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, 2015, the consolidated income statement, consolidated statements 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 42. We have not audited note 40, 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 Articles of Association. In addition, management is responsible for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the 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 entity'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 entity'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.

KPMG Al Fozan & Partners
Certified Public Accountants

Building a better working world

Independent auditors' report to the shareholders of
Arab National Bank (A Saudi Joint Stock Company) (continued)

Opinion

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

- present fairly, in all material respects, the financial position of the Group as at December 31, 2015, 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 Articles of Association in so far as they affect the preparation and presentation of the consolidated financial statements.

Ernst & Young

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Registration No. 348

8 Jumad Awal 1437 H
(17 February 2016)

Arab National Bank – Saudi Joint Stock Company

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at December 31, 2015 and 2014
(Saudi Riyals in Thousands)

	Notes	2015	2014
ASSETS			
Cash and balances with SAMA	4	**10,428,291**	21,252,327
Due from banks and other financial institutions	5	**5,575,020**	1,935,625
Derivative financial instruments	12	**290,158**	156,669
Investments, net	6	**33,239,175**	33,876,206
Loans and advances, net	7	**115,144,322**	103,724,016
Investments in associates	8	**531,617**	494,117
Other real estate		**159,893**	136,634
Investment property, net	9	**1,675,866**	-
Property and equipment, net	10	**1,945,420**	1,745,936
Other assets	11	**1,431,511**	1,346,825
Total assets		**170,421,273**	164,668,355
LIABILITIES AND EQUITY			
Liabilities			
Due to banks and other financial institutions	13	**5,672,883**	9,015,640
Derivative financial instruments	12	**338,949**	240,314
Customers' deposits	14	**135,686,539**	129,631,178
Other liabilities	15	**4,091,049**	3,453,964
Debt securities and sukuk	16	**2,000,000**	1,687,500
Total liabilities		**147,789,420**	144,028,596
Equity attributable to equity holders of the Bank			
Share capital	17	**10,000,000**	10,000,000
Statutory reserve	18	**8,732,000**	7,990,000
Other reserves		**102,051**	278,832
Retained earnings		**2,509,946**	1,782,481
Proposed dividends	28	**550,000**	550,000
Total equity attributable to equity holders of the Bank		**21,893,997**	20,601,313
Non-controlling interest		**737,856**	38,446
Total equity		**22,631,853**	20,639,759
Total liabilities and equity		**170,421,273**	164,668,355

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

Arab National Bank – Saudi Joint Stock Company

CONSOLIDATED INCOME STATEMENT
For the years ended December 31, 2015 and 2014
(Saudi Riyals in Thousands)

	Notes	2015	2014
Special commission income	20	**4,438,779**	4,091,289
Special commission expense	20	**593,942**	468,673
Net special commission income		**3,844,837**	3,622,616
Fees and commission income, net	21	**1,285,924**	1,316,567
Exchange income, net		**513,272**	423,444
Unrealized (loss)/gain on investments held as FVIS, net	22	**(4,679)**	3,291
Trading (loss)/gain, net	23	**(4,363)**	4,401
Dividend income	24	**46,277**	42,536
Gains from non-trading investments, net	25	**24,278**	333
Other operating income, net	26	**156,983**	94,387
Total operating income		**5,862,529**	5,507,575
Salaries and employee related expenses	30	**1,375,471**	1,234,684
Rent and premises related expenses		**165,963**	152,537
Depreciation and amortization	10	**199,323**	189,652
Other general and administrative expenses		**502,434**	529,835
Impairment charges for credit losses, net	7	**656,907**	550,883
Impairment charges for investments, net	6	**43,455**	413
Total operating expenses		**2,943,553**	2,658,004
Net operating income		**2,918,976**	2,849,571
Share in earnings of associates, net	8	**37,500**	27,584
Net income for the year		**2,956,476**	2,877,155
Attributable to:			
Equity holders of the Bank		**2,964,417**	2,875,050
Non-controlling interest		**(7,941)**	2,105
Net income for the year		**2,956,476**	2,877,155
Basic and diluted earnings (in SAR per share)	27	**2.96**	2.88

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

Arab National Bank – Saudi Joint Stock Company

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the years ended December 31, 2015 and 2014
(Saudi Riyals in Thousands)

	2015	2014
Net income for the year	**2,956,476**	2,877,155
Other comprehensive income:		
Items that are or may be reclassified to the consolidated income statement in subsequent periods		
Available for sale financial assets:		
- Net changes in fair value	**(197,389)**	(2,256)
- Net amounts transferred to consolidated income statement	**19,589**	(333)
Cash flows hedges:		
- Net changes in fair value	**-**	14,931
- Net amounts transferred to consolidated income statement	**1,019**	3,160
	(176,781)	15,502
Total comprehensive income for the year	**2,779,695**	2,892,657
Attributable to:		
Equity holders of the Bank	**2,787,636**	2,890,552
Non-controlling interest	**(7,941)**	2,105
Total comprehensive income for the year	**2,779,695**	2,892,657

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

Arab National Bank – Saudi Joint Stock Company

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the years ended December 31, 2015 and 2014
(Saudi Riyals in Thousands)

2015	Notes	Share capital	Statutory reserve	Available for sale financial assets reserves	Cash flow hedges reserves	Retained earnings	Proposed dividends	Total	Non-controlling interest	Total equity
		Attributable to equity holders of the Bank								
Balance at beginning of the year		**10,000,000**	**7,990,000**	**279,851**	**(1,019)**	**1,782,481**	**550,000**	**20,601,313**	**38,446**	**20,639,759**
Changes in equity for the year										
Net changes in fair value of cash flow hedges				**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net changes in fair value of available for sale investments				**(197,389)**	**-**	**-**	**-**	**(197,389)**	**-**	**(197,389)**
Transfers to consolidated income statement				**19,589**	**1,019**	**-**	**-**	**20,608**	**-**	**20,608**
Net income for the year				**-**	**-**	**2,964,417**	**-**	**2,964,417**	**(7,941)**	**2,956,476**
Total comprehensive income for the year				**(177,800)**	**1,019**	**2,964,417**	**-**	**2,787,636**	**(7,941)**	**2,779,695**
Transfer to statutory reserve	18	**-**	**742,000**	**-**	**-**	**(742,000)**	**-**	**-**	**-**	**-**
2014 final dividends paid	28	**-**	**-**	**-**	**-**	**-**	**(550,000)**	**(550,000)**	**-**	**(550,000)**
Gross dividends – Interim and proposed	28	**-**	**-**	**-**	**-**	**(1,494,952)**	**550,000**	**(944,952)**	**-**	**(944,952)**
Non-controlling interest arising on consolidation	1	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**707,351**	**707,351**
Balance at end of the year		**10,000,000**	**8,732,000**	**102,051**	**-**	**2,509,946**	**550,000**	**21,893,997**	**737,856**	**22,631,853**

2014	Notes	Share capital	Statutory reserve	Available for sale financial assets reserves	Cash flow hedges reserves	Retained earnings	Proposed dividends	Total	Non-controlling interest	Total equity
		Attributable to equity holders of the Bank								
Balance at beginning of the year		8,500,000	7,270,000	282,440	(19,110)	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				(333)	3,160	-	-	2,827	-	2,827
Net income for the year				-	-	2,875,050	-	2,875,050	2,105	2,877,155
Total comprehensive income for the year				(2,589)	18,091	2,875,050	-	2,890,552	2,105	2,892,657
Bonus share issue	17	1,500,000	-	-	-	(1,500,000)	-	-	-	-
Acquisition of non-controlling interest		-	-	-	-	-	-	-	(71,619)	(71,619)
Transfer to statutory reserve	18	-	720,000	-	-	(720,000)	-	-	-	-
2013 final dividends paid		-	-	-	-	-	(425,000)	(425,000)	-	(425,000)
Gross dividends – Interim and proposed	28	-	-	-	-	(1,494,693)	550,000	(944,693)	-	(944,693)
Balance at end of the year		10,000,000	7,990,000	279,851	(1,019)	1,782,481	550,000	20,601,313	38,446	20,639,759

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

Arab National Bank – Saudi Joint Stock Company

CONSOLIDATED STATEMENT OF CASH FLOWS
For the years ended December 31, 2015 and 2014
(Saudi Riyals in Thousands)

	Notes	2015	2014
OPERATING ACTIVITIES			
Net income for the year		**2,956,476**	2,877,155
Adjustments to reconcile net income for the year to net cash (used in)/from operating activities:			
Accretion of discounts of non-trading investments, net		**(84,501)**	(111,493)
Gains on non-trading investments, net	25	**(24,278)**	(333)
Unrealized losses/(gains) on revaluation of investment as FVIS		**4,679**	(3,291)
Dividend income	24	**(46,277)**	(42,536)
Depreciation of investment property	9	**24,807**	-
Depreciation and amortization of property and equipment	10	**199,323**	189,652
Losses/(gains) on disposal/sale of property and equipment , net	26	**1,695**	(6,170)
Share in earnings of associates, net	8	**(37,500)**	(27,584)
Impairment charges for investments, net	6	**43,455**	413
Impairment charges for credit losses, net	7	**656,907**	550,883
		3,694,786	3,426,696
Net (increase)/decrease in operating assets:			
Statutory deposit with SAMA	4	**(883,706)**	(507,300)
Investments held for trading and designated as FVIS	6	**(1,310,701)**	6,199
Derivative financial instruments		**(133,489)**	20,232
Loans and advances		**(12,127,820)**	(15,832,043)
Other assets		**49,823**	(284,333)
Net increase/(decrease) in operating liabilities:			
Due to banks and other financial institutions		**(3,342,757)**	1,374,582
Derivative financial instruments		**98,635**	2,884
Customers' deposits		**6,055,361**	23,258,446
Other liabilities		**21,402**	144,443
Net cash (used in)/from operating activities		**(7,878,466)**	11,609,806
INVESTING ACTIVITIES			
Proceeds from sale of and matured non-trading investments		**19,060,668**	15,146,509
Purchase of non-trading investments		**(17,221,434)**	(20,634,144)
Acquisition of investment property	9	**(1,700,673)**	-
Purchase of property and equipment	10	**(401,382)**	(306,716)
Proceeds from sale of property and equipment		**880**	24,616
Dividend received		**46,277**	42,536
Net cash used in investing activities		**(215,664)**	(5,727,199)
FINANCING ACTIVITIES			
Redemption of debt securities		**(1,687,500)**	-
Proceeds from issuance of sukuk		**2,000,000**	-
Dividends paid, net of zakat		**(994,068)**	(869,266)
Acquisition of non-controlling interest		**-**	(71,619)
Non-controlling interest arising on consolidation		**707,351**	-
Net cash from/(used in) financing activities		**25,783**	(940,885)
(Decrease)/increase in cash and cash equivalents		**(8,068,347)**	4,941,722
Cash and cash equivalents at the beginning of the year		**16,748,786**	11,807,064
Cash and cash equivalents at the end of the year	29	**8,680,439**	16,748,786
Special commission received during the year		**4,394,801**	4,000,698
Special commission paid during the year		**(550,272)**	(392,175)
Supplemental non-cash information			
Net changes in fair value of available for sale investments		**(197,389)**	(2,256)
Net changes in fair value of cash flow hedges		**-**	14,931

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

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 153 branches (2014: 156 branches) in the Kingdom of Saudi Arabia (The Kingdom) 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 Shari'ah Board established by the Bank.

The consolidated financial statements comprise the financial statements of the Bank and the following subsidiaries (collectively referred to as "the Group"):

Arab National Investment Company (ANB Invest)

In accordance with the Capital Market Authority (CMA) directives, the Bank established ANB Invest, a wholly owned subsidiary (directly and indirectly) a Saudi closed joint stock company, registered in the Kingdom 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 CMA. The subsidiary commenced its operations effective 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. On Muharram 19, 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, as a Saudi closed joint stock company, under Commercial Registration No. 1010267489 issued in Riyadh dated Jumada I 15, 1430H (corresponding to May 10, 2009). The company is engaged in the leasing of heavy equipment and operates in compliance with Shari'ah 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 87.5%.

Arab Insurance Agency

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

Al-Manzil Al-Mubarak Real Estate Financing Ltd.

A wholly owned Saudi limited liability company, registered in the Kingdom under Commercial Registration No. 1010199647 issued in Riyadh dated 18 Jumada I, 1425H (corresponding to July 6, 2004). The subsidiary is engaged in the purchase, sale and lease of land and real estate for investment purposes.

ANBI Business Gate Fund (the Fund)

The Bank owns indirectly 25.47% of the Fund, which is a closed-ended private placement real estate investment fund launched on August 25, 2014 for a period of 5 years starting from date of closure of first offering on January 11, 2015. CMA has been informed of the offering of the Fund through letter number 8/14//411 dated Shawwal 9, 1435H (corresponding to August 5, 2014). The Fund's purpose is to acquire real estate assets, an income generating real estate property located in the city of Riyadh, out of which the Fund will receive rental and hotel operating income over the Fund term. The Group has significant aggregate economic interest in the Fund and manages the Fund through an agreement between Arab National Investment Company (the "Fund Manager") and the Fund Investors (the "Unitholders"). As a result, management has concluded that the Group has effective control of the Fund and started consolidating the Fund's financial statements effective December 31, 2015, the date of effective control.

2. Basis of preparation

a) Statement of compliance

The consolidated financial statements are prepared in accordance with Accounting Standards for Financial Institutions promulgated by 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 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 trading securities, 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 that are otherwise carried at cost are adjusted to record changes in fair value attributable to the risks that are being hedged.

c) Functional and presentation currency

The 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 judgements, estimates and assumptions

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its 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 advice and expectations of future events that are believed to be reasonable under the current circumstances. Significant areas where management has used estimates, assumptions or exercised judgement 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, management applies judgement 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 that, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted.

The collective impairment allowance is determined after taking into account:

- historical loss experience in portfolios of similar credit risk characteristics (for example industry sector, loan grade or product);
- the estimated period between impairment occurring and the loss being identified and evidenced by the establishment of an appropriate allowance against the individual loan; and
- Management's judgement as to whether current economic and credit conditions are such that the actual level of inherent losses at the consolidated statement of financial position date is likely to be greater or less than that suggested by historical experience.

The period between a loss occurring and its identification is estimated by management for each identified portfolio based on economic and market conditions, customer behavior, portfolio management information, credit management techniques and collection and recovery experience in the market. As it is assessed empirically on a periodic basis, the estimated period may vary over time as these factors change.

(ii) Fair value Measurement

The Group measures financial instruments, such as derivatives, at fair value at each statement of financial position date. 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 by the Group.

2. Basis of preparation (continued)

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

(ii) Fair value Measurement (continued)

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

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

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 and calibrated before they are used to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data. Areas such as credit risk (both own and counterparty), volatilities and correlations, however, require management to make estimates. The judgements include considerations of liquidity and model inputs such as volatility of longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities. Changes in assumptions about these factors could affect the fair value of financial instruments.

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

Management exercises judgement when considering impairment of AFS equity and debt investments. This includes determination of a significant or prolonged decline in the fair value below its cost. In making this judgement, management evaluates among other factors, the normal volatility in share/debt price. In addition, they consider impairment to be appropriate when there is evidence of a deterioration in the financial health of the investee, industry or 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 impairment charges for investments. 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 impairment charge for investments.

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

(iv) Classification of held to maturity (HTM) investments

The Bank follows the guidance of International Accounting Standard (IAS) 39 when classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as HTM. In making this judgement, management 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 AFS.

(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 interest 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, except for ANBI Business Gate Fund, 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

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, 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 used judgement when providing for the likelihood of any claim succeeding. The time needed to conclude legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depend on due process being followed as required by law.

3. Significant accounting policies

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2014, except for the adoption of the following new standards mentioned below which have had no significant financial impact on the consolidated financial statements of the Group:

- Amendments to IAS 19 applicable for annual periods beginning on or after July 1, 2014 are applicable to defined benefit plans involving contribution from employees and / or third parties. This provides relief, based on meeting certain criteria's, from the requirements proposed in the amendments of 2011 for attributing employee / third party contributions to periods of service under the plan benefit formula or on a straight line basis. The current amendment gives an option, if conditions satisfy, to reduce service cost in periods in which the related service is rendered.

- Annual improvements to IFRS 2010-2012 and 2011-2013 cycles applicable for annual periods beginning on or after July 1, 2014. A summary of the amendments is contained as under:

  IFRS 8 – "Operating Segments" – has been amended to explicitly require disclosure of judgments made by management in applying aggregation criteria.

  IFRS 13 – "Fair Value Measurement" – has been amended to clarify measurement of interest free short term receivables and payables at their invoiced amount without discounting, if the effect of discounting is immaterial. It has been further amended to clarify that the portfolio exception potentially applies to contracts in the scope of IAS 39 and IFRS 9 regardless of whether they meet the definition of a financial asset or financial liability under IAS 32.

  IAS 24 –"Related Party Disclosures" – the definition of a related party is extended to include a management entity that provides key management personnel services to the reporting entity, either directly or indirectly.

  IFRS 1 "First Time Adoption of IFRS"

  IFRS 2 "Share-based Payment"

  IFRS 3 "Business Combinations"

  IAS 16 "Property, Plant and Equipment and IAS 38 Intangible Assets"

  IAS 40 "Investment Property"

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

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 where 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 it 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.

3. Summary of significant accounting policies (continued)

a) Basis of consolidation (continued)

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 over the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated 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; and
- Reclassifies the parent's share of components previously recognised in other comprehensive income to the 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 Group and are presented separately in the consolidated income statement and separately from equity holders of the Bank within equity in the consolidated statement of financial position. Any losses related to the non-controlling interest in a subsidiary are allocated to non-controlling interest even if doing so causes non-controlling interest 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 interest is subsequently adjusted for the Group's share of changes in the 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) Investments 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.

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.

3. Summary of significant accounting policies (continued)

b) Investment in associates (continued)

After application of the equity method of accounting, the Group determines whether it is necessary to recognize an additional impairment loss on its investment in the 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 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 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 market convention. For financial instruments held at fair value, the Bank accounts for any change in fair values between the trade date and the settlement date.

A contract that requires or permits net settlement of the change in the value of the contract is not a regular way contract. Instead, such a contract is accounted for as a derivative in the period 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 and 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 fair values depends on classifying derivatives into the following categories:

i) Derivatives held for trading

Changes in the fair value of derivatives held for trading are taken directly to the consolidated income statement and disclosed under trading income, net. Derivatives held for trading also include derivatives which do not qualify for hedge accounting and 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 FVIS. 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 are 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 that meet the criteria for hedge accounting, any gain or loss from fair valuing the hedging instruments to fair value is recognized immediately in the consolidated income statement. An equal and opposite adjustment is made 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 its 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.

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 through the consolidated statement of other comprehensive income. 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 reserve will not be recovered in one or more future periods, it reclassifies the amount that is not to be recovered into the consolidated income statement.

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

Hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting, the forecasted transaction is no longer expected to occur or the Bank revokes the designation. At that time, any cumulative gain or loss on the hedging instrument that was previously recognized in other reserves is retained in equity until the forecasted transaction occurs. Where it is not expected that the forecasted transaction will occur and that it will affect the consolidated income statement, the net cumulative gain or loss recognized in other reserves is transferred to the consolidated income statement.

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 the 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. The exchange component of gains or losses on non-monetary items is 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 at historical cost in a foreign currency are translated using the exchange rates prevailing on transaction date. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates prevailing on the date when the fair value was determined.

The monetary assets and liabilities of overseas branches are translated at the rate of exchange prevailing on 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 an accounting standard or interpretation and as specifically disclosed in these accounting policies.

g) Revenue and expense recognition

Special commission income and expense

Special commission income and expense for all commission bearing financial instruments, except for those classified as held for trading or designated at FVIS, and the fees that 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 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.

3. Summary of significant accounting policies (continued)

g) Revenue and expense recognition (continued)

***Special commission income and expense* (continued)**

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. Future credit losses are, however, not included. 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.

Fee and commission income

Fee 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. Fees 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 that 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 includes all realized and unrealized gains and losses from changes in fair value and related special commission income or expense, foreign exchange differences and dividends from financial assets and financial liabilities held for trading. This also includes the ineffectiveness recorded in hedging transactions.

Rental income

Rental income is recognized in the consolidated income statement on a straight-line basis over the term of the lease. Rent received for future periods are recognised as unearned revenue.

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 relevant accounting policies for trading securities, 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 the 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 the 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.

3. Summary of significant accounting policies (continued)

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 fair value plus, in the case of financial assets other than those carried at FVIS, any directly attributable incremental costs of acquisition. Premiums are amortized and discounts accreted on effective yield basis and recognised in special commission income.

The Fair value of securities traded in organized financial markets 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 of transaction costs. Fair value of managed assets and investments in mutual funds are determined by reference to declared net asset values, which approximate fair value.

For securities where there is no quoted market price, a reasonable estimate of 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 fair value cannot be derived from an active market, it is 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. Where this is not feasible, a degree of judgement is required in establishing fair values.

Following initial recognition, subsequent transfers between the various classes of investments are not ordinarily permissible. The subsequent measurement of period-end reporting values of each class of investment are determined on the basis 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, net. An investment may be designated as FVIS if it satisfies the criteria laid down by IAS 39 except for 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 in the consolidated income statement as either Trading income or Income from FVIS financial instruments in line with the underlying assets.

(ii) Available for sale (AFS)

AFS investments are those equity and debt securities intended to be held for an unspecified period of time and which may be sold in response to a need for liquidity or changes in commission rates, exchange rates or equity prices.

AFS investments are non-derivative financial instruments that are designated as AFS or not classified as another category of financial assets.

Investments which are classified as AFS are subsequently measured at fair value. Where the fair value has not been hedged, gains or losses arising from a change in fair value is recognized through the statement of comprehensive income in Other reserves in Equity. On derecognition, any cumulative gain or loss previously recognized in shareholders' equity is transferred to the consolidated income statement.

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 losses on AFS debt security investments are recognized in the consolidated income statement.

(iii) Held to maturity (HTM)

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 HTM. These investments are initially recognised at fair value including direct and incremental transaction costs and subsequently measured at amortized cost, less provision for any impairment. Amortized cost is calculated using the effective yield method taking into account any discount or premium on acquisition and any fees that are an integral part thereof. Gains or losses on such investments are 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.

3. Summary of significant accounting policies (continued)

i) Investments (continued)

(iv) Other investments held at amortized cost (OI)

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 AFS are classified as “other investments held at amortized cost”. Such investments where fair values have not been hedged are stated at amortized cost using the effective yield basis, less provision for any impairment. Gains or losses are 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 borrowers repay their obligations, 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, 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 objective evidence of impairment as a result of one or more events that occurred after initial recognition 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 is impaired at the statement of financial position date. If such evidence exists, the estimated recoverable amount of that asset is determined based on the net present value of future anticipated cash flows and an impairment loss is recognized for changes in the asset’s 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 special commission rate existing on the measurement date.

When a financial asset is uncollectible, it is written off either directly by a charge to the 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 impairment charges for credit losses in the consolidated income statement.

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 that indicate that payment will most likely continue.

3. Summary of significant accounting policies (continued)

k) Impairment of financial assets (continued)

These 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 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, current economic conditions, the experience the Bank had in dealing with a borrower or group of borrowers and available historical default information.

(i) Impairment of financial assets held at amortized cost

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

The carrying amount of financial assets at amortized cost 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 AFS, 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 AFS, 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 released to the consolidated income statement.

l) Other real estate

The Bank, in the ordinary course of business, acquires certain real estate against settlement of loans and advances. Such real estate is 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, write downs to fair value, less costs to sell, is charged to the consolidated income statement. Similarly, subsequent gains in fair value less costs to sell are recognized as income to the extent that it does not exceed the cumulative write down. Gains or losses on disposal are recognised in the consolidated income statement.

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 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.

3. Summary of significant accounting policies (continued)

m) Property and equipment (continued)

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

n) Investment property

Properties held for rental or capital appreciation purposes are classified as investment properties. Investment properties are measured at cost less accumulated depreciation and impairment losses. Depreciation is charged on a straight-line basis over the estimated useful lives. The estimated useful live of buildings is (30-33) years.

No depreciation is charged on land and capital work-in-progress.

The useful live and depreciation method is reviewed periodically to ensure that the method and period of depreciation are consistent with the expected inflow of economic benefits from these assets.

The Group determines at each reporting date whether there is objective evidence that investment properties are impaired. Whenever the carrying amount of an investment property exceeds its recoverable amount, an impairment loss is recognized in the consolidated income statement.

o) Financial liabilities

Money market deposits, customers' deposits, term loans and subordinated debt 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 to maturity on an effective yield basis and recognised as special commission expense.

Financial liabilities in an effective fair value hedge relationship are adjusted for fair value changes of the risk being hedged. The resultant gain or loss is recognized in the consolidated income statement. Gains or losses on financial liabilities carried at amortized cost are recognized in the consolidated income statement when derecognized.

p) Provisions

Provisions other than impairment charges for credit losses are recognized when a reliable estimate can be made of a present legal or constructive obligation as a result of past events that is more likely than not to lead to an outflow of resources to settle the obligation.

q) Accounting for leases

i) Where the Bank is a 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.

Penalties paid to a lessor when an operating lease is terminated before the lease period has expired, is recognized as an expense in the period in which termination takes place.

ii) Where the Bank is a lessor

When assets are sold under a finance lease, including Shari'ah compliant leases, 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 effective yield basis, which reflects a constant periodic rate of return.

r) 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.

3. Summary of significant accounting policies (continued)

s) Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for the loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt arrangement. 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.

t) Derecognition of financial instruments

A financial asset (or a part of a financial asset, or 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.

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

u) Zakat and income tax

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

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

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

v) Shari'ah compliant banking products

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

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

w) Investment management services

The Bank offers investment services to its customers, through its subsidiary, which include management of certain investment funds. The Bank's share of these funds is included in the available-for-sale investments and fees earned are disclosed under related party transactions.

x) Standards issued but not yet effective

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 and is effective for financial years beginning on or after January 1, 2018. Early application is 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 February 1, 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.

(Saudi Riyals in Thousands)

4. Cash and balances with SAMA

	2015	2014
Cash in hand	**3,105,277**	2,681,376
Statutory deposit	**7,322,872**	6,439,166
Placements with SAMA	**-**	12,089,917
Other balances	**142**	41,868
Total	**10,428,291**	21,252,327

In accordance with the Banking Control Law and regulations issued by SAMA, the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its demand, savings, time and other deposits, calculated at the end of each month. The statutory deposit with SAMA is not available to finance the Bank's day-to-day operations and is therefore not part of cash and cash equivalents (note 29). The Bank holds balances with SAMA which has investment grade credit rating.

5. Due from banks and other financial institutions

	2015	2014
Current accounts	**1,866,317**	1,517,850
Money market placements	**3,708,703**	417,775
Total	**5,575,020**	1,935,625

6. Investments, net

a) Investments are classified as follows:

i) Trading securities

	Domestic		**International**		**Total**	
	2015	2014	**2015**	2014	**2015**	2014
Fixed rate securities	**-**	-	**1,312,480**	-	**1,312,480**	-

ii) Designated as fair value through income statement

	Domestic 2015	Domestic 2014	**International 2015**	International 2014	**Total 2015**	Total 2014
Mutual funds and others	**-**	-	**8,077**	14,535	**8,077**	14,535

iii) Available for sale

	Domestic 2015	Domestic 2014	**International 2015**	International 2014	**Total 2015**	Total 2014
Fixed rate securities	**313,198**	327,339	**8,390,602**	7,958,631	**8,703,800**	8,285,970
Floating rate securities	**998,881**	841,437	**-**	93,750	**998,881**	935,187
Equities	**1,074,728**	1,088,934	**389**	324	**1,075,117**	1,089,258
Other	**224,338**	367,609	**197,784**	215,681	**422,122**	583,290
Available for sale	**2,611,145**	2,625,319	**8,588,775**	8,268,386	**11,199,920**	10,893,705

iv) Other investments held at amortized cost

	Domestic 2015	Domestic 2014	**International 2015**	International 2014	**Total 2015**	Total 2014
Fixed rate securities	**17,152,264**	17,900,837	**470,537**	1,473,628	**17,622,801**	19,374,465
Floating rate securities	**3,095,897**	3,593,501	**-**	-	**3,095,897**	3,593,501
Other investments held at amortized cost	**20,248,161**	21,494,338	**470,537**	1,473,628	**20,718,698**	22,967,966
Total investments, net	**22,859,306**	24,119,657	**10,379,869**	9,756,549	**33,239,175**	33,876,206

(Saudi Riyals in Thousands)

6. Investments, net (continued)

b) The analysis of the investment products is as follows:

	2015			2014		
	Quoted	**Unquoted**	**Total**	Quoted	Unquoted	Total
Fixed rate securities	**10,173,619**	**17,465,462**	**27,639,081**	9,432,259	18,228,176	27,660,435
Floating rate securities	**1,168,367**	**2,926,411**	**4,094,778**	1,262,202	3,266,486	4,528,688
Equities	**1,073,728**	**1,389**	**1,075,117**	1,087,934	1,324	1,089,258
Others	**260,186**	**170,013**	**430,199**	447,391	150,434	597,825
Investments, net	**12,675,900**	**20,563,275**	**33,239,175**	12,229,786	21,646,420	33,876,206

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:

	2015				2014			
	Carrying value	**Gross unrealized gains**	**Gross unrealized losses**	**Fair value**	Carrying value	Gross unrealized gains	Gross unrealized losses	Fair value
Fixed rate securities	**17,622,801**	**45,648**	**(17,975)**	**17,650,474**	19,374,465	41,036	(3,809)	19,411,692
Floating rate securities	**3,095,897**	**3,050**	**(119,101)**	**2,979,846**	3,593,501	89,682	(32,220)	3,650,963
Total	**20,718,698**	**48,698**	**(137,076)**	**20,630,320**	22,967,966	130,718	(36,029)	23,062,655

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

	2015	2014
Government and quasi government	**28,108,687**	28,890,259
Banks and other financial institutions	**2,181,008**	3,311,189
Corporate	**1,206,262**	1,123,142
Other	**1,743,218**	551,616
Total	**33,239,175**	33,876,206

Investments include SAR 2,424 million (2014: SAR 3,996 million) (note 19d) that have been pledged under repurchase agreements with other banks and customers. The market value of these investments is SAR 2,423 million (2014: SAR 3,998 million).

Accrued special commission receivable on Investments amounted to SAR 55.1 million as of December 31, 2015 (2014: SAR 64.7 million) and is disclosed under "Other Assets" (Note 11).

e) Movement in the allowance for impairment of investments

	2015	2014
Balance at beginning of the year	**413**	-
Impairment charge for the year	**43,868**	413
Recoveries of amounts previously provided	**(413)**	-
Balance at end of the year	**43,868**	413

(Saudi Riyals in Thousands)

6. Investments, net (continued)

e) Movement in the allowance for impairment of investments (continued)

2015	**Fixed Rate**	**Floating Rate**	**Equities**	**Other**	**Total**
Balance at beginning of the year	**413**	**-**	**-**	**-**	**413**
Provided during the year	**-**	**-**	**41,934**	**1,934**	**43,868**
Amounts recovered during the year	**(413)**	**-**	**-**	**-**	**(413)**
Balance at end of the year	**-**	**-**	**41,934**	**1,934**	**43,868**

2014					
Balance at beginning of the year	-	-	-	-	-
Provided during the year	413	-	-	-	413
Amounts recovered during the year	-	-	-	-	-
Balance at end of the year	413	-	-	-	413

7. Loans and advances, net

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

2015	**Credit cards**	**Consumer loans**	**Commercial loans and overdrafts**	**Total**
Performing loans and advances, gross	**415,931**	**26,898,086**	**89,362,896**	**116,676,913**
Non-performing loans and advances, net	**6,220**	**89,343**	**1,134,020**	**1,229,583**
Total loans and advances	**422,151**	**26,987,429**	**90,496,916**	**117,906,496**
Impairment charges for credit losses, net	**(2,222)**	**(89,904)**	**(2,670,048)**	**(2,762,174)**
Loans and advances, net	**419,929**	**26,897,525**	**87,826,868**	**115,144,322**
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

For details of impaired loans and advances, refer to note 32 (f).

Loan and advances include Shari'ah compliant banking products: Murabaha and Tawarruq agreements and Ijarah, which are stated at amortized cost, of SAR 73.5 billion (2014: SAR 66.1 billion).

Accrued special commission receivable on Loans and Advances amounted to SAR 511.5 million as of December 31, 2015 (2014: SAR 456.3 million) and is disclosed under "Other Assets" (Note 11).

(Saudi Riyals in Thousands)

7. Loans and advances, net (continued)

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

2015	Credit cards	Consumer loans	Commercial loans and overdrafts	Total
Balance at beginning of the year	**2,676**	**95,724**	**2,287,554**	**2,385,954**
Provided during the year	**11,343**	**253,975**	**385,872**	**651,190**
Bad debts written off	**(11,797)**	**(259,795)**	**(3,378)**	**(274,970)**
Balance at end of the year	**2,222**	**89,904**	**2,670,048**	**2,762,174**
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

Impairment charge for credit losses, net for the year ended December 31, 2015 amounted to SAR 656,907 thousands (2014: SAR 550,883 thousand), including bad debts directly written-off to consolidated income statement amounting to SAR 5,717 thousands (2014: SAR 6,452 thousand).

c) The Bank in the ordinary course of lending activities holds collateral as security to mitigate credit risk in loans and advances. Collateral mainly includes time, demand and other cash deposits, financial guarantees, local and international equities, real estate and other fixed assets. It is mainly held against commercial and consumer loans and is managed against relevant exposures at their net realizable values.

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

2015	Performing gross	Non performing, net	Impairment charges for credit losses	Loans and advances, net
1. Government and quasi government	-	-	-	-
2. Banks and other financial institutions	**1,612,539**	-	-	**1,612,539**
3. Agriculture and fishing	**1,182,794**	-	-	**1,182,794**
4. Manufacturing	**14,006,152**	**4,928**	**(166,432)**	**13,844,648**
5. Mining and quarrying	**648,687**	-	-	**648,687**
6. Electricity, water, gas and health services	**4,287,272**	-	-	**4,287,272**
7. Building and construction	**9,216,395**	**419,827**	**(671,681)**	**8,964,541**
8. Commerce	**18,030,756**	**580,241**	**(601,148)**	**18,009,849**
9. Transportation and communication	**5,400,492**	**98,781**	**(100,155)**	**5,399,118**
10. Services	**2,779,023**	**18,705**	**(44,182)**	**2,753,546**
11. Consumer loans and credit cards	**27,314,017**	**95,563**	**(62,466)**	**27,347,114**
12. Other	**32,198,786**	**11,538**	**(275,872)**	**31,934,452**
	116,676,913	**1,229,583**	**(1,921,936)**	**115,984,560**
Allowance for collective impairment	-	-	**(840,238)**	**(840,238)**
Total	**116,676,913**	**1,229,583**	**(2,762,174)**	**115,144,322**

(Saudi Riyals in Thousands)

7. Loans and advances, net (continued)

2014	Performing gross	Non performing, net	Impairment charges for credit losses	Loans and advances, net
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	25,059,545	70,469	(68,741)	25,061,273
12. Other	30,245,645	1,028	(283,231)	29,963,442
	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

8. Investments in associates

	2015	2014
Balance at beginning of the year	**494,117**	466,533
Share in earnings, net	**37,500**	27,584
Balance at end of the year	**531,617**	494,117

Saudi Home Loans Company

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 is a specialized Islamic home and real estate finance company with all its products and services being fully Shariah compliant. The associate was launched at the end of the fourth quarter of 2007 and is accounted for under the equity method.

Metlife – AIG – ANB Cooperative Insurance Company

The Bank participated in the setting up of Metlife – AIG – ANB Cooperative Insurance Company in the Kingdom. 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. SAMA has provided the associate with final approval to conduct insurance business in the Kingdom on February 25, 2014. The Bank initially paid 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; and, the quoted value of the Bank's investment in its associate is SAR 294.7 million (2014: SAR 282.2 million).

On April 27, 2015, the associate's board of directors has recommended increasing the Company's capital from SAR 175 million to SAR 350 million through a rights issue. In this connection, the Company submitted its business plan along with related documents to SAMA on June 7, 2015 for approval and SAMA has approved the capital increase on August 31, 2015. The associate has submitted the required documents to the Capital Market Authority on November 15, 2015 and has obtained its approval on January 19, 2016.

The Bank's share of associates' financial statements:

	Saudi Home Loans Company		**Metlife – AIG – ANB Cooperative Insurance Company**	
	2015	2014	**2015**	2014
Total assets	**1,502,852**	1,473,735	**159,011**	42,864
Total liabilities	**1,003,224**	1,017,590	**132,438**	6,657
Total equity	**499,628**	456,145	**26,573**	36,207
Total income	**74,155**	68,665	**1,498**	332
Total expenses	**(26,653)**	(24,937)	**(11,132)**	(8,376)

(Saudi Riyals in Thousands)

9. Investment Property, net

Investment properties consist of land, commercial offices being rented out and a hotel under construction. It is located in the Kingdom and was acquired by the Group's subsidiary, the ANBI Business Gate Fund. The following is the movement in investment property:

	Land	Building commercial	Hotel under construction	Total
Cost				
Acquired during the year	550,000	744,133	406,540	1,700,673
As at December 31, 2015	550,000	744,133	406,540	1,700,673
Accumulated depreciation				
Depreciation charge for the period	-	24,807	-	24,807
As at December 31, 2015	-	24,807	-	24,807
Net book value				
As at December 31, 2015	550,000	719,326	406,540	1,675,866
As at December 31, 2014	-	-	-	-

The fair value of investment properties was determined by management based on a valuation performed by two independent and professionally qualified valuers registered with the Royal Institute of Chartered Surveyors using the Income Capitalisation Method and discounted cash flows (DCF). Management assessed this valuation as Level 3 in the hierarchy for determining and disclosing fair value as defined in note 36. The fair value of investment properties is SAR 1,813 million (which is the lower of the two independent valuations), compared with a carrying value of SAR 1,676 million.

10. Property and equipment, net

	Land and buildings	Leasehold improvements	Equipment, furniture and vehicles	Computer and Software	Projects under execution	Total 2015	Total 2014
Cost							
Balance at beginning of the year	1,107,613	491,566	641,527	1,089,222	290,212	3,620,140	3,362,784
Additions	77,981	53,262	92,541	90,341	87,257	401,382	306,716
Disposals	-	(27,757)	(7,004)	(1,630)	(840)	(37,231)	(49,360)
Transfers	243,435	12,024	13,523	-	(268,982)	-	-
Balance at end of the year	1,429,029	529,095	740,587	1,177,933	107,647	3,984,291	3,620,140
Accumulated depreciation							
Balance at beginning of the year	319,546	357,241	270,508	926,909	-	1,874,204	1,715,466
Charge for the year	39,891	34,329	61,309	63,794	-	199,323	189,652
Disposals	-	(25,880)	(7,094)	(1,682)	-	(34,656)	(30,914)
Balance at end of the year	359,437	365,690	324,723	989,021	-	2,038,871	1,874,204
Net book value							
As at December 31, 2015	1,069,592	163,405	415,864	188,912	107,647	1,945,420	
As at December 31, 2014	788,067	134,325	371,019	162,313	290,212		1,745,936

(Saudi Riyals in Thousands)

11. Other assets

		2015	2014
Accrued special commission receivable	- banks and other financial institutions	**79**	85
	- investments	**55,124**	64,720
	- loans and advances	**511,503**	456,255
	- derivatives	**21,883**	16,427
Total accrued special commission receivable		**588,589**	537,487
Prepaid expenses		**270,186**	287,991
Other		**572,736**	521,347
Total		**1,431,511**	1,346,825

12. Derivative financial instruments

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 on a 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 with changes in fair values settled daily.

c) Forward rate agreements

Forward rate agreements are individually negotiated commission rate contracts that call for the cash settlement, on a specified future date or series of dates, of the difference between the contracted commission rate and the market rate calculated on a notional principal.

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, on a fixed future date or at any time during a specified period, a specified amount of a currency, commodity or financial instrument at a pre-determined price.

Held for trading purposes

Most of the Bank's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers and banks in order to, inter alia, 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, 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 (the Board) 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 set limits. The Board 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 to within the set limits.

(Saudi Riyals in Thousands)

12. Derivative financial instruments (continued)

Held for hedging purposes (continued)

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 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 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 either fair value or cash flow hedges.

The tables below show the notional amounts and the positive and negative fair values of derivative financial instruments 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.

				Notional amounts by term to maturity				
2015	**Positive fair value**	**Negative fair value**	**Notional amount total**	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Monthly average**
Held for trading:								
Commission rate swaps	**29,825**	**18,952**	**7,483,969**	**-**	**23,826**	**6,785,143**	**675,000**	**9,734,475**
Commission rate futures and options	**8,169**	**6,879**	**2,261,124**	**-**	**11,124**	**2,250,000**	**-**	**1,039,777**
Forward foreign exchange and commodity contracts	**96,476**	**67,783**	**6,484,658**	**3,558,391**	**1,649,838**	**1,276,429**	**-**	**8,735,692**
Currency and commodity options	**145,528**	**136,047**	**16,643,582**	**2,562,516**	**7,955,998**	**6,125,068**		**19,765,746**
Held as fair value hedges:								
Commission rate swaps	**10,160**	**109,288**	**13,132,446**	**937,500**	**1,918,826**	**9,713,620**	**562,500**	**13,776,445**
Total	**290,158**	**338,949**	**46,005,779**	**7,058,407**	**11,559,612**	**26,150,260**	**1,237,500**	**53,052,135**

				Notional amounts by term to maturity				
2014	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading:								
Commission rate swaps	35,763	30,053	7,564,282	200,000	2,397,800	4,920,929	45,553	10,196,568
Commission rate futures and options	15,975	14,129	2,273,382	11,691	-	2,261,691	-	2,446,682
Forward foreign exchange and commodity contracts	57,687	30,108	5,872,809	3,009,835	2,851,656	11,318	-	7,096,029
Currency and commodity 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
Total	156,669	240,314	52,977,989	9,973,171	21,760,606	20,613,382	630,830	47,975,722

Derivatives have been disclosed at gross amounts as at the consolidated statement of financial position date and have not been netted off by cash margins placed against derivatives, which are detailed as follows:

	2015	2014
Held for trading:		
Commission rate swaps	**6,258**	1,372
Forward foreign exchange contracts	**227**	432
Currency options	**20,211**	7,191
Held as fair value hedges:		
Commission rate swaps	**43,273**	68,459
Tot al	**69,969**	77,454

(Saudi Riyals in Thousands)

12. Derivative financial instruments (continued)

Held for hedging purposes (continued)

The table below shows 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
2015						
Fixed commission rate investments	**6,179,210**	**6,114,168**	Fair value	Commission rate swap	**8,169**	**70,814**
Fixed commission rate loans	**5,172,144**	**5,143,278**	Fair value	Commission rate swap	**10,160**	**39,026**
Fixed commission rate deposits	**1,881,326**	**1,875,000**	Fair value	Commission rate swap	**-**	**6,326**
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

Cash flow hedges

The Bank is exposed to variability in future commission rate 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. For the years ended December 31, 2015 and 2014 the Bank had no outstanding cash flow hedges.

No discontinuation of hedge accounting took place in 2015 that resulted in reclassification of cumulative losses from equity to the consolidated income statement (2014: SAR 1.9 million).

Approximately 39% (2014: 13%) of the positive fair value of the Bank's derivatives are entered into with financial institutions and less than 13% (2014: 12%) 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 by the Bank's treasury segment.

13. Due to banks and other financial institutions

	2015	2014
Current accounts	**185,339**	144,519
Money market deposits	**5,487,544**	8,871,121
Total	**5,672,883**	9,015,640

14. Customers' deposits

	2015	2014
Demand	**66,264,114**	69,263,668
Time	**63,827,844**	54,616,700
Saving	**107,820**	98,923
Other	**5,486,761**	5,651,887
Total	**135,686,539**	129,631,178

Time deposits include deposits against sale of securities of SAR 1,012 million (2014: SAR 2,216 million) (note 19d) with agreements to repurchase the same at fixed future dates. Other customers' deposits include SAR 4,016 million (2014: SAR 3,963 million) of margins held against irrevocable commitments.

Accrued special commission payable on Customers' Deposits amounting to SAR 74.7 million as of December 31, 2015 (2014: SAR 108.4 million) is disclosed under "Other Liabilities" (Note 15).

The above include foreign currency deposits as follows:

	2015	2014
Time	**21,213,494**	10,956,960
Demand	**2,055,750**	1,740,818
Saving	**2,458**	1,955
Other	**149,296**	179,742
Total	**23,420,998**	12,879,475

(Saudi Riyals in Thousands)

15. Other liabilities

	2015	2014
Accrued special commission payable:		
- banks and other financial institutions	**230**	1,099
- customers' deposits	**74,655**	108,389
- derivatives	**127,259**	73,785
- debt securities and sukuk	**11,270**	4,541
Total accrued special commission payable	**213,414**	187,814
Provision for end of service benefits	**503,166**	465,587
Trustee for sale of real estate – current deposit	**351,860**	240,234
Accrued expenses	**556,523**	449,669
Zakat allowances	**959,595**	711,256
Others	**1,506,491**	1,399,404
Total	**4,091,049**	3,453,964

16. Debt securities and Sukuk

	2015	2014
Euro Medium Term floating rate Notes (A)	**-**	1,687,500
Unsecured Tier II Capital - Sukuk (B)	**2,000,000**	-
Total	**2,000,000**	1,687,500

(A) 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 EMTN 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. On October 31, 2015 the Bank exercised its call option to early redeem 100% of the principal amount of outstanding notes, together with the accrued interest till the option redemption date.

(B) On October 7, 2015 the Bank issued SAR 2 billion, 10 year subordinated and unsecured Tier II Capital (Sukuk), callable in 5 years. These Sukuk carry a special commission rate of SIBOR plus 140 bps.

17. Share capital

During the year ended December 31, 2014, 150 million bonus share of SAR 10 each were issued after approval of the shareholders at their extraordinary general assembly meeting held on March 17, 2014. As at December 31, 2015, the Bank has 1,000 million shares (2014: 1,000 million shares) of SAR 10 each issued and outstanding. The ownership of the Bank's share capital is as follows:

	2015	2014
Saudi shareholders	**60%**	60%
Arab Bank PLC – Jordan	**40%**	40%

18. 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 742 million has been transferred from the net income for the year ended December 31, 2015 (2014: SAR 720 million). The statutory reserve is not available for distribution.

19. Commitments and contingencies

a) Legal proceedings

As at December 31, 2015 and 2014 there were legal proceedings of a routine nature outstanding against the Bank. No material provision has been made as professional legal advice indicates that it is unlikely that a significant loss will arise.

(Saudi Riyals in Thousands)

19. Commitments and contingencies (continued)

b) Capital commitments

As at December 31, 2015 the Bank had capital commitments of SAR 55 million (2014: SAR 108 million) in respect of building and equipment purchases.

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:

2015	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Letters of credit	**2,619,215**	**1,457,401**	**705,059**	**-**	**4,781,675**
Letters of guarantee	**7,251,635**	**9,490,259**	**8,643,530**	**1,270,998**	**26,656,422**
Acceptances	**1,169,589**	**997,569**	**1,756**	**-**	**2,168,914**
Irrevocable commitments to extend credit	**-**	**121,237**	**729,079**	**942,852**	**1,793,168**
Other	**-**	**634,500**	**-**	**111,731**	**746,231**
Total	**11,040,439**	**12,700,966**	**10,079,424**	**2,325,581**	**36,146,410**
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

The unutilized portion of non-firm commitments as at December 31, 2015, which can be revoked unilaterally at any time by the Bank, amounts to SAR 21,517 million (2014: SAR 23,422 million).

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

	2015	2014
Corporate	**30,150,276**	29,746,765
Banks and other financial institutions	**5,417,295**	5,151,643
Government and quasi government	**-**	-
Other	**578,839**	826,590
Total	**36,146,410**	35,724,998

(Saudi Riyals in Thousands)

19. Commitments and contingencies (continued)

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:

	2015		2014	
	Assets	**Related liabilities**	Assets	Related liabilities
Other investments held at amortized cost (notes 6d and 14)	**2,424,417**	**1,011,973**	3,996,217	2,215,789

e) Operating lease commitments

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

	2015	2014
Less than 1 year	**105,909**	102,843
1 to 5 years	**279,598**	282,185
Over 5 years	**120,241**	120,499
Total	**505,748**	505,527

20. Net special commission income

Special commission income	**2015**	2014
Investments:		
Available for sale	**62,356**	62,667
Other investments held at amortized cost	**203,567**	282,388
	265,923	345,055
Due from banks and other financial institutions	**12,862**	20,869
Loans and advances	**4,159,994**	3,725,365
Total	**4,438,779**	4,091,289
Special commission expense		
Due to banks and other financial institutions	**25,812**	18,430
Customers' deposits	**544,144**	422,095
Debt securities and sukuk	**23,986**	28,148
Total	**593,942**	468,673
Net special commission income	**3,844,837**	3,622,616

21. Fees and commission income, net

Fee and commission income	**2015**	2014
Share trading and fund management	**100,776**	122,771
Trade finance	**304,081**	320,585
Credit cards	**211,564**	113,971
Credit facilities	**951,651**	913,805
Other banking services	**369,334**	332,234
Total	**1,937,406**	1,803,366
Fee and commission expense		
Credit cards	**122,301**	108,672
Custody and brokerage fees	**1,098**	1,423
Credit facilities	**346,245**	258,764
Other banking services	**181,838**	117,940
Total	**651,482**	486,799
Fees and commission income, net	**1,285,924**	1,316,567

(Saudi Riyals in Thousands)

22. Unrealized (loss)/gain on investments held as FVIS, net

	2015	2014
Fair value change of FVIS investments	**(4,679)**	3,291

23. Trading(loss)/gain, net

	2015	2014
Fixed rate securities	**(13,796)**	(14,984)
Derivatives	**9,433**	19,385
Total	**(4,363)**	4,401

24. Dividend income

	2015	2014
AFS investments	**46,277**	42,536

25. Gains from non-trading investments, net

	2015	2014
Realized gains on AFS investments	**24,278**	333

26. Other operating income, net

	2015	2014
Recoveries of loans and advances previously written off	**81,403**	66,540
(Losses)/gains on disposal of property and equipment, net	**(1,695)**	6,170
Others	**77,275**	21,677
Total	**156,983**	94,387

27. Basic and diluted earnings per share

Basic and diluted earnings per share for the years ended December 31, 2015 and 2014 are calculated by dividing the net income for the year attributable to equity holders of the Bank by 1,000 million shares. The diluted earnings per share are the same as the basic earnings per share.

28. Gross dividends, Zakat and Income Tax

Gross dividends are comprised of the following:

	2015	2014
Interim dividends paid **(a)**	**450,000**	450,000
Proposed dividends **(b)**	**550,000**	550,000
Zakat and others **(c)**	**494,952**	494,693
Total	**1,494,952**	1,494,693

(a) The Board has approved an interim dividend of SAR 450 million for distribution to the shareholders from the net income for the year ended December 31, 2015 (2014: 450 million). This interim dividend resulted in a payment to the shareholders of SAR 0.45 per share, net of Zakat and income tax (2014: 0.45 per share, net).

(b) On December 8, 2015 the Board recommended to pay cash dividends of SAR 550 million (2014: SAR 550 million). These dividends are subject to final approval by the general assembly.

(c) Zakat and Others

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

Zakat

Zakat for the year attributable to Saudi Shareholders amounted to approximately SAR 296 million (2014: SAR 297 million).

(Saudi Riyals in Thousands)

28. Gross dividends, Zakat and Income Tax (continued)

Income Tax

Income tax payable by the non-Saudi Shareholder on the current year's share of net income is SAR 246 million (2014: SAR 232 million).

The Bank has filed its Zakat returns with DZIT for the financial years up to and including 2014.The Zakat assessments for the years up to 2005 have been finalized with DZIT. The Bank has received Zakat assessments for the years from 2006 to 2008 raising demands for an additional Zakat liability of SAR 168 million (2014: 168 million). This additional Zakat liability is mainly on account of the 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. The Bank has also formally contested these assessments and is awaiting a response from DZIT.

The Zakat assessment for the years 2009 to 2014 have not been finalized by DZIT, and the Bank is not able to reliably determine the impact of such assessments.

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

29. Cash and cash equivalents

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

	2015	2014
Cash and balances with SAMA excluding statutory deposit (note 4)	**3,105,419**	14,813,161
Due from banks and other financial institutions maturing within ninety days of acquisition	**5,575,020**	1,935,625
Total	**8,680,439**	16,748,786

30. Compensation practices

The Bank has implemented a "Risk-Based Compensation Policy" in compliance with the rules issued by SAMA, which are consistent with the principles and standards of the Financial Stability Board (FSB).The policy was approved by 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 the Bank's 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 and appropriate managerial judgement, etc.

The Board, while determining and approving the bonus pool of the Bank, considers performance in absolute and relative terms, consistency of earnings, long term performance, historical bonus pool, market conditions, etc. Similarly, while allocating the Bank-wide bonus 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 it in overseeing the Compensation policies design and its operation, the Board has appointed a Nomination & Compensation Committee. The Nomination & Compensation Committee comprises 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 and 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 a risk-adjusted bonus pool to the Board, for approval.

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

(Saudi Riyals in Thousands)

30. Compensation practices (continued)

2015

	Categories of employees	Number of employees	Fixed compensation	Variable cost paid cash in 2015
1.	Senior executive requiring SAMA no objections	**19**	**38,831**	**28,182**
2.	Employees engaged in risk taking activities	**186**	**91,166**	**32,034**
3.	Employees engaged in control functions	**438**	**115,100**	**18,629**
4.	Other employees	**4,203**	**685,634**	**122,073**
	Total	**4,846**	**930,731**	**200,918**
	Variable compensation accrued in 2015		**122,000**	
	Other employment related costs*		**322,740**	
	Total salaries and employment related expenses		**1,375,471**	

2014

	Categories of employees	Number of employees	Fixed compensation	Variable cost 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	

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

31. Operating segments

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief executive officer 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

Manages the Bank's trading and investment portfolios and the Bank's funding, liquidity, currency and commission rate risks.

Investment and brokerage services

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

(Saudi Riyals in Thousands)

31. Operating segments (continued)

Other

Includes income on capital and unallocated costs and assets and liabilities of Head Office and other supporting departments.

Transactions between operating segments are reported as recorded in the Group's transfer pricing system. Segment assets and liabilities comprise mainly operating assets and liabilities.

The Group's primary business is conducted in the Kingdom 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, 2015 and 2014 and its total operating income, expenses and net income for the years then ended, by operating segments, are as follows:

2015	**Retail banking**	**Corporate banking**	**Treasury**	**Investment and brokerage services**	**Other**	**Total**
Total assets	**39,172,737**	**81,990,562**	**44,489,280**	**1,703,519**	**3,065,175**	**170,421,273**
Investments in associates	**-**	**-**	**-**	**-**	**531,617**	**531,617**
Total liabilities	**66,465,039**	**72,640,878**	**8,024,993**	**171,055**	**487,455**	**147,789,420**
Fees and commission income, net	**509,314**	**558,199**	**12,648**	**94,800**	**110,963**	**1,285,924**
Total operating income	**2,371,698**	**2,235,071**	**853,216**	**140,888**	**261,656**	**5,862,529**
Total operating expenses	**1,760,842**	**882,388**	**133,557**	**83,842**	**82,924**	**2,943,553**
Net income attributed to equity holders of the Bank	**610,856**	**1,352,683**	**719,659**	**57,046**	**224,173**	**2,964,417**
Share in earnings of associates, net	**-**	**-**	**-**	**-**	**37,500**	**37,500**
Income attributed to non-controlling interest	**-**	**-**	**-**	**-**	**7,941**	**7,941**
Impairment charges for credit losses, net	**285,495**	**371,412**	**-**	**-**	**-**	**656,907**
Depreciation and amortization	**122,313**	**2,151**	**3,508**	**4,002**	**67,349**	**199,323**

2014	Retail banking	Corporate banking	Treasury	Investment and brokerage services	Other	Total
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
Fees 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	884,170	135,150	205,175	5,507,575
Total operating expenses	1,574,066	860,322	88,012	73,911	61,693	2,658,004
Net income attributed to equity holders of the Bank	603,946	1,244,746	796,158	61,239	168,961	2,875,050
Share in earnings of associates, net	-	-	-	-	27,584	27,584
Income attributed to non-controlling interest	-	-	-	-	(2,105)	(2,105)
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

(Saudi Riyals in Thousands)

31. Operating segments (continued)

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

2015	Retail banking	Corporate banking	Treasury	Investment and brokerage services	Other	Total
Consolidated statement of financial position assets	**35,113,739**	**81,497,057**	**43,986,751**	**23,814**	**1,191,884**	**161,813,245**
Commitment and contingencies	**2,847,412**	**14,501,103**	**-**	**373,116**	**1,528**	**17,723,159**
Derivatives	**-**	**187**	**692,953**	**-**	**-**	**693,140**
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

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 33a).

32. 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 and investment activities. There is also credit risk in off consolidated statement of financial position financial instruments, such as loan commitments.

The bank manages 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 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. Credit risk of 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.

Concentration risk arises 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.

Concentration risk indicates 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 individuals or groups of customers in specific locations or industry. It also takes security when appropriate. The Bank seeks additional collateral from a counterparty as soon as impairment indicators are noticed on the relevant individual loan.

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 procedures to reflect changes in markets, products and emerging best practices.

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 33 and for commitments and contingencies in note 19. Information on the Banks maximum credit exposure by operating segment is given in note 31 and the maximum credit risk exposure and its relative risk weighting is provided in note 38.

The Bank classifies its exposure into thirteen risk categories. Of these, ten categories are for performing and three for non-performing loans and advances. 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 groups of similar credits that are not individually identified as impaired.

(Saudi Riyals in Thousands)

32. Credit risk (continued)

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

	2015	2014
Loans and advances, net:		
Consumer loans		
Credit cards	**419,929**	326,968
Term loans	**26,897,525**	24,704,646
Total	**27,317,454**	25,031,614
Corporate loans		
Syndicated loans	**16,768,067**	15,139,221
Overdrafts	**4,943,528**	6,034,752
Term loans	**65,988,166**	57,430,932
Other	**127,107**	87,497
Total	**87,826,868**	78,692,402
Investments, net:		
Fixed-rate securities	**27,639,081**	27,660,435
Floating-rate notes	**4,094,778**	4,528,688
Other	**1,505,316**	1,687,083
Total	**33,239,175**	33,876,206
Gross Total	**148,383,497**	137,600,222

b) Credit risk exposures of credit related commitments and contingencies:

	2015	2014
Loan commitments and other credit related contingencies	**1,793,168**	923,915
Financial guarantees	**34,353,242**	34,801,083
Total	**36,146,410**	35,724,998

c) Credit quality of loans and advances

Description	**2015**	2014
Neither past due nor impaired	**113,136,697**	102,252,621
Past due but not impaired	**1,543,987**	1,188,091
Impaired (any loan with specific provision)	**3,225,812**	2,669,258
Total loans and advances	**117,906,496**	106,109,970
Impairment charges for credit losses, net	**(2,762,174)**	(2,385,954)
Loans and advances, net	**115,144,322**	103,724,016

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

	2015	2014
Grades:		
Low risk (1-4)	**48,123,626**	49,139,708
Acceptable risk (5-8)	**63,736,580**	52,706,551
Watch list (9-10)	**1,276,491**	406,362
Total	**113,136,697**	102,252,621

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 collateral.

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.

(Saudi Riyals in Thousands)

32. Credit risk (continued)

e) Loans and advances past due but not impaired

2015	Credit cards	Consumer loans	Commercial loans and overdrafts	Total
Past due up to 30 days	**34,469**	**1,215,329**	**231,546**	**1,481,344**
Past due 30 - 60 days	**-**	**-**	**21,330**	**21,330**
Past due 60-90 days	**-**	**-**	**15,582**	**15,582**
Past due more than 90 days	**-**	**-**	**25,731**	**25,731**
Total	**34,469**	**1,215,329**	**294,189**	**1,543,987**
2014				
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

f) Impaired loans and advances

	2015	2014
Commercial loans and overdrafts	**2,845,817**	2,435,191
Consumer loans and credit cards	**379,995**	234,067
Total	**3,225,812**	2,669,258

Special commission income on impaired loans and advances amounted to SAR 58,551 thousands for the year ended December 31, 2015.

Impaired loans and advances are categorized as follows:

	2015	2014
Performing loans and advances	**1,996,229**	1,574,074
Non-performing loans and advances, net	**1,229,583**	1,095,184
	3,225,812	2,669,258

g) Credit quality of financial assets (investments)

The credit quality of investments is managed using external credit ratings. The table below shows the credit quality by class of asset:

	2015	2014
Saudi Government Bonds	**16,321,236**	16,900,837
Investment grade	**14,939,060**	14,273,506
Non-Investment grade	**108,138**	244,910
Unrated	**1,870,741**	2,456,953
Total investment, net	**33,239,175**	33,876,206

Saudi Government Bonds comprise Saudi Government Development Bonds, Floating Rate Notes and Treasury Bills. Investment Grade comprises investments having credit rating equivalent to Standard & 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:

	2015	2014
Nature of collateral held as security		
Listed securities	**19,372,008**	22,405,709
Properties	**19,499,177**	17,212,247
Others	**11,160,672**	5,382,029
Total	**50,031,857**	44,999,985

(Saudi Riyals in Thousands)

33. Concentration risk 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:

2015	**Saudi Arabia**	**Other GCC & Middle East**	**Europe**	**North America**	**Latin America**	**South East Asia**	**Other Countries**	**Total**
Assets								
Cash and balances with SAMA	**10,426,181**	**-**	**2,110**	**-**	**-**	**-**	**-**	**10,428,291**
Due from banks and other financial institutions	**937,692**	**2,698,148**	**349,597**	**1,394,041**	**-**	**195,216**	**326**	**5,575,020**
Derivative financial instruments	**195,533**	**13,753**	**71,181**	**9,657**	**-**	**-**	**34**	**290,158**
Investments, net	**23,251,656**	**1,397,144**	**728,780**	**7,755,218**	**-**	**106,377**	**-**	**33,239,175**
Investments in associates	**531,617**	**-**	**-**	**-**	**-**	**-**	**-**	**531,617**
Loans and advances, net	**114,492,565**	**35,237**	**497,025**	**-**	**-**	**-**	**119,495**	**115,144,322**
Other assets	**1,404,916**	**3,511**	**8,785**	**13,589**	**-**	**176**	**534**	**1,431,511**
Total	**151,240,160**	**4,147,793**	**1,657,478**	**9,172,505**	**-**	**301,769**	**120,389**	**166,640,094**
Liabilities								
Due to banks and other financial institutions	**3,243,659**	**1,408,627**	**1,015,572**	**514**	**-**	**4,469**	**42**	**5,672,883**
Derivative financial instruments	**84,638**	**14,608**	**163,246**	**76,454**	**-**	**-**	**3**	**338,949**
Customers' deposits	**135,045,287**	**93,680**	**536,080**	**511**	**-**	**342**	**10,639**	**135,686,539**
Debt securities and sukuk	**2,000,000**	**-**	**-**	**-**	**-**	**-**	**-**	**2,000,000**
Other liabilities	**3,995,215**	**5,536**	**61,586**	**28,705**	**-**	**-**	**7**	**4,091,049**
Total	**144,368,799**	**1,522,451**	**1,776,484**	**106,184**	**-**	**4,811**	**10,691**	**147,789,420**
Commitments and contingencies	**24,455,641**	**1,379,982**	**3,683,595**	**900,483**	**12,491**	**3,912,957**	**1,801,261**	**36,146,410**
Maximum credit exposure (stated at credit equivalent amounts)								
Commitments and contingencies	**11,992,907**	**644,361**	**1,705,898**	**431,266**	**7,293**	**2,040,805**	**900,629**	**17,723,159**
Derivatives	**462,400**	**13,744**	**144,077**	**71,985**	**-**	**-**	**934**	**693,140**

2014	Saudi Arabia	Other GCC & Middle East	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 from banks and other financial institutions	-	443,171	759,912	541,874	-	190,184	484	1,935,625
Derivative financial instruments	134,596	957	21,031	-	-	-	85	156,669
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
Other assets	1,325,560	3,276	5,423	11,765	-	209	592	1,346,825
Total	151,597,657	2,051,866	1,991,146	6,711,557	-	299,594	133,965	162,785,785
Liabilities								
Due to banks and other financial institutions	-	5,939,104	2,121,649	926,658	-	1,294	26,935	9,015,640
Derivative financial instruments	23,434	37,954	178,915	-	-	8	3	240,314
Customers' deposits	129,108,921	134,346	372,429	528	-	278	14,676	129,631,178
Debt securities and sukuk	-	840,000	623,250	-	-	224,250	-	1,687,500
Other liabilities	3,382,397	14,026	56,922	-	-	606	13	3,453,964
Total	132,514,752	6,965,430	3,353,165	927,186	-	226,436	41,627	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

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 commitments being exercised.

(Saudi Riyals in Thousands)

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

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	
	2015	2014	**2015**	2014
Saudi Arabia	**1,229,583**	1,095,184	**2,762,174**	2,385,954

34. Market risk

Market Risk is the risk that the fair value or future cash flows of 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 risk in managing the trading book. In order to manage market risk in the 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 regarding 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 thereof has limitations due to it being 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 should occur, on average, not more than once every hundred days.

The VaR represents the market risk in a portfolio at the close of a business day. It does not account for any losses that may occur beyond the defined confidence interval. Actual trading results can, however, differ from the VaR calculations. VaR 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 a one day horizon. This is considered to be a realistic assumption in most cases but may not be true in situations where 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 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. VaR 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 VaR are recognized by supplementing the 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 testing on 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 Asset and Liabilities Committee (ALCO) for review.

(Saudi Riyals in Thousands)

34. Market risk (continued)

a) Market risk - Trading book (continued)

The Bank's calculated VaR for the years ended December 31, 2015 and 2014 is as follows. All the figures are in SAR million:

	2015				2014			
	Yearend	**Average**	**High**	**Low**	Yearend	Average	High	Low
Special commission rate risk	**0.2559**	**0.9537**	**11.2663**	**0.1725**	0.2431	2.2788	12.9741	0.1678
Foreign exchange risk	**1.5496**	**0.9713**	**3.0902**	**0.4035**	0.8534	0.6031	3.1790	0.1735
Diversification effect *	**(0.2437)**	**(0.4356)**	**n/m**	**n/m**	(0.2034)	(0.3939)	n/m	n/m
Total VaR (one day measure)	**1.5618**	**1.4894**	**11.2509**	**0.4508**	0.8931	2.4880	12.8199	0.2939

* Total VaR is less than the sum of the VaR of the different market risk types due to risk offsets resulting from a portfolio diversification effect.
n/m – It is not meaningful to compute a diversification effect because the high and low may occur on different days for different risk types.

b) Market risk: non-trading or banking book

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

i) Commission rate risk

Commission rate risk arises from the possibility that changes in commission rates will affect either the fair values or the future cash flows of financial instruments. The Board has established commission rate gap limits for stipulated periods. The Bank monitors positions daily and uses hedging strategies to ensure positions are maintained within the established gap limits.

The following table shows the sensitivity of the Group's consolidated income statement and equity to a reasonable possible change in commission rates, with other variables held constant. Income sensitivity arises from the impact of assumed changes in commission rates on special commission income for one year, based on floating rate non-trading financial assets and liabilities held as at December 31, 2015, after taking into account the effect of hedging. Equity sensitivity is calculated by revaluing fixed rate available for sale financial assets, including the effect of any associated hedges as at December 31, 2015, for the effect of assumed changes in commission rates. The sensitivity of equity is analyzed by maturity of the asset or swap. Banking book exposures are monitored and analyzed in their respective currencies and relevant sensitivities are disclosed in SAR million.

2015

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**	**38.82**	**-**	**(0.02)**	**(0.51)**	**(0.16)**	**(0.69)**
USD	**+10**	**(7.05)**	**(0.05)**	**(0.68)**	**(6.00)**	**-**	**(6.73)**
Others	**+10**	**0.15**	**-**	**(0.04)**	**(0.04)**	**-**	**(0.08)**

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**	**(38.82)**	**-**	**0.02**	**0.51**	**0.16**	**0.69**
USD	**-10**	**7.05**	**0.05**	**0.68**	**6.00**	**-**	**6.73**
Others	**-10**	**(0.15)**	**-**	**0.04**	**0.04**	**-**	**0.08**

(Saudi Riyals in Thousands)

34. Market risk (continued)

b) Market risk: non-trading or banking book (continued)

i) Commission rate risk (continued)

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)

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

Commission rate 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 risk. 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 Group manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

(Saudi Riyals in Thousands)

34. Market risk (continued)

b) Market risk: non-trading or banking book (continued)

i) Commission rate risk (continued)

Commission rate sensitivity of assets, liabilities and off consolidated statement of financial position items (continued)

2015	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total
Assets						
Cash and balances with SAMA	-	-	-	-	10,428,291	10,428,291
Due from banks and other financial institutions	3,708,706	-	-	-	1,866,314	5,575,020
Derivative financial instruments	-	-	-	-	290,158	290,158
Investments, net	18,078,127	2,976,921	8,740,607	1,900,000	1,543,520	33,239,175
Loans and advances, net	58,748,903	30,536,071	24,494,383	1,364,965	-	115,144,322
Investments in associates	-	-	-	-	531,617	531,617
Other real estate	-	-	-	-	159,893	159,893
Investment property, net	-	-	-	-	1,675,866	1,675,866
Property and equipment, net	-	-	-	-	1,945,420	1,945,420
Other assets	-	-	-	-	1,431,511	1,431,511
Total assets	80,535,736	33,512,992	33,234,990	3,264,965	19,872,590	170,421,273
Liabilities and equity						
Due to banks and other financial institutions	5,487,544	-	-	-	185,339	5,672,883
Derivative financial instruments	-	-	-	-	338,949	338,949
Customers' deposits	51,623,457	14,776,447	48,300	-	69,238,335	135,686,539
Other liabilities	-	-	-	-	4,091,049	4,091,049
Debt securities and sukuk	-	2,000,000	-	-	-	2,000,000
Equity	-	-	-	-	22,631,853	22,631,853
Total liabilities and equity	57,111,001	16,776,447	48,300	-	96,485,525	170,421,273
On consolidated statement of financial position gap	23,424,735	16,736,545	33,186,690	3,264,965	(76,612,935)	
Off consolidated statement of financial position gap	3,042,324	7,200,401	(9,680,261)	(562,464)	-	
Total commission rate sensitivity gap	26,467,059	23,936,946	23,506,429	2,702,501	(76,612,935)	
Cumulative commission rate sensitivity gap	26,467,059	50,404,005	73,910,434	76,612,935	-	

(Saudi Riyals in Thousands)

34. Market risk (continued)

b) Market risk: non-trading or banking book (continued)

i) Commission rate risk (continued)

Commission rate sensitivity of assets, liabilities and off consolidated statement of financial position items (continued)

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
Derivative financial instruments	-	-	-	-	156,669	156,669
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
Investment property, net	-	-	-	-	-	-
Property and equipment, net	-	-	-	-	1,745,936	1,745,936
Other assets	-	-	-	-	1,346,825	1,346,825
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
Derivative financial instruments	-	-	-	-	240,314	240,314
Customers' deposits	33,228,199	24,201,973	6,157	-	72,194,849	129,631,178
Other liabilities	-	-	-	-	3,453,964	3,453,964
Debt securities and sukuk	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	-	

The off consolidated statement of financial position gap represents the net notional amounts of derivative financial instruments, which are used to manage 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 changes 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 that are monitored daily, including position, stop-loss and VaR limits.

(Saudi Riyals in Thousands)

34. Market risk (continued)

b) Market risk: non-trading or banking book (continued)

ii) Currency risk (continued)

The table below shows the currencies to which the Bank has a significant exposure as at December 31, 2015 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 changes in fair values of currency sensitive non-trading monetary assets and liabilities) and equity (due to changes in fair values of currency swaps used as cash flow hedges). A positive effect shows a potential increase in the consolidated income statement or equity whereas, a negative effect shows a potential net reduction in the consolidated income statement or equity.

	2015		2014	
Currency risk exposures	**Changes in currency rate in %**	**Effect on net income**	Changes in currency rate in %	Effect on net income
US Dollar	**+5**	**(66.995)**	+5	6.509
Euro	**-3**	**0.006**	-3	0.115
Pound Sterling	**-3**	**(0.002)**	-3	0.003

iii) Currency position

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

	Long (short) 2015	Long (short) 2014
US Dollar	**(1,339,910)**	130,185
Euro	**(200)**	(3,837)
Pound Sterling	**76**	(101)

iv) Equity price risk

Equity price risk refers to the risk of a decrease in the fair values of equities in the 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 available for sale equity investments due to reasonable possible change in equity indices, with all other variables held constant is as follows:

Market indices	**2015**		2014	
	Change in index %	**Effect in SAR'000**	Change in index %	Effect in SAR'000
Tadawul	**+5**	**58,816**	+5	63,865
	-5	**(58,816)**	-5	(63,865)

(Saudi Riyals in Thousands)

35. 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 suddenly. To mitigate this risk, management has diversified funding sources, manages assets with liquidity in mind and maintains 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% (2014: 7%) of total demand deposits and 4% (2014: 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 that can be converted into cash within 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 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 consolidated statement of financial position date to the contractual maturity date and do not take into account the effective expected maturities. The Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not affect the expected cash flows indicated by the Bank's deposit retention history.

2015	**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	**5,238,348**	**250,561**	**-**	**-**	**185,339**	**5,674,248**
Customers' deposits	**51,173,284**	**15,885,271**	**104,756**	**-**	**69,257,035**	**136,420,346**
Derivative financial instruments						
Contractual amounts payable	**48,762**	**286,942**	**667,241**	**45,419**	**-**	**1,048,364**
Contractual amounts receivable	**(23,850)**	**(225,792)**	**(635,378)**	**(44,821)**	**-**	**(929,841)**
Debt securities and Sukuk	**11,270**	**36,561**	**191,194**	**2,239,287**	**-**	**2,478,312**
Total financial liabilities	**56,447,814**	**16,233,543**	**327,813**	**2,239,885**	**69,442,374**	**144,691,429**

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 and Sukuk	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

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 the Bank, operating subsidiaries and the foreign branch. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

(Saudi Riyals in Thousands)

35. Liquidity risk (continued)

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

2015	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**No fixed maturity**	**Total**
Assets						
Cash and balances with SAMA	**-**	**-**	**-**	**-**	**10,428,291**	**10,428,291**
Due from banks and other financial institutions	**3,709,703**	**-**	**-**	**-**	**1,865,317**	**5,575,020**
Derivative financial instruments	**-**	**-**	**-**	**-**	**290,158**	**290,158**
Investments, net	**15,045,107**	**2,129,272**	**10,796,007**	**3,725,269**	**1,543,520**	**33,239,175**
Loans and advances, net	**34,014,034**	**24,375,239**	**37,361,443**	**7,543,247**	**11,850,359**	**115,144,322**
Investments in associates	**-**	**-**	**-**	**-**	**531,617**	**531,617**
Other real estate	**-**	**-**	**-**	**-**	**159,893**	**159,893**
Investment property, net	**-**	**-**	**-**	**-**	**1,675,866**	**1,675,866**
Property and equipment, net	**-**	**-**	**-**	**-**	**1,945,420**	**1,945,420**
Other assets	**-**	**-**	**-**	**-**	**1,431,511**	**1,431,511**
Total assets	**52,768,844**	**26,504,511**	**48,157,450**	**11,268,516**	**31,721,952**	**170,421,273**
Liabilities and equity						
Due to banks and other financial institutions	**5,487,544**	**-**	**-**	**-**	**185,339**	**5,672,883**
Derivative financial instruments	**-**	**-**	**-**	**-**	**338,949**	**338,949**
Customers' deposits	**51,623,457**	**14,629,708**	**195,039**	**-**	**69,238,335**	**135,686,539**
Other liabilities	**-**	**-**	**-**	**-**	**4,091,049**	**4,091,049**
Debt securities and sukuk	**-**	**-**	**-**	**2,000,000**	**-**	**2,000,000**
Equity	**-**	**-**	**-**	**-**	**22,631,853**	**22,631,853**
Total liabilities and equity	**57,111,001**	**14,629,708**	**195,039**	**2,000,000**	**96,485,525**	**170,421,273**

2014	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	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
Derivative financial instruments	-	-	-	-	156,669	156,669
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
Investments in associates	-	-	-	-	494,117	494,117
Other real estate	-	-	-	-	136,634	136,634
Investment property, net	-	-	-	-	-	-
Property and equipment, net	-	-	-	-	1,745,936	1,745,936
Other assets	-	-	-	-	1,346,825	1,346,825
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
Derivative financial instruments	-	-	-	-	240,314	240,314
Customers' deposits	33,036,898	24,111,121	205,653	-	72,277,506	129,631,178
Other liabilities	-	-	-	-	3,453,964	3,453,964
Debt securities and sukuk	-	-	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

(Saudi Riyals in Thousands)

36. 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 where significant inputs are not based on observable market data.

2015	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Financial assets held for trading	**1,312,480**	**-**	**-**	**1,312,480**
Financial assets designated at FVIS	**-**	**8,077**	**-**	**8,077**
Financial investments available for sale	**9,464,246**	**1,649,880**	**85,794**	**11,199,920**
Derivative financial instruments	**-**	**290,158**	**-**	**290,158**
Total	**10,776,726**	**1,948,115**	**85,794**	**12,810,635**
Financial Liabilities				
Derivative financial instruments	**-**	**338,949**	**-**	**338,949**
Total	**-**	**338,949**	**-**	**338,949**

2014	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading	-	-	-	-
Financial assets designated at FVIS	-	14,535	-	14,535
Financial investments available for sale	9,140,302	1,663,810	89,593	10,893,705
Derivative financial instruments	-	156,669	-	156,669
Total	9,140,302	1,835,014	89,593	11,064,909
Financial Liabilities				
Derivative financial instruments	-	240,314	-	240,314
Total	-	240,314	-	240,314

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 an asset or transfer a liability takes place either:

i) In the principal market for the asset or liability; or

ii) In the absence of a principal market, in the most advantageous accessible market.

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.

(Saudi Riyals in Thousands)

36. Fair values of financial assets and liabilities (continued)

During the year, there has been no transfers within levels of the fair value hierarchy. 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 consolidated statement of financial position date. The following table shows a reconciliation from the beginning balances to the ending balances of the fair value measurements in Level 3:

Financial investments designated as available for sale.

	2015	2014
Balance at the beginning of the year	**89,593**	95,601
Total gains in other comprehensive income	**10,850**	3,570
Settlements	**(14,649)**	(12,221)
Purchases	**-**	2,643
Balance at the end of the year	**85,794**	89,593

The fair values of financial instruments on consolidated statement of financial position date, except for other investments held 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 and sukuk, due from and due to banks which are held 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. 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 appropriate valuation technique. The total amount of the changes in fair value recognized in the consolidated income statement, which was estimated using valuation techniques, is SAR 49 million (2014: SAR 84 million).

37. Related party transactions

In the ordinary course of its activities, the Bank transacts business with related parties. In the opinion of management and the Board, the related party transactions are performed on an arm's length basis. 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:

	2015	2014
Non-Saudi Major Shareholder:		
Due from banks and other financial institutions	**220,977**	294,754
Due to banks and other financial institutions	**364,500**	2,763,338
Commitments, contingencies and others	**3,180,000**	3,391,500
Directors, key management personnel, other major shareholders and their affiliates:		
Loans and advances	**5,913,726**	4,198,522
Customers' deposits	**12,183,229**	8,823,453
Commitments, contingencies and others	**1,744,463**	1,833,216
Purchase of equipment	**689**	926
Bank's mutual funds:		
Investments	**296,721**	447,391
Loans and advances	**34,661**	32,455
Customers' deposits	**474,581**	394,216
Associates:		
Loans and advances	**2,383,867**	2,478,578
Customers' deposits	**49,770**	6,038
Commitments and contingencies	**47,032**	-
Local sukuk	**10,000**	-

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

(Saudi Riyals in Thousands)

37. Related party transactions (continued)

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

	2015	2014
Special commission income	**190,229**	130,652
Special commission expense	**(102,559)**	(47,841)
Fees and commission income	**87,332**	121,417
Equipment rental income	**10,120**	5,411
Directors' remuneration	**(4,949)**	(4,877)
Insurance contracts	**(56,524)**	-
Miscellaneous expenses	**(9,866)**	(6,583)

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

	2015	2014
Short-term employee benefits (Salaries and allowances)	**57,052**	56,533
Post-employment benefits (End of service indemnity and social security)	**6,713**	6,531

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

38. 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. During the year, the Group has fully complied with regulatory capital requirements.

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 consolidated 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 are as follows:

	2015	2014
Credit Risk RWA	**142,486,825**	129,945,722
Operational Risk RWA	**12,021,912**	11,016,455
Market Risk RWA	**1,971,389**	899,462
Total Pillar I RWA	**156,480,126**	141,861,639
Tier I Capital	**21,343,997**	20,051,313
Tier II Capital	**2,840,238**	1,022,477
Total Tier I & II Capital	**24,184,235**	21,073,790
Capital Adequacy Ratio %		
Tier I ratio	**13.64%**	14.13%
Tier I + Tier II ratio	**15.46%**	14.86%

The increase in regulatory capital for the year is mainly due to the contribution of 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 as adopted by SAMA in supervising the Bank.

39. Investment management services

The Group offers investment services to its customers, which include management of investment funds with assets totaling SAR 3,570 million (2014: SAR 4,367 million).

The financial statements of these funds are not consolidated with these consolidated financial statements, except for consolidating the financial statements of ANBI Business Gate Fund, effective December 31, 2015. However, the Group's share of these non-consolidated 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.

40. 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 the prescribed time as required by SAMA. Such disclosures are not subject to audit by the external auditors of the Bank.

41. Comparative figures

Certain comparative figures were reclassified to conform to the current year classification.

42. Board of directors' approval

The consolidated financial statements were approved by the Board on 7 Jumada Al-Ula 1437 (corresponding to 16 February 2016).