

Saudi Hollandi Bank

(A Saudi Joint Stock Company)

**CONSOLIDATED FINANCIAL
STATEMENTS**

For the year ended

December 31, 2015



KPMG Al Fozan & Partners
Certified Public Accountants

**Independent auditors' report to the shareholders of
Saudi Hollandi Bank(A Saudi Joint Stock Company)**

We have audited the accompanying consolidated financial statements of Saudi Hollandi Bank (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at December 31, 2015, the consolidated income statement, consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes from 1 to 41. We have not audited note 36, 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 control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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



KPMG Al Fozan & Partners
Certified Public Accountants

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

Opinion

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

- present fairly, in all material respects, the financial position of the Group as at December 31, 2015, and its financial performance and its cash flows for the year then ended in accordance with Accounting Standards for Financial Institutions issued by SAMA and with International Financial Reporting Standards; and
- comply with the requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's By-laws in so far as they affect the preparation and presentation of the consolidated financial statements.

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**9 Jumad Awal 1437 H
(18 February 2016)**



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31,

Amounts in SAR'000

	<u>Notes</u>	<u>2015</u>	<u>2014</u>
ASSETS			
Cash and balances with SAMA	4	7,637,869	9,523,463
Due from banks and other financial institutions	5	734,583	538,789
Investments, net	6	21,226,485	18,783,967
Loans and advances, net	7	76,143,850	65,147,828
Investment in an associate	8	12,567	12,793
Property and equipment, net	9	801,046	526,388
Other assets, net	10	1,513,934	2,085,990
Total assets		108,070,334	96,619,218
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks and other financial institutions	12	1,356,874	3,054,640
Customers' deposits	13	88,832,063	76,813,865
Subordinated debt	14	3,900,000	3,900,000
Other liabilities	15	1,954,203	2,108,831
Total liabilities		96,043,140	85,877,336
Shareholders' equity			
Share capital	16	5,715,360	4,762,800
Statutory reserve	17	1	3,536,355
General reserve		130,000	130,000
Other reserve	18	(37,691)	3,564
Reserve for bonus shares	16	5,715,360	952,560
Retained earnings		255,528	709,306
Proposed dividends	26	297,199	619,164
Share based plan reserve	38	(48,563)	28,133
Total shareholders' equity		12,027,194	10,741,882
Total liabilities and shareholders' equity		108,070,334	96,619,218

The accompanying notes 1 to 41 form an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

For the year ended December 31,

Amounts in SAR'000

	<u>Notes</u>	<u>2015</u>	<u>2014</u>
Special commission income	20	2,890,931	2,485,924
Special commission expense	20	592,929	520,145
Net special commission income		2,298,002	1,965,779
Fee and commission income, net	21	886,826	863,972
Exchange income, net		178,948	160,137
Trading income, net	22	210,026	164,779
Gains on investment held as FVIS (trading), net		5,802	1,389
Dividend income from available for sale investments		5,480	6,033
Gains on non-trading investments, net	23	15,050	20,062
Total operating income		3,600,134	3,182,151
Salaries and employee-related expenses	24	676,258	573,781
Rent and premises-related expenses		115,906	102,902
Depreciation and amortisation	9	117,487	104,143
General and administrative expenses		249,642	230,369
Impairment charges for credit and other losses, net	7b (ii)	418,188	345,607
Total operating expenses		1,577,481	1,356,802
Operating income		2,022,653	1,825,349
Share in loss of an associate	8	(226)	(4,440)
Net income for the year		2,022,427	1,820,909
Basic and diluted earnings per share (Expressed in SAR per share)	25	3.54	3.19

The accompanying notes 1 to 41 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31,

Amounts in SAR'000

	<u>Note</u>	<u>2015</u>	<u>2014</u>
Net income for the year		2,022,427	1,820,909
Other comprehensive income:			
<i>Other comprehensive income to be reclassified to consolidated income statement in subsequent periods</i>			
Available for sale financial investments:			
- Net change in fair value	18	(28,192)	139
- Net amounts transferred to consolidated income statement upon disposals	18	(13,063)	(18,265)
		(41,255)	(18,126)
Total comprehensive income for the year		1,981,172	1,802,783

The accompanying notes 1 to 41 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended December 31,

Amounts in SAR'000

	<u>Notes</u>	<u>Share capital</u>	<u>Statutory reserve</u>	<u>General reserve</u>	<u>Other reserve</u>	<u>Reserve for bonus shares</u>	<u>Retained earnings</u>	<u>Proposed dividends</u>	<u>Share based plan reserve</u>	<u>Total shareholders' equity</u>
2015										
Balance at beginning of the year		4,762,800	3,536,355	130,000	3,564	952,560	709,306	619,164	28,133	10,741,882
Net income for the year		-	-	-	-	-	2,022,427	-	-	2,022,427
Net change in fair value of available for sale investments		-	-	-	(28,192)	-	-	-	-	(28,192)
Net amounts transferred to the consolidated income statement upon disposal of available for sale investments		-	-	-	(13,063)	-	-	-	-	(13,063)
Total comprehensive income for the year		-	-	-	(41,255)	-	2,022,427	-	-	1,981,172
Transfer to statutory reserve	17	-	505,607	-	-	-	(505,607)	-	-	-
Proposed bonus shares	16	-	(4,041,961)	-	-	5,715,360	(1,673,399)	-	-	-
Bonus shares issued	16	952,560	-	-	-	(952,560)	-	-	-	-
Proposed dividends	26	-	-	-	-	-	(297,199)	297,199	-	-
Dividends paid	16	-	-	-	-	-	-	(619,164)	-	(619,164)
Bank's shares held by SHB staff share Plan fund		-	-	-	-	-	-	-	(86,477)	(86,477)
Share based plan transactions	38	-	-	-	-	-	-	-	9,781	9,781
Balance at the end of the year		<u>5,715,360</u>	<u>1</u>	<u>130,000</u>	<u>(37,691)</u>	<u>5,715,360</u>	<u>255,528</u>	<u>297,199</u>	<u>(48,563)</u>	<u>12,027,194</u>
2014										
Balance at beginning of the year		3,969,000	3,081,128	130,000	21,690	793,800	915,348	468,342	22,120	9,401,428
Net income for the year		-	-	-	-	-	1,820,909	-	-	1,820,909
Net change in fair value of available for sale investments		-	-	-	139	-	-	-	-	139
Net amounts transferred to the consolidated income statement upon disposal of available for sale investments		-	-	-	(18,265)	-	-	-	-	(18,265)
Total comprehensive income for the year		-	-	-	(18,126)	-	1,820,909	-	-	1,802,783
Transfer to statutory reserve	17	-	455,227	-	-	-	(455,227)	-	-	-
Proposed bonus shares		-	-	-	-	952,560	(952,560)	-	-	-
Bonus shares issued	16	793,800	-	-	-	(793,800)	-	-	-	-
Proposed dividends	26	-	-	-	-	-	(619,164)	619,164	-	-
Dividends paid	16	-	-	-	-	-	-	(468,342)	-	(468,342)
Share based plan transactions	38	-	-	-	-	-	-	-	6,013	6,013
Balance at the end of the year		<u>4,762,800</u>	<u>3,536,355</u>	<u>130,000</u>	<u>3,564</u>	<u>952,560</u>	<u>709,306</u>	<u>619,164</u>	<u>28,133</u>	<u>10,741,882</u>

The accompanying notes 1 to 41 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31,

Amounts in SAR'000

	<u>Notes</u>	<u>2015</u>	<u>2014</u>
OPERATING ACTIVITIES			
Net income for the year		2,022,427	1,820,909
Adjustments to reconcile net income to net cash from operating activities:			
(Accretion of discounts) and amortisation of premium on non-trading investments, net		(104,656)	(103,727)
Gain on sale of property and equipment		(100)	(400)
Gains on non-trading investments, net		(15,050)	(20,062)
Depreciation and amortisation	9	117,487	104,143
Impairment charges for credit and other losses, net	7b (ii)	418,188	345,607
Share in loss of an associate	8	226	4,440
Share based plan transactions		16,182	13,085
		<u>2,454,704</u>	<u>2,163,995</u>
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA		(724,148)	(648,325)
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		-	937,000
Loans and advances, net		(11,264,302)	(12,282,175)
Other assets		335,671	(621,383)
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		(1,697,766)	560,362
Customers' deposits		12,018,198	14,938,416
Other liabilities		(154,628)	36,725
		<u>967,729</u>	<u>5,084,615</u>
Net cash from operating activities			
INVESTING ACTIVITIES			
Proceeds from sale and maturity of non-trading investments		15,300,142	15,624,169
Purchase of non-trading investments		(17,670,610)	(17,453,075)
Purchase of property and equipment	9	(392,145)	(125,729)
Proceeds from sale of property and equipment		100	400
		<u>(2,762,513)</u>	<u>(1,954,235)</u>
Net cash used in investing activities			
FINANCING ACTIVITIES			
Repayment of subordinated debt		-	(725,000)
Dividends paid		(619,164)	(468,342)
		<u>(619,164)</u>	<u>(1,193,342)</u>
Net cash used in financing activities			
Net (decrease) / increase in cash and cash equivalents		(2,413,948)	1,937,038
Cash and cash equivalents at beginning of the year		6,310,248	4,373,210
Cash and cash equivalents at end of the year	27	<u>3,896,300</u>	<u>6,310,248</u>
Special commission received during the year		<u>2,757,336</u>	<u>2,359,583</u>
Special commission paid during the year		<u>558,410</u>	<u>451,980</u>
Supplemental non-cash information			
Net changes in fair value and transfers to consolidated income statement		<u>(41,255)</u>	<u>(18,126)</u>

The accompanying notes 1 to 41 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

1 GENERAL

Saudi Hollandi Bank (the "Bank"), is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia and was formed pursuant to Royal Decree No. M/85 dated 29 Dhul Hijjah 1396H (corresponding to December 21, 1976). The Bank commenced business on 16 Shaaban 1397H (corresponding to August 1, 1977) when it took over the operations of Algemene Bank Nederland N.V. in the Kingdom of Saudi Arabia. The Bank operates under commercial registration No. 1010064925 dated 6 Jumada II 1407H (corresponding to February 5, 1987) through its 60 branches (2014: 55 branches) in the Kingdom of Saudi Arabia. The registered address of the Bank's head office is:

Saudi Hollandi Bank
Head Office
Al-Dhabab Street
P O Box 1467
Riyadh 11431, Kingdom of Saudi Arabia.

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

The consolidated financial statements comprise of the financial statements of the Bank and its subsidiaries. The details of these subsidiaries are set out below:

Saudi Hollandi Capital (SHC)

SHC, a limited liability company incorporated in the Kingdom of Saudi Arabia, a wholly owned subsidiary of the Bank, was formed in accordance with the Capital Market Authority's (CMA) Resolution number 1-39-2007 under commercial registration number 1010242378 dated 30 Dhul Hijjah 1428H (corresponding to January 9, 2008) to take over and manage the Group's Investment Services and Asset Management activities regulated by CMA related to dealing, managing, arranging, advising and taking custody of securities. SHC commenced its operations effective on 2 Rabi'II 1429H (corresponding to April 9, 2008).

Saudi Hollandi Real Estate Company (SHREC)

SHREC, a limited liability company incorporated in the Kingdom of Saudi Arabia, a wholly owned subsidiary of the Bank through direct ownership was established under commercial registration number 1010250772 dated 21 Jumada I 1429H (corresponding to May 26, 2008) with the approval of the Saudi Arabian Monetary Agency (SAMA). The Company was formed to register real estate assets under its name which are received by the Bank from its borrowers as collateral.

Saudi Hollandi Insurance Agency Company (SHIAC)

SHIAC, a limited liability company incorporated in the Kingdom of Saudi Arabia, a wholly owned subsidiary of the Bank through direct ownership was established under commercial registration number 1010300250 dated 29 Muharram 1432H (corresponding to January 4, 2011) with the approval of SAMA. The Company was formed to act as an agent for Wataniya Insurance Company (WIC), an associate, for selling its insurance products.

2 BASIS OF PREPARATION

a) Statement of compliance

The consolidated financial statements are prepared in accordance with Accounting Standards for Financial Institutions promulgated by SAMA and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The consolidated financial statements are prepared 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 following measured at fair value:

- derivatives which are held at fair value;
- available for sale investments;
- recognised financial assets and financial liabilities designated as hedged items in qualifying fair value hedge relationships which are adjusted for changes in fair value attributable to the risk being hedged.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

c) Functional and presentation currency

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

d) Critical accounting judgements, estimates and assumptions

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

(i) Impairment for losses on loans and advances

Management reviews its loan portfolio to assess specific and collective impairment on a monthly basis. In determining whether an impairment loss should be recorded, management applies judgement when assessing 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 similar credit risk characteristics where objective evidence of impairment exists. The methodology and assumptions used for estimating both the amount and the timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Fair value measurement

The Group measures financial instruments, such as, derivatives, FVIS and available for sale investments at fair value at each statement of financial position date. Fair values of financial instruments measured at amortised cost and held to maturity investments are disclosed in Note 6(d).

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

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

The principal or the most advantageous market must be accessible by the Group. 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. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the annual consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the annual consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. External valuers are involved for valuation of significant assets, such as properties and AFS financial assets, and significant liabilities, such as contingent consideration. Involvement of external valuers is decided upon annually by the valuation committee after discussion with and approval by the Bank's audit committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

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

The Group exercises judgement to consider impairment on the available-for-sale equity and debt investments at each reporting date. This includes determination of a significant or prolonged decline in the fair value below its cost. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. In assessing whether it is prolonged, the decline is evaluated against the period in which the fair value of the asset has been below its original cost at initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

The determination of what is "significant" requires judgement. In making this judgement, the Group evaluates among other factors, the normal volatility in share/debt price, deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows. This requires similar judgement as applied to individual assessment of loans and advances.

(iv) Classification of held-to-maturity investments

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

(v) Determination of control over investees

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

Investment funds

The Group acts as Fund Manager to a number of investment funds. Determining whether the group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the Fund (comprising any carried interests and expected management fees) and the investors rights to remove the Fund Manager. The Group has conducted a detail assessment and as a result the Group has concluded that it acts as an agent for the investors in all cases, and therefore has not consolidated any of these funds. See notes 6 and 37.

e) Provisions for liabilities and charges

The Group receives legal claims in the normal course of business. Management has made judgments 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.

f) Going concern

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Change in accounting policies

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2014 except for the adoption of the following amendments to existing standards mentioned below, resulting from new and amended IFRS and IFRIC guidance, which has had no material impact on the annual consolidated financial statements of the Group on the current year or prior years and is expected to have an insignificant effect in future periods:

- Amendments to IAS 19 applicable for annual periods beginning on or after 1 July 2014 is applicable to defined benefit plans involving contribution from employees and / or third parties. This provides relief, based on meeting certain criteria, from the requirements proposed in the amendments of 2011 for attributing employee / third party contributions to periods of service under the plan benefit formula or on a straight line basis. The current amendment gives an option, if conditions satisfy, to reduce service cost in period in which the related service is rendered.
- Annual improvements to IFRS 2010-2012 and 2011-2013 cycle applicable for annual periods beginning on or after 1 July 2014.

A summary of the amendments is contained as under:

- IFRS 1 – “first time adoption of IFRS” : the amendment clarifies that a first time adopter is permitted but not required to apply a new or revised IFRS that is not yet mandatory but is available for early adoption.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

- IFRS 2 amended to clarify the definition of ‘vesting condition’ by separately defining performance condition and service condition.
- IFRS 3 Business Combinations - The amendment clarifies the scope exceptions within IFRS 3 and that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable).
- IFRS 8 Operating Segments - The amendments clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8 and the reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.
- IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets – The amendment clarifies that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset.
- IFRS 13 Fair Value Measurement - The amendment clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).
- IAS 24 Related Party Disclosures - The amendment clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures and an entity that uses a management entity is required to disclose the expenses incurred for management services.

a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Saudi Hollandi Bank and its subsidiaries drawn up to December 31 of each year. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank and changes have been made to their accounting policies where necessary to align them with the accounting policies of the Bank.

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.

The results of subsidiaries acquired or disposed of during the year, if any, are included in the consolidated income statement from the date of the acquisition or up to the date of disposal, as appropriate. The consolidated financial statements have been prepared using uniform accounting policies and valuation methods for like transactions and other events in similar circumstances.

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
 - 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 commences 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 consolidated statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

The Group manages and administers assets held in unit trusts and other investment vehicles on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the Group controls the entity.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill, if any) 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 the consolidated comprehensive income to consolidated income statement or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

b) Investments in associates

Investments in associates are initially recognised at cost and subsequently accounted for under the equity method of accounting based on annual audited or latest available reviewed financial statements. An associate is an entity in which the Group has significant influence (but not control), over financial and operating policies and which is neither a subsidiary nor a joint venture. Investments in associates are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets, less any impairment in the value of individual investments. The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in consolidated statement of comprehensive income is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. Unrealized gains and losses on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. The consolidated income statement reflects the Group's share of the results of associate's operations. When there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses it in the consolidated statement of changes in shareholders' equity.

The Group's share of profit / loss of an associate is shown on the face of the consolidated income statement. This is the profit / loss attributable to equity holders of the associate and, therefore, is profit / loss after tax and non-controlling interests in the subsidiaries of the associate. The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group. After application of the equity method, the Group determines whether it is necessary to recognise 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 recognises the amount in the 'share of earning of an associate' in the consolidated income statement.

c) Trade date accounting

All 'regular-way' purchases and sales of financial assets are recognised and derecognised on trade date, i.e. the date that the Group becomes a party to the contractual provisions of the instrument. 'Regular-way' purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

A contract that requires or permits net settlement of the change in the value of the contract is not a regular way contract. Instead, such a contract is accounted for as a derivative in the period between the trade date and the settlement date.

d) Derivative financial instruments and hedge accounting

Derivative financial instruments, including foreign exchange contracts, foreign exchange and commodity forward contracts, commission rate swaps, commodity options, futures and forward rate agreements, currency and commission rate swaps, currency and commission rate options (both written and purchased) are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently re-measured at fair value in the consolidated statement of financial position with transaction costs recognised in the consolidated income statement.

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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 derived by applying 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 held for trading are taken directly to the consolidated income statement and disclosed in net trading income. Derivatives held for trading also include those derivatives which do not qualify for hedge accounting including 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 (FVIS). Embedded derivatives separated from the host contracts are carried at fair value in the trading portfolio with changes in fair value recognised in the consolidated income statement.

iii) Hedge accounting

The Group designates certain derivatives as hedging instruments in qualifying hedging relationships to manage exposures to interest rate, foreign currency, and credit risks, including exposures arising from highly probable forecast transactions and firm commitments. In order to manage particular risk, the bank applies hedge accounting for transactions that meet specific criteria.

For the purpose of hedge accounting, hedges are classified into two categories: (a) fair value hedges that hedge the exposure to changes in the fair value of a recognised asset or liability (or assets or liabilities in case of portfolio hedging) or an unrecognised firm commitment or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the reported net gain or losses; and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or to a highly probable forecasted transaction that affects the reported net gains or loss.

In order to qualify for hedge accounting, hedge should be expected to be highly effective, i.e. changes in the fair value or cash flows of the hedging instruments 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 management will assess the effectiveness of the hedging relationship. Subsequently hedges are assessed for effectiveness on an on-going basis.

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting. A formal assessment is undertaken by comparing the hedging instrument's effectiveness in offsetting the changes in fair value or cash flows attributable to the hedged risk in the hedged item, both at inception and at each quarter end on an ongoing basis. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated were offset by the hedging instrument in a range of 80% to 125% and were expected to achieve such offset in future periods. Hedge ineffectiveness is recognized in the consolidated income statement in 'Net trading income'. For situations where the hedged item is a forecast transaction, the Bank also assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the consolidated income statement.

Fair Value Hedges

When a derivative is designated as a hedging instrument in a fair value hedge relationship, any gain or loss from re-measuring the hedging instruments to fair value is recognised in the consolidated income statement together with the change in the fair value of the hedged item attributable to the hedged risk.

Where the fair value hedge of a commission bearing hedged item measured at amortized cost ceases to meet the criteria for hedge accounting or is sold, exercised or terminated, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the effective commission rate. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated income statement.

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Cash Flow Hedges

For designated and qualifying cash flow hedging, derivative instruments in a hedge of a variability in cash flows attributable to a particular risk associated with recognised asset or a liability or a highly probable forecast transaction that could affect the income statement, the portion of the gain or loss on the hedging instrument that is determined to be an effective portion is recognised directly in other comprehensive income and the ineffective portion, if any, is recognised in the consolidated income statement. For cash flow hedges affecting future transactions, the gains or losses recognised in other reserves, are transferred to the consolidated income statement in the same period in which the hedged item affects the consolidated income statement. However, if the Group 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 recognised the associated gains or losses that had previously been recognised directly in other comprehensive income are included in the initial measurement of the acquisition cost or other carrying amount of such asset or liability. When the hedging instrument is expired or sold, terminated or exercised, or no longer qualifies for hedge accounting, or the forecast transaction is no longer expected to occur or the Bank revokes the designation then hedge accounting is discontinued prospectively. At that point of time, any cumulative gain or loss on the cash flow hedging instrument that was recognised in other comprehensive income from the period when the hedge was effective is transferred from equity to consolidated income statement when 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 recognised in “comprehensive income” is transferred immediately to the consolidated income statement for the period.

e) Foreign currencies

The Group’s consolidated financial statements are presented in Saudi Arabian Riyals, which is also the Bank'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 spot rates prevailing at transaction dates. Monetary assets and liabilities at year-end (other than monetary items that form part of the net investment in a foreign operation), denominated in foreign currencies, are translated into Saudi Arabian Riyals at rates of exchange prevailing at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year adjusted for the effective interest rate and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year. All differences arising on non-trading activities are taken to other non-operating income in the consolidated income statement, with the exception of differences on foreign currency borrowings that provide an effective hedge against a net investment in foreign entity.

Foreign exchange gains or losses from settlement of transactions and translation of period end monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement, except for differences arising on the retranslation of available for sale equity instruments or when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges to the extent hedges are effective. Translation gains or losses on non-monetary items carried at fair value are included as part of the fair value adjustment, unless the non-monetary items have an effective hedging strategy. 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 is determined.

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 recognised amounts and when the Group intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

g) Revenue / expense recognition

i) Special commission income and expenses

Special commission income and expenses for all financial instruments, except for those classified as held for trading or at fair value through income statement (FVIS), are recognised in the consolidated income statement using effective commission rate.

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The effective commission rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective commission rate, the Group estimates future cash flows considering all contractual terms of the financial instrument but excluding future credit losses.

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

Subsequent to the recognition of an impairment loss on a financial asset or a group of financial assets, commission income continues to be accounted for in consolidated statement of financial position on the effective commission rate basis, on the asset's carrying value.

The calculation of the effective commission rate takes into account all contractual terms of the financial instruments (prepayment, options etc.) and includes all fees and points paid or received, transaction costs, and discounts or premiums that are an integral part of the effective commission rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or a liability.

ii) Exchange income / (loss)

Exchange income / (loss) is recognised when earned/incurred, as discussed in the foreign currencies policy above.

iii) Fee and commission income

Fee and commission income that are integral to the effective commission rate are included in the measurement of the relevant assets. Fee and commission income that are not integral part of the effective commission rate calculation on a financial asset or liability are recognised when the related service is provided as follows:

- Portfolio and other management advisory and service fees are recognised over the period of applicable service contracts usually on a time proportionate basis.
- Fee received on asset management, wealth management, financial planning, custody services and other similar services that are provided over an extended period of time, are recognised over the period when the services are being provided.
- Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective commission rate on the loan. When a loan commitment is expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.
- Other fee and commission expense relate mainly to transaction and service fees and are expensed as the services are received and are disclosed net of the related fee and commission income.

iv) Dividend income

Dividend income is recognised when the right to receive dividend is established. Dividends are reflected as a component of net trading income, net income from FVIS financial instruments or other operating income based on the classification of the related equity instrument.

v) Gains / (loss) from FVIS (Fair value through Income Statement) financial instruments

Net income from FVIS financial instruments relates to financial assets and liabilities designated as FVIS and include all realised and unrealised fair value changes, commission, dividends and foreign exchange differences.

vi) Trading income / (loss), net

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

h) Day one profit or loss

Where the transaction price differs from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognises the difference between the transaction price and fair value (a 'Day one' profit or loss) in the consolidated income statement in 'Net trading income'. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognised in the consolidated income statement when the inputs become observable, or when the instrument is derecognised.

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i) Sale and repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the consolidated statement of financial position as the Group retains substantially all the risks and rewards of ownership. These assets are continued to measure 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 transactions are treated as collateralised borrowing and counter-party liability for amounts received under these agreements is included in "Due to banks and other financial institutions" or "Customer 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 commission rate basis. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repo) are not recognised in the consolidated statement of financial position, as the Group 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 commission rate basis.

j) Investments

Initial recognition

All investment securities are initially recognised at fair value incremental direct transaction costs and are subsequently accounted for depending on their classification as either held to maturity, FVIS, available for sale or other investments held at amortised cost. Premiums are amortised and discounts accreted using the effective commission rate basis and are taken to special commission income.

Determination of fair value

For securities traded in organised financial markets, fair value is determined by reference to quoted market average bid / ask prices at the close of business. 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.

Reclassification

Investments at FVIS are not reclassified subsequent to their initial recognition, except for non-derivative FVIS instrument, other than those designated as FVIS upon initial recognition (i.e. trading investments), may be reclassified out of the FVIS category if they are no longer held for the purpose of being sold or repurchased in the near term, and the following conditions are met:

- If the investments would have met the definition of "held at amortised cost" and had not been required to be classified as held for trading at initial recognition, these may be reclassified if the Group has the intention and ability to hold the investments for the foreseeable future or until maturity.
- If the investments would not have met the definition of held at amortised cost, and then it is reclassified out of the trading category only in 'rare circumstances'.

A security held as available for sale may be reclassified to "Other investments held at amortised cost" if it otherwise would have met the definition of "Other investments held at amortised cost" and if the Group has the intention and ability to hold that financial asset for the foreseeable future or until maturity.

Subsequent measurement

The investments under each class are accounted for and presented using the basis set out in the following paragraphs:

i) Held as FVIS

Investments in this category are classified if they are held for trading or designated by management as FVIS on initial recognition. Investments classified as trading are acquired principally for the purpose of selling or repurchasing in the short term and are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recognized in net trading income / (loss).

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An investment may be designated at FVIS by the management, at initial recognition if doing so significantly reduces measurement inconsistencies which would otherwise arise except for equity instruments that do not have a quoted price in an active market and whose fair values cannot be reliably measured.

Investments at FVIS are recorded in the consolidated statement of financial position at fair value. Changes in the fair value are recognised in the consolidated income statement for the year in which it arises. Special commission income and dividend income on financial assets held as FVIS are reflected as either trading income or income from FVIS financial instruments in the consolidated income statement.

ii) Available for sale

Available-for-sale investments (AFS) are those non-derivative equity and debt securities which are neither classified as held to maturity (HTM) investments, other investments held at amortized cost (OI) nor designated as FVIS, that are intended to be held for an unspecified period of time, which may be sold in response to needs for liquidity or changes in special commission rates, exchange rates or equity prices.

Investments which are classified as AFS are initially recognised at fair value including direct and incremental transaction costs and subsequently measured at fair value except for unquoted equity securities whose fair value cannot be reliably measured are carried at cost. Unrealised gains or losses arising from a change in its fair value is recognised in other comprehensive income until the investment is derecognised, recognised or impaired whereupon any cumulative gain or loss previously recognized in other comprehensive income is reclassified to consolidated income statement.

iii) Held to maturity

Investments with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity are classified as held to maturity (HTM). Held to maturity investments are initially recognised at fair value including direct and incremental transaction costs and subsequently measured at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any discount or premium on acquisition using an effective commission rate method. Any gain or loss on such investments is recognised in the consolidated income statement when the investment is derecognised or impaired.

Investments classified as held to maturity cannot ordinarily be sold or reclassified without impacting the Group's ability to use this classification and cannot be designated as a hedged item with respect to commission rate or prepayment risk, reflecting the longer-term nature of these investments. However, sales and reclassifications in any of the following circumstances would not impact the Group's ability to use this classification;

- Sales or reclassifications that are so close to maturity that the changes in market rate of commission would not have a significant effect on the fair value;
- Sales or reclassifications after the Group has collected substantially all the assets' original principal; and
- Sales or reclassifications attributable to non recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

iv) Other investments held at amortised cost

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

k) Loans and advances

Loans and advances are non-derivative financial assets originated or acquired by the Group with fixed or determinable payments. Loans and advances are recognised when cash is advanced to borrowers. They are derecognised when either the borrower repays the obligations, the loans are 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.

Loans and advances originated or acquired by the Group that are not quoted in an active market and for which fair value has not been hedged, are stated at amortised cost less any amount written off and impairment for credit losses. For loans and advances which are hedged, the related portion of the hedged fair value is adjusted against the carrying amount.

l) Impairment of financial assets

An assessment is made at each reporting date to determine whether there is an objective evidence that a financial asset or group of financial assets may be impaired.

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If such evidence exists, the net present value of future anticipated cash flows from that asset is determined and any impairment loss, is recognised for changes in its carrying amounts. The Group considers evidence of impairment for loans and advances and held to maturity investments at both a specific asset and collective level.

When a financial asset is uncollectible, it is either written off against the related allowances for impairment or is charged directly to the consolidated income statement. 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 recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the consolidated income statement in impairment charge for credit losses.

(i) Impairment of financial assets held at amortised cost

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

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

Consumer loans are considered to be impaired when a payment is overdue for specified number of days as per related product programs. Since the risk metrics for consumer loans are based on a collective "pool" basis, rather than on individual loans, the provisions for consumer loans are also computed on a "pool basis" using the "flow rate" methodology. The provision coverage is 70% for the non-performing loans (other than home loans), which are overdue by 90 days whereas the loans are considered as a total write off once overdue by 180 days.

In addition to specific provision for credit losses, provision for collective impairment is made on a portfolio basis for credit losses where there is objective evidence that unidentified losses exist at the reporting date. These are based on any deterioration in the risk rating (i.e. downward migration of risk ratings) of the financial assets since it was originally granted. This provision is estimated based on various factors including credit ratings allocated to a borrower or group of borrowers, the current economic conditions, the experience the Group has had in dealing with a borrower or group of borrowers and available historical default information.

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 commission rate.

Loans and advances are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. In the latter case, renegotiation can result in an extension of the due date of payment or repayment plans under which the Group offers a revised rate of commission to genuinely distressed borrowers. This results in the asset continuing to be overdue and individually impaired as the renegotiated payments of commission and principal do not recover the original carrying amount of the loan. In other cases, renegotiation lead to a new agreement, this is treated as a new loan. 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 commission rate.

(ii) Impairment of available-for-sale financial assets

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

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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 recognised in the consolidated income statement, the impairment loss is reversed through the consolidated income statement.

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

m) Other real estate

The Group, 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. Rental income from other real estate is recognised in the consolidated income statement. Subsequent to initial recognition, any subsequent write down to fair value, less costs to sell, are charged to the consolidated income statement. Any subsequent revaluation gain in the fair value less costs to sell these assets to the extent this does not exceed the cumulative write down is recognised in the income statement. Gains or losses on disposal are recognised in the consolidated income statement.

n) Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating units (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets excluding goodwill, if any, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated income statement.

o) Property and equipment

Property and equipment are measured at cost less accumulated depreciation and accumulated impairment loss. Freehold land is not depreciated. Changes in the expected useful life are accounted for by changing the period or method, as appropriate, and treated as changes in accounting estimates. The cost of other property and equipment is depreciated / amortised on the straight-line method over the estimated useful lives of the assets as follows:

Buildings	33 years
Leasehold improvements	Over the shorter of lease period or economic useful life i.e 10 years
Furniture and fixtures, computer hardware and software and motor vehicles	3 to 10 years

The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each reporting date.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the consolidated income statement.

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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.

p) Financial Liabilities

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

Financial liabilities are designated as FVIS on initial recognition if doing so significantly reduces measurement inconsistencies which would otherwise arise. After initial recognition these liabilities are measured at fair value and the resulting gain or loss is included in the consolidated income statement.

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

q) Financial guarantees and loan commitments

In the ordinary course of business, the Group issues financial guarantees, letters of credit and acceptances. A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for the loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt arrangement. Financial guarantees are initially recognised in the consolidated financial statements at fair value in other liabilities, being the value of the premium received. Subsequent to the initial recognition, the Group's liability under each guarantee is measured at the higher of the unamortised premium and the best estimate of expenditure required to settle any financial obligations arising as a result of guarantees. Any increase in the liability relating to the financial guarantee is taken to the consolidated income statement in "impairment charge for credit losses, net". The premium received is recognised in the consolidated income statement in "fees and commission income, net" on a straight line basis over the life of the guarantee.

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

r) Provisions

Provisions are recognised when management can reliably estimate 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.

s) Accounting for leases

Leases entered into by the Group as a lessee 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 penalty required to be paid to the lessor is recognised as an expense in the period in which termination takes place.

t) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, "cash and cash equivalents" include notes and coins on hand, balances with SAMA excluding statutory deposit, and due from banks and other financial institutions with original maturity of three months or less which are subject to insignificant risk of changes in their fair value.

u) Derecognition of financial instruments

A financial asset (or a part of a financial asset, or a part of a group of similar financial assets) is derecognised, when contractual rights to receive the cash flows from the financial asset expire or the asset is transferred and the transfer qualifies for de-recognition. In instances where the Group is assessed to have transferred a financial asset, the asset is derecognised if the Group has transferred substantially all the risks and rewards of ownership. Where the Group has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognised only if the Group has not retained control of the financial asset. The Group recognises separately as assets or liabilities any rights and obligations created or retained in the process.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

v) Share based plan transactions

The Group's share plan is classified as an equity settled plan. The fair value of shares which the Group expects will eventually vest is determined at the grant date and is expensed on a straight line basis over the vesting period with corresponding increase in share based plan reserve. Details regarding the plan and determination of the fair value are set out in Note 38.

At each reporting date, management revises its estimates of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in the consolidated income statement over the remaining vesting period, with a corresponding adjustment to the share base plan reserve.

w) End of service benefits

The liability for employees' end of service benefits is determined based on an actuarial valuation conducted by an independent actuary. The actuarial valuation process takes into account the provisions of the Saudi Arabian Labour Law.

x) Short term employee benefits

Short term employee benefits are measured on a undiscounted basis and is expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short term cash bonus or profit sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

y) Zakat and income tax

Under Saudi Arabian Zakat and Income tax laws, 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 Group's consolidated income statement and are deducted from current and future dividends payable to shareholders.

z) Investment management services

The Group offers investment services to its customers through its subsidiary SHC. The services include the management of certain investment funds in consultation with professional investment advisors. The Group's share of these funds is included in FVIS or available-for-sale investments and fees earned are disclosed under related parties' 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.

aa) Non-commission based banking products

In addition to conventional banking, the Group also offers its customers certain non-commission based banking products, which are approved by its independent Shariah Board, as follows:

All non-commission based banking products are included in "loans and advances" and "customers' deposits" and are in conformity with the related accounting policies described in these consolidated financial statements.

High level definitions of non-commission based products:

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

(ii) **Ijarah** is an agreement whereby the Group, acting as a lessor, purchases or constructs an asset for lease according to the customer request (lessee), based on his promise to lease the asset for an agreed rent and specific period that could end by transferring the ownership of the leased asset to the lessee.

(iii) **Musharaka** is an agreement between the Group and a customer to contribute to a certain investment enterprise or the ownership of a certain property ending up with the acquisition by the customer of the full ownership. The profit or loss is shared as per the terms of the agreement.

(iv) **Tawaruq** is a form of Murabaha transactions where the Group purchases a commodity and sells it to the customer. The customer sells the underlying commodity at spot and uses the proceeds for his financing requirements.

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4 CASH AND BALANCES WITH SAMA

	<u>2015</u>	<u>2014</u>
Cash in hand	775,893	569,803
Current accounts	151,917	247,690
Balances with SAMA:		
- Statutory deposit	4,476,152	3,752,004
- Reverse repo with SAMA	2,233,907	4,953,966
Total	7,637,869	9,523,463

In accordance with the requirements of the Banking Control Law and Regulations issued by SAMA, the Group is required to maintain a statutory deposit with SAMA at stipulated percentages of its demand, savings, time and other deposits, calculated at the end of each month. The statutory deposit with SAMA is not available to finance the Group's day-to-day operations and therefore does not form part of cash and cash equivalents (Note-27). The Bank holds balances with SAMA with Investment grade credit rating.

5 DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	<u>2015</u>	<u>2014</u>
Current accounts	546,888	351,089
Money market placements	187,695	187,700
Total	734,583	538,789

6 INVESTMENTS, NET

a) Investments are classified as follows:

	<u>Domestic</u>		<u>International</u>		<u>Total</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
i) Available-for-sale, net						
Fixed rate securities	13,886	33,056	-	-	13,886	33,056
Floating rate securities	168,000	168,000	-	-	168,000	168,000
Equities	342,288	230,488	-	-	342,288	230,488
Mutual funds	147,566	135,382	-	-	147,566	135,382
Total available-for-sale, net	671,740	566,926	-	-	671,740	566,926

Equities reported under available for sale investments include unquoted shares of SAR 3.4 million (2014: SAR 3.4 million) that are carried at cost. In the opinion of management the fair value approximates the carrying value of these investments.

	<u>Domestic</u>		<u>International</u>		<u>Total</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
ii) Other investments held at amortised cost						
Fixed rate securities	18,495,484	15,746,287	341,018	684,091	18,836,502	16,430,378
Floating rate securities	1,475,305	1,301,903	167,861	399,001	1,643,166	1,700,904
Total other investments held at amortised cost	19,970,789	17,048,190	508,879	1,083,092	20,479,668	18,131,282

	<u>Domestic</u>		<u>International</u>		<u>Total</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
iii) Held to maturity						
Fixed rate securities	15,015	25,695	-	-	15,015	25,695
Floating rate securities	-	-	60,062	60,064	60,062	60,064
Total held to maturity	15,015	25,695	60,062	60,064	75,077	85,759
Total investments, net	20,657,544	17,640,811	568,941	1,143,156	21,226,485	18,783,967

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b) Investments reclassification

Management identified certain AFS investments, for which at July 1, 2008, it had a clear intention to hold the instruments for the foreseeable future rather than to sell these instruments in short term. As a result, these instruments were reclassified at that date from AFS to OI at fair value and the difference between the carrying amount and the fair value was retained in AFS reserve. Had the reclassification not been made, other reserves would have included unrealised fair value gains amounting to SAR 8.39 million (2014: SAR 12.7 million). During the year a loss of SAR 1.99 million (2014: SAR 1.79 million) was transferred to the consolidated income statements being the amortization of AFS reserve at the time of reclassification.

The following table shows carrying values and fair values of the reclassified investments:

	<u>2015</u>		<u>2014</u>	
	<u>Carrying value</u>	<u>Fair value</u>	<u>Carrying value</u>	<u>Fair value</u>
Available for sale securities reclassified to other investments held at amortised cost	<u>67,983</u>	<u>68,025</u>	<u>148,516</u>	<u>149,617</u>

c) The composition of investments is as follows:

	<u>2015</u>			<u>2014</u>		
	<u>Quoted</u>	<u>Unquoted</u>	<u>Total</u>	<u>Quoted</u>	<u>Unquoted</u>	<u>Total</u>
Fixed rate securities	322,670	18,542,733	18,865,403	815,452	15,673,677	16,489,129
Floating rate securities	838,228	1,033,000	1,871,228	1,295,968	633,000	1,928,968
Equities	338,850	3,438	342,288	227,050	3,438	230,488
Mutual funds	147,566	-	147,566	135,382	-	135,382
Total investments, net	<u>1,647,314</u>	<u>19,579,171</u>	<u>21,226,485</u>	<u>2,473,852</u>	<u>16,310,115</u>	<u>18,783,967</u>

Unquoted securities principally comprise of treasury bills and other Saudi Government Bonds. Such securities are traded in the inter-bank market within Saudi Arabia and values are determined according to an appropriate pricing model.

d) The analysis of unrealised gains and losses and fair values of other investments held at amortised cost and held to maturity are as follows:

	<u>2015</u>				<u>2014</u>			
	<u>Carrying value</u>	<u>Gross unrealised gains</u>	<u>Gross unrealised losses</u>	<u>Fair value</u>	<u>Carrying value</u>	<u>Gross unrealised gains</u>	<u>Gross unrealised losses</u>	<u>Fair value</u>
i) Other investments held at amortised cost								
Fixed-rate securities	18,836,502	13,235	(53,156)	18,796,581	16,430,378	26,889	(26,985)	16,430,282
Floating rate securities	1,643,166	187	(24)	1,643,329	1,700,904	3,748	(10)	1,704,642
Total	<u>20,479,668</u>	<u>13,422</u>	<u>(53,180)</u>	<u>20,439,910</u>	<u>18,131,282</u>	<u>30,637</u>	<u>(26,995)</u>	<u>18,134,924</u>

	<u>2015</u>				<u>2014</u>			
	<u>Carrying value</u>	<u>Gross unrealised gains</u>	<u>Gross unrealised losses</u>	<u>Fair value</u>	<u>Carrying value</u>	<u>Gross unrealised gains</u>	<u>Gross unrealised losses</u>	<u>Fair value</u>
ii) Held to maturity								
Fixed-rate securities	15,015	379	-	15,394	25,695	1,467	-	27,162
Floating rate securities	60,062	-	(1,770)	58,292	60,064	-	(2,720)	57,344
Total	<u>75,077</u>	<u>379</u>	<u>(1,770)</u>	<u>73,686</u>	<u>85,759</u>	<u>1,467</u>	<u>(2,720)</u>	<u>84,506</u>

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

	<u>2015</u>	<u>2014</u>
Government and quasi-government	18,508,360	15,695,809
Corporates	1,368,652	1,357,136
Banks and other financial institutions	1,198,469	1,592,202
Others	151,004	138,820
Total investments, net	<u>21,226,485</u>	<u>18,783,967</u>

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Other investments held at amortized cost amounting to SAR 10 million (2014: SAR 5,060 million) are pledged under repurchase agreements with customers. The market value of these investments is SAR 10 million (2014: SAR 5,059 million).

f) Credit risk exposures of investments

	<u>2015</u>				<u>2014</u>			
	<u>Available for sale</u>	<u>Held to maturity</u>	<u>Other investments held at amortized cost</u>	<u>Total</u>	<u>Available for sale</u>	<u>Held to maturity</u>	<u>Other investments held at amortized cost</u>	<u>Total</u>
Saudi Sovereign bonds	13,886	15,015	17,054,137	17,083,038	33,056	25,695	14,155,226	14,213,977
Investment grade securities	-	60,062	2,613,226	2,673,288	-	60,064	3,461,883	3,521,947
Unrated securities	315,566	-	812,305	1,127,871	303,382	-	514,173	817,555
Total credit risk exposure of investments	329,452	75,077	20,479,668	20,884,197	336,438	85,759	18,131,282	18,553,479
Equities	342,288	-	-	342,288	230,488	-	-	230,488
Total investments, net	671,740	75,077	20,479,668	21,226,485	566,926	85,759	18,131,282	18,783,967

Investment grade includes those investments having an external agency ratings of AAA to BBB-. Where specific bonds are not rated, but the issuer of the bond has been rated, issuer ratings have been used. Bonds falling in to this category amount to SAR 1,891 million (2014: SAR 1,979 million).

7 LOANS AND ADVANCES, NET

a) Loans and advances held at amortised cost

<u>2015</u>	<u>Overdraft</u>	<u>Credit cards</u>	<u>Consumer loans</u>	<u>Commercial loans</u>	<u>Total</u>
Performing loans and advances, gross	2,530,033	313,574	15,113,686	58,737,376	76,694,669
Non performing loans and advances, net	294,332	6,791	53,407	469,691	824,221
Total loans and advances	2,824,365	320,365	15,167,093	59,207,067	77,518,890
Allowances for impairment of credit losses	(332,538)	(7,889)	(178,627)	(855,986)	(1,375,040)
Total loans and advances, net	2,491,827	312,476	14,988,466	58,351,081	76,143,850

<u>2014</u>	<u>Overdraft</u>	<u>Credit cards</u>	<u>Consumer Loans</u>	<u>Commercial loans</u>	<u>Total</u>
Performing loans and advances, gross	3,142,126	271,756	11,342,508	50,901,867	65,658,257
Non performing loans and advances, net	303,769	5,568	36,422	495,863	841,622
Total loans and advances	3,445,895	277,324	11,378,930	51,397,730	66,499,879
Allowances for impairment of credit losses	(340,385)	(6,616)	(138,920)	(866,130)	(1,352,051)
Total loans and advances, net	3,105,510	270,708	11,240,010	50,531,600	65,147,828

b) Movements in allowances for impairment of credit losses:

<u>2015</u>	<u>Note</u>	<u>Overdraft</u>	<u>Credit cards</u>	<u>Consumer loans</u>	<u>Commercial loans</u>	<u>Total</u>
Balance at beginning of the year		340,385	6,616	138,920	866,130	1,352,051
Provided during the year	7 b (i)	43,976	17,761	130,356	182,712	374,805
Recoveries of amounts previously provided		(32,013)	(9,442)	(42,778)	(22,292)	(106,525)
	7 b (ii)	11,963	8,319	87,578	160,420	268,280
Bad debts written off		(19,810)	(7,046)	(47,871)	(170,564)	(245,291)
Balance at the end of the year		332,538	7,889	178,627	855,986	1,375,040

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<u>2014</u>	<u>Overdraft</u>	<u>Credit cards</u>	<u>Consumer loans</u>	<u>Commercial loans</u>	<u>Total</u>
Balance at beginning of the year	364,446	6,007	116,366	705,744	1,192,563
Provided during the year	100,223	16,709	94,748	218,218	429,898
Recoveries of amounts previously provided	(13,131)	(10,874)	(31,917)	(28,369)	(84,291)
	87,092	5,835	62,831	189,849	345,607
Bad debts written off	(111,153)	(5,226)	(40,277)	(29,463)	(186,119)
Balance at the end of the year	<u>340,385</u>	<u>6,616</u>	<u>138,920</u>	<u>866,130</u>	<u>1,352,051</u>

7 b (i) Impairment charge for the year includes charge for collective impairment amounting to SAR 56 million (2014: SAR 60 million)

7 b (ii) Impairment charge for credit and other losses, net

	<u>2015</u>	<u>2014</u>
Impairment charge for credit losses	268,280	345,607
Other provisions (Note - 10)	149,908	-
Total Impairment charge for credit and other losses, net	<u>418,188</u>	<u>345,607</u>

c) Credit quality of loans and advances

i) Loans and advances neither past due nor impaired

The Group has categorised the loans and advances portfolio that is neither past due nor impaired into three sub categories according to its internal rating system, i.e. strong, satisfactory and watch.

Loans and advances under the Strong category are performing, have sound fundamental characteristics and include those that exhibit neither current nor potential weaknesses.

Loans and advance under the Satisfactory category are loans where borrowers are capable to meet their financial obligations in the medium term, but could be impacted by adverse business or economic conditions.

The Watch category includes loans and advances that are performing, current and up to date in terms of principal and special commission payments. However, they require close management attention as they may have potential weaknesses that could, at some future date, result in the deterioration of the repayment prospects of either the principal or the special commission. Loans and advances in the watch category are not expected to expose the Group to high enough level of risk to warrant a worse classification.

<u>2015</u>	<u>Overdraft</u>	<u>Credit cards</u>	<u>Consumer loans</u>	<u>Commercial loans</u>	<u>Total</u>
Strong	370,145	-	-	23,517,427	23,887,572
Satisfactory	2,073,040	278,460	14,572,962	35,084,742	52,009,204
Watch	71,022	-	-	73,731	144,753
Total	<u>2,514,207</u>	<u>278,460</u>	<u>14,572,962</u>	<u>58,675,900</u>	<u>76,041,529</u>

<u>2014</u>	<u>Overdraft</u>	<u>Credit cards</u>	<u>Consumer loans</u>	<u>Commercial loans</u>	<u>Total</u>
Strong	749,133	-	-	25,192,681	25,941,814
Satisfactory	2,233,702	247,183	11,055,133	25,158,210	38,694,228
Watch	58,889	-	-	438,816	497,705
Total	<u>3,041,724</u>	<u>247,183</u>	<u>11,055,133</u>	<u>50,789,707</u>	<u>65,133,747</u>

ii) Ageing of past due but not impaired loans and advances

<u>2015</u>	<u>Overdraft</u>	<u>Credit cards</u>	<u>Consumer loans</u>	<u>Commercial loans</u>	<u>Total</u>
Up to 30 days	15,652	25,416	460,644	40,351	542,063
From 31 days to 90 days	120	9,698	80,080	15,159	105,057
From 91 days to 180 days	54	-	-	5,966	6,020
Total	<u>15,826</u>	<u>35,114</u>	<u>540,724</u>	<u>61,476</u>	<u>653,140</u>

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<u>2014</u>	<u>Overdraft</u>	<u>Credit cards</u>	<u>Consumer loans</u>	<u>Commercial loans</u>	<u>Total</u>
Up to 30 days	62,751	16,955	213,809	84,481	377,996
From 31 days to 90 days	37,651	7,618	73,566	7,614	126,449
From 91 days to 180 days	-	-	-	20,065	20,065
Total	<u>100,402</u>	<u>24,573</u>	<u>287,375</u>	<u>112,160</u>	<u>524,510</u>

Past due but not impaired loans and advances provided above comprise of total loan values except for corporate loans which comprise overdue installment amounts. Ageing of corporate total loans and advances past due but not impaired at December 31, 2015 upto 30 days, from 31 to 90 days and from 91 to 180 days amounted to SAR 564 million, SAR 24.20 million and SAR 7.75 million (2014: SAR 425.09 million, SAR 61.19 million and SAR 34.64 million), respectively.

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

<u>2015</u>	<u>Performing</u>	<u>Non performing</u>	<u>Allowances for impairment of credit losses</u>	<u>Loans and advances, net</u>
Government and quasi-government	1,261,433	-	-	1,261,433
Banks and other financial institutions	2,459,828	-	-	2,459,828
Agriculture and fishing	959,609	331	(331)	959,609
Manufacturing	14,104,345	265,411	(265,411)	14,104,345
Mining and quarrying	442,751	-	-	442,751
Electricity, water, gas and health services	1,977,839	-	-	1,977,839
Building and construction	11,312,756	193,020	(193,020)	11,312,756
Commerce	18,284,337	285,437	(285,437)	18,284,337
Transportation and communication	3,222,358	6,907	(6,907)	3,222,358
Services	3,791,009	12,917	(12,917)	3,791,009
Consumer loans and credit cards	15,427,260	60,198	(32,243)	15,455,215
Others	3,451,144	-	-	3,451,144
	<u>76,694,669</u>	<u>824,221</u>	<u>(796,266)</u>	<u>76,722,624</u>
Portfolio impairment allowance	-	-	(578,774)	(578,774)
Total	<u>76,694,669</u>	<u>824,221</u>	<u>(1,375,040)</u>	<u>76,143,850</u>

<u>2014</u>	<u>Performing</u>	<u>Non performing</u>	<u>Allowances for impairment of credit losses</u>	<u>Loans and advances, net</u>
Government and quasi-government	1,263,299	-	-	1,263,299
Banks and other financial institutions	2,485,717	-	-	2,485,717
Agriculture and fishing	1,065,303	-	-	1,065,303
Manufacturing	10,416,664	39,372	(39,372)	10,416,664
Mining and quarrying	312,759	-	-	312,759
Electricity, water, gas and health services	1,987,431	33,677	(33,677)	1,987,431
Building and construction	8,563,054	349,851	(349,851)	8,563,054
Commerce	18,000,160	298,674	(298,674)	18,000,160
Transportation and communication	870,344	-	-	870,344
Services	5,338,646	19,060	(19,060)	5,338,646
Consumer loans and credit cards	11,614,264	41,990	(29,391)	11,626,863
Others	3,740,616	58,998	(58,998)	3,740,616
	<u>65,658,257</u>	<u>841,622</u>	<u>(829,023)</u>	<u>65,670,856</u>
Portfolio impairment allowance	-	-	(523,028)	(523,028)
Total	<u>65,658,257</u>	<u>841,622</u>	<u>(1,352,051)</u>	<u>65,147,828</u>

Loans and advances, include Islamic products amounting to SAR 42 billion (2014: SAR 32 billion)

e) Collateral

The Group, in the ordinary course of its lending activities holds collaterals to mitigate the associated credit risk. These mostly consists of time, demand and other cash deposits, financial guarantees, local and international equities, real estate and other fixed assets. Collaterals are mainly held against commercial and consumer loans and are managed against relevant exposures at their net realisable value. Total collateral value at December 31, 2015 amounted to SAR 30.36 billion (2014: SAR 18.95 billion).

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8 INVESTMENT IN AN ASSOCIATE

	<u>2015</u>	<u>2014</u>
Balance at beginning of the year	12,793	17,233
Share in loss of an associate	(226)	(4,440)
Balance at end of the year	<u>12,567</u>	<u>12,793</u>

Investment in an associate represents a 20% (2014: 20%) shareholding in Wataniya Insurance Company formed in the Kingdom of Saudi Arabia, pursuant to Royal Decree No. M/53 dated Shawwal 21, 1430H (corresponding to October 10, 2009).

9 PROPERTY AND EQUIPMENT, NET

Property and equipment details are as follows:

	<u>Land and buildings</u>	<u>Leasehold improvements</u>	<u>Computer hardware / software</u>	<u>Furniture / fixtures</u>	<u>Motor vehicles</u>	<u>Capital work in progress (CWIP)</u>	<u>Total</u>
Cost:							
Balance at beginning of the year	193,890	313,973	866,031	213,947	6,000	105,667	1,699,508
Additions during the year	202,825	-	-	-	-	189,320	392,145
Disposal during the year	-	-	-	-	(467)	-	(467)
Transfers from CWIP during the year	-	3,742	106,452	12,458	-	(122,652)	-
Balance at end of the year	<u>396,715</u>	<u>317,715</u>	<u>972,483</u>	<u>226,405</u>	<u>5,533</u>	<u>172,335</u>	<u>2,091,186</u>
Accumulated depreciation/ amortisation:							
Balance at beginning of the year	52,915	264,336	678,717	173,242	3,910	-	1,173,120
Charge for the year	4,270	15,251	90,656	6,767	543	-	117,487
Disposal during the year	-	-	-	-	(467)	-	(467)
Balance at end of the year	<u>57,185</u>	<u>279,587</u>	<u>769,373</u>	<u>180,009</u>	<u>3,986</u>	<u>-</u>	<u>1,290,140</u>
Net book value:							
As at 31 December 2015	<u>339,530</u>	<u>38,128</u>	<u>203,110</u>	<u>46,396</u>	<u>1,547</u>	<u>172,335</u>	<u>801,046</u>
As at 31 December 2014	<u>140,975</u>	<u>49,637</u>	<u>187,314</u>	<u>40,705</u>	<u>2,090</u>	<u>105,667</u>	<u>526,388</u>

10 OTHER ASSETS, NET

	<u>2015</u>	<u>2014</u>
Accrued special commission receivable:		
Banks and other financial institutions	192	135
Investments	36,811	37,744
Loans and advances	268,686	238,467
Others	66,548	66,952
Total accrued special commission receivable	<u>372,237</u>	<u>343,298</u>
Accounts receivable	833,842	1,387,695
Positive fair value of derivatives (note 11)	307,597	354,622
Others	258	375
Total	<u>1,513,934</u>	<u>2,085,990</u>

Other assets includes an amount of SAR 287.58 million (December 31, 2014 :SAR 444.82 million) which upon default by the original counterparty is expected to be recovered from a related party based on a conditional settlement agreement being finalized between the Group and the related party. The exposure at December 31, 2015 is net of impairment charge amounting to SAR 149.91 million which is included in the consolidated income statement.

11 DERIVATIVES

In the ordinary course of business, the Group utilises 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 cross-currency commission rate swaps, principal and fixed and floating commission payments are exchanged in different currencies.

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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 customised contracts transacted in the over-the-counter market. Foreign currency and commission rate futures are transacted in standardised 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 of the difference between a contracted commission rate and the market rate on a specified future date and are based on a notional principal and an agreed period of time.

d) Options

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

Derivatives held for trading purposes

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

Derivatives held for hedging purposes

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

The Board of Directors has established levels of currency risk by setting limits on counterparty and currency positions. Positions are monitored on a daily basis and hedging strategies are used to ensure that positions are maintained within the established limits. The Board of Directors has also established the levels of commission rate risk by setting limits on special 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 gaps within the established limits. As part of its asset and liability management process, the Group uses derivatives for hedging purposes in order to adjust its own exposure to currency and commission rate risks. This is generally achieved by hedging specific transactions.

The Group uses commission rate swaps to hedge against the commission rate risk arising from specifically identified fixed commission rate exposures. The Group 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 summarises the positive and negative fair values and notional amounts of derivative financial instruments, analysed by the term to maturity and monthly average. The notional amounts, which provide an indication of the volumes of transactions outstanding at year-end, do not necessarily reflect the amounts of future cash flows involved. These notional amounts are, therefore, neither indicative of the Group's exposure to market risk and credit risk. The latter is generally limited to the positive fair value of derivatives.

<u>Derivative financial instruments 2015</u>	<u>Positive fair value</u>	<u>Negative fair value</u>	<u>Notional amount total</u>	<u>Notional amounts by maturity</u>				
				<u>Within three months</u>	<u>3-12 months</u>	<u>1-5 years</u>	<u>Over 5 years</u>	<u>Monthly average</u>
Held for trading:								
Commission rate swaps	142,521	58,075	27,057,930	440,282	1,884,510	21,070,102	3,663,036	28,427,096
Foreign exchange and commodity forward contracts	69,263	35,222	19,685,285	12,812,414	6,126,842	746,029	-	21,353,383
Currency and commodity options	91,556	49,830	39,154,686	6,968,117	19,488,469	12,698,100	-	49,779,580
Commission rate options	4,257	3,881	470,800	-	-	-	470,800	561,911
Held as fair value hedges:								
Commission rate swaps	-	1,468	37,539	-	-	37,539	-	84,417
Total	307,597	148,476	86,406,240	20,220,813	27,499,821	34,551,770	4,133,836	
Fair values of netting arrangements	1,188,943	1,188,943						
Fair values before netting	1,496,540	1,337,419						

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13 CUSTOMERS' DEPOSITS

	<u>2015</u>	<u>2014</u>
Time	53,500,410	45,257,743
Demand	33,798,200	29,964,157
Saving	453,754	407,754
Others	1,079,699	1,184,211
Total	88,832,063	76,813,865

	<u>2015</u>	<u>2014</u>
Time deposits include:		
i) Deposits against repurchase agreements with customers	10,000	5,072,314
ii) Islamic deposits	29,831,506	19,549,247

Customers' deposits include SAR 833 million (2014: SAR 967 million) of margins held for irrevocable commitments and other non commission based deposits amounting to SAR 34 billion (2014: SAR 31 billion). Foreign currency deposits at December 31 are as follows:

	<u>2015</u>	<u>2014</u>
Time	7,057,870	3,533,264
Demand	4,321,980	3,355,694
Saving	34,986	34,574
Others	151,385	130,041
Total	11,566,221	7,053,573

14 SUBORDINATED DEBT

Subordinated debt represents the following debt securities:

Issued on December 12, 2013:

The Group issued SAR 2,500 million unsecured subordinated Tier II Sukuk which are due in 2023. The Group has the option, subject to the prior written approval of SAMA, to redeem these Sukuk at their redemption amount in December 2018 or in the event of certain changes affecting the taxation and regulatory capital treatment of these Sukuk. The commission rate paid on the above averaged 6 months SIBOR plus 155 basis points (2014: 6 months SIBOR plus 155 basis points).

Issued on November 26, 2012:

The Group issued SAR 1,400 million unsecured subordinated Tier II Sukuk which are due in 2019. The Group has the option, subject to the prior written approval of SAMA, to redeem these Sukuk at their redemption amount in November 2017 or in the event of certain changes affecting the taxation and regulatory capital treatment of these Sukuk. The commission rate paid on the above averaged 6 months SIBOR plus 115 basis points (2014: 6 months SIBOR plus 115 basis point).

The Group has not defaulted on any principal or commission repayments and there has been no breaches with regard to any of these liabilities during 2015 or 2014.

15 OTHER LIABILITIES

Accrued special commission payable:

	<u>2015</u>	<u>2014</u>
Banks and other financial institutions	293	203
Customer deposits	256,111	215,194
Subordinated debt	6,975	6,029
Others	66,614	74,048
Total accrued special commission payable	329,993	295,474
Accrued expenses and accounts payable	1,110,131	1,256,759
Negative fair value of derivatives (note 11)	148,476	253,266
Others	365,603	303,332
Total	1,954,203	2,108,831

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16 SHARE CAPITAL

The authorised, issued and fully paid share capital consists of 571.54 million shares (2014: 476.28 million shares) of SAR 10 (2014: SAR 10) each.

The ownership of the Bank's share capital is as follows:

	<u>Percentage</u>	<u>2015</u>	<u>2014</u>
Saudi shareholders	60%	3,429,216	2,857,680
ABN AMRO Bank N.V. (The Netherlands)	40%	2,286,144	1,905,120
Total	100%	5,715,360	4,762,800

The shareholders of the Bank approved a bonus issue of one-for-five shares held in their Extra Ordinary General assembly meeting held on March 17, 2015. As a result 95.26 million shares (2014: 79.38 million shares, one-for-five shares held) of SR 10 each, were issued by capitalizing retained earnings. The Group also settled a cash dividend of SAR 619.16 million (2014: SAR 468.34 million) during the year.

On December 15, 2015, The Board of Directors has approved the transfer of SAR 5,715 million to a reserve with the intention to increase the Bank's share capital through a one-for-one bonus share subject to a final approval of the Extra Ordinary General Assembly meeting. This issue will be effected by transferring from the accumulated statutory reserves and a part of the amount from retained earnings and profit for the year 2015.

17 STATUTORY RESERVE

In accordance with Saudi Arabian Banking Control Law and the By-Laws 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 505.61 million (2014: SAR 455.23 million) has been transferred from net income.

18 OTHER RESERVES

	<u>2015</u>	<u>2014</u>
Balance at beginning of the year	3,564	21,690
Net change in fair value of available for sale investments	(28,192)	139
Net amounts transferred to consolidated income statement upon disposal of available for sale investments	(13,063)	(18,265)
Balance at end of the year	(37,691)	3,564

19 COMMITMENTS AND CONTINGENCIES

a) Legal proceedings

As at December 31, 2015 and 2014, there were certain legal proceedings outstanding against the Group that arose in the normal course of business. No provision was raised during the year (2014: Nil) as professional legal advice indicates that it is not probable that any further losses will arise with respect to these proceedings.

b) Capital commitments

The Group has capital commitments of SAR 93.1 million (2014: SAR 63.51 million) in respect of leasehold improvements and computer hardware and software purchases.

c) Credit related commitments and contingencies

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

Letters of guarantees and stand-by letters of credit, which represent irrevocable assurances that the Group 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 Group does not generally expect the third party to draw the full funds under the agreement.

Documentary letters of credit are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions and are generally collateralised by the underlying shipments of goods to which they relate and therefore, have significantly less risk.

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

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Irrevocable commitments to extend credit represent the unused portion of authorisations 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 Group is potentially exposed to a loss of 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 the commitments could expire or terminate without being funded.

i) The contractual maturities of the Group's commitments and contingencies are as follows:

<u>2015</u>	<u>Within 3 months</u>	<u>3 to 12 months</u>	<u>1 to 5 Years</u>	<u>Over 5 Years</u>	<u>Total</u>
Letters of guarantee	3,049,649	10,779,773	8,632,804	255,069	22,717,295
Letters of credit	2,075,680	3,090,345	179,630	-	5,345,655
Acceptances	3,311,798	20,774	988	-	3,333,560
Irrevocable commitments to extend credit	-	26,786	544,397	2,299,589	2,870,772
Total	8,437,127	13,917,678	9,357,819	2,554,658	34,267,282
<u>2014</u>	<u>Within 3 months</u>	<u>3 to 12 months</u>	<u>1 to 5 Years</u>	<u>Over 5 Years</u>	<u>Total</u>
Letters of guarantee	2,879,290	9,763,949	10,325,112	211,399	23,179,750
Letters of credit	2,006,054	2,760,395	155,277	-	4,921,726
Acceptances	2,002,663	507,577	178,759	-	2,688,999
Irrevocable commitments to extend credit	1,308	-	410,466	860,679	1,272,453
Total	6,889,315	13,031,921	11,069,614	1,072,078	32,062,928

Outstanding and unused portion of commitments that can be revoked unilaterally at any time by the Group amounts to SAR 14.89 billion (2014: SAR 18.95 billion).

ii) Commitments and contingencies by counterparty are as follows:

	<u>2015</u>	<u>2014</u>
Government and quasi-government	191,392	119,662
Corporate	30,758,558	29,199,688
Banks and other financial institutions	3,081,726	2,371,012
Other	235,606	372,566
Total	34,267,282	32,062,928

d) Operating lease commitments

The future minimum lease payments under non-cancellable operating leases where the Group is a lessee, are as follows:

	<u>2015</u>	<u>2014</u>
Less than 1 year	79,945	62,120
1 to 5 years	239,709	187,527
Over 5 years	263,039	165,706
Total	582,693	415,353

20 SPECIAL COMMISSION INCOME AND EXPENSE

Special commission income

Investments:	<u>2015</u>	<u>2014</u>
Available for sale	6,413	7,637
Held to maturity	2,450	2,968
Other investments held at amortised cost	213,834	218,537
	222,697	229,142
Due from banks and other financial institutions	9,650	16,416
Loans and advances	2,658,584	2,240,366
Total	2,890,931	2,485,924

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Special commission expense		<u>2015</u>	<u>2014</u>
Due to banks and other financial institutions		4,248	2,753
Customers' deposits		496,520	397,530
Subordinated debt		92,161	119,862
Total		592,929	520,145
21 FEE AND COMMISSION INCOME, NET			
Fee and commission income:		<u>2015</u>	<u>2014</u>
Corporate finance and advisory		416,859	386,389
Trade finance		335,340	347,540
Credit card products		132,637	103,812
Share brokerage and fund management		51,596	66,297
Other banking services		60,220	48,192
Total fee and commission income		996,652	952,230
Fee and commission expenses:			
Credit card products		69,395	63,903
Other banking services		40,431	24,355
Total fee and commission expenses		109,826	88,258
Fee and commission income, net		886,826	863,972
22 TRADING INCOME, NET			
		<u>2015</u>	<u>2014</u>
Derivatives and others, net		210,026	164,779
Total		210,026	164,779
23 GAINS ON NON-TRADING INVESTMENTS, NET			
		<u>2015</u>	<u>2014</u>
Realised gain on disposal of available for sale investments		15,050	20,062
Total		15,050	20,062
24 SALARIES AND EMPLOYEE-RELATED EXPENSES			

The following table summarizes the Group's employee categories defined in accordance with SAMA's rules on compensation practices and includes the total amounts of fixed and variable compensation paid to employees during the year ended December 31, 2015 and 2014, and the forms of such payments.

<u>2015</u>	<u>Number of employees</u>	<u>Fixed compensation paid</u>	<u>Variable Compensation</u>		<u>Total</u>
			<u>Cash</u>	<u>Shares</u>	
<u>Categories of employees</u>					
Senior executives who require SAMA's no objection	16	24,796	10,651	12,382	47,829
Employees engaged in control and risk management functions	124	31,261	4,182	1,424	36,867
Employees engaged in risk taking activities	607	127,280	19,020	9,315	155,615
Other employees	1,797	270,997	27,784	5,418	304,199
Total	2,544	454,334	61,637	28,539	544,510
Variable Compensation accrued during the year		73,219			
Other employee related expenses paid during the year		112,555			
Other employee related expenses accrued during the year		36,150			
Total Salaries and employee related expenses		676,258			

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2014

<u>Categories of employees</u>	<u>Number of employees</u>	<u>Fixed compensation paid</u>	<u>Variable Compensation</u>		
			<u>Cash</u>	<u>Shares</u>	<u>Total</u>
Senior executives who require SAMA's no objection	16	23,326	8,724	8,177	40,227
Employees engaged in control and risk management functions	109	29,980	3,654	1,117	34,751
Employees engaged in risk taking activities	507	118,800	15,377	7,551	141,728
Other employees	1,763	233,156	20,649	4,163	257,968
Total	2,395	405,262	48,404	21,008	474,674
Variable Compensation accrued during the year		65,612			
Other employee related expenses paid during the year		91,297			
Other employee related expenses accrued during the year		11,610			
Total Salaries and employee related expenses		573,781			

Senior executives requiring SAMA's no objection:

This comprises senior management having responsibility and authority for formulating strategies and directing and controlling the activities of the Group. This covers the Managing Director (MD) and certain other employees directly reporting to the MD.

Employees engaged in control and risk management functions:

This refers to employees working in divisions that are not involved in risk taking activities but are engaged in review and control functions, for example Risk Management, Compliance, Internal Audit, Operations and Finance. These functions are fully independent from the risk taking units.

Employees engaged in risk taking activities:

This comprises staff within business lines (Corporate Banking, Personal Banking, Treasury and SHC), who are responsible for executing and implementing the business strategy on behalf of the Group, for example staff involved in recommending credit limits, pricing of loans, undertaking and executing business proposals, treasury dealing activities, investment management and brokerage services.

Other employees:

This includes all other employees of the Group, excluding those already mentioned above.

Group Compensation policy:

The purpose of the policy is to establish and apply compensation policies and processes which support delivery of business strategy, reinforce the desired organisational culture, reflect prudent risk management and comply with SAMA Regulations.

The Group's compensation policy is aimed at rewarding both risk-adjusted performance and appropriate behaviour in line with the Group's core values. To this end, performance measurements are risk adjusted and reviewed by the independent Risk Management function. In addition, the Compensation Policy is reviewed by Risk Management to ensure rewards are adjusted for the level of risk incurred.

The Board of Directors are responsible for ensuring the effective implementation of the compensation policy. The Board is advised by the Nominations and Remuneration Committee (The "Committee"), which comprises of six Non Executive Directors out of which two are independent. The Committee receives reports and recommendations from Executive Management supported by Human Resources. The Committee reviews and approves all compensation decisions relating to all employees.

Heads of business units and control functions being monitored and/or controlled by Internal Audit, Compliance, Risk Management and Credit Risk will not have any input to compensation decisions of employees in the control functions. Compensation recommendations are determined based on a clear understanding of the intended total reward package and decisions are taken considering the balance between external competitiveness and affordability together with focusing attention on building motivational and performance related compensation arrangements.

25 EARNINGS PER SHARE

Basic earnings per share for the years ended December 31, 2015 and 2014 are calculated by dividing the net income for the period attributable to the equity shareholders by 571.54 million shares to give a retrospective effect of change in the number of shares increased as a result of the bonus shares issued.

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26 PROPOSED GROSS DIVIDENDS, ZAKAT AND INCOME TAX

The Board of Directors has proposed dividends of SAR 297.20 million for the current year (2014: SAR 619.16 million). The dividends are paid to the Saudi and non-Saudi shareholders after deduction of Zakat and income tax respectively as follows:

a) Saudi shareholders:

Zakat attributable to Saudi Shareholders for the year is an estimated SAR 35 million (2014: SAR 64 million), which will be deducted from their share of future dividends. Zakat of SAR 94 million (2014: SAR 86 million) will be deducted from the current year's dividend resulting in a net dividend of SAR 0.25 per share (2014: SAR 1 per share).

b) Non-Saudi shareholders:

Income tax payable on the current year's share of income of foreign shareholders is an estimated SAR 164 million (2014: SAR 140 million). Tax liability amounting to SAR 68 million (2014: SAR 64 million) will be deducted from current year's dividend resulting in a net dividend of SAR 0.22 per share (2014: SAR 0.92 per share).

c) Status of Zakat and tax assessments

The Bank has filed its Zakat and income tax returns for the financial years up to and including the year 2014 with the Department of Zakat and Income Tax (the "DZIT"). The Bank has received Zakat and tax assessments for the years 2005 to 2009 and a partial assessment for the year 2010 raising additional demands aggregating to SAR 115 million. This additional exposure is mainly relating to Zakat arising on account of disallowances of certain long term investments by the DZIT. The basis for this additional liability is being contested by the Bank in conjunction with all the other banks in Saudi Arabia. The Bank has also formally contested these assessments and is awaiting a response from DZIT.

The Zakat and tax assessment for the years 2011 to 2014 have not been finalized by the DZIT and the Bank is not be able to determine reliably the impact of such assessments.

27 CASH AND CASH EQUIVALENTS

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

	<u>2015</u>	<u>2014</u>
Cash and balances with SAMA (note 4)	7,637,869	9,523,463
Statutory deposit	<u>(4,476,152)</u>	<u>(3,752,004)</u>
	3,161,717	5,771,459
Due from banks and other financial institutions maturing within three months or less from the acquisition date	<u>734,583</u>	<u>538,789</u>
Total	<u>3,896,300</u>	<u>6,310,248</u>

28 OPERATING SEGMENTS

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the senior management responsible for operational decision making in the Bank in order to allocate resources to the segments and to assess performance. Transactions between operating segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between operating segments, resulting in funding cost transfers. Commission is charged to operating segments based on a pool rate, which approximates the marginal cost of funds. The revenue from external parties reported to the senior management, is measured in a manner consistent with that in the consolidated income statement. There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since December 31, 2014. Following are the reportable operating segments of the Group:

Corporate banking

The corporate banking group offers a range of products and services to corporate and institutional customers. It accepts customer deposits and provides financing, including term loans, overdrafts, syndicated loans and trade finance services. Services provided to customers include internet banking, global transaction services and a centralised service that manages all customer transfers, electronic or otherwise.

Personal banking

The personal banking group operates through a national network of branches and ATMs supported by a 24-hour phone banking centre. The group accepts customers' deposits in various savings and deposit accounts and provides retail banking products and services, including consumer loans, overdrafts and credit cards to individuals and small-to-medium-sized enterprises.

Treasury

Treasury transacts mainly in money market, foreign exchange, commission rate and other derivatives for corporate and institutional customers as well as for the Group's own benefit. It is also responsible for managing the Group's investment portfolio.

Investment banking and investment services

The investment banking and investment services group offers security dealing, managing, arranging, advising and maintaining custody services in relation to securities.

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Others

Others include the group-wide assets and liabilities other than the business and treasury's core activities. It also includes the net interdepartmental revenues / charges on Funds Transfer Pricing as approved by ALCO and unallocated income and expenses relating to Head Office and other departments.

a) The following is an analysis of the Group's assets, revenues and results by operating segments for the years ended December 31, 2015 and December 31, 2014.

<u>2015</u>	<u>Corporate Banking</u>	<u>Personal Banking</u>	<u>Treasury</u>	<u>Investment banking and investment services</u>	<u>Others</u>	<u>Total</u>
Total assets	58,697,895	17,445,955	24,194,975	542,690	7,188,819	108,070,334
Total liabilities	59,242,211	29,202,332	1,356,874	22,565	6,219,158	96,043,140
Net special commission income	1,353,202	879,904	533,456	3,765	(472,325)	2,298,002
Fee and commission income, net	690,817	192,062	-	56,197	(52,250)	886,826
Trading income, net	132,518	5,058	70,276	2,174	-	210,026
Total operating income	2,308,657	1,123,851	624,262	67,937	(524,573)	3,600,134
Impairment charges for credit and other losses, net	172,382	95,898	-	-	149,908	418,188
Depreciation and amortisation	39,771	66,806	10,910	-	-	117,487
Total operating expenses	565,200	726,998	88,875	46,274	150,134	1,577,481
Non operating loss	-	-	-	-	(226)	(226)
Net income for the year	1,743,457	396,853	535,387	21,663	(674,933)	2,022,427

<u>2014</u>	<u>Corporate Banking</u>	<u>Personal Banking</u>	<u>Treasury</u>	<u>Investment banking and investment services</u>	<u>Others</u>	<u>Total</u>
Total assets	52,222,943	12,924,885	24,276,722	535,817	6,658,851	96,619,218
Total liabilities	50,075,764	21,341,065	3,054,640	28,449	11,377,418	85,877,336
Net special commission income	1,113,419	692,550	454,360	3,959	(298,509)	1,965,779
Fee and commission income, net	669,941	181,198	-	77,226	(64,393)	863,972
Trading income, net	113,373	3,667	47,486	185	68	164,779
Total operating income	2,016,523	917,518	527,941	82,760	(362,591)	3,182,151
Impairment charges for credit and other losses, net	276,941	68,666	-	-	-	345,607
Depreciation and amortisation	36,727	58,802	8,614	-	-	104,143
Total operating expenses	617,162	607,972	87,024	44,644	-	1,356,802
Non operating loss	-	-	-	-	(4,440)	(4,440)
Net income for the year	1,399,361	309,546	440,917	38,116	(367,031)	1,820,909

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

<u>2015</u>	<u>Corporate Banking</u>	<u>Personal Banking</u>	<u>Treasury</u>	<u>Total</u>
Non derivative financial assets	58,697,895	17,445,955	21,618,780	97,762,630
Commitments and contingencies	16,198,324	-	-	16,198,324
Derivatives	-	-	1,745,852	1,745,852
<u>2014</u>	<u>Corporate Banking</u>	<u>Personal Banking</u>	<u>Treasury</u>	<u>Total</u>
Non derivative financial assets	52,222,943	12,924,885	19,092,268	84,240,096
Commitments and contingencies	15,005,776	-	-	15,005,776
Derivatives	-	-	1,971,903	1,971,903

Credit exposure comprises the carrying value of non derivative financial assets, excluding cash and balances with SAMA, property and equipment and other assets. The credit equivalent value of commitments, contingencies and derivatives are also included in credit exposure.

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29 CREDIT RISK

Credit risk 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 lead to loans and advances, and investment activities. There is also a credit risk on credit related commitments, contingencies and derivatives. The Group controls credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties.

In addition to monitoring credit limits, the Group manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and by limiting the duration of exposure. In certain cases management may also close out transactions or assign them to other counterparties to mitigate credit risk. The Group's credit risk on derivatives represents the potential cost to replace the derivative contracts if counterparties fail to fulfill their obligation. To control the level of credit risk taken, management assesses counter parties using the same techniques as for its lending activities. Concentrations of credit risk arise when a number of counterparties 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 Group's performance to developments affecting a particular industry or geographical location.

Management seeks to manage concentration of credit risk through the diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or businesses. It also takes security when appropriate or seeks additional collateral from the counterparty as soon as impairment indicators are noticed. Management monitors on a regular basis the market value of collateral and requests additional collateral in accordance with the underlying agreement, if required. In addition it also specifically monitors the market value of collateral during its review of the adequacy of the allowances for impairment losses. Management regularly reviews its risk management policies and systems to reflect changes in markets products and emerging best practice.

The debt securities included in the investment portfolio are mainly sovereign risk. Analysis of investments by class of counter party is provided in note 6. For details of the composition of loans and advances refer to note 7. Information on credit risk relating to derivative instruments and commitments and contingencies are provided in note 11 and 19 respectively. Information on the Group's maximum credit exposure by operating segment is provided in note 28.

The Group's maximum exposure to credit risk computed as per SAMA guidelines as at December 31, 2015 and December 31, 2014, without taking into account of any collateral held or credit enhancements attached is reflected below:

	<u>2015</u>	<u>2014</u>
Due from banks and other financial institutions	734,583	538,789
Investments, net	20,884,197	18,553,479
Loans and advances, net	76,143,850	65,147,828
Other assets, net	870,251	931,752
Derivatives	1,745,852	1,971,903
Credit related commitments and contingencies	16,198,324	15,005,776
Total	116,577,057	102,149,527

The Group uses a credit classification system as a tool to assist in managing the quality of credit risk within the lending portfolio. In addition to the three categories mentioned in note 7, management maintains further classification grades that differentiates between performing and impaired portfolios and allocates portfolio and specific allowances respectively. Management determines each individual borrower's grade based on specific objectives and criteria such as activity, cash flows, capital structure, security, quality of management and borrower's character. A further quality classification is performed over existing borrowers and the results of this exercise are validated by the independent risk management unit.

30 GEOGRAPHICAL CONCENTRATION

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

<u>2015</u>	<u>Saudi Arabia</u>	<u>GCC and Middle East</u>	<u>Europe</u>	<u>North America</u>	<u>South East Asia</u>	<u>Other Countries</u>	<u>Total</u>
Assets							
Cash and balances with SAMA	7,637,869	-	-	-	-	-	7,637,869
Due from banks and other financial institutions	436	331,455	37,096	360,908	87	4,601	734,583
Investments, net	20,657,544	281,368	187,695	-	-	99,878	21,226,485
Loans and advances, net	76,143,850	-	-	-	-	-	76,143,850
Investment in an associate	12,567	-	-	-	-	-	12,567
Property and equipment, net	801,046	-	-	-	-	-	801,046
Other assets, net	1,024,960	308,814	178,271	1,841	2	46	1,513,934
Total	106,278,272	921,637	403,062	362,749	89	104,525	108,070,334

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	<i><u>Saudi Arabia</u></i>	<i><u>GCC and Middle East</u></i>	<i><u>Europe</u></i>	<i><u>North America</u></i>	<i><u>South East Asia</u></i>	<i><u>Other Countries</u></i>	<i><u>Total</u></i>
<u>Liabilities</u>							
Due to banks and other financial institutions	403,100	830,048	76,571	8,306	370	38,479	1,356,874
Customers' deposits	88,832,063	-	-	-	-	-	88,832,063
Subordinated debt	3,900,000	-	-	-	-	-	3,900,000
Other liabilities	1,909,860	7,812	31,947	4,581	-	3	1,954,203
Total	95,045,023	837,860	108,518	12,887	370	38,482	96,043,140
Commitments and Contingencies	31,745,830	575,471	1,289,301	62,190	11,044	583,446	34,267,282
Maximum credit exposure (stated at credit equivalent amounts)							
Commitments and contingencies	15,093,675	226,997	614,034	31,223	5,522	226,873	16,198,324
Derivatives	807,170	164,307	772,350	1,975	-	50	1,745,852
<u>2014</u>							
<u>Assets</u>							
Cash and balances with SAMA	9,523,463	-	-	-	-	-	9,523,463
Due from banks and other financial institutions	1,019	90,685	394,846	42,155	3,819	6,265	538,789
Investments, net	17,640,811	668,009	375,400	-	-	99,747	18,783,967
Loans and advances, net	65,147,828	-	-	-	-	-	65,147,828
Investment in an associate	12,793	-	-	-	-	-	12,793
Property and equipment, net	526,388	-	-	-	-	-	526,388
Other assets, net	1,517,452	468,070	98,147	2,273	2	46	2,085,990
Total	94,369,754	1,226,764	868,393	44,428	3,821	106,058	96,619,218
<u>Liabilities</u>							
Due to banks and other financial institutions	766,318	1,730,059	477,303	58,344	189	22,427	3,054,640
Customers' deposits	76,813,865	-	-	-	-	-	76,813,865
Subordinated debt	3,900,000	-	-	-	-	-	3,900,000
Other liabilities	2,062,257	2,395	37,777	6,402	-	-	2,108,831
Total	83,542,440	1,732,454	515,080	64,746	189	22,427	85,877,336
Commitments and Contingencies	30,268,760	407,784	1,008,126	63,591	11,202	303,465	32,062,928
Maximum credit exposure (stated at credit equivalent amounts)							
Commitments and contingencies	14,099,623	152,192	492,811	33,484	5,601	222,065	15,005,776
Derivatives	1,007,657	119,221	841,184	3,839	-	2	1,971,903

Credit equivalent amounts reflect the amounts that result from translating the Group's contingent liabilities and commitments into the risk equivalent of loans, using credit conversion factors prescribed by SAMA. The Credit conversion factor is meant to capture the potential credit risk related to the exercise of that commitment. Impaired loans and advances and allowances for credit losses are all within the Kingdom of Saudi Arabia.

31 MARKET RISK

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

The market risk for the trading book is managed and monitored using a Value at Risk (VaR) methodology. Market risk for the non-trading book is managed and monitored using a combination of VaR, stress testing and sensitivity analysis.

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a) MARKET RISK - TRADING BOOK

The Board of Directors has set limits for the acceptable level of risk in managing the trading book. In order to manage market risk in the trading book, Management applies a VaR methodology daily to assess the market risk positions held and also to estimate the potential economic loss based on a set of assumptions and changes in market conditions.

A VaR methodology estimates the potential negative change in the market value of a portfolio at a given confidence level and over a specified time horizon. The Group uses simulation 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.

VaR that management uses 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 may differ from the VaR calculations and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions.

To overcome the VaR limitations mentioned above, management maintains a framework of non-modeled limits that show potential loss for a given change in a market factor and makes no assumption about the behaviour of market factors. Furthermore, management employs stop loss limits on market risk positions and carries out stress tests of its portfolio to simulate conditions outside normal confidence intervals. The potential losses occurring under stress test conditions are reported regularly to the Asset and Liability Committee (ALCO) for review.

The Group's VaR related information for the year ended December 31, 2015 is as provided below. Total VaR takes into account correlations across asset classes and accordingly it is not the total of individual VaR.

2015 (VaR)	<i>Foreign exchange rate risk</i>	<i>Special Commission rate risk</i>	<i>Foreign Exchange Forwards</i>	<i>Overall Risk</i>
As at December 31	35	341	133	509
Average for the year	157	276	56	489

2014 (VaR)	<i>Foreign exchange rate risk</i>	<i>Special Commission rate risk</i>	<i>Foreign Exchange Forwards</i>	<i>Overall Risk</i>
As at December 31	142	433	7	582
Average for the year	218	696	60	974

b) MARKET RISK – NON-TRADING OR BANKING BOOK

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

i) COMMISSION RATE RISK

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

The following table depicts the sensitivity to a reasonable possible change in commission rates, with other variables held constant, on the Group's consolidated income statement or equity. The sensitivity of the income is the effect of the assumed changes in commission rates on the net commission income for one year, based on the floating rate non-trading financial assets and financial liabilities held at year end 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 at year end for the effect of assumed changes in commission rates. The sensitivity of equity is analyzed by maturity of the asset or swap.

Banking book exposures are monitored and analyzed in currency concentrations and relevant sensitivities are disclosed in SAR million below:

2015

<u>Currency</u>	Increase/ (decrease) in <u>basis points</u>	Sensitivity of special commission income	<u>Sensitivity of equity</u>				
			6 months or less	6 to12 months	1-5 Yrs	Over 5Years	Total
USD	25	(12)	-	-	-	-	-
	(25)	12	-	-	-	-	-
SAR	25	38	(7)	(5)	-	-	(12)
	(25)	(38)	7	5	-	-	12
Others	25	1	-	-	-	-	-
	(25)	(1)	-	-	-	-	-

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2014

Currency	Increase/ (decrease) in basis points	Sensitivity of special commission income	Sensitivity of equity				
			6 months or less	6 to12 months	1-5 Yrs	Over 5Years	Total
USD	25	(2)	-	-	-	-	-
	(25)	2	-	-	-	-	-
SAR	25	49	(8)	(16)	(48)	-	(72)
	(25)	(49)	8	16	48	-	72
Others	25	1	-	-	-	-	-
	(25)	(1)	-	-	-	-	-

The exposure to the effect of various risks associated with fluctuations in the prevailing levels of market commission rates on the Group's financial position and cash flows is managed.

The Board of Directors sets limits on the level of commission rate re-pricing mismatch that may be undertaken. These limits are monitored daily by the Group's Treasury. The Group is exposed to commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and other derivative financial instruments that mature or re-price in a given period. This risk is managed by matching the re-pricing of financial assets and liabilities through risk management strategies. The table below summarises the Group's exposure to commission rate risks. Included in the table are the Group's financial assets and liabilities at carrying amounts, categorised by the earlier of the contractual re-pricing or the maturity dates.

	<u>Within 3 months</u>	<u>3 to 12 months</u>	<u>1 to 5 years</u>	<u>Over 5 years</u>	<u>Non commission bearing</u>	<u>Total</u>
<u>2015</u>						
<u>Assets</u>						
Cash and balances with SAMA	2,233,906	-	-	-	5,403,963	7,637,869
Due from banks and other financial institutions	187,695	-	-	-	546,888	734,583
Investments, net	8,241,734	6,158,063	4,631,359	1,705,475	489,854	21,226,485
Loans and advances, net	41,461,843	19,754,880	8,065,859	6,861,268	-	76,143,850
Other assets, net	-	287,578	-	-	1,226,356	1,513,934
Total	<u>52,125,178</u>	<u>26,200,521</u>	<u>12,697,218</u>	<u>8,566,743</u>	<u>7,667,061</u>	<u>107,256,721</u>
<u>Liabilities</u>						
Due to banks and other financial institutions	740,356	9,821	9,142	-	597,555	1,356,874
Customers' deposits	47,650,140	6,675,085	192,003	4,696	34,310,139	88,832,063
Subordinated debt	-	3,900,000	-	-	-	3,900,000
Other liabilities	-	-	-	-	1,954,203	1,954,203
Total liabilities	<u>48,390,496</u>	<u>10,584,906</u>	<u>201,145</u>	<u>4,696</u>	<u>36,861,897</u>	<u>96,043,140</u>
Commission rate sensitivity - financial position gap	3,734,682	15,615,615	12,496,073	8,562,047		
Commission rate sensitivity on derivative financial instruments	<u>686,065</u>	<u>6,539</u>	<u>(641,611)</u>	<u>(50,993)</u>		
Total commission rate sensitivity gap	<u>4,420,747</u>	<u>15,622,154</u>	<u>11,854,462</u>	<u>8,511,054</u>		
Cumulative commission rate sensitivity gap	<u>4,420,747</u>	<u>20,042,901</u>	<u>31,897,363</u>	<u>40,408,417</u>		

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<u>2014</u>	<u>Within 3</u>	<u>3 to 12</u>	<u>1 to 5</u>	<u>Over 5</u>	<u>Non</u>	
<u>Assets</u>	<u>months</u>	<u>months</u>	<u>years</u>	<u>years</u>	<u>commission</u>	<u>Total</u>
					<u>bearing</u>	
Cash and balances with SAMA	4,953,966	-	-	-	4,569,497	9,523,463
Due from banks and other financial institutions	187,700	-	-	-	351,089	538,789
Investments, net	6,633,427	9,969,422	109,778	1,705,470	365,870	18,783,967
Loans and advances, net	41,302,544	12,821,658	5,041,286	5,982,340	-	65,147,828
Other assets, net	-	-	-	444,722	1,641,268	2,085,990
Total	53,077,637	22,791,080	5,151,064	8,132,532	6,927,724	96,080,037
	<u>Within 3</u>	<u>3 to 12</u>	<u>1 to 5</u>	<u>Over 5</u>	<u>Non</u>	
<u>Liabilities</u>	<u>months</u>	<u>months</u>	<u>years</u>	<u>years</u>	<u>commission</u>	<u>Total</u>
					<u>bearing</u>	
Due to banks and other financial institutions	1,557,743	18,144	5,200	-	1,473,553	3,054,640
Customers' deposits	30,840,151	13,911,342	1,265,379	-	30,796,993	76,813,865
Subordinated debt	-	3,900,000	-	-	-	3,900,000
Other liabilities	-	-	-	-	2,108,831	2,108,831
Total liabilities	32,397,894	17,829,486	1,270,579	-	34,379,377	85,877,336
Commission rate sensitivity - financial position gap	20,679,743	4,961,594	3,880,485	8,132,532		
Commission rate sensitivity on derivative financial instruments	1,156,678	(529,202)	(549,879)	(77,597)		
Total commission rate sensitivity gap	21,836,421	4,432,392	3,330,606	8,054,935		
Cumulative commission rate sensitivity gap	21,836,421	26,268,813	29,599,419	37,654,354		

Commission rate sensitivity gap represents the net notional amounts of derivative financial instruments that are used to manage commission rate risk. The effective yield of a monetary financial instrument is the yield that the Group earns from its clients taking into consideration the contractual commission rate.

ii) CURRENCY RISK

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Board of Directors have set limits on positions by currencies, which are monitored daily. Hedging strategies are also used to ensure that positions are maintained within these limits. The table below shows the currencies to which the Group has a significant exposure as at year end on its non-trading monetary assets and liabilities and forecasted cash flows. The analysis calculates the effect on the consolidated income statement (due to the fair value of the currency sensitive non-trading monetary assets and liabilities) of a potential movement in the foreign currency against SAR, with all other variables held constant. 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.

2015

<u>Currency exposure</u>	<u>Change in</u> <u>Currency Rate (%)</u>	<u>Effect on</u> <u>Net Income</u>
USD	5 (5)	(2,426) 2,426
AED	5 (5)	4,244 (4,244)
CHF	5 (5)	(0) 0
EUR	5 (5)	(6) 6
GBP	5 (5)	(5) 5
JPY	5 (5)	(3) 3
Others	5 (5)	127 (127)

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2014

Currency exposure	Change in Currency Rate (%)	Effect on Net Income
USD	5 (5)	(19,681) 19,681
AED	5 (5)	(63) 63
CHF	5 (5)	(4) 4
EUR	5 (5)	(100) 100
GBP	5 (5)	(61) 61
JPY	5 (5)	8 (8)
Others	5 (5)	(25) 25

Exposure to the effects of fluctuations in prevailing foreign currency exchange rates on the Group's financial position and cash flows is managed by the Board of Directors setting limits on the level of exposure by currency and in total for both overnight and intra-day positions. These limits are monitored daily.

At the end of the year, the Group had the following significant net exposures denominated in foreign currencies:

	Long / (short) SAR ' 000	
	<u>2015</u>	<u>2014</u>
US Dollar	(48,527)	(393,612)
UAE Dirham	84,888	(1,256)
Swiss Franc	(3)	(80)
Euro	(123)	(1,990)
Pound Sterling	(109)	(1,216)
Japanese Yen	(54)	159
Others	2,540	(506)

iii) EQUITY PRICE RISK

Equity price risk refers to the risk of a decrease in the fair values of equities in the Group'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:

	<u>2015</u>		<u>2014</u>	
Market Indices - Tadawul	Change in equity prices%	Effect in SAR m	Change in equity prices%	Effect in SAR m
	+ 5	16,943	+ 5	11,353
	- 5	(16,943)	- 5	(11,353)
	+ 10	33,885	+ 10	22,705
	- 10	(33,885)	- 10	(22,705)

32 LIQUIDITY RISK

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up at short notice. To mitigate this risk, management has diversified funding sources and assets are managed considering liquidity positions to maintain a healthy balance of cash and cash equivalents and readily marketable securities.

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i) Maturity profile of assets and liabilities

The tables below summarise the maturity profile of the Group's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period to contractual maturity date as at year end and do not take into account the effective maturities as indicated by the Group's deposit retention history. 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 other operating subsidiaries. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

In accordance with the Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7 % (2014: 7%) of total demand deposits and 4% (2014: 4 %) of savings and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of no less than 20% of its deposits 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 or the Bank may raise additional funds through repo facilities available with SAMA against securities issued by the Saudi Government up to 75% of the nominal value of bonds held.

ii) The maturity profile of assets and liabilities at year end is as follows:

<u>2015</u>	<u>No fixed maturity</u>	<u>Within 3 months</u>	<u>3 to 12 months</u>	<u>1 to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
<u>Assets</u>						
Cash and balances with SAMA	4,476,152	3,161,717	-	-	-	7,637,869
Due from banks and other financial institutions	546,888	187,695	-	-	-	734,583
Investments, net	489,854	6,969,810	5,777,346	5,624,695	2,364,780	21,226,485
Loans and advances, net	1,979,214	22,810,769	16,625,484	21,776,160	12,952,223	76,143,850
Investments in an associate	12,567	-	-	-	-	12,567
Property and equipment, net	801,046	-	-	-	-	801,046
Other assets, net	834,100	434,260	71,647	119,964	53,963	1,513,934
Total	9,139,821	33,564,251	22,474,477	27,520,819	15,370,966	108,070,334
	<u>No fixed maturity</u>	<u>Within 3 months</u>	<u>3 to 12 months</u>	<u>1 to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
<u>Liabilities and shareholders' equity</u>						
Due to banks and other financial institutions	597,555	740,356	9,821	9,142	-	1,356,874
Customers' deposits	35,451,814	46,508,465	6,675,085	192,003	4,696	88,832,063
Subordinated debt	-	-	-	1,400,000	2,500,000	3,900,000
Other liabilities	1,475,734	347,054	43,606	56,927	30,882	1,954,203
Shareholders' equity	12,027,194	-	-	-	-	12,027,194
Total	49,552,297	47,595,875	6,728,512	1,658,072	2,535,578	108,070,334
	<u>No fixed maturity</u>	<u>Within 3 months</u>	<u>3 to 12 months</u>	<u>1 to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
<u>2014</u>						
<u>Assets</u>						
Cash and balances with SAMA	3,752,004	5,771,459	-	-	-	9,523,463
Due from banks and other financial institutions	351,089	187,700	-	-	-	538,789
Investments, net	365,870	5,319,248	9,774,841	917,364	2,406,644	18,783,967
Loans and advances, net	2,631,696	17,779,707	12,745,931	19,962,190	12,028,304	65,147,828
Investments in an associate	12,793	-	-	-	-	12,793
Property and equipment, net	526,388	-	-	-	-	526,388
Other assets, net	1,388,070	462,970	108,797	100,564	25,589	2,085,990
Total	9,027,910	29,521,084	22,629,569	20,980,118	14,460,537	96,619,218

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	<i>No fixed maturity</i>	<i>Within 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
Liabilities and shareholders' equity						
Due to banks and other financial institutions	1,473,553	1,557,743	18,144	5,200	-	3,054,640
Customers' deposits	31,556,122	30,081,022	13,911,342	1,265,379	-	76,813,865
Subordinated debt	-	-	-	1,400,000	2,500,000	3,900,000
Other liabilities	1,560,092	403,576	104,738	33,263	7,162	2,108,831
Shareholders' equity	10,741,882	-	-	-	-	10,741,882
Total	45,331,649	32,042,341	14,034,224	2,703,842	2,507,162	96,619,218

The cumulative maturity of commitments and contingencies and derivatives are given in note 19 (c) and note 11 of the consolidated financial statements respectively.

iii) Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at year end 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 year end to the contractual maturity date and do not take into account the effective expected maturities. The Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and therefore the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

	<i>No fixed maturity</i>	<i>Within 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
2015						
Financial Liabilities						
Due to banks and other financial institutions	597,555	740,657	9,841	9,894	-	1,357,947
Customers' deposits	35,451,814	46,817,471	6,744,678	201,543	5,012	89,220,518
Subordinated debts	-	36,790	100,486	2,178,322	2,814,946	5,130,544
Derivatives						
Contractual amounts payable	-	(80,154)	(292,594)	(846,543)	(125,434)	(1,344,725)
Contractual amounts receivable	-	91,806	322,071	887,270	128,978	1,430,125
Total undiscounted financial liabilities	36,049,369	47,606,570	6,884,482	2,430,486	2,823,502	95,794,409
2014						
Financial Liabilities						
Due to banks and other financial institutions	1,473,553	1,557,749	19,580	5,298	-	3,056,180
Customers' deposits	31,556,122	30,167,067	14,126,814	1,288,537	-	77,138,540
Subordinated debts	-	26,957	69,391	2,100,105	2,878,857	5,075,310
Derivatives						
Contractual amounts payable	-	(66,676)	(214,139)	(696,942)	(134,291)	(1,112,048)
Contractual amounts receivable	-	74,956	240,205	735,590	139,156	1,189,907
Total undiscounted financial liabilities	33,029,675	31,760,053	14,241,851	3,432,588	2,883,722	85,347,889

33 FAIR VALUES OF FINANCIAL INSTRUMENTS

Determination of fair value and the fair value hierarchy

Management 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 significant inputs are not based on observable market data.

2015

Financial assets	Level 1	Level 2	Level 3	Total
Derivative financial instruments	-	307,597	-	307,597
Financial investments available for sale	486,416	181,886	3,438	671,740
Total	486,416	489,483	3,438	979,337

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<u>Financial liabilities</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Derivative financial instruments	-	148,476	-	148,476
Total	-	148,476	-	148,476

2014

<u>Financial assets</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Derivative financial instruments	-	354,622	-	354,622
Financial investments available for sale	362,432	201,056	3,438	566,926
Total	362,432	555,678	3,438	921,548

<u>Financial liabilities</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Derivative financial instruments	-	253,266	-	253,266
Total	-	253,266	-	253,266

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

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

The fair values of financial instruments included in the consolidated statement of financial position, except for those held to maturity, other investments held at amortised costs, loans and advances and customers' deposits that are carried at amortised cost, are not significantly different from the carrying values included in the consolidated financial statements. The estimated fair values of other investments held at amortised cost and held-to-maturity investments are based on quoted market prices, when available, or pricing models in the case of certain fixed rate bonds. The fair values of these investments are disclosed in note 6. The fair value of loans and advances held at amortised cost and commission-bearing customers' deposits are not significantly different from their book values since the current market commission rates for similar financial assets are not significantly different from the contracted rates. The fair values of due from banks and other financial institutions and due to financial institutions are not significantly different from the carrying values since the underlying amounts for these categories are for shorter durations which indicates that their booking rates are not significantly different from the current market rates. The fair value of subordinated debt approximates carrying value since this is a floating rate liability with commission rates re-priced every six months.

The value obtained from a valuation model may differ from the transaction price of a financial instrument on transaction date. The difference between the transaction price and the model value is commonly referred to as 'day one profit and loss'. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable data or realised through disposal. Subsequent changes in fair value are recognised immediately in the consolidated income statement without reversal of deferred day one profits and losses. Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premium used in estimating discount rates, bond and equity prices and foreign currency exchange rates.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. The Bank uses widely recognized valuation models for determining the fair value of common and simpler financial instruments. Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple over-the-counter derivatives such as interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

34 RELATED PARTY TRANSACTIONS

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

The balances at reporting date, resulting from such transactions are as follows:

ABN AMRO Bank N.V.	<u>2015</u>	<u>2014</u>
Due from banks and other financial institutions	13,744	107,608
Investments	-	93,850
Due to banks and other financial institutions	28,307	42,343
Derivatives at fair value, net	(1,976)	(8,456)
Commitments and contingencies	160,677	151,965

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Associates & other major shareholders and their affiliate entities with significant influence:

	<u>2015</u>	<u>2014</u>
Loans and advances	711,330	603,101
Derivatives at fair value, net	11,205	5,007
Investments	40,000	40,000
Customers' deposits	6,264,673	7,356,400
Subordinated debt	722,000	722,000
Commitments and contingencies	48,215	2,803

Mutual funds managed by the Group:

Investments	147,566	135,382
Loans and advances	170,775	23,885
Subordinated debt	15,000	15,000
Customers' deposits	361,607	408,935
Derivatives at fair value, net	10,502	-

Other major shareholders represent shareholdings (excluding the non-Saudi shareholder) of more than 5% of the Bank's issued share capital. Income and expenses pertaining to transactions with related parties included in the consolidated financial statements are as follows:

	<u>2015</u>	<u>2014</u>
Special commission income	14,901	15,404
Special commission expense	96,151	92,614
Fees from banking services, net	2,609	3,632
Fees from management services	18,719	12,835
General and administrative expenses	23,499	18,751
Directors' remuneration	3,708	3,720
Compensation paid to key management personnel	47,829	40,227

Key management personnel are those persons having responsibility and authority for formulating strategies and directing and controlling the activities of the Group.

35 CAPITAL ADEQUACY

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

Capital adequacy and the use of regulatory capital are monitored daily by management. SAMA requires holding the minimum level of regulatory capital and maintaining a ratio of total regulatory capital to the Risk-Weighted Assets (RWA) at or above the agreed minimum of 8%.

Management monitors the adequacy of its capital using ratios established by SAMA. These ratios expressed as a percentage, measure capital adequacy by comparing the Group's eligible capital with its consolidated statement of financial position assets, commitments and contingencies and notional amount of derivatives at amounts weighted to reflect their relative risk. During the year, the Group has fully complied with regulatory capital requirement.

The components of RWA, capital and ratios are as follows:

	<u>2015</u>	<u>2014</u>
Credit Risk RWA	96,325,986	85,399,158
Operational Risk RWA	4,710,338	4,041,288
Market Risk RWA	278,356	558,494
Total Pillar-I RWA	101,314,680	89,998,940
Tier I Capital	11,729,995	10,094,585
Tier II Capital	4,058,774	4,171,160
Total Tier I & II Capital	15,788,769	14,265,745
Capital Adequacy Ratio %		
Tier I	11.58	11.22
Tier I + Tier II	15.58	15.85

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36 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.shb.com.sa within prescribed time as required by SAMA. Such disclosures are not subject to audit by the external auditors of the Group.

37 INVESTMENT MANAGEMENT AND BROKERAGE SERVICES

The Group offers investment management services to its customers that include the management of investment funds and discretionary portfolios with total assets of SAR 3.59 billion (2014: SAR 3.03 billion), in consultation with professional investment advisors. This includes funds managed under Shariah approved portfolios amounting to SAR 1.39 billion (2014: SAR 1.21 billion). The financial statements of these funds are not consolidated with the consolidated financial statements of the Group. The Group's investment in these funds is included in available for sale investments. Fees earned from management services are disclosed under "related party transactions". Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and, therefore, are not included in the consolidated financial statements.

38 SHARE BASED PLAN RESERVE

In January 2008, the Group launched an equity settled share-based payment plan (the "Plan") for executives and senior employees ("Eligible Employees"). The initial Plan was approved by the Board of Directors in their meeting held on 10 Dhu-al-Qa'dah 1428H (corresponding November 20, 2007) and SAMA in their letter dated 26 Safar 1429H (corresponding March 4, 2008). The vesting conditions were amended in 2009 as approved by the Board of Directors in their meeting held on 5 Shabaan 1430H (corresponding July 27, 2009) and SAMA in their letter dated 20 Dhualqada 1430H (corresponding November 9, 2009). According to the amended Plan, Eligible Employees will receive shares in the Bank if the following terms and conditions are met:

- Eligible Employees are required to continue their employment with the Group for a period of two years from the grant date to have half of their shares vest and another year for the remainder to vest; and
- The Group achieves specific growth thresholds as approved by the Board of Directors where each threshold will accrue a certain value of shares to the Eligible Employees.

Under the provisions of the Plan, the Group at no point becomes the legal owner of the underlying shares. Until such time as these shares vest they will not carry voting rights. As per the plan, SHC manages the Staff Share Plan Fund (the Fund) which will operate in accordance with the terms and conditions as approved by the Board of Directors in their above referred meeting and by SAMA in their above referred letter. Any further modifications in the terms and conditions of the plan require prior approval of SAMA.

During 2008, the Fund purchased 2.15 million Bank's shares for a total consideration of SAR 114 million which are held by it in a fiduciary capacity until the shares vest to the Eligible Employees. During 2012, the Fund purchased further one million shares for a consideration of SAR 27 million. At the vesting date the ownership of these shares will pass to the Eligible Employees. The acquisition of shares was financed by the Bank. The number of shares granted is calculated in accordance with the performance based formula approved by the Board of Directors and is subject to approval of the Nomination and Remuneration Committee.

In accordance with the terms of the Plan, shares will be granted to the Eligible Employees annually and will vest as described above. The first tranche was granted in 2008 and was vested in year 2011. The second and third tranches was granted in March 2011 and March 2012 respectively, and vested in January 2013, 2014 and 2015. The Group granted fourth, fifth and sixth tranches of the Plan in March 2013, 2014 and 2015 respectively. These tranches are currently under their vesting periods. The Plan details are as follows:-

	<u>Grant in 2015</u>	<u>Grant in 2014</u>	<u>Grant in 2013</u>
Plan Commencement date	March 2015	March 2014	March 2013
Value of shares granted on the grant date	28,538,602	21,007,936	18,623,988
Fair value per share at grant date	45.56	40.24	27.24
Number of shares granted	626,396	522,066	683,700
Vesting period	March 2017 - 2018	March 2016 - 2017	March 2015 - 2016
Method of settlement	Bank's shares	Bank's shares	Bank's shares

During the current year, the Bank has reassessed its position and has consolidated the Staff Share Plan Fund (the "Fund") in its consolidated financial statements. Consequently the Group has recognized the Bank's shares held by the Fund as treasury shares amounting to SAR 86.48 million and have presented these under share based plan reserve in the consolidated statement of changes in shareholders' equity.

The following is the movement in number of shares in grant at December 31, 2015.

	<u>Number of shares</u>	
	<u>2015</u>	<u>2014</u>
Beginning of the year	1,598,345	1,343,611
Granted during the year	942,845	816,524
Shares vested during the year	(621,020)	(393,386)
Forfeited during the year	(56,876)	(168,404)
	<u>1,863,294</u>	<u>1,598,345</u>

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39 PROSPECTIVE CHANGES IN THE INTERNATIONAL FINANCIAL REPORTING FRAMEWORK

The Group has opted not to early adopt the amendments and revisions to the following standards which have been published and are mandatory for compliance for the Group's accounting year beginning after January 1, 2016.

- IFRS 9 Financial Instruments

IFRS 9 Financial Instruments (2009) issued in November 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 Financial Instruments (2010) revised in October 2010 includes the requirements for the classification and measurement of financial liabilities, and carrying over the existing derecognition requirements from IAS 39 Financial Instruments: Recognition and Measurement. This is effective for annual periods beginning on or after January 1, 2018

- IFRS 15 Revenue from Contracts with Customers

IFRS 15 Revenue from Contracts with Customers - New revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Effective for annual periods beginning on or after 1 January 2018.

- Amendments to IAS 16 and IAS 38

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation - Effective prospectively for annual periods beginning on or after 1 January 2016.

- Amendments to IAS 27

Amendments to IAS 27: Equity Method in Separate Financial Statements - The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Effective for annual periods beginning on or after 1 January 2016.

- Amendments to IFRS 10, IFRS 12 and IAS 28

IFRS 10, IFRS 12 and IAS 28 Investment Entities – Amendments to IFRS 10 clarify that the exemption in paragraph 4 of IFRS 10 from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures its subsidiaries at fair value. Only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. Effective for annual periods beginning on or after 1 January 2016.

- Annual improvements to International Financial Reporting Standards - 2012-2014 cycle effective for annual periods beginning on or after 1 January 2016. These include:-

IFRS 7 Financial Instruments: Disclosures - The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

IAS 19 Employee Benefits - The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

IAS 1 Disclosure Initiative- The amendments clarify the materiality requirements in IAS 1:

- that specific line items in the income statement and consolidated statement of comprehensive income and the statement of financial position may be disaggregated.
- that entities have flexibility as to the order in which they present the notes to financial statements.
- that the share of consolidated statement of comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item and classified between those items that will or will not be subsequently reclassified to consolidated income statement.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the consolidated income statement and consolidated statement of comprehensive income.

40 COMPARATIVE FIGURES

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

41 BOARD OF DIRECTORS' APPROVAL

The consolidated financial statements were approved by the Board of Directors on Rabi'II 17, 1437H (corresponding to January 27, 2016).