

Arab National Bank
Annual Report 2014



Financial Statements

Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of Arab National Bank (the "Bank") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at December 31, 2014, the consolidated income statement, statement of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes from 1 to 40. We have not audited note 39, nor the information related to "disclosures under Basel III Framework" 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 the 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.

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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(Rabi Al Thani 1436 H)
February 11, 2015

Consolidated Statement of Financial Position

As at December 31, 2014 and 2013

	Note	2014 SAR' 000	2013 SAR' 000
Assets			
Cash and balances with SAMA	4	21,252,327	14,971,749
Due from banks and other financial institutions	5	1,935,625	2,767,181
Investments, net	6	33,876,206	28,248,369
Loans and advances, net	7	103,724,016	88,456,106
Investments in associates	8	494,117	466,533
Other real estate		136,634	136,634
Property and equipment, net	9	1,745,936	1,647,318
Other assets	10	1,503,494	1,241,534
Total assets		164,668,355	137,935,424
Liabilities and Equity			
Liabilities			
Due to banks and other financial institutions	12	9,015,640	7,641,058
Customers' deposits	13	129,631,178	106,372,732
Other liabilities	14	3,694,278	3,045,720
Debt securities in issue	15	1,687,500	1,687,500
Total liabilities		144,028,596	118,747,010
Equity attributed to equity holders of the Bank			
Share capital	16	10,000,000	8,500,000
Statutory reserve	17	7,990,000	7,270,000
Other reserves		278,832	263,330
Retained earnings		1,782,481	2,622,124
Proposed dividends	27	550,000	425,000
Total equity attributed to equity holders of the Bank		20,601,313	19,080,454
Non-controlling interest		38,446	107,960
Total equity		20,639,759	19,188,414
Total liabilities and equity		164,668,355	137,935,424

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

Consolidated Income Statement

For the years ended December 31, 2014 and 2013

	Note	2014 SAR' 000	2013 SAR' 000
Special commission income	19	4,091,289	3,944,901
Special commission expense	19	468,673	570,002
Net special commission income		3,622,616	3,374,899
Fees and commission income, net	20	1,316,567	1,053,398
Exchange income, net		423,444	356,482
Unrealized gain on FVIS financial instruments, net	21	3,291	3,763
Trading income, net	22	4,401	61,625
Dividend income	23	42,536	52,894
(Losses)/gains and impairment of non-trading investments, net	24	(80)	74,577
Other operating income, net	25	94,387	131,907
Total operating income		5,507,162	5,109,545
Salaries and employee related expenses	29	1,234,684	1,189,959
Rent and premises related expenses		152,537	145,431
Depreciation and amortization	9	189,652	187,824
Other general and administrative expenses		529,835	470,687
Impairment charge for credit losses, net	7	550,883	626,988
Total operating expenses		2,657,591	2,620,889
Net operating income		2,849,571	2,488,656
Share of earnings of associates, net	8	27,584	36,487
Net income for the year		2,877,155	2,525,143
Attributable to:			
Equity holders of the Bank		2,875,050	2,522,495
Non-Controlling interest		2,105	2,648
Net income for the year		2,877,155	2,525,143
Basic and fully diluted earnings (in SAR per share)	26	2.88	2.52

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the years ended December 31, 2014 and 2013

	2014 SAR' 000	2013 SAR' 000
Net income for the year	2,877,155	2,525,143
Other comprehensive income:		
Available for sale investments:		
- Net changes in fair value	(2,256)	64,287
- Transfers to consolidated income statement	(333)	(29,376)
Cash flows hedges:		
- Net changes in fair value	14,931	(4,406)
- Transfers to consolidated income statement	3,160	(11,793)
	15,502	18,712
Total comprehensive income for the year	2,892,657	2,543,855
Attributable to:		
Equity holders of the Bank	2,890,552	2,541,207
Non-controlling interest	2,105	2,648
Total comprehensive income for the year	2,892,657	2,543,855

Consolidated Statement of Changes in Equity

For the years ended December 31, 2014 and 2013

Attributable to equity holders of the Bank									
		Share capital	Statutory reserve	Other reserves	Retained earnings	Proposed dividend	Total	Non-controlling interest	Total equity
	Note	SAR' 000	SAR' 000	SAR' 000	SAR' 000	SAR' 000	SAR' 000	SAR' 000	SAR' 000
2014									
Balance at beginning of the year		8,500,000	7,270,000	263,330	2,622,124	425,000	19,080,454	107,960	19,188,414
Changes in equity for the year									
Net changes in fair value of cash flow hedges				14,931	-	-	14,931	-	14,931
Net changes in fair value of available for sale investments				(2,256)	-	-	(2,256)	-	(2,256)
Transfers to consolidated income statement				2,827	-	-	2,827	-	2,827
Net comprehensive income for the year				15,502	-	-	15,502	-	15,502
Net income for the year				-	2,875,050	-	2,875,050	2,105	2,877,155
Total comprehensive income for the year				15,502	2,875,050	-	2,890,552	2,105	2,892,657
Bonus share issue	16 & 27	1,500,000	-	-	(1,500,000)	-	-	-	-
Acquisition of non-controlling interest	7	-	-	-	-	-	-	(71,619)	(71,619)
Transfer to statutory reserve	27	-	720,000	-	(720,000)	-	-	-	-
2013 final dividends paid	27	-	-	-	-	(425,000)	(425,000)	-	(425,000)
2014 interim dividends paid	27	-	-	-	(450,000)	-	(450,000)	-	(450,000)
Proposed dividends	27	-	-	-	(550,000)	550,000	-	-	-
Zakat	27	-	-	-	(494,693)	-	(494,693)	-	(494,693)
Balance at end of the year		10,000,000	7,990,000	278,832	1,782,481	550,000	20,601,313	38,446	20,639,759
2013									
Balance at beginning of the year		8,500,000	6,630,000	244,618	1,579,657	850,000	17,804,275	105,312	17,909,587
Changes in equity for the year									
Net changes in fair value of cash flow hedges				(4,406)	-	-	(4,406)	-	(4,406)
Net changes in fair value of available for sale investments				64,287	-	-	64,287	-	64,287
Transfers to consolidated income statement				(41,169)	-	-	(41,169)	-	(41,169)
Net comprehensive income for the year				18,712	-	-	18,712	-	18,712
Net income for the year				-	2,522,495	-	2,522,495	2,648	2,525,143
Total comprehensive income for the year				18,712	2,522,495	-	2,541,207	2,648	2,543,855
Transfer to statutory reserve	17		640,000	-	(640,000)	-	-	-	-
2012 final dividends paid			-	-	-	(850,000)	(850,000)	-	(850,000)
Proposed dividends	27		-	-	(425,000)	425,000	-	-	-
Zakat	27		-	-	(415,028)	-	(415,028)	-	(415,028)
Balance at end of the year		8,500,000	7,270,000	263,330	2,622,124	425,000	19,080,454	107,960	19,188,414

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the years ended December 31, 2014 and 2013

	Notes	2014 SAR' 000	2013 SAR' 000
Operating Activities			
Net income for the year		2,877,155	2,525,143
Adjustments to reconcile net income for the year to net cash from (used in) operating activities:			
Accretion of discounts of non-trading investments, net		(111,493)	(52,864)
Losses/(gains) and impairment of non-trading investments, net	24	80	(74,577)
Depreciation and amortization	9	189,652	187,824
(Gains)/losses on disposal of property and equipment	25	(6,170)	918
Share in earnings of associates, net	8	(27,584)	(36,487)
Impairment charges for credit losses, net	7	550,883	626,988
		3,472,523	3,176,945
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA	4	(507,300)	(661,257)
Due from banks and other financial institutions maturing after ninety days of the acquisition date		-	-
Investments held at FVIS	6	2,908	60,735
Loans and advances		(15,832,043)	(2,795,623)
Other real estate		-	182,372
Other assets		(264,101)	(89,284)
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		1,374,582	1,091,134
Customers' deposits		23,258,446	(1,187,711)
Other liabilities		147,327	(428,806)
Net cash (used in) from operating activities		11,652,342	(651,495)
Investing Activities			
Proceeds from sale of and matured non-trading investments		15,146,509	29,060,691
Purchase of non-trading investments		(20,634,144)	(32,733,708)
Purchase of property and equipment	9	(306,716)	(329,964)
Proceeds from sale of property and equipment		24,616	215
Net cash (used in) from investing activities		(5,769,735)	(4,002,766)
Financing Activities			
Dividends paid		(869,266)	(843,419)
Acquisition of non-controlling interest		(71,619)	-
Net cash used in financing activities		(940,885)	(843,419)
Increase (decrease) in cash and cash equivalents		4,941,722	(5,497,680)
Cash and cash equivalents at the beginning of the year		11,807,064	17,304,744
Cash and cash equivalents at the end of the year	28	16,748,786	11,807,064
Special commission received during the year		4,000,698	3,925,699
Special commission paid during the year		392,175	579,599
Supplemental non-cash information			
Net changes in fair value		12,675	59,881

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013 (Saudi Riyals in Thousands)

1. General

Arab National Bank (a Saudi Joint Stock Company, the "Bank") was formed pursuant to Royal Decree No. M/38 dated Rajab 18, 1399H (corresponding to June 13, 1979). The Bank commenced business on February 2, 1980 by taking over the operations of Arab Bank Limited in the Kingdom of Saudi Arabia. The Bank operates under Commercial Registration No. 1010027912 dated Rabi Awal 1, 1400H (corresponding to January 19, 1980) through its 156 branches (2013: 150 branches) in the Kingdom of Saudi Arabia and one branch in the United Kingdom. The address of the Bank's head office is as follows:

Arab National Bank
P.O. Box 56921
Riyadh 11564
Kingdom of Saudi Arabia

The objective of the Bank is to provide a full range of banking services. The Bank also provides to its customers non-commission 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 the Bank and its following subsidiaries (collectively referred to as "the Group"):

Arab National Bank Investment Company (ANB Invest)

In accordance with the Capital Market Authority directives, the Bank has established a wholly owned subsidiary (directly and indirectly) "ANB Invest", a Saudi closed joint stock company, registered in the Kingdom of Saudi Arabia under commercial registration No. 1010239908 issued on Shawwal 26, 1428 (corresponding to November 7, 2007), to takeover and manage the Bank's investment services and asset management activities related to dealing, managing, arranging, advising and custody of securities regulated by the Capital Market Authority. The subsidiary commenced its operations effective on Muharram 3, 1429H (corresponding to January 12, 2008). Accordingly, the Bank started consolidating the financial statements of the above mentioned subsidiary effective January 12, 2008. It is to be noted that on 19 Muharram 1436 (corresponding to November 12, 2014), the subsidiary changed its legal structure from a limited liability company to a closed joint stock company.

Arabian Heavy Equipment Leasing Company (AHEL)

A 87.5% owned subsidiary incorporated in the Kingdom of Saudi Arabia, as a Saudi closed joint stock company, under commercial registration no 1010267489 issued in Riyadh dated 15 Jumada 1, 1430H (corresponding to May 10, 2009). The company is engaged in leasing of heavy equipments and, operates in compliance with Shariah principles. The Bank started consolidating the subsidiary's financial statements effective May 10, 2009, the date the subsidiary started its operations. On May 6, 2014 the Bank increased its ownership percentage in this subsidiary from 62.5% to reach 87.5%.

Arab Insurance Agency

A Saudi limited liability company, established during 2013 as a wholly owned subsidiary, registered in the Kingdom of Saudi Arabia under the commercial registration no. 1010396423 issued in Riyadh dated 28 Muharram, 1435 (corresponding to December 1, 2013). The subsidiary obtained its license from the Saudi Arabian Monetary Agency to start its activities on 5 Jumada I, 1435 (corresponding to March 6, 2014).

Al-Manzil Al-Mubarak Real Estate Financing Ltd.

A wholly owned Saudi limited liability company, registered in the Kingdom of Saudi Arabia under the commercial registration no. 1010199647 issued in Riyadh dated 18 Jumada 1, 1425. The subsidiary is engaged in the purchase, sale and lease of land and real estate for investment purposes.

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 requirements of the Banking Control Law, the Provisions of the Regulations for Companies in the Kingdom of Saudi Arabia and the Bank's by-laws.

b) Basis of measurement and presentation

The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of financial instruments held at Fair Value through Income Statement (FVIS) including derivatives and available for sale investments. In addition, financial assets or liabilities that are hedged in a fair value hedging relationship, and otherwise carried at cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013 (Saudi Riyals in Thousands)

2. Basis of preparation (continued)

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 otherwise indicated, the financial information presented in SAR has been rounded off to the nearest thousand.

d) Critical accounting judgments, estimates and assumptions

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting judgments, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the 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 and 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 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.

In addition to specific allowances against individually significant loans and advances, the Bank also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This takes into consideration factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

(ii) Fair value of financial instruments

The Group measures financial instruments, such as, derivatives, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 6.

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 fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities. Changes in assumptions about these factors could affect reported fair value of financial instruments.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013 (Saudi Riyals in Thousands)

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

The Bank exercises judgement to consider impairment on its available-for-sale equity and debt 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/debt price. In addition, the Bank considers impairment to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

Due to current volatility in the market, 30% or more is used as a reasonable measure for significant decline below cost, irrespective of the duration of the decline, and is recognized in the consolidated income statement under gains (losses) and impairment of non-trading investments, net. Prolonged decline represents decline below cost that persists for 1 year or longer irrespective of the amount and is, thus, recognized in the consolidated income statement under gains (losses) and impairment of non-trading investments, net.

(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. If the Bank fails to keep these investments to maturity other than in certain specific circumstances – for example, selling close to maturity or an insignificant amount– it will be required to reclassify the entire class as available-for-sale.

(v) Determination of control over investees

The control indicators set out note 3 (a) are subject to management's judgements that can have a significant effect in the case of the Group's interests in investments funds.

The Group acts as Fund Manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the Fund (comprising any carried interests and expected management fees) and the investors' rights to remove the Fund Manager. As a result, the Group has concluded that it acts as an agent for the investors in all cases, and therefore has not consolidated these funds.

e) Going concern

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

f) Provisions for liabilities and charges

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

3. Summary of significant accounting policies

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

The accounting policies used in the preparation of these consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2013 except that the Group has adopted the following new and amended IASB Standards and International Financial Reporting Interpretations Committee which had no impact on the financial position and financial performance of the Group:

- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)
- Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32
- Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39
- IFRIC 21 Levies
- Annual Improvements 2010-2012 Cycle: In the 2010-2012 annual improvements cycle, the IASB issued seven amendments to six standards, which included an amendment to IFRS 13 Fair Value Measurement.
- Annual Improvements 2011-2013 Cycle: In the 2011-2013 annual improvements cycle, the IASB issued four amendments to four standards, which included an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013 (Saudi Riyals in Thousands)

3. Summary of significant accounting policies (continued)

a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries (collectively referred to as the Group). The financial statements of the subsidiaries are prepared for the same reporting year as that of the Bank, using consistent accounting policies. Adjustments have been made to the financial statements of the subsidiaries when necessary to align them with the Bank's financial statements.

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.

Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee),
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee,
- Rights arising from other contractual arrangements, and
- The Group's voting rights and potential voting rights granted by equity instruments such as shares.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interests
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in Other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

Non-controlling interests represent the portion of net income or loss and net assets not owned, directly or indirectly, by the Bank and are presented separately in the consolidated income statement and within equity in the consolidated statement of financial position, separately from the equity holders of the bank. Any losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance. Acquisitions of non-controlling interests are accounted for using the purchase method of accounting, whereby, the difference between the cost of acquisition and the fair value of the share of the net assets acquired is recognized as goodwill.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Non-controlling interests are subsequently adjusted for their share of changes in equity of the consolidated subsidiary after the date of acquisition. All intra-group assets and liabilities, equity, income and expenses relating to transactions between members of the Group are eliminated in full on consolidation.

b) Investment in associates

Associates are enterprises in which the Bank generally holds 20% to 50% of the voting power and/or over which it exercises significant influence. Investments in associates are initially recorded at cost and subsequently accounted for under the equity method of accounting and are carried in the consolidated statement of financial position at the lower of the equity-accounted or recoverable amount.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013 (Saudi Riyals in Thousands)

When the Bank's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables (if applicable), the Bank does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains and losses on transactions between the Bank and its associates are eliminated to the extent of the Bank's interest in the associates.

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

c) Settlement date accounting

All regular-way purchases and sales of financial assets are recognized and derecognized on the settlement date. Regular-way purchases or sales are purchases or sales of financial assets that require delivery of assets within the timeframe generally established by regulation or convention in the market place. For financial instruments held at fair value, the Bank accounts for any change in fair values between the trade date and the settlement date.

d) Derivative financial instruments and hedge accounting

Derivative financial instruments, including forward foreign exchange contracts, commission rate futures, forward rate agreements, currency and commission rate swaps, currency and commission rate options, 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 the consolidated income statement and disclosed under net trading income. Derivatives held for trading also include those derivatives which do not qualify for hedge accounting and include embedded derivatives.

ii) Embedded derivatives

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

iii) Hedge accounting

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

In order to qualify for hedge accounting, the hedge should be expected to be highly effective, i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item, and should be reliably measurable. At inception of the hedge, the risk management objective and strategy is documented including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Group 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.

In relation to fair value hedges, which meet the criteria for hedge accounting, any gain or loss from re-measuring the hedging instruments to fair value is recognized immediately in the consolidated income statement. The related portion of the hedged item is adjusted against the carrying amount of the hedged item and recognized in the consolidated income statement. For hedged items measured at amortized cost, where the fair value hedge of a commission bearing financial instrument ceases to meet the criteria for hedge accounting or is sold, exercised or terminated, the difference between the carrying value of the hedged item on termination and the face value is amortized over the remaining term of the original hedge using the effective commission rate method. If the hedged item is derecognized, the unamortized fair value adjustment is recognized immediately in the consolidated income statement.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013 (Saudi Riyals in Thousands)

3. Summary of significant accounting policies (continued)

d) Derivative financial instruments and hedge accounting (continued)

iii) Hedge accounting (continued)

In relation to cash flow hedges which meet the criteria for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized initially in other reserves within other comprehensive income and the ineffective portion, if any, is recognized in the consolidated income statement. For cash flow hedges affecting future transactions, the gains or losses recognized in other reserves, are transferred to the consolidated income statement in the same period in which the hedged transaction affects the consolidated income statement. However, if the Bank expects that all or a portion of a loss recognized in other comprehensive income will not be recovered in one or more future periods, it shall reclassify into the consolidated income statement as a reclassification adjustment the amount that is not to be recognized.

Where the hedged forecasted transaction results in the recognition of a non-financial asset or a non-financial liability, then at the time such asset or liability is recognized, the associated gains or losses that had previously been recognized directly in other reserves are included in the initial measurement of the acquisition cost or other carrying amount of such asset or liability.

Hedge accounting is discontinued prospectively when the hedging instrument is expired or sold, terminated or exercised, or no longer qualifies for hedge accounting, or the forecasted 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 recognized in other reserves is retained in equity until the forecasted transaction occurs. Where the hedged forecasted transaction is no longer expected to occur and affects the consolidated income statement, the net cumulative gain or loss recognized in "other reserves" is transferred to the consolidated income statement for the year.

e) Foreign currencies

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

Transactions in foreign currencies are translated into Saudi Arabian Riyals at the exchange rates prevailing at transaction dates. Monetary assets and liabilities at year end, denominated in foreign currencies, are translated into Saudi Arabian Riyals at the exchange rates prevailing at the consolidated statement of financial position date. Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated income statement. Exchange differences on monetary items that qualify as hedging instruments in a cash flow hedge are reported initially in other comprehensive income to the extent that the hedge is effective. Exchange component of gains or losses on non-monetary items are recognized either in the consolidated income statement or other comprehensive income, in accordance with the treatment of the related gain or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The monetary assets and liabilities of overseas branch are translated at the rate of exchange ruling at the consolidated statement of financial position date. The statement of income of the overseas branch is translated at the average exchange rates for the year.

f) Offsetting financial instruments

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

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

g) Revenue and expenses recognition

Special commission income and expenses

Special commission income and expenses for all commission-bearing financial instruments, except for those classified as held for trading or designated at fair value through income statement, including the fees which are considered an integral part of the effective yield of a financial instrument, are recognized in the consolidated income statement on the effective yield basis and include premiums amortized and discounts

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013 (Saudi Riyals in Thousands)

accreted during the year. The effective commission rate is the rate that exactly discounts estimated future cash payments and receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial assets or liability.

The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective commission rate but not future credit losses. Loan commitment fees for loans that are likely to be drawn down are deferred and, together with the related direct cost, are recognized as an adjustment to the effective commission rate on the loan.

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

Once 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 recognized using the original effective commission rate applied to the new carrying amount.

Exchange income / (loss)

Exchange income/loss is recognized when earned/incurred.

Fees and commission income

Fees and commission income are recognized on an accrual basis when the service has been provided. Portfolio and other management advisory and service fees are recognized 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 recognized rateably over the period when the service is being provided.

Dividend income

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

Net trading income / (loss)

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

h) Sale and repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognized on 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 amortized 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 price is treated as special commission expense and accrued over the life of the repo agreement on an effective yield basis. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repo) are not recognized 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", "Due from banks and other financial institutions" or "Loans and advances", as appropriate. The difference between purchase and resale price is treated as special commission income and accrued over the life of the reverse repo agreement on an effective yield basis.

i) Investments

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics.

All investment securities are initially recognized at their fair value plus, in the case of all financial assets other than those carried at Fair Value through income statement (FVIS), any directly attributable incremental costs of acquisition. Premiums are amortized and discounts accreted on effective yield basis and taken to special commission income.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013 (Saudi Riyals in Thousands)

3. Summary of significant accounting policies (continued)

i) Investments (continued)

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 consolidated statement of financial position date without any deduction for transaction costs. Fair value of managed assets and investments in mutual funds are determined by reference to declared net asset values which approximate the fair value.

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

Following initial recognition, subsequent transfers between the various classes of investments are not ordinarily permissible. 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 at Fair Value Through Income Statement (FVIS)

Investments in this category include those investments held for trading or those designated as FVIS on initial recognition. Investments classified as trading are acquired for the purpose of selling or repurchasing in short term and are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recognized in trading income/loss, net. An investment may be designated as FVIS if it satisfies the criteria laid down by IAS 39 except for the equity instruments that do not have a quoted price in an active market and whose fair values cannot be reliably measured.

After initial recognition, investments held at FVIS are measured at fair value. Changes in fair value are recorded in the consolidated income statement in the year in which it arises. Special commission income and dividend income received on financial assets held as FVIS are reflected as either trading income or income from FVIS financial instruments in line with the underlying assets in the consolidated income statement.

(ii) Available for sale

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 commission rates, exchange rates or equity prices.

Available-for-sale are non-derivative instruments that are designated as "available-for-sale" or not classified as another category of financial assets.

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 recognized directly in equity (through other comprehensive income) in "Other reserves". On derecognition, any cumulative gain or loss previously recognized in shareholders' equity is transferred in the consolidated income statement for the year.

Special commission income is recognized in the consolidated income statement on an effective yield basis. Dividend income is recognized in consolidated income statement when the Group becomes entitled to the dividend. Foreign exchange gains or loss on available for sale debt security investments are recognized in consolidated income statement.

(iii) Held to maturity

Investments having fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity, other than those that meet the definition of "Other investments held at amortized cost", are classified as held to maturity. Held to maturity investments are initially recognised at fair value including direct and incremental transaction costs and subsequently measured at amortized cost, less provision for any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees that are an integral part using the effective yield method. Any gain or loss on such investments is recognized in the consolidated income statement when the investment is derecognized 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 special commission rate or prepayment risk, reflecting the longer-term nature of these investments.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013 (Saudi Riyals in Thousands)

(iv) Other investments held at amortized cost

Investment securities with fixed or determinable payments that are not quoted in an active market and other than those that the Bank intends to sell immediately or in the near term, or those designated as "available for sale" are classified as "Other investments held at amortized cost". Such investments where fair values have not been hedged are stated at amortized cost using an effective yield basis, less provision for any impairment. Any gain or loss is recognized in the consolidated income statement when the investment is derecognized or impaired.

j) 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 recognized when cash is advanced to borrowers. They are derecognized when either the borrowers repays 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 acquisition charges associated with the loans and advances except for loans held as FVIS.

Loans and advances originated or acquired by the Bank that are not quoted in an active market and for which fair value has not been hedged are classified as loan and advances held at amortized cost and are stated at cost less any amount written off and allowance for impairment.

For loans and advances which are hedged, the related portion of the hedged fair value is adjusted against the carrying amount.

For presentation purposes, impairment charges for credit losses are deducted from loans and advances.

k) Impairment of financial assets

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

An assessment is made at each consolidated statement of financial position date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired at the statement of financial position date. 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 recognized for changes in its carrying amounts. The present value of the estimated future cash flows is discounted at the financial asset's original effective commission rate. If an asset has a variable special commission rate, the discount rate for measuring any impairment loss is the current special commission rate.

When a financial asset is uncollectible, it is written off either directly by a charge to consolidated income statement or against the related allowance for impairment 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.

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 recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the consolidated income statement in impairment charges for credit losses.

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

Loans whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. Restructuring policies and practices are based on indicators or criteria which, indicate that payment will most likely continue. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective yield rate.

In addition to specific impairment charges for credit losses, an allowance for collective impairment is made on a portfolio basis for credit losses where there is an objective evidence that unidentified losses exist at the reporting date. This allowance is estimated based on various factors including credit ratings allocated to a borrower or group of borrowers, the current economic conditions, the experience the Bank has had in dealing with a borrower or group of borrowers and available historical default information.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013 (Saudi Riyals in Thousands)

3. Summary of significant accounting policies (continued)

k) Impairment of financial assets (continued)

i) Impairment of financial assets held at amortized cost

A specific impairment charges for credit losses due to impairment of a loan or any other financial asset held at amortized 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.

For financial assets at amortized cost, the carrying amount of the asset is adjusted either directly or through the use of an allowance account and the amount of the adjustment is included in the consolidated income statement.

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 financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated income statement.

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

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

l) 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 realisable value of due loans and advances and the current fair value of the related properties, less any costs to sell (if material). No depreciation is charged on such real estate.

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 recognized as income together with any gain/ loss on disposal.

m) Property and equipment

Property and equipment are stated at cost and presented net of accumulated depreciation. Freehold land is not depreciated.

The cost of property and equipment is depreciated on a straight-line method over the estimated useful lives of the assets as follows:

Buildings	33 years
Leasehold improvements	over lease period or 10 years, whichever is shorter
Furniture, equipment and vehicles	3 to 10 years

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

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

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013 (Saudi Riyals in Thousands)

n) Financial liabilities

All money market deposits, customers' deposits, term loans and subordinated debts issued are initially recognized at cost, being the fair value of the consideration received less transaction costs.

Subsequently all special commission-bearing financial liabilities, other than those where fair values have been hedged, are measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium. Premiums are amortized 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 recognized in the consolidated income statement. For financial liabilities carried at amortized cost, any gain or loss is recognized in the consolidated income statement when derecognized.

o) Provisions

Provisions other than impairment or credit loss charges are recognized 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.

p) Accounting for leases

i) Where the Bank is the lessee

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

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

ii) Where the Bank is the lessor

When assets are sold under a finance lease, including assets under Shariah compliant lease, the present value of the lease payments is recognized as a receivable and disclosed under "loans and advances". The difference between the gross receivable and the present value of the receivable is recognized as unearned finance income. Lease income is recognized over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

q) 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 deposit, and due from banks and other financial institutions maturing within 90 days of the acquisition date.

r) Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the consolidated financial statements at fair value, in 'Other Liabilities', being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated income statement in 'impairment charges for credit losses'. The premium received is recognized in the consolidated income statement in 'Fees and commission income, net' on a straight line basis over the life of the guarantee.

s) 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 derecognized, when the contractual rights to the cash flows from the financial asset expire or the asset is transferred and the transfer qualifies for derecognition.

In instances where the Bank is assessed to have transferred a financial asset, the asset is derecognized 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 derecognized only if the Bank has not retained control of the financial asset. The Bank recognizes separately as assets or liabilities any rights and obligations created or retained in the process.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013 (Saudi Riyals in Thousands)

3. Summary of significant accounting policies (continued)

s) Derecognition of financial instruments (continued)

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

t) Zakat and income taxes

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

Zakat and income taxes are not charged to the Bank's consolidated income statement as they are payable by the shareholders.

Accordingly, the same is deducted from the shareholders equity and deposited on their behalf with Department of Zakat and Income Tax (DZIT). Income taxes are the liabilities of the foreign shareholders of the bank and are settled by them accordingly.

u) Sharia compliant based banking products

In addition to conventional banking, the Bank offers its customers certain non-interest based banking products, which are approved by its Sharia Board.

All non-interest based banking products are accounted for using IFRS and are in conformity with the accounting policies described in these consolidated financial statements.

v) Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

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. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. This amendment is effective for annual periods beginning on or after 1 July 2014. It is not expected that this amendment would be relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

Annual improvements 2010–2012 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

- IFRS 2 Share-based Payment
- IFRS 3 Business Combinations
- IFRS 8 Operating Segments
- IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets
- IAS 24 Related Party Disclosures

Annual improvements 2011–2013 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

- IFRS 3 Business Combinations

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013 (Saudi Riyals in Thousands)

IFRS 13 Fair Value Measurement
IAS 40 Investment Property
IFRS 15 Revenue from Contracts with Customers
Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests
Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to IAS 27: Equity Method in Separate Financial Statements

4. Cash and balances with SAMA

	2014	2013
Cash in hand	2,681,376	2,000,224
Statutory deposit	6,439,166	5,931,866
Money market placements	12,089,917	7,021,951
Other balances	41,868	17,708
Total	21,252,327	14,971,749

In accordance with the Banking Control Law and regulations issued by 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 are not available to finance the Bank's day-to-day operations and therefore are not part of cash and cash equivalents (note 28).

5. Due from banks and other financial institutions

	2014	2013
Current accounts	1,517,850	1,012,277
Money market placements	417,775	1,754,904
Total	1,935,625	2,767,181

6. Investments, net

a) Investments are classified as follows:

i) Held at fair value through income statement (FVIS)

	Domestic		International		Total	
	2014	2013	2014	2013	2014	2013
Mutual funds and others	-	-	14,535	17,443	14,535	17,443
Held at fair value through income statement	-	-	14,535	17,443	14,535	17,443

ii) Available for sale

Fixed rate securities	327,339	1,040,152	7,959,044	7,378,712	8,286,383	8,418,864
Floating rate notes	841,437	500,627	93,750	391,388	935,187	892,015
Equities	1,088,934	984,369	324	60,170	1,089,258	1,044,539
Other	367,609	323,210	215,681	229,121	583,290	552,331
Available for sale	2,625,319	2,848,358	8,268,799	8,059,391	10,894,118	10,907,749
Allowance for impairment	-	-	(413)	-	(413)	-
Available for sale, net	2,625,319	2,848,358	8,268,386	8,059,391	10,893,705	10,907,749

iii) Other investments held at amortized cost

Fixed rate securities	17,900,837	12,163,227	1,473,628	1,087,988	19,374,465	13,251,215
Floating rate notes	3,593,501	3,621,727	-	450,235	3,593,501	4,071,962
Other investments held at amortized cost, net	21,494,338	15,784,954	1,473,628	1,538,223	22,967,966	17,323,177
Total investments, net	24,119,657	18,633,312	9,756,549	9,615,057	33,876,206	28,248,369

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013 (Saudi Riyals in Thousands)

6. Investments, net (continued)

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

	2014			2013		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Fixed rate securities	9,432,672	18,228,176	27,660,848	9,470,675	12,199,404	21,670,079
Floating rate notes	1,262,202	3,266,486	4,528,688	2,684,654	2,279,323	4,963,977
Equities	1,087,934	1,324	1,089,258	983,369	61,170	1,044,539
Others	447,391	150,434	597,825	414,775	154,999	569,774
Allowance for impairment	(413)	-	(413)	-	-	-
Investments, net	12,229,786	21,646,420	33,876,206	13,553,473	14,694,896	28,248,369

Unquoted fixed rate securities and floating rate notes are mainly sukuk, treasury bills and Saudi Government Bonds.

c) The analysis of unrecognized gains and losses and fair values of other investments held at amortized cost are as follows:

	2014				2013			
	Carrying value	Gross unrecognized gains	Gross unrecognized losses	Fair value	Carrying value	Gross unrecognized gains	Gross unrecognized losses	Fair value
Other investments held at amortized cost								
Fixed rate securities	19,374,465	41,036	3,809	19,411,692	13,251,215	131,466	47,425	13,335,256
Floating rate notes	3,593,501	89,682	32,220	3,650,963	4,071,962	109,517	-	4,181,479
Total	22,967,966	130,718	36,029	23,062,655	17,323,177	240,983	47,425	17,516,735

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

	2014	2013
Government and quasi government	28,890,259	24,110,960
Banks and other financial institutions	3,311,189	2,711,504
Corporate	1,123,142	976,921
Other	551,616	448,984
Total	33,876,206	28,248,369

Investments include SAR 3,996 million (2013: SAR 1,561 million), which have been pledged under repurchase agreements with other banks and customers. The market value of such investments is SAR 3,998 million (2013: SAR 1,561 million).

e) Movement in the allowance for impairment of investments

	2014	2013
Balance at beginning of the year	-	28,125
Provided during the year	413	-
Recoveries of amounts previously provided	-	(28,125)
Balance at end of the year	413	-

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013 (Saudi Riyals in Thousands)

7. Loans and advances, net

a) Loans and advances (all held at amortized cost) comprise the following:

	Credit cards	Consumer loans	Commercial loans and overdrafts	Total
2014				
Performing loans and advances, gross	324,725	24,734,820	79,955,241	105,014,786
Non-performing loans and advances, net	4,919	65,550	1,024,715	1,095,184
Total loans and advances	329,644	24,800,370	80,979,956	106,109,970
Impairment charges for credit losses, net	(2,676)	(95,724)	(2,287,554)	(2,385,954)
Loans and advances, net	326,968	24,704,646	78,692,402	103,724,016
2013				
Performing loans and advances, gross	355,959	22,519,724	66,630,893	89,506,576
Non-performing loans and advances, net	3,803	41,325	958,442	1,003,570
Total loans and advances	359,762	22,561,049	67,589,335	90,510,146
Impairment charges for credit losses, net	(1,951)	(83,551)	(1,968,538)	(2,054,040)
Loans and advances, net	357,811	22,477,498	65,620,797	88,456,106

Loan and advances, net include Shariah compliant based banking products in respect of Murabaha, Tawarruq agreements and Ijarah, which are stated at amortized cost, of SAR 66.1 billion (2013: SAR 52.8 billion).

b) Movements in impairment charges for credit losses are as follows:

	Credit cards	Consumer loans	Commercial loans and overdrafts	Total
2014				
Balance at beginning of the year	1,951	83,551	1,968,538	2,054,040
Provided during the year	8,152	216,630	319,649	544,431
Bad debts written-off	(7,427)	(204,457)	(633)	(212,517)
Balance at end of the year	2,676	95,724	2,287,554	2,385,954
2013				
Balance at beginning of the year	2,674	88,968	2,607,086	2,698,728
Provided during the year	9,178	196,517	419,492	625,187
Bad debts written-off	(9,901)	(201,934)	(1,058,040)	(1,269,875)
Balance at end of the year	1,951	83,551	1,968,538	2,054,040

Impairment charge for credit losses, net for the year ended 31 December 2014 amounted to SAR 550,883 thousands (2013: SAR 626,988 thousands), including bad debts directly written-off to consolidated income statement in the amount of SAR 6,452 thousands (2013: SAR 1,801 thousands).

c) 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.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013 (Saudi Riyals in Thousands)

7. Loans and advances, net (continued)

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

	Performing gross	Non performing, net	Impairment charges for credit losses	Loans and advances, net
2014				
1. Government and quasi government	-	-	-	-
2. Banks and other financial institutions	1,262,238	-	-	1,262,238
3. Agriculture and fishing	573,204	-	(1,345)	571,859
4. Manufacturing	12,940,117	5,415	(124,451)	12,821,081
5. Mining and quarrying	1,090,492	-	-	1,090,492
6. Electricity, water, gas and health services	3,556,666	-	-	3,556,666
7. Building and construction	7,941,559	346,603	(538,200)	7,749,962
8. Commerce	15,055,152	567,628	(587,195)	15,035,585
9. Transportation and communication	4,596,260	88,864	(88,008)	4,597,116
10. Services	2,693,908	15,177	(9,806)	2,699,279
11. Consumer loans and credit cards	25,059,544	70,469	(68,741)	25,061,272
12. Other	30,245,646	1,028	(283,231)	29,963,443
	105,014,786	1,095,184	(1,700,977)	104,408,993
Allowance for collective impairment	-	-	(684,977)	(684,977)
Total	105,014,786	1,095,184	(2,385,954)	103,724,016

2013				
1. Government and quasi government	14,973	-	-	14,973
2. Banks and other financial institutions	1,449,647	-	-	1,449,647
3. Agriculture and fishing	727,404	-	(2,684)	724,720
4. Manufacturing	11,562,006	5,301	(137,912)	11,429,395
5. Mining and quarrying	2,396,782	-	-	2,396,782
6. Electricity, water, gas and health services	2,888,811	-	-	2,888,811
7. Building and construction	6,489,939	344,353	(474,075)	6,360,217
8. Commerce	15,663,599	585,794	(569,111)	15,680,282
9. Transportation and communication	3,350,790	-	(10,387)	3,340,403
10. Services	2,355,868	10,125	(10,297)	2,355,696
11. Consumer loans and credit cards	22,875,683	45,128	(55,844)	22,864,967
12. Other	19,731,074	12,869	(322,595)	19,421,348
	89,506,576	1,003,570	(1,582,905)	88,927,241
Allowance for collective impairment	-	-	(471,135)	(471,135)
Total	89,506,576	1,003,570	(2,054,040)	88,456,106

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013 (Saudi Riyals in Thousands)

8. Investment in associates

	2014	2013
Balance at beginning of the year	466,533	430,046
Share in earnings, net	27,584	36,487
Total	494,117	466,533

The Bank participated in the setting up of Saudi Home Loans Company (the associate). The associate's authorized capital is SAR 2 billion and its issued capital is SAR 800 million. The bank initially paid an amount of SAR 320 million, representing 40% of the issued share capital of the associate. The associate was launched at the end of the fourth quarter of 2007 and is accounted for under the equity method.

The Bank participated in the setting up of Metlife – AIG – ANB Cooperative Insurance Company in the Kingdom of Saudi Arabia. The Bank's share is 30% of the associate's total equity capital of SAR 175 million. The associate was launched during the fourth quarter of 2013, and is accounted for under the equity method. The Saudi Arabian Monetary Agency ("SAMA") has provided the associate with the final approval to conduct insurance business in the Kingdom of Saudi Arabia on 25 February 2014. The Bank initially paid an amount of SAR 52.5 million representing 30% of the issued share capital of the associate. The associate's shares are listed on the Saudi Arabian Stock Exchange; accordingly, the quoted value of the associate's investment is SAR 282.2 million (2013: SAR 346.5 million).

9. Property and equipment, net

	Land and buildings	Leasehold improvements	Equipment, furniture and vehicles	Projects under execution	Total 2014	Total 2013
Cost						
Balance at beginning of the year	1,097,160	473,163	1,602,723	189,738	3,362,784	3,047,231
Additions	28,854	35,676	141,712	100,474	306,716	329,964
Disposals	(18,401)	(17,273)	(13,686)	-	(49,360)	(14,411)
Balance at end of the year	1,107,613	491,566	1,730,749	290,212	3,620,140	3,362,784
Accumulated depreciation						
Balance at beginning of the year	284,772	337,858	1,092,836	-	1,715,466	1,540,920
Charge for the year	36,442	34,868	118,342	-	189,652	187,824
Disposals	(1,668)	(15,485)	(13,761)	-	(30,914)	(13,278)
Balance at end of the year	319,546	357,241	1,197,417	-	1,874,204	1,715,466
Net book value						
As at December 31, 2014	788,067	134,325	533,332	290,212	1,745,936	
As at December 31, 2013	812,388	135,305	509,887	189,738		1,647,318

10. Other assets

	2014	2013
Accrued special commission receivable – banks and other financial institutions	85	249
– investments	64,720	82,519
– loans and advances	456,255	328,770
– derivatives	16,427	34,069
Total accrued special commission receivable	537,487	445,607
Positive fair value of derivatives (note 11)	156,669	176,901
Prepaid expenses	287,991	285,761
Other	521,347	333,265
Total	1,503,494	1,241,534

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013 (Saudi Riyals in Thousands)

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 commission rate swaps, counterparties generally exchange fixed and floating rate commission payments in a single currency without exchanging principal. For currency swaps, fixed commission payments and principal are exchanged in different currencies. For cross-currency commission rate 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 commission rate futures are transacted in standardized amounts on regulated exchanges and changes in futures contract values are settled daily.

c) Forward rate agreements

Forward rate agreements are individually negotiated commission rate contracts that call for a cash settlement for the difference between a contracted commission rate and the market rate on a specified future date, on a notional principal for an agreed period of time.

d) Options

Options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, to either buy or sell at 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 favorable movements in prices, rates or indices. Arbitrage involves identifying, 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 and commission rates to reduce its exposure to currency and commission rate risks to acceptable levels as determined by the Board of Directors within the guidelines issued by SAMA.

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 has established the level of commission rate risk by setting limits on commission rate gaps for stipulated periods. Asset and liability commission rate gaps are reviewed on a periodic basis and hedging strategies are used to reduce commission rate 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 exposure to currency and commission rate risks. This is generally achieved by hedging specific transactions as well as strategic hedging against overall statement of financial position exposures. Strategic hedging, other than portfolio hedges for commission rate risk, do not qualify for special hedge accounting and related derivatives are accounted for as held for trading.

The Bank uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks. In addition, the Bank uses commission rate swaps and commission rate futures to hedge against the commission rate risk arising from specifically identified fixed commission-rate exposures.

The Bank also uses commission rate swaps to hedge against the cash flow risk arising on certain floating rate exposures. In all such cases, the hedging relationship and objective, including details of the hedged items and hedging instrument are formally documented and the transactions are accounted for as fair value or cash flow hedges.

The tables below show the positive and negative fair values of derivative financial instruments, together with the 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 necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Bank's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor market risk.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013 (Saudi Riyals in Thousands)

	Derivative financial instruments Notional amounts by term to maturity							Monthly average
	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3-12 months	1-5 years	Over 5 years	
2014								
Held for trading:								
Commission rate swaps	51,738	44,182	7,564,282	200,000	2,397,800	4,920,929	45,553	10,196,568
Commission rate futures and options	-	-	2,273,382	11,691	-	2,261,691	-	2,446,682
Forward foreign exchange contracts	57,687	30,108	5,872,809	3,009,835	2,851,656	11,318	-	7,096,029
Currency options	44,204	43,979	20,970,262	6,751,645	10,511,150	3,707,467	-	16,108,100
Held as fair value hedges:								
Commission rate swaps	3,040	122,045	16,297,254	-	6,000,000	9,711,977	585,277	12,128,343
Held as cash flow hedges:								
Commission rate swaps	-	-	-	-	-	-	-	-
Total	156,669	240,314	52,977,989	9,973,171	21,760,606	20,613,382	630,830	47,975,722
2013								
Held for trading:								
Commission rate swaps	119,174	114,332	7,786,184	240,000	1,074,611	6,419,894	51,679	7,107,119
Commission rate futures and options	-	-	24,815	-	-	24,815	-	5,344,968
Forward foreign exchange contracts	50,043	21,015	6,310,929	4,890,058	1,417,069	3,802	-	8,685,071
Currency options	2,825	2,820	13,306,210	3,652,580	7,023,594	2,630,036	-	11,144,597
Held as fair value hedges:								
Commission rate swaps	4,859	81,171	2,642,222	45,908	93,750	2,476,725	25,839	4,508,978
Held as cash flow hedges:								
Commission rate swaps	-	18,092	1,237,500	-	-	1,237,500	-	-
Total	176,901	237,430	31,307,860	8,828,546	9,609,024	12,792,772	77,518	36,790,733

Derivatives have been disclosed at gross amounts as at the date of the consolidated statement of financial position, and have not been netted off by cash margins amounting to SAR 77,454 thousands (2013: SAR 22,388 thousands).

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

Description of hedged items	Fair value	Hedge inception value	Risk	Hedging instrument	Positive fair value	Negative fair value
2014						
Fixed commission rate investments	6,130,189	6,079,027	Fair value	Commission rate swap	16,381	66,680
Fixed commission rate loans	4,273,313	4,218,227	Fair value	Commission rate swap	1,223	56,309
Fixed commission rate deposits	6,010,281	6,000,000	Fair value	Commission rate swap	-	10,281
2013						
Fixed commission rate investments	2,058,903	2,032,089	Fair value	Commission rate swap	-	26,225
Fixed commission rate loans	660,220	610,133	Fair value	Commission rate swap	4,859	54,946
Floating commission rate loans	1,255,592	1,237,500	Cash flow	Commission rate swap	-	18,092

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013 (Saudi Riyals in Thousands)

11. Derivatives (continued)

Cash flow hedges

The Bank is exposed to variability in future commission cash flows on non-trading assets and liabilities which bear commission at a variable rate. The bank uses commission rate swaps as cash flow hedges of these commission rate risks. Also, as a result of firm commitments in foreign currencies, such as its issued foreign currency debt, the Bank is exposed to foreign exchange and commission rate risks which are hedged with cross currency commission rate swaps. Below is the schedule indicating as at 31 December, the periods when the hedged cash flows are expected to occur and when they are expected to affect profit or loss:

2014	Within 1 year	1-3 years	3-5 years
Cash inflows (assets)	-	-	-
Cash out flows (liabilities)	-	-	-
Net cash inflow (outflow)	-	-	-
2013			
Cash inflows (assets)	13,310	26,598	26,547
Cash out flows (liabilities)	(7,423)	(24,626)	(55,079)
Net cash inflow (outflow)	5,887	1,972	(28,532)

The discontinuation of hedge accounting resulted in reclassification of the associated cumulative losses of SAR 1.9 million from equity to consolidated income statement (2013: cumulative losses of SAR 2.5 million), included in the above numbers.

Approximately 13% (2013: 15%) of the positive fair value of the Bank's derivatives are entered into with financial institutions and less than 12% (2013: 17%) of the positive fair value contracts are with any single counter-party at the consolidated statement of financial position date. Derivative activities are mainly carried out under the Bank's treasury banking segment.

12. Due to banks and other financial institutions

	2014	2013
Current accounts	144,519	169,557
Money market deposits	8,871,121	7,471,501
Total	9,015,640	7,641,058

13. Customers' deposits

	2014	2013
Demand	69,263,668	57,388,751
Time	54,616,700	42,843,203
Saving	98,923	104,608
Other	5,651,887	6,036,170
Total	129,631,178	106,372,732

Time deposits include deposits against sale of securities of SAR 2,216 million (2013: SAR 923 million) with agreements to repurchase the same at fixed future dates. Other customers' deposits include SAR 3,963 million (2013: SAR 3,621 million) of margins held for irrevocable commitments.

The above include foreign currency deposits as follows:

	2014	2013
Time	10,956,960	14,552,080
Demand	1,740,818	1,637,820
Saving	1,955	3,219
Other	179,742	148,866
Total	12,879,475	16,341,985

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013 (Saudi Riyals in Thousands)

14. Other liabilities

	2014	2013
Accrued special commission payable		
- banks and other financial institutions	1,099	813
- customers' deposits	108,389	54,983
- derivatives	73,785	63,670
- debt securities in issue	4,541	4,555
Total accrued special commission payable	187,814	124,021
Negative fair value of derivatives (note 11)	240,314	237,430
Other	3,266,150	2,684,269
Total	3,694,278	3,045,720

15. Debt securities in issue

During the year ended December 31, 2006, the Bank issued USD 500 million, 10 year subordinated floating rate notes (the notes) under its USD 850 million Euro Medium Term Note program. The notes initially carried a special commission rate of Libor plus 83 bps. The notes are non-convertible, unsecured and listed on the London stock exchange. These notes are callable after 5 years from their date of issuance. Effective October 31, 2011 and based on the step-up condition, the commission rate has been adjusted to Libor plus 133 bps.

During the year ended December 31, 2009, USD 50 million was purchased from the secondary market and retired.

16. Share capital

During the year ended 31 December 2014: 150 million bonus share of SAR 10 each were issued after approval of the shareholders at their extraordinary general assembly meeting held at March 17, 2014. At 31 December 2014, the Bank has 1,000 million shares of SAR 10 each (2013: 850 million shares) issued and outstanding. The ownership of the Bank's share capital is as follows:

	2014	2013
Saudi shareholders	60%	60%
Arab Bank PLC – Jordan	40%	40%

17. Statutory reserve

In accordance with the Saudi Arabian Banking Control Law and the Articles of Association of the Bank, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid up share capital of the Bank. Accordingly, SAR 720 million has been transferred from the net income for the year ended December 31, 2014 (2013: SAR 640 million). The statutory reserve is not available for distribution.

18. Commitments and contingencies

a) Legal proceedings

As at December 31, 2014 and 2013 there were legal proceedings of a routine nature outstanding against the Bank. No material provision has been made as related professional legal advice indicates 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 108 million (2013: SAR 112 million) in respect of building and equipment purchases.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013 (Saudi Riyals in Thousands)

18. Commitments and contingencies (continued)

c) Credit related commitments and contingencies

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

Guarantees and standby letters of credit, which represent irrevocable assurances that the 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 of the Bank's commitments and contingencies is as follows:

	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
2014					
Letters of credit	3,451,503	2,629,330	247,397	-	6,328,230
Letters of guarantee	7,135,387	10,440,193	7,964,031	203,877	25,743,488
Acceptances	1,211,197	861,616	24,871	-	2,097,684
Irrevocable commitments to extend credit	40,880	634,758	69,659	178,618	923,915
Other	-	500,000	-	131,681	631,681
Total	11,838,967	15,065,897	8,305,958	514,176	35,724,998
2013					
Letters of credit	3,023,152	1,887,049	752,766	-	5,662,967
Letters of guarantee	9,959,339	8,665,174	6,171,460	120,865	24,916,838
Acceptances	1,082,372	439,491	15,021	-	1,536,884
Irrevocable commitments to extend credit	-	236,952	1,969,516	-	2,206,468
Other	-	-	-	148,462	148,462
Total	14,064,863	11,228,666	8,908,763	269,327	34,471,619

The unutilized portion of non-firm commitments as at December 31, 2014, which can be revoked unilaterally at any time by the Bank, amounts to SAR 23,422 million (2013: SAR 18,773 million).

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013 (Saudi Riyals in Thousands)

ii) The analysis of commitments and contingencies by counter-party is as follows:

	2014	2013
Corporate	29,746,765	26,595,211
Banks and other financial institutions	5,151,643	6,799,484
Government and quasi government	-	220,888
Other	826,590	856,036
Total	35,724,998	34,471,619

d) Assets pledged

Securities pledged under repurchase agreements with other banks include government and non-government banks. Assets pledged as collateral with other financial institutions for security are as follows:

	2014		2013	
	Assets	Related liabilities	Assets	Related liabilities
Other investments held at amortized cost (note 6)	3,996,217	2,215,789	1,560,656	922,573

e) Operating lease commitments

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

	2014	2013
Less than 1 year	102,843	96,869
1 to 5 years	282,185	231,050
Over 5 years	120,499	90,128
Total	505,527	418,047

19. Net special commission income

Special commission income	2014	2013
Investments:		
Available for sale	62,667	124,243
Other investments held at amortized cost	282,388	258,721
	345,055	382,964
Due from banks and other financial institutions	20,869	21,782
Loans and advances	3,725,365	3,540,155
Total	4,091,289	3,944,901
Special commission expense		
Due to banks and other financial institutions	18,430	13,846
Customers' deposits	422,095	527,211
Debt securities in issue	28,148	28,945
Total	468,673	570,002
Net special commission income	3,622,616	3,374,899

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013 (Saudi Riyals in Thousands)

20. Fees and commission income, net

	2014	2013
Fee and commission income		
Share trading and fund management	122,771	107,643
Trade finance	320,585	302,686
Credit cards	113,971	113,399
Other banking services	1,246,039	979,246
Total	1,803,366	1,502,974
Fee and commission expense		
Credit cards	108,672	106,015
Custody and brokerage fees	1,423	3,908
Other banking services	376,704	339,653
Total	486,799	449,576
Fees and commission income, net	1,316,567	1,053,398

21. Income from FVIS financial instruments, net

	2014	2013
Fair value change of financial assets held as FVIS investments	3,291	3,763

22. Trading income, net

	2014	2013
Fixed rate securities	(14,984)	23,514
Derivatives	19,385	38,111
Total	4,401	61,625

23. Dividend income

	2014	2013
Available for sale investments	42,536	52,894

24. (losses)/Gains and impairment of non-trading investments, net

	2014	2013
Realized gains on available for sale investments	333	29,376
Realized gains on other investments held at amortized cost	-	17,076
Impairment (loss) gain on other investments held at amortized cost	(413)	28,125
Total	(80)	74,577

25. Other operating income, net

	2014	2013
Recoveries of loans and advances previously written off	66,540	70,305
Gain on disposal of other real estate	-	16,370
Gains (losses) on disposal of property and equipment	6,170	(918)
Others	21,677	46,150
Total	94,387	131,907

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26. Basic and fully diluted earnings per share

Basic and diluted earnings per share for the years ended 31 December 2014 and 2013 are calculated by dividing the net income for the year attributable to equity holders of the Bank by 1,000 million shares to give retroactive effect to the change in the number of shares as a result of 2014 bonus shares.

The fully diluted earnings per share is the same as the basic earnings per share figure.

27. Gross dividends, Zakat and Income Tax

Gross dividend is comprised of the following:

	2014	2013
Interim dividends paid	450,000	-
Proposed dividends	550,000	425,000
Zakat (including prior year difference)	494,693	415,028
Total	1,494,693	840,028

The Board of Directors has approved an interim dividend of SAR 450 million for distribution to the shareholders from the net income for the year ended 31 December 2014 (2013: nil). This interim dividend resulted in a payment to the shareholders of SAR 0.45 per share, net of applicable Zakat and income taxes.

At December 22, 2014 the Board of Directors recommended to pay cash dividends of SAR 550 million (December 15, 2013: cash dividends of SAR 425 million and bonus shares by issuing 3 bonus shares for every 17 existing shares, by transferring SAR 1,500 million from the retained earnings). These dividends are subject to final approval of the general assembly.

The dividends are paid to the Saudi and non-Saudi shareholders after deduction of Zakat and income tax respectively as follows:

Zakat

Zakat attributable to Saudi Shareholders for the year amounted to approximately SAR 297 million (2013: SAR 257 million).

Income Tax

Income tax payable by the non-Saudi Shareholder on the current year's share of net income is SAR 232 million (2013: SAR 208 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 Zakat assessments for the years up to 2005 have been finalized with the DZIT. The Bank has received Zakat assessments for the years from 2006 to 2008 raising demands for additional Zakat liability of SAR 168 million. The related additional Zakat liability 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 the Kingdom of Saudi Arabia. The Bank has also formally contested these assessments and is awaiting a response from DZIT.

The Zakat assessment for the years 2009 to 2013 have not been finalized by the DZIT, and the Bank may not be able to determine reliably the impact of such assessments.

The management believes that the ultimate outcome of the appeals filed and actions taken by the Bank in conjunction with other banks in the Kingdom of Saudi Arabia cannot be determined reliably at this stage.

28. Cash and cash equivalents

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

	2014	2013
Cash and balances with SAMA excluding statutory deposit (note 4)	14,813,161	9,039,883
Due from banks and other financial institutions maturing within ninety days of the acquisition date	1,935,625	2,767,181
Total	16,748,786	11,807,064

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For the years ended December 31, 2014 and 2013 (Saudi Riyals in Thousands)

29. Compensation practices

In compliance with the rules set out by SAMA, which are consistent with the principles and standards of Financial Stability Board (FSB), the Bank has implemented a "Risk-Based Compensation Policy". The policy is approved by the Bank's Board of Directors (The Board) and gives highest consideration to the alignment of compensation with risk and provides a competitive and balanced package of fixed and variable compensation. The policy ensures that compensation takes into account the likelihood and timelines of earnings and its impact on the Bank's capital. It also focuses on promoting effective risk management, achieving financial stability and dealing with risks posed by its compensation practices. The Bank takes into account all types of existing and potential material risks and ensures a balance between general industry practices and bank-specific factors such as business model, financial condition, operating performance, market perception, business prospects, appropriate managerial judgment etc.

The Board of Directors, while determining and approving the bonus pool for the Bank, considers performance in absolute and relative terms, consistency of earnings, long term performance, historical bonus pool, market conditions, and the like. Similarly, while allocating the Bank-wide pool to business units, due consideration is given to the type of business transacted, level of risk assumed, relative importance of earnings, distinctive business drivers, historical bonus pool, current performance and the business unit's consistency of performance.

The Board has ultimate responsibility for promoting effective governance and sound compensation practices. In order to assist in overseeing the Compensation system's design and its operation, the Board has appointed a Nomination & Compensation Committee. The Nomination & Compensation Committee comprises of three non-executives members of the Board and is chaired by an independent member of the Board. The Committee has full authority on behalf of the Board to review and where considered appropriate propose changes to the Bank's compensation policy and practices and recommend the same to the Board, for its approval, to ensure adequacy and effectiveness of the policy in meeting its intended objectives. The Committee also reviews the level and composition of remuneration of key executives of the Bank, and recommends the risk-adjusted bonus pool to the Board, for approval.

The governance process ensures that the Compensation Policy is consistently applied within the Bank and operates as intended. The Bank has established an oversight mechanism to regularly evaluate the design characteristics of compensation practices and their implementation.

2014			
Categories of employees	Number of employees	Fixed compensation	Variable costs paid cash in 2014
1. Senior executive requiring SAMA no objections	20	41,251	25,195
2. Employees engaged in risk taking activities	173	85,269	27,131
3. Employees engaged in control functions	403	103,605	10,175
4. Other employees	3,958	636,187	58,279
Total	4,554	866,312	120,780
Variable compensation accrued in 2014		134,000	
Other employment related costs*		234,372	
Total salaries and employment related expenses		1,234,684	
2013			
Categories of employees	Number of employees	Fixed compensation	Variable cost paid cash in 2013
1. Senior executive requiring SAMA no objections	20	40,449	22,386
2. Employees engaged in risk taking activities	157	86,407	28,502
3. Employees engaged in control functions	362	98,428	9,614
4. Other employees	4,047	660,044	55,562
Total	4,586	885,328	116,064
Variable compensation accrued in 2013		105,000	
Other employment related costs*		199,631	
Total salaries and employment related expenses		1,189,959	

* Other employment related costs include end of service benefits, GOSI, business travel, training and development, and other employees' benefits.

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30. Operating segments

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Bank that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess its performance

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

Retail banking	Deposit, credit and investment products for individuals.
Corporate banking	Loans and advances, deposits and other credit products for corporate and institutional customers, small to medium sized businesses, and the Bank's London Branch.
Treasury banking	Manages the Bank's trading and investment portfolios and the Bank's funding, liquidity, currency and commission risks.
Investment and brokerage services	Investment management services and asset management activities related to dealing, managing, arranging, advising and custody of securities.
Other	Includes income on capital and unallocated costs, assets and liabilities pertaining to the Head Office and other supporting departments.

Transactions between the operating segments are reported as recorded in the Group's transfer pricing system. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance.

The Group's primary business is conducted in the Kingdom of Saudi Arabia with one international branch in London. However, the total assets, liabilities, commitments and results of operations of this branch are not material to the Group's overall consolidated financial statements.

a) The Group's total assets and liabilities as at December 31, 2014 and 2013, its total operating income, expenses and net income for the years then ended, by operating segments, are as follows:

	Retail banking	Corporate banking	Treasury banking	Investment & brokerage services	Other	Total
2014						
Total assets	36,974,998	72,324,880	52,235,734	58,175	3,074,568	164,668,355
Investments in associates	-	-	-	-	494,117	494,117
Total liabilities	66,587,059	66,432,279	10,843,704	36,345	129,209	144,028,596
Fee and commission income, net	405,840	673,773	18,788	123,989	94,177	1,316,567
Total operating income	2,178,012	2,105,068	883,757	135,150	205,175	5,507,162
Total operating expenses	1,574,066	860,322	87,599	73,911	61,693	2,657,591
Share in earnings of associates, net	-	-	-	-	27,584	27,584
Gain attributed to non-controlling interest	-	-	-	-	(2,105)	(2,105)
Net income attributed to equity holders of the Bank	603,946	1,244,746	796,158	61,239	168,961	2,875,050
Impairment charges for credit losses, net	213,421	337,462	-	-	-	550,883
Depreciation and amortization	130,775	2,165	3,695	4,542	48,475	189,652

	Retail banking	Corporate banking	Treasury banking	Investment & brokerage services	Other	Total
2013						
Total assets	32,028,809	60,352,931	42,676,008	77,536	2,800,140	137,935,424
Investments in associates	-	-	-	-	466,533	466,533
Total liabilities	57,363,915	51,321,417	9,383,684	32,063	645,931	118,747,010
Fee and commission income, net	294,241	572,717	19,292	105,568	61,580	1,053,398
Total operating income	2,093,443	1,781,241	972,615	112,430	149,816	5,109,545
Total operating expenses	1,543,975	864,638	90,053	74,921	47,302	2,620,889
Share in earnings of associates, net	-	-	-	-	36,487	36,487
Gain attributed to non-controlling interest	-	-	-	-	(2,648)	(2,648)
Net income attributed to equity holders of the Bank	549,468	916,603	882,562	37,509	136,353	2,522,495
Impairment charges for credit losses, net	213,303	413,685	-	-	-	626,988
Depreciation and amortization	136,611	2,799	3,554	6,121	38,739	187,824

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For the years ended December 31, 2014 and 2013 (Saudi Riyals in Thousands)

30. Operating segments (continued)

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

	Retail banking	Corporate banking	Treasury banking	Investment & brokerage services	Other	Total
2014						
Consolidated statement of financial position assets	33,408,803	71,952,271	51,910,612	31,413	1,297,814	158,600,913
Commitment and contingencies	2,905,535	13,789,376	-	315,840	2,120	17,012,871
Derivatives	-	275	1,123,550	-	-	1,123,825
2013						
Consolidated statement of financial position assets	29,251,462	60,024,648	42,387,374	16,182	1,230,048	132,909,714
Commitment and contingencies	3,309,730	12,921,401	-	74,231	-	16,305,362
Derivatives	-	9,809	769,833	-	-	779,642

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 (note 32a).

31. Credit risk

The Bank manages exposure to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally in lending activities that relate to loans and advances, and investment activities. There is also credit risk in off-statement of financial position financial instruments, such as loan commitments.

The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counter-parties, and continually assessing the creditworthiness of counter-parties. 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. 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 counter-parties in appropriate circumstances, and limiting the duration of exposure. In certain cases, the Bank may also close out transactions or assign them to other counter-parties to mitigate credit risk. The Bank's credit risk for derivatives, represents the potential cost to replace the derivative contracts if counter-parties fail to fulfill their obligation. To control the level of credit risk taken, the Bank assesses counter-parties using the same techniques as for its lending activities.

Concentrations of credit risk arise when a number of counter-parties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

The Bank seeks to manage its credit risk exposure through 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 counter-party as soon as impairment indicators are noticed for the relevant individual loans and advances.

Management monitors the market value of collateral, 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 practices.

The debt securities included in the investment portfolio are mainly sovereign risk. Analysis of investments by counter-party is provided in note 6d. Information on credit risk relating to derivative instruments is provided in note 32 and for commitments and contingencies in note 18. The information on banks maximum credit exposure by operating segment is given in note 30. The information on maximum credit risk exposure and their relative risk weights is also provided in note 37.

The Bank classifies its exposure into thirteen risk categories. Of these, ten categories are for performing and three for non performing. Each borrower is rated on an internally developed objective risk rating model that evaluates risk based on financial as well as qualitative factors such as management strength, industry characteristics, account conduct and company type. An independent credit review unit reviews the assigned ratings periodically. Exposures falling below a certain classification threshold are considered to be impaired, and appropriate specific provisions are made against them by comparing the present value of expected future cash flows for each such exposure with its carrying amount based on the criteria prescribed by IAS 39. Collective impairment is also measured and recognized on a portfolio basis for group of similar credits that are not individually identified as impaired.

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For the years ended December 31, 2014 and 2013 (Saudi Riyals in Thousands)

a) Credit risk exposures – on- consolidated statement of financial position assets:

	2014	2013
Loans and advances, net:		
Consumer loans		
Credit cards	326,968	357,811
Term loans	24,704,646	22,477,498
Total	25,031,614	22,835,309
Corporate loans		
Syndicated loans	15,139,221	12,881,373
Overdrafts	6,034,752	4,278,923
Term loans	57,430,932	48,372,254
Other	87,497	88,247
Total	78,692,402	65,620,797
Investments, net:		
Fixed-rate securities	27,660,848	21,670,079
Floating-rate notes	4,528,688	4,963,977
Other	1,686,670	1,614,313
Total	33,876,206	28,248,369
Gross Total	137,600,222	116,704,475

b) Credit risk exposures – off- consolidated statement of financial position items:

	2014	2013
Loan commitments and other credit related liabilities	923,915	2,206,468
Financial guarantees	34,801,083	32,265,151
Total	35,724,998	34,471,619

c) Credit quality of loans and advances

	2014	2013
Description		
Neither past due nor impaired	102,252,621	87,055,936
Past due but not impaired	1,188,091	841,836
Impaired (any loan with specific provision)	2,669,258	2,612,374
Total loans and advances	106,109,970	90,510,146
Impairment charges for credit losses, net	(2,385,954)	(2,054,040)
Loans and advances, net	103,724,016	88,456,106

d) Loans and advances that are neither past due nor impaired

	2014	2013
Grades:		
Low risk (1-4)	49,139,708	40,873,995
Acceptable risk (5-8)	52,706,551	45,776,392
Watch list (9-10)	406,362	405,549
Total	102,252,621	87,055,936

Grade 1-4: includes corporate and commercial loans having financial conditions, risk factors and ability to repay that are superior to excellent. For retail, it includes loans with salary assignment or real estate collaterals.

Grade 5-8: includes corporate and commercial loans having financial conditions, risk factors and ability to repay that are acceptable to good, in addition to other retail loans not included in the above category.

Grade 9-10: A credit that is currently protected but has potential weaknesses that deserve management's close attention.

Notes to the Consolidated Financial Statements

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31. Credit risk (continued)

e) Loans and advances past due but not impaired

2014	Credit cards	Consumer loans	Commercial loans and overdrafts	Total
Past due up to 30 days	20,883	1,052,880	94,263	1,168,026
Past due 30 - 60 days	-	-	5,512	5,512
Past due 60-90 days	-	-	8,862	8,862
Past due more than 90 days	-	-	5,691	5,691
Total	20,883	1,052,880	114,328	1,188,091

2013	Credit cards	Consumer loans	Commercial loans and overdrafts	Total
Past due up to 30 days	25,511	663,343	102,230	791,084
Past due 30 - 60 days	-	-	43,512	43,512
Past due 60-90 days	-	-	66	66
Past due more than 90 days	-	-	7,174	7,174
Total	25,511	663,343	152,982	841,836

f) Impaired loans and advances

	2014	2013
Corporate loans	2,435,191	2,464,441
Retail loans	234,067	147,933
Total	2,669,258	2,612,374

g) Credit quality of financial assets (investments)

The credit quality of investments is managed using external credit ratings except Structured Investment Vehicles (SIVs), where internal credit ratings are used. The table below shows the credit quality by class of asset:

	2014	2013
Saudi Government Bonds	16,900,837	11,831,297
Investment grade	14,273,506	15,043,178
Non-Investment grade	244,910	169,769
Unrated	2,456,953	1,204,125
Total investment, net	33,876,206	28,248,369

The Saudi Government Bonds comprise Saudi Government Development Bonds, Floating Rate Notes and Treasury Bills. Investment Grade comprises investments having credit rating equivalent to Standard and Poor's rating of AAA to BBB. The unrated investments comprise mainly mutual funds and investment in equities.

h) Collateral

The bank obtained assets by taking possession of collateral held as security, or calling upon other credit enhancements as follows:

	2014	2013
Nature of collateral held as security	Carrying value	Carrying value
Listed securities	22,405,709	19,868,153
Properties	17,212,247	4,194,305
Others	5,382,029	4,404,260
Total	44,999,985	28,466,718

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32. Concentration of risks of financial assets with credit risk exposure and financial liabilities

a) Geographical concentration

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

2014	Saudi Arabia	Other GCC & MiddleEast	Europe	North America	Latin America	South East Asia	Other Countries	Total
Assets								
Cash and balances with SAMA	21,249,845	-	2,482	-	-	-	-	21,252,327
Due to banks and other financial institutions	-	443,171	759,912	541,874	-	190,184	484	1,935,625
Investments, net	25,216,726	1,560,254	832,107	6,157,918	-	109,201	-	33,876,206
Investments in associates	494,117	-	-	-	-	-	-	494,117
Loans and advances, net	103,176,813	44,208	370,191	-	-	-	132,804	103,724,016
Total	150,137,501	2,047,633	1,964,692	6,699,792	-	299,385	133,288	161,282,291
Liabilities								
Due to banks and other financial institutions	-	5,939,104	2,121,649	926,658	-	1,294	26,935	9,015,640
Customers' deposits	129,108,921	134,346	372,429	528	-	278	14,676	129,631,178
Debt securities in issue	-	840,000	623,250	-	-	224,250	-	1,687,500
Other liabilities	3,693,035	1,041	180	22	-	-	-	3,694,278
Total	132,801,956	6,914,491	3,117,508	927,208	-	225,822	41,611	144,028,596
Commitments and contingencies	23,254,922	2,692,769	4,504,895	501,809	8,271	4,739,616	22,716	35,724,998
Maximum credit exposure (stated at credit equivalent amounts)								
Commitments and contingencies	11,146,309	1,274,784	2,116,221	239,073	4,381	2,226,533	5,570	17,012,871
Derivatives	584,657	7,787	427,660	103,451	-	-	270	1,123,825
2013								
Assets								
Cash and balances with SAMA	14,969,110	-	2,639	-	-	-	-	14,971,749
Due from banks and other financial institutions	1,600,000	263,835	538,701	243,475	-	120,870	300	2,767,181
Investments, net	18,633,312	2,002,802	1,212,383	6,288,272	-	111,600	-	28,248,369
Investments in associates	466,533	-	-	-	-	-	-	466,533
Loans and advances, net	87,866,065	63,547	396,129	130,365	-	-	-	88,456,106
Total	123,535,020	2,330,184	2,149,852	6,662,112	-	232,470	300	134,909,938
Liabilities								
Due to banks and other financial institutions	93,750	1,611,970	78,730	5,854,451	-	1,641	516	7,641,058
Customers' deposits	105,890,287	132,471	345,151	3,082	-	579	1,162	106,372,732
Debt securities in issue	-	840,000	623,250	-	-	224,250	-	1,687,500
Other liabilities	3,045,106	590	-	24	-	-	-	3,045,720
Total	109,029,143	2,585,031	1,047,131	5,857,557	-	226,470	1,678	118,747,010
Commitments and contingencies	21,634,927	4,051,733	3,776,429	386,648	9,653	4,588,103	24,126	34,471,619
Maximum credit exposure (stated at credit equivalent amounts)								
Commitments and contingencies	10,426,588	1,969,578	1,598,523	197,842	5,471	2,100,163	7,197	16,305,362
Derivatives	305,255	35,327	350,040	88,792	228	-	-	779,642

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32. Concentration of risks of financial assets with credit risk exposure and financial liabilities (continued)

a) Geographical concentration (continued)

Credit equivalent amounts reflect the amounts that result from translating the Bank's off-consolidated statement of financial position liabilities into the risk equivalent of loans using credit conversion factors prescribed by SAMA. Credit conversion factor is meant to capture the potential credit risk related to the exercise of the commitment.

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

	Non-performing loans and advances, net		Impairment charges for credit losses	
	2014	2013	2014	2013
Saudi Arabia	1,095,184	1,003,570	2,385,954	2,054,040

33. 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 commission rates, foreign exchange rates, and equity prices. The Bank classifies exposures to market risk into either trading or banking-book.

a) Market risk-trading book

The Board has set limits for the acceptable level of risks in managing the trading book. In order to manage the market risk in trading book, the Bank periodically applies a VAR (value at risk) methodology to assess the market risk positions held and to estimate the potential economic loss based on a set of parameters and assumptions for 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 risk models to assess the possible changes in the market value of the trading book based on historical data. VAR models are usually designed to measure the market risk in a normal market environment and therefore the use of VAR has limitations because it is based on historical correlations and volatilities in market prices and assumes that the future movements will follow a statistical distribution.

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 one day. The use of 99% confidence level depicts that within a one-day horizon, losses exceeding VAR figure should occur, on average, not more than once every hundred days.

The VAR represents the risk of portfolios at the close of a business day, and it does not account for any losses that may occur beyond the defined confidence interval. The actual trading results 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.

Although VAR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

- I. A 1-day holding period assumes that it is possible to hedge or dispose of positions within one day horizon. This is considered to be a realistic assumption in most of the cases but may not be the case in situations in which there is severe market liquidity for a prolonged period.
- II. A 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a one percent probability that losses could exceed the VAR.
- III. VAR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day.
- IV. The VAR measure is dependent upon the Bank's position and the volatility of market prices. The VAR of an unchanged position reduces if the market price volatility declines and vice versa.

The limitations of the VAR methodology are recognized by supplementing VAR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio. In addition, the Bank carries out stress tests of its trading book to simulate conditions outside normal confidence intervals. The potential losses occurring under stress test conditions are reported regularly to the Bank's ALCO Committee for their review.

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The Bank's VAR related information for the years ended December 31, 2014 and 2013 is as under. All the figures are in million SAR:

	2014				2013			
	Foreign exchange risk	Special commission risk	Equity price risk	Overall risk	Foreign exchange risk	Special commission risk	Equity price risk	Overall risk
VAR as at December 31	0.8534	0.2431	-	0.8932	0.7096	0.3334	-	0.6797
Average VAR	0.6031	2.2788	-	2.4880	0.9494	2.4853	-	2.8822

(b) Market risk – non – trading or banking book

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

i) Commission rate risk

Commission rate risk arises from the possibility that the changes in commission rates will affect either the fair values or the future cash flows of the financial instruments. The Board has established commission rate gap limits for stipulated periods. 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 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 commission rates on the special commission income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at December 31, 2014, 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 for the effect of assumed changes in 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 their respective currencies and relevant sensitivities are disclosed in SAR million.

2014

Currency	Increase in basis points	Sensitivity of special commission income	Sensitivity of equity				Total
			6 months or less	1 year or less	1-5 years or less	Over 5 years	
SAR	+10	35.05	-	-	(0.84)	(0.11)	(0.95)
USD	+10	(7.16)	(0.03)	(0.09)	(7.33)	-	(7.45)
Others	+10	(0.08)	(0.01)	(0.10)	-	(0.02)	(0.13)

2014

Currency	Decrease in basis points	Sensitivity of special commission income	Sensitivity of equity				Total
			6 months or less	1 year or less	1-5 years or less	Over 5 years	
SAR	-10	(35.05)	-	-	0.84	0.11	0.95
USD	-10	7.16	0.03	0.09	7.33	-	7.45
Others	-10	0.08	0.01	0.10	-	0.02	0.13

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013 (Saudi Riyals in Thousands)

33. Market risk (continued)

(b) Market risk – non – trading or banking book (continued)

i) Commission rate risk (continued)

2013

Currency	Increase in basis points	Sensitivity of special commission income	Sensitivity of equityy				Total
			6 months or less	1 year or less	1-5 years or less	Over 5 years	
SAR	+10	33.25	(0.04)	(0.06)	(1.10)	(0.21)	(1.41)
USD	+10	(7.66)	(0.10)	(0.01)	(21.73)	-	(21.84)
Others	+10	(0.40)	(0.04)	(0.02)	(0.03)	(0.02)	(0.11)

2013

Currency	Decrease in basis points	Sensitivity of special commission income	Sensitivity of equityy				Total
			6 months or less	1 year or less	1-5 years or less	Over 5 years	
SAR	-10	(33.25)	0.04	0.06	1.10	0.21	1.41
USD	-10	7.66	0.10	0.01	21.73	-	21.84
Others	-10	0.40	0.04	0.02	0.03	0.02	0.11

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

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

The table below summarizes the Group's exposure to commission rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates. The Group is exposed to commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off consolidated 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.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013 (Saudi Riyals in Thousands)

2014	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total
Assets						
Cash and balances with SAMA	12,089,917	-	-	-	9,162,410	21,252,327
Due from banks and other financial institutions	417,775	-	-	-	1,517,850	1,935,625
Investments, net	16,746,067	6,089,921	8,175,661	1,160,665	1,703,892	33,876,206
Loans and advances, net	52,109,854	27,560,093	22,984,467	1,069,602	-	103,724,016
Investments in associates	-	-	-	-	494,117	494,117
Other real estate	-	-	-	-	136,634	136,634
Property and equipment, net	-	-	-	-	1,745,936	1,745,936
Other assets	-	-	-	-	1,503,494	1,503,494
Total assets	81,363,613	33,650,014	31,160,128	2,230,267	16,264,333	164,668,355
Liabilities and equity						
Due to banks and other financial institutions	8,183,237	687,884	-	-	144,519	9,015,640
Customers' deposits	33,228,199	24,201,973	6,157	-	72,194,849	129,631,178
Other liabilities	-	-	-	-	3,694,278	3,694,278
Debt securities in issue	1,687,500	-	-	-	-	1,687,500
Equity	-	-	-	-	20,639,759	20,639,759
Total liabilities and equity	43,098,936	24,889,857	6,157	-	96,673,405	164,668,355
On-consolidated statement of financial position gap	38,264,677	8,760,157	31,153,971	2,230,267	(80,409,072)	
Off-consolidated statement of financial position gap	(1,105,020)	11,335,275	(9,645,479)	(584,776)	-	
Total commission rate sensitivity gap	37,159,657	20,095,432	21,508,492	1,645,491	(80,409,072)	
Cumulative commission rate sensitivity gap	37,159,657	57,255,089	78,763,581	80,409,072	-	

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013 (Saudi Riyals in Thousands)

33. Market risk (continued)

(b) Non-Trading portfolio VAR by risk type (continued)

i) Commission rate risk (continued)

	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total
2013						
Assets						
Cash and balances with SAMA	7,021,951	-	-	-	7,949,798	14,971,749
Due from banks and other financial institutions	1,754,904	-	-	-	1,012,277	2,767,181
Investments, net	10,688,535	5,927,363	8,721,134	1,295,006	1,616,331	28,248,369
Loans and advances, net	42,909,381	24,551,097	20,314,663	680,965	-	88,456,106
Investments in associates	-	-	-	-	466,533	466,533
Other real estate	-	-	-	-	136,634	136,634
Property and equipment, net	-	-	-	-	1,647,318	1,647,318
Other assets	-	-	-	-	1,241,534	1,241,534
Total assets	62,374,771	30,478,460	29,035,797	1,975,971	14,070,425	137,935,424
Liabilities and equity						
Due to banks and other financial institutions	6,719,465	752,036	-	-	169,557	7,641,058
Customers' deposits	22,886,792	20,612,892	3,854	-	62,869,194	106,372,732
Other liabilities	-	-	-	-	3,045,720	3,045,720
Debt securities in issue	1,687,500	-	-	-	-	1,687,500
Equity	-	-	-	-	19,188,414	19,188,414
Total liabilities and equity	31,293,757	21,364,928	3,854	-	85,272,885	137,935,424
On-consolidated statement of financial position gap	31,081,014	9,113,532	29,031,943	1,975,971	(71,202,460)	
Off-consolidated statement of financial position gap	749,748	507,082	(1,230,990)	(25,840)	-	
Total commission rate sensitivity gap	31,830,762	9,620,614	27,800,953	1,950,131	(71,202,460)	
Cumulative commission rate sensitivity gap	31,830,762	41,451,376	69,252,329	71,202,460	-	

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

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

ii) Currency risk

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. Foreign currency risk exposures that arise in the banking book are transferred to the trading book and are managed as part of the trading portfolio. The Board sets various types of currency risk limits including position, stop-loss and VAR limits, which are monitored daily.

The table below shows the currencies to which the Bank has a significant exposure as at December 31, 2014 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 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.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013 (Saudi Riyals in Thousands)

	2014		2013	
	Changes in currency rate in %	Effect on net income	Changes in currency rate in %	Effect on net income
Currency risk exposures				
US Dollar	+5	6.509	-5	(23.486)
Euro	-3	0.115	-3	(0.153)
Pound Sterling	-3	0.003	-3	(0.085)

iii) Currency position

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 and in total for both overnight and intra-day positions, which are monitored daily. At the end of the year, the Bank had the following significant net exposures denominated in foreign currencies:

	Long (short) 2014	Long (short) 2013
US Dollar	130,185	(469,711)
Euro	(3,837)	5,112
Pound Sterling	(101)	2,824

iv) Equity price risk

Equity price 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	2014		2013	
	Change in index %	Effect in SAR'000	Change in index %	Effect in SAR'000
Tadawul	+5	63,865	+5	50,640

34. 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 a healthy balance of cash, cash equivalents, and readily marketable securities.

In accordance with the Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% (2013: 7%) of total demand deposits and 4% (2013: 4%) of saving and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of no less than 20% of its deposit liabilities, in the form of cash, Saudi Government Development Bonds or assets, which can be converted into cash within a period not exceeding 30 days.

The Bank has the ability to raise additional funds through repo facilities with SAMA against Saudi Government Development Bonds up to 75% of the nominal value of bonds held.

i) Analysis of undiscounted financial liabilities by remaining contractual maturities

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 consolidated statement of financial position. The contractual maturities of liabilities have been determined based on the remaining period at the statement of financial position 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.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013 (Saudi Riyals in Thousands)

34. Liquidity risk (continued)

i) Analysis of undiscounted financial liabilities by remaining contractual maturities (continued)

2014	Within 3 months	3-12 months	1-5 years	Above 5 years	No fixed maturity	Total
Financial liabilities						
Due to banks and other financial institutions	8,184,727	689,250	-	-	144,519	9,018,496
Customers' deposits	33,342,290	24,662,931	243,410	-	72,277,506	130,526,137
Derivative financial instruments						
Contractual amounts payable	50,085	208,125	676,594	40,828	-	975,632
Contractual amounts receivable	(27,551)	(102,228)	(661,601)	(42,173)	-	(833,553)
Debt securities in issue	11,188	19,890	1,714,337	-	-	1,745,415
Total financial liabilities	41,560,739	25,477,968	1,972,740	(1,345)	72,422,025	141,432,127

2013

Financial liabilities						
Due to banks and other financial institutions	6,719,642	754,201	-	-	169,557	7,643,400
Customers' deposits	22,665,118	23,306,438	228,558	-	61,017,840	107,217,954
Derivative financial instruments						
Contractual amounts payable	21,156	104,373	479,320	4,802	-	609,651
Contractual amounts receivable	(15,949)	(74,479)	(420,162)	(5,351)	-	(515,941)
Debt securities in issue	11,260	20,091	1,741,297	-	-	1,772,648
Total financial liabilities	29,401,227	24,110,624	2,029,013	(549)	61,187,397	116,727,712

ii) Maturity profile of Bank's assets, liabilities and equity

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled. See note (i) above for the Bank's contractual undiscounted financial liabilities.

Management monitors the maturity profile to ensure that adequate liquidity is maintained. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of both the Bank and operating subsidiaries and foreign branch. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013 (Saudi Riyals in Thousands)

	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
2014						
Assets						
Cash and balances with SAMA	12,089,917	-	-	-	9,162,410	21,252,327
Due from banks and other financial institutions	417,775	-	-	-	1,517,850	1,935,625
Investments, net	13,231,632	5,653,162	10,343,047	2,944,473	1,703,892	33,876,206
Loans and advances, net	28,797,418	22,544,543	35,224,591	8,084,539	9,072,925	103,724,016
Investment in associates	-	-	-	-	494,117	494,117
Other real estate	-	-	-	-	136,634	136,634
Property and equipment, net	-	-	-	-	1,745,936	1,745,936
Other assets	-	-	-	-	1,503,494	1,503,494
Total assets	54,536,742	28,197,705	45,567,638	11,029,012	25,337,258	164,668,355
Liabilities and equity						
Due to banks and other financial institutions	8,183,237	687,884	-	-	144,519	9,015,640
Customers' deposits	33,036,898	24,111,121	205,653	-	72,277,506	129,631,178
Other liabilities	-	-	-	-	3,694,278	3,694,278
Debt securities in issue	-	-	1,687,500	-	-	1,687,500
Equity	-	-	-	-	20,639,759	20,639,759
Total liabilities and equity	41,220,135	24,799,005	1,893,153	-	96,756,062	164,668,355
2013						
Assets						
Cash and balances with SAMA	7,021,951	-	-	-	7,949,798	14,971,749
Due from banks and other financial institutions	1,754,904	-	-	-	1,012,277	2,767,181
Investments, net	6,987,403	5,304,934	10,850,143	3,489,558	1,616,331	28,248,369
Loans and advances, net	30,005,449	21,101,588	31,461,956	5,132,663	754,450	88,456,106
Investment in associates	-	-	-	-	466,533	466,533
Other real estate	-	-	-	-	136,634	136,634
Property and equipment, net	-	-	-	-	1,647,318	1,647,318
Other assets	-	-	-	-	1,241,534	1,241,534
Total assets	45,769,707	26,406,522	42,312,099	8,622,221	14,824,875	137,935,424
Liabilities and equity						
Due to banks and other financial institutions	6,719,465	752,036	-	-	169,557	7,641,058
Customers' deposits	22,118,181	23,036,044	200,667	-	61,017,840	106,372,732
Other liabilities	-	-	-	-	3,045,720	3,045,720
Debt securities in issue	-	-	1,687,500	-	-	1,687,500
Equity	-	-	-	-	19,188,414	19,188,414
Total liabilities and equity	28,837,646	23,788,080	1,888,167	-	83,421,531	137,935,424

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013 (Saudi Riyals in Thousands)

35. Fair values of financial assets and liabilities

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

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

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

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

2014	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets designated at FVIS	-	14,535	-	14,535
Financial investments available for sale	9,140,302	1,703,566	49,837	10,893,705
Derivative financial instruments	-	156,669	-	156,669
Total	9,140,302	1,874,770	49,837	11,064,909
Financial Liabilities				
Derivative financial instruments	-	240,314	-	240,314
Total	-	240,314	-	240,314
2013				
Financial assets				
Financial assets designated at FVIS	-	17,443	-	17,443
Financial investments available for sale	8,941,166	1,870,982	95,601	10,907,749
Derivative financial instruments	-	176,901	-	176,901
Total	8,941,166	2,065,326	95,601	11,102,093
Financial Liabilities				
Derivative financial instruments	-	237,430	-	237,430
Total	-	237,430	-	237,430

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

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous accessible market for the asset or liability.

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

Available for sale investments classified as Level 2 include plain vanilla bonds for which market quotes are not available. These are fair valued using simple discounted cash flow techniques that use observable market data inputs for yield curves and credit spreads.

Available for sale investments classified as Level 3 include Private Equity Funds, the fair value of which is determined based on the fund's latest reported net asset value (NAV) as at the balance sheet date. The movement in Level 3 financial instruments during the year relates to fair value movement only.

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The fair values of on-consolidated statement of financial position financial instruments, except for other investments held at amortized cost, held-to-maturity investments which are carried at amortized cost, are not significantly different from the carrying values included in the consolidated financial statements. The fair values of loans and advances, commission bearing customers' deposits, debts securities in issue, due from and due to banks which are carried at amortized cost, are not significantly different from the carrying values included in the consolidated financial statements, since the current market 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 amortized 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 and other off-consolidated statement of financial position financial instruments are based on the quoted market prices when available or by using the appropriate valuation technique. The total amount of the changes in fair value recognized in the consolidated income statement, which was estimated using valuation technique, is SAR 84 million (2013: SAR 42 million).

36. Related party transactions

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

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

	2014	2013
Arab Bank PLC:		
Due from banks and other financial institutions	294,754	126,290
Due to banks and other financial institutions	2,763,338	454,102
Commitments and contingencies	3,391,500	4,178,568
Derivatives (at fair value)	-	21,998
Directors, key management personnel, other major shareholders and their affiliates:		
Loans and advances	4,198,522	2,714,866
Customers' deposits	8,823,453	4,719,715
Commitments and contingencies	1,833,216	1,610,335
Bank's mutual funds:		
Investments	447,391	414,776
Loans and advances	32,455	1,340
Customers' deposits	394,216	770,966
Associate:		
Loans and advances	2,478,578	2,454,729
Customers' deposits	6,038	104,090

Other major shareholders represent shareholdings (excluding the non-Saudi shareholder) of more than 5% of the Bank's issued share capital.

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

	2014	2013
Special commission income	130,652	159,213
Special commission expense	47,841	45,563
Fees and commission income	29,749	24,886
Directors' remuneration	4,877	4,245

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013 (Saudi Riyals in Thousands)

36. Related party transactions (continued)

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

	2014	2013
Short-term employee benefits (Salaries and allowances)	56,533	59,015
Post-employment benefits (End of service indemnity and social security)	6,531	6,711

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

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

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

	2014	2013
Credit Risk RWA	129,945,722	112,994,422
Operational Risk RWA	11,016,455	9,852,558
Market Risk RWA	899,462	931,221
Total Pillar-I RWA	141,861,639	123,778,201
Tier I Capital	20,051,313	18,655,454
Tier II Capital	1,022,477	1,146,135
Total Tier I & II Capital	21,073,790	19,801,589
Capital Adequacy Ratio %		
Tier I ratio	14.13%	15.07%
Tier I + Tier II ratio	14.86%	16.00%

The increase of the regulatory capital in the year is mainly due to the contribution of the current-year profit.

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by the Saudi Arabian Monetary Agency in supervising the Bank.

38. Investment management services

The Group offers investment services to its customers, which include management of investment funds with assets totaling SAR 4,367 million (2013: SAR 4,293 million).

The financial statements of these funds are not consolidated with these consolidated financial statements. However, the Group's share of these funds is included in available-for-sale investments and 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.

39. Disclosures under Basel III framework

Certain qualitative and quantitative disclosures are required under the Basel III framework. These disclosures will be made available on the Bank's website www.anb.com.sa within prescribed time as required by SAMA. Such disclosures are not subject to audit by the external auditors of the Bank.

40. Board of directors' approval

The consolidated financial statements were approved by the Board of Directors at 22 Rabi II 1436H (11 February 2015).

Basel III Pillar 3 Qualitative Disclosures

1. GENERAL

Under the directives of Saudi Arabian Monetary Agency (SAMA), banks operating in the Kingdom of Saudi Arabia, implemented Basel Capital Adequacy framework commonly known as Basel II Accord, with effect from 1 January 2008. In this regard, SAMA's aim is to encourage market discipline through disclosures, which will provide the reader more valuable information about the banks' risks and exposures. In this context, below are the necessary disclosures required under Basel Accord's Pillar 3 framework.

2. SUBSIDIARIES & SIGNIFICANT INVESTMENTS

SAMA disclosure requirements apply to Arab National Bank (ANB), as well as to its subsidiaries. A brief description of the bank's subsidiaries and associates is as follows:

Arab National Bank Investment Company (ANBI):

A wholly owned Saudi closed joint stock company, registered in the Kingdom of Saudi Arabia under commercial registration No. 1010239908 issued on 26 Shawal 1428 (corresponding to 7 November 2007). The main activities are to provide investment services and asset management activities related to dealing, managing, arranging, advising and custody of securities regulated by the Capital Market Authority. The subsidiary commenced its operations effective 3 Muharram 1429 (corresponding to 12 January 2008). Accordingly, ANB started consolidating the financial statements of ANBI, effective 12 January 2008. It is to be noted that on 19 Muharram 1436 (corresponding to 12 November 2014), the subsidiary changed its legal structure from a limited liability company to a closed joint stock company.

Arabian Heavy Equipment Leasing Company (AHEL):

A 87.5 % owned subsidiary incorporated in the Kingdom of Saudi Arabia, as a Saudi closed joint stock company, under commercial registration no. 1010267489 issued in Riyadh on 15 Jumada 1, 1430 (corresponding to 10 May 2009). The company is engaged in leasing of heavy equipment and operates in compliance with Shariah principles. The Bank started consolidating the subsidiary's financial statements effective 10 May 2009, when the subsidiary started its operation. On 6 May 2014, the Bank increased its ownership percentage in this subsidiary from 62.5% to 87.5%. AHEL's other shareholders are Olayan Finance Limited and Al Wadad Limited ("Saudi Aramco")

Arab Insurance Agency

A Saudi limited liability company, established during 2013 as a wholly owned subsidiary, registered in the Kingdom of Saudi Arabia under the commercial registration no. 1010396423 issued in Riyadh dated 28 Muharram, 1435 (corresponding to December 1, 2013). The agency obtained its license from the Saudi Arabian Monetary Agency to start its insurance agent activities on 5 Jumada 1, 1435 (corresponding to March 6, 2014).

Al-Manzil Al-Mubarak Real Estate Financing Ltd.

A wholly owned subsidiary, registered in the Kingdom of Saudi Arabia as a limited liability company under the commercial registration no. 1010199647 issued in Riyadh dated 18 Jumada 1, 1425. The subsidiary is engaged in the purchase, sale and lease of land and real estate for investment purposes.

Apart from this, ANB has made more than 10% equity investments in the following entities :-

Saudi Home Loan Company (SHL):

SHL is a Saudi closed joint stock company registered under commercial registration No. 1010241934, and owned 40% by ANB and the remaining 60% is mainly owned by Dar Al Arkan Real Estate Development Company (DAAR), International Finance Corporation (IFC) and Kingdom Installment Company.

SHL was established as a specialized Islamic home and real estate finance company within the Kingdom of Saudi Arabia. Products and services are fully Shari'ah compliant. The company's authorized capital is SAR 2 billion, out of which a total amount of SAR 800 million (ANB's Share 320 million) was paid by the shareholders as of 31 December 2014.

Metlife- AIG-ANB Cooperative Insurance Co. (JV):

ANB has established a Joint Venture (JV) with Chartis-AIG subsidiary - (10% share) and MetLife ALICO (30% share) to form a cooperative insurance company in Saudi Arabia, which is owned 30% by ANB and its nominees, and balance of 30% has been offered to the public. The JV was established as a Saudi joint stock company registered in the Kingdom of Saudi Arabia under commercial registration No. 1010391438. The company's Initial Public Offering (IPO) was completed during second quarter of 2013 and it commenced operations during 2014. It offers general as well as life insurance policies.

- i) Restrictions and impediments on transfer of funds.
There are no restrictions or major impediments on transfer of funds or regulatory capital between the Bank and its fully owned subsidiaries, apart from obtaining SAMA approval, when required.

3. BANK'S CAPITAL STRUCTURE

The Bank's capital comprises of:

Tier I capital which is the core measure of a bank's financial strength from a regulator's point of view. It comprises paid up capital, eligible reserves, retained earnings and adjustments due to changes in the unrealized mark-to-market (MTM) for available-for-sale (AFS) securities.

Tier II capital, comprises subordinated loan capital, qualifying general provisions. During 2006, ANB issued USD 500 million 10 year subordinated floating rate notes under its USD 850 million Euro Medium Term Note program. The notes initially carried a special commission rate of Libor plus 83 bps. The notes are non-convertible, subordinated and listed on the London stock exchange. These notes are callable on a quarterly basis starting from the 5th year from issuance. Effective October 31st, 2011 and based on the step-up condition the commission rate has been adjusted to Libor plus 133 bps. During 2009, USD 50 Million was purchased from the secondary market & retired. The maturity of notes is now less than 5-years, and only 20% of the value is considered as Tier II capital.

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4. BANK'S CAPITAL ADEQUACY

ANB has established Internal Capital Adequacy Assessment Committee (ICAAC) with the mandate to monitor and ensure that the Bank has adequate capital to support all the risks inherent in its current and future business plans.

ANB's capital adequacy process inter-alia includes identification and assessment of all types of material risks and ensures that besides having enough capital to cover these risks, adequate policies, processes and internal controls are in place to manage these risks in a timely manner. While ANB has adhered to the Pillar-I capital calculation methodologies under the Standardized Approach, as per the guidelines issued by SAMA, it has developed its own methodologies for assessing and allocating capital for Pillar-II risks. At the same time, stress-testing scenarios are applied to arrive at the stressed capital ratios, with a view to ensure that ANB remains adequately capitalized under stressed conditions during economic down-turns.

ANB's capital adequacy targets are set for the ratios based on Pillar-I and II risks, calculated on both Tier 1 & 2 capital. ANB intends to operate at least 4% over and above Basel's minimum capital adequacy requirements of 8% (corresponds to 12%) or the capital adequacy ratio (CAR) target advised by SAMA, whichever is higher. However, a management action trigger is set at 0.5% over and above the minimum target CAR, wherein the Bank's Internal Capital Adequacy Assessment Committee (ICAAC) will review the capital adequacy position and recommend corrective action, if required.

5. BANK'S RISK MANAGEMENT

ANB has an independent Risk Management Group responsible for overall enhancement of the risk culture within the Bank by encouraging open communication with other business/supporting units and developing techniques in alignment with best practices for risk management as well as in compliance with local regulatory requirements. Risk Management Group has the following five major Departments:

- I. Credit Risk
- II. Market Risk
- III. Operational Risk
- IV. Business Continuity Management (BCM)
- V. Credit Administration & Control (CAC)

5.1 Credit Risk

Credit Risk Department manages the credit exposures arising principally from lending activities. Such lending activities may include loans, advances as well as exposures arising from off-balance sheet financing instruments such as commitments, guarantees and letters of credit.

5.1.1 Strategies and Processes

Credit Risk policies and procedures are established to provide control on credit risk portfolios through periodic assessment of the credit worthiness of obligors, quantifying maximum permissible exposure to specific obligor and continuous monitoring of individual exposures and portfolios.

The Credit Risk policy of the Bank is designed to ensure clear recognition of credit risk management strategies and objectives, which include:

- Strengthening and enhancing Bank's ability to measure and mitigate credit risks on pre-emptive basis to minimize credit losses.
- Strengthening and enhancing Bank's systems and procedures for early problem recognition.
- Strengthening and enhancing credit portfolio management process.
- Compliance with local regulatory requirement and industry's best practices for credit risk management.

The Bank's Credit Risk policy addresses all functions and activities related to the credit lending process, starting from defining the minimum required information for assessing obligor credit worthiness and ending with clear risk-based approval authority mechanism.

5.1.2 Structure & Organization

An independent Credit Risk Department, part of Risk Management Group, is responsible for Policy formulation and Portfolio management for all type of credit risks undertaken by the Bank. Furthermore, Credit Review Department has specialized teams for Corporate, Commercial and Retail business units, and are responsible for conducting independent financial analysis and appraisals of Credit proposals, submitted by the respective business units.

ANB has a centralized credit approval process and follows the philosophy of joint approval authority, which is directly linked to the borrower's Probability of Default (PD) and its facility characteristics measured by Loss Given Default (LGD) estimates. Based on afore-mentioned factors, there are three main layers of approval authorities. The highest credit authority is vested in the Executive committee, having five Board members, including MD, as its members. The second level of credit approval authority is vested in the Senior Credit Committee, which comprises of MD, Head of Credit Review Division and three or more senior managers of the Bank. The third layer consists of the four levels of approval authorities, which draws its members from the business units and the Credit Review Division.

5.1.3 Risk Measurement & Reporting System

The Bank's loan portfolio can be broadly divided into the following two categories:

A) Corporate and Commercial Loans Portfolio:

Credit Risk tracks trends and identifies weaknesses in the quality of corporate and commercial loans portfolio by employing:

- Obligor & facility risk rating system to assess the quality of obligor and riskiness of facilities.
- Periodic reviews and reporting of aggregate statistics on asset diversification and credit quality for key segments of the portfolio.

Basel III Pillar 3 Qualitative Disclosures

Rating system is established with the objective to:

- place the responsibility on business units to regularly evaluate credit risk on exposures and identify problems within their portfolios;
- establish early warning signals for detecting deterioration in credit quality;
- set standard for business units to submit their inputs on problematic exposures;
- provide guidelines to respond and take remedial actions as soon as deterioration in credit quality is detected.

The Bank classifies its exposures into 13 risk categories, of which 10 are for performing obligors and 3 are for non-performing obligors.

Periodic reviews & reporting standards are established to monitor Corporate and Commercial credit portfolio quality and diversification. Regular monthly and quarterly reports are sent to Senior Management/Board, covering the following:

- Total potential exposure and actual outstanding amount;
- Amount and percentage of exposure outstanding in each risk rating grade;
- Obligors' exposure migration across risk grades from one period to another;
- Overall portfolio risk grade by Region/Business units.

B) Consumer Assets Loans Portfolio:

The major part of Bank's consumer loans and credit card exposures are against salary assignments, and borrowers are employees of selective list of acceptable employers. The consumer loans' portfolio is driven by strict lending criteria in the form of minimum salary requirements, length of service and pre-specified Debt Service Ratio (DSR).

Periodic reviews & reporting mechanism is in place to monitor the Consumer assets loans portfolio quality and diversification, covering the following:

- Consumer Assets loans portfolio growth from one period to another.
- Consumer Assets loans portfolio distribution by employer.
- Consumer Assets loans portfolio distribution by delinquencies (days past due bucket wise).
- Amount of losses charged-off.

5.1.4 Hedging and Mitigants

Collaterals and securities are always desirable, being an effective means of reducing risk and enhancing credit quality. However, Bank's credit risk policy does not encourage granting credit exposures solely based on collaterals. Collaterals are viewed as a secondary source of repayment or way-out in the event that the customer is facing difficulty in repaying the granted credit from cash flows. The Bank's policy is that credit facilities should always be able to stand on their own (successful repayment from operational cash flows) without relying on the collateral as the primary source of repayment.

As per Bank's policy credit exposure is considered secured, if it is fully supported by tangible collateral/security and in accordance with minimum requirement in terms of coverage ratios as detailed under:

Type of tangible Collateral Security	Minimum collateral required
Cash Margin	100% of the facility limit
Bank Guarantees	100% of the facility limit
Pledged shares: Corporate/Commercial	150% of the facility limit
Pledged shares: Margin Trading customers	200% of the facility limit
Transfer of Title Deeds	200% of the facility limit

All collaterals and securities are evaluated periodically to ensure that the market value of collateral/security against credit exposures is in line with the stipulated coverage ratios. ANB has identified a selective list of companies based on strict criteria, whose shares are accepted as collateral. For Real Estate properties offered to the bank as collateral, the security must be appraised by accredited real estate offices appointed by the Bank prior to giving any acceptance/commitment to the borrower.

Bank Guarantees, held as collateral, should meet strict criteria for acceptance, which includes being unconditional & irrevocable, issued by banks, acceptable to ANB.

As a matter of policy all collaterals should be in the same currency as the underlying credit exposure. Exceptions are made on case-by-case basis with appropriate justification.

5.2 Market Risk

The primary objective of ANB's market risk management function is to provide a coherent policy and operating framework for a strong Bank-wide management of market risk and liquidity risk.

5.2.1 Strategies and Processes

The Board approves the market risk appetite, in terms of limits, for all types of market risks including foreign currency risk, interest rate risk and equity risk. These limits are based on notional amount, sensitivity, stop-loss and/or VaR (Value at Risk). The Board has also approved Market Risk Policy that provides guidance to identify, measure and monitor the Bank's exposure to market risk.

Liquidity management policy and limits ensure that liquidity is maintained at sufficient levels to support operations and meet payment demands even under stressed conditions that might arise with a sudden change in the market environment. The Bank recognizes the importance of managing liquidity under stress condition and has adopted a comprehensive stress testing framework and liquidity contingency funding plan.

ANB consider Stress testing and contingency funding plan as an important tool in developing a complete picture of the Bank's liquidity risk profile. Stress testing exploits quantitative methods, but it is also subjective by depending on the input of the risk management of the bank. The purpose of stress testing is to ascertain incremental funding that may be required under the defined scenarios and whether the bank will be able to withstand the stress. The liquidity stress testing methodology and scenarios are developed in line with the regulatory guidelines incorporating conservative liquidity assumptions. Liquidity Stress Testing is carried out under multiple scenarios encompassing bank specific and systemic shocks, which are considered relevant to the business environment and balance sheet structure. In order to withstand the stress

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the bank has a comprehensive contingency funding plan (CFP), which addresses vulnerabilities identified in stress tests. CFP establish clear lines of responsibility, include clear invocation and escalation procedures. CFP details the preemptive measures to deal with stress scenarios. CFP identifies funding sources depending on severity of stress. Moreover, CFP details the responsibility of each of the CFP team member in the event of a liquidity crisis. The CFP team has been selected based on the key roles required in such an event.

The Bank at all times maintains a sizable inventory of High Quality Liquid Assets (HQLA) that can be used during the time of stress. Bank maintains clear segregation of HQLAs based on geographical location in order to comply with regulatory restrictions on the transfer of liquid assets.

5.2.2 Structure & Organization

Market risk and Liquidity risk are overseen by two management committees – Asset Liability Committee (ALCO) and Market Risk Policy Committee (MRPC). ALCO deals with Bank-wide market risk issues as opposed to MRPC, which deals with Treasury specific issues. ALCO meets on a regular basis to discuss the risk exposures vis-à-vis the prevailing market conditions and sets guidelines to manage these risks within the risk appetite set by the Board. MRPC acts as a sub-committee of ALCO with authority to monitor and control Treasury-related (as opposed to bank-wide) activities. MRPC has the authority to restrict utilization of the ALCO-approved limits. Market Risk Department, which is independent of the business function, monitors all limits and provides periodic market risk reports to ALCO and MRPC members.

Treasury Middle Office is an independent unit reporting to MRD and is responsible for ensuring that all Treasury related internal controls are functioning effectively and all non-adherence are brought to management's attention on a timely basis.

5.2.3 Scope and Nature of Reporting System

Daily Risk Report is provided to Senior Management that covers the trading activity and liquidity ratios. Stress testing for interest rate risk, foreign exchange risk and liquidity risk is conducted on a regular basis and results are presented to ALCO for review. Detailed market risk reviews are submitted to the Board and its committees, including Risk Committee and Audit Committee, on a quarterly or semi-annual basis. The reviews highlight major changes in the Bank's market and liquidity risk profiles as well as compositions of the investments portfolio.

5.2.4 Hedging and Mitigants

Bank has implemented a dynamic interest rate hedging policy in accordance with the International Accounting Standards. Interest rate derivatives, mainly interest rate swaps and futures are used to hedge specific exposures with an aim to keep the interest rate risks within limits. The Bank also uses currency swap to hedge specific positions in foreign currencies, when necessary. Effectiveness of all hedges is regularly monitored throughout their term.

5.3 Operational Risk Management [OR]

Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal and regulatory risk, but excludes strategic and reputational risk.

5.3.1 Objectives

Objective of Operational Risk Management is to support ANB's vision through efficient and effective operational processes. Operational risk management aims to:

- Develop common understanding of Operational Risk across the Bank in order to assess exposure of businesses to operational risk and take appropriate actions.
- Ensure that there is clear accountability, responsibility and adherence to best practices for management and mitigation of operational risk.
- Provide robust tools that help Business Units manage operational risks towards successful achievement of business objectives.
- Minimize reoccurrence of similar type of losses.

5.3.2 Governance

ANB monitors its operational risks through an Operational Risk Framework supported by its policy and procedures that define roles and responsibilities for managing and reporting operational risk.

Bank has established governance structure to support management and oversight of operational risk across business units and support functions. The governance framework includes oversight by Board's Risk Committee, Senior Management supervision through Operational Risk Committee (ORC), and independent monitoring and reporting of operational risks by Operational Risk Management (ORM) department. To ensure that highest level of governance is maintained, Internal Audit Division conducts independent assessment of the activities carried out and reports directly to Audit Committee of the Bank.

5.3.3 Measurement and Management

ANB has established Control and Risk Self-Assessment (CRSA) framework to identify operational risks arising from products, procedures & activities and evaluate the effectiveness of controls over those risks. These risks and controls are self-assessed and monitored by the business/support units on a regular basis. The consolidated assessment results are benchmarked with pre-defined risk appetite/acceptable level and appropriate actions initiated to strengthen the control environment. Historical internal loss events and internal audit issues support the completeness and accuracy of the CRSA. An independent review and challenge process also assists in ensuring completeness, accuracy and consistency across the Bank.

ANB's Loss data management system allows collection and analysis of loss events (actual, potential and near-miss), identifies new risks or control weaknesses that caused the operational loss, escalating them to appropriate levels of management and to ORC. The mechanism aims at minimizing any financial consequences of the events and addressing the root causes for refining the control mechanism to reduce re-occurrence of similar losses in future.

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5.3.4 Monitoring and Reporting

The goal of operational risk monitoring and reporting is mainly to initiate corrective actions as early as possible to strengthen control environment. ORM monitors self-assessment results on monthly basis and follows-up with business/support units on key weaknesses in their respective areas. ORM regularly updates Operational Risk Committee on the overall operational risk environment of the Bank and key operational loss events during the period. Operational Risk Dashboard which covers operational loss trends, details of major events and risk profiles status are reported to the Managing Director and Senior Management on a monthly basis. A quarterly Risk review report is submitted to Board/ExCom summarizing impact of operational risk events during the quarter and progress on key operational risk initiatives. Regular reporting to ORC and senior management facilitates oversight and provides necessary executive support for operational risk activities in the Bank.

5.4 Business Continuity Management

The mission of Business Continuity Management (BCM) is to plan for the Bank continuing to function as a viable business entity, during a disaster or serious business disruption, and providing for the orderly restoration of essential business services, at the earliest possible time.

BCM achieves its objective by conducting business impact analysis, working with all essential business and support units within the Head Office to identify the impact of disruptions and to prioritize the critical business processes. BCM has developed recovery plans for all critical business processes, defining the level of recovery and resumption service to be offered during a crisis, which has already been tested. A Crisis Management plan has also been developed to define crisis invocation procedures and the roles/responsibilities of crisis management teams.

5.5 Credit Administration & Control

Credit Admin & Control (CAC) is responsible for ongoing administration of the credit portfolio, which inter-alia includes Limit monitoring, Disbursement authorization, Collateral coverage & monitoring; Compliance with terms of approval, Preparation, maintenance and custody of collateral security documentation, Credit checking and Follow-up on credit irregularities.

6. BANK'S CREDIT EXPOSURES

6.1 Definition of Past Due

Exposures that are not settled on their due date are classified as "Past Due" and reflected as such on the Bank's books the following day. The appearance of a loan as past due, does not imply that there is a problematic credit, as the business units often successfully prompt the customers to settle the amounts within a few days.

6.2 Definition of Impaired Assets:

In determining whether a corporate exposure has become impaired, Bank makes judgments as to whether there is any observable data indicating decrease in the estimated future cash flows. This evidence may include an indication that there has been an adverse change in the payment status of borrowers. Management uses estimates based on historical loss experience for loans with similar credit risk characteristics, when estimating the cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

6.3 Definition of Non Performing Assets:

Exposures are classified as non-performing and are placed on the non-accrual status in the following cases:

- The principal of loan or interest payment remains past due more than 90 days after its due date.
- The balance of an overdraft account remains in-active for more than 180 days.

The non-performing exposures migrate across the non-performing risk grades (Substandard, Doubtful, and Loss) according to their days past due and/or deterioration in credit quality.

6.4 Approaches for Specific & General Provisions:

As per Bank's provisioning policy, provisions are estimated depending on risk rating, type of collateral held and expected future recovery.

I. Provisions for Corporate & Commercial portfolio:

Specific provisions are booked against the impaired exposures by comparing the present value of expected cash-flows with its current carrying amount based on the criteria prescribed by International Accounting Standards- IAS 39.

II. Provisions for Consumer Loans & Credit Cards loans portfolio:

Specific provisions are booked against the impaired exposures based on the criteria of Days Past Due (DPD), as per the following table:

Buckets	Days Past Due (DPD)	Provisioning (% of total bucket)
1*	1 – 29 days	0%
2	30 – 59 days	15%
3	60 – 89 days	25%
4	90 – 119 days	50%
5	120 – 149 days	75%
6	150 – 179 days	100%
7	180+ days	Write – Off

*Due to high instance of customers becoming bucket 1 delinquent and their self-curing nature, no specific provisions are to be raised against these accounts.

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III. General Provisions:

In addition to specific allowances against individual borrowers, ANB also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a higher risk of default than when it was originally granted. This takes into consideration factors such as any deterioration in country risk, industry, technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

7. EXTERNAL CREDIT ASSESMENT INSTITUTIONS (ECAIs) USED

As per the guidelines provided by SAMA, ANB is using i) Moody's, ii) Standard & Poor's, and iii) Fitch for assigning Risk Weight and calculating Risk Weighted Assets (RWAs) under the Standardized Approach. Obligors, which are not rated by any of these three ECAIs are considered as "un-rated". Only the solicited ratings from the eligible ECAIs are being used for capital adequacy calculations.

8. CREDIT RISK MITIGATION: DISCLOSURES FOR STANDARDIZED AND IRB APPROACHES

ANB is using standardized approach to calculate capital charge for credit risk, and has adopted simple approach for calculating Credit Risk Mitigation. The calculation methodologies are based on the guidelines specified by SAMA. ANB has been using following types of collateral for Credit Risk Mitigation (CRM) purposes under the Standardized Approach, as per SAMA guidelines:

- **Financial Collateral**
The Bank takes only cash as financial collateral for mitigation purpose as per Simple Credit Risk Mitigation Approach.
- **Guarantees as collateral**
The Bank takes guarantees issued by other banks as a credit risk mitigant for its exposures. In such cases, a simple substitution of the risk weight is applied as per Simple Credit Risk Mitigation Approach. The Bank has limit structure in place for managing exposure to each bank, which mitigates the concentration risk while using bank-guarantees as eligible collateral.

9. COUNTERPARTY CREDIT RISK

9.1 Objective and Policies

The primary objective of counterparty credit risk management function is to effectively identify, measure and manage all derivatives related counterparty exposures through regular review of counterparty limits and daily monitoring of exposures vs. limits.

9.2 Strategies and Process

Limits for all banking counterparties are approved by Senior Credit Committee based on guidelines approved by the Executive Committee of the Board. With regard to corporate customers, derivative products are offered only to selective large corporate customers with a demonstrated need to employ these products to manage the financial risks in their businesses.

9.3 Structure and Organization

Treasury Group manages day-to-day counterparty exposures for derivatives within the limits set by the Senior Credit Committee. Credit Control Department monitors and controls the exposures independently so that the exposures remain within the approved limits.

9.4 Scope and Nature of Risk Measurement and Reporting Systems

Capital charge for Over the Counter (OTC) derivative products is calculated using the current exposure method. Under this method, potential future exposure is calculated, applying SAMA recommended add-on factors and positive mark-to-market of the transactions.

Wrong-way risk occurs when exposure to a counterparty is adversely correlated with the credit quality of that counterparty. The Bank considers its exposure to such risk limited, which is mitigated through common collateral management practice.

10. MARKET RISK CAPITAL CALCULATION

ANB maintains a low risk appetite for proprietary trading activity; as a result, trading activity is limited to FX Spots, FX Forwards, Plain vanilla interest rate derivatives and FX derivative instruments. The Bank uses standardized approach to calculate the capital charge for market risk in trading book. However, the Bank is also in compliance with the required qualitative and quantitative standards of SAMA for the adoption of Internal Model Approach.

10.1 Strategies and Processes

Board approves the trading limits keeping in view the overall business strategy of the Treasury Group. All traded products are covered by individual product programs, which lay down product description, business strategy, target customers, risk management, back office and accounting processes. The overall trading book limits as approved by the Board includes:

- Notional limit
- Volume limit
- VaR limit
- Sensitivity limit

10.2 Structure and Organization

The Head of Treasury Group is responsible for managing all trading activities on a day-to-day basis within the established trading limits and in accordance with the direction and guidance given by Market Risk Policy Committee (MRPC). Treasury is responsible to identify and recommend to MRPC new trading strategies in specific instruments and target markets that are in accordance with the Bank's risk appetite.

Market Risk Department is responsible for monitoring and comparing trading activity exposures to the Board-approved trading risk limits. All trading instruments are regularly marked-to-market and valuation methodologies are reviewed by Market Risk Department.

Basel III Pillar 3 Quantitative Disclosures

11. OPERATIONAL RISK CAPITAL CALCULATION

For the purpose of its capital computation under Basel II, ANB adopted the Alternative Standardized Approach (ASA). Under ASA, the capital charge is computed by categorizing ANB's activities into 8 business lines (as defined by the Basel framework) and multiplying the business line's twelve quarters' average gross income by a pre-defined beta factor, which is same as for the Standardized Approach except for two business lines – retail banking and commercial banking. For these business lines, Loans and Advances multiplied by a fixed factor 'm' (0.035) – replaces gross income as the exposure indicator, and for both business lines using a beta of 15%.

12. EQUITIES (BANKING BOOK POSITIONS)

12.1 Strategies and Processes

The Bank's equity exposure is diversified across listed local stocks of different industry sectors and mutual funds. The portfolio is managed with a conservative approach to achieve a stable long term return with low market volatility. The Bank has also made Strategic Equity Investments in affiliates and subsidiaries to achieve diversification of revenue streams and capitalize on the opportunities available in housing finance, equipment leasing and insurance.

12.2 Structure and Organization

A senior management committee manages the Bank's local equity portfolio. Treasury group monitors the portfolio on a day to day basis and makes recommendation to the management committee for purchase or sale of existing stocks within the Board's approved limits. Board has also approved limits for international equity investments to be managed by Treasury Group, however currently there are no positions in international equity. Investments in affiliates and subsidiaries are regularly reviewed and monitored by the strategic investment unit of the Bank.

12.3 Scope and Nature of Risk Reporting and/or Measurement Systems

A detailed investment report is submitted to ALCO and MRPC on a regular basis. The report covers details of securities held, their market values, and securities sold/ bought during the period. Valuation for the equity exposures are based on quoted market price, whereas strategic equity investments are held at book value.

Basel III Pillar 3 Qualitative Disclosures

13. BANKING BOOK INTEREST RATE RISK

The effect of interest rate exposure on reported net income is imperative as interest rate risk represents one of the Bank's significant market risks. Interest rate risk arises not only from trading activities but also from the Bank's traditional banking activities, which include extension of loans and credit facilities, taking deposits and issuing debt. Structural interest rate risk can occur due to a variety of factors, including:

- Differences in the timing among the maturity or re-pricing of assets, liabilities and off-balance sheet instruments.
- Differences in the amounts of assets, liabilities and off-balance sheet instruments that are re-pricing at the same time.
- Differences in the amounts by which short-term and long-term market interest rates change (for example, changes in the slope of the yield curve).
- The impact of changes in the maturity of various assets, liabilities or off-balance sheet instruments as interest rates change.

The Bank manages interest rate exposure related to its assets and liabilities on a consolidated basis through investment securities and related derivatives. The interest sensitive elements include asset and liability balances and contractual rates of interest, contractual principal payment schedules, interest rate reset dates and maturities and rate indices used for re-pricing.

The Bank evaluates its structural interest rate risk exposure through earnings-at-risk, which measures the extent to which changes in interest rates will affect the Bank's core net interest income over the following 12 months, utilizing multiple scenarios and assumptions. These scenarios and assumptions highlight exposures to changes in interest rates, pricing sensitivities on assets and liabilities, and other factors which are updated periodically.

13.1 Risk Management and Monitoring Process

The Board approves the acceptable level of interest rate risk in the banking book by setting a limit on interest rate gaps by maturity buckets together with other limits. Treasury Group is responsible for day-to-day management of interest rate risk under the guidance provided by ALCO. Treasury Group monitors the changes in financial markets leading to interest rate movements. Based on future outlook, Treasury takes appropriate interest rate exposures or hedges the existing exposures, if needed. Interest rate derivatives (mainly interest rate swaps) are used to hedge interest rate exposure of the Bank. Interest rate limits are independently monitored by Market Risk Department of Risk Management Group and reported to ALCO.

13.2 Scope and Nature of Risk Reporting and/or Measurement Systems

To manage the Bank's interest rate risk exposure, Market Risk Department uses the following reports:

- Interest rate gap Analysis
- VaR analysis
- Interest rate stress testing
- Impact of rate movements on investment portfolio

ALCO approves key assumptions underlying these reports, which are documented and reviewed on a periodic basis.

Basel III Pillar 3 Quantitative Disclosures

Table 1: Scope of application – DECEMBER 2014

Capital Deficiencies (Table 1, (e))

Particulars	Amount
The aggregate amount of capital deficiencies in subsidiaries not included in the consolidation i.e. that are deducted:	Nil
1. Subsidiary 1	-
2. Subsidiary 2	-
3. Subsidiary 3	-
4. Subsidiary n	-

TABLE 2: CAPITAL STRUCTURE – DECEMBER 2014

Balance sheet – Step 1 (Table 2(b)). All figures are in SAR'000

	Balance sheet in Published financial statements (C)	Adjustment of banking associates / other entities (*) (D)	Under regulatory scope of consolidation (E)
Assets			
Cash and balances at central banks	21,252,327		21,252,327
Due from banks and other financial institutions	1,935,625		1,935,625
Investments, net	33,876,206		33,876,206
Loans and advances, net	103,724,016		103,724,016
Debt securities	0		0
Trading assets	0		0
Investment in associates	494,117		494,117
Derivatives	0		0
Goodwill	0		0
Other real estate	136,634		136,634
Property and equipment, net	1,745,936		1,745,936
Other assets	1,503,494		1,503,494
Total assets	164,668,355	0	164,668,355
Liabilities			
Due to Banks and other financial institutions	9,015,640		9,015,640
Items in the course of collection due to other banks	0		0
Customer deposits	129,631,178		129,631,178
Trading liabilities	0		0
Debt securities in issue	1,687,500		1,687,500
Derivatives	0		0
Retirement benefit liabilities	0		0
Taxation liabilities	0		0
Accruals and deferred income	0		0
Other liabilities	3,694,278		3,694,278
Subtotal	144,028,596	0	144,028,596

Basel III Pillar 3 Quantitative Disclosures

	Balance sheet in Published financial statements (C)	Adjustment of banking associates / other entities (*) (D)	Under regulatory scope of consolidation (E)
Paid up share capital	10,000,000		10,000,000
Statutory reserves	7,990,000		7,990,000
Other reserves	278,832		278,832
Retained earnings	1,782,481	0	1,782,481
Minority Interest	38,446		38,446
Proposed dividends	550,000		550,000
Total liabilities and equity	164,668,355	0	164,668,355

TABLE 2: CAPITAL STRUCTURE – DECEMBER 2014

Balance sheet – Step 2 (Table 2 (c)). All figures are in SAR'000

	Balance sheet in Published financial statements (C)	Adjustment of banking associates / other entities (D)	Under regulatory scope of consolidation (E)	Reference
Assets				
Cash and balances at central banks	21,252,327		21,252,327	
Due from banks and other financial institutions	1,935,625		1,935,625	
Investments, net	33,876,206		33,876,206	
Loans and advances, net	103,724,016		103,724,016	
of which Collective provisions	684,977		684,977	A
Debt securities	0		0	
Equity shares	0		0	
Investment in associates	494,117		494,117	
Derivatives	0		0	
Goodwill	0		0	
Other real estate	136,634		136,634	
Property and equipment, net	1,745,936		1,745,936	
Other assets	1,503,494		1,503,494	
Total assets	164,668,355	0	164,668,355	
Liabilities				
Due to Banks and other financial institutions	9,015,640		9,015,640	
Items in the course of collection due to other banks	0		0	
Customer deposits	129,631,178		129,631,178	
Trading liabilities	0		0	
Debt securities in issue	1,687,500		1,687,500	
of which Tier 2 capital instruments	337,500		337,500	B
Derivatives	0		0	
Retirement benefit liabilities	0		0	
Taxation liabilities	0		0	
Accruals and deferred income	0		0	

Basel III Pillar 3 Quantitative Disclosures

	Balance sheet in Published financial statements (C)	Adjustment of banking associates / other entities (D)	Under regulatory scope of consolidation (E)	Reference
Borrowings	0		0	
Other liabilities	3,694,278		3,694,278	
Subtotal	144,028,596	0	144,028,596	
Paid up share capital	10,000,000		10,000,000	
of which amount eligible for CET1	10,000,000		10,000,000	H
of which amount eligible for AT1	0		0	
Statutory reserves	7,990,000		7,990,000	G
Other reserves	278,832		278,832	C
Retained earnings	1,782,481	0	1,782,481	J
SAMA supervisory provision adjustment	0			
Minority Interest	38,446		38,446	
Proposed dividends	550,000		550,000	
Total liabilities and equity	164,668,355	0	164,668,355	

TABLE 2: CAPITAL STRUCTURE – DECEMBER 2014

Common template (transition) – Step 3 (Table 2 (d)) i

(From January 2013 to 2018 identical to post 2018) With amount subject to Pre- Basel III Treatment

All figures are in SAR'000

	Components ¹ of regulatory capital reported by the bank	Amounts ¹ subject to Pre – Basel III treatment	Source based on reference numbers / letters of the balance sheet under the regulatory scope of consolidation from step 2
(2)			
Common Equity Tier 1 capital: Instruments and reserves			
1 Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	10,000,000		H
2 Retained earnings	9,772,481		G + J
3 Accumulated other comprehensive income (and other reserves)	278,832		C
4 Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)			
5 Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)			
6 Common Equity Tier 1 capital before regulatory adjustments			
Common Equity Tier 1 capital: Regulatory adjustments	20,051,313		
7 Prudential valuation adjustments			
8 Goodwill (net of related tax liability)			

Basel III Pillar 3 Quantitative Disclosures

	Components ¹ of regulatory capital reported by the bank	Amounts ¹ subject to Pre – Basel III treatment	Source based on reference numbers / letters of the balance sheet under the regulatory scope of consolidation from step 2
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)		
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)		
11	Cash-flow hedge reserve		
12	Shortfall of provisions to expected losses		
13	Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)		
14	Gains and losses due to changes in own credit risk on fair valued liabilities		
15	Defined-benefit pension fund net assets		
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)		
17	Reciprocal cross-holdings in common equity		
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)		
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)		
20	Mortgage servicing rights (amount above 10% threshold)		
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)		
22	Amount exceeding the 15% threshold		
23	of which: significant investments in the common stock of financials		
24	of which: mortgage servicing rights		
25	of which: deferred tax assets arising from temporary differences		
26	National specific regulatory adjustments REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT OF WHICH: [INSERT NAME OF ADJUSTMENT] OF WHICH:...		
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions		
28	Total regulatory adjustments to Common equity Tier 1		
29	Common Equity Tier 1 capital (CET1)	20,051,313	
	Additional Tier 1 capital: instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus		

Basel III Pillar 3 Quantitative Disclosures

	Components ¹ of regulatory capital reported by the bank	Amounts ¹ subject to Pre – Basel III treatment	Source based on reference numbers / letters of the balance sheet under the regulatory scope of consolidation from step 2
31	of which: classified as equity under applicable accounting standards		
32	of which: classified as liabilities under applicable accounting standards		
33	Directly issued capital instruments subject to phase out from Additional Tier 1		
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)		
35	of which: instruments issued by subsidiaries subject to phase out		
36	Additional Tier 1 capital before regulatory adjustments		
	Additional Tier 1 capital: regulatory adjustments		
37	Investments in own Additional Tier 1 instruments		
38	Reciprocal cross-holdings in Additional Tier 1 instruments		
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)		
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)		
41	National specific regulatory adjustments		
	REGULATORY ADJUSTMENTS APPLIED TO ADDITIONAL TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT OF WHICH: [INSERT NAME OF ADJUSTMENT]		
	OF WHICH: ...		
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions		
43	Total regulatory adjustments to Additional Tier 1 capital		
44	Additional Tier 1 capital (AT1)		
45	Tier 1 capital (T1 = CET1 + AT1)	20,051,313	

Note: Items which are not applicable are to be left blank

Basel III Pillar 3 Quantitative Disclosures

TABLE 2: CAPITAL STRUCTURE – DECEMBER 2014

Common template (transition) – Step 3 (Table 2(d)) ii
(From January 2013 to 2018 identical to post 2018) With amount subject to Pre- Basel III Treatment
All figures are in SAR'000

	Components ¹ of regulatory capital reported by the bank	Amounts ¹ subject to Pre – Basel III treatment	Source based on reference numbers / letters of the balance sheet under the regulatory scope of consolidation from step 2
Tier 2 capital: instruments and provisions			
46 Directly issued qualifying Tier 2 instruments plus related stock surplus	337,500		B
47 Directly issued capital instruments subject to phase out from Tier 2			
48 Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)			
49 of which: instruments issued by subsidiaries subject to phase out			
50 Provisions	684,977		A
51 Tier 2 capital before regulatory adjustments	1,022,477		
Tier 2 capital: regulatory adjustments			
52 Investments in own Tier 2 instruments			
53 Reciprocal cross-holdings in Tier 2 instruments			
54 Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)			
55 Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	0		
56 National specific regulatory adjustments REGULATORY ADJUSTMENTS APPLIED TO TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT OF WHICH: [INSERT NAME OF ADJUSTMENT] OF WHICH: ...			
57 Total regulatory adjustments to Tier 2 capital			
58 Tier 2 capital (T2)	1,022,477		
59 Total capital (TC = T1 + T2)	21,073,790		
RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT OF WHICH: [INSERT NAME OF ADJUSTMENT] OF WHICH: ...			
60 Total risk weighted assets	141,861,639		
	Capital ratios		
61 Common Equity Tier 1 (as a percentage of risk weighted assets)	14.13%		
62 Tier 1 (as a percentage of risk weighted assets)	14.13%		

Basel III Pillar 3 Quantitative Disclosures

	Components ¹ of regulatory capital reported by the bank	Amounts ¹ subject to Pre – Basel III treatment	Source based on reference numbers / letters of the balance sheet under the regulatory scope of consolidation from step 2
63 Total capital (as a percentage of risk weighted assets)	14.86%		
64 Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer requirement expressed as a percentage of risk weighted assets)			
65 of which: capital conservation buffer requirement			
66 of which: bank specific countercyclical buffer requirement			
67 of which: G-SIB buffer requirement			
68 Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	14.13%		
National minima (if different from Basel 3)			
69 National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)			
70 National Tier 1 minimum ratio (if different from Basel 3 minimum)			
71 National total capital minimum ratio (if different from Basel 3 minimum)			
Amounts below the thresholds for deduction (before risk weighting)			
72 Non-significant investments in the capital of other financials			
73 Significant investments in the common stock of financials			
74 Mortgage servicing rights (net of related tax liability)			
75 Deferred tax assets arising from temporary differences (net of related tax liability)			
Applicable caps on the inclusion of provisions in Tier 2			
76 Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	684,977		
77 Cap on inclusion of provisions in Tier 2 under standardised approach	1,624,322		
78 Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)			
79 Cap for inclusion of provisions in Tier 2 under internal ratings-based approach			
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)			
80 Current cap on CET1 instruments subject to phase out arrangements			
81 Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)			
82 Current cap on AT1 instruments subject to phase out arrangements			
83 Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)			
84 Current cap on T2 instruments subject to phase out arrangements			
85 Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)			

Note: Items which are not applicable are to be left blank.

Basel III Pillar 3 Quantitative Disclosures

TABLE 2: CAPITAL STRUCTURE – DECEMBER 2014

Main features template of regulatory capital instruments – (Table 2(e))

1 Issuer	Arab National Bank
2 Unique identifier (eg CUSPIN, ISIN or Bloomberg identifier for private placement)	XS0269970116
3 Governing law(s) of the instrument	English
Regulatory treatment	
4 Transitional Basel III rules	Tier 2
5 Post-transitional Basel III rules	Ineligible
6 Eligible at solo/igroup/group&tsolo	Solo
7 Instrument type	Unsecured Subordinated
8 Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	USD 90MM
9 Par value of instrument	USD 450MM
10 Accounting classification	Liability- Held at Amortised Cost
11 Original date of issuance	7-Oct-06
12 Perpetual or dated	Dated
13 Original maturity date	31-Oct-16
14 Issuer call subject to prior supervisory approval	Call
15 Option call date, contingent call dates and redemption amount	First Call date 10/31/2011, and callable on each subsequent quarter at PAR in whole, with a notice period not less than 30 days nor more than 60 days. Quarterly
16 Subsequent call dates if applicable	
Coupons / dividends	
17 Fixed or Floating dividend/coupon	Float
18 Coupon rate and any related index	3m Libor + 133bps (current) - initially 3m Libor +83bps (5-years from issuance date)
19 Existence of a dividend stopper	No
20 Fully discretionary, partially discretionary or mandatory	Mandatory
21 Existence of step up or other incentive to redeem	Step-up on 10-Oct-11 from 3mL + 83bps to 3mL + 133bps
22 Non cumulative or cumulative	Non-cumulative
23 Convertible or non-convertible	Non-convertible
24 If convertible, conversion trigger (s)	N/A
25 If convertible, fully or partially	N/A
26 If convertible, conversion rate	N/A
27 If convertible, mandatory or optional conversion	N/A
28 If convertible, specify instrument type convertible into	N/A
29 If convertible, specify issuer of instrument it converts into	N/A
30 Write-down feature	No
31 If write-down, write-down trigger (s)	N/A
32 If write-down, full or partial	N/A
33 If write-down, permanent or temporary	N/A
34 If temporary writedown, description of the write-up mechanism	N/A
35 Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated
36 Non-compliant transitioned features	Yes
37 If yes, specify non-compliant features	Step-up clause, Non-convertible and no write-down features

Basel III Pillar 3 Quantitative Disclosures

TABLE 3 : CAPITAL ADEQUACY – DECEMBER 2014

Amount of Exposures Subject To Standardized Approach of Credit Risk and related Capital Requirements (TABLE 3, (b)) (Figures in SR 000's)

Portfolios	Amount of exposures	Capital requirements
Sovereigns and central banks:	43,614,807	4,534
SAMA and Saudi Government	36,835,510	-
Others	6,779,297	4,534
Multilateral Development Banks (MDBs)	-	-
Public Sector Entities (PSEs)	-	-
Banks and securities firms	7,234,348	394,296
Corporates	83,520,995	6,256,176
Retail non-mortgages	23,576,226	1,414,574
Small Business Facilities Enterprises (SBFE's)	-	-
Mortgages	1,292,100	103,237
Residential	1,292,100	103,237
Commercial	-	-
Securitized assets	-	-
Equity	1,127,014	90,161
Others	8,187,443	372,331
Total	168,552,933	8,635,309

Table 3: Capital Adequacy

Capital Requirements For Market Risk* (822, Table 3, (d)) (Figures in SR 000's)

	Interest rate risk	Equity position risk	Foreign exchange risk	Commodity risk	Options	Total
Standardised approach	35,013	-	31,359	5,000	584	71,957
Internal models approach	-	-	-	-	-	-

* Capital requirements are to be disclosed only for the approaches used.

TABLE 3: CAPITAL ADEQUACY – DECEMBER 2014

Capital Requirements for Operational Risk* (Table 3, (e)) (Figures in SR 000's)

Particulars	Capital requirement
• Basic indicator approach;	-
• Standardized approach;	-
• Alternate standardized approach;	881,316
• Advanced measurement approach (AMA).	-
Total	-

* Capital requirement is to be disclosed only for the approach used.

Basel III Pillar 3 Quantitative Disclosures

TABLE 3: CAPITAL ADEQUACY – DECEMBER 2014

Capital Adequacy Ratios (TABLE 3, (f))

Particulars	Total capital ratio	Tier 1 capital ratio
Top consolidated level	14.86%	14.13%
Bank significant stand alone subsidiary 1	-	-
Bank significant stand alone subsidiary 2	-	-
Bank significant stand alone subsidiary 3	-	-
Bank significant stand alone subsidiary n	-	-

"TABLE 4 (STA): CREDIT RISK: GENERAL DISCLOSURES DECEMBER 2014"

Credit Risk Exposure (Table 4, (b)) (Figures in SR 000's)

Portfolios	Total gross credit risk exposure*	Average gross credit risk exposure over the period**
Sovereigns and central banks:	43,614,807	39,065,880
SAMA and Saudi Government	36,835,510	32,210,988
Others	6,779,297	6,854,892
Multilateral Development Banks (MDBs)	-	-
Public Sector Entities (PSEs)	-	-
Banks and securities firms	10,185,077	10,373,962
Corporates	101,911,913	93,628,993
Retail non-mortgages	23,576,226	23,074,993
Small Business Facilities Enterprises (SBFE's)	-	-
Mortgages	1,290,468	1,134,617
Residential	1,290,468	1,134,617
Commercial	-	-
Securitized assets	-	-
Equity	1,127,014	1,161,433
Others	7,677,881	7,354,957
Total	189,383,386	175,794,835

* This also covers off-balance sheet items at credit equivalent values

**Average is calculated at the end-of-quarter balances, for the last 4 quarters.

Basel III Pillar 3 Quantitative Disclosures

TABLE 4 (STA): CREDIT RISK: GENERAL DISCLOSURES – DECEMBER 2014

Geographic Breakdown (Table 4, (c)) (Figures in SR 000's)

Portfolios	Geographic area						Total
	Saudi Arabia	Other GCC & Middle East	Europe	North America	South East Asia	Others countries	
Sovereigns and central banks:	36,835,510	372,135	392,009	6,015,153	-	-	43,614,807
SAMA and Saudi Government	36,835,510	-	-	-	-	-	36,835,510
Others	-	372,135	392,009	6,015,153	-	-	6,779,297
Multilateral Development Banks (MDBs)	-	-	-	-	-	-	-
Public Sector Entities (PSEs)	-	-	-	-	-	-	-
Banks and securities firms	2,671,895	3,963,327	2,121,021	1,060,167	315,360	53,307	10,185,077
Corporates	100,386,794	707,735	672,238	39,468	1,909	103,769	101,911,913
Retail non-mortgages	23,576,226	-	-	-	-	-	23,576,226
Small Business Facilities Enterprises (SBFE's)	-	-	-	-	-	-	-
Mortgages	1,290,468	-	-	-	-	-	1,290,468
Residential	1,290,468	-	-	-	-	-	1,290,468
Commercial	-	-	-	-	-	-	-
Securitized assets	-	-	-	-	-	-	-
Equity	1,127,014	-	-	-	-	-	1,127,014
Others	7,677,094	-	787	-	-	-	7,677,881
Total	173,565,001	5,043,197	3,186,055	7,114,788	317,269	157,076	189,383,386

Table 4 (STA): Credit Risk: General Disclosures

Industry Sector Breakdown (Table 4, (d)) (Figures in SR 000's)

Portfolios	Industry sector												Total
	Government and quasi government	Banks and other financial institutions	Agriculture and fishing	Manufacturing	Mining and quarrying	Electricity, water, gas and health services	Building and construction	Commerce	Transportation and communication	Services	Consumer loans and credit cards	Others	
Sovereigns and central banks:	43,614,807	-	-	-	-	-	-	-	-	-	-	-	43,614,807
SAMA and Saudi Government	36,835,510	-	-	-	-	-	-	-	-	-	-	-	36,835,510
Others	6,779,297	-	-	-	-	-	-	-	-	-	-	-	6,779,297
Multilateral Development Banks (MDBs)	-	-	-	-	-	-	-	-	-	-	-	-	-
Public Sector Entities (PSEs)	-	-	-	-	-	-	-	-	-	-	-	-	-
Banks and securities firms	-	10,185,077	-	-	-	-	-	-	-	-	-	-	10,185,077
Corporates	3,366	3,823,099	901,321	16,148,600	1,279,958	8,173,151	15,954,724	22,316,722	4,649,620	4,997,962	-	23,663,390	101,911,913
Retail non-mortgages	-	-	-	-	-	-	-	-	-	-	23,576,226	-	23,576,226
Small Business Facilities Enterprises (SBFE's)	-	-	-	-	-	-	-	-	-	-	-	-	-
Mortgages	-	-	-	-	-	-	-	-	-	-	-	1,290,468	1,290,468
Residential	-	-	-	-	-	-	-	-	-	-	-	1,290,468	1,290,468
Commercial	-	-	-	-	-	-	-	-	-	-	-	-	-
Securitized assets	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity	-	664,479	27,812	120,233	-	47,562	72,942	-	140,907	53,079	-	-	1,127,014
Others	-	-	651	4,117	-	-	10,177	182,625	8,685	15,019	18,511	7,438,096	7,677,881
Total	43,618,173	14,672,655	929,784	16,272,950	1,279,958	8,220,713	16,037,843	22,499,347	4,799,212	5,066,060	23,594,737	32,391,954	189,383,386

Basel III Pillar 3 Quantitative Disclosures

TABLE 4 (STA): CREDIT RISK: GENERAL DISCLOSURES – DECEMBER 2014

Residual Contractual Maturity Breakdown (Table 4, (e)) (Figures in SR 000's)

Portfolios	Maturity breakdown								No Fixed Maturity	Total
	Less than 8 days	8–30 days	30–90 days	90–180 days	180–360 days	1–3 years	3–5 years	Over 5 years		
Sovereigns and central banks:	12,089,916	4,244,397	8,500,722	90,181	4,619,455	1,039,022	5,550,078	1,000,000	6,481,036	43,614,807
SAMA and Saudi Government	12,089,916	3,998,363	8,481,972	10,454	4,391,194	369,827	12,748	1,000,000	6,481,036	36,835,510
Others	-	246,034	18,750	79,727	228,261	669,195	5,537,330	-	-	6,779,297
Multilateral Development Banks (MDBs)	-	-	-	-	-	-	-	-	-	-
Public Sector Entities (PSEs)	-	-	-	-	-	-	-	-	-	-
Banks and securities firms	434,087	99,806	393,158	894,688	707,454	3,204,984	1,056,918	543,865	2,850,117	10,185,077
Corporates	849,542	5,111,974	18,303,347	16,822,236	21,051,644	16,716,762	16,824,296	5,703,182	528,930	101,911,913
Retail non-mortgages	3,041	1,446	28,341	112,145	392,481	6,410,659	16,058,620	569,493	-	23,576,226
Small Business Facilities Enterprises (SBFE's)	-	-	-	-	-	-	-	-	-	-
Mortgages	-	-	90	352	463	23,945	64,424	1,201,194	-	1,290,468
Residential	-	-	90	352	463	23,945	64,424	1,201,194	-	1,290,468
Commercial	-	-	-	-	-	-	-	-	-	-
Securitized assets	-	-	-	-	-	-	-	-	-	-
Equity	-	-	-	-	-	-	-	-	1,127,014	1,127,014
Others	-	4,998	9,872	17,206	28,858	61,782	25,025	44,162	7,485,978	7,677,881
Total	13,376,586	9,462,621	27,235,530	17,936,808	26,800,355	27,457,154	39,579,361	9,061,896	18,473,075	189,383,386

TABLE 4 (STA): CREDIT RISK: GENERAL DISCLOSURES – DECEMBER 2014

Impaired Loans, Past Due Loans and Allowances (Table 4, (f)) (Figures in SR 000's)

Industry sector	Aging of Past Due Loans (days)						Specific allowances			
	Impaired loans*	Defaulted**	Less than 90	90–180	180–360	Over 360	Charges during the Year To Date	Charge-offs during the Year To Date	Balance at the end of the Year To Date	General allowances
Government and quasi government	-	-	-	-	-	-	-	-	-	-
Banks and Other Financial Institutions	-	-	-	-	-	-	-	-	-	-
Agriculture and fishing	1,232	-	-	-	-	-	(1,339)	-	1,345	-
Manufacturing	724,066	5,415	10,253	-	1,865	3,550	(13,461)	-	124,451	-
Mining and quarrying	-	-	-	-	-	-	-	-	-	-
Electricity, water, gas and health services	-	-	-	-	-	-	-	-	-	-
Building and construction	368,531	346,603	8,464	310,248	-	36,355	64,125	-	538,200	-
Commerce	568,783	553,380	55,523	12,568	388,503	152,309	18,084	-	587,195	-
Transportation and communication	88,720	88,864	1,434	80,074	4,872	3,918	77,621	-	88,008	-
Services	20,151	15,177	30,674	12,699	-	2,478	(491)	-	9,806	-
Consumer loans and credit cards	234,067	70,469	1,231,403	70,469	-	-	224,781	211,884	68,741	-
Others	663,709	15,276	85,172	2,362	60	12,854	(38,732)	633	283,231	-
Total	2,669,259	1,095,184	1,422,923	488,420	395,300	211,464	330,588	212,517	1,700,977	684,977

* Impaired loans defined as any loan with specific provision

** Defaulted loans defined as non-performing loans.

Basel III Pillar 3 Quantitative Disclosures

TABLE 4 (STA): CREDIT RISK: GENERAL DISCLOSURES – DECEMBER 2014

Impaired Loans, Past Due Loans And Allowances (Table 4, (g)) (Figures in SR 000's)

Geographic area	Impaired loans	Aging of Past Due Loans (days)				Specific allowances	General allowances
		Less than 90	90–180	180–360	Over 360		
Saudi Arabia	2,013,009	1,422,923	488,420	395,300	211,464	1,440,977	684,977
Other GCC & Middle East	656,250	0	0	0	0	260,000	0
Europe	-	-	-	-	-	-	-
North America	-	-	-	-	-	-	-
South East Asia	-	-	-	-	-	-	-
Others countries	-	-	-	-	-	-	-
Total	2,669,259	1,422,923	488,420	395,300	211,464	1,700,977	684,977

"TABLE 4 (STA): CREDIT RISK: GENERAL DISCLOSURES – DECEMBER 2014"

Reconciliation Of Changes In The Allowances For Loan Impairment (Table 4, (h))

Particulars	Specific allowances	General allowances
Balance, beginning of the year	1,582,905	471,135
Charge-offs taken against the allowances during the period	(212,517)	-
Amounts set aside (or reversed) during the period	330,589	213,842
Other adjustments:	-	-
- exchange rate differences	-	-
- business combinations	-	-
- acquisitions and disposals of subsidiaries	-	-
- etc.	-	-
Transfers between allowances	-	-
Balance, end of the year	1,700,977	684,977

* Charge-offs and recoveries that have been recorded directly to the income statement are SAR 6,452 and SAR 66,538 respectively.

Basel III Pillar 3 Quantitative Disclosures

TABLE 5 (STA): CREDIT RISK: DISCLOSURES FOR PORTFOLIOS SUBJECT TO THE STANDARDIZED APPROACH – DECEMBER 2014
Allocation Of Exposures To Risk Buckets (Table 5, (b)) (Figures in SR 000's)

Particulars	Risk buckets							Other risk weights	Unrated	Deducted
	0%	20%	35%	50%	75%	100%	150%			
Sovereigns and central banks:	43,558,137	-	-	-	-	56,670	-	-	-	-
SAMA and Saudi Government	36,835,510	-	-	-	-	-	-	-	-	-
Others	6,722,627	-	-	-	-	56,670	-	-	-	-
Multilateral Development Banks (MDBs)	-	-	-	-	-	-	-	-	-	-
Public Sector Entities (PSEs)	-	-	-	-	-	-	-	-	-	-
Banks and securities firms	-	937,134	-	5,596,556	-	3,071,710	85,561	494,116	-	-
Corporates	-	1,838,448	-	550,298	-	98,981,530	541,637	-	-	-
Retail non-mortgages	-	-	-	-	23,576,226	-	-	-	-	-
Small Business Facilities Enterprises (SBFE's)	-	-	-	-	-	-	-	-	-	-
Mortgages	-	-	-	-	-	1,290,468	-	-	-	-
Residential	-	-	-	-	-	1,290,468	-	-	-	-
Commercial	-	-	-	-	-	-	-	-	-	-
Securitized assets	-	-	-	-	-	-	-	-	-	-
Equity	-	-	-	-	-	1,127,014	-	-	-	-
Others	3,308,092	-	-	-	-	3,796,647	573,142	-	-	-
TOTAL	46,866,229	2,775,582	0	6,146,854	23,576,226	108,324,039	1,200,340	494,116		
GRAND TOTAL				189,383,386						0

TABLE 7 (STA): CREDIT RISK MITIGATION (CRM): DISCLOSURES FOR STANDARDIZED APPROACH – DECEMBER 2014
Credit Risk Exposure Covered By CRM (Table 7, (b) and (c)) (Figures in SR 000's)

Portfolios	Covered by	
	Eligible financial collateral	Guarantees / credit derivatives
Sovereigns and central banks:	-	-
SAMA and Saudi Government	-	-
Others	-	-
Multilateral Development Banks (MDBs)	-	-
Public Sector Entities (PSEs)	-	-
Banks and securities firms	-	-
Corporates	3,386,096	143,703
Retail non-mortgages	-	-
Small Business Facilities Enterprises (SBFE's)	-	-
Mortgages	-	-
Residential	-	-
Commercial	-	-
Securitized assets	-	-
Equity	-	-
Others	1,671	-
Total	3,387,767	143,703

Basel III Pillar 3 Quantitative Disclosures

TABLE 8: GENERAL DISCLOSURES FOR EXPOSURES RELATED TO COUNTERPARTY CREDIT RISK (CCR) - DECEMBER 2014

General Disclosures (Table 8, (b) and (d)) (Figures in SR 000's)

Particulars	Amount
Gross positive fair value of contracts	156,669
Netting Benefits*	-
Netted Current Credit Exposure*	-
Collateral held:	-
-Cash	-
-Government securities	-
-Others	-
Exposure amount (under the applicable method)	1,123,824
-Internal Models Method (IMM)	-
-Current Exposure Method (CEM)	1,123,824
Notional value of credit derivative hedges	-
Current credit exposure (by type of credit exposure):	-
-Interest rate contracts	143,157
-FX contracts	980,667
-Equity contracts	-
-Credit derivatives	-
-Commodity/other contracts	-

• Bank's estimate of Alpha (if the bank has received supervisory approval) is: N/A.

* Currently, netting for credit exposure measurement purposes not permitted in KSA.

"TABLE 9 Series : SECURITIZATION DISCLOSURES DECEMBER 2014"

Disclosures related to Securitization are not applicable to ANB

TABLE 10: MARKET RISK: DISCLOSURES FOR BANKS USING THE STANDARDIZED APPROACH - DECEMBER 2014

Level of Market Risks In Terms of Capital Requirements (Table 10, (b)) (Figures in SR 000's)

	Interest rate risk	Equity position risk	Foreign exchange risk	Commodity risk	Options	Total
Capital requirements	35,013	-	31,359	5,000	584	71,957

Basel III Pillar 3 Quantitative Disclosures

TABLE 13: EQUITIES: DISCLOSURES FOR BANKING BOOK POSITIONS – DECEMBER 2014

Value Of Investments (Table 13, (b)) (Figures in SR 000's)

	Un-quoted investments		Quoted investments		Publicly quoted share values (if materially different from fair value)
	Value disclosed in Financial Statements	Fair value	Value disclosed in Financial Statements	Fair value	
Investments	533,197	533,197	1,087,934	1,087,934	-

TABLE 13: EQUITIES: DISCLOSURES FOR BANKING BOOK POSITIONS DECEMBER 2014

Types And Nature of Investments (Table 13, (c)) (Figures in SR 000's)

Investments	Publicly traded	Privately held
Government and quasi government	-	-
Banks and other financial institutions	625,399	533,197
Agriculture and fishing	27,812	-
Manufacturing	120,233	-
Mining and quarrying	-	-
Electricity, water, gas and health services	47,562	-
Building and construction	72,942	-
Commerce	-	-
Transportation and communication	140,907	-
Services	53,079	-
Others	-	-
Total	1,087,934	533,197

TABLE 13: EQUITIES: DISCLOSURES FOR BANKING BOOK POSITIONS – DECEMBER 2014

Gains / Losses Etc. (Table 13, (d) and (e)) (Figures in SR 000's)

Particulars	Amount
Cumulative realized gains (losses) arising from sales and liquidations in the reporting period	-
Total unrealized gains (losses)	143,170
Total latent revaluation gains (losses)*	-
Unrealized gains (losses) included in Capital	143,170
Latent revaluation gains (losses) included in Capital*	-

*Not applicable to KSA to date

Basel III Pillar 3 Quantitative Disclosures

TABLE 13: EQUITIES: DISCLOSURES FOR BANKING BOOK POSITIONS DECEMBER 2014

Capital Requirements (Table 13, (f)) (Figures in SR 000's)

Equity grouping	Capital requirements
Government and quasi government	-
Banks and other financial institutions	151,982
Agriculture and fishing	2,225
Manufacturing	9,619
Mining and quarrying	-
Electricity, water, gas and health services	3,805
Building and construction	5,835
Commerce	-
Transportation and communication	11,273
Services	4,246
Others	-
Total	188,985

TABLE 14: INTEREST RATE RISK IN THE BANKING BOOK (IRRBB) DECEMBER 2014

200bp Interest Rate Shocks for currencies with more than 5% of Assets or Liabilities (Table 14, (b)) (Figures in SR 000's)

Rate Shocks	Change in earnings
Upward rate shocks:	
SAR	700,980
USD	(143,233)
OTHERS	(1,599)
Downward rate shocks:	
SAR	175,245
USD	(35,808)
OTHERS	(400)

* only 50bp downward shock keeping in view the low interest rates

Branches

Central Region Branches:

Branch Name	City	Phone No.	FAX No.
• Ministry of health	Riyadh	011 2008245	011 2008246
Riyadh	Riyadh	011 4114000	011 2875306
Sitteen	Riyadh	011 2279036	011 2396079
Dhabab	Riyadh	011 4040365	011 4043959
Olaya	Riyadh	011 4659331	011 4659440
Industrial Area	Riyadh	011 4465708	011 4460781
• Haer Road	Riyadh	011 2137742	011 2134370
• Rawdah	Riyadh	011 2086024	011 2089562
• Shemeisi	Riyadh	011 4354074	011 4353946
• Al-Kharj	Al-Kharj	011 5478500	011 5478535
• Hawtat Bani Tamim	Hawtat Bani Tamim	011 5550780	011 5550784
• Al-Majma'a	Al-Majma'a	016 4323584	016 4323848
Akariah	Riyadh	011 4191000	011 4191803
• Rabwa	Riyadh	011 4910546	011 4910573
• Shaqra	Shaqra	011 6220909	011 6221758
• Pensions Fund Authority	Riyadh	011 4025100	011 4124559
• Shifa	Riyadh	011 4226900	011 4237631
• Swaidi	Riyadh	011 4258766	011 4259417
• Al-Malaz	Riyadh	011 4765400	011 4769294
• Dahrat Al-Badia	Riyadh	011 2678676	011 2675860
• North Murabba	Riyadh	011 4050707	011 4032349
Second Industrial City	Riyadh	011 2652088	011 2652023
Khashm Al-A'an	Riyadh	011 2521102	011 2521106
Raed Quarter	Riyadh	011 4880587	011 4880901
• Naseem	Riyadh	011 2328230	011 2330291
• Quwaiyayah	Quwaiyayah	011 6521206	011 6521164
Mursalat	Riyadh	011 4555455	011 4569177
• Takhassusi	Riyadh	011 4820489	011 4822090
Land Forces	Riyadh	011 4787154	-
• Eshpielya	Riyadh	011 2534298	011 2534283
• King Faisal Quarter	Riyadh	011 2387118	011 2387185
• Hafr Al-Batin	Hafr Al-Batin	013 7230566	013 7230765
• Rayan Quarter	Riyadh	011 4929371	011 4928409
• Ta'awon	Riyadh	011 4547783	011 4508959
• Aziziah Quarter	Riyadh	011 4956994	011 2134972
• Almugharzat	Riyadh	011 4940833	011 4940824
• Ghornatah	Riyadh	011 2490036	011 2493514
• Hawtat Sudair	Hawtat Sudair	016 4430117	016 4450623
• Aloraija'a	Riyadh	011 2478758	011 2478791
• Hay AlNafel, Riyadh	Riyadh	011 2756168	011 2108499
• Hay AlFalah, Riyadh	Riyadh	011 2109495	011 2109331
• Alnadwah	Riyadh	011 4536040	011 2291489
Business Gate	Riyadh	011 4009621	011 4443145

North Region Branches:

Branch Name	City	Phone No.	FAX No.
• Buraida	Buraida	016 3834059	016 3834029
• Unaiza	Unaiza	016 3264129	016 3265612
• Al-Zelfi	Al-Zelfi	016 4222244	016 4222240
• Dawadm	Dawadmi	011 6430641	011 6430142
• Al-Rass	Al-Rass	016 3513445	016 3381693
• Hail	Hail	016 5435446	016 5315684
• Ar'ar	Ar'ar	014 6640412	014 6627004
• Al-Jouf	Al-Jouf	014 6268507	014 6268454
• Qurayat	Qurayat	014 6419471	014 6416473
• Afif	Afif	011 7223013	011 7223021
• Shraf	Hail	016 5333748	016 5351785
• Tabuk	Tabuk	014 4221218	014 4234643
• Tayma	Tayma	014 4630632	014 4630080
• King Abdulaziz	Buraida	016 3693696	016 3693661
• ALBekairia	ALBekairia	016 3352970	016 3352972
• King Fahad Road	Tabuk	014 4219331	014 4236298
• Rafha	Rafha	014 6769164	014 6769166

Western Region Branches:

Branch Name	City	Phone No.	FAX No.
• Al Shawqiah	Makkah	012 5655330	012 5650476
King Abdul Aziz Medical City	Jeddah	012 6240000	012 6247377
Sari	Jeddah	012 6912376	012 6916587
• Alrehab	Jeddah	012 6753693	012 6756951
Makkah Road	Jeddah	012 6873509	012 6886966
• Madina Munawwarah	Madina Munawwarah	014 8237144	014 8281653
• Yanbu	Yanbu	014 3226190	014 3225940
• Taif	Taif	012 7384122	012 7381690
• Alrusaifah	Makkah	012 5656030	012 5656070
• Wajh	Wajh	014 4424648	014 4424638
• Aziziyah	Makkah	012 5570838	012 5570821
• Rabigh	Rabigh	012 4220196	012 4220816
• Al-Ula	Al-Ula	014 8841265	014 8842357
Hay Al-Salamah	Jeddah	012 2751515	012 6399743
• Prince Majid Street	Jeddah	012 6170473	012 6744533
Makaronah	Jeddah	012 6700600	012 6724183
• Ma'abdah	Makkah	012 5735623	012 5704466
• Mahjar	Jeddah	012 6373776	012 6373783
Hay Al-Jamia'a	Jeddah	012 6809980	012 6809889
• Otaibiah	Makkah	012 5605712	012 5605721
• Misyal	Makkah	012 5413936	012 5381161
• Alandalus	Jeddah	012 6033939	012 2637040
• Shohada	Makkah	012 5450594	012 5442008
• Qurban	Madina Munawwarah	014 8279900	014 8288899
• Shohada	Taif	012 7429386	012 7431397
• Al-Safa	Jeddah	012 6798171	012 6781237
Alrawdah	Jeddah	012 2619233	012 2619240
Tahliyah Street	Jeddah	012 6644551	012 6631628
• Alrabea	Jeddah	012 6775956	012 2717735

• Islamic Branches

Branches

Western Region Branches (continued):

Branch Name	City	Phone No.	FAX No.
• Albawadi	Jeddah	012 6823010	012 6827514
• King Road	Jeddah	012 6912095	012 6910527
• Prince Sultan Street	Jeddah	012 6993051	012 6998054
• Alanpariah	Madina Munawwarah	014 8266557	014 8212881
• Hay Albsateen	Jeddah	012 6993477	012 6994309
• Shehar	Taif	012 7405905	012 7450992
• Al Mithnab	Buraida	016 3432277	016 3431825
• Yanbu Industrial City	Madina Munawwarah	014 3935169	014 3933679
• Al Hawia	Taif	012 7250503	012 7250536

Eastern Region Branches:

King Abdulaziz Hospital	Ehsa'a	013 5362669	013 5325334
• Dammam	Dammam	013 8333577	013 8347309
• Khobar	Khobar	013 8948660	013 8942752
Qatif	Qatif	013 8548464	013 8547462
• Hofuf	Hofuf	013 5831556	013 5831071
• Jubail	Jubail	013 3628622	013 3628633
Khazzan Street	Dammam	013 8275281	013 8272911
• Mubarraz	Mubarraz	013 5313334	013 5313016
• Ibqaiq	Ibqaiq	013 5662612	013 5663856
Al-Omran	Ehsa'a	013 5963632	013 5960144
• Ras Tannourah	Ras Tannourah	013 6680472	013 6682843
• Thuqbah	Thuqbah	013 8952304	013 8982980
Sanayah	Jubail	013 3475933	013 3475932
• Khafji	Khafji	013 7661450	013 7671627
King Abdul Aziz Street	Khobar	013 8396000	013 8396062
Old Industrial Area	Dammam	013 8471752	013 8471732
Saihat	Saihat	013 8506046	013 8503121
• First Street	Dammam	013 8309666	013 8098739
• 42 Street	Dammam	013 8487700	013 8487711
• Mazroueya	Hofuf	013 5825980	013 5823583
• Rawda	Hofuf	013 5806263	013 5803046
Qarah	Hofuf	013 5962656	013 5962276
Industrial Area	Khobar	013 8672800	013 8981365
Second Industrial City	Dammam	013 8122225	013 8121277
• Mukhattat 71	Dammam	013 8222799	013 8186116
• Al-Rashid Centre	Khobar	013 8986015	013 8652304
Al-Najah Street	Ehsa'a	013 5873177	013 5876317
• AL-Raka	Khobar	013 8598786	013 8591295
• AL-Muraikbat	Dammam	013 8412505	013 8420238
Alqatif	Alqatif	013 8551521	013 8540759
• Altaraf	Ehsa'a	013 5370955	013 5370956
Mohammadiyah	Dammam	013 8178100	013 8178090
Safwa	Safwa	013 6644773	013 6646909
• Nahria	Nahria	013 3732543	013 3730917
• Al Hazm	Khobar	013 8412084	013 8418270

Branches

Southern Region Branches:

Branch Name	City	Phone No.	FAX No.
• Aldarb	Jizan	017 3466766	017 3465659
• Wadi Al-Dawaser	Wadi Al-Dawaser	017 7840312	017 7840430
• Abha	Abha	017 2317930	017 2318074
• Najran	Najran	017 5222880	017 5220868
• Khamis Mushait	Khamis Mushait	017 2214342	017 2214167
• Al-Baha	Al-Baha	017 7253938	017 7254147
• Baljurashi	Baljurashi	017 7222920	017 7222916
• Jizan	Jizan	017 3220520	017 3223751
• Bisha	Bisha	017 6221222	017 6222373
• Dhahran Al-Janoob	Dhahran Al-Janoob	017 2550320	017 2550516
• Sabya	Sabya	017 3265817	017 3262942
• Al-Qunfudah	Al-Qunfudah	017 7321045	017 7320932
• Al-Namas	Al-Namas	017 2821029	017 2810327
• Mahayl Aseer	Mahayl Aseer	017 2852036	017 2851493
• Commercial Market	Khamis Mushait	017 2231514	017 2208784
• Samtah	Samtah	017 3321666	017 3323909
Al Arisa	Najran	017 5292112	017 5442588
• Military City	Khamis Mushait	017 2503834	017 2500592
• Almansak	Abha	017 2313088	017 2312971
• Mekhwaa	Al Baha	017 7283972	017 7283978
• Abu Arish	Jizan	017 3241403	017 3242804
Shurrah	Najran	017 5322800	017 5320373

Ladies Branches/Sections:

Central Region Branches:

Branch Name	City	Phone No.	FAX No.
Ladies, Akariah	Riyadh	011 4600065	011 4600213
Ladies, Tahlia	Riyadh	011 2931989	011 4659365
• Ladies, Albadiyah	Riyadh	011 2679548	011 2679560
Ladies, Mursalat	Riyadh	011 4555455	011 4555455
• Ladies, Rabwah	Riyadh	011 2832329	011 2087285
Ladies, Takhassusi	Riyadh	011 4830248	011 4831654
Ladies, Raed Quarter	Riyadh	011 4880587	011 4810314
• Ladies, Ryan	Riyadh	011 4929371	011 4928513
• Ladies, Almugharzat	Riyadh	011 4940833	011 4940823
• Ladies, Rawdah	Riyadh	011 2086024	011 4921389
• Ladies, Ta'awon	Riyadh	011 4547783	011 4539038
• Ladies, Ishbiliah	Riyadh	011 2534298	011 2537603
• Ladies, Alshaifa	Riyadh	011 4238120	011 2840657
• Hafar Al Batin	Hafer Al Batin	013 7255337	013 7244492
• Al Kharj	Al Kharj	011 5478500	011 5478578
• Al Suwaidi	Riyadh	011 4247189	011 4247422

North Region Branches:

• Ladies, Buraidah	Buraidah	016 3834035	016 3834059
• Ladies, Hail	Hail	016 5351894	016 5351894
• Ladies, Unaiza	Unaiza	016 3266293	016 3261637
• Tabuk	Tabuk	014 4221218	014 4230681

Ladies Branches/Sections (continued):

Western Region Branches:

Branch Name	City	Phone No.	FAX No.
• Ladies, Hay Al-Jamia'a	Jeddah	012 6808023	012 6809799
• Ladies, Sari,	Jeddah	012 6912376	012 6916043
• Ladies, Hay Al-Salamah	Jeddah	012 2751515	012 6399618
Ladies, Al Andalus	Jeddah	012 6034046	012 6034050
• Ladies, Makkah Mukaramah	Makkah Mukaramah	012 5576292	012 5576286
• Ladies, Madinah Munawarah	Madinah Munawarah	012 8222761	012 8271269
• Ladies, AL Shawqiah	Makkah Mukaramah	012 5655330	012 5650481
• Ladies, Alanpariah	Madina Munawwarah	014 8266557	014 8663071
• Ladies, King Road	Jeddah	012 6912095	012 2575376
• Ladies, Shehar	Taif	012 7405905	012 7422592
• Ladies, Prince Sultan	Jeddah	012 6990433	012 2155890
Ladies, Tahliya	Jeddah	012 6604236	012 6604236
• Ladies, Alrusaifah Quarter , Makkah	Makkah Mukaramah	012 5307050	012 5307346
• Ladies, Alrehab Quarter	Jeddah	012 6753693	012 2875005

Eastern Region Branches:

• Ladies, Mazroueya	Hofuf	013 5823198	013 5823641
• Ladies, Korneesh	AlDammam	013 8309666	013 8094718
• Ladies, Korneesh	AlKhobar	013 8891095	013 8892048
• Ladies, Shara-42	Dammam	013 8416390	013 8416390
• Ladies, Dammam	Dammam	013 8333577	013 8333577
• Ladies, Qatif	Qatif	013 8547198	013 8546074
• Ladies, Mubarraz	Mubarraz	013 5313334	013 5311570
• Ladies, King Abdulaziz Street	AlKhobar	013 8396082	013 8396108
• Ladies, Hofuf	Hofuf	013 5833782	013 5833782
• Mokhtat 71	Dammam	013 8226570	013 8226798
• Ladies, Al-Qara	Al-Qara	013 5962656	013 5965266
• Ladies, Al-Muraikbat	Dammam	013 8413438	013 8420238
• Ladies, Safwa	Safwa	013 6646448	013 6646507
• Ladies, Hafr Al-Batin	Hafr Al-Batin	013 7255337	013 7244492
• Ladies, Saihat	Saihat	013 8506046	013 8506203
• Ladies, Almuraikbat	Dammam	013 8413438	013 8420238
• Ladies, Al omran	Al-Omran	013 5952780	013 5952779

Southern Region Branches:

• Ladies, Khamis Mushait Shopping center	Khamis Mushait	017 2207499	017 2231714
• Ladies, Abha	Abha	017 2311585	017 2311969

Overseas Branches:

35 Curzon Street, London	London	+44 0 20 72974600	+44 0 20 72974900
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