Annual Report 2014

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بنك الرياض
riyad bank

بسم الله الرحمن الرحيم

In The Name Of Allah, the Most Gracious, the Most Merciful

Custodian of the Two Holy Mosques
King Salman bin Abdulaziz Al Saud

HRH Prince Muqrin Bin Abdulaziz Al Saud
Crown Prince and First Deputy Prime Minister

HRH Prince Mohammed Bin Nayef Bin Abdulaziz Al-Saud
Deputy Crown Prince, Second Deputy Prime Minister,
Minister of the Interior

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“We will be the leading Saudi Bank, first in quality, first in value, first in caring for our customers and responding to their needs, by continuously improving our services, while enhancing our shareholders’ value.”

Financial Statements Highlights 2014

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Financial Statements Highlights 2014

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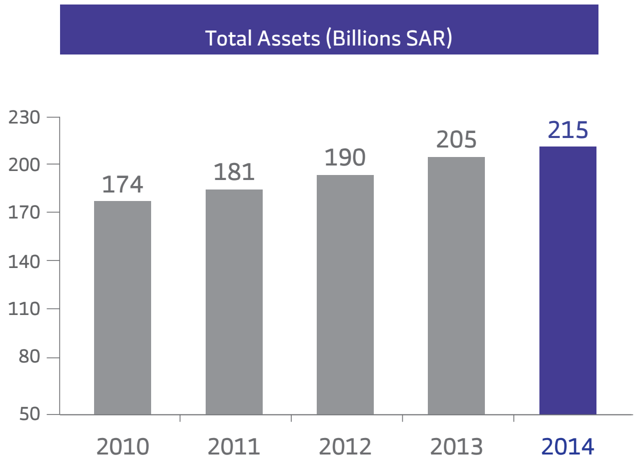
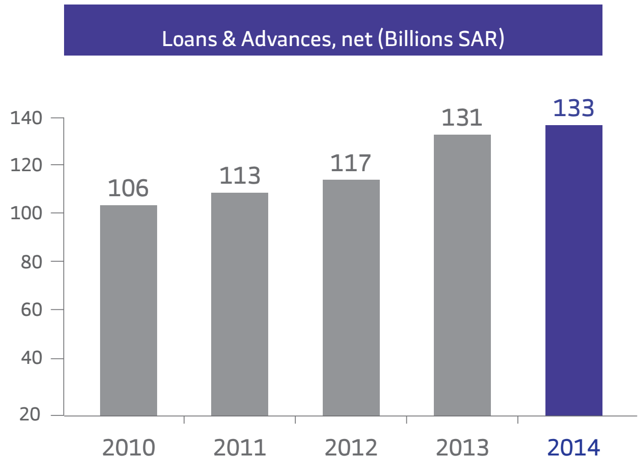
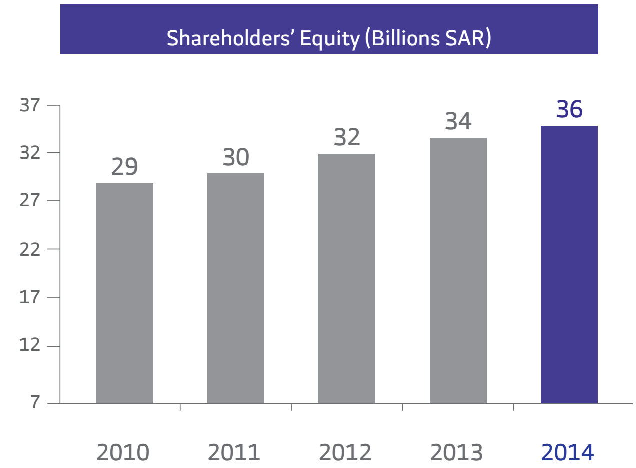
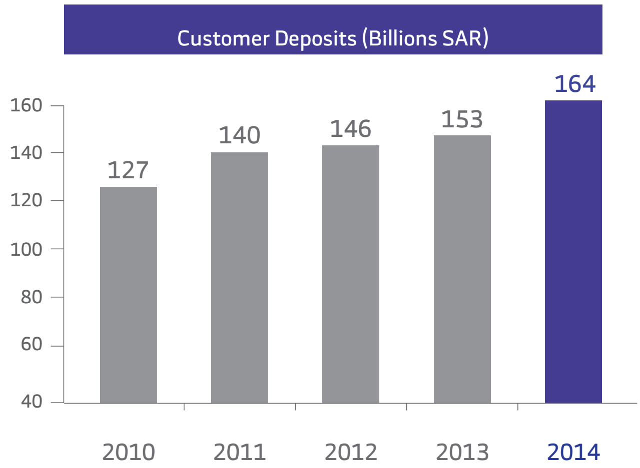
SAR' Millions	2014	2013	2012	2011	2010
Total Assets	214,589	205,246	190,181	180,887	173,556
Loans & Advances, net	133,490	131,191	117,471	112,973	106,035
Investments, net	46,963	43,538	36,254	36,616	33,822
Customer Deposits	164,079	153,200	146,215	139,823	126,945
Shareholders' Equity	35,537	33,870	31,964	30,158	29,233
Net Special Commission Income	5,130	4,697	4,381	4,197	4,142
Fee & Commission Income, net	2,020	1,821	1,777	1,589	1,418
Total Operating Income	8,058	7,131	6,866	6,321	5,980
Net Income	4,352	3,947	3,466	3,149	2,825
Return on Average Assets	2.07%	2.00%	1.87%	1.78%	1.61%
Return on Equity	12.25%	11.65%	10.84%	10.44%	9.66%


Total Assets (Billions SAR)
230
200
170
140
110
80
50
174
181
190
205
215
2010
2011
2012
2013
2014


Loans & Advances, net (Billions SAR)
140
120
100
80
60
40
20
106
113
117
131
133
2010
2011
2012
2013
2014


Shareholders' Equity (Billions SAR)
37
32
27
22
17
12
7
29
30
32
34
36
2010
2011
2012
2013
2014


Customer Deposits (Billions SAR)
160
140
120
100
80
60
40
127
140
146
153
164
2010
2011
2012
2013
2014

Board Of Directors

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Board Of Directors

The Chairman's Statement

What have we accomplished? and what are we aiming to achieve?

At the end of the financial year, we step back and reflect on what has been achieved over the past twelve months. We have ambitious goals to enhance shareholder value and meet our customers' expectations, and we have a clear vision to move our organization forward towards excellence and prosperity. Taking into account the economic environment and the promising banking sector, it is important to assess the results of all our efforts and gauge the progress that we have made.

Saudi Arabia's economy has achieved solid growth over the past two years on a base of sound fiscal policy, strong reserves, and a strong level of political stability amid the political situation of Arab countries that have been dramatically impacted on economic and social levels.

Despite the local market challenges, reflecting oil prices and political instability around the region, the Saudi economy will continue its economic growth and governmental expenditure at a strong level. These challenges will not have an important impact on the growth of the banking sector, due to their strong capital and diversified investment portfolios.

Thanks to the clarity of its strategies and solid resources, Riyad Bank maintained its consistent growth in 2014 under its prudent policies avoiding speculative and high risk investments. Instead, it has continued to focus on improving its performance levels, which in turn has led to increased returns from a number of its business units and enhanced financial results.

While Riyad Bank has continued to drive growth, 2014 was a remarkable year on several levels. The Bank took a decision to enhance its capital base as well as strengthening its resources including its human capital. Riyad Bank believes that these changes will pave the way for a new era.

Riyad Bank began the fiscal year by making a decision to double its capital from SAR 15 billion to SAR 30 billion through the distribution of 1.5 billion bonus shares to its shareholders, at one bonus share for each share owned. The Bank implemented this decision by transferring SAR 14.33 billion from its statutory reserve and SAR 671.62 million from retained earnings. This action raised the total number of Riyad Bank's shares from 1.5 billion to 3 billion.

When taking into account the economic environment, both macro and micro, this decision was prudent. It allowed Riyad Bank the opportunity to leverage off the opportunities present in the Kingdom, ensured that it maintained a sufficient level of capital, strengthened its financial solvency, supported its competitiveness and enabled the Bank to consolidate its leadership position in the financial sector.

Riyad Bank has made steady progress over the years, as per its long-term vision, and has sustained its growth and expanded in several key areas. The Bank's risk-averse approach, combined with a determined effort to improve the quality and breadth of its services, as well as the usage of the latest technology and a commitment to customer service excellence have resulted in expanding both its market share and strengthening its financial standing. During the last financial year, Riyad Bank reported a growth in its asset base of 4.55 percent. The Bank's deposits increased by 7.1 percent and its investment portfolio grew to SAR 46,963 million, an increase of 7.87 percent. It reported an increase in its loans portfolio of 1.75 percent. Overall, at the end of the year, the Bank reported an increase in net profits of 10.26 percent.

The Bank also maintained its leadership role across a number of areas within the Kingdom's financial sector, ranging from personal finance to trade finance, funding private sector investments, corporate financing and the provision of financing for infrastructure and major economic development projects. Riyad Bank has played a significant role in financing the Riyadh Metro project, as well as energy, water and petrochemical projects across the Kingdom. In addition, Riyad Bank has stepped up its support for the country's small and medium-sized enterprises. The Bank has played a crucial leadership role in the success of government-sponsored projects to finance SMEs such as the Kafalah program. The Bank has maintained its leadership role through these initiatives and up to the end of 2014, the Bank has funded over 1,550 SMEs to the amount of SAR 2,766 million.

In parallel, and based on the needs of the market and its customers, Riyad Bank continued to expand its portfolio of services throughout 2014. It further developed and increased its branch network and restructured them with the most modern standards and designs to improve its geographic coverage and customer service levels. The Bank reaffirmed its commitment to innovation as a means for continuous development to maintain its leadership position include its "Enriching Customer Experience" strategy which was conceived to support a step-change in how the Bank introduces products that aim to fulfill customers' needs and exceed their expectations.

The Bank has continued to make its presence felt outside the Kingdom's borders by extending banking services to customers through its facilities in key global financial centers such as Singapore, London, and Houston.

The strength of Riyad Bank's financial health has been highlighted by its ratings from the most respected rating agencies. During 2014, the Bank maintained its A+ rating for long-term liabilities and achieved an A-1 rating, the highest available for short-term liabilities from Standard & Poor's. These indicators underline a growing confidence in the Bank's financial and risk-management policies, as well as the levels of professional standards.

Riyad Bank has also enhanced its digital presence with the launch of a feature-rich online portal. This was augmented by the launch of applications for Android and iPhone-based applications. The Bank's aim is to ensure that its customers can enjoy banking services through solutions and channels that are as convenient and safe as possible, and which respond immediately to their needs and requirements.

Riyad Bank recognizes the importance of the human element and the key role that it plays in achieving those accomplishments. It pushes the bank towards more success and excellence, and further strengthen its leadership role in the banking industry. During the last quarter of 2014 the Bank completed an ambitious project restructuring the organization, in line with the innovative strategic vision of the business' operations. This restructuring will enable it to strengthen its operational performance, enhance its competitive edge and improve the ability of its human resources functions to contribute to the Bank's efficiency and growth.

At the same time, Riyad Bank reinforced its commitment to promote and foster national talent by continuing to implement its plan to improve the levels of national employment. The Bank believes in the abilities and promise of the Saudi youth. To date, Riyad Bank leads the rest of the industry in terms of its Saudization levels, with 93 percent nationalization for all of its staff. The Bank is in the lead in terms of supporting Saudi women and it is considered as a priority to the Bank representing 23 percent of the Bank's employees and all of its female employees are Saudi nationals. The Bank continued to provide training opportunities for nationals who have leadership abilities, to ensure that it has a pool of Saudi talent, across all functions, that is ready to take up leadership roles in the future.

Last year also witnessed a number of leadership changes at Riyad Bank, most prominent of which was the appointment of Mr. Abdulmajeed Abdullah Almobarak as the Deputy Chief Executive Officer. We have full confidence in Mr. Almobarak's appointment and believe that he will play a major role in ensuring the Bank continues on its growth path thanks to his skills, professionalism and experience. Several other notable leadership appointments were made in 2014 in a number of functions and business units.

As part of its efforts to develop the organizational environment, Riyad Bank has committed to focus on continually developing the professional skills of all employees. Its aim is to achieve exceptional performance for its customers, combined with the highest levels of professionalism to ensure a level of service that exceeds customers' expectations.

In keeping with this philosophy, during 2014 Riyad Bank expanded its internal and external training programs. During the twelve months, the Bank has provided over 13,000 training opportunities to its employees, both within and outside of the Kingdom, through its versatile programs including "Riyad Bank" and "Graduates" training programs, as well as "Competencies" program which is dedicated to raising service levels throughout its branch network.

Last but not least, Riyad Bank is committed, as ever, to community service programs which is one of the Bank's priorities. Throughout 2014, the Bank has extensively leveraged its resources to benefit local communities across the country, In doing this, the Bank believes that it is fulfilling its role as a Saudi-based organization that believes in the nation's values and social fabric and is determined to contribute, in a sustainable manner, to national development.

During 2014, Riyad Bank supported many social initiatives in different areas, including education, health, culture and sports as part of its mission to promote community development which had an effective impact on the society in general. The Bank supported projects for those with special needs and initiatives to train and support women looking to enter the workplace. The Bank also partnered with cultural groups to promote the arts among Saudis and we sought to enrich cultural life by supporting national talent through the sponsorship of the "Book of the Year Award" and the launch of the first award in the Kingdom for women's literature. In addition, the Bank has supported a range of occasions, events, festivals and conferences across the country based on its approach to corporate social responsibility which is built on three pillars: inclusiveness, development and sustainability.

In summary, with this report we conclude a year filled with exceptional achievement. We look forward to next year with renewed confidence and ambition. The next twelve months will be full of achievements, driven by a singular commitment to improve Riyad Bank's services to meet and exceed the expectations of its customers, and to realize the aspirations of its shareholders and employees through further success. Finally, on behalf of my fellow Board members, I would like to extend my gratitude and appreciation to the shareholders for their trust and continued support, as well as to the employees of Riyad Bank. Their dedication and work ethic have been the base upon which we have built our success and achieved our aspirations.

With my best wishes,
Rashed Abdulaziz Al-Rashed

Board Of Directors

Rashed Abdulaziz Al-Rashed
Chairman of the Board of Directors

Khaled Hamza Nahas
Board Director

Abdulrahman Hassan Sharbatly
Board Director

Abdulaziz Saleh Al-Jarbou
Board Director

Abdullah Ibrahim Al-Ayadhi
Board Director

The Executive Committee

Rashed Abdulaziz Al-Rashed (Chairman)
Abdullah Ibrahim Al-Ayadhi
Faris Abdullah Abaalkhail
Mohammed Abdulaziz Al-Afaleq
Waleed Abdulrahman Al-Eisa

The Audit Committee

Abdullah Mohammed Al-Issa (Chairman)
Nader Ibrahim Al-Wehibi
Ibrahim Al Ali Al-Khudair
Abdullah Hasan Al-Abdulqader
Abdullah Abdullatif Al-Saif

The Strategic Planning Group

Rashed Abdulaziz Al-Rashed (Chairman)
Abdulaziz Saleh Al-Jarbou
Abdullah Mohammed Al-Issa
Faris Abdullah Abaalkhail
Nader Ibrahim Al-Wehibi

Abdullah Mohammed Al-Issa

Board Director

Faris Abdullah Abaalkhail

Board Director

Mohammed Abdulaziz Al-Afaleq

Board Director

Nader Ibrahim Al-Wehibi

Board Director

Waleed Abdulrahman Al-Eisa

Board Director

The Nomination and Compensation Committee

Abdullah Ibrahim Al-Ayadhi (Chairman)
Rashed Abdulaziz Al-Rashed
Faris Abdullah Abaalkhail
Mohammed Abdulaziz Al-Afaleq
Nader Ibrahim Al-Wehibi
Waleed Abdulrahman Al-Eisa

The Risk Committee

Mohammed Abdulaziz Al-Afaleq (Chairman)
Abdullah Ibrahim Al-Ayadhi
Waleed Abdulrahman Al-Eisa

Report of the Board of Directors

Report of the Board of Directors:

The Board of Directors is pleased to submit its annual report on the performance of Riyad Bank and its subsidiaries for the year 2014. This report includes information on the Bank's activities, main achievements, strategies, and financial results, as well as its Board of Directors and various committees, plus other supplementary information in order to meet the requirements of the user of this report.

Main Activities:

Riyad Bank principally deals with all banking and investment businesses, whether for its own account or on behalf of third parties in Saudi Arabia and abroad. It offers an integral range of banking and commercial services for companies and individuals, as well as financing for commercial and industrial activities, enterprises and infrastructure projects, all through its modern network of 318 branches within the Kingdom, its London Branch in the UK, Houston Agency in the United States and Singapore Representative Office. Through its wholly-owned subsidiary, Riyad Capital, the Bank offers a variety of asset management services for retail customers including brokerage services in capital markets, a wide range of investment services and investment funds.

The income statement presents the results from the Bank's main activities as shown in Notes 20 and 21. Moreover, the Bank's business results and divisions are shown in Note 26, as attached to the annual financial statements of 2014.

Regarding potential risk and vulnerability, the Bank has a department specializing in managing, monitoring and controlling potential risks in accordance with globally-accepted financial principals. This department's role will be addressed later in the report. To support the work of this department across the business divisions, the Bank has formed several committees to monitor market, cash, operational, strategic and compliance risks.

These committees complement the Bank's existing Risk Committee under the Board of Directors. A detailed description of possible risks, including those that might be encountered by the Bank in the future, are detailed in Notes 27, 28, 29 and 30, which form an integral part of the Board of Directors' report.

Main Achievements:

By the end of 2014, the Bank had accomplished a number of key strategic objectives which have supported both the Bank's growth and an expansion of its portfolio of products and services. These achievements have helped the Bank to meet the expectations of its customer base as well as strengthen its leadership of the Kingdom's banking sector in a number of ways. The Bank's foremost achievements are listed by division below and include, but are not limited to, the following:

Retail Banking Services:

Over the past three years, the Bank's Retail Banking strategy has shown broad progress in a number of areas, which has resulted in growth in terms of income, assets and market share. The strategy's performance is measured on an ongoing annual basis in order to achieve the highest standards of success. The main achievements in 2014 were:

Mortgage Services: The Bank was granted the first license by the Saudi Arabian Monetary Agency to provide financing, mortgage and leasing finance services. This milestone reflects Riyad Bank's professionalism and experience in the sphere of real estate financing and leasing finance, which are key part of the Bank's retail portfolio. The Bank's mortgage finance portfolio achieved one of the highest growth rates in the Kingdom's banking sector in 2014, enabling the Bank to gain market share and providing for a more balanced growth across the different retail product groups.

Credit Cards: Riyad Bank launched a first in the Kingdom, the "World Elite MasterCard" card, which is the most exclusive credit card category available for retail banking. This card offers customers unique experiences including bespoke benefits such as access to private lounges at international airports, distinct travel concierge services, as well as special offers in the finest restaurants and shops worldwide. Riyad Bank launched the FIFA Platinum Visa credit card in readiness for the World Cup 2014 in Brazil.

This was the only World Cup-related card launched in Saudi Arabia. In addition, Riyad Bank partnered with Visa International to launch the Signature Visa card to meet the needs of our Golden Class customers. Riyad Bank also launched the MasterCard Cash Back card, which provides customers with a remarkable range of cash-back rewards on their purchases.

E-Banking: Riyad Bank launched a number of key e-banking solutions in 2014. First was the launch of the new “Riyadmobile” banking portal to support customers wishing to access their accounts through their smartphones. “Riyadmobile” enables customers to access a range of services through their handheld devices including bill payment, international transfers, and IPO subscriptions.

The Bank took a major step forward with the launch of a new and improved “RiyadOnline” portal. With its slick design and simple, intuitive interface, the new “RiyadOnline portal has been lauded by customers who also appreciate its enhanced security features.

The introduction of these self-service solutions offers customers an innovative means to bank that is both convenient and complementary to Riyad Bank’s existing banking channels.

Private and Golden Banking Services:

As part of Riyad Bank’s vision to provide the best bespoke services to our private banking and golden services customers, the Bank has introduced a number of new and innovative products through our private and golden banking specialists.

Today, the Bank has 58 Golden Service centres as well as four private banking hubs which have exclusive areas for our female customers. These centres, our banking specialists and our extensive product portfolio aim to deliver an unparalleled banking service which is available 24 hours a day, all to meet the needs of our customers and make their banking experience as convenient as possible.

Corporate Banking:

Riyad Bank’s Corporate Banking provides customers with a variety of banking products which are specifically relevant for businesses operating in the Kingdom.

The Bank’s aim is to become the financial partner of choice for businesses in the Kingdom, with a particular focus on excellent relationship management based on trust. Each and every Corporate Banking employee is an expert in the Bank’s corporate product portfolio and in customer service provision.

Of particular interest to Riyad Bank’s Corporate Banking function is the small and medium-sized enterprise sector. The Bank is committed to growing the country’s small and medium-sized enterprise sector to further the Kingdom’s economic diversification and support the nation’s economic growth and development.

The Bank’s Corporate Finance Department is a leader in the area of structured and syndicated loans as well as corporate and project financing. The Corporate Finance Department works through the Bank’s national branch network as well as the Bank’s offices in London, Houston and Singapore to provide these products and services to both Saudi-based companies as well as international firms who are investing and trading in the Kingdom.

Riyad Bank’s Financial Institutions Department manages the relationship between the Bank and other banks and financial institutions in relation to areas such as finance, investments, insurance and leasing products. The Financial Institutions Department offers a wide range of financial products and services which are specifically designed to meet the needs of financial institutions which are customers of Riyad Bank.

Over the past year, the Bank has continued its strategy of supporting projects within the Kingdom. The Bank participated in the world’s largest phosphate development, “the Promise of the North” joint initiative between Ma’aden and Mosaic. The Bank is proud of its support for this project, which is the first for Mosaic in Saudi Arabia, and which has the potential to transform industry in northern Saudi Arabia.

Riyad Bank has also played a leading role in supporting The National Titanium Dioxide Company (Cristal), a subsidiary of The National Industrialization Company (Tasnee). Cristal is one of the largest producers of titanium dioxide in the world, a material which is used in white paint and which has many other industrial applications.

During 2014 Riyad Bank participated in a number of projects in the petrochemical sector, including for Ibn Sina National Methanol Company, a joint initiative between SABIC, Elwood Insurance and the Texas Eastern Arabian Company, to expand one of the company’s existing production lines, as well as for Al-Jubail Petrochemical Company (Kemya), a joint venture between SABIC and ExxonMobil, to expand their activities.

During the second quarter of 2014 the Bank launched two prepaid cards for its corporate customers. The first, the "MyPay" prepaid card, allows companies to deposit employee salaries and allowances. The second, the "First" card, allows students access to their scholarships when studying abroad. Both cards can be used nationwide, at all ATMs and POS terminals.

During the last year the Bank launched a beta version of its "Riyad Bank Business" application, a first in the Kingdom. The application provides one-touch access via a smart phone or tablet devices to a range of services offered by Riyad Bank for corporate customers as part of the Bank's efforts to make corporate banking both more convenient and more secure.

Last but not least, Riyad Bank was proud to sponsor the second annual Saudi Trade Finance Conference. The event, which was held in Riyadh, hosted many Saudi business leaders and senior executives to discuss a number of challenges affecting global trade finance. During 2014 Riyad Bank hosted a series of trade finance seminars for its customers across the Kingdom.

Treasury and Investment Division:

Riyad Bank's Treasury and Investment Division plays a crucial role in managing both the Bank's liquidity and funding levels as well as risk management including any exposure relating to both the pricing of the Bank's products and to customers based outside of the Kingdom. The Treasury and Investment Division also oversees risk management for the Bank's portfolio and practices related to approving financing limits.

Over the past 12 months the Treasury and Investment Division has continued to expand the Bank's customer base thanks to its focus on treasury management selling opportunities. In addition, the division has continued to both develop and deliver an innovative range of hedging products which meet the needs of our corporate banking customers who are looking for services that minimize the risk of currency rate fluctuations.

As part of its market growth plans, the Treasury and Investment Division has developed new Shariah-compliant products for corporate customers who need Islamic finance hedging solutions. To meet this growing demand in the Kingdom, the Division now offers Shariah-compliant profit rate swap agreements.

During the first quarter of 2014 the Division completed the first phase of a project to update the Treasury's back-end systems with a modern, up-to-date system which will support the Treasury's future expansion. The second phase is scheduled to begin in 2015.

Finally, the Bank's investment policy takes into account the quality, diversity and liquidity of the assets which form the Bank's investment portfolio and which are under the supervision of its Investment Committee. These assets are both based in Saudi as well as outside of the Kingdom. Fixed income assets, including government and corporate bonds, represent the bulk of the Bank's portfolio. The performance of the Bank's investment portfolio throughout 2014 was exceptional, and provided attractive returns for the Bank.

Islamic Banking:

Riyad Bank provides a comprehensive range of Islamic products and services, from everyday financial transactions, to financing and investment solutions for both retail and corporate customers. The Islamic Banking Department is fully advised and guided by the Bank's Shariah Committee.

In 2014 the Islamic Banking Department held workshops to train 300 bank employees on the Bank's Islamic products. In addition, over 60 follow-up visits to Islamic branches were conducted to further our employee training.

The Islamic Banking Department strengthened its financing operations, including the review and approval of significant numbers of car financing and real estate Murabaha loans as per the regulations set out by the Saudi Arabian Monetary Agency.

Overseas Branches:

Riyad Bank has an extensive overseas banking network, including branches and operations in London, Houston and Singapore, which are part of our strategy to support our customers abroad and tailor services to their specific needs. These overseas operations also provide advice on investment opportunities and corporate financing within Saudi Arabia. Our overseas branch network is promoting increased trade inside the Kingdom, as well as supporting our customers and their investments abroad.

Riyad Bank's London branch plays an active role in supporting the expansion and growth of European multinational organizations who are commercially active in Saudi Arabia. The list of services provided through the London branch include letters of guarantee, standby letters of credit and assisting in the procurement of financing within Saudi Arabia.

Additionally, the London branch provides tailored banking services to the Bank's Saudi customers and their companies looking for finance to fund their European investments across a range of industries.

Riyad Bank's Houston operations play an essential role in support of Saudi financial organizations looking to operate in the Americas. The Houston Agency supports investments into the region, and also advises American companies with commercial operations in Saudi Arabia. The Houston operation of Riyad Bank's network also aids Saudi companies who are operating in North America.

Last but not least, Riyad Bank is present in the Far East thanks to its Singapore representative office. This facility supports Riyad Bank customers who are looking for investment opportunities in Asia, and also assists Asian-based corporations with commercial operations in Saudi Arabia.

Business Technology Governance:

Throughout the course of 2014, Riyad Bank's Business Technology Department continued to develop the Bank's Information Technology infrastructure to support business growth, including the adoption of more advanced security measures to provide the maximum protection for the Bank's records. Business Technology Department launched new initiatives to mitigate any potential threats to the Bank following a comprehensive review of security risks across the Bank. The Department successfully undertook penetration testing to measure the Bank's security readiness for both electronic service channels and the Bank's internal infrastructure.

The Department also enhanced the level of protection for the Bank's ATM network against potential card copying. Additionally, the latest anti-malware software was implemented to protect the Bank's customers from hacking and other types of internet piracy.

Through a series of simulations, the Business Continuity Unit affirmed the Bank's ability to continue providing banking services during any potential emergency or crisis. The Unit also verified the operability of the Bank's key applications, including its back-up site, which will allow the Bank to continue running basic services during and after any crisis or emergency, be they expected or unexpected. The Unit will continue to focus on business continuity planning to ensure that the Bank will be able to function, no matter the circumstances.

Business Technology:

A major focus for 2014 was on the provision of flexible and secure services that would be both convenient and intuitive for our customers. The Bank recently launched an upgraded version of its "RiyadOnline" website as part of its efforts to enhance the efficiency and quality of the electronic services provided to customers. The Business Technology Department also upgraded Riyad Bank's website and the Bank's "RiyadOnline" portal for corporate customers.

Behind these electronic channel upgrades is a strategy that is focused on enriching the customer experience through leveraging off the latest technology to add value to how customers access their banking services.

As part of this approach, the Bank launched "Riyad Mobile Business" and "RiyadMobile", giving both retail and corporate customers the ability to access the Bank's services through their mobile phones at any time and at any location. "RiyadMobile" brings the branch to the customer.

The Business Technology Department undertook a major upgrade of the Bank's ATM network, by updating the digital video recording devices and their memory allocation for recording to ensure increased protection for customers.

A new ATM feeding system, named "ATMR", was introduced to improve the feed mechanism and ensure a higher availability of cash notes for customers. The new ATMR system allows the Bank to better utilize the ATM network's cash reserves, provide for better cash flow reporting, and more effective control and monitoring of all the Bank's ATMs and their contents.

Risk Management:

The Bank considers Risk Management to be a key pillar of banking. The Risk Management Division is an independent body that reports directly to the Chief Risk Officer. This Division includes the Credit Risk Management, Market Risk Management and Operational Risk Management Departments. The responsibilities and activities of these departments are an integral part of the risk frameworks and policies approved by the Board of Directors. These departments submit periodic reports to the Board of Directors and its associated committees on areas that include asset quality, market value at risk, liquidity risk and net interest income risk.

During the past 12 months the Bank has continued to adopt leading corporate governance standards that satisfy local laws and regulations. The Bank also observes the most rigorous international practices in relation to corporate governance principles and practices. The Bank believes that such an approach will only improve the Bank's standards in terms of its banking practices.

The Bank has applied an internationally-developed advanced credit rating system to support the credit rating of corporate customers as per the credit rating levels approved by the Bank's Board of Directors. The Bank also uses an advanced credit rating system to manage credit risks relating to its retail customers. Currently, the Bank is undertaking measures to swiftly implement the Internal Rating Based Approach for assessing the capital adequacy ratio necessary to cover credit risks.

The Financial Risk Management Department, which is part of the Risk Management Division, assesses and manages a variety of risks including market, assets, liabilities and liquidity risks resulting from fluctuations in fair value or financial instruments future cash flows owing to changes in market prices. These assessments are undertaken as part of the risk frameworks and policies approved by the Board of Directors. The Bank has also implemented several analytical-based standards and methodologies, including stress and sensitivity tests, to better manage market risks. Finally, the Bank is continuing to develop an Internal Model Approach (IMA) for market risks.

The Operational Risk Management Department is responsible for identifying, assessing and monitoring risks that arise from deficiencies in work procedures, operating systems and/or human errors. The Department oversees the submission of the necessary recommendations to address these risks; the Department works with relevant departments to identify responsibilities, monitor operational risk reduction programs, improve internal monitoring procedures, create an operational risk database and raise operational risk awareness at the Bank.

The Bank effectively participates in the activities of the Saudi bank working groups, created by SAMA, to implement the Basel III Accord rules and resolutions.

Quality Assurance Department:

One of Riyad Bank's most important strategic goals is to satisfy our customers and exceed their expectations. This is the main aim of the Quality Assurance Department. The Department has implemented a range of best practices to raise the quality of customer service and ensure that the Bank is continually moving forward in terms of its customer service levels.

The Department uses customer satisfaction surveys to collect and analyse data that is then used to improve front-end operations and customer touch points. In 2014 the Quality Assurance Department, through its Field Research & Survey Unit, undertook over 36 research studies, both externally and internally across a number of the Bank's departments. The Department also made over 99,000 calls to customers to better understand their views and satisfaction levels when using the Bank's various banking channels.

Customer Experience:

Riyad Bank recognizes that the provision of high quality banking services is the basis for future growth and success. In order to measure the customer experience, the Bank must seek to understand and capture accurate feedback from customers which can then be used to further refine and develop the Bank's services. Riyad Bank established the Customer Experience Department, which leads work on designing, creating and implementing solutions that enrich the customer experience. The Department develops and distributes a range of tools which supports the Bank's employees to design distinctive customer experiences. The Department also manages the design and implementation of customer findings reports, the development of solutions aimed at improving customer service levels and the evaluation of customer experiences by services.

Last year's milestone for the Department was the roll-out of the "Net Promoter Score" methodology, which was applied in the retail banking division to measure the customer loyalty and satisfaction levels for all retail services and channels. Using NPS, the Department has been continuously monitoring the Bank's customer experience, and has leveraged customer feedback to develop existing services and introduce innovations for customers. In addition, the Department conducted tests on a range of new products and services to study their customer impact. The findings of these tests determined whether these products would be launched in the market. Customer Experience teams undertook live user testing on several key new services, such as RiyadOnline, with a select group of customers. Customer feedback led to a number of important product adjustments.

Compliance Department:

The Compliance Department reports directly to the Chairman and collaborates with the audit, risk management, operational risks and compliance committees to monitor compliance across the Bank. The fast pace of development in the banking sector and the organizational changes that are affecting the finance industry, both nationally and internally, has led the Bank to implement several initiatives to ensure compliance with all national and internationally relevant requirements relating to the banking sector, financing, tax and customer protection.

The Compliance Department has led the Bank's compliance development program, which aims to improve the Bank's compliance culture and environment. This program has ensured that the Bank adheres to global best practices by using a method-based approach to assess risk and apply suitable monitoring frameworks which are regularly assessed for their efficiency.

The Department issues regular reports for the Board of Directors' Audit Committee, the Operational Risk Management Committee and the Compliance Committee, relating to the monitoring of compliance throughout the Bank. The Compliance Department has also worked on strengthening the compliance culture within the Bank. Finally, the Department provides consultative services relating to regulations and instructions, both those issued by the authorities as well as the Bank's own internal polices and code of ethics.

Credit Rating:

The Bank has consistently maintained an exceptional credit rating with international credit rating agencies. Riyad Bank has succeeded in maintaining its (A+) credit rating from the Standard & Poor's rating agency for long-term liabilities, and its (A-1) rating for short-term liabilities - the highest rating available. The global rating agency Fitch has also maintained its (A+) rating for long-term liabilities, and the (F1) rating for short-term liabilities. Capital Intelligence rating agency has awarded the Bank an (AA-) rating for long-term liabilities and an (A1+) rating for short-term liabilities, the highest rating available.

All the rating agencies have maintained their stable outlook for Riyad Bank, due to the Bank's financial stability which is based on a strong, sustainable financial position.

Bank Borrowing:

The Bank completed its primary sukuk offering, of SR4 billion, on 6th November 2013. The maturity of this sukuk is up to seven years with a call option by the Bank at the end of the sukuk's fifth year. The sukuk's yield is three month SAIBOR +0.68%. Through the sukuk's issuance the Bank has diversified its sources of funding and maturities and has grown its loan portfolio.

Strategy and Objectives:

In 2014, the Bank made great strides in its customer service levels, such as its "customer experience enrichment" program, to create innovative breakthroughs in terms of service delivery across the Bank's customer base. These initiatives have resulted in the growth of the Bank's customer base and an update in products from the Bank's portfolio. The improvement in the Bank's customer service is not limited to our national operations. The Bank aims to deliver the same level of excellence abroad as well, through our offices in London, Houston and Singapore, to meet our customers' needs wherever they may be.

During the past 12 months, the Bank has continued implementing its Retail Banking Strategy. This initiative, which is a natural progression of the Bank's customer experience enrichment program, aims to widen the Bank's distribution channels and expand the Bank's communication channels to better improve our customer relations.

The Bank's participation in and success with the Kafala Program demonstrates its full commitment to funding small and medium enterprises (SMEs). The number of SMEs that the Bank supports is significant, and Riyad Bank has become one of, if not the largest financier of SMEs in the country.

The Saudi market is central to the Bank's strategic future plan and its goal of increasing its asset base. The plan focuses on strengthening core banking activities whilst maintaining a healthy level of assets and capital in order to provide shareholders with the highest returns on equity. The Bank aims to continually develop products and services while also seeking to achieve excellence in its risk management abilities.

The following are the main areas of focus for the Bank's 2015 operational plan:

The Bank will continue to invest in customer experience enrichment, in order to achieve sustainable leadership and growth in both revenues and profitability.

The Bank will continue to develop all of its channels, both face-to-face as well as digital and electronic, to better serve customers and improve the customer experience.

The Bank will expand its activities in the areas of asset and wealth management, particularly for entrepreneurs and SMEs to consolidate its leadership in this market. The Bank will continue to focus on becoming the best bank in trade finance in the Kingdom, by further developing its transactional and advisory expertise.

During 2015, the Bank will further its reach into the female banking segment, to underline its status as the leader in the ladies' banking segment in the Kingdom.

The Bank will continue to develop marketing initiatives, particularly in the digital marketing space, to ensure that the Bank is correctly positioned among key audiences.

The Bank plans to increase its branch and ATM networks across the Kingdom, whilst also expanding its points of sale footprint to better serve customers and maintain its leadership position in the retail space.

Community Service:

Riyad Bank stepped up its social responsibility activities during 2014, to consolidate its position as a social responsibility leader, a key partner to the local community and supporter of sustainable development in the Kingdom.

During 2014, the Bank continued to achieve substantial developmental achievements in local communities across the Kingdom. The Bank's staff were fully supportive of their community role, and their professionalism supported the Bank's three key community service aims: sustainability; development, and inclusiveness. The Bank's approach to community service leveraged off innovation to bring about positive change among Saudi society.

Through its charity transportation project, Riyad Bank provided specially equipped buses for patients with special needs. During 2014, the Bank took the initiative to provide a number of charities in various regions of the Kingdom with nine modern buses.

These special buses were distributed to the following charities: Riyadh Down's Syndrome Association, the Handicraft Project, the Charity of Visual Impairment in Buraidah, the Hail Savannah Health Services Society, and 'BENNA', the Eastern Region Charity Committee for Orphan Care.

Riyad Bank's NAMMA initiatives included home-based care, through which the Bank distributed medical equipment and supplies to patients with various medical conditions through a partnership with the Friends of Patients Program. These donations allowed patients to receive treatment at home. We supplied equipment such as blood pressure measurement and oxygen supply equipment, in addition to a wide range of wheelchairs which were distributed to both individuals and healthcare departments across the Kingdom.

These Health Development initiatives, which were implemented in 2014, are an extension of the Bank's health awareness programs which the Bank has pioneered over the past couple of years. This commitment reflects the importance that the Bank places on sustainable, high quality healthcare for local communities. The Bank participated in numerous events and campaigns to raise community awareness around various common diseases and promote prevention education to reduce infection rates.

Riyad Bank supported Zahra Society's campaign for raising awareness of breast cancer for the seventh consecutive year. The Bank also sponsored Princess

Nora University's campaign to raise awareness of breast cancer. The Bank sponsored an initiative by a national diabetes charity to train the trainers and prepare counsellors and health educators who then went into schools to talk about diabetes.

Under the Bank's MOMKEN umbrella, a number of impactful initiatives were rolled out, including the agricultural training program for people with learning challenges. The Bank launched its 3rd edition of this successful program in 2014 in collaboration with the Al Hasa Disabilities Society and the Irrigation and Drainage Authority. This program helped to rehabilitate these young people and prepare them for the labour market through providing them with professional agricultural skills and the motivation to rely on themselves to build their future and overcome their challenges. Through this program, 45 people were trained and 41 joined the work market.

The Bank also continued sponsoring the "YADAWI" project in collaboration with the Women's Association. This special project provides young Saudi women with special needs the opportunity to take up employment through producing local handicrafts.

During the summer of 2014 and in partnership with the Youth Club, Riyad Bank helped to organize the summer training center for people with special needs. This initiative, which has been running for eight years, welcomed more than 170 children and young people of different ages and different conditions. Riyad Bank launched a similar centre in Al Baha in collaboration with the Disabled Association to provide the same enriching experience to local children with special needs.

The Bank extended its support for a series of events which aimed to promote different aspects of entrepreneurship, including youth empowerment and career development. Riyad Bank supported the RAM Exhibition for Saudi female investors in the Asir region, the Boulevard exhibition for empowerment of female e-commerce entrepreneurs, and the First National Forum for recruitment of people with special needs, which was held under the title of "my job is security."

Culture remained present in the agenda of Riyad Bank's development programs. In partnership with the Riyadh Literary Club, Riyad Bank promoted the "Book of the Year" cultural prize. The prize, which was sponsored by the Ministry of Culture and Information, aimed to promote Saudi culture and intellectual achievements. The Bank partnered with the Qassim Literary Club to launch the "Women Excellence Award", the first award of its kind in the Kingdom which honoured creative Saudi women.

The Bank was again present at the country's most prominent cultural event, the Janadriya Festival of Heritage and Culture. The Bank has been a key partner to the event, which is now in its 29th edition. The Bank's staff volunteered their time and energy to bring joy to children in hospitals across the Kingdom during Eid al-Fitr and Eid al-Adha with toy donations.

Our staff also distributed essential supplies to needy families in a number of regions, including remote villages across Saudi Arabia.

The Bank continued its support of the "Al-Wafa' Program," which helps needy families of deceased employees across the Kingdom by providing them with pre-paid e-cards to buy the basic necessities.

Subsidiaries and Associates

Riyad Capital:

Riyad Capital is a limited liability company and a wholly-owned subsidiary of Riyad Bank, which is registered in Saudi Arabia with paid up capital of SAR200 million. Riyad Capital is licensed by the Capital Market Authority (CMA) to provide transaction services as a principal and, as an agent, to provide underwriting, arranging, advising, and custody services.

Riyad Capital is working on designing and developing investment products to meet the needs of its various investment customer groups through its Asset Management Department (AMD). In 2014, Riyad Capital's AMD launched "Riyad Income Fund" and "Riyad Global Fund", increasing the number of investment funds offered by Riyad Capital to 36. Riyad Capital has been able to strengthen its leadership in the area of asset management through its expanding and diverse product portfolio.

To support its corporate investment banking activities, Riyad Capital has focused on attracting the best Saudi talent to join its workforce. Riyad Capital offers comprehensive training and development to Saudi nationals, to ensure they have the skills and abilities to provide Riyad Capital's customers with the best financial consultation on all investment banking activities, including Sukuk, public and management stock offerings, mergers & acquisitions, and structured finance activities.

In 2014, Riyad Capital oversaw the organization and offering of Sukuks for Saudi Investment Bank and Petrochem. Riyad Capital was the financial advisor, underwriter and manager for the initial public offering of the Umm Al-Qura Cement Company. Riyad Capital was also chosen to be the financial advisor for the initial public offering of the Deutsche Gulf Finance.

In order to strengthen its position in the domestic and international stock trading services market, Riyad Capital launched option contracts trading for the US market and Riyad Tadawul Mobile in its home market of Saudi Arabia. Riyad Capital's website was re-launched at end of 2014.

Riyad Capital's Wealth Management Department worked throughout the course of 2014 to promote an investment culture among its customers through the Company's Investment Consulting Service. To support this aim, Riyad Capital focused on its long-term program to develop a wealth management team with the skills and abilities to provide major account customers with investment advice. In 2014 the Company introduced the Retail Investment Department, which offers retail investment services through an extensive network of 20 investment centres across the Kingdom, as well as through the Company's advanced electronic channels and customer call centres.

AJIL Financial Services Company:

The AJIL Financial Services Company is a closed joint stock company, regulated by SAMA, with a paid-up capital of SAR 500 million. In partnership with Mitsubishi and a number of Saudi-based businesses, Riyad Bank has made a 35% capital contribution to the Company, which is headquartered in Jeddah. The AJIL Financial Services Company is one of the leading corporations operating in the area of financing capital assets and leasing finance. The Company provides unique, innovative financing solutions to its customers across a number of sectors in Saudi Arabia, including construction, transportation, services, trade and manufacturing.

Ithraa Al-Riyad Real Estate Company:

Ithraa Al-Riyadh Real Estate Company is a limited liability company, which is wholly owned by Riyad Bank and is registered in the Kingdom of Saudi Arabia. The company has a paid-up capital of SAR10 million. The Company provides services for real estate owners and also buys and sells real estate and similar assets to support various financing solutions.

Al-Alamiya Cooperative Insurance Company:

Al-Alamiya Cooperative Insurance Company is a joint stock company which was founded by Riyad Bank. Al-Alamiya Cooperative Insurance Company's shares are traded on the Saudi Stock Market, and the Company has a paid-up capital of SAR200 million. In addition to its Saudi operations, Al-Alamiya is also present in Bahrain through its partnership with Royal Sun Alliance Insurance (Middle East).

The Company is regulated by the Saudi Arabian Monetary Agency (SAMA). Riyad Bank owns 30% of the Company's capital, both directly and indirectly, and owns directly 19.92%. The Bank also owns 21.42% of Royal Sun Alliance Insurance's (Middle East) shares. The relationship between Riyad Bank and Royal Sun Alliance Insurance (UK) has lasted for over thirty years. Thirty percent of Al-Alamiya Cooperative Insurance Company's equity has been offered to the Saudi public through an IPO. The Company is focused on the commercial insurance and reinsurance business in Saudi Arabia, particularly general insurance, medical insurance, protection and engineering insurance.

Riyad Company for Insurance Agency:

Riyad Company for Insurance Agency is a limited liability company, wholly owned by Riyad Bank and with a paid-up capital of SAR 500,000. It is registered in the Kingdom of Saudi Arabia and is headquartered in Riyadh. The Riyad Company for Insurance Agency markets and sells insurance products offered by Al-Alamiya Cooperative Insurance Company through Riyad Bank to both retail and corporate customers in Saudi Arabia.

Riyad Company for Insurance Agency has entered into an insurance agreement with Al-Alamiya Cooperative Insurance Company to distribute insurance products in partnership with Riyad Bank. The company is fully licensed by the Saudi Arabian Monetary Agency (SAMA) and operates in accordance with its rules and regulations.

SUMMARY - RESULTS OF THE BANK'S OPERATIONS FOR THE PAST FIVE YEARS

SAR' Million

Description	2014	2013	2012	2011	2010
Assets					
Cash and balances with banks and SAMA	29,230	25,367	29,462	23,708	27,867
Loans and advances, net	133,490	131,191	117,471	112,973	106,035
Investments, net	46,963	43,538	36,254	36,616	33,822
Property, equipment, other real estate and investment in associates	2,567	2,542	2,606	2,588	2,294
Other assets	2,339	2,608	4,388	5,002	3,538
Total assets	214,589	205,246	190,181	180,887	173,556
Liabilities					
Balances with banks	3,790	7,578	6,163	6,242	10,637
Customer deposits	164,079	153,200	146,215	139,823	126,945
Other liabilities	11,183	10,598	5,839	4,664	6,741
Shareholders' equity	35,537	33,870	31,964	30,158	29,233

SAR' Million

Description	2014	2013	2012	2011	2010
Total operating income including share in earnings of associates	8,059	7,130	6,866	6,321	5,981
Total operating expenses	3,706	3,183	3,400	3,172	3,156
Net income	4,352	3,947	3,466	3,149	2,825
Earnings per share (SAR)	1.45	1.32	1.16	1.05	0.94

Financial Results:

The Bank achieved a net profit of SAR 4,352 million during the year ended 31 December 2014, an increase of 10.3% over the last year. The Bank's net profit totalled SAR 1,060 million during the fourth quarter compared to SAR 1,030 million for the corresponding quarter in the previous year, an increase of 2.9%.

Total operating income for the year grew to SAR 8,012 million, compared to SAR 7,074 million in the previous year, an increase of 13.3%.

The Bank continued its focus on core banking activities which has further strengthened its financial position. As of 31 December 2014 Loans and Advances increased to SAR 133,490 million, an increase of 1.8% over the previous year's amount of SAR 131,191 million. Investments rose to SAR 46,963 million, up from SAR 43,538 million in 2013, an increase of 7.9%. Customer deposits stood at SAR 164,079 million, compared to SAR 153,200 million in the previous year, an increase of 7.1%, while total assets grew by 4.6% to SAR 214,589 million, up from SAR 205,246 million in the previous year.

These results underline the continued growth in both the Bank's core banking activities and its assets. In 2014, earnings per share reached SAR 1.45, increasing from SAR 1.32 in the previous year. In addition, commission income growth and a rise in income from banking services also contributed to the Bank's higher profits.

The results reflect the strength and durability of the Bank's financial position and its ability to achieve steady and continuous growth rates. It also highlights the Bank's commitment to the strategies adopted by its Board of Directors, who are dedicated to supporting the Bank's shareholder aspirations and value creation through increasing equity returns and distributing appropriate dividends to shareholders whilst also increasing the Bank's capital.

Geographical Analysis of the Total Income of the Bank

Total income for the year ended 31 December 2014 was SAR 8,920 million from domestic operations, and SAR 1,165 million from international operations. The following table illustrates the geographical analysis of the total revenues:

SAR' Million

Year	Domestic Operations			International Operations	Total **
	Western Province	Central Province*	Eastern Province		
2014	1,545	6,168	1,207	1,165	10,085

*The amount allocated for the Central Province includes income from investments related to the Treasury and Investment Division, which totalled SAR 3,099 million. This income is not related to any specific geographic sector domestically. It also includes inseparable revenues related to other regions.

**The above mentioned total income is in gross term. In calculating the net amount, each income item is handled according to its category in the financial statements.

Geographical Analysis of the Total Income of the Bank's International Operations

SAR' Million

Year	International Operations					Total
	GCC & Middle East	Europe	North & Latin America	South East Asia	Other Regions	
2014	316	320	510	5	14	1,165

Appropriation of Earnings:

The Bank follows all relevant, applicable rules and regulations and observes the following policies in distributing dividends to its shareholders:

a) A transfer of 25% of the net profit to statutory reserve. Such transfers may discontinue when the total statutory reserve is equal to the paid-up capital.

b) Distributes a specified percentage among shareholders, each in proportion to their shareholdings, based upon the recommendation of the Board of Directors and approval of the Annual General Assembly Meeting.

c) The Bank's strategic direction determines the distribution of the interim and annual dividends. The dividends proposed for the second half of the year are included in the shareholders' equity, and will remain there until the Annual General Assembly Meeting approves the Board of Directors' recommendation.

The Board of Directors recommended the appropriation of earnings as follows:

	SAR' 000
Retained earnings at the beginning of the year	1,957,384
Net income of the year 2014	4,352,408
Total	6,309,792
Appropriation as follows:	
Zakat as per the Sharia'	200,000
Cash dividends, distributed to shareholders for the first half of 2014	1,140,000
Cash dividends, proposed for distribution to shareholders for the second half of 2014	1,050,000
Transfer to statutory reserve	1,759,726
Retained earnings at the end of the year 2014	2,160,066

On July 15 2014, the Bank distributed an amount of 38 Halalas per share as an interim half-year dividend. The proposed dividend for the second half of 2014, amounting to 35 Halalas per share, will be distributed after the approval of the General Assembly. This will bring the total dividend for 2014 to SAR 2,190 million after deducting Zakat, or 73 Halalas per share.

Board of Directors

The Bank is managed by a Board of Directors which is composed of ten members who are elected by the General Assembly every three years and may be re-elected for a similar term at the end of their term. The Board of Directors includes six independent members and four non-executive members, as defined in Article II of the Corporate Governance Guidelines issued by the Capital Market Authority (CMA). The Board of Directors held seven meetings in 2014, with 100% quorum in person or by proxy, with an attendance rate of 95.7%.

The following table depicts the Board of Directors meetings during the year 2014:

Riyad Bank's Board Members	Meeting 1	Meeting 2	Meeting 3	Meeting 4	Meeting 5	Meeting 6	Meeting 7	Total
Rashed Abdulaziz Al-Rashed** (Independent)	✓	✓	✓	✓	✓	✓	✓	7
Dr. Khaled Hamza Nahas (Independent)	✓	✓	✓	✓	✓	✓	✓	7
Abdulrahman Hassan Sharbatly (Non-Executive)	✓	✓	By Proxy	✓	By Proxy	✓	✓	5
Dr. Abdulaziz Saleh Al-Jarbou (Independent)	✓	✓	✓	✓	✓	✓	✓	7
Abdullah Ibrahim Al-Ayadhi * (Non-Executive)	✓	✓	✓	✓	✓	✓	✓	7
Eng. Abdullah Mohammed Al-Issa (Independent)	✓	✓	✓	✓	✓	✓	✓	7
Dr. Faris Abdullah Abaalkhail (Independent)	✓	✓	✓	✓	✓	By Proxy	✓	6
Mohammed Abdulaziz Al-Afaleq (Independent)	✓	✓	✓	✓	✓	✓	✓	7
Nader Ibrahim Al-Wehibi* (Non-Executive)	✓	✓	✓	✓	✓	✓	✓	7
Waleed Abdulrahman Al-Eisa* (Non-Executive)	✓	✓	✓	✓	✓	✓	✓	7

* Members representing the Public Investment Fund (PIF), General Organization for Social Insurance (GOSI) and Public Pension Agency (PPA) respectively.

The Board of Directors executes its duties through several committees which comprise Riyad Bank Board members, with the exception of the Audit Committee, which, in addition to two members from the Board of Directors, includes three external, independent, non-Board members. The Board of Directors' Committee's responsibilities are set out below:

The Executive Committee:

The Executive Committee oversees the credit, banking, financial and administrative functions in the Bank, as determined by the Board of Directors. The Committee held twenty meetings in 2014, with 100% attendance from all members.

The Audit Committee:

The Audit Committee oversees operations relating to financial reporting and compliance operations, specifically legal and regulatory compliance. The Audit Committee is also tasked with monitoring the effectiveness and efficiency of the Bank's Internal Control system and risk management processes. Finally, the Audit Committee also recommends the selection of external auditors. The Committee held seven meetings in 2014, with an attendance rate of 94.3%. The Bank's Audit Committee consists of five members, three of whom are external, non-Board members – Dr. Ibrahim Al Ali Al-Khudair, Dr. Abdullah Hasan Al- Abdulqader and Eng. Abdullah Abdullatif Al-Saif.

Risk Committee:

The Risk Committee assists the Board of Directors in overseeing the Bank's risk strategy. The Risk Committee continually reviews the Bank's approved risk levels and prepares recommendations to the Board of Directors on the suitability of these risk levels. The Risk Committee also monitors executive management compliance with these risk levels. The Risk Committee consists of three members. The Risk Committee held five meetings in 2014, with an attendance rate of 100%.

The Nomination & Compensation Committee:

The Nomination & Compensation Committee manages the development, the approval process and application of the Bank's compensation system on behalf of the Board of Directors who approve all compensation plans. The Nomination & Compensation Committee are tasked with regularly reviewing and assessing the Bank's compensation policy to ensure that is both suitable and effective for the Bank in terms of attracting and retaining the best Saudi talent, and submitting policy update or amendment recommendations to the Board of Directors. The Committee also evaluates the Bank's compensation payments structure and regularly makes recommendations to the Board of Directors on issues including salary levels and structures and compensation and benefits for the Bank's senior executives. The Committee ensures Riyad Bank's compliance with SAMA regulations regarding compensation policies in the banking sector. Finally, the Committee oversees all recommendations and nominations to the Board of Directors as per approved policies and standards, to ensure regulatory compliance with the Board membership rules established by the country's Banking Control regulations, the Capital Market Authority (CMA), and Saudi Corporate Law. The Committee consists of six members. It held four meetings during 2014, with 100% attendance.

The Strategic Planning Group:

The Strategic Planning Group oversees the preparation of the Bank's strategy. The Group also monitors and evaluates all actions taken to accomplish these objectives. The Group regularly reviews all major projects initiated by the Bank, and measures the Bank's financial and operational performance against the Bank's strategic objectives. The Committee held four meetings in 2014, with 100% attendance.

The following table lists the names of Riyad Bank's Board of Directors, committees and committee members, along with the attendance rate of members at the Board of Director's meetings, as well as permanent and temporary committees, both in person or by proxy. In total there were 264 meetings, with 99.2% attendance. The table also shows other joint stock companies that have invited Riyad Bank board members to be part of their Board of Directors.

Dr. Ibrahim Al Ali Al-Khudair
External Member
of the Audit Committee

Dr. Abdullah Hasan Al-Abdulqader
External Member
of the Audit Committee

Eng. Abdullah Abdullatif Al-Saif
External Member
of the Audit Committee

Riyad Bank Board of Directors		Atten-dance %	Names of joint stock companies where Board Members hold membership on their Boards
Name	Committee Membership		
Rashed Abdulaziz Al-Rashed	Chairman of The Executive Committee, Chairman of The Strategic Planning Group and member of the Nomination & Compensation Committee	100%	Chairman and member of the boards of private local and global companies.
Dr. Khaled Hamza Nahas		100%	National Water Company Hasana Investment Company Saudi Basic Industries Corporation (SABIC)
Abdulrahman Hassan Sharbatly		100%	Saudi Arabian Marketing Company (SAMACO) Marketing Services & Project operation Company Al Sagr Cooperative Insurance Company Golden Pyramids Plaza Company – Cairo South Valley Cement Company – Cairo, Golden Coast Company - Cairo
Dr. Abdulaziz Saleh Al-Jarbou	Member of the Strategic Planning Group	100%	Saudi Paper Manufacturing Company (WARAQ) Amiantit Company Gulf Chemicals and Industrial Oils Company
Abdullah Ibrahim Al-Ayadhi	Chairman of the Nomination & Compensation Committee, member of the Executive Committee and member of the Risk Committee	100%	Saudi Technology Development and Investment Company
Eng. Abdullah Mohammed Al-Issa	Chairman of the Audit Committee and member of the Strategic Planning Group	100%	Arabian Cement Company Saudi Basic Industries Corporation (SABIC) Saudi Hotels & Resorts Company National Medical Care Company
Dr. Faris Abdullah Abaalkhail	Member of the Executive Committee, member of the Nomination & Compensation Committee and member of the Strategic Planning Group	100%	Fawaz Abdulaziz Alhokair & Company
Mohammed Abdulaziz Al-Afaleq	Chairman of the Risk Committee, member of the Executive Committee and member of the Nomination & Compensation Committee	100%	None
Nader Ibrahim Al-Wehibi	Member of the Audit Committee, member of the Nomination & Compensation Committee and member of the Strategic Planning Group	95%	None
Waleed Abdulrahman Al-Eisa	Member of the Executive Committee, member of the Nomination & Compensation Committee and member of the Risk Committee	100%	Taawuniya Insurance Company

Riyad Bank Board's Committee Members (Non-Board Members)		Attendance %	Names of joint stock companies where Members hold a position on their Board of Directors
Name	Committee Membership		
Dr. Ibrahim Al Ali Al-Khudair	Member of the Audit Committee (Non-Board Member)	86%	None
Dr. Abdullah Hasan Al-Abdulqader	Member of the Audit Committee (Non-Board Member)	100%	Saudi Technology Development and Investment Company Saudi Arabian Investment Company Gulf International Bank (Bahrain)

Riyad Bank Board's Committee Members (Non-Board Members)		Attendance %	Names of joint stock companies where Members hold a position on their Board of Directors
Name	Committee Membership		
Eng. Abdullah Abdullatif Al-Saif	Member of the Audit Committee (Non-Board Member)	100%	Qassim Cement Company Herfy Food Services Company Saudi Printing and Packaging Company Saudi Specialized Laboratory Company Hassana Investment Company

Remuneration of Directors and Senior Executives during the year 2014:

(SAR' 000)

Description	Members of the Board	Senior Executives *
Salaries	-	8,295
Allowances	738	1,154
Annual and Periodic Remuneration	3,600	3,570
Incentive Plans	-	190
Compensation & Other Benefits	42	367
End of Service Benefits	-	6,525

*represents remuneration for the five senior executives from the Bank's executive management, including the CEO and CFO.

Changes in major shareholdings:

The following tables details shareholding, and any change thereof during 2014, for the Bank's major Shareholders and Non-Board Members, as well as the Board of Directors, Senior Executives and their spouses and minor children, in the shares or credit instruments of the Company and its subsidiaries, in accordance with the provisions of Article 43 of the CMA Listing Rules:

Major Shareholders, Non-Board Members and Senior Executives including their Spouses and Minor Children							
Name	Beginning of the year			End of Year			
	Number of Shares	Credit Instr-ments	Ownership %*	Number of Shares	Credit Instr-ments	Net Change**	Ownership%*
Public Investment Fund (PIF)	326,304,000	-	21.7536%	652,608,000	-	326,304,000	21.7536%
General Organization for Social Insurance (GOSI)	324,378,600	-	21.6252%	648,757,200	-	324,378,600	21.6252%
Public Pension Agency (PPA)	137,712,337	-	9.1808%	275,424,674	-	137,712,337	9.1808%
Al-Nahla Trading and Construction Company	136,569,006	-	9.1046%	268,778,637	-	132,209,631	8.9593%
MASC Holding Company	120,000,000	-	8.0000%	240,000,000	-	120,000,000	8.0000%

* To the nearest four decimal points.

** Net change includes the increase resulting from the additional bonus shares to double capital on May 26, 2014.

Chairman, Board Members and Senior Executives including their Spouses and Minor Children							
Name	Beginning of the year			End of the year			
	Number of Shares	Credit Instr-ments	Ownership %*	Number of Shares	Credit Instr-ments	Net Change**	Ownership %*
Rashed Abdulaziz Al-Rashed	14,906,653	-	0.9938%	29,648,653	-	14,742,000	0.9883%
Dr. Khaled Hamza Nahas	2,400	-	0.0002%	4,800	-	2,400	0.0002%
Abdulrahman Hassan Sharbatly	143,988,301	-	9.5992%	283,528,824	-	139,540,523	9.4510%
Dr. Abdulaziz Saleh Al-Jarbou	1,600	-	0.0001%	2,000	-	400	0.0001%
Abdullah Ibrahim Al-Ayadhi	-	-	-	-	-	-	-
Eng. Abdullah Mohammed Al-Issa	625,000	-	0.0417%	1,262,000	-	637,000	0.0421%
Dr. Faris Abdullah Abaalkhail	1,230,000	-	0.0820%	2,460,000	-	1,230,000	0.0820%
Mohammed Abdulaziz Al-Afaleq	34,000	-	0.0023%	78,500	-	45,100	0.0026%
Nader Ibrahim Al Al-Wehibi	-	-	-	-	-	-	-
Waleed Abdulrahman Al-Eisa	-	-	-	-	-	-	-
Talal Ibrahim Al-Qudaibi	33,432	-	0.0022%	66,864	-	33,432	0.0022%

* To the nearest four decimal points.

** Net change includes the increase resulting from the additional bonus shares to double capital on May 26, 2014.

Accrued Regulatory Payments:

There are no accrued regulatory payment(s) due by the Bank for the year 2014, as illustrated below:

(SAR' 000)

Description	2014	2013
Zakat – Department of Zakat and Income Tax	200,000	200,000
Taxes payable by the Bank on behalf of non-resident bodies (in accordance with the terms and conditions of the contract)	34,792	9,615
Taxes payable by the Bank's overseas branches to official bodies	19,736	25,875

Penalties, Sanctions and Preventative Provisions:

No regulatory restrictions were imposed on the Bank by the CMA or by any other supervisory, regulatory or judicial authority. Total penalties and fines paid by the Bank in conducting its operational activities amounted to SAR 2.4 million, which were mainly related to the Bank's ATM operations and other operational fines.

Applicable Accounting Standards:

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

In line with its role and responsibility towards the safeguarding and protection of the Bank's assets and its customers' deposits, the Board of Directors confirms that:

- There is no contract to which the Bank is a party and that is or was of substantial interest to either the Chairman or the members of the Board of Directors, to the Chief Executive Officer or Chief Financial Officer, or to any person having a direct relationship with any of them, except as stated in Note No. 32, to the consolidated financial statements as regards the transactions with those concerned parties;
- The internal control system is properly developed and is effectively implemented;
- All accounting records are properly prepared and maintained;
- There is no doubt as to the Bank's ability to continue its activities as a going concern.

The Board reaffirms the good work done by the Internal Control Department and the Bank's Internal Control systems. The Bank's Internal Controls operate on financial best practices which are being fully implemented. The Bank has a well-established, organized process, both for the design of financially-based internal controls, as well as, their effective implementation.

The essential elements of the Bank's Internal Controls system include: well-defined roles and responsibilities for the Board of Directors and Executive Management; delegated financial and administrative authorities based on seniority, and proper segregation of duties and responsibilities.

Risks are qualitatively and quantitatively analyzed and are controlled by the Bank's Internal Committees, including the committees for market regulation, cash management, operational, strategic and compliance risks. These Management committees report directly to the Audit and Risk committees under the Board of Directors.

Thanks to the work undertaken by the Audit Committee, the Board of Directors has full access to all internal audit reports, internal control reviews, as well as risk management and other relevant reports. These are reviewed on a regular basis to provide an ongoing assessment of the effectiveness of the Bank's Internal Control system. In addition, the Internal Audit Department is required to regularly follow up on prior recommendations and to file update reports for the Bank's Audit Committee on previous recommendations relating to changes in the Bank's Internal Controls system.

The Audit Committee sees no significant gaps or poor performance during 2014 which would have affected the quality or accuracy of the financial statements contained within this report. While both the Audit Committee and the Board of Directors aim to ensure a reasonable level of assurance and accuracy in terms of the Bank's internal controls, they also note that no internal control system, no matter how well designed and implemented, can provide an absolute level of assurance.

Corporate Governance Regulations:

The Bank applies the provisions contained in the Corporate Governance Regulations of the Kingdom of Saudi Arabia, issued by the Capital Market Authority (CMA), except as disclosed in Form (8) regarding the extent of compliance to the Corporate Governance Regulations, summarized as follows:

Article 6 – Voting Rights – The Bank has not adopted accumulative voting and will not do until such voting rights are finally approved by the relevant regulatory bodies in accordance with the provisions set out by the Saudi Arabian Monetary Agency.

Riyad Bank looks to comply with all governance regulations and will continue to keep abreast of developments in this important area. The Bank is in the process of finalizing policies and procedures related to the above.

Human Resources:

Throughout the course of 2014, the Human Resources (HR) Division supported Riyad Bank's growth and strategy across each and every Bank function. The HR Division updated the Bank's organizational and administrative chart, and implemented a number of global best practices to further develop the Bank's organizational structure and improve the effectiveness of the HR function within the Bank.

The Bank is proud of its Saudization rate: 93% of the Bank's workforce is Saudi, with Saudi women comprising 100% of the Bank's female employees and 23% of the Bank's total employees. In addition, the Bank's executive management team is comprised entirely of Saudi nationals.

The Bank has continued to invest in talent development and retention, to motivate employees and support their own professional development. In 2014 the Bank offered staff more than 13,000 training opportunities, both inside and outside the Kingdom. The Human Resources Department has also implemented a series of development and succession programs as well as recruitment initiatives to attract and retain the best Saudi talent.

The balances of the staff incentive programs and movements in 2014 are shown below

(SAR' 000)

Description	Investment Saving		
	Staff's Share	Bank's Share	Total
Balance at the beginning of the year	37,488	13,739	51,227
Provided during the year 2014	8,452	3,418	11,870
Charged during the year 2014	(6,313)	(2,359)	(8,672)
Balance at the end of the year	39,627	14,798	54,425

External Auditors:

The Annual General Assembly Meeting of the Bank's Shareholders held on 10 March 2014 approved the appointment of Messrs. Deloitte & Touche (Bakr Abulkhair & Co.) and Messrs. KPMG (Al Fozan & Al Sadhan) as joint external auditors for the financial year ending 31 December 2014. The General Assembly will decide in its upcoming meeting whether to reappoint the current auditors or replace them; the General Assembly will also approve their fees for reviewing the Bank's financial statements for the financial year ending 31 December 2015 after reviewing recommendations made by the Audit Committee and the Board of Directors.

Acknowledgements:

We would like to take this opportunity to express our appreciation for and extend our gratitude to the Custodian of the Two Holy Mosques, His Royal Highness King Salman Bin Abdulaziz Al Saud, His Royal Highness Crown Prince Muqrin Bin Abdulaziz Al Saud, the Deputy Crown Prince, Deputy Prime Minister and Minister of Interior His Royal Highness Prince Mohammed Bin Naif Abdulaziz, as well as the government of Saudi Arabia for their guidance and wisdom. We are also grateful to the Ministry of Finance, the Saudi Arabian Monetary Agency (SAMA) and the Capital Market Authority (CMA) for their continued assistance and the support that they have shown to the Kingdom's banking and financial sector.

Last but not least, we appreciate the support shown by our shareholders, customers and media.
Their confidence and belief in the Bank motivates us to do and achieve more. Finally, we would like to extend our thanks and appreciation to the Bank's staff for their dedication, loyalty and outstanding performance which has enabled us to achieve Riyad Bank's goals and objectives over the past year.

The Board of Directors

Riyadh, February 2, 2015
Rabi Al Thani 13, 1436H

Summary of Accomplishments In 2014

3 Summary of Accomplishments In 2014

Summary of Accomplishments In 2014

Retail Banking Services:

One of the most significant achievements, which the bank managed to accomplish during 2014 in the area of Retail Banking Services, was obtaining the first license by the Saudi Arabian Monetary Agency to provide financing, mortgage and leasing finance services. This milestone demonstrates the bank efficiency and accumulated experience in the field of real estate financing and leasing finance, which are key part of a series of banking products and services offered by the Bank.

Moreover, the mortgage finance portfolio of the bank achieved one of the highest growth rates in the banking sector during the year and has reflected positively on the bank's market share growth and enhanced the banks' ability to achieve balanced growth.

Mortgage Finance

In the field of credit cards, Riyad Bank has launched a product which is the first of its kind in the Kingdom, the "World Elite MasterCard", a highest category of credit cards designed for the private banking segment. This exclusive credit card offers cardholders a unique experience and exclusive benefits such as: access to major customers' lounges at international airports, distinct travel concierge services, as well as special offers in the best restaurants and shops. Also, Riyad Bank launched the exclusive FIFA Platinum Visa credit card in readiness for the 2014 World Cup in Brazil, becoming the only card that is launched in the market on this occasion. In addition, Riyad Bank launched the Signature Visa credit card in partnership with Visa International to meet the golden service customers' requirements, as well as MasterCard Cash Back card, which provides customers with the highest range of rewards on purchases.

Cash Back Credit Card

Among the most prominent e-banking projects during 2014, was the launch of the new "RiyadMobile" banking Portal to support the access of customers to the banking services of Riyad Bank easily through smart phones, such as, for example, payment of bills and making international transfers and participating in IPOs from anywhere in the world, using mobile or smart phone. Furthermore, the bank launched its advanced "RiyadOnline" portal edition, which is a remarkable achievement. The portal in its new design and simple interface has won acclamation of customers, thanks to being supported with further security standards to keep safe the customers' banking transactions data. The introduction of the new self-service equipment offers customers an innovative concept of comfort and an additional pathway for normal banking services without having to take the trouble of standing in queues.

In another quality step, the bank introduced a "self-service" system by distributing 24 kiosk in a number of branches operating across the Kingdom. They are designed to enable customers to implement regular banking services easily and directly, without the need to stand in waiting lines, at a time in which that technology contributes to reduce the size of workload on Customer Service staff at the branches.

Ladies Banking:

According to the Bank's strategy to expand ladies branches and sections in various parts of the Kingdom, and in view of the large and rapid growth of bank customers base realized by the Ladies' sections, and contributed to increasing profitability in general, all ladies divisions have been converted into independent branches amounting to 75 branches.

Islamic Banking:

During the year, Riyad Bank continued to provide a special package of Islamic products and services, for everyday transactions, financing and investment solutions for its retail and corporate customers, based on a clear approach. These banking products and solutions are complaint with the provisions of the Islamic law and are approved by the Bank's Shari'a Committee in the bank.

The bank performance in this area was accompanied by development of human resources involved in the provision of Islamic banking services, and raising the efficiency of their performance through the Islamic banking department. The Islamic Banking Department held workshops to train 300 bank employees, concentrating on introducing Islamic Banking products, the best professional practices and processes for product presentations and responding to customer needs. This is besides the department's keenness to carry out a periodic assessment of the performance of the Islamic banking branches of the bank through more than 60 follow-up visits to those branches.

In continuation of the bank's approach to strengthen the communication channels with customers to increase the level of awareness of Islamic banking services offered by the Bank, the Shariah Committee of the Islamic banking set up a meeting with the bank's customers in Hail.

Also, the Islamic Banking Department completed a number of banking products and financing solutions during the year, such as the approval of contracts allocated to the operations of leasing cars and real estate financing in accordance with the "Murabaha" and rental formats in line with the new requirements of the Saudi Arabian Monetary Agency, as well as the approval of the "Sukuk" allocated to the "Advanced Petrochemical Company" by Riyad Capital.

Private & Golden Banking Services:

Continuing to provide the best of new and sophisticated services to private banking and golden services customers, Riyad Bank added new and sophisticated centers, intended to continue to provide high levels of service and innovative products, and give personal attention by specialists in account management, who works around the clock.

The total number of golden service centers stood at 58 centers, in addition to the four centers for private banking with private sections for women to offer the best banking services with excellence and high quality commensurate to meeting the needs of customers to achieve their aspirations.

Overseas Branches:

Through an overseas banking network represented by our branch office in London, the Houston agency, and the Singapore Representative Office, Riyad Bank provides banking solutions to its customers abroad, serving the corporate customer base, and allowing the Bank to provide its customers with tailored services to meet their various needs. In addition, the Bank provides advice on investments and business in the Kingdom of Saudi Arabia. This leads to enhanced trade in the Kingdom and customers' investment interests abroad.

The London Branch plays an active role in supporting the rapid growth of commercial activities carried out by the leading European multinational companies with the Kingdom. This support ranges from providing letters of guarantee and stand-by letters of credit, as well as assisting in the provision of financing for their business in Saudi Arabia. In addition to this, the London Branch also provides tailored banking services to their customers in the Kingdom and their affiliated companies in order to support their European investments in industry and other sectors.

Riyad Bank is the only window for Saudi banks in the Americas, where the Houston Agency plays an important role in attracting investments to the region, as well as helping U.S. and multinational companies to support their commercial activities in the Kingdom of Saudi Arabia. In addition, the Agency supports Saudi companies doing business in North America.

Riyad Bank is also present in the Far East, where our Singapore Representative Office helps Riyad Bank customers take advantage of investment opportunities in Asia, and to develop relationships with correspondents and Asian corporations who have business activities in Saudi Arabia.

Corporate Banking:

Corporate Banking provides a variety of banking products as well as specialized services aimed at the local market. The Bank also seeks to become the main partner for its customers, with the aim of being classified as the best in the field for banking relationships.

Corporate Banking aims to be the main banking partner for its customers, gaining their trust and relying on the bank to provide them with the best banking services, through a group of managers of corporate relations, who are specialized in meeting the banking requirements of the bank's customers.

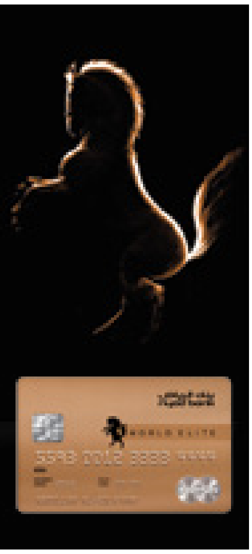
The Corporate Finance Department at the bank is a center of expertise and leadership in the field of syndicated loans and structured loans for financing companies and projects. The department works alongside the local bank's network as well as the bank's offices in London, Houston and Singapore, to provide the products and services of value to Saudi companies and to the wider base of international companies involved in domestic investment and trade in the Kingdom.

Our Financial Institutions Department operates as a focal point for managing the relationship in all fields of business and trade between Riyadh Bank and correspondent banks as well as non-bank financial institutions, such as investment, insurance and finance leasing services companies. We offer a wide range of financial products and

Best Local Bank
In the Kingdom

Best Provider of
Trade Finance
Solutions

Credit Cards Offers



World Elite

services specifically designed to meet the needs and requirements of customers of financial institutions.

The Bank continues to support all activities within the local market. It has also contributed to the financing of a number of important projects. In the mining sector, the bank participated in the world's largest phosphate project, "The Promise of the North", a joint initiative between "Ma'aden" company and "Mosaic". This project is the first investment for "Mosaic" company in the Kingdom. The bank is proud of participating in financing this project.
In addition, the bank has a leading role with "Crystal", a subsidiary of the National Industrialization Company (TASNEE), one of the largest producers of "Dioxide Titanium" better known as a component of white paint as well as many other industrial uses.
The Bank was also active in the field of petrochemical industry and has participated in the "IBN SINA" project, a joint initiative of SABIC and Hoechst-Celanese and Duke Energy companies to expand one of the existing petrochemical production lines of, as well as the "Kemia" project, a joint venture between SABIC and "ExxonMobil " to expand their activities.
The Bank has launched two prepaid cards during Q2 2014. The first card is "MyPay" a prepaid card, which enables the company to deposit salaries and allowances for its employees. The second card is the "FIRST" card, which is allocated for students to get scholarship allocations in international universities. Both cards can be used in ATMs and POS terminals across the Kingdom.
The bank also launched a better version of the "Riyad Bank Business" application, the first of its kind in the Kingdom and allows corporate banking customers to access to their accounts via tablets or smart devices and do their banking transactions with ease.
Riyad Bank was proud to sponsor the second annual event of Saudi Trade Finance, which was held in Riyadh for the benefit of business leaders and senior executives of Saudi companies, where we addressed and discussed the various challenges in the field of global trade management. During 2014, Riyad Bank hosted a series of trade finance seminars for its customers across the Kingdom.
In the area of small and medium-sized enterprises, Riyad Bank has maintained its position as a leader in supporting and developing this vital sector. The bank expanded its contribution to the national economy and achieve sustainable and comprehensive development. The Bank was able to consolidate its position as one of the largest participants in ensuring the financing of small and medium-sized enterprises, in terms of acquiring the largest share of the funding operations that have been implemented since the launch of the Government funding program up until the end of 2014, in terms of the number of beneficiaries of the program.

Treasury Division:

The Treasury and Investment Division plays a crucial role by managing the Bank's liquidity and funding requirements; managing the interest rate and foreign exchange risk exposure within the limits approved by the Bank; managing the investment portfolio; and providing financial hedging products and solutions to the Bank's customers.
In 2014, the Treasury Division continued widening its customer reach by expanding its cross-selling initiative to avail Corporate and Private Customers with innovative hedging solutions, catered to mitigate interest rate and foreign exchange risks.
The Treasury's ongoing commitment to increase product market share underlies special emphasis on development and diversification of its hedging solutions. Hence, with the prospect of satisfying customer demand for Sharia compliant services, the Treasury Division introduced Profit Rate Swap Agreements (PRS). As well as, successfully introducing a number of conventional structured hedging solutions matching client specific needs.
Phase I of the new Treasury back office system went live into production in Q4 which will support Treasury's future expansion and product offering to clients. The second phase of the project will take place in 2015.

Investment portfolio:

The Bank's investment policy focuses on quality, diversification and liquidity for asset allocation purposes under the supervision of the Bank's Investment Committee. The Bank's investment portfolio consists of diversified local and international assets, with fixed income (government and corporate bonds) representing most of the assets. The investment portfolio has generated good returns in 2014.

Risk Management:

Riyad Bank believes that Risk Management is one of the pillars of the banking business. The Risk Management Division is an independent body that reports directly to the Chief Risk Officer and includes Credit, Market and Operational Risk departments. The activities and responsibilities of these functions are governed by Risk Frameworks and Policies that are approved by the Board of Directors. Periodic reports are submitted to the Board and its Committees including Asset Quality, Market Value at Risk, Liquidity Risk, and Net Interest Income at Risk.

The Bank continues to adopt the standards of corporate governance in accordance with local statutory and regulatory requirements and also follows the developments internationally in corporate governance codes and practices.

The Board of Directors is responsible to protect the interests of shareholders, depositors and other stakeholders. To enable the Board of Directors to discharge its risk oversight responsibilities, amongst others, they ensure that the necessary risk frameworks and supporting policies are approved and then implemented by Management.

Credit Risk:

The Credit Risk Management Framework, within which the Bank operates, consists of principles, structures, tools and activities required for managing credit risk at all levels in the Bank. The purpose of this framework is to support the Bank's efforts to enhance the Bank's asset quality, while observing the rules and regulations set by the regulatory authorities, all within clearly designed and regularly monitored risk parameters. In addition, the Bank's Credit Strategy and Risk Appetite Statements set out a clear plan for identifying, establishing risk tolerance parameters, along with monitoring and reporting mechanism for credit risk in the Bank.

The Bank utilizes sophisticated credit software systems to ensure full lifecycle management of credit applications, limits management, and financial and non-financial collateral management. In addition, the Bank uses internationally recognized advance credit rating systems to assess the viability of corporate credit applications and to produce their credit rating according to the credit ratings that are approved by the Board of Directors. The Bank also uses advanced retail credit systems for Retail Risk.

In accordance with the Saudi Arabian Monetary Agency (SAMA) regulations, the Bank is in compliance with all Basel II, II.5 & III requirements in respect of Capital Adequacy calculation according to the Standardized Approach for credit risk management.

The Bank is also actively working towards the implementation of the Internal Rating Based (IRB) Approach to assess the capital required to cover Credit Risk.

During the year Riyad Bank made further progress towards the implementation of IRB Standards, following the success in developing internal credit rating models by segmenting customers into groups according to their risk characteristics, and performing the model validation and calibration. In this respect the Bank completed models' validation and optimization via an independent third party that resulted in further improvements in their respective performance. At the same time completed the review of Risk Policies to further strengthen and assure that overall Credit Rating Systems meet Basel IRB Standards.

The Retail Banking Risk, an independent body that reports directly to the Chief Risk Officer, is in the advanced stages of implementing the Basel Advanced Internal Ratings-Based (AIRB) Approach as mandated by SAMA. The project has two primary work streams, Qualitative and Quantitative. In the Qualitative work stream, the Oversight and Governance Structure has been defined and most of the credit policies have been developed. In the Quantitative work stream, the development of the IT architecture and related components is in progress. In parallel, model development activities for credit risk quantification continue.

The Retail Banking Risk has undertaken an Enterprise Level Assessment of its Credit Risk Systems and Tools. This assessment will provide a roadmap, based on Return on Investment (ROI) and implementation efforts, of the next steps to leverage risk for profit. This will enable customer experience initiatives such as the Digital Strategy and Omni Touch.

Market Risks:

The Financial Risk Management Department, which is part of the Risk Management Department (RMD), assumes the responsibility for measuring and monitoring market risks, and Asset/Liability risks resulting from fluctuation in fair values or future cash flows of financial instruments as a result of the

Hassad Program

Personal Finance

Career Day

Integrated Banking Solutions around the Clock

changes in market prices, within the Board approved Risk framework and limits. Periodic reports are prepared and submitted to the relevant stakeholders at the Bank.

The primary market risk measure used within Riyad Bank is the Value-at-Risk (VaR) methodology, which incorporates the volatility of relevant market prices and the correlation of their movements. In addition, the Bank has implemented a number of standards and other advanced methodologies to enhance its analytical capabilities in managing financial risks, including stress testing and sensitivity analysis. The bank also continues to implement its strategy to move towards Basel's Internal Model Approach to Market Risk.

During the year, The Bank has undertaken initiatives to improve its Asset and Liability Management Framework. Following approval from the relevant internal governance structures, the Bank has during the year commenced processes that would align the bank's ALM framework with the latest regulatory developments and international best practices. The Bank, during the year, continuously undertook an alignment process across the group of the market risk framework, policies and reporting infrastructure, ensuring that it successfully readies itself and manages the impact of any changes to the regulatory requirements for internal model recognition for calculating market risk capital.

Operational Risks:

Operational Risk Management assumes the responsibility of identifying, assessing, monitoring, reporting and treatment of operational risk and works in cooperation with other responsible departments for defining responsibilities to assist in reducing operational risks, improving internal controls and procedures, developing its operational risk database, and increasing operational risk awareness across the Bank.

The Bank continued the implementation of the New Examination & Investigation methodology (Risk Based Methodology). The Bank upgraded its (Quality Assurance) which aim to validate the implementation of the new Methodology as well as to provide Training and support to Examination and Investigation Team. The following initiatives conducted to upgrade the Current Op Risk and Internal Control Environment:

The Bank's current SAS Op Risk system has been upgraded known as SAS Enterprise Governance Risk and Compliance (GRC) and rolled out Key Risk Indicators (KRI) Program bank wide as a predictive indicator for monitoring and reporting operational risks.

The Bank wide Risk Control Assessment (RCSA) Methodology put in pace and rolled out across all major bank business lines. The RCSA plays an important role in the detection of control gaps and serves as a strong and effective internal control tool. Furthermore, Riyad Bank upgraded its Anti-Money Laundering Methodology and system to serve the new approach (Risk Based Approached) which aim to improve the effectiveness of monitoring transactions, including improving the quality and accuracy of alerts, as well as increasing the speed of Investigation. As well completed bank wide comprehensive Fraud Risk Assessment program.

As for the Internal Control Guidelines the Bank has completed and in line with Best Practice RB has completed comprehensive evaluation of Internal Control Framework for Control Environment, Risk Assessment and Management, Institution Control, Accounting, Information & Communication System, and Self-Assessment and Monitoring, Reporting & Follow Up.

The Bank is presently reporting on capital adequacy for operational risk using the Standardized Approach under the Basel II requirements, and is gradually preparing itself to meet the Advanced Measurement Approach (AMA) requirements for operational risk using the Value at Risk (VaR) model.

Stress Testing

An overarching Stress Testing Framework and Policy is in place to meet the Stress Testing requirements at an enterprise-wide level to include all material risks relating to banking activities under the supervision of the Board of Directors, or its delegated authorities. Under the Framework, risk owners review the stress methodologies along with its assumptions to maintain efficacy of the stress models deployed.

The Bank also participates actively in the activities of the Saudi banks working groups, which were formed by the Saudi Arabian Monetary Agency for the application of the rules and decisions of the Basel Convention 3.

Credit Rating:

Riyad Bank has succeeded in maintaining its credit rating, consistently preserving its (A+) rating by the Standard & Poor's rating agency for long-term liabilities, and an (A-1) rating for short-term liabilities - the highest rating available. The international Fitch rating agency also maintained its (A+) rating for long-term liabilities and the (F1) rating for short-term liabilities. Capital Intelligence rating agency has awarded the Bank an (AA-) rating for long-term liabilities and an (A1+) for short-term liabilities, the highest rating available. All the rating agencies have maintained their stable outlook for the Bank given its financial soundness, which reflects the strength and durability of Riyad Bank's financial position.

Information Technology:

During 2014, the Bank completed the process of transformation of the Information Technology, which is now known, according to the new vision adopted by the Bank, as the Business IT Department reflecting the trend of the Bank and its interest to enrich the customer experience and improve the business environment and its components from all sides, including the expansion of technical applications and the scope of their use.

The positive transformation of the division process went together with a wide range of practical measures consistent with the Bank's trends and outlook for the future of the banking business, taking into account the latest developments and innovative technologies within the banking industry.

The bank launched the upgraded version of the website "RiyadOnline" on the Internet as quality step on the road to enhance the efficiency and quality of electronic services the bank provides to the customers, supported by a wide prospects of flexibility and options designed to meet the needs of comfort and ease and excellence in safety standards.

The Bank, in parallel with this, unveiled Riyad Bank's electronic interface in its new look and attractive design, as well as the launch of "RiyadOnline" for companies, thus accomplishing the integrated development process for electronic portals via the Internet, in line with the "enrich the customer experience strategy", aimed mainly to keep the pace of the continuous development of banking services, and support for e-banking customer experience value-added capabilities and quality.

Also, in the same year, the Bank launched "Riyad Mobile Business" and "RiyadMobile", safe and simple versions, to give the bank's customers, from both segments, the ability to implement banking operations, and meet their needs directly through the mobile phone, at any time, any place and at unprecedented protection rates.

As for the ATM network of the bank, the Division has undertaken, during the year, update of digital video DVR devices of the ATM and increased the capacity of the memory allocated to recording to raise the performance and protection rates. In addition, ATM feeding system "ATMR" design was carried out in implementation of the direction to converting the ATMs feed mechanism to more accurate automated system to ensure the availability of sufficient cash. This besides the role of the new system to enable the bank to better take advantage of unused cash, in addition to the necessary reporting tools, which the system provides to the operations teams to control and track all ATMs and their contents accurately.

During 2014, the Business IT Division achievements also included development of the Bank POS system in a way that contributed actively to increasing the speed and accuracy of the implementation of the daily sales operations with the owners of the selling points of "Riyad Bank". In this aspect, the division efforts resulted in high proportion of daily correct payments via the Span Visa and MasterCard cards to 99.8%, resulting in a significant decrease in the rate of customer complaints.

The Bank culminated its innovative technological services for 2014 by launching the "Riyadh self-service", which has been developed recently in the branches as one of the effective channels to enable customers to complete about 90% of banking transactions made through the branches. Such services include access to customer banking operations details, and payment of public and government utility bills and money transfer locally and internationally and update of customer data and information and other services.

Business Technology Governance:

The BT Governance Department continued its mission of strengthening and monitoring of controls in BT environment of the Bank. The Information Security (IS) Department continued the enhancement of information security controls and implementation of new controls to mitigate new threats. IS Department pursued several initiatives to reduce potential security risks to

Emerging Institutions

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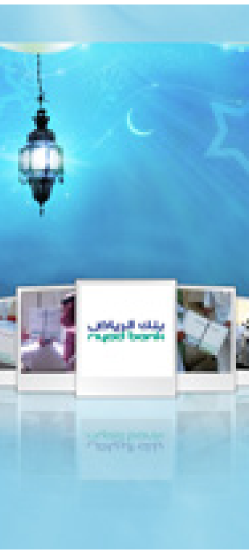


Ramadan Caravan

Corporate Social Responsibility

the Bank and its customers. The department successfully completed the Enterprise Security Risk Assessment exercise and recommended controls to mitigate risks. It completed the comprehensive penetration testing to assess and ensure the security of electronic banking services and the security of internal information technology infrastructure. The IS Department successfully implemented protection in all ATM machines to avoid possible cloning of ATM cards. The department also implemented advanced anti-malware solution to protect the Bank customers from malwares and frauds.

The Business Continuity Department ensured that business continuity is planned and tested for significant business areas to ensure ongoing services to the Bank's customers during interruptions and unexpected events. The Department also verified that crucial business applications can be operated from contingency site during disruptions so that the Bank can continue operations, during and following, any emergency, crisis or catastrophe. The Business Continuity Department is working on Business Continuity Lifecycle management project to enhance the end to end management of business continuity.

The Change Management Department coordinated the fulfillment of technology change requests related to the Bank's systems (ATMs, foreign exchange system, etc.) in cooperation with the Configuration and Release Management in order to ensure smooth implementation of changes and updates. The department also verified that all systems or changes comply with the Bank's infrastructure policy and requirements before the systems or changes are actually implemented.

The User Acceptance Testing Department ensured that all new systems or changes meet business requirements and provide the functionality expected by the Bank's business areas.

Compliance Department:

The rapid organizational changes and developments in the financial and banking sector, locally and internationally, have resulted in an increase in organizational requirements that must be implemented and fulfilled to practice banking activities and protect customers. This is in addition to the changes affecting the financing activity, FATCA tax compliance laws along with the respective disclosure requirements.

Accordingly, the Compliance Department exerted tangible efforts in development and support of performance as a result of the compliance development program, which directly contributed to improving the bank compliance culture and environment.

The Bank Compliance Program applied the best international standards and used a method based on assessing risk to determine the monitoring frameworks and assess their efficiency via an approved work plan for 2014 to monitor non-compliance risks. Periodic reports continued to be prepared for the Board of Directors' Audit Committee, as well as the Operational Risk Management and Compliance Committee, in order to monitor compliance by Bank's divisions. The Compliance Department also works on strengthening the culture of compliance within the Bank divisions and departments and provides consultative services with respect to the regulations and instructions issued by the law-making parties or the bank internal polices and the code of ethics.

Human Resources:

The Human Resources Division continued to support all Riyad Bank divisions to achieve their goals and strategic initiatives. In 2014, The Division completed reorganization of the company and administrative structure project, which targeted developing and improving the organizational structure while observing the best local and international standards. The Bank maintained its leading position among the private sectors' establishments with highest Saudization rate. The Bank's Saudization rate was 93% of its personnel. The Bank's executive management team is comprised entirely of Saudi citizens with Saudi women comprising 100% of female employees and 22% of the Bank's total employees, an indicator which reflects the bank support to Saudi women.

The Bank continued to motivate and train its employees by offering training aimed at improving professional performance. In 2014, it offered nearly 13,000 training opportunities in the Kingdom and abroad. This is besides the effective role of the bank in attracting young Saudi competencies through the development and recruitment programs during the Career and Recruitment Days.

Marketing and Communications:

In 2014, took place a successful launch of a variety of marketing programs designed for

Retail and Corporate Banking Services. The adoption of strategy for supporting channels of communication and marketing with smart multimedia, which have been selected to suit the specificity of each product and targeted audience category, achieved positive results in developing awareness and raising response rates of directed messages. Some campaigns reported an increase of 64 percent, compared with the usual periods. Blending traditional media with new media channels and social networking has contributed to expanding the reach of banking campaigns to targeted audience and also helped to strengthen the bank's competitiveness within the Saudi banking sector.

This has also contributed in strengthening the bank leading marketing activity within the Saudi banking sector. The bank was rated second within the category of "the first thing that comes to mind" in women's sector " Ladies banking", an indication of the bank's outstanding efforts in the field of empowerment and the provision of services and products with high quality and added value for Saudi women.

The year 2014 was full of a lot of challenges for the marketing sector. Besides its usual role in marketing, promotion of products and banking services, the Division has intensified its efforts to support and complement its system for digital communication and intelligent marketing, to strengthen the bank's ability to respond to the evolving needs of the market and the changes in the digital landscape and the growing rates of using smart media, to keep pace with the establishment of a new management devoted entirely to digital marketing. Based on these data, the bank started to build a qualified team to support the bank trends to cope with the present and future digital requirements and challenges.

Within a few months, the Department was able to accomplish rapid and concrete achievements and contributions, which included achieving a remarkable improvement in the Bank's presence and attendance in various social networking channels, especially on "Facebook" and "Twitter". The Department also added another achievement with the successful launch of "marketing screens" program, in selected branches in various parts of the Kingdom. Thereby adding another channel to the list of effective communications with the bank customers and clients.

Last important event in 2014 is represented in establishing a "sharing marketing information" section, which has the task of supporting all business divisions of the bank through providing them with the necessary data and vital information that would support the decision and the decision-making process.

In line with the research and studies indicators that confirm that customer expectations exceed in banking transactions just getting products and services, to reach their continuing search for the most effective ways that allow them more time to spend longer periods with their family members and friends, and get the added value of excellence, safety and peace of mind, the Branding Department completed, during the first months of 2014, the first phase of the modernization and development of the bank brand project. The Bank actually started completion of the new bank brand applications and publishing to reflect the position of the bank as customer-focused facility, which will reflect positively on enhancing the experience of our customers at all points and the means of communication with them.

Because supporting and enhancing the bank image, its products and services in the local and regional media are among main objectives of the Advertising and Media relations Department at the bank, the Department has worked, through preparation and dissemination of press materials and media relations program, to highlight the banking products and retail and corporate banking services, to achieve distinct media presence for a wide range of community service programs and social responsibility.

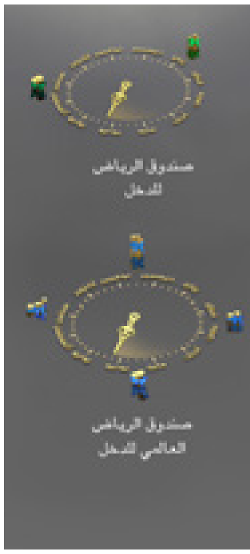
Car Rental Campaign

Quality Assurance Department:

One of Riyad Bank's most important strategic goals is satisfying customers and exceeding their expectations, which is the Quality Assurance Department's main focus. The Department implemented best advanced techniques to ensure quality, improvement and continuous development.

The Department used the customer satisfaction surveys in order to enrich the customer experience, analyzing and using the data to improve operations and functionalities that better fulfil customer needs.

In 2014, the Quality Assurance Department through its main units: the Research and Field Survey Unit, the Quality Improvement Unit, and the Quality Control Unit, was able to successfully conduct over 36 researches, including external and internal studies and reports serving the Bank's various departments. The Department also made over



Riyad Income Fund

Mortgage Finance

Cash Back Credit Card

99,000 calls to customers to ascertain their views and level of satisfaction when using various banking channels. The Department periodically issued key reports that help the Bank's management to make appropriate decisions in a timely manner. These reports include: the Customer Experience Report, the Customer Complaint Analysis Report, and the Internal Customer Satisfaction Report.

Customer Experience:

In realization of the vision of Riyad Bank that the provision of high quality banking experience for the customer is the basis for growth and sustainability of success, Customer Experience Department, which was established by the bank earlier to design and create solutions to enrich the customer experience and evaluate it according to a deliberate and precise grounds, continued its role in the direction, guidance and support and the provision of necessary tools. This is to enable employees and partners to design a distinctive customer experiences and assume its responsibilities in developing customer findings reports, design and develop solutions to improve the level of services, and evaluation of experience of services, and other functions to ensure the support of the Bank's approach to transform into a leading financial institution concerned with the customer being the main driver of banking business.

The most significant milestone during 2014 was the application of "Net Promoter Score" methodology, which was applied in the retail banking division to measure the loyalty and customer satisfaction for all services and channels provided, where the customer experience was measured continuously, taking advantage of the feedback for developing existing services and introducing new amendments.

The Department also conducted a series of tests on products and services to study their impact on actual customers to identify their findings before embarking on the placing these products on the market to check their effectiveness. Customer Experience team also subjected a number of new services to live experience, such as corporate banking application, RiyadOnline, and retail banking application for pre-viewing to a select group of customers, to identify the impressions that have contributed to make some appropriate adjustments to enhance these applications.

Customer Experience team also worked with the trade finance department to develop procedures and build a framework for performance management to improve both the quality of service and effectiveness of actions that affect the corporate banking customer experience. This is in addition to providing appropriate structural measures to enrich the customer experience and a framework of performance management in line with the executive management.

Community Service:

Riyad Bank firmly strengthened its commitment to social responsibility, to consolidate its position in this competitive side, which keeps the bank's leadership as a partner supporting the community to achieve comprehensive and sustainable development. Similarly, the Bank social initiatives during his career marked qualitative achievements across more than one area, which was accompanied by deepening practices of professionalism, out of the concept of "social work" based in essence on three main dimensions; sustainability, development, and inclusiveness, while activating the concept of "innovation" as aspiring driver to bring positive change to the desired society and its members.

In 2014, Community Service Department effective activity and frequent achievements were accompanied by a remarkable development in the strategic vision towards the adoption of community initiatives through rescheduling within basic scopes depending on the nature of each activity to ensure the identification of deliberate standards as a starting point for the adoption of valuable initiatives and effects in harmony with the objectives of the Bank to maintain the geographical spread of these programs across the country and the comprehensiveness of its beneficiaries, as well as the selection of areas that can enrich the reality of the local community.

Subject to that vision; Riyad Bank Community Service programs have been restructured as follows:

Health development initiatives "NAMAA":

The Bank Health development initiatives for 2014 is part of its nationwide health development programs, which Riyad Bank launched during the past years and expanded them to reflect the importance of health as one of the main requirements for comprehensive sustainable development. The initiatives included a wide group of vital activities and programs which meet the needs of several segments of community and provide help to enable them circumvent the illness challenges and furnish appropriate environment.

Among those programs was the charity transportation project, through which Riyad Bank provides specially equipped buses for patients with special needs from various categories. During 2014, the Bank took the initiative to provide a number of charities in various regions of the Kingdom with 9 modern buses, distributed between: Riyadh Down Syndrome Association, handcraft project, the Charity of Visual Impairment in Buraidah, Savannah Health Services Society in Hail, and the Charity Committee for Orphan Care in Eastern Region "BENNA".

NAMMA initiatives also included a home-based care, through which the bank continued to distribute medical equipment and supplies to patients from community members of different situations in cooperation with the Friends of Patients Program to allow them to receive treatment at home and get equipment such pressure measurement and oxygen supply equipment. This is in addition to the provision of a wide range of wheelchairs, which included a number of individuals and departments of health across the Kingdom.

Health Awareness Programs were on top of NAMMA initiatives, where the bank participated in many events and campaigns to enhance the level of community awareness of common diseases and ways to prevent them in order to reduce infection rates. Riyad Bank supported Zahra Society campaign for raising awareness of breast cancer for the seventh consecutive year. Also, the bank sponsored Princess Nora University campaign to raise awareness of breast cancer. This is besides the Bank sponsorship of the initiative of the diabetes charity to prepare counselors and health educators in schools of education, while the Bank continued internal awareness programs for its employees, such Corona disease awareness, the free medical examination day and the effectiveness of blood donation.

Community Capacity Development Initiatives "MOMKEN":

In the course of the last achievements in community service, the bank launched a range of quality developmental programs that came as a translation of careful research efforts and a constructive community partnership between the Bank and a number of national authorities, in order to embrace the people with special needs within the community, develop their abilities and skills, invest in their potential to convert them to a productive and positive elements, and contribute to integrating them into the surrounding community.

MOMKEN initiatives umbrella included the agricultural training program for people with simple intellectual disabilities, which the Bank launched its 3rd edition during 2014 in collaboration with Disabilities Society in Al Hassa and the Irrigation and Drainage Authority. Since the beginning, the initiative succeeded in providing prototypical program for the rehabilitation of people with mental disabilities for the labor market through providing them with professional agricultural skills and motivate them to rely on themselves to build their future and overcome their challenges and change their reality.

The Bank also continued, among other areas, sponsoring "YADAWI" project in collaboration with the Women's Association, which allowed adequate opportunities for a wide range of Saudi girls with special needs to prove their excellence and ability to produce heritage handicraft and convert it into income-generating projects. Riyad Bank had effective contributions in marketing these activities through a customized corner within its permanent stand in Janadriya festival.

The summer training center for people with special needs, which is being organized by the bank since 2006, has embraced in its 8th edition for 2014, more than 170 members with special needs of different age groups and pathological cases. In investment for the success of the club experience, the Bank launched a similar center in Al Baha in collaboration with the Disabled Association.

Human Development Initiatives "KAFAAT":

Recognizing the importance of investing in the human resources considering that the human is the real asset for the development of communities and sustainable prosperity, Riyad Bank continued its efforts on the road to Saudization of jobs and creating promising opportunities for the generations of competencies of Saudi youth of both sexes, which contributed to the bank maintaining its leading position on top of the list of establishments recording highest rates of Saudization.

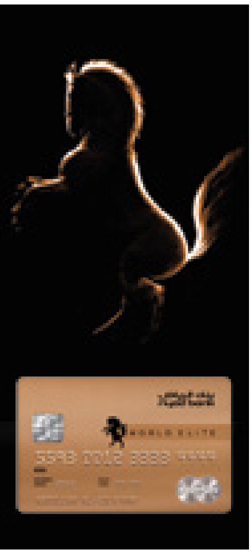
Best Local Bank In the Kingdom

Best Provider of Trade Finance Solutions

Credit Cards Offers

The bank's contribution efforts for the provision of job opportunities and providing the departments and divisions with national competencies, were based on adopting many initiatives and participation in a wide range of related activities, among which was the active presence of permanent participation of the Bank in various recruitment days and career exhibitions hosted by universities and academic institutions in the Kingdom, such as King Fahd University of Petroleum and Minerals, King Saud University, Al-Yamamah University, King Faisal University, Prince Sultan University and University of Princess Noura Bint Abdulrahman for girls. This is in addition to the Bank's participation in Saudi Arabia Career Days for graduates of the Custodian of the Two Holy Mosques Foreign Scholarship Program in the United States, Canada and United Kingdom.

The bank participation widened further to include the sponsorship and support of professional exhibitions consistent with the concept of "entrepreneurship" such as a "youth empowerment and discovery of professions," and RAM exhibition for Saudi female investors from home in Asir and Boulevard exhibition for empowerment of female entrepreneurs in the field of e-commerce, as well as the First National Forum for recruitment of people with special needs, which was held under the title of "my job is security."



World Elite

Cultural Development Initiatives "IDAAT":

Literary and cultural creativity likewise did not escape Riyad Bank's attention. Culture remained present in the agenda of Riyad Bank's development programs that have achieved more milestones on the national intellectual scene. The "Book of the Year" lucrative cultural prize adopted by the Bank with the Riyadh Literary Club emphasized sustainability and continuity as a prestigious literary prize sponsored by the Ministry of Culture and Information. During 2014 took place the celebration of obtaining the King Abdulaziz Foundation the prize for the seventh edition of the issuance of the "Dictionary of literature and writers in Saudi Arabia," which was written by more than seventy specialists and academics.

Because the attention given by the Bank for literature and culture is not limited by borders, the Bank in partnership with Qassim Literary Club launched the first award of its kind in the Kingdom, which was intended to honoring creative Saudi women under the name of " Women Excellence Award," which was unveiled and receiving nominations for the first edition were received.

As usual, the bank was present as a partner supporting the festival of Janadriya Heritage and Culture in in its 29th edition of with its literary and cultural heritage high value. The bank continued interest in the entertainment festivals by supporting Aldokhalh tenth festival, for the sixth year consecutively and the festival of "Farhana oasis" in Qatif.

Voluntary & Charitable Initiatives "ATAA":

Riyad Bank continued steps on the road to the consolidation of the values of "social solidarity" and volunteer work within its practices in community service. The bank sought to reformulate a mechanism for implementing many charitable programs in accordance with the vision of innovative targeting the spread of those values in each member of the Bank. The Charitable Ramadan Caravan continued for the sixth consecutive year, throughout the Kingdom, with the assistance of staff volunteers, who participated directly by distributing foodstuff baskets to needy families with enthusiasm.

The Bank staff made their mark in the continuity of the bank's initiative to greeting Inpatient children in a wide range of hospitals in the Kingdom during Eid al-Fitr and Eid al-Adha to solidify humanitarian approach of Riyad Bank in communicating with the community members of all groups, led by children

As regards the winter clothing which the bank provides yearly to needy members of the community to confront weather conditions, the Bank continued, in 2014, its charity and volunteer work by implementing its winter clothing campaign. Teams of volunteer Bank employees distributed essential supplies to the targeted families in the a number of regions in the Kingdom and remote villages.

In a unique humanitarian initiative, the Bank continued its support of the "Al-Wafa' Program." This program helps the needy families of deceased employees throughout the Kingdom by providing those in need with pre-paid e-cards enabling them to buy necessities.

Riyad Capital:

Riyad Capital is a Saudi company wholly owned by Riyad Bank, and is licensed by the Saudi Capital Market Authority for Dealing as Principal, Agent and Underwriter; Arranging; Advising and Custody

Services. Riyadh Capital business is managed from its headquarters in Riyadh.
Riyad Capital, through its Assets Management Department, continuously innovates and develops investment products that meet the needs of its diverse customer base, and . In 2014, Riyad Capital was able to expand the list of its Equity Funds by launching two new investment products; "Riyadh Income Fund" and "Riyadh Global Income Fund", bringing the number of Riyad Capital funds to 36. Consequently, the company managed to strengthen its leadership in Asset Management in terms of the number and diversity of investment products and the size of the customer base. The company ranks second in the local market on size of total assets under management.
With regards to Investment Banking, Riyad Capital in 2014 was keen to attract more young and talented Saudis with relevant experience in all areas of Investment Banking advisory services, including public and private offering of debt and equities, M&A and Structured Finance.

The most important achievements of Riyad Capital's Investment banking in 2014 includes acting as Joint Lead Manager and Joint Bookrunner to raise SR 2 billion in Sukuk for the Saudi Investment Bank, as well as Petrochem Sukuk in the amount of SR 1.2 billion and Advanced Petrochemical Company Sukuk in the amount of SR 1 billion. In addition, the company acted as sole Financial Advisor, Underwriter and Manager for the SR 275 million IPO of Um Al Qura Cement Company, and Financial Advisor and Placement Agent for the SR 256 million private offering of Deutsche Gulf Finance Company.
In order to strengthen its position in the domestic and international brokerage market, and to complement the range of its comprehensive and sophisticated trading channels and services, Riyad Capital launched in 2014 two promotional campaigns and added option contracts trading in the US market to its Online International trading platform.
2014 also saw the launch of the new version of Riyad Capital's Internet homepage which was developed using advanced technology to conveniently offer and display the company's products and services, and enable customers to directly access and browse the latest developments, offers, promotions and available investment opportunities.
The company also launched Riyad Tadawul Mobile application in 2014, which enables customers to trade in the local stock market via their smart phones. Additionally, the application enables the customers to follow market movements and best bids and offers, as well as review their investment portfolios, investment account details and other services on their smart phones.
In 2014, the Wealth Management Department further promoted an investment culture among its customers through the value added Investment Advisory Services that are provided to high net worth customers privately and professionally via 4 centers in Riyadh, Jeddah and Eastern Province to help customers identify their investment options carefully and accurately as suited to their risk profiles. This also had a tangible impact on the growth of the company's activities in Asset Management and Brokerage. Riyad Capital has also continued to implement its Wealth Management strategy, which includes further investments in people, systems, investment advisory processes, etc.
Keeping in mind its mass client base, Riyad Capital in early 2014 introduced the Retail Investment Department, which caters to the investment needs of Retail customers through a wide network of 20 investment centers spread across the Kingdom, complemented by an effective network of electronic and telephone channels.

Hassad Program


Personal Finance

Economic and Financial Outlook

4

Economic and Financial Outlook

Economic and Financial Outlook

Introduction

The global economy continued to be weak and uneven during the year 2014 with major challenges and changes in the dynamics and drivers of growth. Before, the distinction in growth patterns was mostly among the advanced economies and the emerging economies. However, in 2014, the world economy witnessed significant divergence in performance among different countries within each group of the above. The divergence in performance has been followed by a divergence in the set of policy responses adopted by each block of countries or even by each single country.

Starting with the advanced economies, in the United States, data seem to validate the Federal Reserve's monetary procedures, as most of economic indicators have continued to improve in performance. The job creation recovered and unemployment declined, while wages continued to grow in real terms given the modest level of inflation. Private consumption also shows strong signs of stability with upside potentials as real income rises due to increase in output and low prices. Unlike the U.S., the situation in the Euro-zone remained tentative during the year. Some countries in the Block continued to struggle as economic stagnation fuels social and political disappointment and complicate regional policy decisions. Feeble growth, deflationary pressures, and excessive indebtedness in peripheral countries continued to hinder investment and increasing the downside risks. In Spain, Italy, and many other economies, unemployment, particularly among young people, remained alarmingly high and incessant. Greece, on the other hand, is closer to existing the common currency as the economy there became a heavy burden on the economies of the Block. Given the high interdependence between the U.S. economy and the European economy, it is very acceptable to assume that if Europe slips back into a recession, the United States economy is surely going to get the impact in some way.

Japan's economy that enjoyed a vigorous rebound spurred by Abenomics, has been negatively impacted by its April's consumption tax increase. The GDP shrank in the second and third quarters of 2014. Abenomics first two arrows (fiscal stimulus program and monetary easing) that aimed basically at stimulating demand had succeeded. In the last two years, Japan's stock market has almost doubled in value, increasing the wealth of Japanese consumers. The yen has fallen by nearly one-third against the US dollar, invigorating Japan's export industries and the labor market has tightened, with unemployment standing at 3.5 percent. The third arrow, the consumption-tax hike, was needed to sustain them in flight. Unfortunately, the hike was too large to keep them buoyant.

In Emerging markets, the Chinese economy, has avoided hard landing, thanks to repeated injections of fiscal and monetary stimulus throughout the year. The Chinese authorities are likely to accept a gradual slowdown in growth in the short term compared to recent historical averages. However, over the medium term, the government is counting on structural reforms to boost growth through a shift to a more market-based, consumption-led growth model as opposed to investment-led in the past. Given that these reforms will take time to have an impact, it is expected for the economy to keep the slowing momentum for some time. However, the ramifications of the Chinese slowdown will be felt by the rest of the world. Weaker demand from China is also likely to be additional drag on international commodity prices, including oil prices, for some time to come.

Similar to China, India's economy decelerated in the most recent quarters, raising doubts about the government's ability to revive the economy. Following a robust increase in the April–June period, GDP growth moderated in the subsequent quarter. The moderation mainly reflected a slowdown in agriculture and lackluster growth in the manufacturing sector. However, recent data suggest that growth in manufacturing and services is firming up. In the end of 2014. Generally, the Indian government has not made much progress in the the structural reform agenda, that include, among others, passing a nationwide goods and services tax (GST), which would be India's most ambitious economic reform in years.

Other important countries in emerging markets economies are Russia and Brazil. The sizes of those countries and connectivity with other economies have important systemic implications. Russia Faced with a deepening economic recession, a collapsing currency, capital flight, and shortages caused by contracting imports. Causes are mixed, political and economic. The country needs to work first on lifting sanctions and that needs political decisions. Economically, the country has to work on building a more sustainable and diversified economy. Economic mess in Russia, if not handled carefully, would exacerbate Europe's economic malaise.

On the other side, the Brazilian economy expanded a meager 0.1 percent in the third quarter and exited the technical recession it had entered in the first half of the year. Authorities in Brazil have signaled a willingness to improve macroeconomic management and governance. The government announced a 1.2 percent surplus target and to increase it to above 2.0 percent in 2016 and 2017. Economists are doubtful that the government will be able to quickly rekindle economic growth and have cut their projections as the government faces a large amount of rigidity in the budget since the vast majority of spending is attached to constitutionally mandated expenditure. However, if promises are fulfilled, Brazil would join Mexico in anchoring a more stable Latin America, helping the region to overcome the disruptive effects of a Venezuelan economy roiled by lower oil prices.

For other emerging markets economies; many of them had been negatively affected by the Federal Reserve Board's decision to end its bond-buying program. The announcements have been strongly correlated with asset price volatility and capital flows in emerging markets. Some major emerging markets saw their currencies depreciate rapidly, while external financing premia increased, equity prices fell and capital flows slowed.

Commodity exporters' countries also hit by the wave of decline in global commodity prices especially oil. This lead to deteriorations in current account, which adds to imbalances in the capital account of the balance of payment, resulted previously from the U.S Fed's decision to stop quantitative stimulus program. However, oil import countries should get boost from the dramatic decline in oil prices in terms of gains in real income and less expenditures on oil imports and oil subsidies. Some oil importers, who depend heavily on what happens to oil exporters, may benefit less from lower oil prices. For example, Caucasus and Central Asia oil importers are likely to experience adverse spillovers from slowing growth in their oil exporting neighbors, particularly Russia, which will reduce non-oil exports and remittances. Same maybe applied to low-income countries in the Middle East, Africa and Pakistan who might also be adversely affected through a decline in non-oil exports, official transfers and remittances from oil producing countries in the region, especially over the medium term. Also importers in the Caribbean could face a marked reduction in transfers as Venezuela economy comes under pressure.

This multi-speed economic performance has contributed to multi-track central banking, as pressure for divergent monetary policies intensifies, particularly in the systemically important advanced economies. The US Federal Reserve, having already stopped its large-scale purchases of long-term assets, is likely to begin hiking interest rates sometimes in 2015. By contrast, the European Central Bank will pursue its own version of quantitative easing, introducing in the first quarter of the year a set of new measures to expand its balance sheet through high-volume purchases of government bonds. The Bank of Japan will maintain its pedal-to-the-metal approach to monetary stimulus. In normal times, monetary policy would respond to lower prices and lower inflation rates through a more than one-for-one decrease in the nominal interest rate, and thus a lower real interest rate. However, times are not normal, and major advanced economies are constrained by interest rates at zero. While the United States, which is getting closer to exiting this zero lower bound, can respond to a decrease in inflation by delaying the timing of its exit, the euro zone and Japan, which are expected to remain at the zero lower bound for a long time, cannot materially change their conventional monetary policy, all what they have in hand is more and more quantitative easing.

After the experience of the Federal Reserve tapering, we almost become sure that differences in the timing of exit from unconventional monetary policy in advanced economies will have a global impact. Currently, exchange-rate shifts represent the only mechanism for reconciliation, and the divide between certain market valuations and their fundamentals has become so large that prices are vulnerable to periods of volatility. For the US, the combination of a stronger economy and less accommodative monetary policy are continuing to put additional upward pressure on the dollar's exchange rate – which has already appreciated significantly – against both the euro and the yen. The dollar's tendency toward appreciation will remain strong and broad-based, potentially triggering domestic political opposition. Moreover, as it becomes increasingly difficult for currency markets to perform the role of orderly reconcilers, friction may arise among countries. This could disturb the unusual calm that lately has been comforting equity markets.

In light of the above conditions, the IMF lowered its estimate of the global economy growth in 2014 by 0.1 percentage points to 3.3 percent. Real GDP in advanced economies expanded at a weak pace of 1.8 percent in 2014. For emerging and developing economies, the IMF reduced its estimation to growth in these countries by 0.1 percentage point in 2014 to 4.4 percent. The instability in commodity prices and the weakness in the world trade and capital flows were the major factors that lead to update the growth rates in the down side.

Looking ahead, global activity is expected to slightly strengthen in 2015 but the risks to the forecast remain on both sides. Global output is expected to expand at a pace of about 3.5 percent in 2015 and 3.7 percent in 2016. Drivers of the projected uptick are the strength of the U.S. economy, reduction in oil prices and highly accommodative monetary conditions. The U.S. economy is expected to grow by 3.6 percent in 2015 and by 3.3 percent in 2016. Growth in the Euro Area will be limited to 1.2 percent in 2015 and 1.4 percent in 2016. The growth in the block will be held back by the very weak economies in the periphery and low inflation rate. Emerging market and developing economies are projected to slow down and to grow by about 4.3 percent in 2015 and by 4.7 percent in 2016. In Russia, the big drop in oil prices coupled with the sanctions will lead the economy to deteriorate by 3 percent in 2015 and by 1 percent in 2016. The growth in China, on the other hand, will slow down to 6.8 percent in 2015 down from 7.4 percent in 2014. It will slow further in 2016 to 6.3 percent. In India, the economy is expected to speed up to 6.3 percent in 2015 and to grow by 6.5 percent in 2016. Generally, unemployment will remain unacceptably high in many advanced economies as well as in various emerging market economies.

Many factors will play significant roles in the growth of the global economy in 2015. Drop in oil prices, changing the direction of the monetary policy in the United States and its impact in the currency markets, legislations that many countries may take in response to the drop in oil prices and many other social and political events. The next section discusses the oil markets and the possible impact of the drop in oil price on the global economy and major economies in the World.

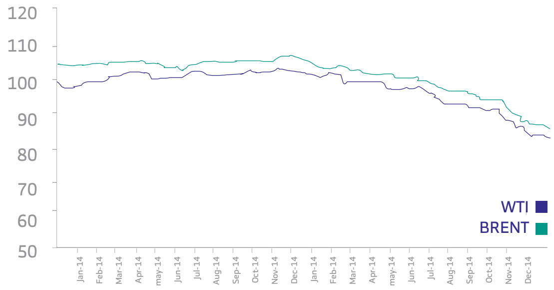
Oil Markets

The first eight months of 2014 were much like 2013, as energy commodities remained in a relatively stable price range. During the last four months of 2014, however, crude oil and petroleum product prices fell dramatically. Crude prices recorded the lowest levels in more than five years. More importantly the drop took place in relatively short period. Prices have fallen by nearly 55 percent since June and by 40 percent since September. Metal prices and other commodity prices, which typically react to global activity even more than oil prices, have also decreased but substantially less than oil, suggesting that factors related to the oil market, especially supply side, could have an important role in explaining the drop in oil prices. Several evidences support the above conclusion. For example, revisions of forecasts of demand by International Energy Agency (EIA) combined with estimates of the short run elasticity of oil supply, suggest that unexpected lower demand between June and December account for only 20 percent to 35 percent of the price decline. On the supply side, the evidence points to a number of factors, including surprise increases in oil production. This is in part due to faster than expected recovery of Libyan oil production in September and unaffected Iraq production, despite unrest and the increase of conventional and non-conventional oil production from non-OPEC resources. Another factor that contributes to the decline of prices is the appreciation of the dollar across the board.

A closer look to crude oil prices throughout 2014 indicates that oil market witnessed higher volatility during the year. The WTI started the year 2014 at $95.14/bbl, $3.03 lower than its closing price for 2013. Prices touched a year high at $107.95 on June 20th, due to tighter global supplies and fears of oil supply disruptions from more sources. In the second half of the year, higher sustained increases in crude oil supply and lower expected global economic growth in 2014 and 2015 contributed to a rapid decline in crude oil prices, causing WTI prices tumble to as low as $53.46 a barrel on December 29th. Brent crude, from its side, started the year 2014 at $107.94/bbl declining by $2.01/bbl below its closing price for 2013. Brent crude price touched a level of $115.15/bbl on June 19th 2014, spurred by positive economic sentiment, a bullish US gasoline market, output glitches, and expectations of higher global oil demand growth in 2014. However, prices started it downward trend in the second half of the year plunging to its lowest level of $55.90/bbl also on December 30th. Prices continued to edge lower and lower at the end of the year with forecasts for prices to stay at their current averages for quite significant period of the year 2015.

By the end of the year, WTI prices and Brent crude averaged $93.20/bbl and $98.92/bbl respectively in 2014. However, for 2015, the current values of futures and options contracts suggest high uncertainty in the price outlook. The likelihood of per-barrel prices for WTI falling below $70 in the next 12 months is about 84 percent, while the likelihood of Brent falling below $70 is around 72 percent. The probability for the crudes above falling below $60/bbl over the next 12 months is 65 percent for WTI and 48 percent for Brent. As an average for the year 2015, the US Energy Information Agency (EIA) expects WTI price to average $62.75/bbl and Brent to average $68.08/bbl. The IMF in its most updated reports uses an average price of $57/bbl for the year 2015.

Development of Oil Prices in 2014



Source: EIA, the Energy Information Administration

The most important question is how long such low oil prices may prevail? And, if supply is to be blamed, then how persistent those supply factors that lead to such massive drop in prices? The supply impact on oil prices can be rectified by either the producers' reaction and/or the response of production and investment in oil production to lower oil prices. This requires major producers within and outside OPEC to agree on a formula of cutting production that brings the market back into equilibrium. Possible changes in producer's strategy and geopolitical tensions in Libya, Iraq, Ukraine, and Russia should not be underestimated.

Regarding the second factor of how investment and in turn oil production (namely the non-conventional oil) will respond to low oil prices. There are some evidences that capital expenditure on oil production has started to fall. According to Rystad Energy, overall capital expenditure of major oil companies is 7 percent lower for the third quarter of 2014 compared to 2013. Available projections from the same source indicate that capital expenditures will fall markedly throughout 2017. For unconventional oil, such as shale, (which now accounts for 4 million out of a world supply of 93 million barrels a day), the break-even prices—the oil price at which it becomes worthwhile to extract—of the main United States shale fields (Bakken, Eagle Ford and Permian) are typically below $60 per barrel. At current prices (around $50-$55 per barrel); Rystad Energy's projections suggest that the level of oil production could decline but only moderately by about less than 4 percent in 2015. Rates of return will be significantly lower, and some highly leveraged firms that did not hedge against lower prices are already under financial stress and have been cutting their capital expenditure and laying off significantly. Thus, the dynamic effects of low prices should lead to a decrease in supply and to a partial recovery of prices. This is what the futures markets suggest, according to the IMF estimations, a recovery in prices to $73 a barrel, but that may take up to 2019.

On the demand side, uncertainty about global economic activity and thus the impact on the derived demand for oil remains high. As explained earlier, except for the U.S. economy, major economies in the world are slowing down. However, as EIA estimates show, demand side explains at most 35 percent of the drop in the oil prices. However, speed growth of the global economy would be responsible of overcoming the impact of weak demand embodied in low oil prices.

Regardless of the mechanism that would affect the price trajectory, the outlook for global oil demand growth for 2015 has been cut by major energy research organizations. The is due to lower expectations of demand from major oil importing countries especially in OECD Europe, Asian Pacific as well as major exporting countries mainly Russia and other oil-exporting countries in Central Asia and Latin America. A strong dollar and the lifting of subsidies have so far limited supportive price effects on demand. Consumption from OECD countries is expected to stay around 45.80 mb/d in 2015, 30tb/d less than consumption in 2014. Global demand is estimated to stay around 92.3 mb/d in 2015, from 91.4 mb/d in 2014.

On the supply side, global production, on the other hand, is expected to increase to 92.92 mb/d in 2015 up from 91.96 mb/d in 2014. OECD Americas is expected to be the main driver for growth as surging US light tight oil supply set to push total non-OPEC production to record of around 57 mb/d. OPEC crude supply expected to decline to 29.67 mb/d in 2015 down from 29.85 mb/d in 2014. However, OPEC NGLs and non-conventional liquids are estimated to average 6.24 mb/d in

2015, up from 6.13 mb/d in 2014, lifting total OPEC production in 2015 to 35.92mb/d.

The Potential Impact of the Drop in Oil Prices on the Global Economy

According the many research including the IMF, decline in oil prices is expected to leave favorable impact on the global economy. However, the impact will be asymmetric across countries. Net oil importing countries are expected benefit, while net oil exporting countries are expected to be negatively impacted. Even within each group, there are important differences. Accordingly, drop in oil prices will have significant impact on policy response by each country, whether it is oil importing or oil exporting country.

The crucial assumptions in quantifying the effects of the decline in oil prices are related to the supply shift factors that impacted the prices; like how large and persistent are going to be. These assumptions determine not only the price levels and path of adjustment, but also the initial reaction by consumers and firms.

For oil imports countries, there are three main channels through which a decrease in the price of oil affects oil importers. The first is the effect of the increase in real income on consumption. The second is the decrease in the cost of production of final goods, and in turn on profit and investment. The third is the effect on the rate of inflation, both headline and core. The strength of these effects varies across countries: for example, the real income effect is smaller for the United States, which now produces over half of the oil it consumes, than for the euro zone or for Japan. The real income benefits also depend on the energy intensity of the country: China and India remain substantially more energy intensive than advanced economies, and thus benefit more from lower energy prices. The share of oil consumption in GDP is on average 3.8 percent for the United States, compared to 5.4 percent for China and 7.5 percent for India.

The effect on core inflation depends both on the direct effect of lower oil prices on headline inflation, and on the pass-through of oil prices to wages and other prices. The strength of the pass-through depends on real wage rigidities—the way nominal wages respond to CPI inflation—and the anchoring of inflation expectations.

The IMF estimates that oil drop will lead to gains for world GDP between 0.3 and 0.7 percent in 2015 and between 0.4 and 0.8 percent for 2016 compared to a scenario without the drop in oil prices. The effects on China are larger than those for Japan, the United States and euro zone countries. For China, GDP increases 0.4 to 0.7 percent above the baseline in 2015, and 0.5 to 0.9 percent in 2016. For the United States, GDP increases 0.2 - 0.5 percent above the baseline in 2015, by 0.3 - 0.6 percent in 2016. For inflation expectations, there will be a decrease in core inflation of 0.2 percentage points while headline inflation decreases by 1 percentage point.

The analysis does not take into account the potential offset from some policies that governments may implement following the fall in oil prices. For example, some countries may decide to tighten monetary or fiscal policy in response to the oil price decline. Other effects are relevant, which the analysis does not consider; the depreciation of the yen and the euro since June (by almost 19 percent and 13 percent respectively), for reasons mostly unrelated to the decline in the price of oil), imply that the decrease in the price of oil in terms of yen and euros has been smaller than in dollars. Those depreciations somewhat mute the impact of the oil price slump for Japan and the euro zone. Also, in countries which have specific—not proportional—taxes on energy (they levy a fixed dollar or euro amount per gallon or liter), the same percentage decrease in the world price of oil leads to a smaller percentage decrease in the price paid by consumers and firms. Countries may also use the opportunity of a decreasing price of oil to reduce energy subsidies leading again to a smaller decline in the price paid by consumers and firms.

For oil exporting countries, the impacts are mirror images of what happens in oil importers. In those countries, the effect of the decline in the price of oil on GDP depends very much on their degree of dependence on oil exports, and on what proportion of revenues goes to the government. The mechanical impact will be deterioration in the fiscal accounts and current accounts of the balance of payment. The adjustment will imply fiscal tightening, lower output, and a depreciation (mostly for flexible exchange regimes), and depreciation may lead to higher inflation. However, some countries are better equipped than others to manage the adjustment. Counties such as the GCC have put in place better fiscal rules and buffer funds which enable those countries to avoid any sudden and large cut in the fiscal stance that may impact the sentiments of consumers and investors.

The Gulf Region

Since the spread of the global financial crisis in 2008-2009, the GCC region has been among the fastest-growing regions in the world. Strong economic growth was supported by rising government spending and accommodative monetary conditions. Governments in the region have seized the opportunity presented by high oil prices to move toward sustainable and more diversified economies. These policies have focused on providing a stable macroeconomic conditions; strengthening the business environment; investing in infrastructure, education, and skills; targeting the development of specific sectors; and promoting entrepreneurship through SMEs.

During the recent years, the business environment continued to be favorable by international standards. Strong macroeconomic and external sector fundamentals, the efficiency of high capital spending, labor market reforms and institutional changes have drawn capital inflows to the GCC, when many emerging markets suffered reversal capital flights. Credit default swap spreads and long term yields have been falling for most of 2014. Similarly, GCC stock markets showed strong gains in the first half of the year before experiencing corrections later on. The GCC has been viewed as a relatively safe destination for capital during periods of global financial market volatility and regional turmoil. Banking systems have generally remained sound. In many of the GCC countries, high capitalization, stable profitability, and low nonperforming loans limit risks. Private sector credit has been expanding faster than economic activity in many of the GCC countries, which may indicate recovery from the global financial crisis and a welcome sign of capital deepening.

In 2014, the real GDP in the GCC countries recorded a GDP growth of 3.7 percent, thanks to oil prices (during the first half of the year) and high oil production as these countries respond to supply disruptions outside the GCC. Growth in the non-oil sectors remained also high at about 6 percent. Rising government capital expenditure, creating more jobs to nationals in the private sector, along with ample credit expansion to private sector, all have supported domestic consumption and investment. The overall current account surplus for the GCC countries has declined to 16.3 percent of the total GDP of the region in 2014, while the fiscal budget balance for the six countries dropped 4.6 percent of the GDP.

Softening international food prices has helped containing inflation despite rising economic growth rates. Those patterns of growth are consistent with the assumption that the growth in the economy has resulted through increasing the capacity and the potential output of the economies as faster economic growth did not trigger higher inflation. Generally speaking, pegged exchange rates, a benign global inflationary environment, and reliance on imports, have kept inflation close to 2.6 percent in the GCC countries, despite rising housing costs and rapid credit growth in some countries. Real exchange rates have been relatively stable.

However, the outlook for the GCC economies as oil exporting countries in the next couple of years is expected to be dented by the drop in oil prices. Although, the deterioration in fiscal positions will be common feature among most oil exporters, the GCC countries are better equipped than many other countries. Major GCC countries have put in place policy cushions such as fiscal rules and saving funds and have more credible monetary framework, which have helped decouple internal from external balances. Accumulated substantial funds from past higher prices will allow the GCC countries for larger fiscal deficits and drawing on those funds for some time is appropriate. Qatar and Kuwait currently have substantial buffers and long-lasting hydrocarbon resources. So do the UAE and Saudi Arabia. Bahrain and Oman have shorter resource horizons and weaker fiscal positions than other countries. Thus, despite lower oil prices, public infrastructure megaprojects, especially in Qatar, Saudi Arabia, and the UAE, are expected to continue to fuel strong expansions to the economy especially in tourism, transport, construction, and wholesale/retail trade.

A mechanical effect of the drop in oil price is a fiscal deficit, follows by a fiscal tightening. This will lead to a decrease in real income and profits. However, the effect of the decline in the price of oil on GDP depends very much on the degree of dependence of each country on oil exports, and on what proportion of revenues goes to the Government budget. Many GCC countries were partially successful in diversifying the economic structure and to less extent exports and government revenues. Oil revenues still account for 80 percent of the government revenues in UAE and around 50 percent of total exports. In Oman, oil accounts for around 90 percent of Government revenues and around 65 percent of total exports. In Saudi Arabia and Kuwait, oil represents more than 85 percent of government revenues and exports. In Bahrain oil shares in government revenues and exports are around 70 percent. In Qatar oil is the source of roughly 65 percent of government revenues and around 75 percent of exports.

Another way to illustrate the degree of vulnerabilities of the GCC countries to the decline in oil prices is to compute the so-called fiscal break-even prices and the external beak-even oil prices—that is, the oil prices at which the governments of oil-exporting countries balance their budgets and their current accounts respectively. The increase in government spending by most of the GCC countries has raised fiscal breakeven oil prices in most countries. However, as it is clear from the data, the breakeven prices vary considerably across the GCC countries. The fiscal breakeven price is the lowest for Kuwait at $54/bbl, while it is the highest for Bahrain at around $127/bbl. The prices for Qatar and UAE are $60/bbl and $77/bbl respectively, while it is over $100/bbl for Oman and Saudi Arabia. The external breakeven oil prices is less. It is around $33/bbl for Kuwait, roughly $58/bbl for Qatar and the UAE, $65.5/bbl for Bahrain, for Saudi Arabia it is $68/bbl and it increases to around $87/bbl for Oman.

Fiscal balances are forecast to deteriorate. In aggregate, after reaching peak of 7.75 percent of GDP in 2012, the oil exporters' fiscal surplus is expected to a deficit by 6.3 percent of GDP in 2015 deficit. However, changing fiscal patterns may reduce the deficit to 4 percent in 2016. A study by the IMF shows that an unanticipated additional 1 mbd of oil supplied from outside the GCC region from 2015 onward could, by one estimate, lead to an approximately 12 percent fall in oil revenues, which would likely weaken fiscal balances by 3 percent of GDP.

Following the fiscal balances, external current account balances are forecast to decline. Given demographic trends, economic structures, and low domestic energy prices, the GCC are expected to sustain energy consumption growth that outpaces the rest of the world, restraining hydrocarbon export growth in most cases. With non-oil exports failing to compensate and demand for imports rising, external current account balances are forecast to decline from a peak of 18.5 percent of GDP in 2012 to 1.6 percent of the GDP in 2015, and to increase back to 4.7 percent in 2015. Noting that the IMF estimated that the drop in oil prices will cost the GCC countries about $300 as a loss in exports in 2015 and this is about 21 percentage point of the GDP.

With most GCC countries expected to use buffers in response to lower oil revenues in the next two years, the near-term impact of lower oil prices on non-oil growth is likely to be contained. Overall, the GDP growth in the GCC is expected to stay around 3.4 percent in 2015 and to decline further to 3.3 percent in 2016. Inflation may also relax to 2.2 percent in 2015 and to get back to an average of 2.6 percent in 2016.

The GCC countries appropriately supported demand during the global recession, current conditions now warrant a return to fiscal consolidation, particularly where monetary policy remains accommodative. Years of fast growth since the global financial crisis, rapid credit growth in some countries, rising asset prices, namely, in the real estate, and accommodative global monetary conditions call for a return to fiscal consolidation, supported by macro prudential measures to address overheating risks if needed. Given the large drop in oil prices, short-term non-oil GDP growth can only be supported at the cost of unsustainable fiscal policies. Non-oil growth is in most cases concentrated in sectors that rely on demand generated by oil revenues. With the current circumstances, the existing growth model will not be able to generate enough jobs to absorb the growing population into the workforce, making more urgent the need to generate inclusive growth based on diversification and private sector job creation.

To strengthen their fiscal positions, most countries need to reform energy subsidies, raise non-oil revenues, and strengthen systems for controlling budget spending. Rationalizing energy subsidies while protecting those in need would generate budgetary resources that could be used for strengthening fiscal positions or increasing priority expenditures. Moreover, it would encourage greater energy efficiency. However, reforming energy subsides, which will include increasing the prices of gas, would not be an optimal choice for the countries that do not have public transit system. On the other hand, collecting more nonoil revenues can help increase resilience to oil market developments. Improving fiscal frameworks would more effectively anchor actual spending decisions to more productive programs and mitigate the risk of going into excessive budget deficits.

For some of the GCC countries, the medium-term challenge is to generate more jobs and housing for the younger generations, improve the quality of education and restraining growth in public wage bills and incentivizing GCC workforce to seek private sector jobs. The actual challenge for all the GCC countries remains the ability to successfully diversify the economy away from the hydrocarbon sector. Also, to increase the saving rate to speed up the accumulation of national wealth to keep the same spending pattern for future generations.

Regarding capital markets, during the year 2014 that witnessed episodes of rising global risk aversion, the GCC countries' strong external positions have kept investors viewing them more favorably than the broader emerging market asset class. Since the U.S. Federal Reserve in May 2013 unveiled plans to taper its asset purchases most of emerging markets had hit with large capital flights led to significant currency depreciation. The impact was less negative for the GCC in terms of capital flight and financial market volatility. Cumulative outflows from the GCC countries during the period May 2013 to July 2014 amounted to US$780 million (0.05 percent of GDP or 3.5 percent of assets under management compared with cumulative outflows in other emerging markets of US$79 billion (0.35 percent of GDP or 6.1 percent of assets under management. Actually, during the second quarter of 2014, funds flowed back to the GCC markets.

For the banking system, the impact of lower oil prices is likely to be muted in the near term, but downside risks are likely to increase over time given the strong correlation between non-oil growth and government spending. Second-round effects of lower oil prices on economic activity could weaken asset quality, liquidity, and profitability. However, GCC banking should remain resilient owing to their high capital buffers, low nonperforming loans (NPLs), and generally high liquidity.

Financial markets in the region started the year strongly, with Dubai Financial Market gained around 50 percent during the first 4 months of the year. However, the large drop in oil prices during the last quarter of the year resulted in a sharp decline in stock markets by the end of the year on concerns of how economies will be affected by lower oil prices, and particularly whether governments, which have been key drivers of corporate earnings, would cut spending or not. The impact was meaningful for some market and resulted in wiping out most of the gains registered throughout the year. Qatar Exchange was the best performer by the end of the year yielded more than 16 percent. The Bahrain Bourse gained 14 percent, Dubai Financial Market managed to end the year around 12 percent up, while Abu Dhabi Securities Exchange advanced by 5.6 percent. On the other hand, Kuwait Stock Exchange was the least performer down by more than 13 percent. Muscat Securities Market ended the year down by 7 percent, while the Saudi market (Tadawul) posted minor losses by 2.37 percent.

The Saudi Economy:

According to the latest released numbers by the Central Department of Statistics and Information (CDSI), the Saudi economy posted a growth rate of 3.6 percent in 2014, with the private non-oil GDP growing by 5.7 percent following 6.95 percent growth rate in 2013. The solid growth rates in the private sector during the last two years proved that the benefits from positive development in the oil sector and the expansion in the fiscal programs transmit to the private sector activities within a short lag period. Recent history shows that this transmission channel seems to be asymmetric. The private sector continued energizing and spurring economic growth even at relatively low oil prices era during the peak of the global financial crisis and global recession in 2009. This feature, that gives the Saudi economy the ability to cushion the impact of exogenous shocks, together with the overall friendly business environment made Saudi Arabia one of the most desirable countries in receiving long term foreign direct investments (FDI). In 2013, Saudi Arabia ranked among the largest recipient of FDI in the Emerging markets as it attracted around $9.3 billion value of new FDI inflows, which account for around 39 percent of total FDI to the GCC. In the same context, the Standard and Poor's has labeled the outlook for Saudi Arabia as "stable" and kept the sovereign rating unchanged at (AA-). They stated in the report that real economic growth remains relatively strong. A similar assessment by Fitch credit rating was issued last March.

In addition to the above, a report by the International Monetary Fund (IMF) in 2014 acknowledged that Saudi Arabia has been one of the best performing G-20 economies in recent years, and has supported the global economy through its stabilizing role in the global oil market. The report stressed that the government in the Kingdom is undertaking an ambitious economic reform and investment program to further develop and diversify the economy, improving the business environment, increasing the quality of education and skills, employing more Saudi nationals in the private sector and providing government housing programs for the needy people. The Executive Directors of the IMF noted that the banking system is well-capitalized, profitable and liquid. They commented that the current monetary and macro prudential policy stance are appropriate.

Saudi Arabia unveiled the 2015 budget, with government expenditure showing minimal increase of 0.58 percent to reach SR 860 billion. The 2015 budget allocates SR 185 billion or 21.5 percent of the total expenditures as new projects and proceeding in new phases of existing projects. The main allocations include SR 217 billion for education and manpower training, SR 160 billion for health services and social development, SR 60 billion for water, agriculture and other services, SR 63 billion for infrastructure and transport, and SR 40 billion for municipalities. This is in addition to the generous allocations for the specialized credit institutions.

Financial Markets:

During the year of 2014, SAMA continued to implement a balanced monetary policy that aimed at providing sufficient liquidity and achieving financial and price stability by keeping up with domestic and international economic developments. As a result, money markets in Saudi Arabia continued to have an adequate liquidity that enabled the economy to continue its robust growth pace, at favorable conditions of low interest rates and stable inflation rate.

The 3-month SIBOR ended the year 2014 at 0.86 percent to average 0.94 percent, 3.4 basis points below its average in 2013 at 0.97 percent. The 12-month SIBOR ended the year at 1.03 percent to average 1.09 percent through the year, 2 basis points below its average in 2013. The rates were continued to be in the favor of Riyal deposits all over the year. The average spread of the 3-month SIBOR over the 3-month LIBOR was 70 basis points. Regarding inflation, the data from the Central Department of Statistics and Information indicate that the inflation rate calculated as the percentage change in the consumer price index for the base year 2007, slowed down during 2014 to 2.7 percent compared with 3.5 percent for the year 2013.

Concerning liquidity, latest available weekly data from SAMA shows that broad money supply (M3), reached a record of SR 1731.5 billion at the end of December 2014 and that is 12.1 percent above its level at the end of December 2013. Total deposits grew by also 12.4 percent with a growth rate in demand deposits reaching 14.4 percent.

Total lending from commercial banks continued to pick up consistently starting from December 2010. By the end of November 2014, total loans extended to the private sector by Saudi banks increased by 12.3 percent reaching SR 1,209 billion compared to SR 1,076.4 billion at the end December 2013. As a result, the loan to deposit ratio stabilized at 81.8 percent in November 2014 up from 80.1 percent in December 2013.

The Saudi stock market (TADAWUL) ended the year slightly down in response to the sharp drop in oil prices in the last quarter of the year. The index (TASI) ended the year at 8,333 points compared to 8,536 points at the end of 2013, lower by 202 points or 2.37 percent. It reached as high as 11,149 points on September 9th, the highest level since January 19, 2008, before it bottoms on December 16th to as low as 7,330 points. The P/E ratio decreased to 13.9 at the end of 2014 down from 15.52 at the end of 2013, while the market capitalization as a percent of GDP increased to 64.3 percent in 2014 compared to 61.0 percent at the end of 2013. “Retail”, “Agriculture & Food Industries”, “Real Estate Developments” were the best performing sectors through the year. On the other hand, “Telecommunication & Information Technology”, “Petrochemical Industries” and “Media and Publishing” were the worst performing sectors respectively. In term of size, “Small Cap” companies ended the year slightly up on average, while “Micro Cap”, “Large Cap” and “Med Cap” all finished the year with losses.

Macroeconomic Performance in 2014 and Outlook for 2015:

Lately, the CDSI has issued new set of national account data for the base year of 2010. Previously, the data were based on the year 1999. The change of the base year is usually associated with other major surveys; the “Economic Establishments Census” and the “Comprehensive Economic Census”. The above surveys with many others are performed periodically (usually every 10 years) by the CDSI. Those two Censuses reclassify the establishments according to several criteria, including, geographical region, ownership, size, type of sector & economic activity, capital, labor, compensations, revenues, profits and capital formation. Accordingly, the distribution of establishments with respect of economic activity and other economic aspects may change over the surveyed period and this will lead to changes in estimates of the GDP for each sector and the contributions of each sector within the GDP.

Changing the base year has resulted in giving the oil sector larger share of overall GDP at the expense of the non-oil private and government sectors. According to the new national accounts numbers, the oil sector now contributes for 42.5 percent of the overall GDP up from 20 percent according to numbers using the 1999 base year. The share of the private sector in 2014 data went down to around 40 percent down from 60 percent in the old classification. Similarly, the new date showed a reduction in share of non-oil government activities from roughly 20 percent to around 17 percent. Of course, the reduction in the relative importance of the private sector's value added in the GDP will be cascaded to mostly all other economic sectors.

The significant increase in the oil sector contribution to the economy given the new base year, will increase the tolerance of the Saudi economy to global shocks, namely from the oil side. The impact was clear in underestimating the growth pace of the Saudi economy over the last few years. For example, calculating the average growth rate for the period 2010 – 2013 with the new data will result in a drop of the estimated average growth rate by 0.7 percentage points. The average growth rate declines from 6.4 percent at the 1999 base year to 5.7% with respect to a base year of 2010.

However, despite changing the base year and increasing the share of the oil sector in the Saudi economy, the numbers still show an expansion in the economy. The GDP at current market prices increased in 2014 by 1.09 percent to reach SR 2,821.7 billion. In real terms, the GDP grew by 3.6 percent compared to a growth rate of 2.67 percent in 2013. Estimates show that the oil sector has grown by 1.72 percent in 2014 after deterioration by 1.63 percent in the year before. The government sector, on the other hand, expanded by 3.66 percent, while the private sector expanded by 5.7 percent in 2014. All components of non-oil GDP recorded positive and healthy growth in 2014. Specifically, non-oil industrial sector grew by 6.54 percent; construction by 6.70 percent; transport, storage and communication sector by 6.13 percent; wholesale, retail, restaurants, and hotels by 5.97 percent; and finance, insurance and real estate by 4.46 percent.

Concerning the external sector, the total value of exports of goods decreased in 2014 by 6.56 percent to reach SR 1,317.4 billion. Non-oil exports of goods increased by 7.79 percent to reach SR 218.6 billion, taking its share in total exports up to 16.6 percent up from 14.4 percent in 2013. Additionally, exports of services increased by 4.87% in 2014 reaching SR45.9 billion taking the total value of exports of goods and services to SR 1,363.3 billion On the other hand, imports of goods increased by 1.35 percent to SR 639.1 billion, while imports of services increased by 25.6 percent to SR 290.9 billion. As a result, in 2013, the trade balance registered a surplus of SR 678.3 billion or 24.0 percent of the GDP, while the current account achieved a surplus of SR 433.3 billion or 15.4 percent of the GDP.

Regarding the government budget, total revenues in 2014 reached SR 1,046 billion, while total expenditure increased to SR 1,100 billion. As a result, in 2014, the government budget realized a budget deficit of SR 54 billion or 1.91 percent of the GDP. In line with the budget achievement, the government debt decreased to 2.1 percent of the GDP in 2014, down from 2.7 percent in 2013.

In 2015, Saudi oil prices are expected to average $60/bbl (consistent with the Government's assumption for the 2015 budget), and Saudi oil production is expected to stay around 9.7 mb/d. With these assumptions, oil sector is expected to deteriorate by 1.3 percent in 2015, while the, non-oil sector is expected to grow by 4.4 percent. Government sector is expected to continue growing at a rate of 3.8 percent, while the private sector is expected to grow by 4.7 percent. Accordingly, the overall GDP is expected to grow by 2.0 percent in 2015. The nominal GDP in 2015 is expected to decline to SR 2,750 billion. Inflation rate (calculated as the annual percentage change in the consumer price index for the base year 2007) is expected to stay around 2.3 percent in 2015 and unemployment rate (among Saudis) is expected to stay around 11.5 percent while continuing all new measures to boost employments. Based on the above oil prices and production in 2015, the current account is expected to register a deficit of SR 55 billion or 2.0 percent of the GDP. The fiscal figures, on the other hand, are expected to again deviate from the budget figures. Accordingly, we expected the budget to record a deficit of SR 283 billion in 2015 or 10.3 percent of GDP.

Financial Statements 2014

Deloitte & Touche
Bakr Abulkhair & Co.
Deloitte.

KPMG Al Fozan & Al Sadhan

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Riyad Bank
(A Saudi Joint Stock Company)

We have audited the accompanying consolidated financial statements of Riyad Bank ("the Bank") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at December 31, 2014, and the consolidated income statement, and the consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes from 1 to 38. We have not audited note 39, nor the information related to "Basel III Pillar 3 Disclosures" cross referenced therein, which is not required to be within the scope of our audit.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Deloitte & Touche
Bakr Abulkhair & Co.
Deloitte.

KPMG
KPMG Al Fozan & Al Sadhan

Opinion

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

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

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

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Bakr Abulkhair & Co.

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Rabi Al-Thani 29, 1436H
February 18, 2015

Financial Statements 2014

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

SAR'000	Notes	2014	2013
ASSETS			
Cash and balances with SAMA	4	25,315,736	20,928,549
Due from banks and other financial institutions	5	3,914,504	4,438,656
Investments, net	6	46,963,269	43,538,091
Loans and advances, net	7	133,490,274	131,190,557
Investment in associates	8	468,535	442,297
Other real estate		390,802	437,368
Property and equipment, net	9	1,706,731	1,662,650
Other assets	10	2,339,442	2,608,311
Total assets		214,589,293	205,246,479
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks and other financial institutions	12	3,789,796	7,577,980
Customer deposits	13	164,079,433	153,199,880
Debt securities in issue	14	4,000,000	4,000,000
Other liabilities	15	7,182,959	6,598,295
Total liabilities		179,052,188	171,376,155
Shareholders' equity			
Share capital	16	30,000,000	15,000,000
Statutory reserve	17	1,088,102	14,328,376
Other reserves	18	1,038,937	1,184,564
Retained earnings		2,160,066	1,957,384
Proposed dividends	24	1,250,000	1,400,000
Total shareholders' equity		35,537,105	33,870,324
Total liabilities and shareholders' equity		214,589,293	205,246,479

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT
For the years ended December 31, 2014 and 2013

SAR'000	Notes	2014	2013
Special commission income	20	5,945,240	5,517,436
Special commission expense	20	815,001	820,436
Net special commission income		5,130,239	4,697,000
Fee and commission income, net	21	2,020,485	1,821,121
Exchange income, net		280,394	226,118
Trading losses, net		(929)	(3,557)
Dividend income		58,473	67,264
Gains on non-trading investments, net		376,732	144,935
Other operating income		146,372	121,141
Total operating income		8,011,766	7,074,022
Salaries and employee-related expenses	22	1,471,552	1,311,460
Rent and premises-related expenses		281,752	260,293
Depreciation of property and equipment	9	257,665	268,668
Other general and administrative expenses		748,884	721,615
Impairment charge for credit losses, net		900,063	627,418
Impairment charge for investments		-	(22,000)
Other operating expenses		46,163	16,247
Total operating expenses		3,706,079	3,183,701
Income from operating activities		4,305,687	3,890,321
Share in earnings of associates, net	8	46,721	56,784
Net income for the year		4,352,408	3,947,105
Basic and diluted earnings per share (in SAR)	23	1.45	1.32

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

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

SAR'000	2014	2013
Net income for the year	4,352,408	3,947,105
Other comprehensive income:		
- Available for sale investments		
Net changes in fair value (note 18)	222,538	181,391
Net changes in fair value transferred to consolidated income statement (note 18)	(368,165)	(119,419)
	(145,627)	61,972
- Cash flow hedges		
Effective portion of net changes in fair value (note 18)	-	(1,529)
Net changes in fair value transferred to consolidated income statement (note 18)	-	(734)
	-	(2,263)
Other comprehensive income for the year	(145,627)	59,709
Total comprehensive income for the year	4,206,781	4,006,814

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the years ended December 31, 2014 and 2013

SAR'000				Other reserves				
2014	Notes	Share capital	Statutory reserve	Available for sale investments	Cash flow hedges	Retained earnings	Proposed dividends	Total
Balance at the beginning of the year		15,000,000	14,328,376	1,184,564	-	1,957,384	1,400,000	33,870,324
Final dividend paid - 2013	24	-	-	-	-	-	(1,400,000)	(1,400,000)
Transfer from retained earnings	16	-	671,624	-	-	(671,624)	-	-
Issue of bonus shares	16	15,000,000	(15,000,000)	-	-	-	-	-
Total comprehensive income		-	-	(145,627)	-	4,352,408	-	4,206,781
Interim dividend paid - 2014	24	-	-	-	-	(1,140,000)	-	(1,140,000)
Transfer to statutory reserve	17	-	1,088,102	-	-	(1,088,102)	-	-
2014 final proposed dividend	24	-	-	-	-	(1,250,000)	1,250,000	-
Balance at the end of the year		30,000,000	1,088,102	1,038,937	-	2,160,066	1,250,000	35,537,105

SAR'000				Other reserves				
2013	Notes	Share capital	Statutory reserve	Available for sale investments	Cash flow hedges	Retained earnings	Proposed dividends	Total
Balance at the beginning of the year		15,000,000	13,341,600	1,122,592	2,263	1,372,055	1,125,000	31,963,510
Total comprehensive income		-	-	61,972	(2,263)	3,947,105	-	4,006,814
Final dividend paid - 2012	24	-	-	-	-	-	(1,125,000)	(1,125,000)
Interim dividend paid - 2013	24	-	-	-	-	(975,000)	-	(975,000)
Transfer to statutory reserve	17	-	986,776	-	-	(986,776)	-	-
2013 final proposed dividend	24	-	-	-	-	(1,400,000)	1,400,000	-
Balance at the end of the year		15,000,000	14,328,376	1,184,564	-	1,957,384	1,400,000	33,870,324

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

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

SAR'000	Notes	2014	2013
OPERATING ACTIVITIES			
Net income for the year		4,352,408	3,947,105
Adjustments to reconcile net income for the year to net cash from (used in) operating activities:			
(Accretion of discounts and amortisation of premium, net) on non-trading investments, net		(125,701)	(64,915)
Gains on non-trading investments, net		(376,732)	(144,935)
Depreciation of property and equipment		257,665	268,668
Share in earnings of associates, net		(46,721)	(56,784)
Impairment charge for investments		-	(22,000)
Impairment charge for credit losses, net		900,063	627,418
		4,960,982	4,554,557
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA	4	(695,954)	(676,971)
Due from banks and other financial institutions maturing after three months from date of acquisition		1,596,857	(1,228,439)
Loans and advances		(3,199,780)	(14,347,321)
Other real estate		46,566	21,017
Other assets		268,869	1,780,050
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		(3,788,184)	1,415,012
Customer deposits		10,879,553	6,985,313
Other liabilities		480,484	678,738
Net cash from (used in) operating activities		10,549,393	(818,044)
INVESTING ACTIVITIES			
Proceeds from sales and maturities of non-trading investments		26,178,000	17,488,543
Purchase of non-trading investments		(29,225,889)	(24,456,564)
Purchase of property and equipment, net		(301,746)	(193,416)
Net cash used in investing activities		(3,349,635)	(7,161,437)
FINANCING ACTIVITIES			
Debt securities issued	14	-	4,000,000
Dividend and Zakat paid		(2,435,820)	(2,020,236)
Net cash (used in) from financing activities		(2,435,820)	1,979,764
Net increase / (decrease) in cash and cash equivalents		4,763,938	(5,999,717)
Cash and cash equivalents at beginning of the year		16,008,972	22,008,689
Cash and cash equivalents at end of the year	25	20,772,910	16,008,972
Special commission received during the year		5,960,742	5,573,752
Special commission paid during the year		888,580	754,196
Supplemental non-cash information			
Net changes in fair value and transfer to consolidated income statement		(145,627)	59,709

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

1. GENERAL

Riyad Bank (The "Bank") is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia, formed pursuant to the Royal Decree and the Council of Ministers' Resolution No. 91 dated 1 Jumad Al-Awal 1377H (corresponding to November 23, 1957G). The Bank operates under commercial registration No. 1010001054 dated 25 Rabi Al-Thani 1377H (corresponding to November 18, 1957G) through its 318 branches (2013: 252 branches) in the Kingdom of Saudi Arabia, a branch in London-United Kingdom, an agency in Houston-United States, and a representative office in Singapore. The Bank's Head Office is located at the following address:

Riyad Bank

P.O. Box 22622

The objective of the Bank is to provide a full range of banking and investment services. The Bank also provides to its customers Islamic (non-interest based) banking products which are approved and supervised by an independent Shariah Board established by the Bank.

The consolidated financial statements comprise the financial statements of Riyad Bank and its wholly owned subsidiaries; Riyad Capital, Ithra Al-Riyad Real Estate Company and Riyad Company for Insurance Agency (collectively referred to as "the Group").

2. BASIS OF PREPARATION

a) Statement of compliance

The consolidated financial statements are prepared in accordance with the Accounting Standards for Financial Institutions promulgated by the Saudi Arabian Monetary Agency (SAMA) and International Financial Reporting Standards (IFRS) 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.

b) Basis of measurement and presentation

The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of derivatives and Available for Sale financial assets. 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.

c) Functional and presentation currency

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

d) Critical accounting judgements, estimates and assumptions

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

i) Impairment for credit losses on loans & advances

The Bank reviews its loan portfolios to assess specific and collective impairment on a quarterly basis. In determining whether an impairment loss should be recorded, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group. Management uses estimates based on historical loss

2. BASIS OF PREPARATION (continued)

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

i) Impairment for credit losses on loans & advances (continued)

experience for loans with credit risk characteristics and objective evidence of impairment similar to those in the portfolio, when estimating its cash flows. The methodology and assumptions used for estimating both the amount and the timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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

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

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

Level 1

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

Level 2

valuation technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable

Level 3

valuation technique with significant unobservable inputs: financial instruments valued using valuation techniques where one or more significant inputs are unobservable

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.

iii) Impairment of available-for-sale investments

The Bank exercises judgement in considering impairment on the Available for sale equity investments. This includes determination of a significant or prolonged decline in the fair value below its cost. In making this judgement, the Bank evaluates among other factors, the normal volatility in share price. In addition, the Bank considers impairment to be appropriate when there is objective evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology and operational and financing cash flows.

The Bank reviews its debt securities classified as available for sale at each reporting date to assess whether they are impaired. This requires similar judgement as applied to individual assessment of loans and advances.

iv) Classification of held-to-maturity investments

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

v) Determination of control over investees

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 investor's rights to remove the Fund Manager. As a result the Group has concluded that it acts as an agent for the investors in all cases, and therefore has not consolidated these funds.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) 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 adoption of the following amendments to existing standards and new interpretations mentioned below which has had an insignificant financial impact on the annual consolidated financial statements of the Group.

Amendments to existing standards

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

ii) 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.

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

iv) 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 as a payment to a government for which an entity receive no specific goods or services and provides guidance on accounting for levies in accordance with the requirement of IAS 37.

b) Basis of consolidation

The consolidated financial statements comprise the financial statements of Riyad Bank and its subsidiaries drawn up to 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting year as that of the Bank, using consistent accounting policies.

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

Balances between the Bank and its subsidiaries, and any income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Basis of consolidation (continued)

The Bank is party to certain special purpose entities (SPEs), primarily for the purpose of facilitation of certain Shariah compliant financing arrangements. Bank concluded that these entities cannot be consolidated to its financial statements as it could not establish control over these SPEs.

c) Settlement date accounting

All regular way purchases and sales of financial assets are recognized and derecognized on the settlement date. The Bank accounts for any change in fair value between the trade and the reporting date in the same way as it accounts for the acquired assets. Regular way purchases or sales are purchases or sales of financial instruments that require delivery of assets within the time frame generally established by regulation or convention in the market place.

d) Investments in associates

An associate is an entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. Investments in associates are accounted for under the equity method of accounting. The equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee. Distribution received from the investee reduces the carrying amount of the investment.

e) Derivative financial instruments and hedge accounting

Derivative financial instruments, including foreign exchange contracts, special commission rate swaps and currency options (both written and purchased), are measured at fair value. All derivatives are carried at their fair value as assets where the fair value is positive and as liabilities where the fair value is negative. Fair values are obtained by reference to quoted market prices, discounted cash flow models and pricing models, as appropriate. 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 consolidated income statement and disclosed in trading income/ loss. Derivatives held for trading also include those derivatives which do not qualify for hedge accounting described below.

(ii) 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 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 the inception of the hedge, the risk management objective and strategy is documented, including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Bank will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

a) Fair value hedges

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 income statement, any gain or loss from re-measuring the hedging instruments to fair value is recognised immediately in the consolidated income statement. The related portion of the hedged item is adjusted against the carrying amount of the hedged item and recognised in the consolidated income statement. For hedged items measured at amortised cost, where the fair value hedge of a special 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 basis. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated income statement.

b) Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of a variability of cash flows attributable to a particular risk associated with a recognised asset or a liability or a highly probable forecasted transaction that could affect income statement, the portion of the gain or loss on the hedging instrument that is determined to be an effective portion is recognised directly in other comprehensive income and the ineffective portion, if any, is immediately recognised in the consolidated income statement. For cash flow hedges affecting future transactions, the gains or losses recognised in other reserves, are transferred to the consolidated income statement in the same period in which the hedged transaction affects the consolidated income statement. Where the hedged forecasted transaction results in the recognition of a non-financial asset or a non-financial liability, then at the time such asset or liability is recognised the associated gains or losses that had previously been recognised directly in other comprehensive income are included in the initial measurement of the acquisition cost or other carrying amount of such asset or liability.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting, or the forecast transaction is no longer expected to occur or the Bank revokes the designation. At that point of time, any cumulative gain or loss on the cash flow hedging instrument that was recognised in other comprehensive income is retained until the forecasted transaction occurs. Where the hedged forecasted transaction is no longer expected to occur, the net cumulative gain or loss recognised in other comprehensive income is transferred to the consolidated income statement for the period.

f) Foreign currencies

Transactions in foreign currencies are translated into Saudi Arabian Riyals at spot exchange rates prevailing on the transaction dates. Monetary assets and liabilities at the year-end, denominated in foreign currencies, are translated into Saudi Arabian Riyals at the exchange rates prevailing at the reporting date. Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement. Non-monetary items measured at fair value in a foreign currency are translated using the spot exchange rates at the date when the fair value is determined. 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 income statement or in equity, depending on the underlying financial asset.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rates as at the dates of the initial transactions.

The assets and liabilities of overseas branch are translated at the spot exchange rate at the reporting date. The income and expenses of overseas branch are translated at the average exchange rates for the year. All exchange differences, if significant, are recognised in other comprehensive income. These differences are transferred to consolidated income statement at the time of disposal of foreign operations. All insignificant differences are included in the consolidated income statement.

g) Offsetting financial instruments

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Revenue recognition

i) Special commission income and expenses

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

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

The calculation of the effective yield includes all fees and points paid or received, transaction costs, and discounts or premiums that are an integral part of the effective special commission rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of financial asset or liability.

ii) Fee and commission income

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

iii) Others

Dividend income is recognised when the right to receive payment is established. Exchange income/ loss is recognised when earned/ incurred. Results arising from trading activities include gains and losses from changes in fair value and related special commission income or expense for financial assets and financial liabilities held for trading.

i) Sale and repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the consolidated statement of financial position and are measured in accordance with related accounting policies for investments held as FVIS, Available for sale, Held to maturity and Other investments held at amortised cost. The counterparty liability for amounts received under these agreements is included in "Due to banks and other financial institutions" or "Customers' deposits", as appropriate. The difference between sale and repurchase prices is treated as special commission expense and is accrued over the life of the repo agreement on an effective special commission rate basis. 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 Bank does not obtain control over the assets.

Amounts paid under these agreements are included in "Cash and balances with SAMA" or "Due from banks and other financial institutions" as appropriate. The difference between purchase and resale prices is treated as special commission income and accrued over the life of the reverse repo agreement on an effective yield basis.

j) Investments

All investment securities are initially recognised at fair value, including incremental direct transaction cost except for investments held as Fair Value through Income Statement (FVIS) and are subsequently accounted for depending on their classification as either held to maturity, FVIS, Available for sale or Other investments held at amortised cost. Premiums are amortised and discounts accreted using the effective yield basis and are taken to special commission income.

For securities traded in organized financial markets, fair value is determined by reference to exchange quoted market bid prices at the close of business on the reporting date. Fair value of managed assets and investments in mutual funds are determined by reference to declared net asset values.

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

Following recognition, subsequent transfers between the various classes of investments are not ordinarily permissible except in accordance with amendments in IAS 39 (refer note 6). The subsequent period-end reporting values for each class of investment are determined on the basis as set out in the following paragraphs:

i) Held as FVIS

Investments in this category are classified at initial recognition as either investment held for trading or those upon initial recognition designated as FVIS. Investments classified as trading are acquired principally for the purpose of selling or repurchasing in short term.

After initial recognition, investments at FVIS are measured at fair value and any change in the fair value is recognised in the consolidated income statement for the period in which it arises. Transaction costs, if any, are not added to the fair value measurement at initial recognition of FVIS investments. Special commission income and dividend income on investment securities held as FVIS are reflected as trading income.

ii) Available for sale

Available for sale investments are non-derivative financial instruments and include equity and debt securities that are either designated as AFS or not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss. Available for sale investments are those equity and debt securities intended to be held for an unspecified period of time, which may be sold in response to needs for liquidity or changes in special commission rates, exchange rates or equity prices. Investments, which are classified as "Available for sale", are subsequently measured at fair value. For an Available for sale investment where the fair value has not been hedged, any gain or loss arising from a change in its fair value is recognised directly in other comprehensive income. On derecognition, any cumulative gain or loss previously recognised in other comprehensive income is included in the consolidated income statement.

iii) Other investments held at amortised cost

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

iv) Held to maturity

Investments having fixed or determinable payments and fixed maturity and that the Bank has the positive intention and ability to hold to maturity, are classified as held to maturity. Held to maturity investments are subsequently measured at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any discount or premium on acquisition using an effective yield basis. Any gain or loss on such investments is recognised in the consolidated income statement when the investment is derecognised or impaired.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Loans and advances

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

All loans and advances are initially measured at fair value, including directly attributable transaction costs associated with the loans and advances. Loans and advances originated or acquired by the Bank that are not quoted in an active market, are stated at amortised cost. For presentation purposes, allowance for credit losses is deducted from loans and advances.

l) Impairment of financial assets

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

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the group on the terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of 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.

It may also include instances where Bank considers that the obligor is unlikely to pay its credit obligations to the Bank, in full, without recourse by the Bank to actions such as realizing the security, if held.

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

Once a financial asset has been written down to its estimated recoverable amount, special commission income is thereafter recognised based on the rate of special commission that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

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

Loans whose terms have been renegotiated are no longer considered to be past due. Restructuring policies and practices are based on indicators or criteria, which indicate that payments, 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. Consumer loans are charged off when they become 180 days past due.

i) Impairment of financial assets held at amortised cost

In case of financial instruments held at amortised cost or held to maturity, the Bank assesses individually whether there is objective evidence of impairment based on same criteria as explained above.

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

The Bank also considers evidence of impairment at a collective assets level. The collective provision is based on deterioration in the internal grading or external credit ratings, allocated to the borrower or group of borrowers, the current economic climate in which the borrowers operate and the experience and historical default patterns that are embedded in the components of the credit portfolio.

ii) Impairment of Available for sale financial assets

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

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

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

m) Other real estate

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

Subsequent to initial recognition, any subsequent write down to fair value, less costs to sell, are charged to the consolidated income statement. Any subsequent 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 as income together with any gain/ loss on disposal.

n) Property and equipment

Property and equipment are stated at cost and presented net of accumulated depreciation. 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
Improvements and decoration of premises	over the lower of the lease period or 5 years
Furniture, fixture and equipment	5 to 20 years
Computer hardware	5 years
Software programs and automation projects	3 to 5 years
Motor vehicles	4 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. 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. Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in consolidated income statement.

o) Financial liabilities

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

p) Guarantee contracts

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

q) Provisions

Provisions are recognised when a reliable estimate can be made by the Bank 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.

r) Accounting for leases

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

s) Cash and cash equivalents

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

t) 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 receive the cash flows from the financial asset expires.

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

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

u) End of service benefits

Benefits payable to the employees of the Bank at the end of their services are accrued in accordance with the guidelines set by the Saudi Arabian Labor Regulations and are included in other liabilities in the consolidated statement of financial position.

v) Zakat

Under Saudi Arabian Zakat and Income Tax Laws, Zakat is the liabilities of shareholders. Zakat is computed on the shareholders' equity or net income using the basis defined under the Zakat regulations. Zakat is not charged to the Group's consolidated income statement as they are deducted from the dividends paid to the shareholders.

w) Investment management services

The Group offers investment services to its customers, which include management of certain investment funds. Fees earned are disclosed under related party transactions. Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly, are not included in the consolidated financial statements.

x) Non-interest based banking products

In addition, to the conventional banking, the Bank offers its customers certain non-interest based banking products, which are approved by its Shariah Board. These products include Murabaha, Tawaraq and Ijara. These banking products are accounted for using IFRS and are in conformity with the accounting policies described in these consolidated financial statements.

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

ii) 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 his promise to lease the asset for an agreed rent and specific period that could end by transferring the ownership of the leased asset to the lessee.

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

y) Short term employee 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 plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by employees and the obligation can be estimated reliably.

4. CASH AND BALANCES WITH SAMA

SAR'000	2014	2013
Cash in hand and other balances	3,550,983	3,486,750
Statutory deposit	8,269,753	7,573,799
Reverse repos with SAMA	13,495,000	9,868,000
Total	25,315,736	20,928,549

In accordance with 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, savings, time and other deposits, calculated at the end of each month. The statutory deposit with SAMA is not available to finance the Bank's day-to-day operations and therefore is not part of cash and cash equivalents (note 25).

5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

SAR'000	2014	2013
Current accounts	519,925	211,380
Money market placements	3,394,579	4,227,276
Total	3,914,504	4,438,656

6. INVESTMENTS, NET

a) Investment securities are classified as follows:

i) Held as FVIS

On September 1, 2008, the Group reclassified investments held in trading portfolio reported under its investments at fair value through income statement ("FVIS") category to the available for sale category.

The carrying and fair value of these reclassified investments as at December 31, 2014 was SAR 3,560 million (December 31, 2013: SAR 3,715 million).

Had the reclassification not occurred, the consolidated income statement for the year ended December 31, 2014, would have included unrealised fair value gain on such reclassified investments amounting to SAR 133.9 million (31 December 2013: unrealised fair value gain SAR 221 million).

6. INVESTMENTS, NET (continued)

ii) Available for sale

	Domestic		International		Total	
SAR'000	2014	2013	2014	2013	2014	2013
Fixed rate securities	-	-	11,894,298	11,417,605	11,894,298	11,417,605
Floating rate securities	-	-	1,886,466	1,596,282	1,886,466	1,596,282
Mutual funds	143,307	373,765	1,631,785	1,875,083	1,775,092	2,248,848
Equities	1,244,289	1,385,232	127,985	114,426	1,372,274	1,499,658
Available for sale, net	1,387,596	1,758,997	15,540,534	15,003,396	16,928,130	16,762,393

International investments above includes investment portfolios of SAR 11.6 billion (2013: SAR 11.5 billion) which are externally managed.

iii) Other investments held at amortised cost

	Domestic		International		Total	
SAR'000	2014	2013	2014	2013	2014	2013
Fixed rate securities	23,416,933	20,031,824	1,987,994	2,180,787	25,404,927	22,212,611
Floating rate securities	4,155,274	3,328,278	248,856	548,867	4,404,130	3,877,145
Other investments held at amortised cost	27,572,207	23,360,102	2,236,850	2,729,654	29,809,057	26,089,756

iv) Held to maturity

	Domestic		International		Total	
SAR'000	2014	2013	2014	2013	2014	2013
Fixed rate securities	94,743	142,424	131,339	509,720	226,082	652,144
Floating rate securities	-	-	-	33,798	-	33,798
Held to maturity	94,743	142,424	131,339	543,518	226,082	685,942
Investments, net	29,054,546	25,261,523	17,908,723	18,276,568	46,963,269	43,538,091

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

	2014			2013		
SAR'000	Quoted	Unquoted*	Total	Quoted	Unquoted*	Total
Fixed rate securities	15,895,411	21,629,896	37,525,307	15,347,948	18,934,412	34,282,360
Floating rate securities	5,436,359	854,237	6,290,596	5,507,225	-	5,507,225
Equities	1,234,513	178,017	1,412,530	1,366,649	173,690	1,540,339
Mutual funds	1,775,092	-	1,775,092	2,248,848	-	2,248,848
Allowance for impairment	-	(40,256)	(40,256)	-	(40,681)	(40,681)
Investments , net	24,341,375	22,621,894	46,963,269	24,470,670	19,067,421	43,538,091

*Unquoted fixed rate securities include Treasury Bills of SAR 19.9 billion (2013: SAR 17.3 billion)

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

i) Other investments held at amortised cost

	2014				2013			
SAR'000	Carrying value	Gross unrealised gain	Gross unrealised loss	Fair value	Carrying value	Gross unrealised gain	Gross unrealised loss	Fair value
Fixed rate securities	25,404,927	262,671	(10,622)	25,656,976	22,212,611	221,836	(128,486)	22,305,961
Floating rate securities	4,404,130	309,841	-	4,713,971	3,877,145	250,418	-	4,127,563
Total	29,809,057	572,512	(10,622)	30,370,947	26,089,756	472,254	(128,486)	26,433,524

6. INVESTMENTS, NET (continued)

c) The analysis of unrealised gains and losses and the fair values of other investments held at amortised cost, and held to maturity investments, is as follows: (continued)

ii) Held to maturity

	2014				2013			
SAR'000	Carrying value	Gross unrealised gain	Gross unrealised loss	Fair value	Carrying value	Gross unrealised gain	Gross unrealised loss	Fair value
Fixed rate securities	226,082	3,337	-	229,419	652,144	8,854	-	660,998
Floating rate securities	-	-	-	-	33,798	222	-	34,020
Total	226,082	3,337	-	229,419	685,942	9,076	-	695,018

d) Credit quality of investments

	2014				2013			
SAR'000	Fixed rate securities	Floating rate securities	Others	Total	Fixed rate securities	Floating rate securities	Others	Total
Grade A- and above	31,259,439	2,503,509	-	33,762,948	29,015,618	3,006,073	-	32,021,691
Lower than A-	4,944,176	275,976	-	5,220,152	4,771,161	525,575	-	5,296,736
Unrated	1,321,692	3,511,111	3,147,366	7,980,169	495,581	1,975,577	3,748,506	6,219,664
Total	37,525,307	6,290,596	3,147,366	46,963,269	34,282,360	5,507,225	3,748,506	43,538,091

The above classification is based on Standard & Poor's/ equivalent credit ratings. Lower than A- comprises mainly of bonds rated BBB and BB. The Others in the unrated investments category comprises of mutual funds and equities.

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

SAR' 000	2014	2013
Government and quasi Government	27,425,170	25,401,932
Corporate	9,960,169	8,700,072
Banks and other financial institutions	9,577,930	9,436,087
Total	46,963,269	43,538,091

Investments include SAR 659.4 million (2013: SAR 1,148 million), which have been pledged under repurchase agreements with banks and customers (note 19 d). The market value of such investments is SAR 659.6 million (2013: SAR 1,149 million).

f) Movements of allowance for impairment on available for sale equity investments:

SAR' 000	2014	2013
Balance at beginning of the year	40,681	40,525
Other movements	(425)	156
Balance at end of the year	40,256	40,681

7) LOANS AND ADVANCES, NET

a) Loans and advances held at amortised cost

These comprise the following:

2014						
SAR' 000	Overdrafts	Credit cards	Consumer loans	Commercial loans	Others	Total
Performing loans and advances, gross	8,309,591	979,453	38,430,973	86,417,579	289,345	134,426,941
Non-performing loans and advances, net	141,462	-	-	898,087	10,378	1,049,927
Total Loans and advances	8,451,053	979,453	38,430,973	87,315,666	299,723	135,476,868
Allowance for impairment	(51,093)			(853,447)	(9,705)	(914,245)
Total	8,399,960	979,453	38,430,973	86,462,219	290,018	134,562,623
Portfolio provision	-	-	-	-	-	(1,072,349)
Loans and advances held at amortised cost, net	-	-	-	-	-	133,490,274

2013						
SAR' 000	Overdrafts	Credit Cards	Consumer loans	Commercial loans	Others	Total
Performing loans and advances, gross	8,560,075	886,824	33,301,278	88,820,236	289,317	131,857,730
Non-Performing loans and advances, net	174,149	-	-	1,076,212	14,161	1,264,522
Total Loans and advances	8,734,224	886,824	33,301,278	89,896,448	303,478	133,122,252
Allowance for impairment	(96,154)	-	-	(755,136)	(8,056)	(859,346)
Total	8,638,070	886,824	33,301,278	89,141,312	295,422	132,262,906
Portfolio provision	-	-	-	-	-	(1,072,349)
Loans and advances held at amortised cost, net	-	-	-	-	-	131,190,557

Loans and advances, net, include Islamic products of SAR 68,205 million (2013: SAR 63,913 million).

b) Movements in allowance for impairment are as follows:

SAR' 000	2014 Allowances for impairment					
	Credit cards	Consumer loans	Commercial loans*	Total	Portfolio provision	Total
Balance at beginning of the year	-	-	859,346	859,346	1,072,349	1,931,695
Provided during the year	76,978	439,133	719,413	1,235,524	-	1,235,524
Bad debts written off	(76,978)	(439,133)	(600,006)	(1,116,117)	-	(1,116,117)
Recoveries of previously provided amounts	-	-	(43,054)	(43,054)	-	(43,054)
Other movements	-	-	(21,454)	(21,454)	-	(21,454)
Balance at end of the year	-	-	914,245	914,245	1,072,349	1,986,594

SAR' 000	2013 Allowances for impairment					
	Credit cards	Consumer loans	Commercial loans*	Total	Portfolio provision	Total
Balance at beginning of the year	-	-	1,469,343	1,469,343	1,072,349	2,541,692
Provided during the year	72,395	361,326	681,549	1,115,270	-	1,115,270
Bad debts written off	(72,395)	(361,326)	(1,176,593)	(1,610,314)	-	(1,610,314)
Recoveries of previously provided amounts	-	-	(78,064)	(78,064)	-	(78,064)
Other movements	-	-	(36,889)	(36,889)	-	(36,889)
Balance at end of the year	-	-	859,346	859,346	1,072,349	1,931,695

*Including overdrafts and other loans

7) LOANS AND ADVANCES, NET (continued)

c) Credit Quality of Loans and Advances

i) Neither past due nor impaired

2014				
SAR' 000	Credit Cards	Consumer loans	Commercial loans*	Total
Standard category	760,450	36,420,246	94,418,591	131,599,287
Special Mention category	-	-	594,482	594,482
Total	760,450	36,420,246	95,013,073	132,193,769

2013				
SAR' 000	Credit Cards	Consumer loans	Commercial loans*	Total
Standard category	764,360	31,653,819	96,664,202	129,082,381
Special Mention category	-	-	965,221	965,221
Total	764,360	31,653,819	97,629,423	130,047,602

Above includes past due but not impaired loans with up to 30 days ageing amounting to SAR 2,123 million as at Dec 31,2014 (2013: SAR 2,227 million).

Standard category

A credit with very strong to satisfactory credit quality and repayment ability, where regular monitoring is carried out.

Special Mention Category

A credit that requires close monitoring by management due to deterioration in the borrowers' financial condition.

Standard Category as at Dec 31, 2014 includes Commercial loans* of Very Strong Quality SAR 23,476 million (2013: SAR 28,251 million), Good Quality SAR 59,426 million (2013: SAR 56,127 million) and Satisfactory Quality SAR 11,516 million (2013: SAR 12,286 million).

*Including overdrafts and other loans

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

2014				
SAR' 000	Credit Cards	Consumer loans	Commercial loans*	Total
From 31 - 90 days	105,223	944,440	3,442	1,053,105
From 91 - 180 days	113,780	1,066,287	-	1,180,067
More than 180 days	-	-	-	-
Total	219,003	2,010,727	3,442	2,233,172

2013				
SAR' 000	Credit cards	Consumer loans	Commercial loans*	Total
From 31 - 90 days	53,255	1,016,639	28,228	1,098,122
From 91 - 180 days	69,209	630,821	11,193	711,223
More than 180 days	-	-	783	783
Total	122,464	1,647,460	40,204	1,810,128

*Including overdrafts and other loans

7) LOANS AND ADVANCES, NET (continued)

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

	2014				2013			
SAR' 000	Performing	Non Performing, net	Allowance for impairment	Loans and advances, net	Performing	Non Performing, net	Allowance for impairment	Loans and advances, net
Government and quasi Government	8,001	-	-	8,001	120,000	-	-	120,000
Banks and other financial institutions	4,905,740	-	-	4,905,740	8,222,343	-	-	8,222,343
Agriculture and fishing	1,176,122	-	-	1,176,122	978,856	17,590	(7,017)	989,429
Manufacturing	21,218,208	129,864	(108,372)	21,239,700	20,634,406	69,749	(42,403)	20,661,752
Mining and quarrying	7,282,877	-	-	7,282,877	4,702,138	-	-	4,702,138
Electricity, water, gas and health services	2,385,184	-	-	2,385,184	2,547,208	-	-	2,547,208
Building and construction	12,869,148	277,470	(222,433)	12,924,185	11,946,878	85,096	(60,738)	11,971,236
Commerce	32,432,248	631,908	(573,486)	32,490,670	37,900,253	1,056,985	(734,400)	38,222,838
Transportation and communication	5,326,199	10,326	(9,641)	5,326,884	6,127,773	10,326	(7,421)	6,130,678
Services	6,612,961	359	(313)	6,613,007	3,939,569	11,228	(6,498)	3,944,299
Consumer loans and credit cards	39,410,426	-	-	39,410,426	34,188,102	-	-	34,188,102
Others	799,827	-	-	799,827	550,204	13,548	(869)	562,883
Total	134,426,941	1,049,927	(914,245)	134,562,623	131,857,730	1,264,522	(859,346)	132,262,906
Portfolio provision				(1,072,349)				(1,072,349)
Loans and advances, net				133,490,274				131,190,557

e) Collateral

The Bank in the ordinary course of lending activities holds collaterals as security to mitigate credit risk in the loans and advances. These collaterals mostly include time, demand and other cash deposits, financial guarantees, local and international equities, real estate and other fixed assets. The collaterals are held mainly against commercial and consumer loans and are managed against relevant exposures at their net realizable values. Management monitors the market value of the collateral and requests additional collateral in accordance with the underlying agreement when deemed necessary.

8) INVESTMENT IN ASSOCIATES

Investment in associates represents the Bank's share of investment in entities where the Bank has significant influence. These investments are accounted for using the equity method of accounting.

Investment in associates represents 35% (2013: 35%) share ownership in Ajil Financial Services Company incorporated in Kingdom of Saudi Arabia, 21.4 % (2013: 21.4%) share ownership in Royal and Sun Alliance Insurance (Middle East) Limited E.C., incorporated in Bahrain and 19.9% (2013: 19.9%) share ownership and Board representation in Al-Alamiya for Cooperative Insurance Company incorporated in Kingdom of Saudi Arabia.

9) PROPERTY AND EQUIPMENT, NET

SAR' 000	Land and buildings	Improve-ments and decoration of premises	Furniture, fixtures and equip-ment	Computer hardware, software programs and automation projects	Motor vehicles	Total 2014	Total 2013
Cost							
Balance at beginning of the year	1,361,947	750,670	373,314	2,121,023	913	4,607,867	4,426,101
Additions	53,854	22,022	52,138	173,800	-	301,814	194,420
Disposals	(2,272)	(1,950)	(3,471)	(602)	-	(8,295)	(12,654)
Balance at end of the year	1,413,529	770,742	421,981	2,294,221	913	4,901,386	4,607,867
Accumulated depreciation and amortisation							
Balance at beginning of the year	465,986	630,766	316,700	1,530,852	913	2,945,217	2,688,199
Charge for the year	22,472	43,186	25,389	166,618	-	257,665	268,668
Disposals	(2,232)	(1,945)	(3,448)	(602)	-	(8,227)	(11,650)
Balance at end of the year	486,226	672,007	338,641	1,696,868	913	3,194,655	2,945,217
Net book value As at December 31, 2014	927,303	98,735	83,340	597,353	-	1,706,731	
As at December 31, 2013	895,961	119,904	56,614	590,171	-		1,662,650

Land and buildings; and improvements and decoration of premises include work in progress as at December 31, 2014 amounting to SAR 62.7 million (2013: SAR nil); and SAR 2.1 million (2013: SAR 17.6 million), respectively.

10. OTHER ASSETS

SAR' 000	2014	2013
Accrued special commission receivable		
- banks and other financial institutions	872	4,886
- investments	184,300	194,533
- loans and advances	329,437	333,329
- other	3,106	469
Total accrued special commission receivable	517,715	533,217
Accounts receivable	223,712	171,334
Positive fair value of derivatives (note 11)	419,112	365,346
Other	1,178,903	1,538,414
Total	2,339,442	2,608,311

11. DERIVATIVES

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

a) Swaps

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

b) Forwards and futures

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specified price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. Foreign currency and special commission rate futures are transacted in standardized amounts on regulated exchanges and changes in futures contract values are settled daily.

c) Options

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

Held for trading purposes

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

Held for hedging purposes

The Bank has adopted a comprehensive system for the measurement and management of risk. Part of the risk management process involves managing the Bank's exposure to fluctuations in foreign exchange rates and special commission rates to reduce its exposure to currency and special commission rate risks to acceptable levels as determined by the Board of Directors within the guidelines issued by SAMA. The Board of Directors has established levels of currency risk by setting limits on counterparty and currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits. The Board of Directors have also established the level of special commission rate risk by setting limits on special commission rate gaps for stipulated periods. Asset and liability special commission rate gaps are reviewed on a periodic basis and hedging strategies are used to reduce special commission rate gap within the established limits.

As part of its asset and liability management, the Bank uses derivatives for hedging purposes in order to adjust its own exposure to currency and special commission rate risks. This is generally achieved by hedging specific transactions as well as strategic hedging against overall consolidated statement of financial position exposures. Strategic hedging, other than portfolio hedges for special commission rate risks, does not qualify for special hedge accounting and the related derivatives are accounted for as held for trading.

Fair value hedges

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

Cash flow hedges

The Bank is exposed to variability in future special commission cash flows on non-trading assets and liabilities which bear special commission rate at a variable rate. The Bank uses special commission rate swaps as cash flow hedges of these special commission rate risks.

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

11. DERIVATIVES (continued)

2014				Notional amounts by term to maturity			
SAR' 000	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3-12 months	1-5 years	Monthly average
Held for trading:							
Special commission rate swaps	1,992	(1,996)	1,351,794	413,994	-	937,800	988,383
Forward foreign exchange contracts	401,348	(353,073)	60,955,155	39,327,529	21,439,705	187,921	65,726,344
Currency options	14,794	(14,794)	3,103,235	526,604	1,449,365	1,127,266	2,912,380
Commodity options	978	(978)	18,499	6,937	11,562	-	13,399
Held as fair value hedges:							
Special commission rate swaps	-	-	-	-	-	-	-
Held as cash flow hedges:							
Special commission rate swaps	-	-	-	-	-	-	-
Total	419,112	(370,841)	65,428,683	40,275,064	22,900,632	2,252,987	69,640,506

2013				Notional amounts by term to maturity			
SAR' 000	Positive fair value	Negative fair value	Notional amount Total	Within 3 months	3-12 months	1-5 years	Monthly average
Held for trading:							
Special commission rate swaps	137	(133)	390,096	351,310	38,786	-	564,950
Forward foreign exchange contracts	364,096	(89,473)	66,398,305	42,371,779	24,026,526	-	69,149,500
Currency options	1,113	(1,044)	4,617,891	1,057,297	2,884,649	675,945	13,300,384
Commodity options	-	-	-	-	-	-	-
Held as fair value hedges:							
Special commission rate swaps	-	-	-	-	-	-	-
Held as cash flow hedges:							
Special commission rate swaps	-	-	-	-	-	-	33,333
Total	365,346	(90,650)	71,406,292	43,780,386	26,949,961	675,945	83,048,167

12. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

SAR' 000	2014	2013
Current accounts	1,081,019	834,343
Money market deposits	2,708,777	6,743,637
Total	3,789,796	7,577,980

Money market deposits include deposits against sales of fixed rate bonds of SAR nil (2013: SAR 245 million) with agreement to repurchase the same at fixed future dates.

13. CUSTOMER DEPOSITS

SAR' 000	2014	2013
Demand	71,589,238	67,555,265
Saving	289,033	281,760
Time	82,186,503	75,175,644
Other	10,014,659	10,187,211
Total	164,079,433	153,199,880

Time deposits include deposits against sales of bonds of SAR 660 million (2013: SAR 908 million) with agreement to repurchase the same at fixed future dates. Other customers' deposits include SAR 3,294 million (2013: SAR 2,667 million) of margins held for irrevocable commitments.

Time deposits include non-interest based deposits of SAR 18,958 million (2013: SAR 30,402 million).

13. CUSTOMER DEPOSITS (continued)

The above include foreign currency deposits as follows:

SAR' 000	2014	2013
Demand	3,523,832	2,436,216
Saving	538	172
Time	20,937,977	19,626,623
Other	694,486	432,032
Total	25,156,833	22,495,043

14. DEBT SECURITIES IN ISSUE

During November 2013, the Bank issued SAR 4,000 million Senior debt (Sukuk). These SAR denominated sukuks carry a 3 month SAIBOR plus 68 basis points, have maturity date of Nov 11, 2020 and are callable after 5 years, subject to the terms and conditions of the agreement.

15. OTHER LIABILITIES

SAR' 000	2014	2013
Accrued special commission payable		
- banks and other financial institutions	749	4,044
- customer deposits	228,369	298,313
- debt securities in issue	8,946	9,286
Total accrued special commission payable	238,064	311,643
Accounts payable	1,894,640	1,690,436
Negative fair value of derivatives (note 11)	370,841	90,650
Other*	4,679,414	4,505,566
Total	7,182,959	6,598,295

*Includes items in transit which are cleared in the normal course of business

16. SHARE CAPITAL

Pursuant to the approval of the relevant authorities and the Bank's shareholders, in an Extra ordinary General Assembly held on 26 May 2014, the Bank has issued additional 1,500 million bonus shares to its existing shareholders (one bonus share for each existing share). After the increase the total number of shares has increased from 1,500 million shares to 3,000 million shares and the share capital of the Bank increased from SAR 15 billion to SAR 30 billion. This issue has been effected by transferring all of the accumulated statutory reserves and a part of the retained earnings as of 31 December 2013.

The authorised, issued and fully-paid share capital of the Bank consist of 3,000 million shares of SAR 10 each (2013:1,500 million shares of SAR 10 each).

17. STATUTORY RESERVE

In accordance with Saudi Arabian Banking Control Law and the Articles of Association of the Bank, a minimum of 25% of the annual net income is required to be transferred to the statutory reserve until this reserve equals the paid up capital of the Bank. Accordingly, SAR 1,088.1 million has been transferred from 2014 net income (2013: SAR 986.8 million). The statutory reserve is not currently available for distribution (refer note 16).

18. OTHER RESERVES

2014 SAR' 000	Cash flow hedges	Available for sale	Total
Balance at beginning of the year	-	1,184,564	1,184,564
Net change in fair value	-	222,538	222,538
Transfer to consolidated income statement	-	(368,165)	(368,165)
Net movement during the year	-	(145,627)	(145,627)
Balance at end of the year	-	1,038,937	1,038,937

2013 SAR' 000	Cash flow hedges	Available for sale	Total
Balance at beginning of the year	2,263	1,122,592	1,124,855
Net change in fair value	(1,529)	181,391	179,862
Transfer to consolidated income statement	(734)	(119,419)	(120,153)
Net movement during the year	(2,263)	61,972	59,709
Balance at end of the year	-	1,184,564	1,184,564

19. COMMITMENTS AND CONTINGENCIES

a) Legal proceedings

As at December 31, 2014 there were legal proceedings of routine nature outstanding against the Bank. No provision has been made as management and in-house legal adviser believes that it is unlikely that any significant loss will arise.

b) Capital commitments

As at December 31, 2014 the Bank had capital commitments of SAR 89.0 million (2013: SAR 83.9 million). This includes computer hardware, software, automation projects, construction and equipment purchases.

c) Credit related commitments and contingencies

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantee and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans and advances. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. Documentary letters of credit, which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are generally collateralized by the underlying shipments of goods to which they relate, and therefore have significantly less risk.

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

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

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

2014 SAR' 000	Within 3 months	3-12 month	1-5 years	Over 5 years	Total
Letters of credit	5,942,803	5,828,839	655,161	-	12,426,803
Letters of guarantee	16,107,085	27,890,586	34,533,112	2,929,030	81,459,813
Acceptances	2,063,043	545,078	19,520	-	2,627,641
Irrevocable commitments to extend credit	583,425	2,352,304	2,877,447	3,817,910	9,631,086
Total	24,696,356	36,616,807	38,085,240	6,746,940	106,145,343

2013 SAR' 000	Within 3 months	3-12 month	1-5 years	Over 5 years	Total
Letters of credit	12,683,180	4,308,638	856,544	-	17,848,362
Letters of guarantee	10,833,290	22,527,789	27,948,631	3,838,905	65,148,615
Acceptances	2,338,655	121,786	5,144	-	2,465,585
Irrevocable commitments to extend credit	388,876	1,014,033	6,021,710	6,866,099	14,290,718
Total	26,244,001	27,972,246	34,832,029	10,705,004	99,753,280

The outstanding unused portion of non-firm commitments as at December 31,2014 which can be revoked unilaterally at any time by the Bank, amounts to SAR 92,681 million (2013: SAR 89,449 million).

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

SAR' 000	2014	2013
Government and quasi government	900,000	3,262,575
Corporate	80,090,809	72,797,390
Banks and other financial institutions	25,154,534	23,693,315
Total	106,145,343	99,753,280

19. COMMITMENTS AND CONTINGENCIES (continued)

d) Assets pledged

Assets pledged as collateral with other financial institutions and customers are as follows:

	2014		2013	
SAR' 000	Assets	Related liabilities	Assets	Related liabilities
Other investments held at amortised cost (note: 6e, 12, and 13)	659,386	660,000	1,148,026	1,152,403

These transactions are conducted under the terms that are usual and customary to standard lending and securities borrowing and lending activities.

e) Operating lease commitments

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

SAR' 000	2014	2013
Less than 1 year	13,555	9,497
1 to 5 years	34,016	28,894
Over 5 years	6,110	9,036
Total	53,681	47,427

20. SPECIAL COMMISSION INCOME AND EXPENSE

SAR' 000		2014	2013
Special commission income			
Investments	- Available for sale	417,823	405,479
	- Other investments held at amortised cost	399,138	305,023
	- Held to maturity	6,111	15,314
		823,072	725,816
Due to banks and other financial institutions		30,268	31,549
Loans and advances		5,091,900	4,760,071
Total		5,945,240	5,517,436

SAR' 000	2014	2013
Special commission expense		
Due to banks and other financial institutions	54,008	29,108
Customer deposits	695,138	782,042
Debt securities in issue	65,855	9,286
Total	815,001	820,436

21. FEE AND COMMISSION INCOME, NET

SAR' 000	2014	2013
Fee and commission income:		
- share brokerage and fund management	416,505	348,985
- trade finance and corporate finance and advisory	1,517,051	1,322,698
- other banking services	577,480	576,578
Total fee and commission income, net	2,511,036	2,248,261
Fee and commission expense:		
- banking cards and share brokerage	360,529	329,573
- other banking services	130,022	97,567
Total fee and commission expense	490,551	427,140
Fee and commission income, net	2,020,485	1,821,121

22. SALARIES AND EMPLOYEE-RELATED EXPENSES

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

Categories	Numbers of employee		Fixed compensation		Variable compensation		Total compensation	
SAR' 000	2014	2013	2014	2013	2014	2013	2014	2013
Senior executives requiring SAMA no objections	30	25	34,020	27,753	10,802	8,095	44,822	35,848
Employees engaged in risk taking activities	343	426	102,388	99,556	27,714	21,217	130,102	120,773
Employees engaged in control functions	427	431	84,590	81,815	9,387	8,358	93,977	90,173
Outsourced employees	289	284	28,337	18,487	-	-	28,337	18,487
Others	4,700	4,511	633,717	575,211	54,868	78,280	688,585	653,491
Total	5,789	5,677	883,052	802,822	102,771	115,950	985,823	918,772
Variable Compensation accrued in 2014 (2013) and other employee related benefits*			588,500	508,638				
Total Salaries and employee-related expenses as per consolidated statement of income.			1,471,552	1,311,460				

*Other employee benefits include; Insurance, Pension, Relocation Expenses, Recruitment Expenses, Training and Development and Other Employee benefits

Compensation policy is based on the job profile requirements, market practices, nature and level of involvement in risk taking process. It applies to the Bank's senior management and all employees and aims to link individual performance to the Bank's overall achievements and soundness. Compensation includes fixed and variable components. Salary revision, performance bonus and other performance linked incentives are decided based on the performance evaluation process outcome as well as the Bank's financial performance and strategic goals.

The Board of Directors has the responsibility to approve and oversee the Bank's compensation policy. The Nomination and Compensation Committee, made up of five non-executive Directors, is in charge of overseeing the compensation system design and effectiveness on behalf of the Board of Directors as well as preparing the Bank's compensation policy and undertaking its periodic assessment and update to ensure achievement of the system objectives and reinforce the Bank's risk management framework. Fixed compensation comprises of salaries and wages and other benefits and allowances. The variable compensation includes sales incentives, product related rewards and performance related payments.

23. EARNINGS PER SHARE

Basic and diluted earnings per share for the years ended December 31, 2014 and 2013 are calculated by dividing the net income for the year by 3,000 million shares.

24. PROPOSED GROSS DIVIDEND AND ZAKAT

The net cash dividend after deduction of zakat amounted to SAR 2,190 million (2013: SAR 2,175 million), resulting in a net dividend to the shareholders of SAR 0.73 per share (2013: SAR 1.45 per share). The gross dividends for 2014 include interim dividends of SAR 1,140 million paid for the first half of 2014 (2013: SAR 975 million). Final dividends, net of zakat of SAR 1,050 million have been proposed for 2014 (2013: SAR 1,200 million).

Zakat appropriation for the year amounted to approximately SAR 200 million (2013: SAR 200 million).

The Bank has filed its Zakat returns for the financial years up to and including the year 2013 with the Department of Zakat and Income Tax (the "DZIT"). The Bank has received Zakat assessments for the year(s) up to 2009 raising additional demands aggregating to SAR 896 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 assessments.

25. CASH AND CASH EQUIVALENTS

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

SAR' 000	2014	2013
Cash and balances with SAMA excluding statutory deposit (note 4)	17,045,983	13,354,750
Due from banks and other financial institutions maturing within three months from the date of acquisition	3,726,927	2,654,222
Total	20,772,910	16,008,972

26. OPERATING SEGMENTS

The Group determines and presents operating segments based on the information that is provided internally to the chief operating decision maker in order to allocate resources to the segments and to assess its performance. The operating segments are managed separately based on the Group's management and internal reporting structure. The transactions between the Bank's operating segments are recorded as per the Bank's transfer pricing system. The Group's primary business is conducted in Saudi Arabia with one international branch, a representative office and an agency. However, the total assets, liabilities, commitments and results of operations of this branch, representative office and agency are not material to the Group's overall consolidated financial statements and as a result have not been separately disclosed. There are no other material items of income or expense between the operating segments.

The Group's reportable segments under IFRS 8 are as follows:

Retail

Deposit, credit and investment products for individuals and small to medium sized businesses.

Investment banking and brokerage

Investment management services and asset management activities related to dealing, managing, arranging, advising and custody of securities.

Corporate

Principally handling corporate customers' current accounts, deposits and providing loans, overdrafts and other credit facilities and derivative products.

Treasury and investments

Principally providing money market trading and treasury services as well as the management of the Bank's investment portfolios.

Other

Includes income on capital and unallocated costs pertaining to head office, finance division, human resources, technology services and other support departments and unallocated assets and liabilities.

a) The Group's total assets and liabilities as at December 31, its total operating income and expense and its net income, for the years then ended by operating segments, are as follows:

2014 SAR' 000	Retail	Investment banking and brokerage	Corporate	Treasury and investment	Other	Total
Total assets	41,995,034	94,544	92,530,193	76,006,444	3,963,078	214,589,293
Total liabilities	56,764,324	81,435	106,457,015	12,584,470	3,164,944	179,052,188
Total operating income	2,502,060	408,636	3,621,563	1,196,691	282,816	8,011,766
Net special commission income	2,050,334	41,538	2,369,212	522,545	146,610	5,130,239
Fee and commission income, net	438,477	366,364	1,221,575	(5,931)	-	2,020,485
Total operating expenses	1,238,578	154,034	825,172	57,589	1,430,706	3,706,079
Depreciation and amortization	88,297	-	4,072	2,240	163,056	257,665
Impairment charge for credit losses, net	325,199	-	574,864	-	-	900,063
Impairment charge for investments, net	-	-	-	-	-	-
Share in earnings of associates, net	-	-	-	-	46,721	46,721
Net income (loss)	1,263,482	254,602	2,796,391	1,139,102	(1,101,169)	4,352,408

26. OPERATING SEGMENTS (continued)

2013 SAR' 000	Retail	Investment banking and brokerage	Corporate	Treasury and investment	Other	Total
Total assets	34,852,809	81,574	97,331,299	68,952,862	4,027,935	205,246,479
Total liabilities	57,272,414	69,679	96,246,225	14,937,593	2,850,244	171,376,155
Total operating income	2,373,354	352,791	3,212,105	1,041,683	94,089	7,074,022
Net special commission income	1,943,359	30,471	2,099,957	636,569	(13,356)	4,697,000
Fee and commission income, net	423,402	323,708	1,081,070	(7,059)	-	1,821,121
Total operating expenses	1,204,279	132,334	643,629	17,147	1,186,312	3,183,701
Depreciation and amortization	96,123	-	1,144	2,013	169,388	268,668
Impairment charge for credit losses, net	253,882	-	373,536	-	-	627,418
Impairment charge for investments, net	-	-	-	(22,000)	-	(22,000)
Share in earnings of associates, net	-	-	-	-	56,784	56,784
Net income (loss)	1,169,075	220,457	2,568,476	1,024,536	(1,035,439)	3,947,105

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

2014 SAR' 000	Retail	Corporate	Treasury and investment	Total
Consolidated statement of financial position assets	41,536,610	93,706,329	50,197,457	185,440,396
Commitments and contingencies	-	50,658,451	-	50,658,451
Derivatives	-	-	1,351,074	1,351,074

2013 SAR' 000	Retail	Corporate	Treasury and investment	Total
Consolidated statement of financial position assets	34,504,054	98,293,094	47,442,505	180,239,653
Commitments and contingencies	-	45,754,924	-	45,754,924
Derivatives	-	-	1,383,424	1,383,424

Credit exposure comprises the carrying value of consolidated statement of financial position assets excluding, cash, property and equipment, other real estate and other assets. The credit equivalent value of commitments, contingencies and derivatives are included in credit exposure.

27. CREDIT RISK

Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The Bank uses internal credit rating tools to assess credit standing of its counterparties and assigns credit ratings accordingly. Also the Bank uses the external ratings, of the major rating agency, where applicable. A potential credit loss might arise due to lack of proper credit analysis of the borrower's credit worthiness, inability to service the debt, lack of appropriate documentation etc.

The Bank attempts to control credit risk by appropriate credit structuring, credit review process, post-disbursal monitoring of credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Bank's risk management policies are designed to identify and to set appropriate risk limits and to monitor the risks and adherence to limits. Actual exposures against limits are monitored daily. In addition to monitoring credit limits, the Bank manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposure. In certain cases, the Bank may also close out transactions or assign them to other counterparties to mitigate credit risk.

The Bank's credit risk for derivatives, represents the potential cost to replace the derivative contracts if counterparties fail to fulfil their obligation, and to control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

Concentration Risk refers to the risk from an uneven distribution of counterparties in credit or in other business relationship or from concentration in business sectors or geographical regions. Accordingly, Concentration risk in the credit portfolios comes into existence through a skewed distribution of financing to (a) individual borrower (name concentration) (b) industry /service sector (sector concentration) and (c) geographical regions (regional concentration). Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting any particular category of concentration.

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

Management monitors the market value of collateral recurrently, requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses. The Bank regularly reviews its risk management policies and systems to reflect changes in markets products and emerging best practice.

The debt securities included in the investment portfolio are mainly sovereign risk. Analysis of investments by counterparty is provided in note 6. For details of the composition of loans and advances refer to note 7. Information on credit risk relating to derivative instruments is provided in note 11 and for commitments and contingencies in note 19. The Bank's maximum credit exposure, which best represents its maximum exposure to credit risk at the end of the reporting period, without taking account of any collateral held or other credit enhancements, is not materially different than the credit exposure by business segment given in note 26. The information on maximum credit risk exposure and their relative risk weights is also provided in note 33.

28. CONCENTRATION OF RISKS OF FINANCIAL ASSETS WITH CREDIT RISK EXPOSURE AND FINANCIAL LIABILITIES

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

2014 SAR' 000	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other countries	Total
Assets								
Cash and balances with SAMA	25,315,724	-	11	-	-	1	-	25,315,736
Due from banks and other financial institutions	619,085	266,366	2,489,410	402,565	-	124,728	12,350	3,914,504
Investments, net and investment in associates	29,395,657	2,335,140	4,561,495	10,574,006	-	214,915	350,591	47,431,804
Loans and advances, net	131,530,792	1,156,052	171,781	366,345	-	264,941	363	133,490,274
Total	186,861,258	3,757,558	7,222,697	11,342,916	-	604,585	363,304	210,152,318
Liabilities								
Due to banks and other financial institutions	119,824	1,950,013	1,177,665	283,008	-	148,227	111,059	3,789,796
Customer deposits	162,560,408	204,890	1,209,805	98,060	-	5,108	1,162	164,079,433
Debt securities in issue	4,000,000	-	-	-	-	-	-	4,000,000
Total	166,680,232	2,154,903	2,387,470	381,068	-	153,335	112,221	171,869,229
Commitments and contingencies	80,406,350	1,074,059	12,161,903	11,438,889	-	93,814	970,328	106,145,343
Maximum credit exposure (stated at credit equivalent amounts according to SAMA's prescribed methodology)								
Derivatives	608,641	271,555	384,680	13,488	-	-	72,710	1,351,074
Commitments and contingencies	38,310,624	253,662	5,877,830	5,719,444	-	18,763	478,128	50,658,451

2013 SAR' 000	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other countries	Total
Assets								
Cash and balances with SAMA	20,928,538	-	10	-	-	1	-	20,928,549
Due from banks and other financial institutions	1,485,000	908,367	1,669,270	320,946	-	43,651	11,422	4,438,656
Investments, net and investment in associates	25,583,184	2,270,632	4,176,071	10,715,789	-	684,126	550,586	43,980,388
Loans and advances, net	127,822,923	2,242,893	219,449	710,954	-	187,513	6,825	131,190,557
Total	175,819,645	5,421,892	6,064,800	11,747,689	-	915,291	568,833	200,538,150
Liabilities								
Due to banks and other financial institutions	67,188	4,063,880	3,188,046	43,199	-	89,801	125,866	7,577,980
Customer deposits	148,281,637	2,548,589	1,289,923	843,806	-	-	235,925	153,199,880
Debt securities in issue	4,000,000	-	-	-	-	-	-	4,000,000
Total	152,348,825	6,612,469	4,477,969	887,005	-	89,801	361,791	164,777,860
Commitments and contingencies	78,294,603	1,241,538	8,151,921	11,145,165	686,296	520	233,237	99,753,280
Maximum credit exposure (stated at credit equivalent amounts according to SAMA's prescribed methodology)								
Derivatives	312,078	442,967	601,613	25,615	-	-	1,151	1,383,424
Commitments and contingencies	35,817,850	311,919	3,798,435	5,572,583	137,259	260	116,618	45,754,924

b) The distributions by geographical concentration of non-performing loans and advances and specific allowance for credit losses, which is entirely attributable to Saudi Arabia is as follows:

	Non-performing loans and advances, net		Allowance for credit losses	
SAR' 000	2014	2013	2014	2013
Kingdom of Saudi Arabia	1,049,927	1,264,522	(914,245)	(859,346)
Total	1,049,927	1,264,522	(914,245)	(859,346)

29. MARKET RISK

Market Risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate due to changes in market variables such as special commission rates, foreign exchange rates, commodity and equity prices. The Bank classifies exposures to market risk into either trading or non-trading/ banking-book. The market risk for the trading book is managed and monitored using a VaR methodology. Market risk for the non-trading book is managed and monitored using a combination of VaR, stress testing and sensitivity analysis.

a) Market Risk - Trading Book

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

A VaR methodology estimates the potential negative change in market value of a portfolio at a given confidence level and over a specified time horizon. The Bank uses variance-covariance approach for calculating VaR for trading book based on historical data (of 1 year). VaR models are usually designed to measure the market risk in a normal market environment and therefore the use of VaR has limitations because it is based on historical correlations and volatilities in market prices and assumes that the future movements will follow a statistical distribution.

The Bank calculates VaR on the basis of the following:

1. 10 days holding period at 99% confidence interval for regulatory capital computation (under IMA approach of Basel II Accord that the Bank plans to adopt in the future).

2. 1 day holding period at 99% confidence interval for internal reporting and for disclosure purposes.

This means that the VaR that the Bank measures is an estimate (using a confidence level of 99% of the potential loss) that is not expected to be exceeded if the current market positions were to be held unchanged for 1 or 10 days. The use of 99% confidence level depicts that within a 1-day horizon, losses exceeding VaR figure should occur, on average, not more than once every hundred days.

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

To overcome the VaR limitations mentioned above, the Bank also carries out stress tests of both non-trading and trading portfolios to simulate conditions outside normal confidence intervals using six stress scenarios for the entire Bank. The potential losses occurring under stress test conditions are reported regularly to the Bank's Asset Liability Committee (ALCO) for their review.

The Bank’s VaR related information for the year ended December 31, 2014 and 2013 using a 1 day holding period at 99% confidence interval is as under. All the figures are in million SAR:

2014 SAR million	Foreign exchange rate risk	Special commission rate risk	Equity price risk	Overall risk
VaR as at December 31, 2014	2.91	2.36	-	2.98
Average VaR for 2014	7.57	1.60	-	8.04
Maximum VaR for 2014	32.71	2.86	-	31.79
Minimum VaR for 2014	1.45	0.28	-	2.32

2013 SAR million	Foreign exchange rate risk	Special commission rate risk	Equity price risk	Overall risk
VaR as at December 31, 2013	11.71	1.91	-	12.03
Average VaR for 2013	3.77	2.26	-	4.84
Maximum VaR for 2013	19.45	6.32	-	19.61
Minimum VaR for 2013	0.08	0.77	-	1.80

b) Market Risk - Non-trading or Banking Book

i) Special commission rate risk

Special commission rate risk arises from the possibility that the changes in special commission rates will affect either the fair values or the future cash flows of the financial instruments. The Bank has established Net special commission Income at Risk and Market Value at Risk (MVaR) limits that are monitored by ALCO. There are gap limits to accommodate Forward FX and Money Market for all currencies. The Bank monitors positions daily and uses hedging strategies to ensure maintenance of positions within the established gap limits.

The following table depicts the sensitivity to a reasonable possible change in special commission rates, with other variables held constant, on the Bank's consolidated income statement or equity.

The sensitivity of the income is the effect of the assumed changes in special commission rates on the net special commission income for one year, on the non-trading financial assets and financial liabilities held as at December 31, 2014 & 2013, including the effect of hedging instruments.

The sensitivity of equity is calculated by revaluing the fixed rate Available for sale financial assets, including the effect of any associated hedges as at December 31, 2014 & 2013 for the effect of assumed changes in special commission rates. The sensitivity of equity is analyzed by maturity of the asset or swap. All the banking book exposures are monitored and analyzed in currency concentrations and relevant sensitivities are disclosed in SAR million.

2014			Sensitivity of equity				
Currency	Increase in basis	Sensitivity of special commission income	6 months or less	1 year or less	1-5 years	Over 5 years	Total
SAR	+100	127.9	-	-	-	-	-
USD	+100	(30.2)	1.85	2.12	44.24	279.92	328.14
EUR	+100	0.5	0.79	0.57	18.59	14.14	34.09
GBP	+100	(6.1)	0.03	0.09	3.07	0.78	3.97
JPY	+100	4.2	0.02	-	0.41	0.50	0.93
Others	+100	(1.6)	0.01	0.06	0.25	0.24	0.56

29. MARKET RISK (continued)

b) Market Risk - Non trading or Banking Book (continued)

i) Special Commission rate risk (continued)

2014			Sensitivity of equity				
Currency	Decrease in basis	Sensitivity of special commission income	6 months or less	1 year or less	1-5 years	Over 5 years	Total
SAR	-100	(128.6)	-	-	-	-	-
USD	-100	(4.5)	(1.85)	(2.12)	(44.24)	(279.92)	(328.14)
EUR	-100	1.6	(0.79)	(0.57)	(18.59)	(14.14)	(34.09)
GBP	-100	5.8	(0.03)	(0.09)	(3.07)	(0.78)	(3.97)
JPY	-100	(1.4)	(0.02)	-	(0.41)	(0.50)	(0.93)
Others	-100	0.6	(0.01)	(0.06)	(0.25)	(0.24)	(0.56)

2013			Sensitivity of equity				
Currency	Increase in basis	Sensitivity of special commission income	6 months or less	1 year or less	1-5 years	Over 5 years	Total
SAR	+100	175.8	-	-	-	-	-
USD	+100	(21.4)	1.04	1.74	54.83	264.98	322.58
EUR	+100	9.0	0.72	0.42	15.51	17.58	34.22
GBP	+100	(13.3)	0.07	0.07	1.64	0.69	2.48
JPY	+100	4.7	-	0.07	0.58	0.01	0.67
Others	+100	0.9	-	0.10	0.74	0.28	1.12

2013			Sensitivity of equity				
Currency	Decrease in basis	Sensitivity of special commission income	6 months or less	1 year or less	1-5 years	Over 5 years	Total
SAR	-100	(174.7)	-	-	-	-	-
USD	-100	7.6	(1.04)	(1.74)	(54.83)	(264.98)	(322.58)
EUR	-100	(10.3)	(0.72)	(0.42)	(15.51)	(17.58)	(34.22)
GBP	-100	11.8	(0.07)	(0.07)	(1.64)	(0.69)	(2.48)
JPY	-100	(4.7)	-	(0.07)	(0.58)	(0.01)	(0.67)
Others	-100	(0.7)	-	(0.10)	(0.74)	(0.28)	(1.12)

Special Commission sensitivity of assets, liabilities and off statement of financial position items

The Bank manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market special commission rates on its financial position and cash flows. The Bank is exposed to special commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off statement of financial position instruments that mature or re-price in a given period. The Bank manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

The table below summarizes the Bank's exposure to special commission rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or the maturity dates.

2014 SAR' 000	Within 3 months	3-12 months	1-5 years	Over 5 years	Non special commission bearing	Total
Assets						
Cash and balances with SAMA	13,495,000	-	-	-	11,820,736	25,315,736
Due from banks and other financial institutions	3,409,516	112,576	-	-	392,412	3,914,504
Investments, net and investment in associates	12,318,600	15,987,510	7,768,532	7,741,261	3,615,901	47,431,804
Loans and advances, net	54,264,851	29,586,022	34,487,935	15,151,466	-	133,490,274
Other real estate	-	-	-	-	390,802	390,802
Property and equipment, net	-	-	-	-	1,706,731	1,706,731
Other assets	-	-	-	-	2,339,442	2,339,442
Total assets	83,487,967	45,686,108	42,256,467	22,892,727	20,266,024	214,589,293
Liabilities and shareholders' equity						
Due to banks and other financial institutions	2,477,209	231,568	-	-	1,081,019	3,789,796
Customer deposits	48,018,396	35,516,381	-	-	80,544,656	164,079,433
Debt securities in issue	4,000,000	-	-	-	-	4,000,000
Other liabilities	-	-	-	-	7,182,959	7,182,959
Shareholders' equity	-	-	-	-	35,537,105	35,537,105
Total liabilities and shareholders' equity	54,495,605	35,747,949	-	-	124,345,739	214,589,293
Special commission rate sensitivity -On statement of financial position gap	28,992,362	9,938,159	42,256,467	22,892,727	(104,079,715)	
Special commission rate sensitivity -Off statement of financial position gap	-	-	-	-	-	
Total special commission rate sensitivity gap	28,992,362	9,938,159	42,256,467	22,892,727	(104,079,715)	
Cumulative special commission rate sensitivity gap	28,992,362	38,930,521	81,186,988	104,079,715	-	

29. MARKET RISK (continued)

b) Market Risk - Non trading or Banking Book (continued)

i) Special Commission rate risk (continued)

2013 SAR' 000	Within 3 months	3-12 months	1-5 years	Over 5 years	Non special Commission bearing	Total
Assets						
Cash and balances with SAMA	9,868,000	-	-	-	11,060,549	20,928,549
Due from banks and other financial institutions	3,410,488	980,202	-	-	47,966	4,438,656
Investments, net and investment in associates	8,687,057	16,344,546	7,696,183	7,061,799	4,190,803	43,980,388
Loans and advances, net	45,960,046	33,113,001	40,956,256	11,161,254	-	131,190,557
Other real estate	-	-	-	-	437,368	437,368
Property and equipment, net	-	-	-	-	1,662,650	1,662,650
Other assets	-	-	-	-	2,608,311	2,608,311
Total assets	67,925,591	50,437,749	48,652,439	18,223,053	20,007,647	205,246,479
Liabilities and shareholders' equity						
Due to banks and other financial institutions	5,993,587	750,050	-	-	834,343	7,577,980
Customer deposits	40,666,458	35,798,458	-	-	76,734,964	153,199,880
Debt securities in issue	4,000,000	-	-	-	-	4,000,000
Other liabilities	-	-	-	-	6,598,295	6,598,295
Shareholders' equity	-	-	-	-	33,870,324	33,870,324
Total liabilities and Shareholders' equity	50,660,045	36,548,508	-	-	118,037,926	205,246,479
Special commission rate sensitivity -On statement of financial position gap	17,265,546	13,889,241	48,652,439	18,223,053	(98,030,279)	
Special commission rate sensitivity -Off statement of financial position gap	-	-	-	-	-	
Total special commission rate sensitivity gap	17,265,546	13,889,241	48,652,439	18,223,053	(98,030,279)	
Cumulative special commission rate sensitivity gap	17,265,546	31,154,787	79,807,226	98,030,279	-	

The off statement of financial position gap represents the net notional amounts of derivative financial instruments, which are used to manage the commission rate risk.

ii) Currency risk

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

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

Currency Exposures As at December 31, 2014 (SAR million)	Change in currency rate in %	Effect on net income
USD	±1	±6.68
EUR	±1	±0.62
GBP	±1	±(0.05)
JPY	±1	±0.07
Others	±1	±0.00

Currency Exposures As at December 31, 2013 (SAR million)	Change in currency rate in %	Effect on net income
USD	±1	± 6.70
EUR	±1	± 1.24
GBP	±1	± (0.12)
JPY	±1	± 0.25
Others	±1	± 0.03

29. MARKET RISK (continued)

b) Market Risk - Non trading or Banking Book (continued)

iii) Foreign currency risk

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

SAR' 000	2014 Long (short)	2013 Long (short)
US Dollar	(487,928)	(298,824)
Japanese Yen	(786)	34,414
Euro	3,413	6,372
Pound	(313)	45,918
Other	24,541	4,089

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

iv) Banking Book - Equity Price risk

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

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

Market Indices	December 31, 2014		December 31, 2013	
	Change in equity index %	Effect in SAR millions	Change in equity index %	Effect in SAR millions
Tadawul	+5	48.59	+5	45.46
	+10	97.18	+10	90.93
	-5	(48.59)	-5	(45.46)
	-10	(97.18)	-10	(90.93)

30. LIQUIDITY RISK

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

Management monitors the maturity profile to ensure that adequate liquidity is maintained. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions.

All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of the Bank. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

In accordance with Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% (2013: 7%) of total demand deposits and 4% (2013: 4%) of saving and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of not less than 20% of its deposit liabilities, in the form of cash, gold, Saudi Government Development Bonds or assets which can be converted into cash within a period not exceeding 30 days. The Bank has the ability to raise additional funds through repo facilities with SAMA up to 75% of the nominal value of bonds held by the Bank.

The table below summarizes the maturity profile of the Bank's financial liabilities at 31 December 2014 and 2013 based on contractual undiscounted repayment obligations. As special commission payments up to contractual maturity are included in the table, totals do not match with the statement of financial position. The contractual maturities of liabilities have been determined based on the remaining period at the reporting date to the contractual maturity date and do not take into account the effective expected maturities. The Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not affect the expected cash flows indicated by the Bank's deposit retention history. The undiscounted maturity profile of the liabilities is as follows:

2014 SAR'000 Financial liabilities	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Due to banks and other financial institutions	3,559,900	232,446	-	-	3,792,346
Customer deposits	128,903,007	34,548,016	1,025,748	27,198	164,503,969
Debt securities in issue	26,372	52,279	278,819	4,066,219	4,423,689
Derivative financial instruments (gross contractual amounts payable)	3,438	10,505	40,260	-	54,202
Total undiscounted financial liabilities	132,492,717	34,843,246	1,344,827	4,093,417	172,774,206

30. LIQUIDITY RISK (continued)

2013 SAR'000 Financial liabilities	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Due to banks and other financial institutions	6,834,539	750,071	-	-	7,584,610
Customer deposits	117,851,551	34,839,670	1,037,305	45,195	153,773,721
Debt securities in issue	26,712	52,279	278,819	4,136,892	4,494,702
Derivative financial instruments (gross contractual amounts payable)	93	252	-	-	345
Total undiscounted financial liabilities	124,712,895	35,642,272	1,316,124	4,182,087	165,853,378

The table below summarises the maturity profile of the Bank's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date and do not take account of the effective maturities as indicated by the Bank's deposit retention history. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows. The maturity profile of the Bank's assets and liabilities is as follows:

2014 SAR' 000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	17,045,983	-	-	-	8,269,753	25,315,736
Due from banks and other financial institutions	3,801,928	112,576	-	-	-	3,914,504
Investments, net and investment in associates	6,694,727	16,556,531	10,169,503	10,395,143	3,615,900	47,431,804
Loans and advances, net	36,811,704	20,720,474	45,001,283	30,956,813	-	133,490,274
Other real estate	-	-	-	-	390,802	390,802
Property and equipment, net	-	-	-	-	1,706,731	1,706,731
Other assets	1,163,259	-	-	-	1,176,183	2,339,442
Total assets	65,517,601	37,389,581	55,170,786	41,351,956	15,159,369	214,589,293
Liabilities and shareholders' equity						
Due to banks and other financial institutions	3,558,228	231,568	-	-	-	3,789,796
Customer deposits	128,563,052	34,468,297	1,020,886	27,198	-	164,079,433
Debt securities in issue	-	-	-	4,000,000	-	4,000,000
Other liabilities	608,907	-	-	-	6,574,052	7,182,959
Shareholders' equity	-	-	-	-	35,537,105	35,537,105
Total liabilities and shareholders' equity	132,730,187	34,699,865	1,020,886	4,027,198	42,111,157	214,589,293

30. LIQUIDITY RISK (continued)

2013 SAR' 000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	13,354,750	-	-	-	7,573,799	20,928,549
Due from banks and other financial institutions	3,458,454	980,202	-	-	-	4,438,656
Investments, net and investment in associates	4,398,046	16,386,775	9,664,870	9,339,894	4,190,803	43,980,388
Loan and advances, net	38,297,055	22,469,073	46,183,172	24,241,257	-	131,190,557
Other real estate	-	-	-	-	437,368	437,368
Property and equipment, net	-	-	-	-	1,662,650	1,662,650
Other assets	980,783	-	-	-	1,627,528	2,608,311
Total assets	60,489,088	39,836,050	55,848,042	33,581,151	15,492,148	205,246,479
Liabilities and shareholders' equity						
Due to banks and other financial institutions	6,827,930	750,050	-	-	-	7,577,980
Customer deposits	117,401,422	34,719,189	1,034,074	45,195	-	153,199,880
Debt securities in issue	-	-	-	4,000,000	-	4,000,000
Other liabilities	402,292	-	-	-	6,196,003	6,598,295
Shareholders' equity	-	-	-	-	33,870,324	33,870,324
Total liabilities and shareholders' equity	124,631,644	35,469,239	1,034,074	4,045,195	40,066,327	205,246,479

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, balances with SAMA, items in the course of collection; loans and advances to banks; and loans and advances to customers. The cumulative maturities of commitments and contingencies is given in note 19 c) (i) of the financial statements.

31. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

Level 1:

Quoted market price: financial instruments with quoted unadjusted prices for identical instruments in active markets.

Level 2:

Valuation technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

Level 3:

Valuation technique with significant unobservable inputs: financial instruments valued using valuation techniques where one or more significant inputs are unobservable. Valuations are based on Net Asset Value (NAV) per unit/share as per the statement provided by custodian for managed funds or the latest available audited financial statements for entities other than managed funds.

Fair value and fair value hierarchy:

2014 SAR' 000	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments	-	419,112	-	419,112
Financial investments available for sale	15,436,989	85,024	1,406,117	16,928,130
Financial Liabilities				
Derivative financial instruments	-	370,841	-	370,841

2013 SAR' 000	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments	-	365,346	-	365,346
Financial investments available for sale	15,167,350	88,373	1,506,670	16,762,393
Financial Liabilities				
Derivative financial instruments	-	90,650	-	90,650

There were no transfers between the fair value hierarchy levels.

31. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

Although the Bank believes that its estimates of fair value of Level 3 securities are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. Level 3 consists of local and international unquoted equity securities. Bank uses net assets valuation method based on most recent available audited financial statements to fair value these investments. Other methodology that could be used to value the securities is discounted cash flow model based on expected dividend yield for which no data is available. Therefore potential impact of using reasonably possible alternative assumptions for the valuation techniques is not quantified.

SAR' 000	2014	2013
Reconciliation of movement in Level 3		
Opening balance	1,506,670	1,686,880
Total gains or losses		
- recognised in consolidated income statement	(42,247)	502
- recognised in other comprehensive income	90,546	144,926
Redemption	(148,852)	(325,638)
Closing balance	1,406,117	1,506,670

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:

a) In the principal market for the asset or liability, or

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

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

The estimated fair values of held-to-maturity investments and other investments held at amortised cost are based on quoted market prices when available or pricing models when used in the case of certain fixed rate bonds (respectively). The fair values of these investments are disclosed in note 6.

The fair values of derivatives are based on the quoted market prices when available or by using the appropriate valuation technique.

32. RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Bank transacts business with related parties. Related party transactions are governed by the limits set by the Banking Control Law and regulations issued by SAMA. The balances at December 31, resulting from such transactions are as follows:

a) Directors, key management personnel, other major shareholders' and their affiliates:

SAR' 000	2014	2013
Loans and advances	3,564,951	4,551,323
Customer deposits	47,468,205	25,815,318
Derivatives assets (at fair value)	736	-
Commitments and contingencies (irrevocable)	3,890,775	3,543,766
Executive end of service	44,863	35,585

Key management personnel are those persons, including a non-executive director, having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly.

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

b) Bank's mutual funds:

Customer deposits	585,721	1,072,035

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

SAR' 000	2014	2013
Special commission income	138,743	155,976
Special commission expense	315,199	286,582
Fees from banking services, net	159,217	163,324
Directors and committees remuneration and expenses	4,740	4,686
Executive remuneration and bonus	33,146	28,846
Executive end of service	12,470	2,772
Other expenses	5,228	5,198

33. 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.

The Group monitors the adequacy of its capital using the methodologies and ratios established by the Basel Committee on Banking Supervision and as adopted by SAMA, with a view to maintain a sound capital base to support its business development and meet regulatory capital requirement as defined by SAMA.

The Group management reviews on a periodical basis its capital base and level of risk weighted assets to ensure that capital is adequate for risks inherent in its current business activities and future growth plans. In making such assessments, the management also considers Group's business plans along with economic conditions which directly and indirectly affects business environment.

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

SAR' 000	2014		2013	
	Capital	Ratio %	Capital	Ratio %
Top consolidated level				
Tier 1 capital	35,537,105	16.8%	33,870,324	16.6%
Tier 2 capital	1,072,349		1,072,349	
Total regulatory capital (Tier 1 + Tier 2)	36,609,454	17.3%	34,942,673	17.1%

SAR' 000	2014	2013
Risk weighted assets		
Credit risk weighted assets	197,422,773	192,606,853
Operational risk weighted assets	12,816,125	11,609,750
Market risk weighted assets	977,788	308,800
Total Pillar 1 Risk Weighted Assets	211,216,686	204,525,403

34. STAFF INVESTMENT SAVINGS PLANS

The Group operates a Staff Savings Investment Plan. Under the terms of the Staff Savings Investment Plan, participating employees of the Bank make monthly contributions by way of a deduction from their salary subject to a maximum of 15% of their basic salaries. The Bank also contributes on a monthly basis a pre-determined percentage (subject to a maximum of 6%) of the basic salary of an employee based on the varying service periods. The proceeds are invested in the Bank's existing range of mutual funds for the benefit of the employees.

The cost of the above plan is charged to the Bank's consolidated income statement over the term of the plan.

35. INVESTMENT MANAGEMENT SERVICES

The Group offers investment management services to its customers, which include management of certain investment funds with assets totaling of SAR 29.2 billion (2013: SAR 28.8 billion).

The Group's assets under management include non-interest based funds amounting to SAR 7.7 billion (2013: SAR 6.4 billion).

36. ISSUED IFRS BUT NOT YET EFFECTIVE

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

a) IFRS 9 Financial instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory.

b) IFRS 15 Revenue from contracts with customers

Issued in May 2014, establishes a new five-step model that will apply to revenue earned from a contract with a customer, regardless of the type of revenue or industry. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. This new revenue standard, is applicable to all entities and will supersede the current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017, but early adoption is permitted under IFRS.

c) Amendments of IFRS 11 Accounting for acquisitions of interests in joint operations

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant principles for business combinations accounting in IFRS 3 and other standards. The amendment also clarifies that a previously held interest in a joint operation is not re-measured on the acquisition of an additional interest in the same joint operation while joint control is retained. The amendment applies to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and is prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted.

d) Amendments to IAS 16 and IAS 38 Clarification of acceptable methods of depreciation and amortization

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

37. COMPARATIVE FIGURES

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

38. BOARD OF DIRECTORS' APPROVAL

The consolidated financial statements were approved by the Board of Directors on 13 Rabi II 1436H (corresponding to 2 February 2015).

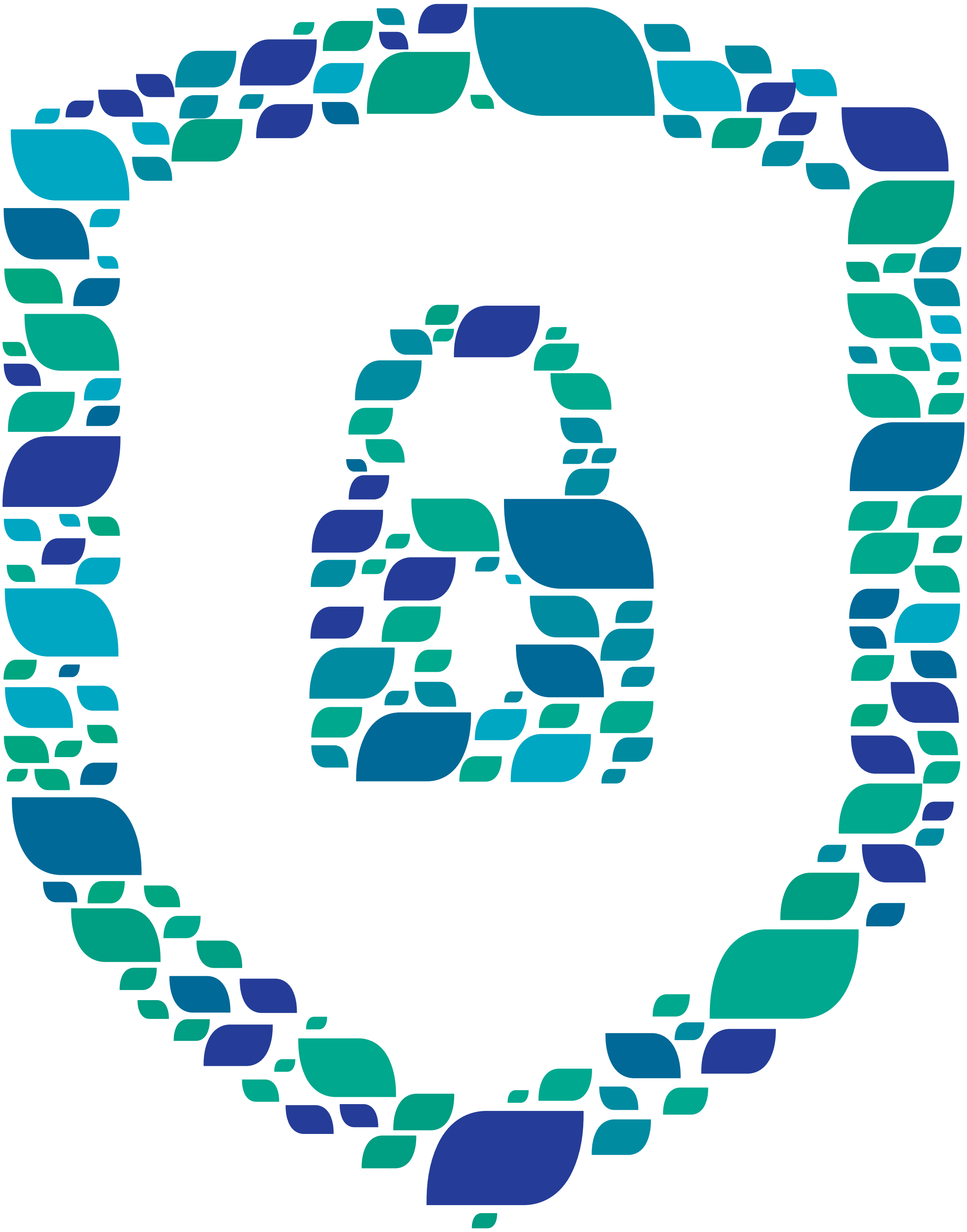
39. BASEL III PILLAR 3 DISCLOSURES

Under Basel III Pillar 3, certain quantitative and qualitative disclosures (including capital structure related) are required, and these disclosures will be made available on the Bank's website www.riyadbank.com and the annual report, respectively, as required by the Saudi Arabian Monetary Agency. Such disclosures are not subject to review or audit by the external auditors.

Summary of Pillar 3 Qualitative Disclosures

Summary of Pillar 3 Qualitative Disclosures

6



Summary of Pillar 3 Qualitative Disclosures

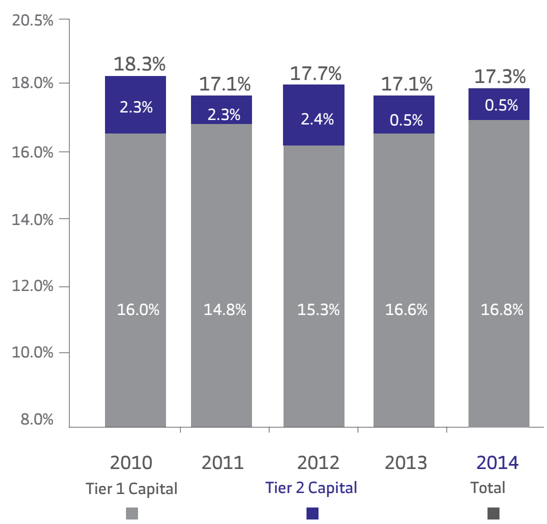
These risk and capital disclosures are consistent with the requirements of the Saudi Arabian Monetary Agency (SAMA) and the Basel III Accord capital adequacy requirements commonly referred to as Pillar 3 disclosure requirements. This is a summarized version of the full Pillar 3 disclosure document, which is available on our website at www.riyadbank.com.

In accordance with SAMA requirements, the Basel III Accord Capital Adequacy Regulations are applicable to Riyad Bank on a consolidated basis; comprising Riyad Bank and its subsidiaries Riyad Capital, Ithra Riyad Real estate Company and Riyad Company for Insurance Agency.

Riyad Bank provides SAMA with quarterly capital adequacy reports which detail its quarter-end capital adequacy position, and it submits a forward-looking Internal Capital Adequacy Assessment Plan (ICAAP) on an annual basis. Riyad Bank provides adequate capital, represented by its total equity, for core banking risks (credit, market and operational risk) in accordance with Pillar 1 of the Basel III Accord and provides additional capital for other risks under Pillar 2 including; settlement risk, (Business Technology)BT risk and strategic risk, etc.

Under the Pillar 2 Supervisory Review Process (SRP) the Bank's capital position is the total of Pillar 1 and Pillar 2 capital requirements, plus any additional capital requirements determined by the regulator. The graph below shows the bank's sustained capital adequacy ratios:

Capital Adequacy Ratios



* For the purposes of presentation, the Tier 1, Tier 2 and Total Capital related ratios after 2012 are calculated using the framework and the methodologies defined under the Basel III framework. The comparative ratios for 2012 and earlier years are calculated under Basel II and have not been restated.

To enable the Board of Directors to discharge its risk oversight responsibilities, amongst others, the bank has established the necessary risk frameworks, policies, authorities, procedures and other control activities which constitute the Bank's control environment and determine its adequacy and effectiveness. The Board Audit Committee receives and reviews regular reports on risk and controls across the Bank.

A Board Risk Committee was formed for the Board term starting on 1/11/2013 and comprised of three Board members.

Senior Management Committees in the Bank include the Operational Risk Management & Compliance Committee and the Asset and Liability Committee. These committees oversee market, liquidity, operational and strategic business risks and compliance risk.

The Risk Management function at Riyad Bank is headed by the Chief Risk Officer (CRO) and includes oversight and management of all aspects of the Bank's risk planning, risk modeling, risk measurement and risk methodology development, and implementation of the capital adequacy rules required by SAMA and the Basel Committee. The Credit Risk management mandate is exercised through the Credit Division, covering all aspects of credit risk. The Risk Management Division covers both financial and operational risks. In addition, the Bank's Capital Management Unit, reporting to the CRO, is responsible for overseeing and coordinating the preparation of Internal Capital Adequacy Assessment Plan (ICAAP).

The compliance function, including regulatory compliance, is separately performed by the Bank's Compliance Department, reporting directly to the Bank's Chairman.

Set out below is a commentary on the major risks, and an explanation of how the Bank manages each risk type:

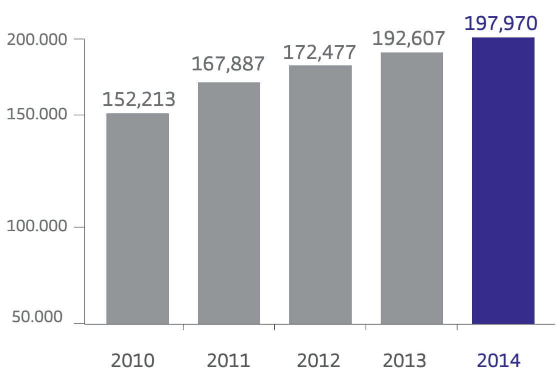
1. Credit Risk:

Credit risk is the potential that a bank obligor or counterparty will fail to meet its obligations in accordance with agreed terms. Based on the organizational structure of the Bank, the business units that perform work with clients are completely independent from the units responsible for controlling, measuring, and monitoring credit risk and which report independently. In addition, the Bank's Credit Strategy and Risk Appetite Statements set out a clear plan for identifying and establishing risk-tolerance parameters, along with monitoring and reporting mechanisms for credit risk in the Bank.

The Board of Directors has approved a Credit Risk Management (CRM) Framework document. The CRM Framework consists of the principles, structures, tools, and activities required for managing credit risk at all levels in the Bank.

The CRM Framework and credit risk governance structure are designed to provide comprehensive controls and continuing management of the credit risk inherent in the Bank's business activities. The Board is directly involved in risk-appetite determination, policy development, credit authority delegations, approval of large credits and the continuing review of existing credit exposures, review of status and trends in credit quality, and industry and sector credit concentrations.
The graph below shows the Bank's Credit risk weighted assets:

Credit Risk Weighted Assets (SAR Million)



* For the purposes of presentation, the Credit RWAs, after 2012 are calculated using the framework and the methodologies defined under the Basel III framework. The comparative balances for 2012 and earlier years are calculated under Basel II and have not been restated.

The Bank's Credit Committees are responsible for reviewing and approving credit exposures within risk limits, the criteria required for loan documentation and methods of follow-up and supervision. The Main Credit Committee is chaired by the Chief Executive Officer of the Bank. The Credit Division is responsible for managing and controlling credit risk throughout the Bank, and is independent of the business units.

The Internal Audit Department regularly submits its reports to the Board Executive Committee on loan reviews. External Auditors carry out their reviews and submit their reports to the Board Audit Committee and to the Board of Directors on the financial statement.

The Investment Committee, chaired by the Chairman of the Board, oversees the Bank's investment portfolio in accordance with Board-approved asset allocation and investment guidelines and mandates. The Investment Committee sets out the policy framework and investment asset allocation. The Portfolio Managers' performances are reviewed by the Investment Department and independent consultants.

Riyad Bank's credit exposure can be classified in two broad risk categories: Retail Credit Risk and Non-retail Credit Risk.

Retail Credit Risk is the risk of non-payment of the credit facilities offered to retail banking customers. This typically covers risks associated with personal loans, residential mortgage loans, credit cards, and other products offered to individuals. Retail Banking risk acceptance is primarily based on the application of fixed criteria using well-defined scoring methodologies. Portfolio provisions are based on the Bank's provisioning policy. In the event of non-payment for 180 days from the due date, the loan is charged off against profit & loss.

Non-retail lending includes corporate facilities/loans and overdrafts, inter-bank loans, loans to government entities, small and medium-sized enterprise loans, trade finance, structured and project finance, leasing, syndicated loans, corporate guarantees and overdraft.

Off-shore credit risk is controlled within the country risk limits which are approved by the Board of Directors. The Bank has a specialized unit which is responsible for the credit risk management of financial institutions (FI).
Corporate credit risk is managed by ensuring timely risk identification, quantification, calibration, monitoring, and credit exposure reporting in line with the Bank's credit risk appetite, and regulatory requirements, corporate strategy, and our portfolio and sector strategy. Concentration policy and limits exist for single customer exposure, industry

concentration, and segment exposure. Credit to related parties is covered by collateral as per regulatory requirements. Risk is monitored on facility, total exposure, and portfolio basis. The Bank utilizes sophisticated credit administration and limit management software systems to ensure the full lifecycle management of credit applications, limit management, and financial and non-financial collateral management.

The Bank applies a borrower rating assessment using an externally built credit-rating system, which is then mapped to an Obligor Risk Rating based on financial and business analysis criteria. An internal rating is assigned based on a range of definitions and criteria given for each rating grade, taking into account the facility, the collateral offered and other factors. Rating changes are approved by the Credit Rating Committee and/or the Credit Rating Review Committee. The Internal Audit department monitors the ratings and their amendments.

The Bank uses Standard & Poor's, Fitch, Moody's, and Capital Intelligence as External Credit Assessment Institutions for ratings of Sovereigns, Central Banks, Banks, Securities Firms and Corporate exposures.

Collateral is never the principal rationale for lending decisions but is viewed as an alternative source of repayment in the event that a business fails or enters into bankruptcy. Policy guidelines control collateral acceptance, valuation, enforceability, marketability and liquidity.

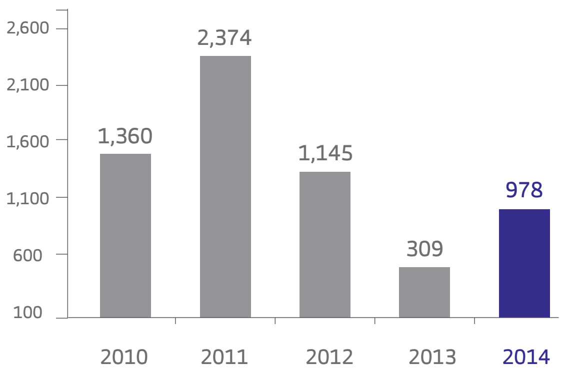
A provisions study is prepared quarterly by a department reporting directly to the Chief Risk Officer then submitted to the Audit Committee and the Board of Directors for approval; additionally the provisions are reviewed quarterly by the Bank's internal and external auditors. Provisions consist of portfolio and specific provisions.
Specific provisions are created for non-retail loans classified as non-performing based on individual review on a periodical basis of credit exposures less expected recoverable amounts. Portfolio reserves are calculated to cover corporate, consumer and credit card performing exposures applying a range of reserve ratios which reflect the potential impairment on each portfolio category.

2. Market Risk

Market risks are the risks related to fluctuations in the Value at Risk (V@R), fair value or future cash flows of the financial instruments incurred as a result of various changes in the market elements such as special commission rates, foreign exchange rates/foreign currency exposure, or equity prices.

The graph below shows the Bank's Market risk weighted assets:

Market Risk Weighted Assets (SAR Million)



* For the purposes of presentation, the Market RWAs after 2012 are calculated using the framework and the methodologies defined under the Basel III framework. The comparative balances for 2012 and earlier years are calculated under Basel II and have not been restated.

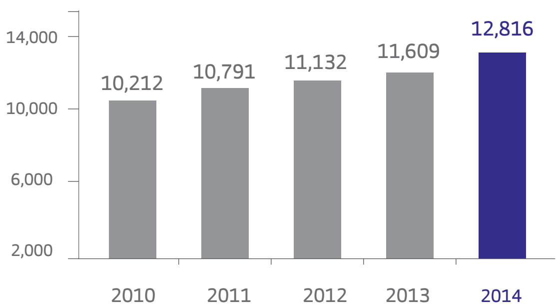
The Bank monitors positions daily and uses hedging strategies to ensure maintenance of positions within the established gap limits set and approved by the Board. The Bank manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency. To mitigate liquidity risk, the Bank has diversified funding sources and retains an appropriate balance of cash, cash equivalents and readily marketable securities as liquid assets

3. Operational Risk

Riyad Bank's operational risk strategy is to ensure that the Bank is safeguarded against major operational risks while ensuring that losses incurred as a result of operational risk are minimized. The Bank has developed proactive risk-mitigation strategies supported by risk management frameworks, policies and procedures aimed at detecting and controlling risks before they become a threat. A centralized Operational Risk Management Department monitors and manages all operational risks impacting the Bank and submits monthly reports to the Operational Risk Management & Compliance Committee (ORMCC) which is chaired by the CEO as well as submitting a semi-annual Report to the Board Audit Committee. In addition, the Operational Risk Management Department includes Fraud Prevention and Anti-Money Laundering units that assist the Bank in safeguarding it against potential fraud and money-laundering related events.

The graph below shows the bank's Operational risk weighted assets:

Operational Risk Weighted Assets (SAR Million)



* For the purposes of presentation, the Operational RWAs after 2012 are calculated using the framework and the methodologies defined under the Basel III framework. The comparative balances for 2012 and earlier years are calculated under Basel II and have not been restated.

4. Other Risks

The Bank follows integrated strategies to manage monitor and control other risks such as liquidity risk, BT risk strategic risk, legal and reputational risk, credit concentration risk, interest rate risk in the banking book, macroeconomic and business cycle risk, and settlement risk. Such strategies concentrate on the mitigation of any potential adverse consequences of these risks, and the Bank allocates adequate capital to these risk types.

The Bank also conducts stress tests covering major risks in all aspects of its banking activities in line with related standards and rules.

Executive Management

Executive Management

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President & Chief
Executive Officer

Abdulmajeed Abdullah Al-
Mubarak
Deputy Chief Executive Officer

Thalib A. Al-Shamrani
Executive Vice President Chief
Risk Management Officer

Abdulaziz S. Al-Malki
Executive Vice President
Treasury and Investment

Adel A. Al-Sheikh
Executive Vice President
Retail Banking

Ahmed Y. Al-Tayeb
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Riyadh O. Al-Zahrani
Executive Vice President
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Hani A. Abu Al Naja
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Acting Executive Vice President
Business Technology

Mohammed Ali Al Qureshah
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Western Region