**28**	32
Highest	**34**	41
Lowest	**22**	25

a) Analysis of financial liabilities by remaining contractual maturities

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

(SR' 000)

	On demand	**Less than 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Financial liabilities						
As at December 31, 2014						
Due to banks and other financial institutions	**63,240**	**3,684,774**	**-**		**-**	**3,748,014**
Customers' deposits	**26,457,926**	**18,332,229**	**10,390,020**	**117,612**	**-**	**55,297,787**
Subordinated Sukuk		**6,587**	**13,176**	**1,006,588**	**-**	**1,026,351**
Derivatives	**-**	**1,619,717**	**2,304,007**	**5,621,670**	**5,566,802**	**15,112,196**
Total undiscounted financial liabilities 2014	**26,521,166**	**23,643,307**	**12,707,203**	**6,745,870**	**5,566,802**	**75,184,348**
Financial liabilities						
As at December 31, 2013						
Due to banks and other financial institutions	27,225	4,521,443	-	-	-	4,548,668
Customers' deposits	18,916,694	15,394,008	13,529,441	430,393	-	48,270,536
Subordinated Sukuk	-	6,588	13,176	1,052,702	-	1,072,466
Derivatives	-	1,265,364	869,428	3,075,251	4,229,974	9,440,017
Total undiscounted financial liabilities 2013	18,943,919	21,187,403	14,412,045	4,558,346	4,229,974	63,331,687

The contractual maturity structure of the Group's credit-related contingencies and commitments are shown under note 18.

32. LIQUIDITY RISK (continued)

b) Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled. See note (a) above for the Group's contractual undiscounted financial liabilities. For presentation purposes demand deposits are included in "No fixed maturity" category.

	(SR' 000)							
2014	**Within 3 months**	**3-12 months**	**Within 1 year**	**1-5 years**	**Over 5 years**	**More than 1 year**	**No fixed maturity**	**Total**
Assets								
Cash and balances with SAMA	-	-	-	-	-	-	6,552,141	**6,552,141**
Due from banks and other financial institutions	-	3,443,750	3,443,750	656,250	-	656,250	808,991	**4,908,991**
Investments	-	-	-	1,925,474	9,000,860	10,926,334	408,636	**11,334,970**
Loans and advances, net	8,712,061	12,718,570	21,430,631	10,971,540	8,842,380	19,813,920	-	**41,244,551**
Investment in associate	-	-	-	-	-	-	125,588	**125,588**
Other real estate, net	-	-	-	-	-	-	660,097	**660,097**
Property and equipment, net	-	-	-	-	-	-	598,920	**598,920**
Other assets	149,467	306,002	455,469	-	-	-	673,202	**1,128,671**
Total assets	**8,861,528**	**16,468,322**	**25,329,850**	**13,553,264**	**17,843,240**	**31,396,504**	**9,827,575**	**66,553,929**
Liabilities and equity								
Due to banks and other financial institutions	-	3,673,237	3,673,237	-	-	-	63,239	**3,736,476**
Customers' deposits	5,313,808	15,367,747	20,681,555	7,040,256	-	7,040,256	26,847,462	**54,569,273**
Subordinated Sukuk	-	-	-	1,000,000	-	1,000,000	-	**1,000,000**
Other liabilities	91,830	42,494	134,324	442	43	485	955,325	**1,090,134**
Equity	-	-	-	-	-	-	6,158,046	**6,158,046**
Total liabilities and equity	**5,405,638**	**19,083,478**	**24,489,116**	**8,040,698**	**43**	**8,040,741**	**34,024,072**	**66,553,929**

32. LIQUIDITY RISK (continued)

b) Maturity analysis of assets and liabilities (continued)

(SR' 000)

2013	Within 3 months	3-12 months	Within 1 year	1-5 years	Over 5 years	More than 1 year	No fixed maturity	Total
Assets								
Cash and balances with SAMA	-	-	-	-	-	-	7,306,158	7,306,158
Due from banks and other financial institutions	-	1,787,499	1,787,499	750,000	-	750,000	536,296	3,073,795
Investments	30,677	646,912	677,589	2,990,502	8,583,180	11,573,682	345,854	12,597,125
Loans and advances, net	8,362,959	8,783,544	17,146,503	9,668,351	8,179,905	17,848,256	-	34,994,759
Investment in associate	-	-	-	-	-	-	121,489	121,489
Other real estate, net	-	-	-	-	-	-	672,485	672,485
Property and equipment, net	-	-	-	-	-	-	507,766	507,766
Other assets	138,139	239,360	377,499	-	-	-	325,332	702,831
Total assets	8,531,775	11,457,315	19,989,090	13,408,853	16,763,085	30,171,938	9,815,380	59,976,408
Liabilities and equity								
Due to banks and other financial institutions	-	4,331,513	4,331,513	-	-	-	27,225	4,358,738
Customers' deposits	4,204,527	13,831,180	18,035,707	9,396,836	-	9,396,836	20,649,982	48,082,525
Subordinated Sukuk	-	-	-	1,000,000	-	1,000,000	-	1,000,000
Other liabilities	65,475	47,829	113,304	55	-	55	693,241	806,600
Equity	-	-	-	-	-	-	5,728,545	5,728,545
Total liabilities and equity	4,270,002	18,210,522	22,480,524	10,396,891	-	10,396,891	27,098,993	59,976,408

33. FAIR VALUE MEASUREMENT

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

The fair values of on balance sheet financial instruments, except for investments as at amortised cost, are not significantly different from the carrying values included in the consolidated financial statements (refer note 5(d)). The fair values of loans and advances, commission bearing customer deposits, subordinated Sukuk, due to banks and other financial institutions which are carried at amortised cost, are not significantly different from the carrying values included in the financial statements, since the current market commission rates for similar financial instruments are not significantly different from the contracted rates, and for the duration of due from and due to banks. The estimated fair values of other investments held at amortised cost are based on quoted market prices, when available or pricing models when used in the case of certain fixed rate bonds. The fair values of these investments are disclosed in note 5.

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

Determination of fair value and fair value hierarchy

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

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

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

	2014 (SR'000)			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
FVTIS	**398,204**	**-**	**-**	**398,204**
FVTOCI	**6,994**	**-**	**3,438**	**10,432**
Derivatives	**-**	**239,279**	**-**	**239,279**
Total	**405,198**	**239,279**	**3,438**	**647,915**
Financial liabilities				
Derivatives	**-**	**378,639**	**-**	**378,639**
Total	**-**	**378,639**	**-**	**378,639**

33. FAIR VALUE MEASUREMENT(continued)

Determination of fair value and fair value hierarchy (continued)

	2013 (SR'000)			
	Level 1	Level 2	Level 3	Total
Financial assets				
FVTIS	336,576	-	-	336,576
FVTOCI	5,840	-	3,438	9,278
Derivatives	-	122,456	-	122,456
Total	342,416	122,456	3,438	468,310
Financial liabilities				
Derivatives	-	117,194	-	117,194
Total	-	117,194	-	117,194

Derivatives classified as Level 2 comprise over the counter special commission rate swaps, currency swaps, options, spot and forward foreign exchange contracts, currency options and other derivative financial instruments. These derivatives are fair valued using the Bank's proprietary valuation models. The data inputs to these models are based on observable market parameters relevant to the markets in which they are traded and are sourced from widely used market data service providers.

During the year there were no transfers between levels (2013: same). New investments acquired during the year are classified under the relevant levels.

34. RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Bank transacts business with related parties. In the opinion of management and the Board of Directors, the related party transactions are conducted on an arms-length basis. The related party transactions are governed by the limits set by the Banking Control Law and regulations issued by SAMA.

The balances as at December 31 resulting from such transactions included in the consolidated financial statements are as follows:

	2014 SR' 000	2013 SR' 000
National Bank of Pakistan (shareholder)		
Due from banks and other financial institutions	**492**	514
Due to banks and other financial institutions	**186**	344
Commitments and contingencies	**2,245**	1,745
Directors, key management personnel, other major shareholders and their affiliates		
Loans and advances	**798,446**	893,652
Customers' deposits	**4,491,008**	3,678,321
Other receivables	**13,118**	13,118
Commitments and contingencies	**34,148**	8,888

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

34. RELATED PARTY TRANSACTIONS

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

	2014 **SR' 000**	2013 SR'000
Special commission income	**14,668**	38,009
Special commission expense	**44,852**	43,606
Fees and commission income	**74**	119
Directors' remuneration	**6,080**	4,715

The total amount of compensation paid to directors and key management personnel during the year is as follows:

	2014 **SR' 000**	2013 SR'000
Short-term employee benefits	**74,890**	83,344
Termination benefits	**18,141**	16,116

Key management personnel are those persons, including executive directors, having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly.

35. COMPENSATION

		2014		
Categories of employees	**Number of employees**	**Fixed compensation (on accrual basis) SR' 000**	**Variable compensation (on cash basis) SR' 000**	**Total SR' 000**
Senior executives that require SAMA no objection	17	34,396	12,700	**47,096**
Employees involved in control functions	131	49,056	4,954	**54,010**
Employees involved in risk taking activities	186	59,580	11,628	**71,208**
Other employees	1,950	388,633	47,690	**436,323**
Outsourced employees	496	60,348	2,025	**62,373**
Total	**2,780**	**592,013**	**78,997**	**671,010**
Variable compensation (accrual basis) other employee related benefits		**97,683**		
Other employee related benefits		**32,176**		
Total salaries and employee-related expenses		**721,872**		

		2013		
Categories of employees	Number of employees	Fixed compensation (on accrual basis) SR' 000	Variable compensation(on cash basis) SR' 000	Total SR' 000
Senior executives that require SAMA no objection	18	31,013	14,848	45,861
Employees involved in control functions	125	42,980	5,757	48,737
Employees involved in risk taking activities	164	55,004	13,234	68,238
Other employees	1,669	340,180	49,929	390,109
Outsourced employees	349	47,727	1,765	49,492
Total	2,325	516,904	85,533	602,437
Variable compensation (accrual basis) other employee related benefits		87,252		
Other employee related benefits		25,826		
Total salaries and employee-related expenses		629,982		

The compensation and benefits program philosophy

Compensation and benefits levels and amounts are determined by conducting periodic salary benchmark surveys and through other means of market pay intelligence, in order to enable the Group to keep abreast of the local and regional market conditions relating to the Group's staff employed in the Kingdom of Saudi Arabia.

The distribution of compensation is composed of a mix of fixed and variable pay, allowances, periodic meritorious reward schemes and non-cash benefits in line with the standards and norms for the financial services industry in the Kingdom of Saudi Arabia.

35. COMPENSATION (continued)

The compensation and benefits program philosophy (continued)

The compensation and benefits program is applicable to all regular (Headcount) Saudi national and expatriate employees of the Bank, and its subsidiaries within all applicable regulatory and corporate governance limitations.

- **Fixed compensation** includes salaries and wages, and job/position specific allowances and related benefits, which are fixed in employment contracts and are given irrespective of performance;
- **Variable compensation** includes performance bonuses, incentives and other variable performance related allowances which are not fixed by the employment contracts, and which vary from year to year, and have a direct correlation with individual, group and institutional performance success.

36. CAPITAL ADEQUACY

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

Capital adequacy and the use of regulatory capital are monitored on a periodic basis by the Bank's management. SAMA requires holding the minimum level of the regulatory capital and maintaining a ratio of total eligible capital to the risk-weighted assets at or above the agreed minimum of 8%.

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

SAMA has issued its final guidelines regarding implementation of Basel III Framework effective January 1, 2013. The new framework has brought significant amendments in the computation of regulatory capital and Pillar I risk weighted assets. The following table summarizes the Bank's Pillar-I Risk Weighted Assets (RWA), Regulatory Capital and Capital Adequacy Ratios calculated in accordance with the new Basel III Framework:

36. CAPITAL ADEQUACY (continued)

	2014		2013	
	Eligible capital SR '000	**Capital adequacy ratio %**	Eligible capital SR '000	Capital adequacy ratio %
Core capital (Tier 1)	**6,299,361**	**11.79%**	5,731,583	12.23%
Supplementary capital (Tier 2)	**1,209,132**		1,304,155	
Core and supplementary capital (Tier 1 + Tier 2)	**7,508,493**	**14.05%**	7,035,738	15.01%

Common Equity Tier 1 capital of the Bank at the year-end comprises of share capital, statutory reserve, general reserves, other reserves, retained earnings and certain regulatory capital adjustments in accordance with the requirement of SAMA Basel III Framework. The other component of regulatory capital is Tier 2 capital, which comprises subordinated sukuk issued by the Bank and eligible portfolio provisions.

For the purpose of calculating risk weighted assets , the Group uses the Standardized Approach for credit risk and market risk and the Basic Indicator Approach for operational risk. The Bank's Risk Management Division is responsible for ensuring that the Group's capital adequacy ratios meets the minimum requirement specified by SAMA. The Banks is required to submit a Capital Adequacy Prudential Returns on quarterly basis to SAMA showing the capital adequacy position.

	2014 SR '000	2013 SR '000
Credit risk	**48,209,708**	42,099,176
Operational risk	**3,481,813**	2,842,575
Market risk	**1,750,988**	1,921,225
Total pillar-1 – risk weighted assets	**53,442,509**	46,862,976

37. INVESTMENT MANAGEMENT AND BROKERAGE SERVICES

The Bank's subsidiary, AlJazira Capital Company (AJC) offers investment management and advisory services to its customers, compliant with the principles of Shari'ah (non-interest based). These services include portfolio management on a discretionary and non-discretionary basis and management of investment funds in conjunction with professional investment advisors. Twelve such funds for which AJC acts as the manager are Al-Khair Global Equities Fund, Al-Thoraiya European Equities Fund, Al-Mashareq Japanese Equities Fund, Al-Taiyebat Saudi Equities Fund, Al-Qawafel Commodities Fund, Aljazira Residential Projects Fund, Aljazira Residential Projects Fund 2, Aljazira GCC Income Fund, Aljazira Diversified Aggressive Fund, Aljazira Diversified Balanced Fund, AlJazira Diversified Conservative Fund and AlJazira Global Emerging market Fund. All of the above are opend ended funds except for AlJazira Residential Projects Fund and Aljazira Residential Projects Fund 2 which are closed-ended funds. Al-Khair Global Equities Fund, Al-Thoraiya European Equities Fund, Al-Mashareq Japanese Equities Fund invest in foreign equities, while Al-Taiyebat Saudi Equities Fund invests in local equities. Al-Qawafel Commodities Fund trades in commodities through Murabaha.

The objective of AlJazira Global Emerging Market Fund is to provide long term capital growth and provide income by investing in a diversified portfolio in emerging markets. The objective of AlJazira GCC Income Fund is to achieve long term capital growth and generate dividend income through investment in Shari'ah compliant GCC equities. The mandates of AlJazira Diversified Aggressive, Balanced and Conservative Funds are to invest mainly in AlJazira Capital mutual funds.

The Group also provides investment management and other services to the policyholders of its Takaful Ta'wuni program.

Total assets under administration held by the Group under brokerage services amounted to SR 34.1 billion (2013: SR 32.7 billion).

Total assets held in a fiduciary capacity by the Group under the asset management services amounted to SR 2.3 billion (2013: SR 1.9 billion).

38. TAKAFUL TA'WUNI DIVISION

Takaful Ta'wuni provides protection and saving products services that are fully Shari'ah compliant.

As required by the Insurance Law of Saudi Arabia, the Group decided to spin off its insurance business in a separate entity formed under the new Insurance Law of Saudi Arabia.

AlJazira Takaful Ta'wuni Company (ATT) was formed and listed on the Saudi Stock Exchange (Tadawul). ATT also received its insurance license from SAMA in December 2013 and started writing business from January 2014. The Group collectively holds a 35% share in ATT as at December 31, 2014. The current division represents the insurance portfolio which will be transferred to ATT at an agreed value and date duly approved by SAMA.

39. PROSPECTIVE CHANGES IN ACCOUNTING STANDARDS

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

Following is a brief on the new IFRS and amendments to IFRS effective for annual periods beginning on or after January 01, 2015.

Effective from periods beginning on or after	Standard, amendment or interpretation	Summary of requirements
January 1, 2018	IFRS 9	Financial instruments
January 1, 2017	IFRS 15	Revenue from contracts with customers
January 1, 2016	Amendments of IFRS 11	Accounting for acquisitions of interests in joint operations
January 1, 2016	Amendments to IAS 16 and IAS 38	Clarification of acceptable methods of depreciation and amortization
January 1, 2016	Amendments to IAS 16 and IAS 41	Agriculture: bearer plants
July 1, 2014	Amendments to IAS 19	Defined benefit plans: employee contributions
July 1, 2014	Amendments to IFRSs	Annual improvements to IFRSs 2010-2012 cycle
July 1, 2014	Amendments of IFRSs	Annual improvements to IFRSs 2011-2013 cycle

40. COMPARATIVE FIGURES

Certain prior year figures have been reclassified to confirm with current year presentation.

41. BOARD OF DIRECTORS' APPROVAL

The consolidated financial statements were authorized for issue by the Board of Directors on 27 Rabi Al Thani 1436H (corresponding to 16 February 2015).

42. BASEL III PILLAR 3 DISCLOSURES

Under Basel III Pillar 3, certain quantitative and qualitative disclosures are required, and these disclosures, which are not required to be audited, will be made available on the Bank's website www.baj.com.sa and in its annual report, as required by SAMA.