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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Arab National Bank (the "Bank") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at December 31, 2014, the consolidated income statement, 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 40. We have not audited note 39, nor the information related to "Disclosures under Basel III framework " cross referenced therein, which is not required to be within the scope of our audit.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

INDEPENDENT AUDITORS' REPORT (continued)

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

Opinion

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

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

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

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22 Rabi Al Thani 1436 H
(February 11, 2015)

Arab National Bank – Saudi Joint Stock Company

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

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

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

Arab National Bank – Saudi Joint Stock Company

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

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

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

Arab National Bank – Saudi Joint Stock Company

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

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

The accompanying notes 1 to 40 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, 2014 and 2013

		Attributable to equity holders of the Bank							
2014	**Notes**	**Share capital SAR' 000**	**Statutory reserve SAR' 000**	**Other reserves SAR' 000**	**Retained earnings SAR' 000**	**Proposed dividends SAR' 000**	**Total SAR' 000**	**Non-controlling interest SAR' 000**	**Total equity SAR' 000**
Balance at beginning of the year		8,500,000	7,270,000	263,330	2,622,124	425,000	19,080,454	107,960	19,188,414
Changes in equity for the year									
Net changes in fair value of cash flow hedges				14,931	-	-	14,931	-	14,931
Net changes in fair value of available for sale investments				(2,256)	-	-	(2,256)	-	(2,256)
Transfers to consolidated income statement				2,827	-	-	2,827	-	2,827
Net comprehensive income for the year				15,502	-	-	15,502	-	15,502
Net income for the year				-	2,875,050	-	2,875,050	2,105	2,877,155
Total comprehensive income for the year				15,502	2,875,050	-	2,890,552	2,105	2,892,657
Bonus share issue	16 & 27	1,500,000	-	-	(1,500,000)	-	-	-	-
Acquisition of non-controlling interest		-	-	-	-	-	-	(71,619)	(71,619)
Transfer to statutory reserve	17	-	720,000	-	(720,000)	-	-	-	-
2013 final dividends paid	27	-	-	-	-	(425,000)	(425,000)	-	(425,000)
2014 interim dividends paid	27	-	-	-	(450,000)	-	(450,000)	-	(450,000)
Proposed dividends	27	-	-	-	(550,000)	550,000	-	-	-
Zakat	27	-	-	-	(494,693)	-	(494,693)	-	(494,693)
Balance at end of the year		10,000,000	7,990,000	278,832	1,782,481	550,000	20,601,313	38,446	20,639,759

2013	Notes	Share capital SAR' 000	Statutory reserve SAR' 000	Other reserves SAR' 000	Retained earnings SAR' 000	Proposed dividends SAR' 000	Total SAR' 000	Non-controlling interest SAR' 000	Total equity SAR' 000
Balance at beginning of the year		8,500,000	6,630,000	244,618	1,579,657	850,000	17,804,275	105,312	17,909,587
Changes in equity for the year									
Net changes in fair value of cash flow hedges				(4,406)	-	-	(4,406)	-	(4,406)
Net changes in fair value of available for sale investments				64,287	-	-	64,287	-	64,287
Transfers to consolidated income statement				(41,169)	-	-	(41,169)	-	(41,169)
Net comprehensive income for the year				18,712	-	-	18,712	-	18,712
Net income for the year				-	2,522,495	-	2,522,495	2,648	2,525,143
Total comprehensive income for the year				18,712	2,522,495	-	2,541,207	2,648	2,543,855
Transfer to statutory reserve	17		640,000	-	(640,000)	-	-	-	-
2012 final dividends paid			-	-	-	(850,000)	(850,000)	-	(850,000)
Proposed dividends	27		-	-	(425,000)	425,000	-	-	-
Zakat	27		-	-	(415,028)	-	(415,028)	-	(415,028)
Balance at end of the year		8,500,000	7,270,000	263,330	2,622,124	425,000	19,080,454	107,960	19,188,414

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

Arab National Bank – Saudi Joint Stock Company

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

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

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

1. General

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

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

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

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

Arab National Bank Investment Company (ANB Invest)

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

Arabian Heavy Equipment Leasing Company (AHEL)

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

Arab Insurance Agency

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

Al-Manzil Al-Mubarak Real Estate Financing Ltd.

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

2. Basis of preparation

a) Statement of compliance

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

b) Basis of measurement and presentation

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

2. Basis of preparation (continued)

c) Functional and presentation currency

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

d) Critical accounting judgments, estimates and assumptions

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

(i) Impairment for credit losses on loans and advances

The Bank reviews its loan portfolios to assess specific and collective impairment on a quarterly basis. In determining whether an impairment loss should be recorded, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group. Management uses estimates based on historical loss experience for loans with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its cash flows. The methodology and assumptions used for estimating both the amount and the timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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

(ii) Fair value of financial instruments

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

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

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

The principal or the most advantageous market must be accessible to by the Group.

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

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

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

2. Basis of preparation (continued)

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

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

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

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

(iv) Classification of held-to-maturity investments

The Bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than in certain specific circumstances – for example, selling close to maturity or an insignificant amount– it will be required to reclassify the entire class as available-for-sale.

(v) Determination of control over investees

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

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

e) Going concern

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

f) Provisions for liabilities and charges

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

3. Summary of significant accounting policies

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

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

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

3. Summary of significant accounting policies (continued)

a) Basis of consolidation

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

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

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

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:
- The contractual arrangement with the other vote holders of the investee,
- Rights arising from other contractual arrangements, and
- The Group's voting rights and potential voting rights granted by equity instruments such as shares.

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

If the Group loses control over a subsidiary, it:

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

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

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

Non-controlling interests are subsequently adjusted for their share of changes in equity of the consolidated subsidiary after the date of acquisition.

All intra-group assets and liabilities, equity, income and expenses relating to transactions between members of the Group are eliminated in full on consolidation.

3. Summary of significant accounting policies (continued)

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.

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

c) Settlement date accounting

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

d) Derivative financial instruments and hedge accounting

Derivative financial instruments, including forward foreign exchange contracts, commission rate futures, forward rate agreements, currency and commission rate swaps, currency and commission rate options, are measured at fair value. All derivatives are carried at their fair value as assets where the fair value is positive and as liabilities where the fair value is negative. Fair values are obtained by reference to quoted market prices, discounted cash flow models and pricing models, as appropriate.

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

i) Derivatives held for trading

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

ii) Embedded derivatives

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

iii) Hedge accounting

For the purpose of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognized asset or liability and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or to a highly probable forecasted transaction that will affect the reported net gain or loss.

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

3. Summary of significant accounting policies (continued)

d) Derivative financial instruments and hedge accounting (continued)

***iii) Hedge accounting* (continued)**

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

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

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

Hedge accounting is discontinued prospectively when the hedging instrument is expired or sold, terminated or exercised, or no longer qualifies for hedge accounting, or the forecasted transaction is no longer expected to occur or the Bank revokes the designation. At that point of time, any cumulative gain or loss on the cash flow hedging instrument that was recognized in other reserves is retained in equity until the forecasted transaction occurs. Where the hedged forecasted transaction is no longer expected to occur and affects the consolidated income statement, the net cumulative gain or loss recognized in “other reserves” is transferred to the consolidated income statement for the year.

e) Foreign currencies

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

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

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

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

f) Offsetting financial instruments

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

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

3. Summary of significant accounting policies (continued)

g) Revenue and expenses recognition

Special commission income and expenses

Special commission income and expenses for all commission-bearing financial instruments, except for those classified as held for trading or designated at fair value through income statement, including the fees which are considered an integral part of the effective yield of a financial instrument, are recognized in the consolidated income statement on the effective yield basis and include premiums amortized and discounts accreted during the year. The effective commission rate is the rate that exactly discounts estimated future cash payments and receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial assets or liability.

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

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

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

Exchange income / (loss)

Exchange income/loss is recognized when earned/incurred.

Fees and commission income

Fees and commission income are recognized on an accrual basis when the service has been provided. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportionate basis. Fee received on asset management, wealth management, financial planning, custody services and other similar services that are provided over an extended period of time, are recognized rateably over the period when the service is being provided.

Dividend income

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

Net trading income / (loss)

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

h) Sale and repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognized on the consolidated statement of financial position and are measured in accordance with related accounting policies for investments held as FVIS, available for sale, held to maturity and other investments held at amortized cost. The counterparty liability for amounts received under these agreements is included in “Due to banks and other financial institutions” or “Customers’ deposits”, as appropriate. The difference between sale and repurchase price is treated as special commission expense and accrued over the life of the repo agreement on an effective yield basis. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repo) are not recognized in the consolidated statement of financial position, as the Bank does not obtain control over the assets. Amounts paid under these agreements are included in “Cash and balances with SAMA”, “Due from banks and other financial institutions” or “Loans and advances”, as appropriate. The difference between purchase and resale price is treated as special commission income and accrued over the life of the reverse repo agreement on an effective yield basis.

i) Investments

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

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

3. Summary of significant accounting policies (continued)

i) Investments (continued)

For securities traded in organized financial markets, fair value is determined by reference to exchange quoted market bid prices at the close of business on the consolidated statement of financial position date without any deduction for transaction costs. Fair value of managed assets and investments in mutual funds are determined by reference to declared net asset values which approximate the fair value.

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

Following initial recognition, subsequent transfers between the various classes of investments are not ordinarily permissible. The subsequent period-end reporting values for each class of investment are determined on the basis as set out in the following paragraphs:

(i) Held at Fair Value Through Income Statement (FVIS)

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

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

(ii) Available for sale

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

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

Investments which are classified as “available for sale” are subsequently measured at fair value. For an available-for-sale investment where the fair value has not been hedged, any gain or loss arising from a change in its fair value is recognized directly in equity (through other comprehensive income) in “Other reserves”. On derecognition, any cumulative gain or loss previously recognized in shareholders’ equity is transferred in the consolidated income statement for the year.

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

(iii) Held to maturity

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

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

(iv) Other investments held at amortized cost

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

3. Summary of significant accounting policies (continued)

j) Loans and advances

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

All loans and advances are initially measured at fair value, including acquisition charges associated with the loans and advances except for loans held as FVIS.

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

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

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

k) Impairment of financial assets

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

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

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the consolidated income statement in impairment charges for credit losses.

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

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

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

3. Summary of significant accounting policies (continued)

k) Impairment of financial assets (continued)

i) Impairment of financial assets held at amortized cost

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

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

ii) Impairment of available for sale financial assets

In the case of debt instruments classified as available-for-sale, the Bank assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated income statement.

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

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

l) Other real estate

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

Subsequent to initial recognition, any subsequent write down to fair value, less costs to sell, are charged to the consolidated income statement. Any subsequent gain in the fair value less costs to sell of these assets to the extent this does not exceed the cumulative write down is recognized as income together with any gain/ loss on disposal.

m) Property and equipment

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

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

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

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

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

3. Summary of significant accounting policies (continued)

n) Financial liabilities

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

Subsequently all special commission-bearing financial liabilities, other than those where fair values have been hedged, are measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium. Premiums are amortized and discounts accreted on an effective yield basis to maturity and taken to special commission expense.

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

o) Provisions

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

p) Accounting for leases

i) Where the Bank is the lessee

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

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

ii) Where the Bank is the lessor

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

q) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, "cash and cash equivalents" are defined as those amounts included in cash, balances with SAMA excluding statutory deposit, and due from banks and other financial institutions maturing within 90 days of the acquisition date.

r) Financial guarantees

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

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

s) Derecognition of financial instruments

A financial asset (or a part of a financial asset, or a part of a group of similar financial assets) is derecognized, when the contractual rights to the cash flows from the financial asset expire or the asset is transferred and the transfer qualifies for derecognition.

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

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

3. Summary of significant accounting policies (continued)

t) Zakat and income taxes

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

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

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

u) Sharia compliant based banking products

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

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

v) Standards issued but not yet effective

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

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

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

Annual improvements 2010-2012 Cycle

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

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

Annual improvements 2011-2013 Cycle

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

IFRS 3 Business Combinations
IFRS 13 Fair Value Measurement
IAS 40 Investment Property
IFRS 15 Revenue from Contracts with Customers
Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests
Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to IAS 27: Equity Method in Separate Financial Statements

(Saudi Riyals in Thousands)

4. Cash and balances with SAMA

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

In accordance with the Banking Control Law and regulations issued by Saudi Arabian Monetary Agency (SAMA), the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its demand, savings, time and other deposits, calculated at the end of each month. The statutory deposit with SAMA are not available to finance the Bank's day-to-day operations and therefore are not part of cash and cash equivalents (note 28).

5. Due from banks and other financial institutions

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

6. Investments, net

a) Investments are classified as follows:

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

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

ii) Available for sale

	Domestic		International		Total	
	2014	2013	**2014**	2013	**2014**	2013
Fixed rate securities	**327,339**	1,040,152	**7,959,044**	7,378,712	**8,286,383**	8,418,864
Floating rate notes	**841,437**	500,627	**93,750**	391,388	**935,187**	892,015
Equities	**1,088,934**	984,369	**324**	60,170	**1,089,258**	1,044,539
Other	**367,609**	323,210	**215,681**	229,121	**583,290**	552,331
Available for sale	**2,625,319**	2,848,358	**8,268,799**	8,059,391	**10,894,118**	10,907,749
Allowance for impairment	**-**	-	**(413)**	-	**(413)**	-
Available for sale, net	**2,625,319**	2,848,358	**8,268,386**	8,059,391	**10,893,705**	10,907,749

iii) Other investments held at amortized cost

	Domestic		International		Total	
	2014	2013	**2014**	2013	**2014**	2013
Fixed rate securities	**17,900,837**	12,163,227	**1,473,628**	1,087,988	**19,374,465**	13,251,215
Floating rate notes	**3,593,501**	3,621,727	**-**	450,235	**3,593,501**	4,071,962
Other investments held at amortized cost, net	**21,494,338**	15,784,954	**1,473,628**	1,538,223	**22,967,966**	17,323,177
Total investments, net	**24,119,657**	18,633,312	**9,756,549**	9,615,057	**33,876,206**	28,248,369

(Saudi Riyals in Thousands)

6. Investments, net (continued)

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

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

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

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

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

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

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

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

e) Movement in the allowance for impairment of investments

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

(Saudi Riyals in Thousands)

7. Loans and advances, net

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

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

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

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

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

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

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

(Saudi Riyals in Thousands)

7. Loans and advances, net (continued)

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

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	**25,059,544**	**70,469**	**(68,741)**	**25,061,272**
12. Other	**30,245,646**	**1,028**	**(283,231)**	**29,963,443**
	105,014,786	**1,095,184**	**(1,700,977)**	**104,408,993**
Allowance for collective impairment	**-**	**-**	**(684,977)**	**(684,977)**
Total	**105,014,786**	**1,095,184**	**(2,385,954)**	**103,724,016**

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

8. Investments in associates

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

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

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

(Saudi Riyals in Thousands)

9. Property and equipment, net

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

10. Other assets

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

11. Derivatives

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

a) Swaps

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

b) Forwards and futures

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

c) Forward rate agreements

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

(Saudi Riyals in Thousands)

11. Derivatives (continued)

d) Options

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

Held for trading purposes

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

Held for hedging purposes

The Bank has adopted a comprehensive system for the measurement and management of risk. Part of the risk management process involves managing the Bank's exposure to fluctuations in foreign exchange and commission rates to reduce its exposure to currency and commission rate risks to acceptable levels as determined by the Board of Directors within the guidelines issued by SAMA.

The Board of Directors has established levels of currency risk by setting limits on counterparty and currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits. The Board of Directors has established the level of commission rate risk by setting limits on commission rate gaps for stipulated periods. Asset and liability commission rate gaps are reviewed on a periodic basis and hedging strategies are used to reduce commission rate gap within the established limits.

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

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

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

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

2014				Derivative financial instruments Notional amounts by term to maturity				
	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	51,738	44,182	7,564,282	200,000	2,397,800	4,920,929	45,553	10,196,568
Commission rate futures and options	-	-	2,273,382	11,691	-	2,261,691	-	2,446,682
Forward foreign exchange contracts	57,687	30,108	5,872,809	3,009,835	2,851,656	11,318	-	7,096,029
Currency options	44,204	43,979	20,970,262	6,751,645	10,511,150	3,707,467	-	16,108,100
Held as fair value hedges:								
Commission rate swaps	3,040	122,045	16,297,254	-	6,000,000	9,711,977	585,277	12,128,343
Held as cash flow hedges:								
Commission rate swaps	-	-	-	-	-	-	-	-
Total	156,669	240,314	52,977,989	9,973,171	21,760,606	20,613,382	630,830	47,975,722

(Saudi Riyals in Thousands)

11. Derivatives (continued)

2013	Positive fair value	Negative fair value	Notional amount total	Derivative financial instruments Notional amounts by term to maturity Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading:								
Commission rate swaps	119,174	114,332	7,786,184	240,000	1,074,611	6,419,894	51,679	7,107,119
Commission rate futures and options	-	-	24,815	-	-	24,815	-	5,344,968
Forward foreign exchange contracts	50,043	21,015	6,310,929	4,890,058	1,417,069	3,802	-	8,685,071
Currency options	2,825	2,820	13,306,210	3,652,580	7,023,594	2,630,036	-	11,144,597
Held as fair value hedges:								
Commission rate swaps	4,859	81,171	2,642,222	45,908	93,750	2,476,725	25,839	4,508,978
Held as cash flow hedges:								
Commission rate swaps	-	18,092	1,237,500	-	-	1,237,500	-	-
Total	176,901	237,430	31,307,860	8,828,546	9,609,024	12,792,772	77,518	36,790,733

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

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

Description of hedged items	**Fair value**	**Hedge inception value**	**Risk**	**Hedging instrument**	**Positive fair value**	**Negative fair value**
2014						
Fixed commission rate investments	**6,130,189**	**6,079,027**	Fair value	Commission rate swap	**16,381**	**66,680**
Fixed commission rate loans	**4,273,313**	**4,218,227**	Fair value	Commission rate swap	**1,223**	**56,309**
Fixed commission rate deposits	**6,010,281**	**6,000,000**	Fair value	Commission rate swap	**-**	**10,281**

Description of hedged items	Fair value	Hedge inception value	Risk	Hedging instrument	Positive fair value	Negative fair value
2013						
Fixed commission rate investments	2,058,903	2,032,089	Fair value	Commission rate swap	-	26,225
Fixed commission rate loans	660,220	610,133	Fair value	Commission rate swap	4,859	54,946
Floating commission rate loans	1,255,592	1,237,500	Cash flow	Commission rate swap	-	18,092

Cash flow hedges

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

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

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

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

(Saudi Riyals in Thousands)

12. Due to banks and other financial institutions

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

13. Customers' deposits

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

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

The above include foreign currency deposits as follows:

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

14. Other liabilities

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

15. Debt securities in issue

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

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

16. Share capital

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

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

(Saudi Riyals in Thousands)

17. Statutory reserve

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

18. Commitments and contingencies

a) Legal proceedings

As at December 31, 2014 and 2013 there were legal proceedings of a routine nature outstanding against the Bank. No material provision has been made as related professional legal advice indicates that it is unlikely that any significant loss will arise.

b) Capital commitments

As at December 31, 2014 the Bank had capital commitments of SAR 108 million (2013: SAR 112 million) in respect of building and equipment purchases.

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:

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

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

(Saudi Riyals in Thousands)

18. Commitments and contingencies (continued)

c) Credit related commitments and contingencies (continued)

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

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

d) Assets pledged

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

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

e) Operating lease commitments

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

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

19. Net special commission income

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

(Saudi Riyals in Thousands)

20. Fees and commission income, net

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

21. Income from FVIS financial instruments, net

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

22. Trading income, net

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

23. Dividend income

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

24. Losses/(gains) and impairment of non-trading investments, net

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

25. Other operating income, net

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

26. Basic and fully diluted earnings per share

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

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

(Saudi Riyals in Thousands)

27. Gross dividends, Zakat and Income Tax

Gross dividends are comprised of the following :

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

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

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

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

Zakat

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

Income Tax

Income tax payable by the non-Saudi Shareholder on the current year's share of net income is SAR 232 million (2013: SAR 208 million).

The Bank has filed its Zakat returns for the financial years up to and including the year 2013 with the Department of Zakat and Income tax (the "DZIT").The Zakat assessments for the years up to 2005 have been finalized with the DZIT. The Bank has received Zakat assessments for the years from 2006 to 2008 raising demands for additional Zakat liability of SAR 168 million. The related additional Zakat liability is mainly on account of disallowance of certain long-term investments by the DZIT. The basis for this additional aggregate Zakat liability is being contested by the Bank in conjunction with all the Banks in the Kingdom of Saudi Arabia. The Bank has also formally contested these assessments and is awaiting a response from DZIT.

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

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

28. Cash and cash equivalents

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

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

29. Compensation practices

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

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

(Saudi Riyals in Thousands)

29. Compensation practices (continued)

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

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

2014

	Categories of employees	Number of employees	Fixed compensation	Variable 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**	

2013

	Categories of employees	Number of employees	Fixed compensation	Variable cost paid cash in 2013
1.	Senior executive requiring SAMA no objections	20	40,449	22,386
2.	Employees engaged in risk taking activities	157	86,407	28,502
3.	Employees engaged in control functions	362	98,428	9,614
4.	Other employees	4,047	660,044	55,562
	Total	4,586	885,328	116,064
	Variable compensation accrued in 2013		105,000	
	Other employment related costs*		199,631	
	Total salaries and employment related expenses		1,189,959	

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

30. Operating segments

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

(Saudi Riyals in Thousands)

30. Operating segments (continued)

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

Retail banking

Deposit, credit and investment products for individuals.

Corporate banking

Loans and advances, deposits and other credit products for corporate and institutional customers, small to medium sized businesses, and the Bank's London Branch.

Treasury banking

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

Investment and brokerage services

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

Other

Includes income on capital and unallocated costs, assets and liabilities pertaining to the Head Office and other supporting departments.

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

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

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

2014	Retail banking	Corporate banking	Treasury banking	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**
Fee and commission income, net	**405,840**	**673,773**	**18,788**	**123,989**	**94,177**	**1,316,567**
Total operating income	**2,178,012**	**2,105,068**	**883,757**	**135,150**	**205,175**	**5,507,162**
Total operating expenses	**1,574,066**	**860,322**	**87,599**	**73,911**	**61,693**	**2,657,591**
Share in earnings of associates, net	**-**	**-**	**-**	**-**	**27,584**	**27,584**
Gain attributed to non-controlling interest	**-**	**-**	**-**	**-**	**(2,105)**	**(2,105)**
Net income attributed to equity holders of the Bank	**603,946**	**1,244,746**	**796,158**	**61,239**	**168,961**	**2,875,050**
Impairment charges for credit losses, net	**213,421**	**337,462**	**-**	**-**	**-**	**550,883**
Depreciation and amortization	**130,775**	**2,165**	**3,695**	**4,542**	**48,475**	**189,652**

(Saudi Riyals in Thousands)

30. Operating segments (continued)

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

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

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

Credit exposure comprises the carrying value of consolidated statement of financial position assets, excluding cash, property and equipment, other real estate, and other assets. The credit equivalent value of commitments, contingencies and derivatives are included in credit exposure (note 32a).

31. Credit risk

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

The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counter-parties, and continually assessing the creditworthiness of counter-parties. The Bank's risk management policies are designed to identify and to set appropriate risk limits and to monitor the risks and adherence to limits. In addition to monitoring credit limits, the Bank manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counter-parties in appropriate circumstances, and limiting the duration of exposure. In certain cases, the Bank may also close out transactions or assign them to other counter-parties to mitigate credit risk. The Bank's credit risk for derivatives, represents the potential cost to replace the derivative contracts if counter-parties fail to fulfill their obligation. To control the level of credit risk taken, the Bank assesses counter-parties using the same techniques as for its lending activities.

(Saudi Riyals in Thousands)

31. Credit risk (continued)

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

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

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

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

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

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

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

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

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

(Saudi Riyals in Thousands)

31. Credit risk (continued)

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

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

c) Credit quality of loans and advances

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

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

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

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

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

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

e) Loans and advances past due but not impaired

2014	**Credit cards**	**Consumer loans**	**Commercial loans and overdrafts**	**Total**
Past due up to 30 days	**20,883**	**1,052,880**	**94,263**	**1,168,026**
Past due 30 - 60 days	**-**	**-**	**5,512**	**5,512**
Past due 60-90 days	**-**	**-**	**8,862**	**8,862**
Past due more than 90 days	**-**	**-**	**5,691**	**5,691**
Total	**20,883**	**1,052,880**	**114,328**	**1,188,091**
2013				
Past due up to 30 days	25,511	663,343	102,230	791,084
Past due 30 - 60 days	-	-	43,512	43,512
Past due 60-90 days	-	-	66	66
Past due more than 90 days	-	-	7,174	7,174
Total	25,511	663,343	152,982	841,836

(Saudi Riyals in Thousands)

31. Credit risk (continued)

f) Impaired loans and advances

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

g) Credit quality of financial assets (investments)

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

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

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

h) Collateral

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

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

(Saudi Riyals in Thousands)

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

a) Geographical concentration

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

2014	**Saudi Arabia**	**Other GCC & 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**
Investments, net	**25,216,726**	**1,560,254**	**832,107**	**6,157,918**	**-**	**109,201**	**-**	**33,876,206**
Investments in associates	**494,117**	**-**	**-**	**-**	**-**	**-**	**-**	**494,117**
Loans and advances, net	**103,176,813**	**44,208**	**370,191**	**-**	**-**	**-**	**132,804**	**103,724,016**
Total	**150,137,501**	**2,047,633**	**1,964,692**	**6,699,792**	**-**	**299,385**	**133,288**	**161,282,291**
Liabilities								
Due to banks and other financial institutions	**-**	**5,939,104**	**2,121,649**	**926,658**	**-**	**1,294**	**26,935**	**9,015,640**
Customers' deposits	**129,108,921**	**134,346**	**372,429**	**528**	**-**	**278**	**14,676**	**129,631,178**
Debt securities in issue	**-**	**840,000**	**623,250**	**-**	**-**	**224,250**	**-**	**1,687,500**
Other liabilities	**3,693,035**	**1,041**	**180**	**22**	**-**	**-**	**-**	**3,694,278**
Total	**132,801,956**	**6,914,491**	**3,117,508**	**927,208**	**-**	**225,822**	**41,611**	**144,028,596**
Commitments and contingencies	**23,254,922**	**2,692,769**	**4,504,895**	**501,809**	**8,271**	**4,739,616**	**22,716**	**35,724,998**
Maximum credit exposure (stated at credit equivalent amounts)								
Commitments and contingencies	**11,146,309**	**1,274,784**	**2,116,221**	**239,073**	**4,381**	**2,226,533**	**5,570**	**17,012,871**
Derivatives	**584,657**	**7,787**	**427,660**	**103,451**	**-**	**-**	**270**	**1,123,825**

2013	Saudi Arabia	Other GCC & Middle East	Europe	North America	Latin America	South East Asia	Other Countries	Total
Assets								
Cash and balances with SAMA	14,969,110	-	2,639	-	-	-	-	14,971,749
Due from banks and other financial institutions	1,600,000	263,835	538,701	243,475	-	120,870	300	2,767,181
Investments, net	18,633,312	2,002,802	1,212,383	6,288,272	-	111,600	-	28,248,369
Investments in associates	466,533	-	-	-	-	-	-	466,533
Loans and advances, net	87,866,065	63,547	396,129	130,365	-	-	-	88,456,106
Total	123,535,020	2,330,184	2,149,852	6,662,112	-	232,470	300	134,909,938
Liabilities								
Due to banks and other financial institutions	93,750	1,611,970	78,730	5,854,451	-	1,641	516	7,641,058
Customers' deposits	105,890,287	132,471	345,151	3,082	-	579	1,162	106,372,732
Debt securities in issue	-	840,000	623,250	-	-	224,250	-	1,687,500
Other liabilities	3,045,106	590	-	24	-	-	-	3,045,720
Total	109,029,143	2,585,031	1,047,131	5,857,557	-	226,470	1,678	118,747,010
Commitments and contingencies	21,634,927	4,051,733	3,776,429	386,648	9,653	4,588,103	24,126	34,471,619
Maximum credit exposure (stated at credit equivalent amounts)								
Commitments and contingencies	10,426,588	1,969,578	1,598,523	197,842	5,471	2,100,163	7,197	16,305,362
Derivatives	305,255	35,327	350,040	88,792	228	-	-	779,642

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

(Saudi Riyals in Thousands)

32. Concentration of risks 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	
	2014	2013	**2014**	2013
Saudi Arabia	**1,095,184**	1,003,570	**2,385,954**	2,054,040

33. Market risk

Market Risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate due to changes in market variables such as commission rates, foreign exchange rates, and equity prices. The Bank classifies exposures to market risk into either trading or banking-book.

a) Market risk-trading book

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

A VAR methodology estimates the potential negative change in market value of a portfolio at a given confidence level and over a specified time horizon. The Bank uses risk models to assess the possible changes in the market value of the trading book based on historical data. VAR models are usually designed to measure the market risk in a normal market environment and therefore the use of VAR has limitations because it is based on historical correlations and volatilities in market prices and assumes that the future movements will follow a statistical distribution.

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

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

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

I. A 1-day holding period assumes that it is possible to hedge or dispose of positions within one day horizon. This is considered to be a realistic assumption in most of the cases but may not be the case in situations in which there is severe market liquidity for a prolonged period.

II. A 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a one percent probability that losses could exceed the VAR.

III. VAR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day.

IV. The VAR measure is dependent upon the Bank's position and the volatility of market prices. The VAR of an unchanged position reduces if the market price volatility declines and vice versa.

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

(Saudi Riyals in Thousands)

33. Market risk (continued)

a) Market risk-trading book (continued)

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

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

b) Market risk-non-trading or banking book

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

i) Commission rate risk

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

The following table depicts the sensitivity to a reasonable possible change in commission rates, with other variables held constant, on the Bank's consolidated income statement or equity. The sensitivity of the income is the effect of the assumed changes in commission rates on the special commission income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at December 31, 2014, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing the fixed rate available for sale financial assets, including the effect of any associated hedges as at December 31, 2014 for the effect of assumed changes in commission rates. The sensitivity of equity is analyzed by maturity of the asset or swap. All the banking book exposures are monitored and analyzed in their respective currencies and relevant sensitivities are disclosed in SAR million.

	2014						
Currency	**Increase in basis points**	**Sensitivity of special commission income**	**Sensitivity of equity**				**Total**
			6 months or less	**1 year or less**	**1-5 years or less**	**Over 5 years**	
SAR	**+10**	**35.05**	**-**	**-**	**(0.84)**	**(0.11)**	**(0.95)**
USD	**+10**	**(7.16)**	**(0.03)**	**(0.09)**	**(7.33)**	**-**	**(7.45)**
Others	**+10**	**(0.08)**	**(0.01)**	**(0.10)**	**-**	**(0.02)**	**(0.13)**

	2014						
Currency	**Decrease in basis points**	**Sensitivity of special commission income**	**Sensitivity of equity**				**Total**
			6 months or less	**1 year or less**	**1-5 years or less**	**Over 5 years**	
SAR	**-10**	**(35.05)**	**-**	**-**	**0.84**	**0.11**	**0.95**
USD	**-10**	**7.16**	**0.03**	**0.09**	**7.33**	**-**	**7.45**
Others	**-10**	**0.08**	**0.01**	**0.10**	**-**	**0.02**	**0.13**

(Saudi Riyals in Thousands)

33. Market risk (continued)

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

i) Commission rate risk (continued)

Currency	2013						
	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	33.25	(0.04)	(0.06)	(1.10)	(0.21)	(1.41)
USD	+10	(7.66)	(0.10)	(0.01)	(21.73)	-	(21.84)
Others	+10	(0.40)	(0.04)	(0.02)	(0.03)	(0.02)	(0.11)

Currency	2013						
	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	(33.25)	0.04	0.06	1.10	0.21	1.41
USD	-10	7.66	0.10	0.01	21.73	-	21.84
Others	-10	0.40	0.04	0.02	0.03	0.02	0.11

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

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

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

(Saudi Riyals in Thousands)

33. Market risk (continued)

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

i) Commission rate risk (continued)

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

(Saudi Riyals in Thousands)

33. Market risk (continued)

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

i) Commission rate risk (continued)

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

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

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

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

ii) Currency risk

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

(Saudi Riyals in Thousands)

33. 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, 2014 on its non-trading monetary assets and liabilities and forecasted cash flows. The analysis calculates the effect of reasonable possible movement of the currency rate against SAR, with all other variables held constant, on the consolidated income statement (due to the fair value of the currency sensitive non-trading monetary assets and liabilities) and equity (due to change in fair value of currency swaps used as cash flow hedges). A positive effect shows a potential increase in consolidated income statement or equity; whereas a negative effect shows a potential net reduction in consolidated income statement or equity.

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

iii) Currency position

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

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

iv) Equity price risk

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

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

Market indices	**2014**		2013	
	Change in index %	**Effect in SAR'000**	Change in index %	Effect in SAR'000
Tadawul	**+5**	**63,865**	+5	50,640

(Saudi Riyals in Thousands)

34. Liquidity risk

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

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

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

i) Analysis of undiscounted financial liabilities by remaining contractual maturities

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

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

2013	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	6,719,642	754,201	-	-	169,557	7,643,400
Customers' deposits	22,665,118	23,306,438	228,558	-	61,017,840	107,217,954
Derivative financial instruments						
Contractual amounts payable	21,156	104,373	479,320	4,802	-	609,651
Contractual amounts receivable	(15,949)	(74,479)	(420,162)	(5,351)	-	(515,941)
Debt securities in issue	11,260	20,091	1,741,297	-	-	1,772,648
Total financial liabilities	29,401,227	24,110,624	2,029,013	(549)	61,187,397	116,727,712

(Saudi Riyals in Thousands)

34. Liquidity risk (continued)

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

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

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

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**
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**
Property and equipment, net	**-**	**-**	**-**	**-**	**1,745,936**	**1,745,936**
Other assets	**-**	**-**	**-**	**-**	**1,503,494**	**1,503,494**
Total assets	**54,536,742**	**28,197,705**	**45,567,638**	**11,029,012**	**25,337,258**	**164,668,355**
Liabilities and equity						
Due to banks and other financial institutions	**8,183,237**	**687,884**	**-**	**-**	**144,519**	**9,015,640**
Customers' deposits	**33,036,898**	**24,111,121**	**205,653**	**-**	**72,277,506**	**129,631,178**
Other liabilities	**-**	**-**	**-**	**-**	**3,694,278**	**3,694,278**
Debt securities in issue	**-**	**-**	**1,687,500**	**-**	**-**	**1,687,500**
Equity	**-**	**-**	**-**	**-**	**20,639,759**	**20,639,759**
Total liabilities and equity	**41,220,135**	**24,799,005**	**1,893,153**	**-**	**96,756,062**	**164,668,355**

2013	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	7,021,951	-	-	-	7,949,798	14,971,749
Due from banks and other financial institutions	1,754,904	-	-	-	1,012,277	2,767,181
Investments, net	6,987,403	5,304,934	10,850,143	3,489,558	1,616,331	28,248,369
Loans and advances, net	30,005,449	21,101,588	31,461,956	5,132,663	754,450	88,456,106
Investment in associates	-	-	-	-	466,533	466,533
Other real estate	-	-	-	-	136,634	136,634
Property and equipment, net	-	-	-	-	1,647,318	1,647,318
Other assets	-	-	-	-	1,241,534	1,241,534
Total assets	45,769,707	26,406,522	42,312,099	8,622,221	14,824,875	137,935,424
Liabilities and equity						
Due to banks and other financial institutions	6,719,465	752,036	-	-	169,557	7,641,058
Customers' deposits	22,118,181	23,036,044	200,667	-	61,017,840	106,372,732
Other liabilities	-	-	-	-	3,045,720	3,045,720
Debt securities in issue	-	-	1,687,500	-	-	1,687,500
Equity	-	-	-	-	19,188,414	19,188,414
Total liabilities and equity	28,837,646	23,788,080	1,888,167	-	83,421,531	137,935,424

(Saudi Riyals in Thousands)

35. Fair values of financial assets and liabilities

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

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

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

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

2014	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Financial assets designated at FVIS	**-**	**14,535**	**-**	**14,535**
Financial investments available for sale	**9,140,302**	**1,703,566**	**49,837**	**10,893,705**
Derivative financial instruments	**-**	**156,669**	**-**	**156,669**
Total	**9,140,302**	**1,874,770**	**49,837**	**11,064,909**
Financial Liabilities				
Derivative financial instruments	**-**	**240,314**	**-**	**240,314**
Total	**-**	**240,314**	**-**	**240,314**

2013	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets designated at FVIS	-	17,443	-	17,443
Financial investments available for sale	8,941,166	1,870,982	95,601	10,907,749
Derivative financial instruments	-	176,901	-	176,901
Total	8,941,166	2,065,326	95,601	11,102,093
Financial Liabilities				
Derivative financial instruments	-	237,430	**-**	237,430
Total	-	237,430	-	237,430

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

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 for the asset or liability.

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

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

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

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

(Saudi Riyals in Thousands)

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

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

The fair values of derivatives and other off-consolidated statement of financial position financial instruments are based on the quoted market prices when available or by using the appropriate valuation technique. The total amount of the changes in fair value recognized in the consolidated income statement, which was estimated using valuation technique, is SAR 84 million (2013: SAR 42 million).

36. Related party transactions

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

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

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

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

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

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

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

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

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

(Saudi Riyals in Thousands)

37. Capital Adequacy

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

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

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

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

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

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

38. Investment management services

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

The financial statements of these funds are not consolidated with these consolidated financial statements. However, the Group's share of these funds is included in available-for-sale investments and fees earned are disclosed under related party transactions.

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in the consolidated financial statements.

39. Disclosures under Basel III framework

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

40. Board of directors' approval

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