Date : March 17, 2014
From : Board of Directors
To : Shareholders in Annual General Assembly Meeting
Sub : Review Paper-Financial statements December 31, 2014

FINANCIAL STATEMENTS- PERIOD ENDING DECEMBER 31, 2014

Global Economy Outlook

According to Samba economy watch the outlook for global economic activity remains one of divergent growth. The economies of United States and the United Kingdom remain strong reinforcing expectations that policy rates will be raised. As the US economy continues to grow strongly raising the prospect that the Fed Funds rate will finally be raised this year with the quantitative easing ending amidst hiking of policy rate but not until third quarter of 2015, while the 10 year treasury yields remains subdued at around 1.9% in January 2015. Mounting concerns about European deflation and waning activity in China have been the main negatives on the demand side.

Trends in the Emerging Markets have been mixed but generally improving, with steady growth in Asia, including China, offsetting poorly performing countries like Russia, Ukraine, Venezuela, Brazil and Argentina. Although economies of Asia are holding up, Japan has slumped back into recession, prompting an expansion of its Quantitative Easing program. The greatest concern lies is the Eurozone where fears are growing that policy maker may not be able to do enough to prevent deflation and stagnation. This presents a significant downside risk to the still fragile global recovery.

Surging US shale oil production is main cause of collapse which combined with disappointing global oil demand has displaced earlier market concerns over supply disruptions. Falling oil prices are showing no signs of stabilizing, with Brent hovering in the range of $50/b and Arab Light at $45/b at their lowest level since early 2009 owing due to both supply and demand factors. While the US oil production remains strong, Saudi Arabia is keeping production high but aggressively reducing prices in a bid to protect or expand market share in key markets such as East Asia rather than prop up prices.

Robust growth and expectations of a future US rate rise- in contrast to a loosening bias in Europe and Japan- have helped lead to a major strengthening in the US dollar which seems unlikely to unwind any time soon. Global financial markets saw large sell offs in October 2014 when concerns that global growth was slowing which prompted a slowdown in risk aversion, highlighted by various geopolitical tensions. Equities dropped as there was a flight to safety which pushed down core sovereign bond yields, while other bond markets sold off, particularly corporate high yield. Most markets however later stabilized supported by more monetary easing in Japan and the Eurozone and the outlook is stable.

Meanwhile the World Bank in its report on the fiscal policy challenges in developing economies, commenting on the global economic prospects of January 2015 holds the view that the rapid growth, booms in commodity prices, and improvements in institutional quality during early 2000 allowed developing economies to build fiscal surplus, which was successfully used to stimulate activity during the crisis of 2008-09. Although debt levels generally remain moderate, in recent years, private debt levels have risen substantially in some developing countries.

The World Bank is of the view that with the usage of fiscal surplus during the crisis of 2008-09 deficits of developing countries remained high as economies took advantage of historically low interest rates to maintain expansionary fiscal positions, which could in the period ahead raise issues as to its sustainability. Estimates suggest that fiscal multipliers are one-third less now than they were prior to the global financial crisis.

World Bank in its report has stated that developing economies have yet to restore their buffers to pre-crisis levels over the medium term which may be affected due to constraints in monetary policy, witness elevated inflation and face financial stability risks. This may be possible through well-designed and credible institutional frameworks can help build fiscal surplus and strengthen policy outcomes.

The World Bank holds the view that these steps are necessary for Governments to have necessary resources to be able to increase spending during cyclical downturns, which is easier when fiscal surplus is available evident by low deficits or high surplus combined with a low level of debt. Restored fiscal surplus offers the prospect of more effective fiscal policy when it is needed most such as in cyclical downturns in growth and risks of reversals in capital inflows due to policy normalization in the advanced economies that could constrain monetary policy.

Saudi Outlook

According to Samba economy watch of January 2015, Saudi Arabia has shown signs of financial stress due to drop in oil prices though mild. Domestic economic activity remained reasonably strong, although private confidence was evident from the downward plunge of the stock market. Private sector is being supported by public spending, as 2015 budget is slightly expansionary as compared to last year's budget and Government is expected to maintain spending growth ahead, although at a much reduced pace as compared to prior years with sufficient savings at its disposal.

Pressure on the riyal has increased in line with the drop in oil prices which SAMA defended effectively, but the impact was small as compared to previous sessions as public debt is minimal, international reserves substantial and country's current account in surplus, this should continue for next few years.

The stock market a sensitive barometer of private sector confidence, though surging 30% during the year ended at 2014 pretty much where it began, with oil price drop being the main catalyst for the stock market plunge. A stronger dollar is helping to keep a lid on input costs, which should help relieve pressure on margins as well as keep inflationary pressures muted. The consumer price inflation expected to average at 2.5% over next 3 years.

The financial markets though a bit stressed appear manageable, when seen in the context of 2009 oil price slide, again thanks to the vast financial foreign assets at its disposal. The balance of payments position is however solid enough but may necessitate some fiscal adjustment as the outlook for oil prices is more uncertain than usual and a sharper-than-expected drop in prices, if unaccompanied by stepped up reform efforts, could trigger large capital outflows.

1. KEY INDICATORS –STATEMENT OF FINANCIAL POSITION

Following is the position of the key balance sheet indicators as of December 31, 2014 and its comparison with the last year position as at December 31, 2013 along with %age changes:

Comparison - Key Balance Sheet Indicators
Actual Current Year versus Last Year

	December 31, 2013	December 31, 2014	Changes	%age
Financings	Sr in million			
Ijara Financing	1,394	1,841	447	32%
Murabaha Financing	214	342	128	60%
Mawsofa fi Athemma	80	116	36	45%
Total Financing	1,688	2,299	611	36%
Less: Provisioning	(23)	(32)	(9)	39%
	1,665	**2,267**	**602**	**36%**
Investments	111	177	66	59%
Cash & Bank	34	20	(14)	-41%
Other Assets	51	95	44	86%
Total Assets	**1,861**	**2,559**	**698**	**38%**
Borrowings	758	1,443	685	90%
Paid up Capital	900	900	-	-
Equity	1,019	1,038	19	2%

TOTAL ASSETS

The total assets increased by SR 698 million showing growth of 38% in December 2014 as against a 33% growth in December 2013. The assets portfolio continues to be strong and performing yielding good returns as depicted from an annualized weighted average ROA of 4%.

2. FINANCING PORTFOLIO-OVERALL

Following is the position of the total financing portfolio as of December 31, 2014 and its comparison with the last year position as at December 31, 2013:

Total Financing Portfolio
Actual Current Year versus Last Year

SR in millions

	December 31, 2014			
2014	Corporate	HNWI	Retail	Total
Balance - January 1, 2014	620	484	584	1,688
New Booking for the year	584	237	286	1,107
Total financing	**1,204**	**721**	**870**	**2,795**
Repayments during the year	(284)	(99)	(113)	(496)
Balance - December 31, 2014	**920**	**622**	**757**	**2,299**

	December 31, 2013			
2013	Corporate	HNWI	Retail	Total
Balance - January 1, 2013	600	242	452	1,294
New Booking for the year	365	333	220	918
Total financing	965	575	672	2,212
Repayments during the year	(345)	(91)	(88)	(524)
Balance - December 31, 2013	**620**	**484**	**584**	**1,688**

3. FINANCING PORTFOLIO- BRANCHES

Following is the position of the branches financing portfolio as of December 31, 2014 and its comparison with the last year position as at December 31, 2013:

Retail Financing Portfolio
Actual Current Year versus Last Year

SR in millions

	December 31,2014			
2014	**Riyadh**	**Jeddah**	**Dammam**	**Total**
Balance - January 1, 2014	336	112	136	584
New Booking for the year	157	99	30	286
Total financing	493	211	166	870
Repayments during the year	(59)	(31)	(23)	(113)
Balance - December 31, 2014	**434**	**180**	**143**	**757**

	December 31, 2013			
2013	**Riyadh**	**Jeddah**	**Dammam**	**Total**
Balance - January 1, 2014	286	62	104	452
New Booking for the year	106	64	50	220
Total financing	392	126	154	672
Repayments during the year	(56)	(14)	(18)	(88)
Balance - December 31, 2014	336	112	136	584

FINANCING PORTFOLIO

Overview

The total disbursements from inception to December 31, 2014 were SR 4.5 billion even though the gross outstanding level is SR 2.3 billion, the turnover reflecting a healthy portfolio and early settlements resulting good income, yields comfortable and fee income attractive.

The financing portfolio saw a steady year to year growth 36% (gross basis) in 2014 as against 30% in December 2013 last year, higher by SR 189 million upto December 2014 year to date as compared to December 2013.

Retail booking remained less than expectations due to the 30% down payment regulation.

The composite weighted average yield of the whole portfolio is around 8.2% with a general provisioning of SR. 32 million.

4. INVESTMENT PORTFOLIO

Following is the Outstanding Investment portfolio as of December 31, 2014 and its comparison with the last year position as at December 31, 2013 along with position of Realized gains:

Investment portfolio

Actual Current Year versus Last Year

SR in millions

	December 31, 2014	December 31, 2013	Realized Gains
Name of Developer			
Hakemiya	Completed	Completed	-
TirazAlArabia	Completed	Completed	-
Maskan	Completed	1.2	-
Falcom	Completed	7.3	3.5
AAziz AlQassim - Malga 1	Completed	-	2.3
In progress			
AAziz AlQassim - Aqiq	8.1	16.5	3.4
AAziz AlQassim - Malga 2	5.3	-	0.7
Al Argan Homes	1.9	21.7	2.9
Dar WaEmar-Olaya	27.2	13.9	-
Saudi Kyan	0.5	14.1	7.6
Tharaa	8.5	7.2	-
Dar WaEmar-AlRahba	28.5	21.0	2.0
AlBani	11.9	8.3	1.6
TirazAlArabia - ERGA	24.4	-	-
Ibrahim Fozan & Co	12.8	-	0.8
AAziz AlQassim - Malga3	15.6		-
Saudi Kyan - 2	8.5	-	-
Al Mushaira Al Oula	6.5	-	-
Saudi Kyan - 3	5.4	-	-
	165.1	**111.2**	**24.8**
Istitmar Capital	12.0	-	1.1
	177.1	**111.2**	**25.9**

INVESTMENT PORTFOLIO

Overview

Actual outstanding investments portfolio was SR 177 million as against last year's outstanding investments of SR 111 million higher by SR 66 million, with approved commitments as of December 31, 2014 were SR 261 million.

It may not be out of place to mention that Amlak has liquidated its sizeable investments in joint venture activities to avoid the price fluctuations as also due to the enforcement of the new mortgage law which requires customers to pay 30% down payment close to the end of the year, likely impact of which is stagnation in sales and reduction in prices. Due to the high liquidation, investment income increased by 42% and closed at SR 25.9 million in 2014 as compare to SR 18.3 million in 2013.

Post November 7, 2014 no fresh investments have been booked in Amlak, to comply with the new SAMA regulations. Now the existing portfolio will remain in our books till disposal.

5. BORROWINGS

Following is the position of the borrowings as of December 31, 2014 and its comparison with the last year position as at December 31, 2013 along with %age changes::

Borrowings Position
Actual Current Year versus Last Year

SR in millions

	December 31, 2014	December 31, 2013
Fund based Limits		
Facilities sanctioned	1,856	1,050
Utilization during the year	1,443	758
Balance available	413	292
Hedging lines	40	37
Non revolving limts	35	-
Net Balance	338	255
Non-Fund based limits		
Facilities sanctioned		
Sub-limits	75	75
Stand alone limits	71	74
Total facilities sanctioned	146	149
Utilized Non fund limits	50	43
Balance available	96	106
Utilized notional amount	610	407
Bank Guarantee-DZIT	39	-

BORROWINGS

Overview

Amlak has now access to SR. 1,856 million lines of approved funded borrowing lines, and other facilities, as against approved lines of SR 1,050 million lines available last year. Current period utilization was SR 1.4 billion and approved lines are sufficient to enable Amlak to close the projected business operations during 2015.

The quest for additional resources to allow room for operations will continue for extension/new lines from banks. Currently negotiations are underway for the enhancements of the limits to over SR 1.1 billion.

The characteristic features of the borrowing facilities are that these have been negotiated at competitive rates which available only to the prime customers of the banks

Amlak as of balance sheet date has profit rate swaps of SR 610 million, well diversified with banks to hedge itself from the volatility of adverse profit rate risks.

PAID UP CAPITAL AND EQUITY

Overview

The profit earned during the year has resulted in increase of equity by SR 138 million over the paid up capital of SR 900 million raising the equity to SR 1,038 million after disbursement of dividends of 63.2 million paid out of profits and reserves earned by Amlak.

The equity of Amlak is strong and totally un-impaired even though a provision of SR 32 million exists to meet any exigency and any unforeseen credit loss

RESERVES, ZAKAT AND INCOME TAX

Overview

Amlak earned net profits of SR. 88.3 million which requires it to transfer 10% of the annual income after zakat and income tax as statutory reserves, which has since been transferred.

Due to Profit rate movements, swap was negative by SR (3.7) million as against negative of SR (2.3) million in December 31, 2013. Since this is a cash flow hedge we do not see an impact from the accounting angle in our income statement.

DZIT has raised additional demand for zakat/tax for the years 2007-2010 and 2011-12, which are subject matter of appeal and a hearing for the years 2007-2010 was conducted at the Preliminary Appeal Committee level on April 21, 2014 and decided against Amlak. An appeal at the Higher Appeal Committee is now underway for which a bank guarantee amounting to SR 39.408 million was issued from SAIB.

OPERATING RESULTS-OVERALL

Following is the position of the profit and loss account of Amlak international for the period ending December 31, 2014 along with a comparison with December 31, 2013:

Comparative Income Statement
Actual Current Year versus Last Year

SR in millions

	December 31, 2013	December 31, 2014	Changes	%age
Financing Income				
Murabaha income	22.9	26.1	3.3	14%
Ijarah income	91.5	126.6	35.1	38%
Mausufa income	4.6	6.2	1.6	35%
Financing income	**119.0**	**159.0**	**40.0**	34%
Investment income	18.3	25.9	7.6	42%
Gain on Portfolio sales	-	-	-	0%
Gross income	**137.3**	**184.9**	**47.6**	**35%**
Fee based income	6.3	7.0	0.7	11%
Gross operating income	**143.5**	**191.8**	**48.3**	**34%**
Borrowing cost	17.2	34.3	(17.1)	99%
Net operating income	126.3	157.5	31.2	25%
Expenses				
Salaries	30.3	37.5	(7.2)	24%
General & Admin Expenses				
Rent & premises	2.1	2.5	(0.4)	20%
Professional fees	0.9	2.4	(1.5)	173%
Information technology	1.9	1.9	(0.0)	2%
Other	2.5	5.7	(3.2)	124%
Total General/Admin Expenses	7.4	12.6	(5.1)	70%
Selling & Marketing Expenses				
Advertisement	2.7	2.5	0.3	-8%
Outsouring cost	2.8	3.5	(0.8)	27%
Appraisal cost	1.4	1.6	(0.2)	14%
Insurance	1.1	1.2	(0.1)	9%
Total Selling & Marketing Expenses	8.0	8.8	(0.8)	10%
Depreciation	1.4	1.0	0.3	-24%
Total Expenses	**47.0**	**59.9**	**(12.8)**	27%
Profit before provision	79.3	97.7	18.4	23%
Provisions	6.6	9.3	(2.7)	-41%
Profit after provision	**72.7**	**88.3**	**15.7**	**22%**

REVIEW OF OPERATING RESULTS

Gross Operating income

Gross operating income increased to SR. 191.8 million for the period ending December 31, 2014 as against SR. 143.5 million earned during the comparative period of last year higher by SR. 48.3 million or 34%.

Salient feature of the gross operating income was investment income which realized SR 25.9 million, higher by SR 7.6 million over the previous year's investment income

Financing income

Financing income increased to SR 159 million during 2014 from SR. 119 million as compared to 2013, higher by SR 40 million or 34%, which reflects the increase in financing portfolio of 36% in 2014 over 2013.

Investment income

As already explained the reasons thereof, wide liquidation was done in anticipation of lower investment activity because of residential unit price changes the business restriction laid down by SAMA due to which actual investment income was SR.25.9 million.

Fee based income

Actual fee based income received was SR 8.1 million during 2014, of which fee taken to the income statement was SR 7.0 million during 2014 as compared to SR 6.3 million in the comparative period of 2013 higher by SR 0.7 million.

The reason for increase in fee based income over the last year is due to increased disbursement during the period ending December 2014 comparing to the same period of last year as also recognition of deferral income during 2014.

In addition to the above, an amount of SR 5.8 million is lying in deferred fee based income as of December 31, 2014.

Total Expenses

The total expenses (including borrowing cost, selling, administration expenses, and provisions) were SR. 103.5 million for the period ending December 31, 2014 as against SR. 70.9 million in the comparative period of 2013 higher by SR. 32.6 million, main incidence of which is borrowing which increased by SR 17.1 million, followed by salary increasing by SR 7.2 million over the last year.

Borrowing cost

The borrowing cost during 2014 was SR. 34.3 million as against SR. 17.2 million in 2013 higher by SR. 17.1 million, as borrowing almost doubled during 2014 from 2013.

Administrative & General expenses

Administrative expenses were SR 59.9 million during the period and increased by SR. 12.8 million or 27% over the corresponding period of last year when they were recorded at SR 47.0 million.

Increase in administrative expenses of 27% over last year are less than the core financing income growth of 34% and should also be viewed in the context of total assets which increased by 38% and gross operating income which increased by 34% over the same period. Expenses generally remained under control.

Salary related

Majority of increase in administrative expenses in 2014 over last year were salary related, which increased by SR 7.2 million. The incidence of increase in salary over last year is mainly attributable to the stability in number of staff strength as 2013/2014 saw low turnover as compared to past periods.

General expenses
Overall general expenses during the period ending December 31, 2014 increased to SR 12.6 million or by SR. 5.1 million over last year comparative period expenses of SR 7.4 million.

In the year 2013, an amount of SR 2.4 million has been reversed from the expenses due to non-execution of securitization transaction being accrual made for securitization process in 2011-2012. Had this reversal not been made, the expenses for 2013 would be SR 9.8 million and the increase in 2014 would only be of SR 2.8 million instead of SR 5.1 million.

However, the rent and premises expenses increased by SR 0.4 million, professional fee by SR 1.5 million and other expenses by 3.2 million during the current year over the previous year the reason of which explained in the above paragraph.

Selling expenses
Overall marketing expenses during the period ending December 31, 2014 increased by SR. 0.8 million over last year comparative period. While the advertising expenses decreased by SR 0.3 million, Outsourcing expenses increased by SR 0.8 million, Appraisal cost increased by SR 0.2 million and insurance by SR 0.1 million during the period ending December 31,2014 over the last year.

Depreciation expenses
Depreciation expenses stood same as the last year comparative period.

Provisions

Provisions were maintained at 1.4% of the outstanding financing level. Based on this the general provision made during the period ending December 31, 2014 was SR. 9.3 million.

Net Profit
The profitability of Amlak increased to SR. 88.3 million during the period ending December 31, 2014, higher over the last year income of SR 72.7 million by SR. 15.7 million or by 22%.

Improvement in profitability of SR 15.7 million over last year was due to increase in gross operating income by SR. 48.3 million, which stood reduced by increase in borrowing cost of SR. 17.1 million, administrative expenses of SR. 12.8 million and provisions by SR 2.7 million.

The profitability of the current year also compares favorably with last year if we exclude investment income from the comparison. Excluding the investment income, current year net profit is SR 62.4 million as against SR 54.4 million higher by SR 8.0 million.

Factors contributing towards increased net profit were availability of high yield assets in the financing portfolio, good fee based income, high quality assets and saving in expenses

BOARD OF DIRECTORS & COMMITTEE MEMBERS REMUNERATION
Following is the detail of the allowances, benefits and other expenses paid to the member of the Board, Executive Committee, Audit Committee, Nomination and Remuneration Committee during the financial year 2014.

	Board	Audit	NRC	Excom
Attendance allowance paid	96,000	10,500	10,500	24,000
Ticket, accommodation and other allowances	63,581	6,235	4,518	17,811
Bonus	1,305,000	120,000	-	-
Total	1,464,581	136,735	15,018	41,811