Annual Report 2015

البنك السعودي للاستثمار
The Saudi Investment Bank

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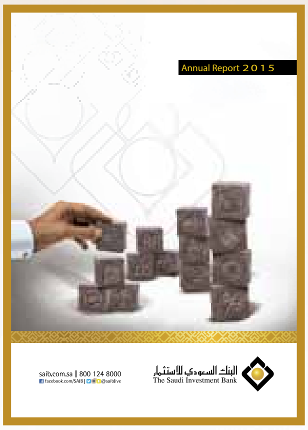


The Theme

The expanding business mix of The Saudi Investment Bank and its aspirations for the future require a new vision to be articulated.

The Saudi Investment Bank

The Saudi Investment Bank is a Saudi Arabian Joint stock company established by Royal Decree no. M/31 dated June 23, 1976 with its headquarters in Riyadh. The Bank began operations in March 1977, and currently has a network of 48 branches located throughout the Kingdom. The Bank's shareholders' include:

Saudi Shareholders	
• General Organization for Social Insurance	17.26%
• Public Pension Agency	17.32%
• Saudi Oger Ltd	8.59%
• National Commercial Bank	7.20%
• Other Saudi Shareholders	39.63%
	90.00%
Non-Saudi Shareholders	
• J.P. Morgan International Finance Limited	7.50%
• Mizuho Corporate Bank Limited	2.50%
	10.00%

The Saudi Investment Bank operates through its three regional offices and its retail branch network in Saudi Arabia, providing conventional and shariah compliant banking services and products to individuals, small and medium size enterprises, corporates, and public sector entities, including:

- Current and deposit accounts
- Remittances
- Letters of credit
- Trade finance
- Bridging finance
- SIDF co-finance
- Personal banking
- Advisory services
- Short and medium – term lending
- Hedging Solutions (FX, commodities and rates)
- Treasury services
- Cash management
- Letters of guarantee
- Loan syndications
- Fiduciary placements
- E – Banking Services
- Foreign exchange
- Money market
- Local and international shareholding

The Saudi Investment Bank, through its wholly-owned subsidiary, is also a leading participant in providing brokerage services in the Saudi and international markets, as well as offering a wide range of asset management products. Through its Associate companies, the Saudi Investment Bank is also leader in providing insurance, leasing, mortgage, and credit card related products and services in Saudi Arabia.

King Salman bin Abdulaziz Al Saud
Custodian of The Two Holy Mosques

Prince Mohammed bin Nayef bin Abdulaziz Al-Saud
Crown Prince

Prince Mohammad bin Salman bin Abdulaziz Al-Saud
Deputy Crown Prince

Central Region

Head Office & Main Branch
P.O. Box 3533, Riyadh 11481 KSA
Tel: 011 477 8433 Fax: 011 479 3285

Treasury
Tel: 011 476 1580/011 479 2851
Fax: 011 476 1976
SWIFT: SIBCSARI

Woroud Branch
Tel: 011 205 2887 Fax: 011 205 4890

Takhassussi Branch
Tel: 011 281 7122 Fax: 011 281 7131

Suwaidi Branch
Tel: 011 267 6016 Fax: 011 425 0849

Malaz Branch
Tel: 011 477 1860 Fax: 011 291 7657

Shifa Branch
Tel: 011 298 4500 Fax: 011 298 3254

Rawabi Branch
Tel: 011 492 1685 Fax: 011 208 0978

Badiah Branch
Tel: 011 418 2652 Fax: 011 418 1539

Rawdah Branch
Tel: 011 208 4670 Fax: 011 208 4636

Nuzha Branch
Tel: 011 453 2345 Fax: 011 454 1708

Rayyan Branch
Tel: 01 208 7580 Fax: 011 493 2504

Ghurnatah Branch
Tel: 011 249 4511 Fax: 011 249 4630

Ghadeer Branch
Tel: 011 275 9172 Fax: 011 275 3628

King Fahad Branch
Tel: 011 229 1602 Fax: 011 229 1572

Khurais Road Branch
Tel: 011 239 0077 Fax: 011 230 8740

Naseem Branch
Tel: 011 235 9888 Fax: 011 235 9703

Al-Rahmaniah Branch
Tel: 011 483 3048 Fax: 011 483 4678

Al-Wadi Branch
Tel: 011 274 2020 Fax: 011 210 7242

Al-Kharj Branch
Tel: 011 544 4033 Fax: 011 544 4865

Al-Aqeeq Branch
Tel: 011 489 5708 Fax: 011 489 5716

Al-Qaseem Region

Buraidah Branch
Tel: 016 327 1777 Fax: 016 369 8752

Onizah Branch
Tel: 016 363 5757 Fax: 016 362 4747

Hail Branch
Tel: 016 538 3200 Fax: 016 533 2186

Western Region

Western Regional and Jeddah Branch
P.O. Box 5577, Jeddah 21432 KSA
Tel: 012 653 1010 Fax: 012 653 2333

Al-Jamea District Branch – Jeddah
Tel: 012 632 0536 Fax: 012 632 6835

Malik Road Branch – Jeddah
Tel: 012 607 8500 Fax: 012 659 5944

Pr. Majeed St. Branch – Jeddah
Tel: 012 675 8666 Fax: 012 674 9603

Al-Safa Branch – Jeddah
Tel: 012 628 4747 Fax: 012 679 3824

Al-Bawadi Branch – Jeddah
Tel: 012 256 7441 Fax: 012 256 7128

Pr.Sultan Branch – Jeddah
Tel: 012 236 4455 Fax: 012 236 4450

Makkah Branch
Tel: 012 544 7755 Fax: 012 560 7315

Aziziyah Branch – Makkah
Tel: 012 559 4477 Fax: 012 527 2213

Taif Branch
Tel: 012 742 9288 Fax: 012 742 9566

Madina Branch – Medina
Tel: 014 848 5511 Fax: 014 848 6548

Khamis Branch – Khamis
Tel: 017 237 7770 Fax: 017 220 8514

Abha Branch – Abha
Tel: 017 225 5889 Fax: 017 225 7300

Najran Branch – Najran
Tel: 017 529 1414 Fax: 017 529 2514

Jazan Branch – Jazan
Tel: 017 323 5812 Fax: 017 323 5823

Tabuk Branch – Tabuk
Tel: 014 428 0055 Fax: 014 422 2895

Eastern Region

Eastern Regional and Al-Khobar Branch
P.O. Box 1581, Al-Khobar 31952 KSA
Tel: 013 882 7999 Fax: 013 8822803

Qurtoba Branch – Al-Khobar
Tel: 013 847 8800 Fax: 013 859 2976

Dammam Branch
Tel: 013 834 2020 Fax: 013 834 9111

Al-Rayan Branch – Dammam
Tel: 013 842 3811 Fax: 013 841 6021

Uhud Branch – Dammam
Tel: 013 818 3838 Fax: 013 822 6972

Qatif Branch
Tel: 013 863 8999 Fax: 013 863 1276

Jubail Branch
Tel: 013 346 9666 Fax: 013 347 6374

Al-Ahsa Branch
Tel: 013 582 4999 Fax: 013 582 6999

Hofuf Branch
Tel: 013 589 3232 Fax: 013 589 2975

Ladies Sections

Main Branch (Ladies) Section
Tel: 011 477 8433 Fax: 011 874 3071

Malaz (Ladies) Section
Tel: 011 478 4570 Fax: 011 476 3385

Al-Rahmaniah (Ladies) Section
Tel: 011 483 3958 Fax: 011 480 8766

Al-Wadi (Ladies) Section
Tel: 011 274 2020 Fax: 011 210 7063

Onizah Branch (Ladies) Section
Tel: 016 361 7744 Fax: 016 365 5192

Taif (Ladies) Section
Tel: 012 742 9288 Fax: 012 742 7587

Al-Safa – Jeddah (Ladies) Section
Tel: 012 628 4747 Fax: 012 271 0046

Aziziyah – Makkah (Ladies) Section
Tel: 012 559 3863 Fax: 012 559 4581

Madina Branch – Medina (Ladies) Section
Tel: 014 848 7038 Fax: 014 848 7265

Khamis Branch – Khamis (Ladies) Section
Tel: 017 237 7770 Fax: 017 220 1681

Qurtoba – Dammam (Ladies) Section
Tel: 013 859 3515 Fax: 013 859 1606

Mr. Abdallah S. Jum'ah
Chairman of the Board

Former President and CEO of Saudi Aramco. Has been a Board Member of many companies including Halliburton. Bachelors Degree in Political Science from the American University of Beirut.

Director General Financial Investments, Public Pension Agency. Held numerous positions with the Saudi Arabian Monetary Agency prior to assuming his current position in July 2006. Currently a board member of several companies. Bachelor in Economics degree from Northeastern University, Boston, Massachusetts.

Mr. Abdulaziz A. Al-Khamis
Vice Chairman of the Board

Mr. Abdul Rahman Al-Rawaf
Board Member

Manager of the Investment Portfolios Department at the General Organization for Social Insurance. Has been a board member of many banks and other companies. Bachelors Degree in Business Administration from Arkansas State University and MBA from the University of Southern California.

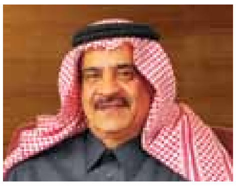
Former Managing Director of SAVOLA Group. Former CEO of several major companies (such as SAVOLA Group, EMAAR Economic City). Bachelors Degree in Mechanical Engineering from King Fahad University of Petroleum and Minerals, Masters Degree from the University of California at Berkley, and a PhD from the University of Washington at Seattle.

Dr. Abdulraouf M. Mannaa
Board Member

Dr. Abdulaziz Alnowaiser
Board Member

Board member of several public companies and governing authorities, and he also worked as an Assistant Professor of Physics at King Saud University. He holds a BS degree in Mathematics and Physics from the University of California, and an MS and PhD in Physics from Duke University.

Former CEO and Board Member of Bank Al-Jazira. Has extensive banking experience and currently a Board Member of many companies. Bachelors Degree in Business Administration from the University of Oregon.



Mr. Mishari I. Al-Mishari
Board Member

Dr. Fouad Al-Saleh
Board Member

Occupied numerous positions in the government until his retirement as a Colonel in the Ministry of Defense. He is currently a partner in numerous construction related companies. He holds a BS in Mechanical Engineering from St. Martin College, and an MS and PhD in Construction Engineering from the University of Washington.

Former Senior Vice President of Finance of Saudi Aramco. He also served on several company's executive committee's. MBA from the university of Denver and BS degree in Accounting from the University of Texas-Arlington.

Mr. Muhammad Al-Ali
Board Member

Mr. Saleh Al-Athel
Board Member

Progressed through various executive positions within the Saudi Industrial Development Fund until he reached the position of the Assistant Director General. He is a Board member of several companies. He holds a BA in Philosophy and Sociology from Damascus University, and a Higher Diploma in Management from Hartford University.

Chairman's statement

I am pleased to report on The Saudi Investment Bank's performance for 2015.

The year can be characterized as one of global economic weakness. The slowdown in the major economies resulted in a lower demand for oil and lower prices. The impact of the oil price decline was particularly significant in Saudi Arabia and also impacted the banking sector, which saw sector loan growth fall to 9.5% compared to 12.1% a year earlier.

In spite of a difficult economy, the Bank achieved net income for the year of SR 1,329 million, a decrease of 7.5% from 2014. At the same time net loans and advances increased by 4.4% during the year to SR 60.0 billion. Total equity also increased to SR 12.0 billion at December 31, 2015. The Bank's Return on Average Equity for 2015 was 11.1%.

The Bank continues to demonstrate a commitment to Saudization, and the percentage of national staff to total staff as of December 31, 2015 increased to 83.2%. In addition, the Bank has increased its female staff to 17.8% of the total workforce.

We have made solid progress in governance during the year by enhancing our corporate and sustainability governance mechanisms, achieving greater transparency in our public reporting, and realizing significant achievements across our financial, social, and environmental performances.

During 2015, the Bank received numerous awards, including the "Best Work Environment in Saudi Arabia" from Great Place to Work, and the "King Khalid Award for Responsible Competitiveness" from the King Khalid Foundation.

On behalf of the Board of Directors, I would like to express my gratitude to the employees of the Bank and our management for their commitment and professionalism. I also wish to express the Board's appreciation to the Ministry of Finance, the Saudi Arabian Monetary Agency, and the Capital Market Authority. Their continued support has provided the foundation for the Bank's success

Abdallah S. Jum'ah
Chairman

BOARD OF DIRECTORS' REPORT

The Board of Directors of the Saudi Investment Bank ("Bank") is pleased to present its annual report of the Bank's activities as of and for the year ended December 31, 2015.

OVERVIEW

The Bank is a Saudi Arabian joint stock company formed pursuant to a Royal Decree M/31 issued in 1976, with its Head Office in Riyadh. The Bank operates forty-eight branches including twelve ladies sections located throughout the Kingdom of Saudi Arabia. The Bank's website address is **www.saib.com.sa**.

The Bank's major shareholders include:

• Public Pension Agency	17.32%
• General Organization for Social Insurance	17.26%
• Saudi Oger Ltd.	8.59%
• JP Morgan Finance Ltd.,	7.50%
• National Commercial Bank	7.20%

The Bank offers a wide range of conventional and sharia-compliant products and services for corporate clients, individuals, and commercial businesses comprising small and medium size enterprises through the Bank's head office and a network of retail branches located throughout the Kingdom. The Bank also provides tailor-made financial products and services to corporate, government, and public sector entities through its three regional offices located in Riyadh, Jeddah, and Al-Khobar. The Bank, through its wholly–owned subsidiary Alistithmar for Financial Securities and Brokerage Co., also provides brokerage services in the Saudi and international markets, as well as in offering asset management products and services.

The Bank is subject to all laws and regulations of the Kingdom of Saudi Arabia and is regulated by the Saudi Arabian Monetary Agency ("SAMA"). The Bank also follows regulations issued by the Ministry of Commerce and the Capital Market Authority ("CMA").

Significant highlights for the year included continued improvement in core business and financial ratios, increasing the customer base, as well as improved service quality, expansion of our personal financing programs and ATM network, and further automation and expansion of the retail banking business. As part of our ongoing retail activities, the Bank continued to enhance the ALASALAH Islamic Banking brand. Under this program, the Bank operates forty-four Shariah compliant branches within the Kingdom. Finally, the Bank continued its extensive credit rating review process with Standard & Poor's and Fitch Ratings. The Bank currently has investment grade ratings of ('BBB+' / 'A-2') and ('A-' / 'F2'), with Standard & Poor's and Fitch, respectively.

During 2015, the Bank received various international awards including Best Work Environment in Saudi Arabia from Great Place to Work, and the Excellence award from VISA. The Bank also received the King Khaled Award for Responsible Competitiveness from the King Khalid Foundation. The Bank also received the Loyalty Program award for 2015 from the British Loyalty Magazine, the Employment award from the Institute of Public Administration, the 100 Most Popular Brands from Alwatan newspaper in Saudi Arabia, and the Best Sustainable Environmental Practice from the Forum of Social and Corporate Sustainability. Finally, the Bank was honored with the Golden Ribbon from Tatweej/Dubai.

OPERATING RESULTS

The Bank's net income for the year ended December 31, 2015 was SAR 1,329 million, a decrease of SAR 107 million or 7.5% over the 2014 net income of SAR 1,436 million.

Net special commission income, which includes special commission income from placements, investments, and loans, less special commission expense from deposits and other borrowings, increased to SAR 1,731 million in 2015 compared to SAR 1,540 million in 2014, an increase of SAR 191 million or 12.4%. This increase was primarily due to the increase in the special commission income on the Bank's loans and advances, investments, and placements.

Fees from banking services totaled SAR 450 million in 2015, compared with SAR 487 million in 2014, a decrease of SAR 37 million or 7.6%.

Total operating income was SR 2,511 million in 2015, compared to SAR 2,531 million in 2014, a decrease of SAR 20 million, or 0.8%.

Operating expenses before impairment charges for credit losses and non-trading investments were SAR 1,034 million in 2015 compared to SAR 943 million in 2014. The level of operating expenses in 2015 resulted in a net efficiency ratio of 39.22% compared to 37.69% in 2014. The net efficiency ratio, defined as normal operating expenses before impairment charges, divided by total income excluding non-recurring income, is a key indicator of how resources are controlled and managed.

Impairment charges on non-trading investments were SAR 187 million in 2015 compared to SAR 10 million in 2014, while the provision for credit losses was SAR 118 million in 2015 compared to SAR 221 million in 2014. The 2015 charges reflect the Bank's continued conservative policy of maintaining loss reserves at levels consistent with the size of the loan and investment portfolios and able to absorb likely loss scenarios, while improving asset quality.

The Bank's return on average assets was 1.42% in 2015 compared to 1.65% in 2014. The Bank's return on average equity was 11.12% in 2015 compared to 13.00% in 2014.

The consolidated net income of the Bank's reportable business segments for the years ended December 31, 2015 and 2014 is summarized as follows:

	SAR'000	
	2015	2014
Retail Banking	293,403	317,538
Corporate Banking	560,558	439,804
Treasury	446,210	625,870
Asset Management and Brokerage	28,486	53,267
Net Income	1,328,657	1,436,479

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Total assets of SAR 93.6 billion as of December 31, 2015 remained at approximately the same level as of December 31, 2014.

Investments decreased by SAR 3.6 billion, or 16%, to SAR 18.8 billion as of December 31, 2015. Investments classified as investment grade represent 82% of the Bank's investment portfolio as of December 31, 2015.

Net loans and advances increased by SAR 2.5 billion, or 4.3%, to SAR 60.0 billion as of December 31, 2015. The Bank's non-performing loans and advances reached SAR 448 million as of December 31, 2015 compared to SAR 436 million as of December 31, 2014. The percentage of non-performing loans and advances to total loans and advances decreased to 0.74% as of December 31, 2015 compared to 0.75% in 2014. The allowance for credit losses as of December 31, 2015 totaling SAR 839 million represents 187% of non-performing loans, compared to 189% in 2014.

Customer deposits decreased by SAR 0.4 billion, or 0.57%, to SAR 70.3 billion as of December 31, 2015. Demand deposits increased by SAR 1.3 billion, or 6.6%, while special commission bearing deposits decreased by SAR 1.7 billion, or 3.4%.

On May 30, 2011, the Bank entered into a five-year medium term loan facility agreement for an amount of SAR 1.0 billion for general corporate purposes with a local bank. The facility has been fully utilized and is repayable in May 2016. On June 24, 2012, the Bank entered into a second five-year medium term loan facility agreement for an amount of SAR 1.0 billion for general corporate purposes with a local bank. The facility has been fully utilized and is repayable in September 2017. The term loans bear commission at variable rates. The Bank has an option to effect early repayment of the term loans subject to the terms and conditions of the related agreements. The agreements above include covenants which require maintenance of certain financial ratios and other requirements, which the Bank is in compliance with as of December 31, 2015.

On June 5, 2014, the Bank concluded the issuance of a SAR 2 billion subordinated debt issue through a private placement to local investors of a Shariah compliant Tier II Sukuk in the Kingdom of Saudi Arabia. The Sukuk has a tenor of ten years with the Bank retaining the right to call the Sukuk at the end of the first five year period, subject to certain regulatory approvals. The Sukuk carries a half yearly profit equal to six month SIBOR plus 1.45%.

TOTAL EQUITY AND CAPITAL ADEQUACY

As of December 31, 2015, the total equity of the Bank increased to SAR 12.0 billion compared to SR 11.9 billion as of December 31, 2014. The total number of shares outstanding is 650 million shares. The ratio of total equity to total assets as of December 31, 2015 was 12.85%, compared to the 2014 level which was also 12.66%. The Bank's leverage ratio was 7.78 on December 31, 2015 compared to 7.90 as of December 31, 2014.

During 2015, the Bank distributed dividends equal to SAR 0.80 per share, or SAR 480 million, net of Zakat withheld from Saudi shareholders of SAR 42 million. In addition, the Board of Directors proposed a cash dividend of SAR 487.5 million equal to 0.75 per share, net of Zakat to be withheld from the Saudi shareholders totaling SAR 47 million. The Board of Directors has also proposed a bonus share issue of 50 million shares with a par value of SAR 10 per share, or one bonus share for each 13 shares outstanding. The proposed cash dividend and bonus share issue will be presented for approval in an extraordinary general assembly meeting expected to convene in 2016.

Capital adequacy and regulatory capital are closely monitored by the Bank's management. SAMA also requires the Bank to hold a minimum level of regulatory capital and maintain a ratio of total regulatory capital to risk-weighted assets at or above the minimum requirement of 8%.

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

FIVE-YEAR FINANCIAL HIGHLIGHTS

As of December 31, 2015, the Bank's Tier I plus Tier II capital adequacy ratio was 16.94% compared to 17.08% as of December 31, 2014.

(SAR in Millions)

FIVE-YEAR FINANCIAL HIGHLIGHTS	2015	2014	2013	2012	2011
Total income (1)	2,667	2,610	2,178	1,868	1,709
Total expense (2)	1,033	943	762	632	628
Operating profit	1,634	1,667	1,416	1,236	1,081
Impairment charges	305	231	129	324	373
Net income	1,329	1,436	1,287	912	708
Loans and advances, net	60,025	57,473	47,567	34,051	27,114
Investments, net	18,842	22,397	17,696	10,912	8,893
Investments in associates	939	846	1,071	966	895
Total assets	93,634	93,626	80,495	59,067	51,946
Customer deposits	70,329	70,733	57,044	40,414	36,770
Total equity	12,036	11,852	10,253	9,379	8,557
Return on average equity %	11.12	13.00	13.11	10.17	8.48
Return on average assets %	1.42	1.65	1.84	1.64	1.37
Capital adequacy %	16.94	17.08	15.12	17.62	19.12
Equity to total assets %	12.85	12.66	12.74	15.88	16.48

(1) Total income includes total operating income plus share in earnings of associates.

(2) Total expense includes total operating expenses less impairment charges, and amounts attributable to non controlling interests in 2011.

GEOGRAPHICAL DISTRIBUTION OF REVENUES

The Bank's total operating income is entirely generated from its operations in the Kingdom of Saudi Arabia and is summarized below in SAR '000.

SR' 000

	Central Region	Western Region	Eastern Region	Total
2015	1,839,660	423,576	247,821	**2,511,057**
2014	1,940,419	390,774	199,983	**2,531,176**

RISK MANAGEMENT

The complexity of today's financial services sector, business operations, and diversity of geographical locations requires the identification, measurement, aggregation, and effective management of risks including an efficient allocation of capital to derive an optimal risk and return ratio. In addition, the stakeholders of the Bank, including its regulators and rating agencies also expect the Bank to have a clear and well documented framework in place that addresses several dimensions of the Bank's business.

The Bank has a comprehensive set of policies dealing with various aspects of risk management. The Risk Management Policy Guide is the overarching Policy Guide prepared in conformity with SAMA guidelines which covers in depth all the risks the Bank is exposed to in the pursuit of its business objectives. It also describes the risk governance structures and risk management policies in place for management, monitoring, and control of the risks through the Risk Appetite Framework, Credit Policy Guide, and Treasury Policy Guide.

The Bank manages its risks in a structured, systematic, and transparent manner through a broad-based Risk Appetite Framework (RAF) approved by the Board of Directors that incorporates comprehensive risk management into the Bank's organizational structure, risk measurement, and monitoring processes. The Bank's RAF is carefully aligned with the Bank's strategy, business planning, capital planning, and policies and documents approved by the Bank's Board of Directors. The Bank's RAF is in compliance with the Financial Stability Board's "Principles for an effective Risk Appetite Framework" dated November 18, 2013, as adopted by SAMA.

The Bank's RAF includes the following key characteristics:

- The nature of risks to be assumed as a result of the Bank's strategy;
- The maximum level of risk at which the Bank can operate (Risk Capacity) and the maximum level of risk it should take (Risk Appetite);
- The maximum level of other quantifiable risks that should be taken (Other Risk Limits);
- The desired balance of risks versus returns by Business Line (Business Unit Risk Appetite measurements); and
- The desired risk culture, compensation programs, information technology risk and security, and the overall compliance environment of the Bank for a successful implementation of the RAF (Qualitative Reporting).

As a part of risk governance, the Bank has a Board Risk Committee at the Board level and various committees at the management level, including the Credit Committee, Asset Liability Committee, Operational Risk Management Committee, Stress Testing Committee, Enterprise Risk Management Committee, Information Security Steering Committee and the Business Continuity Planning Committee.

In addition to the above, the Bank's Internal Audit function reports to the Audit Committee of the Board of Directors and provides an independent validation of business and support units' compliance with risk policies and procedures and the adequacy and effectiveness of the risk management framework on a Bank-wide basis.

The following provides a description of the Bank's significant risks including the methods on how the Bank manages these risks.

Credit Risk

The Bank manages its exposure to credit risk, which is the risk that one party to a financial instrument will not be able to discharge its obligation, which in turn can lead to a financial loss to the Bank. The exposure to credit risk arises primarily from the risks associated with loans and advances, and the investment portfolio. Credit risk is also present in off-balance sheet financial instruments, such as commitments to extend credit.

The Bank has a comprehensive framework of managing credit risk which includes an independent credit risk review function and credit risk monitoring process. The Bank assesses the probability of default of counterparties using internal rating tools. The Bank also uses the external ratings of major rating agencies, where available.

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.

a) **Commission rate risk**

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

b) **Currency risk**

Currency risk is the risk of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are routinely monitored.

c) **Equity price risk**

Equity price risk is the risk of a decrease in fair values of equities in the Bank's investment portfolio as a result of possible changes in levels of equity indices and the value of individual shares. The Board of Directors sets limits on the level of exposure to each industry, and overall portfolio limit, which are independently monitored.

Liquidity Risk

Liquidity risk is the risk that the Bank will be unable to meet its net funding requirements within the required time and at acceptable cost. Liquidity risk can be caused by market disruptions or credit rating downgrades for the Bank, which may cause certain sources of funding to dry up unexpectedly.

The Bank's management carefully monitors the maturity profile of its assets and liabilities to ensure that adequate liquidity is maintained on a daily basis. In addition, the Liquidity Coverage Ratio and Net Stable Funding Ratio are each monitored regularly to be in line with SAMA guidelines. The Bank also conducts regular liquidity stress testing under a variety of scenarios which cover both normal and more severely stressed market conditions.

All liquidity policies and procedures are subject to review and approval by the Bank's Asset and Liability Committee.

Operational Risk

Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

The Bank's Operational Risk Management Framework provides a bank-wide definition of operational risk and lays down the processes under which the operational risks are to be identified, assessed, monitored, and controlled. The key components of this framework are comprehensively documented in the Bank's operational risk policies, procedures, and controls.

The continuous assessment of operational risks and their controls in all business and support units of the Bank are monitored through Risk and Control Self-Assessment (RCSA) exercises, close monitoring of agreed action plans as a result of the RCSA exercises, and establishing an Operational Risk Appetite Matrix for the Bank as a whole. This includes monitoring the operational risk losses actually incurred on an ongoing basis and taking corrective actions to eliminate or minimize such losses in the future. The Bank has also developed a set of Key Risk Indicators (KRIs) covering all the business and support units to facilitate pro-active monitoring of operational risks.

BUSINESS CONTINUITY PLAN

The Bank recognizes the importance of planning for Business Continuity and continued to make progress in this area in 2015. An effective Business Continuity Plan ("BCP") will facilitate the Bank in mitigating a serious disruptive crisis in a controlled, timely, and structured manner.

It also helps the Bank to effectively manage any disruption in its operations and to recover as quickly and effectively as possible from an unforeseen disaster or emergency that may interrupt normal business operations in full or in part.

During 2015, the Bank further strengthened the testing of its Business Continuity Plan and procedures. Detailed tests were completed on two separate occasions and several other tests were completed during the year. The tests were successful and provide confidence that the Bank will be able to handle such a crisis, should it occur. The Bank will continue testing its process for business continuity at least twice a year.

In its effort to provide uninterrupted service to its customers, the Bank implemented hot backup for some of its critical systems in 2015. Hot backup will be implemented for a additional systems in 2016.

The Bank also continued its emphasis on training of staff on Business Continuity.

In recognition of its BCP efforts, the Bank has received the ISO 22301 certification in 2012 for its Business Continuity Management Process including its Retail Banking, Corporate and Treasury processes.

INFORMATION TECHNOLOGY TRANSFORMATION STRATEGY

In order to meet the strong demands of business growth, the Bank has put in place an ambitious five year IT transformation strategy. The strategy, which has been approved by the Bank's Board of Directors, focuses on supporting the Bank's retail and corporate growth, in addition to building strong linkages between the Banks's other business units.

The strategy is supported by comprehensive project charters, standardized project execution, and project governance. Status tracking and monitoring is also controlled by a central project management function. In addition, an IT Governance structure has been implemented and oversight is controlled by an IT steering committee comprised of senior management.

During 2015, several projects were launched to support the growth of the Bank and enhance customer services. These include launching the new Signature Verification Solution via CRM at branches, which allows the branch team to better serve our customers. The Bank also launched 24x7 ATM Card Instant Issuance service, which allows customers to renew their cards 24 hours a day without the need to go to branches. The Bank also launched new e-commerce services and e-corporate services which enable companies to pay online, and execute their corporate transactions electronically. The Bank also launched a new Student Card and Shopping Card which allows university students and customers to use these products electronically through FlexxClick and FlexxTouch. The Bank further enhanced its loyalty program (WooW) which is unique in its features and easy to use. Finally, the Bank was the first Saudi Bank to implement the Interactive Teller Machine.

BUSINESS SEGMENTS

The Bank is managed on a line-of-business basis. Transactions between business segments are conducted on normal commercial terms and conditions through the use of funds transfer pricing and cost allocation methodologies. A detailed summary of the business segment results for 2015 and 2014 is presented in Note 28 to the consolidated financial statements.

The Bank has three significant business segments, each of which is described below.

Retail Banking

Retail Banking offers a wide range of conventional and Sharia-compliant retail services for individuals, government and public sector entities, and commercial businesses comprising small and medium size enterprises through the Head Office and a network of branches throughout Saudi Arabia. Services include current accounts, savings and time deposit accounts. The Bank also offers a full range of Sharia-compliant products through its Shariah-compliant branches, including Islamic Murabaha. The Bank also has a large network of ATM's that covers all regions of Saudi Arabia.

Corporate Banking

Corporate Banking focuses on providing tailor-made financial products and efficient customer services to corporate and financial entities. It operates from three regional headquarters based in Riyadh, Jeddah and Al-Khobar to offer innovative financial solutions to it's customers. The services and products offered include project finance, working capital finance, trade finance and services, import and export documentary credit, standby letters of credit, letters of guarantee, bill discounting, documentary and clean collections, and other trade related products, including conventional and Shariah-compliant products. It also provides innovative financial solutions using advanced technological systems.

Treasury

Treasury is responsible for foreign exchange trading, funding and liquidity management, as well as the Bank's investment securities portfolio and derivative products. It also manages the Bank's asset-liability structure and interest rate and market risks, and provides guidance for balance sheet volume and pricing parameters.

BRANCH NETWORK

As of December 31, 2015, the number of branches operating under the Bank was forty eight, twelve of which contain a ladies section. The Bank also added seven new ATMs in 2015 and currently operates a network of 436 throughout Saudi Arabia. The Bank also introduced 2,522 new POS terminals in 2015 bringing the total POS terminals to 6,312.

ALASALAH ISLAMIC BANKING

The Bank provides Sharia-compliant products and services under the ALASALAH Islamic Banking brand. These products have been given special attention to ensure their compliance with Sharia Law and their suitability to the local market in recognition of the increasing demand for Sharia-compliant products and services, and the significance of Islamic Banking as a strategic direction for banks operating in the Kingdom and the region. The Bank now operates forty-four Sharia-compliant branches. The Bank successfully increased its Sharia-compliant loans during the year ended December 31, 2015 to SAR 32.6 billion, an increase of SAR 2.0 billion or 6.5% over the 2014 amount of SAR 30.6 billion. The Bank also increased its Sharia compliant deposits during the year ended December 31, 2015 to SAR 52.5 billion, an increase of SAR 3.4 billion or 6.9% over the 2014 amount of SAR 49.1 billion.

STRATEGIC PARTNERSHIPS

The Bank has three subsidiaries registered in Saudi Arabia as follows:

- Alistithmar for Financial Securities and Brokerage Company, which offers brokerage and other services in the Kingdom of Saudi Arabia. The Bank owns 100% of the SAR 250 million in capital, and the Company does not have any debt instruments issued. The Company was established in July 2007 as a limited liability company, and in 2015 the Company was converted into a closed joint stock company. The Company provides brokerage services as well as investment management services in the form of mutual funds in consultation with professional investment advisors. Assets under management totaled SAR 4,393 million as of December 31, 2015, of that SAR 1,801 million is considered Shariah approved.
- The Saudi Investment Real Estate Company. The Bank owns 100% of the SAR 500 thousand in capital, and the Company does not have any debt instruments issued.
- Saudi Investment First Company Ltd. The Bank owns 100% of the SAR 25 thousand in capital, and the Company does not have any debt instruments issued.

In addition to the above, the Bank has investments in three associate companies in Saudi Arabia as follows:

- American Express Saudi Arabia - ("AMEX"), is a Saudi Arabian closed joint stock company. The total capital is SAR 100 million and the Bank holds a 50% interest. The principal activities of AMEX are to issue credit cards and offer other American Express products in Saudi Arabia.
- Saudi Orix Leasing Company ("Orix"). Orix is a Saudi Arabian closed joint stock company in Saudi Arabia. The total capital is SAR 550 million. Orix has 55 million outstanding shares and the bank holds 20.90 million shares representing 38% of the outstanding shares. The primary business activities of Orix include lease financing services in Saudi Arabia.
- Amlak International for Finance and Real Estate Development Co. ("Amlak"). Amlak is a Saudi Arabian closed joint stock company in Saudi Arabia. The total capital is SAR 900 million. Amlak has 90 million outstanding shares and the Bank holds 29 million shares representing 32% of the outstanding shares. Amlak offers real estate finance products and services..

All the above companies are incorporated and doing business in Saudi Arabia.

CREDIT RATING

Credit ratings are an integral component for participation in the international financial markets. As the global economy becomes more integrated, credit ratings are necessary not only to ensure funding and obtain access to capital markets, but also to demonstrate a commitment to meeting a high level of internationally recognized credit and risk management standards. During the year, the Bank continued its program of rating reviews with Standard & Poor's Ratings Services (S&P) and Fitch Ratings.

S&P lowered the Bank's long-term and short-term counterparty credit ratings to ('BBB+' / 'A-2') with a Negative Outlook. S&P defines these ratings as follows:

- **Long-Term Issuer Credit Ratings** – An obligor rated 'BBB+' has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to weakened capacity of the obligor to meet its financial commitments.
- **Short-Term Issuer Credit Ratings** (less than 12 months) – An obligor rated 'A-2' has satisfactory capacity to meet its financial commitments. However, it is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in the highest rating category.

Fitch also affirmed the Bank's ('A-' / 'F2') long-term and short-term ratings with a Stable Outlook. Fitch defines these ratings as follows:

- **Long-Term Issuer Default Ratings** –'A-' rating denotes a low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.
- **Short-Term Issuer Default Ratings** (less than 12 months) – 'F2' ratings indicate good credit quality with a satisfactory capacity for timely payment of financial commitments, but the margin of safety is not as great as in the case of the higher ratings.

The Bank's ratings are the result of our financial performance, our asset quality and capitalization levels, supported by a conservative strategy and satisfactory liquidity profile. Our ratings take into consideration the fact that the Bank operates in one of the strongest banking sectors and best regulated markets both in the Middle East and among all emerging markets. The ratings also reflect the strong sovereign credit ratings from S&P and Fitch, in addition to the strong country economic fundamentals.

The credit ratings from S&P and Fitch are considered "Investment Grade Ratings" in the international markets.

QUALITY ASSURANCE MANAGEMENT:

The Bank has expanded its Quality Assurance Management activities to include the Implementation of the Consumer Protection Principal (CPP) launched by the Saudi Arabian Monetary Agency (SAMA). In order to maintain best banking standards, Quality Assurance has established a variety of awareness and educational procedures and training programs to promote CPP, as well as to provide employees, customers, and the general public with information related to finance and banking products.

Quality Assurance Management accomplishments include the following:

- An E-training course for all Bank employees to introduce them to CPP.
- A webpage on the Bank's website to educate customers about CPP.
- Training courses for customer service staff.
- Educational brochures printed and distributed to all branches.
- Outreach educational visits to public and private facilities to cover a wider segment of customers.
- The Customer Care Unit being awarded an international standards certificate – Quality Management System ISO 9001:2008 for complaint management.
- The resolution of 100% of all customer complaints in accordance with the Saudi Arabian Monetary Agency standards.

As part of its strategic role, senior management relied on Quality Assurance customer satisfaction research results to assess customer satisfaction to develop a better customer experience. To help achieve maximum customer satisfaction Quality Assurance:

- Developed the Customer Relationship Management system to automate the gathering of customer feedback.
- Surveyed more than 100,000 customers to measure their degree of satisfaction with the Bank's products and the efficiency of the Banking channels.
- Created the Voice of the Customer webpage on the Bank's website to view the results of the surveys.
- Implemented the Mystery Shopper project to measure and improve the quality of all channels and services.

To contribute to the Bank's strategic objective of reducing costs, improving service quality and procedure effectiveness, and raising the overall level of performance, Quality Assurance:

- Established and maintained 28 Service Level Agreements between Bank departments.
- Adopted the Lean Six Sigma methodology to implement several development projects in the Bank's internal operations.
- Launched the Innovation Center to stimulate ideas and disseminate an innovative culture among Bank employees.
- Implemented the My Idea program as part of Innovation Center to study ideas presented by Bank staff. Quality Assurance held an honorary ceremony for 28 participants whose ideas were accepted.

PROFIT DISTRIBUTION

The net income of the Bank will be distributed as directed by the Board of Directors in accordance with the provisions of the Banking Control Law, as follows:

a) Withholding the necessary amounts for payment of the Zakat owed by the Saudi shareholders and any income tax owed by the non-Saudi shareholders according to the applicable laws of the Kingdom. The Bank will pay the required amounts to the authorities and deduct the Zakat owed by the Saudi shareholders and any unreimbursed income tax of the non-Saudi shareholders from amounts due to these shareholders, respectively.

b) Allocating not less than 25 percent of the remaining net income, after the deduction of the Zakat and income tax as mentioned in paragraph (a) above, to the Statutory Reserve until this Reserve is equal to at least the Paid-Up Capital.

c) The remainder, after all allocations mentioned in paragraphs (a) and (b) above are made, shall be used in any manner recommended by the Board of Directors and approved by the General Assembly.

In 2015, the Board of Directors proposed a cash dividend of SAR 487.5 million equal to SAR 0.75 per share, net of Zakat to be withheld from the Saudi shareholders totaling SAR 47 million. The Board of Directors has also proposed a bonus share issue of 50 million shares with a par value of SAR 10 per share, or one bonus share for each thirteen shares outstanding. The proposed cash dividend and bonus share issue will be presented for approval in an extraordinary general assembly meeting expected to convene in 2016.

In 2014, The Board of Directors proposed a cash dividend of SAR 480 million equal to SAR 0.80 per share, net of Zakat to be withheld from the Saudi shareholders totaling SAR 42 million. The Board also recommended increasing the Banks capital through bonus shares by issuing 50 million shares with the par value of SAR 10. The proposed dividend and bonus share issue were approved by the Bank's shareholders in an extraordinary general assembly meeting held on Jamada Alawal 17, 1436 (corresponding to March 8, 2015). The net dividends were paid to the shareholders thereafter.

REGULATORY PAYMENTS

Zakat attributable to the Saudi shareholders paid by the Bank is deducted from their share of cash dividends. Any unreimbursed income tax payable by the non-Saudi shareholders on their share of profits is also deducted from cash dividends.

The Bank paid SAR 16.4 million in Zakat on behalf of Saudi shareholders, and SAR 18 million of income tax on behalf of its non-Saudi shareholders during the year ended December 31, 2015. The Bank also paid SR 6.1 million in withholding tax on payments to non-residents made during the year ended December 31, 2015.

The Bank has received assessments for additional Zakat, income tax, and withholding tax totaling approximately SAR 397 million relating to the Bank's 2003 through 2009 Zakat, Income tax, and withholding tax filings. The bank has filed an appeal for these assessments.

The Bank has received assessments for additional Zakat totalling approximately SAR 383 million relating to the Bank's 2010, 2011 and 2013 Zakat filings. The assessments are primarily due to the disallowance of certain long-term investments from the Zakat base of the Bank. The Bank, in consultation with its Zakat advisors, has filed an appeal with the Department of Zakat and Income Tax, and is awaiting a response. At the current time, a reasonable estimation of the ultimate additional Zakat liability, if any, cannot be reliably determined.

The Bank paid SAR 43.2 million to the General Organization for Social Insurance for its employees, including the employee share of SAR 19.6 million during the year ended December 31, 2015. The Bank also paid approximately SAR 0.4 million for visa and other related governmental fees, and SAR 3.0 million in municipality and related fees during the year ended December 31, 2015.

REGULATORY PENALTIES AND FINES

During 2015, the Bank paid SAR 125 thousand in penalties and fines to the following regulatory agencies:

Saudi Arabian Monetary Agency	25 thousand
Capital Market Authority	100 thousand

SAUDIZATION AND TRAINING

As a result of the Bank's continuing commitment to increase Nationalization, the percentage of Saudi nationals to total staff as of December 31, 2015 remained strong at 83.2%. In addition, the Bank has increased its female staff to reach 17.8% of the total workforce of the Bank.

During the year ended December 31, 2015, the Bank provided a total of 617 separate training courses resulting in 14,812 training days being delivered to the Bank's staff members. On average, staff attended 9.51 training days per employee during 2015.

2014 was the official opening of the SAIB Academy. With a capacity for 120 trainees, the Academy contains more than five training halls and is equipped with the latest training equipment, and a specialized training center for Bank systems and live services experience. Most of the courses were provided through the Academy in 2015.

During the year, the Bank increased the usage of all E-Channels, such as "E-Learning – Training video tutorials – and summarization Books" by delivering more than 400 different programs in different fields. The benefit of E-Learning is to help all staff in the Bank to improve their knowledge and competencies in a range of general skills which helps them in their daily activities. Staff also have the freedom to learn when and where they want, and at their own pace. All portals are available 24/7 and accessible from anywhere by using any devices, in both Arabic and English. Various graduate programs were also conducted in order to fit the needs of all units. Some programs are specialized for particular departments while others are general. Programs including "Graduate Program, Risk Analysis, Account Administrator, Administrator Assistant, Operations, and the Young Hire program". Co-op program trainees have also increased this year with 80 coops prticipating, 35 of whom were recruited.

EMPLOYEE BENEFITS

Benefits payable to employees either at the end of their services or during the term of their employment are accrued in accordance with guidelines set by the Saudi Arabian Labor Regulations and as per the Bank's policies. The amount of provision made during the year ended December 31, 2015 in respect of employees' end of service benefits was SAR 4.5 million. The balance of the accrued benefits outstanding is approximately SAR 86.7 million as of December 31, 2015.

The Bank also offers to its eligible employees ("Employees") equity shares in the Bank under an Employee Stock Grant Plan ("Plan"). Under the terms of the Plan, employees are granted shares which vest over a four-year period. The cost of the plan is measured by the value of the shares on the date purchased by the Bank and recognized over the period in which the service condition is fulfilled using an appropriate valuation model, and ending on the vesting date. Employee stock option shares are recorded by the Bank at cost and presented as a deduction from the Bank's equity as adjusted for any transaction costs, dividends and gains or losses on sales of such shares. During 2015, the Bank vested 1,367,807 shares for a total cost of approximately SAR 27.9 million. The balance of the Plan as of December 31, 2015 is approximately SAR 49.9 million. For further information on this Plan, refer to Note 37 in the consolidated financial statements.

In addition, the Bank grants to its eligible employees other types of security and savings plans that are based on mutual contributions by the Bank and the employees. These contributions are paid to the participating employees at the respective maturity date of each plan. The balance of the accrued benefits outstanding for the Bank's security plan and the Bank's savings plan is approximately SAR 75.9 million as of December 31, 2015. The amount of provision made during the year ended December 31, 2015 for these plans was approximately SAR 42.0 million.

RELATED PARTY CONTRACTS

In the ordinary course of its activities, the Group transacts business with related parties. Related parties, balances, and transactions are governed by the Banking Control Law and other regulations issued by SAMA. During 2014, SAMA issued an update to its Principles of Corporate Governance for Banks operating in Saudi Arabia which specifies the definitions of related parties, the need to process the related transactions fairly and without preference, addresses the potential conflicts of interests involved in such transactions, and mandates transaction disclosure requirements pertaining to the related parties.

The Bank's Related Party Identification and Disclosure of Transactions Policy complies with the Guidelines issued by SAMA, and has been approved by the Bank's Board of Directors. These Guidelines include the following definitions of Related Parties:

- Management of the Bank and/or members of their immediate family;
- Principal shareholders of the Bank and/or members of their immediate family;
- Affiliates of the Bank and entities for which the investment is accounted for by the equity method of accounting;
- Trusts for the benefit of the Bank's employees such as pension or other benefit plans that are managed by the Bank; and
- Any other parties whose management and operating policies can be directly or indirectly significantly influenced by the Bank.

Management of the Bank includes those persons who are responsible for achieving the objectives of the Bank and who have the authority to establish policies and make decisions by which those objectives are pursued. Management therefore includes the members of the Bank's Board of Directors, and members of the Bank management that require a no objection approval from SAMA.

Immediate family members includes parents, spouses, and offspring and whom either a principal shareholder or a member of management might control or influence or by whom they might be controlled or influenced because of the family relationship.

Principal shareholders include those owners of record of more than five percent of the Bank's voting ownership and/or voting interest of the Bank.

The balances as of December 31, 2015, resulting from such transactions included in the consolidated financial statements are as follows:

	2015 SAR'000
Management of the Bank and/or members of their immediate family:	
• Loans and advances	92,138
• Customer deposits	372,928
Principal shareholders of the Bank and/or members of their immediate family:	
• Due from banks and other financial institutions	2,560
• Loans and advances	536,467
• Customer deposits	12,242,900
• Term loan	1,000,000
• Subordinated debt	704,000
• Commitments and contingencies	2,627,139
Affiliates of the Bank and entities for which the investment is accounted for by the Equity method of accounting:	
• Loans and advances	849,102
• Customer deposits	32,172
• Commitments and contingencies	849,084
Trusts for the benefit of the Bank's employees such as pension or other benefits plans that are managed by the Bank:	
• Customer deposits and other liabilities	280,916

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

	2015 SAR'000
Management of the Bank and/or members of their immediate family:	
Special commission income	3,894
Special commission expense	41
Fee income from banking services	5
Principal shareholders of the Bank and/or members of their immediate family:	
Special commission income	30,752
Special commission expense	36,942
Fee income from banking services	3
Affiliates of the Bank and entities for which the investment is accounted for by the Equity method of accounting:	
Special commission income	2,128
Fee income from banking services	3,130
Trusts for the benefit of the Bank's employees such as pension or other benefit plans that are managed by the Bank:	
Special commission expense	724
Board of Directors and other Board Committee member remuneration	4,368

COMPOSITION OF THE BOARD OF DIRECTORS

The Board is comprised of the following members:

Name	Position	Classification	Membership in other listed Companies
Mr. Abdallah S. Jum'ah	Chairman	Non-Executive	Zamil Industrial Investment – Hasana Investment Co.- Saudi Arabian Airlines
Mr. Abdulaziz Al-Khamis	Vice Chairman	Non-Executive	National Petrochemical – Saudi International Petrochemical
Dr. Fouad Al Saleh	Board Member	Non-Executive	-
Dr. Abdulraouf Mannaa	Board Member	Independent	Knowledge Economic City – General Organization for Social Insurance
Dr. Abdulaziz Alnowaiser	Board Member	Independent	-
Mr. Abdulrahman Al-Rawwaf	Board Member	Non-Executive	-
Mr. Mishari Al-Mishari	Board Member	Non-Executive	Saudi Re for Cooperative Reinsurance
Mr. Muhammed Al- Ali	Board Member	Independent	-
Mr. Saleh Al- Athel	Board Member	Independent	Saudi Telecom Company

The Board of Directors has the following committees:

- The Executive Committee is comprised of five Board members. This committee supervises the credit and financial policies of the Bank.
- The Audit Committee is comprised of five members: two Board members and three non-Board members. The Audit Committee's activities include supervising the Bank's Internal Audit function, recommending the appointment of the external auditors, overseeing the Compliance Committee, and related activities.
- The Nomination and Remuneration Committee is comprised of four Board members. This committee is responsible for recommending to the Board of Directors appointments to membership of the Board in accordance with the approved policies and standards, reviewing on an annual basis the requirements for the suitable skills for membership of the Board of Directors, and reviewing the structure of the Board of Directors and recommending changes thereto. It is also responsible to recommend to the Board the approval of the Bank's compensation policy and amendments thereto, and other activities related to the Bank's compensation policies and guidelines.
- The Risk Committee is comprised of five Board members. This committee supervises the risk management activities of the Bank including market, credit, and operational risks.
- The Compliance Committee, which is a sub-committee of the Audit Committee, is comprised of eight members, three Board members and five members from the Bank's management. This committee is responsible for monitoring the risks of non-compliance, ensures that the Bank has in place adequate policies and procedures to manage any non-compliance risk, and establish the general framework for the compliance department.

The Shariah Committee, is comprised of three members and is responsible for providing Shariah opinions on submitted applications and related contracts and forms. The Committee is also responsible for ensuring the Bank's compliance with Shariah principles and decisions through the Shariah control function. In addition, the Committee answers Shariah related enquiries for the Bank and its customers.

The composition of the four Board Committees is presented below:

Executive Committee	Audit Committee	Nomination and Remuneration Committee	Risk Committee	Compliance Committee	Shariah Committee
Mr. Abdulaziz Al-Khamis, (Chairman)	Mr. Muhammad Al Ali (Chairman)	Mr. Abdulrahman Al-Rawwaf, (Chairman)	Mr. Abdulaziz Al-Khamis, (Chairman)	Mr. Muhammad Al Ali (Chairman)	Mr. Muhammad Ali Al-Qrea (Chairman)
Mr. Abdulrahman Al-Rawwaf	Dr. Abdulraouf Mannaa	Dr. Fouad Al-Saleh	Mr. Abdulrahman Al-Rawwaf	Dr. Abdulraouf Mannaa	Fahad Nafl Al-saqer
Dr. Fouad Al-Saleh	Mr.Abdullah Al-Anizi (non-board)	Mr. Mishari Al-Mishari	Dr. Fouad Al-Saleh	Mr. Saleh Al-Athel	AbdulAziz Ahmad Almzini
Mr. Mishari Al-Mishari	Mr. Mnahi Al-Muraki (non-board)	Mr. Saleh Al-Athel	Mr. Mishari Al-Mishari	Sampath Velamoor	
Mr. Abdulaziz Alnowaiser	Mr. Saleh Al-Khulaifi (non-board)		Dr. Abdulaziz Alnowaiser	Amjad Siddique	
				Shankar Chattanathan	
				Hassan Khalaf Al-Faori	
				Saud Al Shamri	

DIRECTORS' ATTENDANCE

Five Board of Directors meetings were held during 2015 as follows:

Date of Meeting	Members Attended
March 8, 2015	Abdallah S. Jum'ah, Abdulrahman Al-Rawwaf, Mishari Al-Mishari, Dr. Abdulraouf Mannaa, Abdulaziz Al-Khamis, Dr. Abdulaziz Alnowaiser, Saleh Al- Athel, Dr Fouad Al-Saleh, Mr. Muhammad Al Ali
May 31, 2015	Abdallah S. Jum'ah, Abdulrahman Al-Rawwaf, Mishari Al-Mishari, Dr. Abdulraouf Mannaa, Abdulaziz Al-Khamis, Dr. Abdulaziz Alnowaiser, Saleh Al- Athel, Dr Fouad Al-Saleh, Mr. Muhammad Al Ali
September 14, 2015	Abdallah S. Jum'ah, Abdulrahman Al-Rawwaf, Mishari Al-Mishari, Dr. Abdulraouf Mannaa, Abdulaziz Al-Khamis, Dr. Abdulaziz Alnowaiser, Saleh Al- Athel, Dr Fouad Al-Saleh, Mr. Muhammad Al Ali
November 30, 2015	Abdallah S. Jum'ah, Abdulrahman Al-Rawwaf, Mishari Al-Mishari, Dr. Abdulraouf Mannaa, Abdulaziz Al-Khamis, Dr. Abdulaziz Alnowaiser, Saleh Al- Athel, Mr. Muhammad Al Ali
December 13, 2015	Abdallah S. Jum'ah, Abdulrahman Al-Rawwaf, Mishari Al-Mishari, Dr. Abdulraouf Mannaa, Abdulaziz Al-Khamis, Dr. Abdulaziz Alnowaiser, Saleh Al- Athel, Dr Fouad Al-Saleh, Mr. Muhammad Al Ali

Eleven Executive Committee meetings were held during 2015 as follows:

Date of Meeting	Members Attended
February 02, 2015	Abdulaziz Al-Khamis, Abdulrahman Al-Rawwaf, Mishari Al-Mishari, Dr. Abdulaziz Alnowaiser, Dr. Fouad Al-Saleh
February 24, 2015	Abdulaziz Al-Khamis, Abdulrahman Al-Rawwaf, Mishari Al-Mishari, Dr. Abdulaziz Alnowaiser, Dr. Fouad Al-Saleh
April 05, 2015	Abdulaziz Al-Khamis, Abdulrahman Al-Rawwaf, Mishari Al-Mishari, Dr. Abdulaziz Alnowaiser, Dr. Fouad Al-Saleh
May 03, 2015	Abdulaziz Al-Khamis, Abdulrahman Al-Rawwaf, Mishari Al-Mishari, Dr. Abdulaziz Alnowaiser, Dr. Fouad Al-Saleh
May 27, 2015	Abdulaziz Al-Khamis, Abdulrahman Al-Rawwaf, Mishari Al-Mishari, Dr. Fouad Al-Saleh
July 02, 2015	Abdulaziz Al-Khamis, Abdulrahman Al-Rawwaf, Mishari Al-Mishari, Dr. Abdulaziz Alnowaiser, Dr. Fouad Al-Saleh
August 31, 2015	Abdulaziz Al-Khamis, Abdulrahman Al-Rawwaf, Mishari Al-Mishari, Dr. Abdulaziz Alnowaiser, Dr. Fouad Al-Saleh
September 14, 2015	Abdulaziz Al-Khamis, Abdulrahman Al-Rawwaf, Mishari Al-Mishari, Dr. Abdulaziz Alnowaiser, Dr. Fouad Al-Saleh
October 27, 2015	Abdulaziz Al-Khamis, Abdulrahman Al-Rawwaf, Mishari Al-Mishari, Dr. Abdulaziz Alnowaiser, Dr. Fouad Al-Saleh
November 24, 2015	Abdulaziz Al-Khamis, Abdulrahman Al-Rawwaf, Mishari Al-Mishari, Dr. Abdulaziz Alnowaiser, Dr. Fouad Al-Saleh
December 22, 2015	Abdulaziz Al-Khamis, Abdulrahman Al-Rawwaf, Mishari Al-Mishari, Dr. Abdulaziz Alnowaiser, Dr. Fouad Al-Saleh

Four Nomination and Remuneration Committee meetings were held during 2015 as follows:

Date of Meeting	Members Attended
January 15, 2015	Abdulrahman Al-Rawwaf, Dr. Fouad Al-Saleh, Saleh Al- Athel, Mishari Al-Mishari
February 24, 2015	Abdulrahman Al-Rawwaf, Dr. Fouad Al-Saleh, Saleh Al- Athel, Mishari Al-Mishari
November 16, 2015	Abdulrahman Al-Rawwaf, Dr. Fouad Al-Saleh, Saleh Al- Athel, Mishari Al-Mishari
December 07, 2015	Abdulrahman Al-Rawwaf, Dr. Fouad Al-Saleh, Saleh Al- Athel, Mishari Al-Mishari

Five Audit Committee meetings were held during 2015 as follows:

Date of Meeting	Members Attended
March 8, 2015	Muhammad Al Ali, Dr. Abdulraouf Mannaa, Saleh Al-Khulaifi, Abdullah Al-Anizi, Mnahi Al-Muraki,
May 31, 2015	Muhammad Al Ali, Dr. Abdulraouf Mannaa, Saleh Al-Khulaifi, Abdullah Al-Anizi, Mnahi Al-Muraki,
September 13, 2015	Muhammad Al Ali, Saleh Al-Khulaifi, Abdullah Al-Anizi, Mnahi Al-Muraki,
November 30,2015	Muhammad Al Ali, Dr. Abdulraouf Mannaa, Saleh Al-Khulaifi, Abdullah Al-Anizi, Mnahi Al-Muraki,
December 13, 2015	Muhammad Al Ali, Dr. Abdulraouf Mannaa, Saleh Al-Khulaifi, Abdullah Al-Anizi, Mnahi Al-Muraki,

Six Risk Committee meetings were held during 2015 as follows:

Date of Meeting	Members Attended
February 24, 2015	Abdulaziz Al-Khamis, Abdulrahman Al-Rawwaf, Mishari Al-Mishari, Dr. Abdulaziz Alnowaiser, Dr. Fouad Al-Saleh
May 27, 2015	Abdulaziz Al-Khamis, Abdulrahman Al-Rawwaf, Mishari Al-Mishari, Dr. Fouad Al-Saleh
May 28, 2015	Abdulaziz Al-Khamis, Abdulrahman Al-Rawwaf, Mishari Al-Mishari, Dr. Abdulaziz Alnowaiser, Dr. Fouad Al-Saleh
August 31, 2015	Abdulaziz Al-Khamis, Abdulrahman Al-Rawwaf, Mishari Al-Mishari, Dr. Abdulaziz Alnowaiser, Dr. Fouad Al-Saleh
September 13, 2015	Abdulaziz Al-Khamis, Abdulrahman Al-Rawwaf, Mishari Al-Mishari, Dr. Abdulaziz Alnowaiser, Dr. Fouad Al-Saleh
November 24, 2015	Abdulaziz Al-Khamis, Abdulrahman Al-Rawwaf, Mishari Al-Mishari, Dr. Abdulaziz Alnowaiser, Dr. Fouad Al-Saleh

Four Compliance Committee meetings were held during 2015 as follows:

Date of Meeting	Members Attended
March 08, 2015	Mr. Muhammad Al Ali, Dr. Abdulraouf Mannaa, Sampath Velamoor, Amjad Siddique, Shankar Chattanathan, Hassan Khalaf Al-Faori, Saud Al Shamri
May 31, 2015	Mr. Muhammad Al Ali, Saleh Al- Athel, Dr. Abdulraouf Mannaa, Sampath Velamoor, Amjad Siddique, Shankar Chattanathan, Hassan Khalaf Al-Faori, Saud Al Shamri
September 13, 2015	Mr. Muhammad Al Ali, Saleh Al- Athel, Dr. Abdulraouf Mannaa, Sampath Velamoor, Amjad Siddique, Shankar Chattanathan, Hassan Khalaf Al-Faori, Saud Al Shamri
December 13, 2015	Mr. Muhammad Al Ali, Saleh Al- Athel, Dr. Abdulraouf Mannaa, Sampath Velamoor, Amjad Siddique, Shankar Chattanathan, Hassan Khalaf Al-Faori, Saud Al Shamri

Two Shariah Committee meetings were held during 2015 as follows:

Date of Meeting	Members Attended
November 11, 2015	Muhammad Ali Al-Qrea, Fahad Nafl Al-saqer, AbdulAziz Ahmad Almzini
December 10, 2015	Muhammad Ali Al-Qrea, Fahad Nafl Al-saqer, AbdulAziz Ahmad Almzini

CHANGES IN THE BANK'S OWNERSHIP (BOARD OF DIRECTORS AND SENIOR EXECUTIVES)

The Board of Directors is composed of natural persons represented on the Board in their personal capacities. Below is the list of the overall ownership of Bank's shares and debt instruments by the Board of Directors and senior executives and their immediate relatives who have an interest in such ownership.

DIRECTORS

No.	Name	Beginning of the Year		End of the Year		Net Change	Percentage of Change %
		Shares	Debt Instruments	Shares	Debt Instruments		
1	Abdallah S. Jum'ah	88,913	-	244,332	-	155,419	175%
2	Abdulrahman Al-Rawwaf	1,333	-	1,444	-	111	8%
3	Dr. Albulraouf Mannaa	1,090	-	1,180	-	90	8%
4	Saleh Al-Athel	200,866	-	219,864	-	18,998	9%
5	Mishari Al-Mishari	2,666	-	2,888	-	222	8%
6	Dr. Fouad Al-Saleh	200,000	-	216,666	-	16,666	8%
7	Abdulaziz Al-Khamis	1,333	-	1,444	-	111	8%
8	Dr. Abdulaziz Alnowaiser	1,090	-	1,180	-	90	8%
9	Muhammad Al-Ali	2,000	-	2,166	-	166	8%

Senior Executives

No.	Name	Beginning of the Year		End of the Year		Net Change	Percentage of Change %
		Shares	Debt Instruments	Shares	Debt Instruments		
1	Musaed Al-Mineefi	1,474,467	-	1,644,613	-	170,146	12%
2	Ramzi Al-Nassar	120,000	-	160,000	-	40,000	33%
3	David Johnson	104,116	-	139,043	-	34,927	34%

DIRECTORS' AND SENIOR EXECUTIVES' REMUNERATION (in SAR'000)

	Six Senior Executives who Received the Highest Remuneration including the CEO and CFO	Independent and Non-Executive Board Members	Executive Board Members
Remuneration	13,986	3,240	-
Allowances	6,053	1,128	-
Any Other Remuneration payable monthly or yearly	13,707	-	-

BOARD OF DIRECTORS' DECLARATION

The Board of Directors hereby declares that to the best of its knowledge and belief and in all material respects:

- Proper books of account have been maintained;
- The system of internal control is sound in design and has been effectively implemented; and
- There are no significant doubts concerning the bank's ability to continue as a going concern.

AUDITORS

The Extraordinary General Assembly meeting held on March 8, 2015 appointed PricewaterhouseCoopers and Ernst & Young as the Bank's auditors for the financial year 2015.

CORPORATE GOVERNANCE IN THE KINGDOM OF SAUDI ARABIA

The Bank substantially complies with all the corporate governance guidelines issued by SAMA in March 2014

The Bank also complies with the guidelines included in the Rules Governing the Companies in the Kingdom of Saudi Arabia issued by the Capital Market Authority on 21/10/1427H corresponding to 12/11/2006G, except for the following:

Rule No.	Rule Requirements	Reason for non-application
Article 6 (d)	Investors who are judicial persons and who act on behalf of others - e.g. investment funds- shall disclose in their annual reports their voting policies, actual voting, and ways of dealing with any material conflict of interests that may affect the practice of the fundamental rights in relation to their investments.	The Bank has no authority over those shareholders with corporate capacity obliging them to disclose their voting and investment policies. Also those investments are immaterial relative to the Bank's total equity.

- New committees were created within the bank organization chart (Stress Testing, Enterprise Risk Management Securities Valuation, Sustainability)
- Self-evaluation practice was provided to the Board to determine the training needs.
- The Board approved the new Corporate Governance Framework.
- The Bank introduced guidelines based on the highest international and Governance standards while taking in respect local regulation in respect. International expertise where imbedded in providing these guidelines for continuous update of rules and regulations.

ACCOUNTING STANDARDS

The Bank follows the Accounting Standards for Financial Institutions promulgated by the Saudi Arabian Monetary Agency (SAMA) and International Financial Reporting Standards (IFRS). The Bank also prepares its consolidated financial statements in compliance with the Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia, and the Bank's Articles of Association.

With reference to the CMA circular regarding disclosure in the Board of Directors' Report regarding the Bank's plan to apply IFRS, since the Bank already prepares its consolidated financial statements in accordance with IFRS there are no plans with regards to the Circular.

BANK'S CODE OF CONDUCT AND ETHICAL STANDARDS

The Bank's ethical standards and Code of Conduct represent a standard and a Guide for high ethical principles and professional business dealings practices. Through its Code of Conduct, the Bank is committed to instil and maintain a culture of professionalism where the utmost ethical standards prevail. The Bank's Code of Conduct is based on fundamental principles of Integrity; confidentiality and professionalism. It applies to all Directors, employees, consultants, affiliates, and any other person that may represent the Bank. The Bank operates under the governing authority of its Board of Directors, which oversees the implementation and effectiveness of the Bank's ethical standards and Code of Conduct.

ANNUAL REVIEW OF THE EFFECTIVENESS OF INTERNAL CONTROL

Management is responsible for establishing and maintaining an adequate and effective internal control system across the Bank. An Internal control system includes the policies, procedures, and processes, which are designed under supervision of the Board of Directors (The Board) to achieve the strategic objectives of the Bank.

The scope of the Internal Control Unit, independent from line management of the Bank, includes the assessment of the adequacy and effectiveness of the internal control system across the Bank. All significant and material findings related to internal controls are reported to the Audit Committee of the Bank. The Audit Committee actively monitors the adequacy and effectiveness of the internal control system to ensure that identified risks are mitigated to safeguard the interests of the Bank.

Concerted and integrated efforts are made by all functions of the Bank to strengthen the control environment at a grass root level through a continuous process of reviewing and streamlining procedures to prevent and rectify any control deficiencies. Each function, under the supervision of senior management, is entrusted with the responsibility to oversee the rectification of control deficiencies identified by internal and external auditors, and various control units across the Bank.

The Management of the Bank has adopted the Internal Controls Integrated Framework as recommended by the Saudi Arabian Monetary Agency through its Guidelines on Internal Controls.

The Internal Control System of the Bank has been designed to provide reasonable assurance to the Board, on management of risks and to achieve the Bank's strategic objectives. Internal control systems, no matter how well designed, have inherent limitations, and may not prevent or detect all control deficiencies. Moreover, the projection of current evaluations of the effectiveness to future periods is subject to a limitation that controls may become inadequate due to changes in conditions or compliance with policies or procedures.

Based on the results through ongoing testing and assessment of controls by the Internal Control Unit of the Bank carried out during the year, Management considers that the Bank's existing internal control system is adequate and operating effectively. For further enhancing of controls, Management continuously evaluates the internal control system of the Bank.

Based on the above, the Board has duly endorsed Management's evaluation of the Bank's internal control system.

COMMUNITY SERVICE AND SUSTAINABILITY

The Bank has a significant opportunity in its ability to contribute to and shape sustainable development. As a Bank, we play a fundamental role in society. We catalyse economic growth and stability by facilitating the flow of finances in society. We also have the power to influence the direction of that growth so that it becomes more sustainable, accessible, and inclusive, through the design of our products and services and the projects and businesses we choose to finance.

Our success as a business depends largely on our ability to maintain good relations with our stakeholders. We strive to build lasting, trusting relationships through an open and constructive dialogue and by considering stakeholders' views when we make decisions. We also seek to provide timely, reliable and fact-based information about ourselves, the financial sector and the economy so that our stakeholders have an informed basis for their views and decisions.

Sustainability enables us to consider our impact from many perspectives. Sustainability management draws on our economic, social, and environmental management. The Bank's annual sustainability report presents our performance and commitments in these areas to all of our stakeholders. Our sustainability framework is defined by five key pillars that guide our operations across the business. These pillars include Takleef, Nummow, Rea'ya, Hifth and Awn. We were delighted to be awarded for the second year in a row the King Khalid Award for Responsible Competitiveness, a reflection of our dedication and continued efforts towards sustainability.

Over the last few years we have made great progress as a leader in the financial sector in the Kingdom of Saudi Arabia. Today, we provide greater access to finance, with dedicated branches and more customers than ever before. We have equally demonstrated an increased capacity in contributing to our social and natural environments.

We consider it our social responsibility to contribute to our local communities, and to furthering the development of the Kingdom of Saudi Arabia. We have continued to support social ventures in environmental awareness-raising and financial literacy capacity development.

From an environmental perspective, we have also successfully reduced water and electricity costs per full-time employee in the Bank. Furthermore, we have invested in paper saving mechanisms and endeavoured to reduce our fuel consumption to help preserve limited natural resources.

SAIB invests in its communities through programs, sponsoring events and donating to charitable causes. We are committed to enhancing the impact of our community investments and aligning them with the objectives of our Sponsor Policy. In 2015, we invested SAR 2,451,000 in the community.

Some of our Corporate Social Responsibilities (CSR) initiatives in 2015 are summarized below:

- Sponsored graduation projects for undergraduate students in Dentists College at King Saud University. The project was to raise the awareness about oral hygiene among elementary schools.
- Sponsorship of Minipolis that supports children and financial literacy through entertainment.
- A CSR activity which the Bank arranged with the Charity Committee for Orphan Care to invite orphans to the entertainment city (Minipolis).
- Distributed over 2,000 school kit bags for children of needy families.
- Distributed 1,000 food baskets to needy families during the holy month of Ramadan. These 1,000 baskets were distributed to different urban and remote villages in Saudi Arabia
- Created a First Aid team in the Bank through selecting number of SAIB staff who were willing to voluntarily handle any in-office health issues. The team was given official health care training by coordination with one of the main hospitals in Saudi Arabia.
- For the Global Earth hour day the Bank arranged to run a social medial contest. The contest promised to donate one power saving light for each social media like the Bank received during the event.
- Sponsored the Riyadh Deaf club for a number of sign language workshops.

The Bank also continued to utilize its Volunteer Team to assist with the community activities mentioned.

CONCLUSION

It is a pleasure, once again, for the Board of Directors to express its gratitude to the Government of the Custodian of the Two Holy Mosques, and in particular to the Ministry of Finance and National Economy, as well as to the Saudi Arabian Monetary Agency and the Capital Market Authority, for their continued and constructive support. The Board of Directors would also like to thank its shareholders for their cooperation. The Board of Directors acknowledges with appreciation the confidence of the Bank's clients and shareholders, and finally the dedication and loyalty of the Bank's officers and staff.

TEN-YEAR FINANCIAL HIGHLIGHTS

(SAR in Millions)	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Summary of Statement of Income (SAR Millions).										
Total income	2,667	2,610	2,178	1,868	1,709	1,844	1,633	1,938	1,635	2,556
Total expense	1,033	943	762	632	628	570	556	428	484	454
Operating profit	1,634	1,667	1,416	1,236	1,081	1,274	1,077	2,510	1,151	2,103
Impairment Charges	305	231	129	324	373	845	555	997	329	97
Net income	1,329	1,436	1,287	912	708	429	522	513	822	2,006
Summary of Balance Sheet (SAR Millions).										
Loans and advances, net	60,025	57,473	47,567	34,051	27,114	31,002	29,785	29,556	23,129	20,691
Investments, net	18,842	22,397	17,696	10,912	8,893	8,060	10,737	12,731	15,811	11,777
Investments in Associates	939	846	1,071	966	895	865	817	719	562	-
Total assets	93,634	93,626	80,495	59,067	51,946	51,491	50,148	53,596	46,542	40,845
Customers' deposits	70,329	70,733	57,044	40,414	36,770	37,215	38,247	40,702	32,768	27,931
Total shareholders' equity	12,036	11,852	10,253	9,379	8,557	8,141	7,428	6,609	6,770	6,001
RATIOS (%)										
Return on shareholders' equity	11.12	13.00	13.11	10.17	8.48	5.51	7.43	7.67	12.88	35.48
Return on assets	1.42	1.65	1.84	1.64	1.37	0.84	1.01	1.03	1.88	4.99
Capital adequacy	16.94	17.08	15.12	17.62	19.12	17.29	14.48	13.71	21.91	24.71
shareholders' Equity to total assets	12.85	12.66	12.74	15.88	16.48	15.81	14.81	12.33	14.55	14.69

FINANCIAL STATEMENTS & AUDITORS' REPORT

December 31, 2015 and 2014

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As of December 31, 2015 and 2014

	Notes	2015 SAR'000	2014 SAR'000
ASSETS			
Cash and balances with SAMA	4	**4,086,987**	9,127,694
Due from banks and other financial institutions	5	**6,405,783**	879,496
Investments, net	6	**18,842,327**	22,396,949
Loans and advances, net	7	**60,024,979**	57,472,514
Investments in associates	8	**939,022**	846,351
Property and equipment, net	9	**1,021,564**	909,622
Positive fair values of derivatives	11	**1,286,895**	820,865
Other assets	10	**1,026,162**	1,172,949
Total assets		**93,633,719**	93,626,440
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks and other financial institutions	12	**5,321,488**	5,002,088
Customer deposits	13	**70,328,812**	70,733,411
Term loans	14	**2,000,000**	2,000,000
Subordinated debt	15	**2,000,000**	2,000,000
Negative fair values of derivatives	11	**1,000,672**	636,653
Other liabilities	16	**946,285**	1,402,156
Total liabilities		**81,597,257**	81,774,308
Shareholders' equity			
Share capital	17	**6,500,000**	6,000,000
Statutory reserve	18	**3,946,000**	3,613,000
Other reserves		**11,768**	608,891
Retained earnings		**1,100,949**	1,139,792
Proposed dividends	26	**534,500**	522,000
Employee stock option shares	37	**(56,755)**	(31,551)
Total Shareholders' equity		**12,036,462**	11,852,132
Total liabilities and shareholders'equity		**93,633,719**	93,626,440

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

CONSOLIDATED INCOME STATEMENT
For the years ended December 31, 2015 and 2014

	Notes	2015 SAR'000	2014 SAR'000
Special commission income	20	**2,441,420**	2,165,786
Special commission expense	20	**710,231**	626,231
Net special commission income		**1,731,189**	1,539,555
Fee income from banking services, net	21	**450,075**	486,529
Exchange income, net		**108,265**	52,530
Dividend income	22	**35,920**	35,366
Gains on investments, net	23	**186,200**	412,858
Other income		**(592)**	4,338
Total operating income		**2,511,057**	2,531,176
Salaries and employee-related expenses	24	**619,474**	531,405
Rent and premises-related expenses		**108,853**	105,256
Depreciation and amortization	9	**80,581**	68,895
Other general and administrative expenses		**224,687**	237,356
Impairment charge for credit losses, net	7(b)	**118,000**	221,300
Impairment charge for investments, net	6(e)	**187,000**	10,000
Total operating expenses		**1,338,595**	1,174,212
Income from operating activities		**1,172,462**	1,356,964
Share in earnings of associates	8(b)	**156,195**	79,515
Net income		**1,328,657**	1,436,479
Basic and diluted earnings per share (expressed in SAR per share)	25	**2.04**	2.21

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the years ended December 31, 2015 and 2014

	Notes	2015 SAR'000	2014 SAR'000
Net income		**1,328,657**	1,436,479
Other comprehensive income - items that may subsequently be reclassified to the consolidated income statement:			
Available for sale investments:			
- Net change in fair value		**(494,823)**	723,923
- Fair value gain transferred to consolidated income statement on disposal		**(102,176)**	(81,966)
Share of other comprehensive income of associates	8 (b)	**(124)**	598
Total other comprehensive income		**(597,123)**	642,555
Total comprehensive income		**731,534**	2,079,034

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2015 and 2014

2015 (SAR'000)

	Notes	Share capital	Statutory reserve	Other reserves	Retained earnings	Proposed dividends	Employee stock option shares	Total share holders' equity
Balance at the beginning of the year		6,000,000	3,613,000	608,891	1,139,792	522,000	(31,551)	11,852,132
Net income		-	-	-	1,328,657	-	-	1,328,657
Total other comprehensive income		-	-	(597,123)	-	-	-	(597,123)
Total comprehensive income		-	-	(597,123)	1,328,657	-	-	731,534
Dividends paid	26	-	-	-	-	(522,000)	-	(522,000)
Bonus shares issued	26	500,000	-	-	(500,000)	-	-	-
Proposed dividends	26	-	-	-	(534,500)	534,500	-	-
Employee stock option shares acquired, net of vesting		-	-	-	-	-	(25,204)	(25,204)
Transfer to statutory reserve	18	-	333,000	-	(333,000)	-	-	-
Balance at the end of the year		6,500,000	3,946,000	11,768	1,100,949	534,500	(56,755)	12,036,462

2014 (SAR'000)

	Notes	Share capital	Statutory reserve	Other reserves	Retained earnings	Proposed dividends	Employee stock option shares	Total share holders' equity
Balance at the beginning of the year		5,500,000	3,253,000	(33,664)	1,085,313	477,500	(29,374)	10,252,775
Net income		-	-	-	1,436,479	-	-	1,436,479
Total other comprehensive income		-	-	642,555	-	-	-	642,555
Total comprehensive income		-	-	642,555	1,436,479	-	-	2,079,034
Dividends paid	26	-	-	-	-	(477,500)	-	(477,500)
Bonus shares issued	26	500,000	-	-	(500,000)	-	-	-
Proposed dividends	26	-	-	-	(522,000)	522,000	-	-
Employee stock option shares acquired, net of vesting		-	-	-	-	-	(2,177)	(2,177)
Transfer to statutory reserve	18	-	360,000	-	(360,000)	-	-	-
Balance at the end of the year		6,000,000	3,613,000	608,891	1,139,792	522,000	(31,551)	11,852,132

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

CONSOLIDATED STATEMENT OF CASH FLOWS
For the years ended December 31, 2015 and 2014

	Notes	2015 SAR'000	2014 SAR'000
OPERATING ACTIVITIES			
Net income		**1,328,657**	1,436,479
Adjustments to reconcile net income to net cash from / (used in) operating activities			
Net accretion of discounts and net amortization of premiums on non-trading investments, net		**30,966**	(59,382)
Gains on investments, net	23	**(186,200)**	(412,858)
(Gain) loss on sale of property and equipment		**(151)**	148
Depreciation and amortization	9	**80,581**	68,895
Impairment charge for credit losses, net	7(b)	**118,000**	221,300
Impairment charge for investments, net	6(e)	**187,000**	10,000
Share in earnings of associates	8(b)	**(156,195)**	(79,515)
		1,402,658	1,185,067
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA		**(55,661)**	(915,093)
Due from banks and other financial institutions maturing after ninety days from acquisition date		**(8,553)**	1,600,000
Loans and advances		**(2,670,465)**	(10,126,943)
Positive fair values of derivatives		**(466,030)**	(544,114)
Other assets		**90,032**	(71,007)
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		**319,400**	(4,826,144)
Customer deposits		**(404,599)**	13,689,564
Negative fair values of derivatives		**364,019**	421,633
Other liabilities		**(424,320)**	274,054
Net cash (used in) / from operating activities		**(1,853,519)**	687,017
INVESTING ACTIVITIES			
Proceeds from sale of and matured investments		**19,163,865**	10,233,905
Purchases of investments		**(16,238,008)**	(13,560,426)
Investments in associates	8(b)	**-**	(53,999)
Dividends received from associates	8(b)	**63,400**	88,673
Purchases of property and equipment	9	**(192,618)**	(106,377)
Proceeds from sale of property and equipment		**246**	246
Net cash from (used in) investing activities		**2,796,885**	(3,397,978)
FINANCING ACTIVITIES			
Proceeds from subordinated debt	15	**-**	2,000,000
Dividends paid	26	**(522,000)**	(477,500)
Net cash (used in) from financing activities		**(522,000)**	1,522,500
Increase (decrease) in cash and cash equivalents		**421,366**	(1,188,461)

Continued.

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

CONSOLIDATED STATEMENT OF CASH FLOWS - continued
For the years ended December 31, 2015 and 2014

Cash and cash equivalents	Notes	2015 SAR'000	2014 SAR'000
Cash and cash equivalents at the beginning of the year		**6,678,123**	7,866,584
Increase (decrease) in cash and cash equivalents		**421,366**	(1,188,461)
Cash and cash equivalents at the end of the year	27	**7,099,489**	6,678,123
Supplemental special commission information			
Special commission received		**2,299,175**	2,256,912
Special commission paid		**697,094**	591,404
Supplemental non-cash information			
Total other comprehensive income		**(597,123)**	642,555
Employee stock option shares acquired, net of vesting		**(25,204)**	(2,177)
Proposed dividends	26	**534,500**	522,000
Bonus shares issued	26	**500,000**	500,000
Transfer of investment in associate to available for sale investments	8	**-**	269,736

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014

1. General

The Saudi Investment Bank (the Bank), a Saudi Joint Stock Company, was formed pursuant to Royal Decree No. M/31 dated 25 Jumada II 1396H, corresponding to June 23, 1976 in the Kingdom of Saudi Arabia. The Bank operates under Commercial Registration No. 1010011570 dated 25 Rabie Awwal 1397H, corresponding to March 16, 1977 through its 48 branches (2014: 48 branches) in the Kingdom of Saudi Arabia. The address of the Bank's Head Office is as follows:

The Saudi Investment Bank
Head Office
P. O. Box 3533
Riyadh 11481, Kingdom of Saudi Arabia

These consolidated financial statements include the financial statements of the Bank and the financial statements of the following subsidiaries (collectively referred to as the "Group" in these consolidated financial statements):

a) "Alistithmar for Financial Securities and Brokerage Company" (Alistithmar Capital), converted during 2015 from a limited liability company to a closed joint stock company, and is registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010235995 issued on 8 Rajab 1428H (corresponding to July 22, 2007), and is 100% owned by the Bank;

b) "Saudi Investment Real Estate Company", a limited liability company, registered in the Kingdom of Saudi Arabia under commercial registration No.1010268297 issued on 29 Jumada Awal 1430H (corresponding to May 25, 2009) and is owned 100% by the Bank. The Company has not commenced any significant operations; and

c) "Saudi Investment First Company", a limited liability company, registered in the Kingdom of Saudi Arabia under commercial registration No. 1010427836 issued on 16 Muharram 1436H (corresponding to November 9, 2014) and is owned 100% by the Bank. The Company has not commenced any significant operations.

The Bank offers a full range of commercial and retail banking services. The principal activities of Alistithmar Capital include dealing in securities as principal and agent, underwriting, management of investment funds and private investment portfolios on behalf of customers, and arrangement, advisory, and custody services relating to financial securities. The Group also offers Shariah compliant (non-interest based) banking products and services, which are approved and supervised by an independent Shariah Board. References to the "Bank" hereafter in these consolidated financial statements refer to disclosures that are relevant only to the Saudi Investment Bank, and not collectively to the "Group".

2. Basis of preparation

a) Statement of compliance

These consolidated financial statements are prepared in accordance with the Accounting Standards for Financial Institutions promulgated by the Saudi Arabian Monetary Agency (SAMA), and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), as well as interpretations issued by the IFRS Interpretations Committee (IFRIC). The Bank also prepares its consolidated financial statements to comply with the requirements of the Banking Control Law, the provisions of the Regulations for Companies in the Kingdom of Saudi Arabia, and the Bank's Articles of Association.

b) Basis of measurement

These consolidated financial statements are prepared under the historical cost basis except for the following items in the consolidated statement of financial position:

a) Assets and liabilities held for trading are measured at fair value;
b) Financial instruments designated as fair value through the consolidated income statement are measured at fair value;
c) Available for sale investments are measured at fair value; and

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014

2. Basis of preparation – continued

d) Recognized financial assets and financial liabilities designated as hedged items in qualifying fair value hedge relationships are adjusted for changes in fair value attributable to the risk being hedged.

During the years ended December 31, 2015 and 2014, the Group had no assets or liabilities which were held as trading, except for certain derivative financial instruments.

c) Functional and presentation currency

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

d) Critical accounting judgements, estimates and assumptions

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

The key assumptions concerning the future, as well as other key sources of estimation uncertainty at the reporting date, that could have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Group. Such changes are included in the assumptions when they occur.

Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

(i) Impairment of loans and advances

The Group reviews its loan portfolios to assess specific and collective impairment at each reporting date. In determining whether an impairment loss should be recorded, the Group makes judgements as to whether there is any observable data indicating an impairment trigger and followed by a measurable decrease in the estimated future cash flows. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group. Management uses estimates based on historical loss experience for loans with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its future cash flows.

The methodology and assumptions used for estimating both the amount and the timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The assessment takes into account risk concentrations and economic data, (including levels of unemployment, real estate price indices, country risk, and the performance of different individual groups.

(ii) Fair values of financial instruments

The Group measures financial instruments, such as derivatives, at fair value at each consolidated statement of financial position date. Fair values of financial instruments measured at amortized cost are disclosed in Note 6.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014

2. Basis of preparation – continued

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

The principal or the most advantageous market must be accessible to by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, while maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within a 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 prices in active markets for the same instrument that an entity can access at the measurement date (i.e., without modification or proxy);

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

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

For assets and liabilities that are recognised in the 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 financial reporting period.

The Group determines the policies and procedures for both recurring fair value measurement, such as unquoted available for sale financial assets, and for any non-recurring measurement, such as assets held for distribution in discontinued operations.

External valuers are involved from time to time in the valuation of certain assets. Involvement of external valuers is decided upon annually. Selection criteria include market knowledge, reputation, independence, and whether professional standards are maintained.

At each financial reporting date, the Group analyzes the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group’s accounting policies. For this analysis, the Group verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Group also compares the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Group has determined the classes of assets and liabilities on the basis of the nature, characteristics, and the related risks of the asset or liability, and the level of the fair value hierarchy as explained above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014

2. Basis of preparation – continued

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

The Group exercises its judgement in considering any impairment on the available-for-sale equity and debt investments. For equity investments, this includes a determination of a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgement. 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 in fair value is evaluated against the period in which the fair value of the asset has been below its original cost at initial recognition. In making this judgement, the Group evaluates among other factors, the normal volatility in share/debt price. In addition, the Group considers impairment to be appropriate when there is objective evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

(iv) Classification of held to maturity investments

The Group classifies non-derivative financial assets with fixed or determinable payments and fixed maturities as held to maturity. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity.

(v) Determination of control over investees

The control indicators set out in note 3 (b) are subject to management's judgement. The Group also acts as Fund Manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the Fund (comprising any carried interests and expected management fees) and the investors' rights to remove the Fund Manager. As a result, the Group has concluded that it acts as an agent for the investors in all cases, and therefore has not consolidated the financial statements of these funds.

e) Going concern

The Group's 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 on the Group's ability to continue as a going concern. Therefore, the consolidated financial statements are prepared on the going concern basis.

f) Provisions for liabilities and charges

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

3. Summary of significant accounting policies

The significant accounting policies adopted in the preparation of these consolidated financial statements are set out below. Except for the change in accounting policies as detailed in note 3 (a) below, the accounting policies adopted in the preparation of these consolidated financial statements are consistent with those used in the previous year.

a) Change in accounting policies

The accounting policies adopted are consistent with those of the annual consolidated financial statements for the year ended December 31, 2014, as described in 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:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014

3. Summary of significant accounting policies – continued

- IFRS 2 – "Share-Based Payments" has been amended to clarify the definition of a vesting condition by separately defining a performance condition and service condition.

- IFRS 3 – "Business Combinations" has been amended to clarify the classification and measurement of contingent consideration in a business combination, and also to clarify that IFRS 3 does not apply to the accounting for the formation of all types of joint arrangements mentioned in IFRS 11.

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

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

- IAS 16 – "Property Plant and Equipment" and IAS 38 - "Intangible Assets" have been amended to clarify the requirements of revaluation models recognizing that the restatement of accumulated depreciation or amortization is not always proportionate to the change in the gross carrying amount of the asset.

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

- IAS 40 - "Investment Property" has been amended to clarify that an entity should assess whether an acquired property is an investment property under IAS 40 and should perform a separate assessment under IFRS 3 to determine whether the acquisition constitutes a business combination.

The adoption of the above amendments to existing standards have had no significant impact on the consolidated financial statements of the Group.

b) Basis of consolidation

These consolidated financial statements are comprised of the financial statements of the Bank and its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting year as that of the Bank, using consistent accounting policies. Changes are made to the accounting policies of the subsidiaries when necessary to align with the accounting policies of the Group.

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed, 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 the subsidiaries are included in the consolidated financial statements from the date the Group obtains control of the investee and ceases when the Group loses control of the investee.

A structured entity is an entity designed so that its activities are not governed by way of voting rights. In assessing whether the Group has power over such investees in which it has an interest, the Group considers factors such as purpose and design of the investee, its practical ability to direct the relevant activities of the investee, the nature of its relationship with the investee, and the size of its exposure to the variability of returns of the investee. The financial statements of any such structured entities are consolidated from the date the Group gains control and until the date when the Group ceases to control the investee.

3. Summary of significant accounting policies – continued

These consolidated financial statements have been prepared using uniform accounting policies and valuation methods for like transactions and other events in similar circumstances.

The Group manages assets held in investment entities 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.

Material inter-group balances and any material income and expenses arising from inter-group transactions, are eliminated in preparing these consolidated financial statements.

c) Investments in associates

Investments in associates are initially recognised at cost and subsequently accounted for under the equity method of accounting. Associates are enterprises in which the Bank generally holds approximately 20% to 50% of the voting power or over which it has significant influence 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 Bank's share of the net assets of the associates, less any impairment. Share in earnings of associates includes the changes in the Bank's share of the net assets of the associates. The Bank's share of its associates post-acquisition income or losses is recognized in the consolidated income statement and its share of post-acquisition movements in other comprehensive income is recognized in other reserves included in shareholders' equity. When the Bank's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Bank does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The consolidated income statement reflects the Bank's share of the results of operations of the associates. When there has been a change recognized directed in the equity of the associates, the Bank recognizes its share of any changes and discloses this, when applicable, in the consolidated statement of changes in shareholders' equity. Unrealized gains on transactions are eliminated to the extent of the Bank's interest in the investees. Unrealized losses are also eliminated unless the transaction provides evidence of impairment in the asset transferred.

The Bank's share of earnings of an associate is shown on the face of the consolidated income statement, which represents the net earnings attributable to equity holders of an 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 Bank determines whether it is necessary to recognize an impairment loss on its investment in its associate. The Bank 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 Bank calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the share in earnings of associates in the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014

3. Summary of significant accounting policies – continued

d) Settlement date accounting

All regular-way purchases and sales of financial assets are recognized and derecognized on the settlement date, i.e. the date the asset is delivered to the counterparty. When settlement date accounting is applied, the Bank accounts for any change in fair value between the trade date and the settlement date in the same way as it accounts for the acquired asset. 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.

e) Derivative financial instruments and hedge accounting

Derivative financial instruments, including foreign exchange contracts, commission rate futures, forward rate agreements, currency and commission rate swaps, and currency and commission rate options (both written and purchased) are initially recognized at fair value on the date on which the derivatives contract is entered into and are subsequently re-measured at fair value in the consolidated statement of financial position with transactions costs recognized in the consolidated income statement. All derivatives are carried at their fair value as assets where the fair value is positive and as liabilities where the fair value is negative. Fair values are obtained by reference to quoted market prices, discounted cash flow methods, and pricing models as appropriate.

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

(i) Derivatives held for trading

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

(ii) Embedded derivatives

Derivatives embedded in other financial instruments are treated as separate derivatives and are recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through income statement. The embedded derivatives separated from the host are carried at estimated net fair value 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 commission rates, foreign currency, and credit risks, including exposures arising from highly probable forecast transactions and firm commitments. In order to manage a 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 which hedge the exposure to changes in the fair value of a recognised asset or liability, (or assets or liabilities in the 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 loss; and (b) cash flow hedges which hedge exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability or to a highly probable forecasted transaction that will affect the reported net gain or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014

3. Summary of significant accounting policies – continued

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

At each hedge effectiveness assessment / reporting date, each 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, 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. For situations where the hedged item is a forecast transaction, the Group also assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the consolidated statement of income.

iii (a) Fair Value Hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognized asset or liability or a firm commitment that could affect the consolidated income statement, any gain or loss from re-measuring the hedging instruments to fair value is recognised immediately in the consolidated income statement together with the change in the fair value of the hedged item attributable to the hedged risk in special commission income.

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

iii (b) Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of a variability of cash flows attributable to a particular risk associated with a recognised asset or a liability or a highly probable forecasted transaction that could affect the consolidated 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 transaction affects the consolidated income statement. However, if the Bank expects that all or a portion of a loss recognized in other comprehensive income will not be recovered in one or more future periods, it reclassifies into the consolidated income statement as a reclassification adjustment the amount that is not to be recognized.

Where the hedged 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014

3. Summary of significant accounting policies – continued

When the hedging instrument is expired or sold, terminated or exercised, or no longer qualifies for hedge accounting, or the transaction is no longer expected to occur or the Group 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 shareholders' equity to the consolidated income statement when the forecasted transaction occurs. Where the hedged transaction is no longer expected to occur and affects the statement of income, the net cumulative gain or loss recognised in other comprehensive income is transferred immediately to the consolidated income statement.

f) Foreign currencies

Transactions in foreign currencies are translated into Saudi Arabian Riyals at the exchange rates prevailing at transaction dates. Monetary assets and liabilities at year-end, denominated in foreign currencies, are translated into Saudi Arabian Riyals at the exchange rates prevailing at the consolidated statement of financial position date.

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 effective interest 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 of foreign currency borrowings that provide an effective hedge against a net investment in foreign entity. Foreign exchange gains or losses on translation of 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. Translation gains or losses on non-monetary items carried at fair value are included as part of the fair value adjustment either in the consolidated income statement or in other comprehensive income depending on the underlying financial asset.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of 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.

g) Offsetting financial instruments

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

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

h) Revenue / expense recognition

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Group, and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized.

Special commission income and expense - Special commission income and expense for all special commission earning/bearing financial instruments, are recognised in the consolidated income statement on the effective yield basis. The effective yield is the rate that 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 special commission rate, the Group estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014

3. Summary of significant accounting policies – continued

The carrying amount of a 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 special commission rate and the change in carrying amount is recorded as special commission income or expense.

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

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

Exchange income / Loss - Exchange income/loss is recognized when earned / incurred.

Fee income from banking services that are not an integral component of the effective yield calculation on a financial asset or liability are generally recognized on an accrual basis when the related service is provided. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportionate basis. Fees received on asset management, custody services and other similar services that are provided over an extended period of time, are recognized over the period when the service is being provided. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognized on a straight-line basis over the commitment period. Other fees and commission expense relate mainly to transaction and service fees, and are recognized as expenses as the services are received.

Dividend income - Dividend income is recognised when the right to receive payment is established.

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

i) Repurchase agreements and reverse repurchase agreements

Available for sale investments sold with a simultaneous commitment to repurchase at a specified future date (repurchase agreements) continue to be recognized in the consolidated statement of financial position and are measured in accordance with related accounting policies for investments held as available for sale. The 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 the sale and repurchase price is treated as special commission expense and accrued over the life of the repurchase agreement on an effective yield basis.

Underlying assets purchased with a corresponding commitment to resell at a specified future date (reverse repurchase agreements) are not recognised in the consolidated statement of financial position, as the Group does not obtain control over the underlying assets. Amounts paid under these agreements are included in “Cash and balances with SAMA”. The difference between the purchase and resale price is treated as special commission income and accrued over the life of the reverse repurchase agreement on an effective yield basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014

3. Summary of significant accounting policies – continued

j) Investments

All investment securities are initially recorded at fair value, including any incremental direct transaction cost. Premiums are amortized and discounts are accreted using the effective yield basis and are taken to special commission income.

For securities traded in organized financial markets, fair value is determined by reference to exchange quoted market bid prices at the close of business on the consolidated statement of financial position date. Fair value of managed assets and investments in mutual funds are determined by reference to declared net asset values.

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 of the security. Where the fair values cannot be derived from active markets or reference prices, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values.

Following initial recognition, subsequent transfers between the various classes of investments are permissible only if certain conditions are met. The subsequent period-end reporting values for each class of investment are determined on the basis as set out in the following paragraphs.

(i) Available for sale

Available for sale investments are those non-derivative equity and debt securities intended to be held for an unspecified period of time, which are neither classified as a held to maturity investment, loans and receivables, nor designated as FVIS, and 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 available for sale are subsequently measured at fair value. For an available for sale investment where the fair value has not been hedged, any gain or loss arising from a change in its fair value is recognized in other comprehensive income. On de-recognition, any cumulative gain or loss previously recognized in other comprehensive income is included in the consolidated income statement.

Special commission income is recognized in the consolidated income statement on an effective yield basis. Dividend income is recognized in the consolidated income statement when the right to receive payment is established. Foreign exchange gains or losses on available for sale debt security investments are recognized in the consolidated income statement.

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

(ii) Held to maturity

Investments having fixed or determinable payments and a fixed maturity and for which the Group has a positive intention and ability to hold to maturity are classified as held to maturity. Held to maturity investments are initially recognized at fair value including direct and incremental transaction costs and are subsequently measured at amortized cost, less provision for impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition using an effective yield basis. Any gain or loss on such investments is recognized in the consolidated income statement when the investment is derecognized or impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014

3. Summary of significant accounting policies – continued

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 or reclassifications would not impact the Group's ability to use this classification in any of the following circumstances:

- Sales or reclassifications that are so close to maturity that the changes in the market rate of the commission would not have a significant effect on the fair value;
- Sales or reclassifications after the Group has collected substantially all of 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.

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 recognized when cash is advanced to borrowers. They are derecognized when either borrowers repay their obligations, or the loans are sold or written off, or substantially all the risks and rewards of ownership are transferred.

All loans and advances are initially measured at fair value, including acquisition charges associated with the loans and advances.

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 amortized cost less any amount written off and allowance for credit losses.

l) Impairment of financial assets

An assessment is made at each reporting date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired at the reporting date. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognised for changes in its carrying amount.

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

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the consolidated income statement and included in the relevant impairment charges.

Loans and advances whose terms have been renegotiated are no longer considered to be past due and 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 and advances continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective yield rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014

3. Summary of significant accounting policies – continued

(i) Impairment of financial assets held at amortized cost

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

In addition to specific provisions for credit losses, provisions for collective impairment are made on a portfolio basis. The collective impairment provisions are estimated based on various factors including credit ratings allocated to a borrower or group of borrowers, the experience the Group has had in dealing with a borrower or group of borrowers and available historical default information. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions.

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

(ii) Impairment of available for sale financial assets

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

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognized in the consolidated income statement, the impairment loss is reversed and recognized in 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. Determining the amount of a significant or prolonged decline in fair value requires judgement. The impairment loss cannot be reversed through the consolidated income statement as long as the asset continues to be recognized i.e. any increase in fair value after impairment has been recorded can only be recognized in other comprehensive income. On de-recognition, any cumulative gain or loss previously recognized in other comprehensive income is included in the consolidated income statement.

m) 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 unit's (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 an asset's fair value less costs to sell, an appropriate valuation model is used. These model calculations are corroborated by valuation multiples, or other available fair value indicators.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014

3. Summary of significant accounting policies – continued

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indications exist, the Group estimates the asset's or CGU's recoverable amount. A previously recognized 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 recognized for the asset in prior years. Such reversals are recognised in the consolidated income statement.

Impairment losses relating to goodwill are not reversed in future periods.

n) Other real estate

The Group, in the ordinary course of business, acquires certain real estate against settlement of loans and advances. Such real estate is considered as held for sale and is initially stated at the lower of net realizable value of the 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 recognized 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 gain in the fair value less costs to sell of these assets to the extent this does not exceed the cumulative write down is recognized together with any gain/ loss on disposal in the consolidated income statement.

o) Property and equipment

Property and equipment is stated at cost and presented net of accumulated depreciation. Freehold land is not depreciated. The cost of other property and equipment is depreciated using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	20 to 30 years
Leasehold improvements	Over the lease period or 5 years, whichever is shorter
Furniture, equipment and vehicles	4 to 5 years

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

p) Financial liabilities

All money market deposits, customer deposits, term loans, subordinated debt, and other debt securities in issue are initially recognized at fair value less transaction costs.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014

3. Summary of significant accounting policies – continued

q) Financial guarantees

A financial guarantee contract generally requires the issuer of the contract to make specific payments to the contract holder for a loss incurred by the holder if a debtor fails to pay under the terms of a debt instrument.

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the consolidated financial statements at fair value in other liabilities, being the value of the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of the expenditure required to settle any financial obligations arising as a result of such guarantees. Any increase in the liability relating to a financial guarantee is recognized in the consolidated income statement in impairment charges for credit losses, net. The premium received is recognized in the consolidated income statement in "Fee income from banking services, net" on a straight line basis over the life of the guarantee.

r) Provisions

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

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 payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

t) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, "cash and cash equivalents" are defined as those amounts included in cash and balances with SAMA excluding statutory deposits, and due from banks and other financial institutions with a maturity of ninety days or less from the date of acquisition.

u) De-recognition of financial instruments

A financial asset (or a part of a financial asset, or a part of a group of similar financial assets) is de-recognized, when the contractual rights to receive the cash flows from the financial asset expires or the asset is transferred and the transfer qualities for de-recognition.

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

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

v) Zakat and income taxes

Zakat and income taxes are considered as liabilities of the 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 adjusted net income for the year under the income tax regulations.

3. Summary of significant accounting policies – continued

Zakat and income tax are not charged to the consolidated income statement and are deducted from dividends paid to the shareholders, or reimbursed by the shareholders.

w) Employees' incentive plans

The Bank offers to its eligible employees ("Employees") equity shares in the Bank under an Employee Stock Grant Plan ("the Plan"). This Plan has been approved by SAMA. Under the terms of the Plan, employees are granted shares which vest over a four-year period. The cost of the Plan is measured by the value of the shares on the date purchased and recognized over the period in which the service condition is fulfilled using an appropriate valuation model, and ending on the vesting date. Employee share option schemes are recorded by the Bank at fair value at grant date. The shares acquired for the share option schemes are recorded at cost and are presented as a deduction from shareholders' equity as adjusted for any transaction costs, dividends, and gains or losses on sales of such shares.

In addition, the Group grants to its eligible employees other types of security and savings plans that are based on mutual contributions by the Group and the employees. These contributions are paid to the participating employees at the respective maturity date of each plan.

x) Other employees' benefits

Short-term employees' benefits are measured on an undiscounted basis and are 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.

The liability for the Group's employee's end of service benefits is determined based on an actuarial valuation conducted by an independent actuary, taking into account the provisions of the Saudi Arabian Labor and workmans law. The liability for other long-term employees' benefit plans are also based on an actuarial valuation conducted by an independent actuary taking into account the respective terms of the individual benefit plans.

y) Asset management services

The Group offers asset management services to its customers, which include management of certain investment funds in consultation with professional investment advisors. The Group's share of these funds is included in available for sale investments and fees earned are included in fees from banking services, net.

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.

z) Non-interest based banking products

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

High level definitions of non-interest based products include:

i. Murabaha - 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. Istisna'a – an agreement between the Group and a customer whereby the Group sells to the customer a developed asset according to agreed upon specifications, for an agreed upon price.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014

3. Summary of significant accounting policies – continued

iii. Ijarah – 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.

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

4. Cash and balances with SAMA

Cash and balances with SAMA are summarized as follows:

	2015 SAR'000	2014 SAR'000
Cash on hand	707,518	771,835
Reverse repurchase agreements with SAMA	-	4,986,000
Other balances with SAMA	(5,259)	40,792
Subtotal (note 27)	702,259	5,798,627
Statutory deposit	3,384,728	3,329,067
Total	4,086,987	9,127,694

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

5. Due from banks and other financial institutions

Due from banks and other financial institutions are summarized as follows:

	2015 SAR'000	2014 SAR'000
Current accounts	155,733	85,922
Money market placements	6,250,050	793,574
Total	6,405,783	879,496

6. Investments, net

a) Available for sale investment securities are classified as follows:

	2015 (SAR'000)			2014 (SAR'000)		
	Domestic	International	Total	Domestic	International	Total
Fixed rate securities	5,748,509	6,998,932	12,747,441	9,264,376	7,499,492	16,763,868
Floating rate securities	2,015,439	2,643,657	4,659,096	2,032,977	1,623,670	3,656,647
Equities and others	1,221,275	85,334	1,306,609	1,877,045	98,544	1,975,589
Mutual funds	243,181	-	243,181	30,845	-	30,845
Allowance for impairment	(110,000)	(4,000)	(114,000)	-	(30,000)	(30,000)
Available for sale, net	9,118,404	9,723,923	18,842,327	13,205,243	9,191,706	22,396,949

Investments include SAR 5,050 million (2014: SAR 2,896 million), which have been pledged under repurchase agreements with other banks. The market value of these investments is SAR 5,092 billion (2014: SAR 2,968 billion).

The net cost of the available for sale investment securities before allowance for impairment as of December 31, 2015 is SAR 18.9 billion (2014: SAR 21.8 billion).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014

6. Investments, net – continued

b) The composition of available for sale investments is as follows:

	2015 (SAR'000)			2014 (SAR'000)		
	Quoted	**Unquoted**	**Total**	Quoted	Unquoted	Total
Fixed rate securities	**8,366,201**	**4,381,240**	**12,747,441**	8,576,911	8,186,957	16,763,868
Floating rate securities	**2,188,509**	**2,470,587**	**4,659,096**	1,580,322	2,076,325	3,656,647
Equities and others	**1,217,525**	**89,084**	**1,306,609**	1,875,545	100,044	1,975,589
Mutual funds	**243,181**	**-**	**243,181**	30,845	-	30,845
Allowance for impairment	**(110,000)**	**(4,000)**	**(114,000)**	-	(30,000)	(30,000)
Available for sale, net	**11,905,416**	**6,936,911**	**18,842,327**	12,063,623	10,333,326	22,396,949

The unquoted securities above are principally comprised of Saudi Government Development Bonds, and certain Saudi corporate securities. Equities reported under available for sale investments include unquoted shares of SAR 12.4 million (2014: SAR 10.1 million) that are carried at cost, as their fair value cannot be reliably measured. Mutual funds are considered as quoted in the table above as daily net asset values are published on the Saudi Stock Exchange (Tadawul).

c) Available for sale investments, net are classified by counterparty as follows:

	2015 SAR'000	2014 SAR'000
Government and quasi-Government	**7,142,794**	10,718,035
Corporate	**3,470,723**	2,331,403
Bank and other financial institutions	**8,228,810**	9,347,511
Available for sale investments, net	**18,842,327**	22,396,949

d) The credit risk exposure of available for sale investments, net is as follows:

	2015 SAR'000	2014 SAR'000
Investment grade	**15,367,378**	18,418,747
Non-investment grade	**314,690**	457,796
Unrated	**1,720,469**	1,543,972
Total investments subject to credit risk exposure	**17,402,537**	20,420,515
Equities and mutual funds not subject to credit risk exposure	**1,439,790**	1,976,434
Available for sale investments, net	**18,842,327**	22,396,949

Investment grade securities generally have a minimum external rating from approved rating agencies including Standard and Poors (BBB-), Moodys (Baa3), or Fitch (BBB-). Unrated investment securities primarily include Saudi corporate securities and other private equity fund investments.

e) The movement of the allowance for impairment on available for sale investments is as follows:

	2015 SAR'000	2014 SAR'000
Balance at the beginning of the year	**30,000**	232,000
Provided during the year	**187,000**	10,000
Impairment and reversals for realized losses	**(103,000)**	(212,000)
Balance at the end of the year	**114,000**	30,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014

7. Loans and advances, net

a) Loans and advances, net held at amortized cost are comprised of the following:

	2015 (SAR'000)				
	Overdraft	**Consumer**	**Commercial**	**Others**	**Total**
Performing loans and advances	**5,233,233**	**13,418,283**	**41,490,618**	**273,967**	**60,416,101**
Non performing loans and advances	**304,853**	**142,741**	**-**	**-**	**447,594**
Total loans and advances	**5,538,086**	**13,561,024**	**41,490,618**	**273,967**	**60,863,695**
Allowance for credit losses	**(262,948)**	**(276,923)**	**(298,564)**	**(281)**	**(838,716)**
Loans and advances, net	**5,275,138**	**13,284,101**	**41,192,054**	**273,686**	**60,024,979**

	2014 (SAR'000)				
	Overdraft	Consumer	Commercial	Others	Total
Performing loans and advances	5,442,780	11,604,600	40,587,490	223,841	57,858,711
Non performing loans and advances	303,869	132,526	-	-	436,395
Total loans and advances	5,746,649	11,737,126	40,587,490	223,841	58,295,106
Allowance for credit losses	(205,952)	(248,572)	(367,839)	(229)	(822,592)
Loans and advances, net	5,540,697	11,488,554	40,219,651	223,612	57,472,514

Loans and advances above include non-interest based banking products including Murabaha agreements, Istisna'a and Ijarah which are stated at an amortized cost of SAR 32.6 billion (2014: SAR 30.6 billion).

b) The movement in the allowance for credit losses is as follows:

	Overdraft, commercial, and others		
	Specific	Collective	Total
December 31, 2013 balance	172,500	341,611	514,111
Provided during the year	18,238	45,585	63,823
Bad debts written off during the year	(3,914)	-	(3,914)
December 31, 2014 balance	**186,824**	**387,196**	**574,020**
Provided during the year	**98,375**	**(96,823)**	**1,552**
Bad debts written off during the year	**(45,106)**	**31,327**	**(13,779)**
December 31, 2015 balance	**240,093**	**321,700**	**561,793**

	Consumer		
	Specific	Collective	Total
December 31, 2013 balance	96,283	93,681	189,964
Provided during the year	135,112	22,365	157,477
Bad debts written off during the year	(98,869)	-	(98,869)
December 31, 2014 balance	**132,526**	**116,046**	**248,572**
Provided during the year	**98,312**	**18,136**	**116,448**
Bad debts written off during the year	**(88,097)**	**-**	**(88,097)**
December 31, 2015 balance	**142,741**	**134,182**	**276,923**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014

7. Loans and advances, net – continued

c) The credit quality of loans and advances is summarized as follows:

(i) Neither past due nor impaired loans and advances, net are as follows:

	2015 SAR'000	2014 SAR'000
Excellent	**338,830**	50,104
Strong	**19,246,890**	22,696,639
Average	**16,083,283**	14,881,701
Acceptable	**9,465,281**	7,368,613
Marginal	**666,667**	652,172
Watch	**32,705**	2,189
Unrated	**13,301,058**	11,479,061
Total	**59,134,714**	57,130,479

The loans and advances that are neither past due nor impaired are described as follows:

Excellent - leader in a stable industry. Better than peers' financials and cash flows. Has access to financial markets under normal market conditions.

Strong - strong market and financial position with a history of successful performance but certain exceptions exist. Financial fundamentals are still better than industry benchmarks. The entity would have access to financial markets under normal conditions.

Average - moderate degree of stability with industry or company specific risk factors. Financial fundamentals are sound and within industry benchmarks. Access to financial markets is limited and the entity is susceptible to cyclical changes.

Acceptable - minor weaknesses in industry or company specific risk factors. Some financial fundamentals are inferior to industry benchmarks. Alternative financing could be available but this might be limited to private and institutional sources only.

Marginal - unfavorable industry or company specific risk factors exist. Operating performance and financials are marginal. Alternative sources of finance are unlikely. No new business can be contemplated with this category.

Watch - unfavorable industry or company specific risk factors exist. Risk of non-payment is high. Financial fundamentals are well below industry benchmarks and alternative sources of finance are extremely limited.

Unrated – unrated loans and advances primarily consist of consumer loans with no past due balances.

(ii) Past due but not impaired loans and advances, net are as follows:

	2015 (SAR'000)		
	Overdraft and commercial	**Consumer**	**Total**
From 1 day to 30 days	**1,737**	**54,579**	**56,316**
From 31 days to 90 days	**11,197**	**62,646**	**73,843**
From 91 days to 180 days	**1,048**	**-**	**1,048**
More than 180 days	**1,150,180**	**-**	**1,150,180**
Total	**1,164,162**	**117,225**	**1,281,387**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014

7. Loans and advances, net – continued

	2014 (SAR'000)		
	Overdraft and commercial	Consumer	Total
From 1 day to 30 days	63,144	65,222	128,366
From 31 days to 90 days	6,761	60,317	67,078
From 91 days to 180 days	5,591	-	5,591
More than 180 days	527,197	-	527,197
Total	602,693	125,539	728,232

The above tables do not include certain past due but not impaired loans which are in an advanced stage of negotiation for renewal or restructuring. Such loans totaled SAR 1.4 billion as of December 31, 2015 (2014: SAR 1.3 billion).

The estimated fair value of collateral held by the Group as security for total loans and advances is approximately SAR 50.3 billion (2014: SAR 52.4 billion). The estimated fair value of collateral held by the Group for past due but not impaired overdraft and commercial facilities included above is SAR 2.7 billion (2014: SAR 1.0 billion).

(iii) The economic sector risk concentrations for loans and advances and allowance for credit losses are as follows:

	2015 (SAR'000)			
	Performing	**Non performing**	**Allowance for credit losses**	**Loans and advances, net**
Government and quasi-Government	**328,943**	**-**	**(1,122)**	**327,821**
Banks and other financial services	**8,128,175**	**-**	**(83,437)**	**8,044,738**
Agriculture and fishing	**17,789**	**-**	**(111)**	**17,678**
Manufacturing	**6,310,479**	**3,210**	**(48,033)**	**6,265,656**
Mining and quarrying	**439,292**	**-**	**(2,725)**	**436,567**
Building and construction	**4,926,881**	**695**	**(37,068)**	**4,890,508**
Commerce	**13,778,599**	**209,514**	**(240,788)**	**13,747,325**
Transportation and communication	**1,811,070**	**43,783**	**(48,732)**	**1,806,121**
Services	**1,666,860**	**14,372**	**(29,631)**	**1,651,601**
Consumer loans	**13,418,283**	**142,741**	**(276,923)**	**13,284,101**
Other	**9,589,730**	**33,279**	**(70,146)**	**9,552,863**
Total	**60,416,101**	**447,594**	**(838,716)**	**60,024,979**

	2014 (SAR'000)			
	Performing	Non performing	Allowance for credit losses	Loans and advances, net
Government and quasi-Government	380,590	-	(1,653)	378,937
Banks and other financial services	7,242,559	-	(58,956)	7,183,603
Agriculture and fishing	26,386	-	(175)	26,211
Manufacturing	6,471,749	21,024	(71,107)	6,421,666
Mining and quarrying	488,840	-	(3,939)	484,901
Building and construction	4,022,268	-	(39,945)	3,982,323
Commerce	14,020,695	165,677	(203,102)	13,983,270
Transportation and communication	1,775,033	-	(12,531)	1,762,502
Services	1,627,659	14,071	(33,802)	1,607,928
Consumer loans	11,604,600	132,526	(248,572)	11,488,554
Other	10,198,332	103,097	(148,810)	10,152,619
Total	57,858,711	436,395	(822,592)	57,472,514

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014

8. Investment in associates

Investments in associates represent the Bank's share of investments in entities where the Bank has significant influence. These investments are accounted for using the equity method of accounting.

(a) Investments in associates include the Bank's ownership interest in associated companies in the Kingdom of Saudi Arabia, as follows:

	2015	2014
American Express (Saudi Arabia) ("AMEX")	**50%**	50%
Saudi Orix Leasing Company ("ORIX")	**38%**	38%
Amlak International for Finance and Real Estate Development Co. ("AMLAK")	**32%**	32%

The Bank also has a 20% interest in Naeem Investment Company which has no operations.

(b) The movement of investments in associates is summarized as follows:

	2015 SAR'000	2014 SAR'000
Balance at beginning of the year	**846,351**	1,070,648
Investments	**-**	53,999
Transfer to available for sale investments	**-**	(269,736)
Share of earnings	**156,195**	79,515
Dividends	**(63,400)**	(88,673)
Share of other comprehensive income	**(124)**	598
Balance at end of the year	**939,022**	846,351

During the first quarter of 2014, the Bank transferred its investment in the Mediterranean and Gulf Cooperative Insurance Company (MedGulf) from investments in associates to available for sale investments, because this investment no longer qualified to be accounted for as an investment in an associate. This investment was recorded in available for sale investments at its estimated fair value at the time of transfer, with a corresponding gain equal to the difference between the estimated fair value and the carrying amount of the recorded investment in MedGulf. The resulting gain totaling SAR 223.9 million is included in gains on non-trading investments, net for the year ended December 31, 2014 (see note 23).

(c) The Bank's share of the associates' financial statements is summarized below:

	2015 (SAR'000)		
	AMEX	**ORIX**	**AMLAK**
Total assets	**416,533**	**774,893**	**976,215**
Total liabilities	**239,637**	**464,512**	**624,284**
Total equity	**176,896**	**310,381**	**351,931**
Total income	**201,794**	**94,724**	**58,423**
Total expenses	**113,453**	**55,114**	**25,559**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014

8. Investment in associates - continued

	2014 (SAR'000)		
	AMEX	ORIX	AMLAK
Total assets	370,929	842,815	824,497
Total liabilities	244,008	561,637	491,455
Total equity	126,921	281,178	333,042
Total income	185,048	94,881	50,093
Total expenses	108,128	50,441	22,170

9. Property and equipment, net

Property and equipment, net is summarized as follows:

	2015 and 2014 (SAR'000)				
	Land and buildings	**Leasehold improvements**	**Furniture, equipment and vehicles**	**Total 2015**	Total 2014
Cost					
Balance at the beginning of the year	**954,354**	**82,859**	**482,492**	**1,519,705**	1,415,966
Additions	**36,774**	**28,998**	**126,846**	**192,618**	106,377
Disposals	**-**	**-**	**(324)**	**(324)**	(2,638)
Balance at the end of the year	**991,128**	**111,857**	**609,014**	**1,711,999**	1,519,705
Accumulated depreciation					
Balance at the beginning of the year	**199,907**	**56,096**	**354,080**	**610,083**	543,432
Charge for the year	**31,730**	**12,069**	**36,782**	**80,581**	68,895
Disposals	**-**	**-**	**(229)**	**(229)**	(2,244)
Balance at the end of the year	**231,637**	**68,165**	**390,633**	**690,435**	610,083
Net book value					
As of December 31, 2015	**759,491**	**43,692**	**218,381**	**1,021,564**	
As of December 31, 2014	754,447	26,763	128,412		909,622

Furniture, equipment, and vehicles above includes information technology related assets.

10. Other assets

Other assets are summarized as follows:

	2015 SAR'000	2014 SAR'000
Accrued special commission receivable:		
- Loans and advances	**302,805**	197,631
- Investments	**141,361**	116,283
- Banks and other financial institutions	**4,480**	872
Total accrued special commission receivable	**448,646**	314,786
Zakat and income tax due from shareholders	**105,837**	112,622
Other real estate	**152,836**	152,836
Customer receivables	**58,316**	160,047
Property and equipment pending completion	**64,829**	97,744
All other assets	**195,698**	334,914
Total	**1,026,162**	1,172,949

11. Derivatives

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

a) Swaps

Swaps are commitments to exchange one set of cash flows for another. For special commission rate swaps, counterparties generally exchange fixed and floating rate commission payments in a single currency without exchanging notional amounts. For cross-currency special commission rate swaps, notional amounts, and fixed and floating special commission payments are exchanged in different currencies. The notional amounts can also vary based upon the agreed terms in the case of variable notional swaps.

b) Forwards and futures

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

c) Forward rate agreements

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

d) Options

Options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, to either buy or sell at 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.

The derivative financial instruments utilized are either held for trading or held for hedging purposes as described below:

a) Held for trading purposes

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

b) Held for hedging purposes

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014

11. Derivatives - continued

As part of its asset and liability management, the Bank uses derivatives for hedging purposes in order to optimize its own exposure to currency and special commission rate risks. This is generally achieved by hedging specific transactions.

The Bank uses forward foreign exchange contracts to also apply various hedging strategies against specifically identified currency risks. In addition, the Bank uses special commission rate swaps to hedge against the special commission rate risk arising from specifically identified fixed special commission-rate exposures.

The tables below summarize the positive and negative fair values of derivative financial instruments, together with the notional amounts, analyzed by the term to maturity and monthly average. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the year-end, do not necessarily reflect the amounts of future cash flows involved. The notional amounts are not indicative of the Bank's exposure to credit risk nor market risk.

The Bank has a put option arising from an existing master agreement entered into by the Bank relating to an associated company. The terms of the agreement give the Bank a put option and gives the counter party a call option, that is exercisable from 2013 onwards for the remaining term of the agreement. The Bank has valued only the put option, as the call option is deemed to be out of the money. The put option, once exercised, grants the Bank the right to receive a payment in exchange for its shares one year after the exercize, based on pre-determined formulas included in the agreement. As of December 31, 2015, the estimated fair value of this option is approximately SAR 299.2 million (2014: SAR 215.1 million), with the corresponding income included in gains on investments, net. These amounts are not included in the table below.

Derivative financial instruments are summarized as follows:

				Notional amounts by term to maturity				
	2015 (SAR'000)							
	Positive fair value	**Negative fair value**	**Notional amount**	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Monthly average**
Held for trading:								
Forward foreign exchange contracts	**24,056**	**22,715**	**4,459,736**	**1,227,983**	**1,889,239**	**1,342,514**	**-**	**8,429,793**
Foreign exchange options	**57,608**	**57,608**	**1,814,557**	**303,806**	**857,221**	**653,126**	**404**	**1,834,719**
Commission rates swaps	**651,492**	**644,203**	**5,277,502**	**250,000**	**160,000**	**1,877,720**	**2,989,782**	**4,885,841**
Held as fair value hedges:								
Commission rate swaps	**254,579**	**276,146**	**2,721,360**	**-**	**319,056**	**487,968**	**1,914,336**	**2,513,208**
Total	**987,735**	**1,000,672**	**14,273,155**	**1,781,789**	**3,225,516**	**4,361,328**	**4,904,522**	**17,663,561**

				Notional amounts by term to maturity				
	2014 (SAR'000)							
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading:								
Forward foreign exchange contracts	2,640	2,600	4,790,212	655,161	4,135,051	-	-	6,674,310
Foreign exchange options	112,981	112,104	1,867,642	519,943	1,170,736	176,963	-	2,777,812
Commission rates swaps	356,028	360,102	3,752,291	-	150,000	600,000	3,002,291	3,505,412
Held as fair value hedges:								
Commission rate swaps	134,080	161,847	2,000,829	93,848	450,468	855,889	600,624	1,869,186
Total	605,729	636,653	12,410,974	1,268,952	5,906,255	1,632,852	3,602,915	14,826,720

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014

11. Derivatives - continued

The table below is a summary of the Bank's fair value hedges and hedged portfolios as of December 31, 2015 and 2014, which includes the description of the hedged items and related fair values, the nature of the risk being hedged, and the hedging instruments and related fair values.

December 31, 2015 (SAR'000)

	Hedged items			Hedging instruments		
	Current fair value	**Inception fair value**	**Hedged risk**	**Instrument used**	**Positive fair value**	**Negative fair value**
Fixed commission rate investments	**2,801,929**	**2,821,298**	**Fair value risk**	**Commission rate swaps**	**254,579**	**276,146**

December 31, 2014 (SAR'000)

	Hedged items			Hedging instruments		
	Current fair value	Inception fair value	Hedged risk	Instrument used	Positive fair value	Negative fair value
Fixed commission rate investments	2,069,133	2,070,549	Fair value risk	Commission rate swaps	134,080	161,847

The gains during the year on hedging instruments for fair value hedges were SAR 7.7 million (2014: gains of SAR 4.4 million). The losses on hedged items attributable to hedged risk were SAR 12.6 million (2014: losses of SAR 2.2 million). The net negative fair value of all derivatives is approximately SAR 12.9 million (2014: SAR negative 30.9 million). Approximately 59% (2014: 97%) of the positive fair value of the Bank's derivatives are entered into with financial institutions, and less than 35% (2014: 38%) of the positive fair value contracts are with any single counterparty at the consolidated statement of financial position date. Derivative activities are mainly carried out under the Bank's treasury segment.

The Bank, as part of its derivative management activities, has entered into a master agreement in accordance with the International Swaps and Derivative Association (ISDA) directives. Under this agreement, the terms and conditions for derivative products purchased or sold by the Bank are unified. As part of the master agreement, a credit support annex (CSA) has also been signed. The CSA allows the Bank to receive improved pricing by way of exchange of mark to market amounts in cash as collateral whether in favor of the Bank or the counter party. As of December 31, 2015, the cash collateral amounts held by counterparties total SAR 39.26 million. As of December 31, 2014, the cash collateral amounts held by the Bank totaled SAR 18.29 million.

12. Due to banks and other financial institutions

Due to banks and other financial institutions is summarized as follows:

	2015 SAR'000	2014 SAR'000
Current accounts	**7,600**	80,810
Repurchase agreements	**3,812,520**	2,513,672
Money market deposits	**1,501,368**	2,407,606
Total	**5,321,488**	5,002,088

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014

13. Customer deposits

Customer deposits are summarized as follows:

	2015 SAR'000	2014 SAR'000
Demand	**20,876,250**	19,649,245
Savings	**1,620,632**	648,766
Time	**46,915,487**	49,392,429
Other	**916,443**	1,042,971
Total	**70,328,812**	70,733,411

Time deposits include deposits against sale of securities of SAR 4 million (2014: SAR 1,130 million) with agreements to repurchase the same at fixed future dates. Other customer deposits include SAR 516 million (2014: SAR 428 million) of margins held for irrevocable commitments.

Customer deposits above include Sharia-Compliant deposits totaling SAR 52.5 billion as of December 31, 2015 (2014: SAR 49.1 billion).

The above amounts include foreign currency deposits (equivalent to Saudi Riyals) as follows:

	2015 SAR'000	2014 SAR'000
Demand	**642,531**	494,201
Savings	**178,700**	225,753
Time	**8,248,118**	9,564,383
Other	**65,830**	50,109
Total	**9,135,179**	10,334,446

14. Term loans

On May 30, 2011, the Bank entered into a five-year medium term loan facility agreement for an amount of SAR 1 billion for general corporate purposes. The facility has been fully utilized and is repayable in May 2016. On June 24, 2012, the Bank entered into another five-year medium term loan facility agreement for an amount of SAR 1 billion for general corporate purposes. The facility has been fully utilized and is repayable in September 2017.

The term loans bear special commission at variable rates. The Bank has an option to effect early repayment of the term loans subject to the terms and conditions of the related agreements. The agreements above include covenants which require maintenance of certain financial ratios and other requirements, with which the Bank was in compliance as of December 31, 2015 and 2014.

15. Subordinated debt

On June 5, 2014, the Bank concluded the issuance of a SAR 2 billion subordinated debt issue through a private placement of a Shariah compliant Tier II Sukuk in the Kingdom of Saudi Arabia. The Sukuk has a tenor of ten years with the Bank retaining the right to call the Sukuk at the end of the first five year period, subject to certain regulatory approvals. The Sukuk carries a half yearly profit equal to six month SAIBOR plus 1.45%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014

16. Other liabilities

Other liabilities are summarized as follows:

	2015 SAR'000	2014 SAR'000
Accrued special commission payable		
– Banks and other financial institutions	**23,245**	9,826
– Customer deposits	**189,670**	199,830
Total accrued special commission payable	**212,915**	209,656
End of service and other employee - related benefits	**285,137**	324,196
Accrued expenses and other reserves	**235,502**	238,599
Deferred special commission and fee income	**70,132**	331,761
All other liabilities	**142,599**	297,944
Total	**946,285**	1,402,156

17. Share capital

As of December 31, 2015, the authorized, issued and fully paid share capital of the Bank consists of 650 million shares of SAR 10 each (2014: 600 million shares of SAR 10 each). The ownership of the Bank's share capital is as follows:

	2015		2014	
	SAR'000	%	SAR'000	%
Saudi shareholders	**5,850,000**	**90.0**	5,400,000	90.0
Foreign shareholders:				
J.P. Morgan International Finance Limited	**487,500**	**7.5**	450,000	7.5
Mizuho Corporate Bank Limited	**162,500**	**2.5**	150,000	2.5
	6,500,000	**100**	6,000,000	100

During 2015, 50 million bonus shares were issued by the Bank increasing the issued number of shares outstanding from 600 million to 650 million shares. During 2014, 50 million shares were issued by the Bank increasing the issued number of shares outstanding from 550 million shares to 600 million shares (see note 26).

18. Statutory reserve

In accordance with Saudi Arabian Banking Control Law and the Articles of Association of the Bank, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid up capital of the Bank. Accordingly, SAR 333 million has been transferred from 2015 net income (2014: SAR 360 million). The statutory reserve is not available for distribution.

19. Commitments and contingencies

a) Legal proceedings

As of December 31, 2015, there were recurring legal proceedings outstanding against the Group. No provision has been made in cases where professional legal advice indicates that it is not probable that any significant loss will arise. However, provisions are made for legal cases where management foresees the probability of an adverse outcome. As of December 31, 2015, the Bank's allowance for such cases totaled SAR 4.9 million. (2014: SAR 4.6 million).

b) Capital commitments

As of December 31, 2015, the Group had capital commitments of SAR 18.4 million (2014: SAR 35.3 million) for construction of branches and expansion of its head office.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014

19. Commitments and contingencies - continued

c) Credit related commitments and contingencies

The Group enters into certain credit related facilities to ensure that funds are available to a customer as required.

Guarantee and standby 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 funds under the agreement.

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

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

Commitments to extend credit represent the unused portion of authorizations to extend credit, principally in the form of loans and advances, guarantees and letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss, which cannot readily be quantified, is expected to be considerably less than the total unused commitment as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of these commitments could expire or terminate without being funded.

i) The contractual maturity structure for the Group's credit related commitments and contingencies are as follows:

	2015 (SAR'000)				
	Within 3 months	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Letters of credit	**931,185**	**979,922**	**359,682**	**-**	**2,270,789**
Letters of guarantee	**1,638,781**	**4,449,074**	**2,377,142**	**91,587**	**8,556,584**
Acceptances	**353,902**	**151,020**	**-**	**-**	**504,922**
Irrevocable commitments to extend credit	**-**	**-**	**177,495**	**210,618**	**388,113**
Total	**2,923,868**	**5,580,016**	**2,914,319**	**302,205**	**11,720,408**

	2014 (SAR'000)				
	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	1,239,336	1,129,443	5,171	-	2,373,950
Letters of guarantee	1,806,437	3,854,201	3,085,103	13,714	8,759,455
Acceptances	505,893	273,466	536	-	779,895
Irrevocable commitments to extend credit	-	-	84,606	243,647	328,253
Total	3,551,666	5,257,110	3,175,416	257,361	12,241,553

The outstanding unused portion of commitments as of December 31, 2015 which can be revoked unilaterally at any time by the Bank, amounts to SAR 30,194 million (2014: SAR 24,698 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014

19. Commitments and contingencies - continued

ii) The analysis of commitments and contingencies by counterparty is as follows:

	2015 SAR'000	2014 SAR'000
Government and quasi-Government	**6,343,560**	6,842,955
Corporate	**4,816,034**	4,791,232
Banks and other financial institutions	**275,677**	298,964
Other	**285,137**	308,402
Total	**11,720,408**	12,241,553

d) Assets pledged

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

	2015 (SAR'000)		2014 (SAR'000)	
	Assets	**Related Liabilities**	Assets	Related Liabilities
Available for sale investments	**5,050,226**	**3,812,520**	2,895,543	2,513,672

The pledged assets presented in the above table are those financial assets that may be repledged or resold by counter parties to whom they have been transferred. These transactions are conducted under terms that are usual and customary to standard securities borrowing and lending activities, as well as requirements determined by exchanges on which the Bank acts as an intermediary.

e) Operating lease commitments

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

	2015 SAR'000	2014 SAR'000
Less than 1 year	**29,850**	30,343
1 to 5 years	**74,737**	82,326
Over 5 years	**54,005**	59,326
Total	**158,592**	171,995

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014

20. Special commission income and expense

Special commission income and expense is summarized as follows:

	2015 SAR'000	2014 SAR'000
Special commission income:		
Available for sale investments	**450,879**	425,192
Held to maturity investments	**-**	11,570
Total investments	**450,879**	436,762
Loans and advances	**1,860,727**	1,662,355
Due from banks and other financial institutions	**129,814**	66,669
Total	**2,441,420**	2,165,786
Special commission expense:		
Customer deposits	**447,765**	434,544
Due to banks and other financial institutions	**178,724**	126,086
Term loans	**34,768**	36,492
Subordinated debt	**48,974**	29,109
Total	**710,231**	626,231

21. Fee income from banking services, net

Fee income from banking services, net is summarized as follows:

	2015 SAR'000	2014 SAR'000
Fee income:		
- Share trading and fund management	**132,212**	134,347
- Trade finance	**103,341**	105,458
- Corporate and retail finance	**162,673**	257,033
- Other banking services	**111,818**	43,520
Total fee income	**510,044**	540,358
Fee expense:		
- Custodial services	**44,078**	41,613
- Other banking services	**15,891**	12,216
Total fee expense	**59,969**	53,829
Fee income from banking services, net	**450,075**	486,529

22. Dividend income

Dividend income is summarized as follows:

	2015 SAR'000	2014 SAR'000
Dividend income from available for sale equity investments	**35,920**	35,366

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014

23. Gains on investments, net

Gains on investments, net are summarized as follows:

	2015 SAR'000	2014 SAR'000
Gains on investments, net	**186,200**	188,907
Gain on transfer of associate investment to available for sale investments (note 8)	**-**	223,951
Total gains on investments, net	**186,200**	412,858

24. Compensation and related governance and practices

As required by SAMA, the following table summarizes the Group's employee categories defined in accordance with SAMA's rules on compensation practices. It includes the total amounts of fixed and variable compensation paid to employees, and the forms of such payments, and also includes the variable compensation accrued, and other employee benefits and related expenses incurred during the years ended December 31, 2015 and 2014.

		2015 (SAR'000)			
Category	Number of Employees	Fixed Compensation	Variable Compensation		
			Cash	Shares	Total
Senior executives requiring SAMA no objection	19	34,483	18,447	5,039	23,486
Employees engaged in risk taking activities	145	67,037	19,532	4,432	23,964
Employees engaged in control functions	248	54,019	13,454	3,880	17,334
Other employees	1,266	222,678	59,418	10,032	69,450
Outsourced employees	69	10,971	3,357	104	3,461
Totals	1,747	389,188	114,208	23,487	137,695
Variable compensation accrued		132,454			
Other employee benefits and related expenses		97,832			
Total salaries and employee related expenses		619,474			

Included in the 2015 variable cash compensation above are payments for a bonus which was paid to the Group's employees in connection with a Royal Decree issued by King Salman Bin Abdulaziz Al-Saud, the custodian of the two Holy Mosques.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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24. Compensation and related governance and practices - continued

Category	Number of Employees	2014 (SAR'000) Fixed Compensation	Variable Compensation Cash	Shares	Total
Senior executives requiring SAMA no objection	19	33,559	16,500	4,492	20,992
Employees engaged in risk taking activities	134	61,125	14,683	4,090	18,773
Employees engaged in control functions	190	45,705	9,535	3,766	13,301
Other employees	1,135	196,435	35,921	9,839	45,760
Outsourced employees	85	9,660	1,898	99	1,997
Totals	1,563	346,484	78,537	22,286	100,823
Variable compensation accrued		108,276			
Other employee benefits and related expenses		76,645			
Total salaries and employee related expenses		531,405			

The Board of Directors of the Bank has established a Nomination and Remuneration Committee (the Committee) which consists of four board members. The Committee is primarily responsible for recommending appointments to membership of the Board of Directors and key executives of the Bank in compliance with the Bank's Corporate Governance Guidelines, completing annual reviews for the requirements of suitable skills and independence for membership of the Bank's Board of Directors, reviewing the structure of the Board of Directors, establishing policies for the compensation and remuneration of members of the Board of Director's, and overseeing the Bank's employee compensation system's design.

The Committee is also responsible to recommend to the Board of Directors the approval of the Bank's Compensation Policy and any amendments thereto, to ensure that the Bank's remuneration policies are in compliance with SAMA guidelines and the Financial Stability Board's (FSB) Principles on compensation, to periodically review the Bank's remuneration and compensation policy, to evaluate practices by which compensation is paid, and to determine the performance bonuses for the Bank's employees based on the risk adjusted profit of the Bank.

The Bank's Remuneration and Compensation Policy is designed to attract, retain and motivate high performing and high potential employees. Employees participate in various variable pay arrangements. Discretionary variable pay as well as fixed pay reviews are dependent on the achievement of objectives, which is monitored/measured via a robust performance management system. The grant of the variable component of the reward, both cash and shares, is strictly dependent on the achievement of set targets and level of achievements. Higher achievements will warrant a better performance rating and higher variable compensation. The Balanced Scorecard concept is used and objectives have typically been categorized into four segments including financial, customer, process, and people.

Financial and non-financial metrics are then used to measure performance against the objectives, which include profitability, expense control, customer satisfaction, employee development/engagement, workforce diversity, sustainable business practices, lending guidelines, internal controls, compliance with regulations, and business systems and processes. Effective risk management is also emphasized to maintain a strong and secure operating platform. A Risk Appetite Framework Policy has been established and compliance thereto is key to all remuneration decisions including variable pay arrangements.

In addition to the above, the Bank's employees are encouraged to participate in employee share savings and incentive schemes. Variable remuneration is linked to long-term value creation and risk. It is also based on individual, business segment, and Bank performance criteria. Accordingly, high performing and potential employees in management grades are covered under a Key Employee Stock Option Grant Plan, where a part of the variable compensation is deferred in line with long term risk realization. The vesting is subject to clawback mechanisms.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014

24. Compensation and related governance and practices - continued

The Bank's subsidiaries have adopted a similar approach to remuneration and compensation practices as described above, including policies within a framework of prudent risk management.

The total amount of compensation paid to key management for the year ended December 31, 2015 was SAR 58.0 million (2014: SAR 54.6 million). The post employment benefits accrued or paid to key management for the year ended December 31, 2015 was SAR 2.8 million (2014: SAR 1.8 million).

The total end of service payments made for all employees who left their employment with the Bank during the year ended December 31, 2015 totalled SAR 13.2 million (2014: SAR 9.0 million). These payments were made to 110 beneficiaries (2014:74). The highest payment to a single individual in 2015 was SAR 1.1 million (2014: SAR 2.7 million).

25. Basic and diluted earnings per share

Basic and diluted earnings per share for the year ended December 31, 2015 and 2014 are calculated by dividing the net income for the year by 650 million shares, after giving effect to the bonus shares issued in 2015 (see note 26). As a result, basic and diluted earnings per share for the year ended December 31, 2014 have been retroactively adjusted to reflect the issuance of the bonus shares.

26. Dividends, zakat and income tax

In 2015, the Board of Directors proposed a cash dividend of SAR 487.5 million equal to SAR 0.75 per share, net of Zakat to be withheld from the Saudi shareholders totalling SAR 47 million. The Board of Directors has also proposed a bonus share issue of 50 million shares with a par value of SAR 10 per share, or one bonus share for each thirteen shares outstanding. The proposed cash dividend and bonus share issue will be presented for approval in an extraordinary general assembly meeting expected to convene in 2016.

In 2014, the Board of Directors proposed a cash dividend of SAR 480 million equal to SAR 0.80 per share, net of Zakat to be withheld from the Saudi shareholders totalling SAR 42 million. The Board of Directors also proposed a bonus share issue of 50 million shares with a par value of SAR 10 per share, or one bonus share for each twelve shares outstanding. The proposed cash dividend and bonus share issue were approved by the Bank's shareholders in an extraordinary general assembly meeting held on 17 Jumada I 1436 (corresponding to March 8, 2015). The net dividends were paid and the bonus shares were issued to the Banks shareholders thereafter.

In 2013, the Board of Directors proposed a cash dividend of SAR 440 million equal to SAR 0.80 per share, net of Zakat to be withheld from the Saudi shareholders totalling SAR 37.5 million. The Board of Directors also proposed a bonus share issue of 50 million shares with a par value of SAR 10 per share, or one bonus share for each eleven shares outstanding. The proposed cash dividend and bonus share issue were approved by the Bank's shareholders in an extraordinary general assembly meeting held on 1 Jumada' II (corresponding to April 1, 2014). The net dividends were paid and the bonus shares issued to the Bank's shareholders thereafter.

Any future cash dividends to the Saudi and non-Saudi shareholders will be paid after deducting zakat and any unreimbursed income tax, as follows:

a) Saudi shareholders:

Zakat attributable to the Saudi shareholders for the years from 2012 to 2014 amounts to approximately SAR 86.8 million. Estimated Zakat attributable to Saudi shareholders for 2015 is approximately SAR 29.3 million. The total Zakat attributable to Saudi shareholders through 2015 totaling approximately SAR 116.1 million will be deducted from their share of future dividends. The cumulative Zakat from 2012 through 2015 amounts to approximately SAR 0.20 per share (2014: the cumulative zakat from 2010 through 2014 amounted to approximately SAR 0.19 per share).

b) Foreign shareholders:

Estimated Income Tax attributable to the non-Saudi shareholders for 2015 is approximately SAR 26.7 million. There is no unreimbursed income tax for the years prior to 2015.

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26. Dividends, zakat and income tax – (continued)

The Group has filed the required Income Tax and Zakat returns with the Department of Zakat and Income Tax which are due on April 30 each year, through the year ended December 31, 2014.

The Group has received final assessments for additional Zakat, Income tax, and withholding tax totalling approximately SAR 397 million relating to the Bank's 2003 to 2009 Zakat, Income tax, and withholding tax filings.

The Group has also received partial assessments for additional Zakat totalling approximately SAR 383 million relating to its 2010, 2011 and 2013 Zakat filings.

These final and partial assessments include approximately SAR 573 million in Zakat assessments which are primarily due to the disallowance of certain long-term investments from the Zakat base of the Group.

The Group, in consultation with its professional tax and Zakat advisors, has filed appeals for the above final and partial assessments with the Department of Zakat and Income Tax, and is awaiting a response. At the current time, a reasonable estimation of the ultimate additional Zakat, income tax, and withholding tax liabilities, if any, cannot be reliably determined.

27. Cash and cash equivalents

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

	2015 SAR'000	2014 SAR'000
Cash and balances with SAMA excluding statutory deposit (note 4)	**702,259**	5,798,627
Due from banks and other financial institutions maturing within ninety days from the date of acquisition	**6,397,230**	879,496
Total	**7,099,489**	6,678,123

28. Business segments

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the Bank's Board of Directors in its function as the Chief Operating Decision Maker in order to allocate resources to the segments and to assess their performance.

Transactions between the operating segments are on normal commercial terms and conditions. The revenue from external parties reported to the Board is measured in a manner consistent with that in the consolidated income statement. Segment assets and liabilities are comprised of operating assets and liabilities.

The Group's primary business is conducted in the Kingdom of Saudi Arabia. The Group's reportable segments are as follows:

Retail banking: Loans, deposits, and other credit products for individuals and small to medium-sized businesses.

Corporate banking: Loans, deposits and other credit products for corporate and institutional customers.

Treasury: Money market, investments and investments in associates, and other treasury services.

Asset management and brokerage: Dealing, managing, advising and custody of securities services.

Commission is charged to operating segments based on funds transfer price (FTP) rates. The net FTP contribution included in the segment information below includes the segmental net special commission income after FTP asset charges and liability credits (FTP net transfers). All other segment income is from external customers.

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For the years ended December 31, 2015 and 2014

28. Business segments - continued

a) The segment information provided to the Board of Directors which includes the reportable segments for the Group's total assets and liabilities of December 31, 2015 and 2014, its total operating income, total operating expenses, and net income for the years then ended, are as follows:

	2015 (SAR'000)				
	Retail Banking	**Corporate Banking**	**Treasury**	**Asset Management and Brokerage**	**Total**
Total assets	**24,971,279**	**39,491,405**	**28,774,258**	**396,777**	**93,633,719**
Total liabilities	**23,503,234**	**10,113,763**	**47,936,155**	**44,105**	**81,597,257**
Net special commission income	**746,207**	**1,008,044**	**(48,252)**	**25,190**	**1,731,189**
FTP net transfers	**6,214**	**(372,109)**	**365,895**	**-**	**-**
Net FTP contribution	**752,421**	**635,935**	**317,643**	**25,190**	**1,731,189**
Fee income from banking services, net	**109,784**	**185,625**	**64,550**	**90,116**	**450,075**
Other operating income	**63,388**	**61,504**	**199,347**	**5,554**	**329,793**
Total operating income	**925,593**	**883,064**	**581,540**	**120,860**	**2,511,057**
Operating expenses before impairment charges	**616,026**	**220,670**	**104,525**	**92,374**	**1,033,595**
Impairment charges, net	**16,164**	**101,836**	**187,000**	**-**	**305,000**
Total operating expenses	**632,190**	**322,506**	**291,525**	**92,374**	**1,338,595**
Income from operating activities	**293,403**	**560,558**	**290,015**	**28,486**	**1,172,462**
Share in earnings from associates	**-**	**-**	**156,195**	**-**	**156,195**
Net income	**293,403**	**560,558**	**446,210**	**28,486**	**1,328,657**
Property and equipment additions	**125,899**	**42,979**	**19,164**	**4,576**	**192,618**

	2014 (SAR'000)				
	Retail Banking	Corporate Banking	Treasury	Asset Management and Brokerage	Total
Total assets	23,193,047	38,278,086	31,796,739	358,568	93,626,440
Total liabilities	16,980,001	12,107,762	52,664,308	22,237	81,774,308
Net special commission income	728,702	814,743	(34,677)	30,787	1,539,555
FTP net transfers	(17,059)	(246,655)	263,714	-	-
Net FTP contribution	711,643	568,088	229,037	30,787	1,539,555
Fee income from banking services, net	147,490	229,703	15,144	94,192	486,529
Other operating income	63,753	29,951	404,635	6,753	505,092
Total operating income	922,886	827,742	648,816	131,732	2,531,176
Operating expenses before impairment charges	528,261	243,725	92,461	78,465	942,912
Impairment charges, net	77,087	144,213	10,000	-	231,300
Total operating expenses	605,348	387,938	102,461	78,465	1,174,212
Income from operating activities	317,538	439,804	546,355	53,267	1,356,964
Share in earnings from associates	-	-	79,515	-	79,515
Net income	317,538	439,804	625,870	53,267	1,436,479
Property and equipment additions	71,601	22,539	8,322	3,915	106,377

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28. Business segments – continued

The impairment charges for the retail segment above totaling SAR 16.2 million in 2015 (2014: SAR 77.1 million) are different from the consumer loan provisions in 2015 and 2014 which are disclosed in note 7 (b). For purposes of allocating impairment charges to the retail segment in 2015 and 2014, the Group takes into account allocations of collective provisions relating to non consumer retail loans, and related items.

b) The Group's credit exposure by business segment is as follows:

	2015 (SAR'000)				
	Retail Banking	**Corporate Banking**	**Treasury**	**Asset Management and Brokerage**	**Total**
Consolidated statement of financial position assets	**22,165,525**	**37,620,114**	**23,805,158**	**209,200**	**83,799,997**
Commitments and contingencies	**4,789,800**	**3,479,996**	**199,200**	**-**	**8,468,996**
Derivatives	**-**	**-**	**1,183,500**	**-**	**1,183,500**

	2014 (SAR'000)				
	Retail Banking	Corporate Banking	Treasury	Asset Management and Brokerage	Total
Consolidated statement of financial position assets	21,102,669	35,936,997	21,520,402	272,365	78,832,433
Commitments and contingencies	5,240,957	3,511,311	219,099	-	8,971,367
Derivatives	-	-	1,009,576	-	1,009,576

Credit exposure comprises the carrying value of consolidated statement of financial position assets excluding cash and balances with SAMA, property and equipment, investments in associates, investments in equities and mutual funds, and other assets. The credit equivalent value of commitments, contingencies and derivatives are also included the table above.

29. Credit risk

The Group manages exposure to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities. There is also credit risk in off consolidated statement of financial position financial instruments, such as loan commitments. The Group assesses the probability of default of counterparties using internal rating tools. The Group also uses the external ratings of major rating agencies, where available.

The Group has a comprehensive framework for managing credit risk which includes an independent credit risk review function and credit risk monitoring process. The Group seeks to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Group's risk management policies are designed to identify and to set appropriate risk limits and to monitor the risks and adherence to limits. Actual exposures against limits are routinely monitored. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk. The Group's credit risk for derivatives represents the potential cost to replace the derivative contracts if counterparties fail to fulfill their obligation, and to control the level of credit risk taken. The Group assesses counterparties 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014

29. Credit risk – continued

The Group seeks to manage its credit risk exposure through diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or businesses. The Group, in the ordinary course of lending activities, also takes collateral as security to mitigate credit risk on loans and advances. The collateral includes primarily time, demand, and other cash deposits, financial and contract guarantees, local and international equities, real estate, and other fixed assets. The collateral is held mainly against commercial and similar loans and is managed against relevant exposures at their net realizable value. Management monitors the market value of collateral, requests additional collateral in accordance with underlying agreements, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses. The Group also seeks additional collateral from counter parties when impairment indicators are observed.

The debt securities included in the investment portfolio are mainly corporate and sovereign risk. An analysis of investments by type of counter-party and credit risk exposure is provided in Note 6 (c) and Note 6 (d). The credit quality of loans and advances are provided in Note 7 (c). The information on credit risk relating to derivative instruments is provided in Note 11 and for commitments and contingencies in Note 19. The information on the Group's credit exposure by business segment is provided in Note 28. The information on credit risk exposure and their relative risk weights is provided in Note 35.

The Group uses a credit classification system as a tool to assist in managing the quality of credit risk within the lending portfolio. It maintains classification grades that differentiate between performing and impaired portfolios and allocates portfolio provisions and specific provisions, respectively. The Group determines each individual borrower's grade based on specific objective and subjective financial and business assessments criteria covering debt service, profitability, liquidity, capital structure, industry, management quality, and company standing. The Group conducts a quality classification exercise over all of its existing borrowers and the results of this exercise are validated by the independent Risk Management Unit established for that purpose. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products, external economic environment, emerging best practices, and regulatory guidance.

30. Geographical concentration

a) The distribution by geographical region for significant assets, significant liabilities, commitments and contingencies, and derivatives is as follows:

	2015 (SAR'000)						
	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	South East Asia	Other Countries	Total
ASSETS							
Cash and balances with SAMA	4,063,012	957	9,685	13,333	-	-	4,086,987
Due from banks and other financial institutions	4,128,000	1,519,234	699,537	57,238	-	1,774	6,405,783
Investments, net	9,118,404	6,565,896	1,059,468	2,060,462	-	38,097	18,842,327
Loans and advances, net	60,024,979	-	-	-	-	-	60,024,979
Investments in associates	939,022	-	-	-	-	-	939,022
Total	78,273,417	8,086,087	1,768,690	2,131,033	-	39,871	90,299,098
LIABILITIES							
Due to Banks and other financial institutions	750,720	1,626,587	2,943,710	-	-	471	5,321,488
Customer deposits	70,328,812	-	-	-	-	-	70,328,812
Term loans	2,000,000	-	-	-	-	-	2,000,000
Subordinated debt	2,000,000	-	-	-	-	-	2,000,000
Total	75,079,532	1,626,587	2,943,710	-	-	471	79,650,300
Credit related Commitments and contingencies	10,524,292	211,171	281,922	398,442	65,924	238,657	11,720,408
Maximum credit exposure (stated at credit equivalent amounts):							
Commitments and contingencies	7,379,598	182,946	246,476	393,607	57,026	209,343	8,468,996
Derivatives	443,486	127,291	612,723	-	-	-	1,183,500

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30. Geographical concentration - continued

	2014 (SAR'000)						
	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	South East Asia	Other Countries	Total
ASSETS							
Cash and balances with SAMA	9,109,943	893	7,433	9,425	-	-	9,127,694
Due from banks and other financial institutions	500,000	261,359	73,290	43,375	711	761	879,496
Investments, net	13,205,243	6,407,319	947,139	1,649,178	-	188,070	22,396,949
Loans and advances, net	57,472,514	-	-	-	-	-	57,472,514
Investments in associates	846,351	-	-	-	-	-	846,351
Total	81,134,051	6,669,571	1,027,862	1,701,978	711	188,831	90,723,004
LIABILITIES							
Due to Banks and other financial institutions	945,803	1,253,008	2,802,610	-	-	667	5,002,088
Customer deposits	70,733,411	-	-	-	-	-	70,733,411
Term loans	2,000,000	-	-	-	-	-	2,000,000
Subordinated debt	2,000,000	-	-	-	-	-	2,000,000
Total	75,679,214	1,253,008	2,802,610	-	-	667	79,735,499
Credit related Commitments and contingencies	10,447,320	380,249	350,969	694,766	-	368,249	12,241,553
Maximum credit exposure (stated at credit equivalent amounts);							
Commitments and contingencies	7,380,247	311,568	291,914	684,084	-	303,554	8,971,367
Derivatives	218,726	64,953	725,897	-	-	-	1,009,576

Credit equivalent amounts of commitments and contingencies reflect the amounts that result from translating these amounts into the risk equivalent of loans, using credit conversion factors prescribed by SAMA. The credit conversion factor is intended to capture the potential credit risk related to the exercise of that commitment. The credit equivalent amounts of derivatives are also derived using credit conversion factors prescribed by SAMA.

b) The distribution by geographical concentration of non-performing loans and advances and allowance for credit losses as of December 31, 2015 and 2014 are entirely in 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. The Group classifies exposures to market risk into either a trading or banking book.

a) Market risk-trading book

The Board of Directors has set limits for the acceptable level of risks in managing the trading book. The Group currently has trading book exposures in foreign exchange contracts and commission rate swaps.

b) Market risk-banking book

Market risk on the banking book mainly arises from commission rate risk, liquidity risk, currency risk, and equity price risk.

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31. Market risk - continued

(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 and obligations. The Board of Directors has established commission rate gap limits for stipulated periods. The Group monitors positions and uses hedging strategies to ensure maintenance of positions within the established gap limits.

The following table depicts the sensitivity to a reasonably plausible change in commission rates, with other variables held constant, on the Group's consolidated income statement or shareholders' equity. The reasonably plausible change is estimated based on the relevant commission rate movements during the last five years (2011-2015) (2014: 2010 - 2014). A positive effect shows a potential net increase in the consolidated income or shareholders' equity, whereas a negative effect shows a potential net reduction in consolidated income or shareholders' equity.

The sensitivity of net special commission income is the effect of the assumed changes in commission rates on the net special commission income for one year, based on the floating rate non-trading financial assets and financial liabilities held as of December 31, 2015 and 2014, including the effect of hedging instruments.

The sensitivity of shareholders' equity is calculated by revaluing the fixed rate available for sale financial assets, including the effect of any associated hedges as of December 31, 2015 and 2014 for the effect of assumed changes in commission rates. The sensitivity of shareholders' equity is analyzed by maturity of the asset or swap. The entire banking book exposures are monitored and analyzed by currency and relevant sensitivities and are disclosed in SAR thousands. For presentation purposes in the tables below, short-term fixed rate deposit liabilities are treated as variable rate deposits.

		2015 SAR'000	**2015 Sensitivity of shareholders' equity (SAR'000)**				
Commi-ssion rate	**Increase (decrease) in basis**	**Sensitivity of net special commission income**	**6 months or less**	**6 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Saibor	**+67/-28**	**-83,111/+34,733**	**-**	**-**	**-35,282/+14,745**	**-131,473/+54,944**	**-249,866/+104,422**
Libor	**+30/-9**	**-25,422/+7,627**	**-**	**-834/+251**	**-50,120/+15,036**	**-33,660/+10,099**	**-110,036/+33,013**
Euribor	**+164/-11**	**+276/-18**	**-**	**-**	**-**	**-**	**-**

		2014 SAR'000	2014 Sensitivity of shareholders' equity (SAR'000)				
Commi-ssion rate	Increase (decrease) in basis	Sensitivity of net special commission income	6 months or less	6 to 12 months	1 to 5 years	Over 5 years	Total
Saibor	+6/-34	-499/+2,829	-1,032/+5,843	-475 /+2,693	-	-3,058/+17,329	-4,565/+25,865
Libor	+35/-1	-17,397/+497	-119/+3	-1,084/+30	-50,271/+1,433	-65,629/+1,875	-117,103/+3,341
Euribor	+141/-13	+471/-43	-	-	-	-	-

The Group manages exposure to the effects of various risks associated with fluctuations in prevailing levels of market special commission rates on its financial position and cash flows. The Board of Directors also sets limits on the level of mismatch of special commission rate re-pricing that may be undertaken, which is monitored by the Treasury Unit.

The Group is exposed to special commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period. The Group manages this risk by matching the re-pricing of assets and liabilities through special commission rate risk management strategies.

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31. Market risk - continued

The tables below summarize the Group's exposure to special commission rate risks. Included in the tables are the Group's assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates.

	2015 (SAR'000)					
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total
Assets						
Cash and balances with SAMA	-	-	-	-	4,086,987	4,086,987
Due from banks and other financial institutions	6,405,783	-	-	-	-	6,405,783
Investments, net	3,969,534	1,010,046	7,266,286	5,156,671	1,439,790	18,842,327
Loans and advances, net	34,165,949	17,284,014	8,146,839	428,177	-	60,024,979
Investments in associates	-	-	-	-	939,022	939,022
Property and equipment, net	-	-	-	-	1,021,564	1,021,564
Positive fair values of derivatives and other assets	-	-	-	-	2,313,057	2,313,057
Total	44,541,266	18,294,060	15,413,125	5,584,848	9,800,420	93,633,719
Liabilities and shareholders' equity						
Due to banks and other financial institutions	3,889,799	1,431,689	-	-	-	5,321,488
Customer deposits	26,969,982	20,461,459	-	-	22,897,371	70,328,812
Term loans	2,000,000	-	-	-	-	2,000,000
Subordinated debt	-	2,000,000	-	-	-	2,000,000
Negative fair values of derivatives and other liabilities	-	-	-	-	1,946,957	1,946,957
Shareholders' equity	-	-	-	-	12,036,462	12,036,462
Total	32,859,781	23,893,148	-	-	36,880,790	93,633,719
Special commission rate sensitivity-On balance sheet	11,681,485	(5,599,088)	15,413,125	5,584,848	(27,080,370)	-
Special commission rate sensitivity-Off balance sheet	3,637,080	(302,056)	(1,420,688)	(1,914,336)	-	-
Total special commission rate sensitivity gap	15,318,565	(5,901,144)	13,992,437	3,670,512	(27,080,370)	-
Cumulative special commission rate sensitivity gap	15,318,565	9,417,421	23,409,858	27,080,370	-	-

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31. Market risk - continued

	2014 (SAR'000)					
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total
Assets						
Cash and balances with SAMA	4,986,000	-	-	-	4,141,694	9,127,694
Due from banks and other financial institutions	879,496	-	-	-	-	879,496
Investments, net	5,094,873	6,581,560	4,737,576	4,006,506	1,976,434	22,396,949
Loans and advances, net	30,119,073	18,861,757	8,096,828	394,856	-	57,472,514
Investments in associates	-	-	-	-	846,351	846,351
Property and equipment, net	-	-	-	-	909,622	909,622
Positive fair values of derivatives and other assets	-	-	-	-	1,993,814	1,993,814
Total	41,079,442	25,443,317	12,834,404	4,401,362	9,867,915	93,626,440
Liabilities and shareholders' equity						
Due to banks and other financial institutions	5,002,088	-	-	-	-	5,002,088
Customer deposits	25,017,386	24,803,399	-	-	20,912,626	70,733,411
Term loans	2,000,000	-	-	-	-	2,000,000
Subordinated debt	-	2,000,000	-	-	-	2,000,000
Negative fair values of derivatives and other liabilities	-	-	-	-	2,038,809	2,038,809
Shareholders' equity	-	-	-	-	11,852,132	11,852,132
Total	32,019,474	26,803,399	-	-	34,803,567	93,626,440
Special commission rate sensitivity - on balance sheet	9,059,968	(1,360,082)	12,834,404	4,401,362	(24,935,652)	-
Special commission rate sensitivity - off balance sheet	2,922,762	(415,469)	(1,155,889)	(1,351,404)	-	-
Total special commission rate sensitivity gap	11,982,730	(1,775,551)	11,678,515	3,049,958	(24,935,652)	-
Cumulative special commission rate sensitivity gap	11,982,730	10,207,179	21,885,694	24,935,652	-	-

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

(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 has set limits on currency positions, which are monitored daily. Hedging strategies are also used to ensure that positions and market risks are maintained within the limits.

The table below shows the currencies to which the Group has a significant exposure as of December 31, 2015 and 2014, on its banking book assets and liabilities and forecasted cash flows. The table depicts the effect of a reasonably plausible movement of the currency rates against the SAR based on historical currency rate movements, with other variables held constant, on the consolidated income (due to the change in the fair value of the currency sensitive banking book assets and liabilities). The reasonably plausible change is estimated based on the relevant foreign exchange rate movements during the last five years (2011 - 2015) (2014: 2010 - 2014). A positive effect shows a potential net increase in the consolidated income, whereas a negative effect shows a potential net reduction in consolidated income.

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For the years ended December 31, 2015 and 2014

31. Market risk - continued

Currency Exposures as of December 31, 2015	**Change in Currency rate in %**	**Effect on Net Income (SAR'000)**
USD	+0.27/-0.05	+1,352/-250
EUR	+33.52/-5.58	+224/-37
GBP	+12.32/-4.33	+47/-16

Currency Exposures as of December 31, 2014	Change in Currency rate in %	Effect on Net Income (SAR'000)
USD	+0.13/-0.09	-3,089/+2,300
EUR	+11.60/-10.25	+50/-44
GBP	+4.22/-13.01	+19/-58

(iii) Currency position

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

	2015 SAR '000 Long/(short)	2014 SAR '000 Long/(short)
US Dollar	**500,793**	(2,464,988)
Euro	**668**	433
Pound sterling	**378**	446
Japanese yen	**211**	13
U.A.E Dirham	**15,096**	38,502
Others	**10,132**	17,926

(iv) Equity price risk

Equity price risk refers to the risk of a decrease in fair values of equities and mutual funds in the Group's investment portfolio as a result of reasonably plausible changes in levels of equity indices and the value of individual investments.

The following table depicts the effect on the Group's investments in equities and mutual funds from a reasonably plausible change in relevant indices, with other variables held constant, and the related effect on the Group's shareholders' equity. The reasonably plausible changes in relevant indices are estimated based on the relevant indices movements during the last five years (2011 - 2015) (2014: 2010 - 2014). A positive effect shows a potential increase in consolidated shareholders' equity, whereas a negative effect shows a potential decrease in consolidated shareholders' equity.

	as of December 31, 2015		as of December 31, 2014	
Market Indices	**Change in equity price %**	**Effect in SAR'000**	Change in equity price %	Effect in SAR'000
TADAWUL	**+31.16%/-37.38%**	**+425,155/-510,022**	+15.95%/-44.64%	+299,456/-837,872
Unquoted	**+5.00%/-5.00%**	**+75/-75**	+5.00%/-5.00%	+507/-507

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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 immediately. To mitigate this risk, management has diversified funding sources, and assets are managed with liquidity in perspective. Management therefore maintains a healthy balance of cash, cash equivalents, and readily marketable securities as of part of its high liquid assets. Management also monitors the asset and liability 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 the Asset Liability Committee. A summary report, including any exceptions and remedial actions taken, is submitted regularly to the Asset Liability Committee. In addition, the Group's liquidity coverage ratio and net stable funding ratio are each monitored regularly to be in line with SAMA guidelines. The Group also conducts regular liquidity stress testing under a variety of scenarios covering both normal and more severely stressed market conditions.

In accordance with the Banking Control Law and the regulations issued by SAMA, the Group maintains a statutory deposit with SAMA equal to 7% (2014: 7%) of total demand deposits and 4% (2014: 4%) of saving and time deposits. In addition to the statutory deposit, the Group also maintains liquid reserves of no less than 20% of its deposit liabilities, in the form of cash and balances with SAMA, Saudi Government Development Bonds, or other assets which can be converted into cash within a period not exceeding 30 days. The Group has the ability to raise additional funds through repo facilities with SAMA against Saudi Government Development Bonds up to 100% of the nominal value of bonds held.

a) Expected contractual maturity profile of assets and liabilities.

The tables below summarize the contractual maturity profile of the Group's assets, liabilities, and shareholders' equity as of December 31, 2015 and 2014. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the consolidated statement of financial position date to the contractual maturity date, and do not take into account the effective maturities as indicated by the Group's deposit retention history. The amounts disclosed for derivatives, and commitments and contingencies are not indicative of future payment obligations.

	2015 (SAR'000)					
	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity / on demand	Total
Assets						
Cash and balances with SAMA	-	-	-	-	4,086,987	4,086,987
Due from banks and other financial institutions	6,250,050	-	-	-	155,733	6,405,783
Investments, net	30,775	955,212	10,236,798	6,179,752	1,439,790	18,842,327
Loans and advances, net	25,556,652	17,387,803	14,655,364	2,425,160	-	60,024,979
Investments in associates	-	-	-	-	939,022	939,022
Property and equipment, net	-	-	-	-	1,021,564	1,021,564
Positive fair values of derivatives and other assets	493,220	1,819,837	-	-	-	2,313,057
Total	32,330,697	20,162,852	24,892,162	8,604,912	7,643,096	93,633,719
Liabilities and shareholders' equity						
Due to banks and other financial institutions	3,882,199	1,431,689	-	-	7,600	5,321,488
Customer deposits	26,469,982	16,669,444	4,292,015	-	22,897,371	70,328,812
Term loans	-	1,000,000	1,000,000	-	-	2,000,000
Subordinated debt (note 15)	-	-	-	2,000,000	-	2,000,000
Negative fair values of derivatives and other liabilities	-	1,946,957	-	-	-	1,946,957
Shareholder's equity	-	-	-	-	12,036,462	12,036,462
Total	30,352,181	21,048,090	5,292,015	2,000,000	34,941,433	93,633,719
Derivatives, commitments and contingencies	4,705,657	8,805,532	7,275,647	5,206,727	-	25,993,563

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014

32. Liquidity risk – continued

	2014 (SAR'000)					
	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity / on demand	Total
Assets						
Cash and balances with SAMA	4,986,000	-	-	-	4,141,694	9,127,694
Due from banks and other financial institutions	793,574	-	-	-	85,922	879,496
Investments, net	2,623,313	5,717,403	7,278,790	4,801,009	1,976,434	22,396,949
Loans and advances, net	21,711,445	18,217,968	14,601,820	2,941,281	-	57,472,514
Investments in associates	-	-	-	-	846,351	846,351
Property and equipment, net	-	-	-	-	909,622	909,622
Positive fair values of derivatives and other assets	316,654	1,677,160	-	-	-	1,993,814
Total	30,430,986	25,612,531	21,880,610	7,742,290	7,960,023	93,626,440
Liabilities and shareholders' equity						
Due to banks and other financial institutions	4,921,278	-	-	-	80,810	5,002,088
Customer deposits	25,017,386	21,026,255	3,777,144	-	20,912,626	70,733,411
Term loans	-	-	2,000,000	-	-	2,000,000
Subordinated debt (note 15)	-	-	-	2,000,000	-	2,000,000
Negative fair values of derivatives and other liabilities	-	2,038,809	-	-	-	2,038,809
Shareholders' equity	-	-	-	-	11,852,132	11,852,132
Total	29,938,664	23,065,064	5,777,144	2,000,000	32,845,568	93,626,440
Derivatives, commitments and contingencies	4,820,618	11,163,365	4,808,268	3,860,276	-	24,652,527

For presentation purposes in the tables above, the Group's demand and other deposits amounting to approximately SAR 22.9 billion as of December 31, 2015 (2014: SAR 20.9 billion) are included under the "No fixed maturity / on demand column".

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, balances with SAMA, items in the course of collection, loans and advances to banks, and loans and advances to customers. The Group regularly monitors the maturity profile to ensure adequate liquidity is maintained. The cumulative maturities of commitments and contingencies is disclosed in note 19c (i) of these consolidated financial statements.

b) Analysis of financial liabilities by remaining contractual maturities

The tables below summarize the estimated maturity profile of the Group's financial liabilities as of December 31, 2015 and 2014 based on contractual undiscounted future repayment obligations. As special commission payments up to the contractual maturities are included in the tables, the totals do not match the amounts included in the consolidated statement of financial position. The contractual maturities of liabilities have been determined based on the remaining period at the consolidated statement of financial position date to the contractual maturity date and do not take into account the effective expected maturities. The Group expects that many customers will not request repayment on the earliest date that the Group could be required to pay and the tables do not reflect the expected cash flows indicated by the Group's deposit retention history.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014

32. Liquidity risk – continued

The undiscounted maturity profile of financial liabilities is as follows:

	2015 (SAR'000)					
	Within 3 months	**3-12 months**	**1-5 years**	**Over 5 years**	**No fixed Maturity / on demand**	**Total**
Due to banks and other financial institutions	**3,886,542**	**1,438,096**	**-**	**-**	**7,600**	**5,332,238**
Customer deposits	**26,517,628**	**16,789,464**	**4,446,528**	**-**	**22,897,371**	**70,650,991**
Term loans	**9,300**	**1,017,050**	**1,013,950**	**-**	**-**	**2,040,300**
Subordinated debt	**13,650**	**40,950**	**2,195,650**	**-**	**-**	**2,250,250**
Negative fair values of derivatives and accrued special commission payable	**-**	**-**	**-**	**-**	**1,213,587**	**1,213,587**
Total	**30,427,120**	**19,285,560**	**7,656,128**	**-**	**24,118,558**	**81,487,366**
Derivatives	**57,362**	**146,804**	**523,310**	**84,091**	**-**	**811,567**
Total	**30,484,482**	**19,432,364**	**8,179,438**	**84,091**	**24,118,558**	**82,298,933**

	2014 (SAR'000)					
	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed Maturity / on demand	Total
Due to banks and other financial institutions	4,923,923	-	-	-	80,810	5,004,733
Customer deposits	25,046,000	21,122,450	3,863,546	-	20,912,626	70,944,622
Term loans	8,800	26,400	2,038,133	-	-	2,073,333
Subordinated debt	12,400	37,200	177,733	2,020,667	-	2,248,000
Negative fair values of derivatives and other liabilities	-	-	-	-	846,309	846,309
Total	29,991,123	21,186,050	6,079,412	2,020,667	21,839,745	81,116,997
Derivatives	61,238	143,103	384,671	112,411	-	701,423
Total	30,052,361	21,329,153	6,464,083	2,133,078	21,839,745	81,818,420

33. Fair values of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. The Group uses the hierarchy disclosed in note 2 (d) (ii) for determining and disclosing the fair value of financial instruments.

The following table shows an analysis of financial assets and liabilities recorded at fair value as of December 31, 2015 and 2014 by level of the fair value hierarchy.

	2015 (SAR '000)			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets:				
Derivative financial instruments	**-**	**987,735**	**299,160**	**1,286,895**
Available for sale financial investments	**11,905,416**	**6,396,679**	**540,232**	**18,842,327**
Total	**11,905,416**	**7,384,414**	**839,392**	**20,129,222**
Financial liabilities:				
Derivative financial instruments	**-**	**1,000,672**	**-**	**1,000,672**
Total	**-**	**1,000,672**	**-**	**1,000,672**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014

33. Fair values of financial assets and liabilities - continued

	2014 (SAR '000)			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Derivative financial instruments	-	605,729	215,136	820,865
Available for sale financial investments	12,063,623	10,246,506	86,820	22,396,949
Total	12,063,623	10,852,235	301,956	23,217,814
Financial liabilities:				
Derivative financial instruments	-	636,653	-	636,653
Total	-	636,653	-	636,653

Level 2 available for sale financial investments include debt securities which are comprised of Saudi corporate and bank securities, and Saudi Arabian Government securities. These securities are generally unquoted. In the absence of a quoted price in an active market, these securities are valued using observable inputs such as yield information for similar instruments or last executed transaction prices in securities of the same issuer or based on indicative market quotes. Adjustments are also considered as part of the valuations when necessary to account for the different features of the instruments including difference in tenors. Because the significant inputs for these investments are observable, the Bank categorizes these investments within Level 2.

Level 3 available for sale financial investments include Gulf Cooperation Council Government securities, and also investments in hedge funds, private equity funds, and asset backed securities. These securities are generally not quoted in an active market, and therefore are valued using indicative market quotes from an issuer / counter-party or valued at cost in the absence of any such alternative reliable indicative estimate.

Level 2 derivative financial instruments include various derivatives contracts including forward foreign exchange contracts, foreign exchange options, and commission rate swaps. These derivatives are valued using widely recognized valuation models. The most frequently applied valuation techniques include the use of forward pricing standard models using present value calculations and well-recognized Black - Scholes option pricing models. These models used incorporate various market observable inputs including foreign exchange rates, forward rates, and yield curves, and are therefore included within Level 2.

Level 3 derivative financial instruments include the embedded derivative put option arising from an existing master agreement entered into by the Bank relating to its investment in an associated company (see note 11). For purposes of determining the fair value of the put option, the Bank uses a well-recognized and frequently used Binomial Option Pricing Model. This model requires certain inputs which are not observable in the current market place. Certain inputs are specifically stated within the master agreement with the associated company. Other inputs are based on the historical results of the associated company. Others require management's judgement including estimations about the future results of the associated company, the detrimental effects on the operating results of the associated company which may arise from an exercize of the option, and an estimate of the fair value of the underlying investment. Several of the inputs are also interdependent.

In all respects, the Bank's significant estimates are based on experience and judgement relevant to each input, and in all cases, due care is taken to ensure that the inputs are conservative to ensure that the estimation of fair value is reasonable in the circumstances. However, any amounts which may be realized in the future may differ from the Bank's estimates of fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014

33. Fair values of financial assets and liabilities - continued

The following table summarizes the movement of the Level III fair values for the years ended December 31, 2015 and 2014.

	2015 SAR'000	2014 SAR'000
Fair values at the beginning of the year	**301,956**	119,738
Net change in fair value	**99,568**	110,531
Investments purchased	**455,227**	1,984
Investment sold	**(17,359)**	(3,476)
Transfer from level 2	**-**	73,179
Fair values at the end of the year	**839,392**	301,956

The transfer from level 2 in 2014 included above includes investments that were transferred to level 3 because market observable inputs used to value these investments were no longer available.

The estimated fair value of loans and advances, net as of December 31, 2015 is SAR 61.8 billion (2014: SAR 59.6 billion). The estimated fair values are calculated using discounted cash flow models of individual loan portfolios using the weighted average estimated maturities of each individual portfolio.

The fair values of other financial instruments that are not carried in the consolidated statement of financial position at fair value are not significantly different from the carrying values. The fair values of commission bearing customers' deposits, term loans, subordinated debt, and due from and due to banks which are carried at amortized cost, are not significantly different from the carrying values included in the consolidated financial statements, since the current market special commission rates for similar financial instruments are not significantly different from the contractual rates, and because of the short duration of due from and due to banks.

The total amount of the changes in fair value recognized in the 2015 consolidated income statement, which was estimated using valuation models, is a gain of SAR 94.4 million (2014: SAR 106.9 million).

The value obtained from any relevant valuation model may differ with a transaction price of a financial instrument. The difference between the transaction price and the model value is commonly referred to as 'day one profit and loss'. It is either amortized over the life of the transaction, deferred until the instrument's fair value can be determined using market observable data, or realized through disposal. Subsequent changes in fair value are recognized immediately in the consolidated income statement without reversal of deferred day one profits and losses.

34. Related party transactions

In the ordinary course of its activities, the Group transacts business with related parties. Related parties, balances, and transactions are governed by the Banking Control Law and other regulations issued by SAMA. During 2014, SAMA issued an update to its Principles of Corporate Governance for Banks operating in Saudi Arabia which specifies the definitions of related parties, the need to process the related transactions fairly and without preference, addresses the potential conflicts of interests involved in such transactions, and mandates transaction disclosure requirements pertaining to the related parties.

The Bank's Related Party Identification and Disclosure of Transactions Policy complies with the Guidelines issued by SAMA, and has been approved by the Bank's Board of Directors. These Guidelines include the following definitions of Related Parties:

- Management of the Bank and/or members of their immediate family;
- Principal shareholders of the Bank and/or members of their immediate family;
- Affiliates of the Bank and entities for which the investment is accounted for by the equity method of accounting;
- Trusts for the benefit of the Bank's employees such as pension or other benefit plans that are managed by the Bank; and

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014

34. Related party transactions - continued

- Any other parties whose management and operating policies can be directly or indirectly significantly influenced by the Bank.

Management of the Bank includes those persons who are responsible for achieving the objectives of the Bank and who have the authority to establish policies and make decisions by which those objectives are pursued. Management therefore includes the members of the Bank's Board of Directors, and members of the Bank management that require a no objection approval from SAMA.

Immediate family members includes parents, spouses, and offspring and whom either a principal shareholder or a member of management might control or influence or by whom they might be controlled or influenced because of the family relationship.

Principal shareholders include those owners of record of more than five percent of the Bank's voting ownership and/or voting interest of the Bank.

a) The balances as of December 31, 2015 and 2014, resulting from such transactions included in the consolidated financial statements are as follows:

	2015 SAR'000	2014 SAR'000
Management of the Bank and/or members of their immediate family:		
Loans and advances	**92,138**	98,161
Customer deposits	**372,928**	209,557
Principal shareholders of the Bank and/or members of their immediate family:		
Due from banks and other financial institutions	**2,560**	111,038
Loans and advances	**536,467**	611,467
Customer deposits	**12,242,900**	12,841,895
Term loan	**1,000,000**	1,000,000
Subordinated debt	**704,000**	704,000
Commitments and contingencies	**2,627,139**	2,725,819
Affiliates of the Bank and entities for which the investment is accounted for by the Equity method of accounting:		
Loans and advances	**849,102**	771,007
Customer deposits	**32,172**	91,484
Commitments and contingencies	**849,084**	712,077
Trusts for the benefit of the Bank's employees such as pension or other benefits plans that are managed by the Bank:		
Customer deposits and other liabilities	**280,916**	137,273

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014

34. Related party transactions - continued

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

	2015 SAR'000	2014 SAR'000
Management of the Bank and/or members of their immediate family:		
Special commission income	**3,894**	2,728
Special commission expense	**41**	11
Fee income from banking services	**5**	173
Principal shareholders of the Bank and/or members of their immediate family:		
Special commission income	**30,752**	40,093
Special commission expense	**36,942**	68,363
Fee income from banking services	**3**	5,577
Affiliates of the Bank and entities for which the investment is accounted for by the Equity method of accounting:		
Special commission income	**2,128**	882
Fee income from banking services	**3,130**	5,368
Trusts for the benefit of the Bank's employees such as pension or other benefit plans that are managed by the Bank:		
Special commission expense	**724**	511
Board of Directors and other Board Committee member remuneration	**4,368**	4,149

The total amount of compensation charged or paid to management personnel during the year is included in Note 24.

35. Capital adequacy and capital structure disclosures

a) Capital adequacy

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

Capital adequacy and the use of regulatory capital are monitored by the Group's management. SAMA requires the Bank to hold a minimum level of regulatory capital and maintain a ratio of total regulatory capital to risk-weighted assets (RWA) at or above the requirement of 8%.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014

35. Capital adequacy and capital structure disclosures - continued

The following table summarizes the Group's Pillar I RWA, Tier I and Tier II capital, and Capital Adequacy Ratio percentages:

	2015 **SAR'000**	2014 SAR'000
Credit Risk RWA	**80,748,272**	78,193,597
Operational Risk RWA	**3,924,371**	3,477,661
Market Risk RWA	**752,949**	2,475,089
Total Pillar- I RWA	**85,425,592**	84,146,347
Tier I Capital	**12,018,167**	11,833,837
Tier II Capital	**2,455,881**	2,536,985
Total Tier I & II Capital	**14,474,048**	14,370,822
Capital Adequacy Ratio %		
Tier I Ratio	**14.07%**	14.06%
Tier I + Tier II Ratio	**16.94%**	17.08%

As of December 31, 2015 and 2014, the RWA, Tier I and Tier II capital, and capital adequacy ratios are calculated in accordance with SAMA's framework and guidelines regarding implementation of the capital reforms under Basel III.

b) Capital structure disclosures

Certain additional disclosures related to the Group's capital structure are required under Basel III. These disclosures will be made available to the public on the Group's website (www.saib.com.sa) as required by SAMA. Such disclosures are not subject to review or audit by the external auditors of the Group.

36. Asset management and brokerage services

The Group offers investment services to its customers, through a subsidiary, which include management of investment funds in consultation with professional investment advisors, with assets under management totalling approximately SAR 4,393 million (2014: SAR 4,599 million). This includes funds managed under Shariah approved portfolios amounting to approximately SAR 1,801 million (2014: SAR 1,710 million).

37. Employee stock option shares

The Group has an Employee Stock Grant Plan outstanding at the end of the year. Significant features of the Plan are as follows:

Grant dates:
January 1, 2012, 2013, 2014 and 2015
Maturity dates: Between 2016 and 2019
Vesting period: 4 years per plan
Vesting conditions: Participating employees to remain in service
Method of settlement: Shares
Cost to participating employees: SAR 4.23 to SAR 5.00 per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014

37. Employee stock option shares - continued

The stock option shares outstanding as of December 31, 2015 and 2014 have a weighted average contractual life of between one and four years. The stock option shares are granted only under a service condition with no market linked condition.

The following table summarizes the movement in the number of stock option shares outstanding for the year ended December 31, 2015 and 2014.

	2015	2014
Stock option shares at the beginning of the year	**6,143,882**	5,960,181
Shares granted	**1,761,527**	1,588,707
Shares vested	**(1,481,804)**	(1,047,695)
Withdrawals	**(560,006)**	(357,311)
Stock option shares at the end of the year	**5,863,599**	6,143,882

The stock option shares at the beginning of each year have been retroactively adjusted to give effect to the issuance of bonus shares by the Bank in 2015 and 2014.

In 2015, the Bank vested 25% of the shares granted in January 2011, 25% of the shares granted in January 2012, and 25% of the shares granted in January 2013, equivalent to 1,481,804 shares, for a total estimated cost of SAR 30.3 million.

In 2014, the Bank vested 25% of the shares granted in January 2010, 25% of the shares granted in January 2011, and 25% of the shares granted in January 2012, equivalent to 1,047,695 shares, for a total estimated cost of SAR 22.3 million.

The Group also has an Employee Contributory Share Option Plan outstanding at the end of the year. The Plan entitles eligible employees to acquire shares in the Bank based on a pre-determined subscription price at the beginning of the Plan period. Over a two year period, employees contribute to the purchase of the shares through monthly payroll deductions. At the end of the subscription period, employees are granted the subscribed shares. Should the share price at the end of the subscription period fall below the subscription price, the employees are reimbursed for the difference between the share price and the subscription price.

The following table summarizes the movement in the number of subscribed shares outstanding for the years ended December 31, 2015 and 2014.

	2015	2014
Subscribed shares at the beginning of the year	**1,497,664**	1,220,283
Shares subscribed	**-**	1,424,336
Shares granted	**-**	(1,119,717)
Withdrawals	**(524,291)**	(27,238)
Subscribed shares at the end of the year	**973,373**	1,497,664

The subscribed shares at the beginning of each year have been retroactively adjusted to give effect to the issuance of bonus shares by the Bank in 2015 and 2014.

During the year ended December 31, 2014, the Group granted 1,119,717 shares with a total cost of SAR 18.1 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2015 and 2014

38. Issued IFRS but not yet effective

The Group has chosen not to early adopt the following relevant new standards or amendments to existing relevant standards, which have been issued but which are not effective until the Group's 2016 reporting year:

• IFRS 14	Regulatory deferral accounts
• Amendments to IFRS 11	Accounting for acquisitions of interests in joint operations
• Amendments to IAS 16 And IAS 38	Clarification of acceptable methods of depreciation and amortization
• Amendments to IAS 27	Equity method in separate financial statement
• Amendment to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture
• Amendments to IFRS	Annual improvements to IFRSs 2012-2014 cycle
• Amendments to IFRS 10, IFRS 12, and IAS 28	Investment entities: applying the consolidation exception
• Amendments to IAS 1	Disclosure initiative
• Amendments to IAS 16	Clarification on acceptable methods of depreciation and amortization

While the Group is currently assessing the impact of the above standards, it is expected that their adoption will not have a material impact on the Group's 2016 consolidated financial statements. The Group has also chosen not to early adopt the following two standards, which are effective after the Group's 2016 financial reporting year. The standards include IFRS 9 - Financial Instruments, and IFRS 15 - Revenue from Contracts with Customers, and are summarized below.

- IFRS 9 - "Financial Instruments" applicable from January 1, 2018 provides guidance on the classification and measurement of financial assets and financial liabilities, provides requirements for de-recognition of financial instruments, and incorporates revised requirements for hedge accounting that will allow entities to better reflect their risk management activities in their financial statements.

- IFRS 15 - "Revenue from Contracts with Customers" applicable from January 1, 2018 sets out the requirements for recognizing revenue that apply to all contracts with customers (except for contracts that are within the scope of the Standards on leases, insurance contracts, and financial instruments).

- IFRS 16 – "Leases" applicable from January 1, 2019 sets out the new requirements of lease accounting for lessees and lessors.

The Group is currently assessing the implication of the above two standards and the timing of adoption.

39. Comparative figures

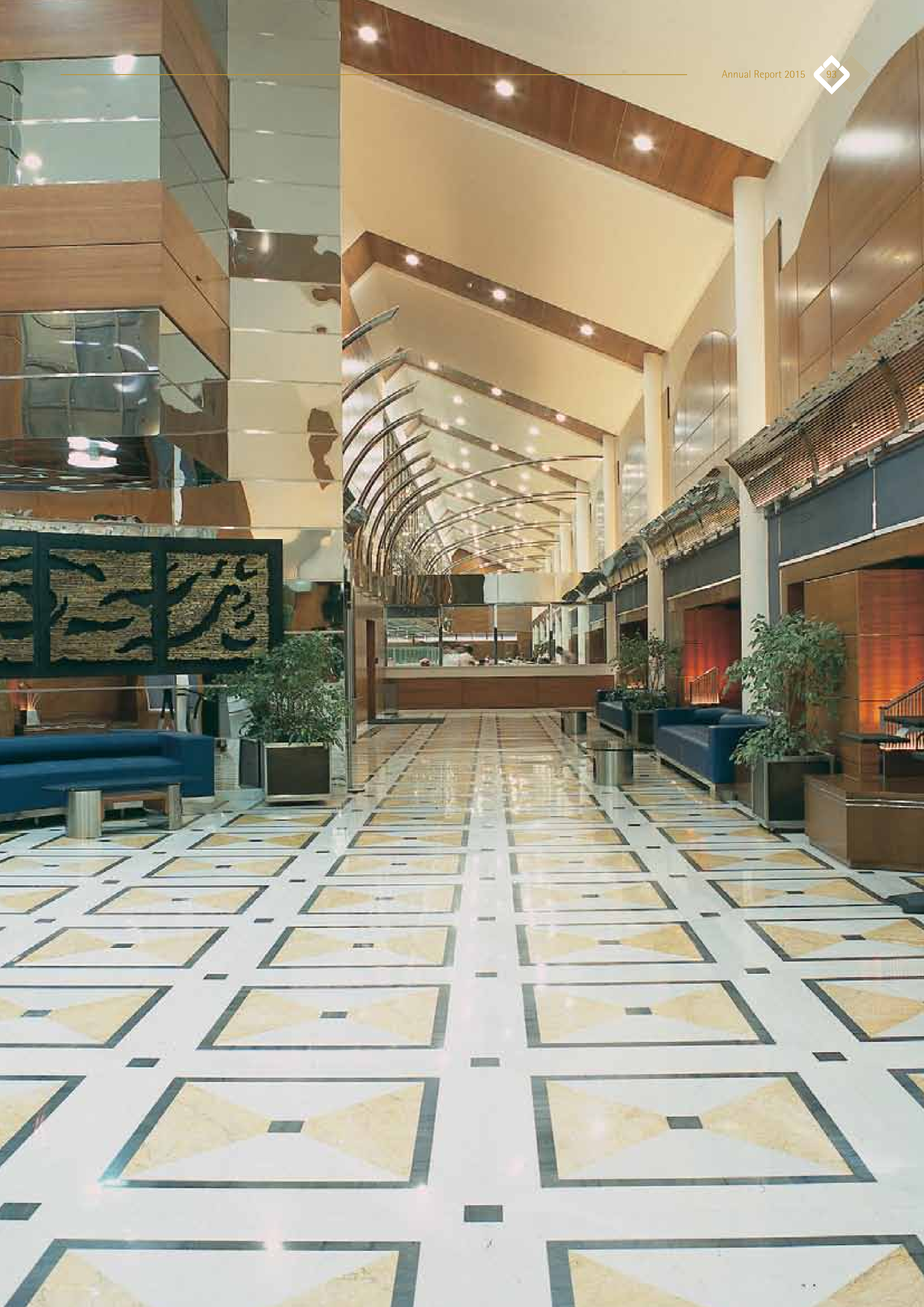
Certain prior year figures have been reclassified to conform to the current year presentation.

40. Board of Director's approval

The consolidated financial statements were approved by the Board of Directors on 9 Jamadi I, 1437H, corresponding to February 18, 2016.

41. Basel III Pillar 3 disclosures (unaudited)

Under Basel III pillar 3, certain disclosures are required, and these disclosures will be made available on the Bank's website **www.saib.com.sa** as required by SAMA. Additional qualitative disclosures will be included in the Group's Annual Report. Such disclosures are not subject to review or audit by the external auditors.



AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT

To the Shareholders of The Saudi Investment Bank
(A Saudi Joint Stock Company)

We have audited the accompanying consolidated financial statements of The Saudi Investment 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 statement of comprehensive income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes from (1) to (40). We have not audited notes (35-b) and (41), nor the information related to "Basel III Pillar 3 disclosures" 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 the Accounting Standards for Financial Institutions issued by the Saudi Arabian Monetary Agency ("SAMA"), International Financial Reporting Standards, the provisions of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's Articles of Association. In addition, management is responsible for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

AUDITORS' REPORT

Building a better working world

INDEPENDENT AUDITORS' REPORT

To the Shareholders of The Saudi Investment Bank
(A Saudi Joint Stock Company) – continued

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

Opinion

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

- present fairly, in all material respects, the financial position of the Group as at December 31, 2015, and its financial performance and its cash flows for the year then ended in accordance with the Accounting Standards for Financial Institutions issued by SAMA and with International Financial Reporting Standards; and

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

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ERNST & YOUNG
PROFESSIONAL LICENCE No. 45

13 Jumada Al-Awwal, 1437 H
(February 22, 2016)

برايس وترهاوس كوبرز
محاسبون قانونيون
ترخيص رقم ٢٥
PRICEWATERHOUSECOOPERS
CERTIFIED PUBLIC ACCOUNTANTS
LICENSE NO. 25

Qualitative Disclosures Under Pillar III of Basel III

For the year ended December 31, 2015

INTRODUCTION

The complexity of today's financial services sector, business operations, and diversity of geographical locations requires the identification, measurement, aggregation, and effective management of risks including an efficient allocation of capital to derive an optimal risk and return ratio. In addition, the stakeholders of the Bank, including the regulators and rating agencies also expect the Bank to have a clear and well documented framework in place that addresses several dimensions of the Bank's business.

The Saudi Arabian Monetary Agency (SAMA) has issued its required framework and norms regarding the implementation of capital reforms under Basel III. Risk Weighted Assets (RWA) under Basel III are is an aggregate of RWAs under Basel II with additional enhancements/modifications to RWAs under the Basel III framework. Additional qualitative disclosures are also part of the Basel III process, which set out The Saudi Investment Bank's approach to capital assessment and RWA estimation and complement SAMA's supervisory review process.

SCOPE OF APPLICATION

The name of the top corporate entity in the Group to which this framework applies is The Saudi Investment Bank (The Bank).

The results of subsidiaries acquired or disposed of during the year are fully included in the consolidated statement of financial position and consolidated statement of income from the date of the acquisition or up to the date of disposal, as appropriate. The Bank has the following three subsidiaries:

- Al-Istithmar Capital for Financial Securities and Brokerage Company, a limited liability company, and is 100% owned by the Bank;
- Saudi Investment Real Estate Company, a limited liability company, and is 100% owned by the Bank. The company has not yet commenced any significant operations; and
- Saudi Investment First Company, a limited liability company and is owned 100% by the Bank. The company has not commenced any significant operations.

Investments in associates are initially recognized at cost and subsequently accounted for under the equity method of accounting. The Bank has investments in the following three associate companies:

- Amex Saudi Arabia Ltd. (ASAL). ASAL is a closed joint stock company in Saudi Arabia and the Bank holds a 50% interest. The principal activities of ASAL include the issuance of credit cards and the offer of other American Express products in Saudi Arabia.
- Saudi Orix Leasing Company (Orix). Orix is a Saudi Arabian closed joint stock company in Saudi Arabia and the Bank holds a 38% interest. The principal activities of Orix include lease-financing services in Saudi Arabia.
- Amlak International for Finance and Real Estate Development Co. (Amlak). Amlak is a Saudi Arabian closed joint stock company in Saudi Arabia and the Bank holds a 32% interest. The principal activities of Amlak include real estate finance products and services.

In 2014, the Bank transferred its investment in MedGulf from investments in associates to available for sale investments, because this investment no longer qualified to be accounted for as an investment in an associate.

The Bank also has a 20% interest in Naeem Investment Company, which has no operations.

The Bank has no other subsidiaries nor operates any other business activities outside of Saudi Arabia. The Bank is subject to all laws and regulations of Saudi Arabia and is regulated by SAMA. The Bank also follows regulations issued by the Ministry of Commerce and Industry and the Capital Market Authority.

There are no restrictions, or other major impediments, on the transfer of funds or regulatory capital within the group.

Qualitative Disclosures Under Pillar III of Basel III
For the year ended December 31, 2015

CAPITAL STRUCTURE

The authorized, issued and fully paid up share capital of the Bank consists of 650 million ordinary shares of SAR 10 each as of December 31, 2015. The Bank's total shareholders' equity as of December 31, 2015 was SAR 12,036 million (2014: SAR 11,852 million).

Tier I Capital as of December 31, 2015 was SAR 12,018 million (2014: SAR 11,833 million), which is considered the core measure of the Bank's financial strength and includes share capital, reserves, and retained earnings, net of goodwill.

Tier II Capital as of December 31, 2015 was SAR 2,456 million (2014: SAR 2,537 million), which consists of the allowed portions of general provisions, and qualifying subordinated debt.

Tier I and Tier II Capital as of December 31, 2015 was SAR 14,474 million (2014: 14,371 million).

Eligible Reserves are created by appropriations of profit and are maintained for future growth and to meet statutory requirements. The eligible reserves are mainly comprised of statutory reserves, and retained earnings.

CAPITAL ADEQUACY

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

Capital adequacy and the use of regulatory capital are routinely monitored by the Bank's management. SAMA requires the Bank to hold a minimum level of regulatory capital and maintain a ratio of total regulatory capital to risk-weighted assets (RWA) at or above the Basel requirement of 8%.

The Bank monitors the adequacy of its capital using ratios established by SAMA. These ratios measure capital adequacy by comparing its eligible capital with its balance sheet assets, commitments, and notional amount of derivatives at a weighted amount to reflect their relative risk.

As of December 31, 2015, the Bank's Tier I ratio was 14.07% and the Tier I + II ratio was 16.94% (December 31, 2014 Tier I 14.06% and Tier I + II 17.08%) Both ratios are in compliance with SAMA's minimum requirements.

Internal Capital Adequacy and Assessment Plan

A comprehensive analysis of capital assessment and adequacy, through the process of an Internal Capital Adequacy Assessment Plan (ICAAP), is carried out by the Bank on an annual basis for which robust models and commonly accepted methodologies are applied for the estimation of the minimum required capital. This process is supported by the use of proprietary capital planning methodologies. The analysis and results are approved by the Board of Directors (The Board) and monitored by SAMA.

Based on the detailed ICAAP analysis, the Bank's balance sheet remains strong, and is adequately capitalized for current and potential risks, which may be manifested during the next year.

Stress Testing Framework

The Bank has a comprehensive stress testing framework that allows the Bank to adopt stress testing practices and methodologies that make stress testing an effective and integral part of the Bank's risk management function, as well as to meet regulatory requirements of SAMA.

The Bank has also appointed a Stress Testing Committee (STC) headed by the Chief Risk Officer and has implemented a Bank-wide Stress Testing Policy (STP) which has been approved by the Bank's Board of Directors. The STC, in accordance with the STP, has furthermore appointed a cross-functional team designated as the Stress Testing Team (STT) to conduct the detailed stress testing with the results submitted to the STC for its review and feedback.

The Bank's Stress Testing framework specifies the frequency and schedule of stress tests and reporting of the stress test results in accordance with SAMA's requirements. Top-down and bottom-up risk analyses

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and various stress tests are performed to measure the impact of extreme, yet plausible events which enables holistic assessment of vulnerabilities of the Bank's strategy. At the request of the supervisory authorities, specific stress tests are performed in order to measure the capital adequacy under severe economic downturn scenarios.

The semi-annual Stress Test results completed during 2015 which were approved by the Board of Directors, show that the Bank is adequately capitalized to withstand liquidity stresses, with the Bank's capital ratio still exceeding the Basel minimum capital ratio even under a severe stress scenario.

RISK APPETITE FRAMEWORK

The Bank manages its risks in a structured, systematic, and transparent manner through a broad-based Risk Appetite Framework (RAF) approved by the Board of Directors that incorporates comprehensive risk management into the Bank's organizational structure, risk measurement, and monitoring processes. The Bank's RAF is carefully aligned with the Bank's strategy, business planning, capital planning, and the policies and documents approved by the Bank's Board of Directors. The Bank's RAF is in compliance with the Financial Stability Board's "Principles for an effective Risk Appetite Framework" dated November 18, 2013, as adopted by SAMA.

The Bank's RAF includes the following key characteristics:

- The nature of risks to be assumed as a result of the Bank's strategy;
- The maximum level of risk at which the Bank can operate (Risk Capacity) and the maximum level of risk it should take (Risk Appetite);
- The maximum level of other quantifiable risks that should be taken (Other Risk Limits);
- The desired balance of risk versus returns by Business Line (Business Unit Line Risk Appetite measurements); and
- The desired risk culture, compensation programs, information technology risk and security, and the overall compliance environment of the Bank (Qualitative Reporting).

An annual Risk Appetite Statement (RAS) is developed at the beginning of each year and approved by the Bank's Board of Directors. The RAS establishes the Risk Capacity, Risk Appetite, Other Risk Limits, Business Unit Line Risk Appetite, and other Qualitative measurements. These risk measurements are then reported to and monitored by the Asset Liability Committee (ALCO) and the Board Risk Committee on a quarterly basis, and reported to the Board of Directors on an annual basis.

The Board Risk Committee endorses the Bank's RAF and RAS for the Board of Directors approval. Additionally, the Board Risk Committee:

- Ensures that the RAF remains consistent with that of the Bank's short-term and long-term strategy, business and capital plans, as well as the Bank's compensation programs and other Board approved policies;
- Ensures timely monitoring and appropriate action is being taken by management regarding any breaches of Risk Capacity, Risk Appetite, or Other Risk Limits;
- Satisfies itself that there are mechanisms in place to ensure senior management can act in a timely manner to effectively manage, and where necessary mitigate, material adverse risk exposures, and in particular those that are close to or which may exceed the approved Risk Capacity, Risk Appetite or Other Risk Limits.

The Bank monitors the risk measures set in the annual RAS against actual results through a quarterly RAF compliance report to the Board Risk Committee and on an annual basis to the Board of Directors.

Finally, it ensures that the Bank's risk management functions are supported by adequate and robust IT and MIS to enable the identification, measurement, assessment and reporting of risk information in a timely and accurate manner.

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RISK EXPOSURE AND ASSESSMENT

Risk management is an intrinsic process embedded in all the activities of the Bank and is a core competency for its employees. The Bank manages its credit, market, operational, and liquidity risks using a structured approach integrated with the Bank's RAS and the laid down policies and procedures including the Board Approved Credit Policy Guide and Treasury Policy Guide. The Bank's risk management function is independent of the Bank's business units.

In addition to the above, the Bank's internal audit function reports to the Board Audit Committee and provides an independent validation of the business and support unit's compliance with risk policies and procedures and the adequacy and effectiveness of the Bank's risk management function.

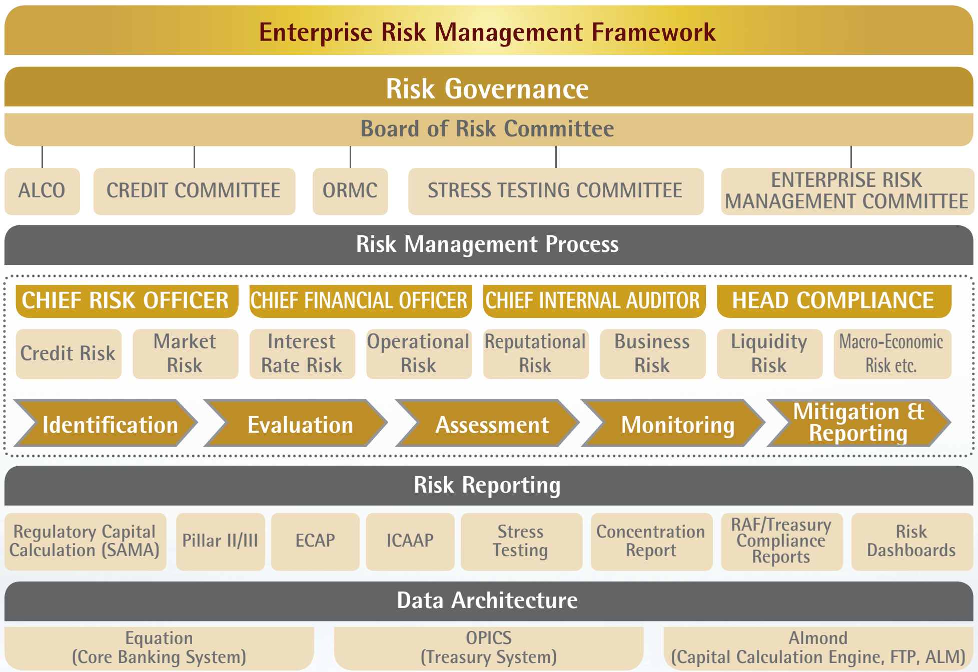
Through the Bank's comprehensive risk management function, transactions and outstanding risk exposures are quantified and compared against authorized limits, whereas non-quantifiable risks are monitored against policy guidelines and key risk and control indicators. Any discrepancies, excesses, or deviations are escalated for appropriate action. The Bank's risk management function ensures that:

- The Bank's overall business strategy is consistent with its risk policies approved by the Board;
- Appropriate risk management architecture and systems are developed and implemented; and
- The portfolio of risks and limits including the Board approved Risk Appetite Framework are routinely monitored, including at appropriate Board Committees and management levels.

The risk management function therefore assists the Board and senior management in controlling and actively managing the Bank's overall risk.

ENTERPRISE RISK MANAGEMENT FRAMEWORK

The Bank has implemented a comprehensive Enterprise Risk Management Framework (ERM), whereby all of its risks are identified and monitored against the Bank's strategy. The diagrammatic representation of the ERM Framework follows:



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The Bank has also constituted an "Enterprise Risk Management Committee" (ERMC). The ERMC has the following responsibilities:

- Review and monitor the Economic Capital (ECAP), Pillar II, Internal Capital Adequacy Assessment Plan (ICAAP) and Stress Testing activities as well as Pillar III (both qualitative and quantitative) disclosures;
- Review risk related MIS reports and data sources;
- Review risk related reports including Risk Dashboards and RAF compliance Reports ;
- Review monthly Treasury Compliance Reports.
- Ensure system parameterization for latest SAMA standards;
- Review documentation of related processes to ensure key resources for succession planning.
- Ensure adherence to the principles for effective risk data aggregation and reporting; and
- Review the latest developments in the area of ERM to ensure that the ERM framework in the Bank remains updated from time to time.

The Committee is comprised of senior personnel from Risk Management, Finance, Compliance and Information Security.

RISK CULTURE

The Bank's Risk Culture encompasses the accepted norms of behavior for individuals and groups within the Bank that determine the collective ability to identify and understand, openly discuss, and act on the Bank's current and future risks.

The Bank's RAF underlines the importance of the Bank's risk culture, which must be grounded in shared values and common understanding, clear communication, and controlling how each employee's activities contribute to the Bank's Risk Profile and Other Risk Limits in line with the successful implementation of its business and risk strategies. The Bank has introduced various mandatory training programs for its employees including in the compliance and fraud related areas. The objective of these training programs is to provide risk related awareness to all employees across the Bank.

The Bank's risk culture affects its risk taking behavior and is an important element of the RAF and RAS by ensuring the Bank's risk taking behavior is translated into measurable metrics through the RAS. The Bank's Risk Appetite Framework specifically includes zero tolerance measures particularly regarding regulatory noncompliance risk, willful acts of violation of local laws, fraud risk, etc, which can adversely impact the reputation and business of the Bank.

SCOPE AND NATURE OF RISK REPORTING AND MONITORING TOOLS

The Bank's comprehensive risk management processes enable the Bank to identify, assess, limit, and monitor risks using a wide range of quantitative and qualitative tools. Some of these tools are common to a number of risk categories, while others are tailored to the particular features of specific risk categories and enable generation of information such as:

- Credit risk in commercial and consumer lending and other asset exposures such as collateral coverage ratios, limit utilization, past due and alerts, among others;
- Quantification of the susceptibility of the market value of single positions or portfolios to changes in market parameters (commonly referred to as sensitivity analysis);
- Quantification of exposure to losses due to extreme movements in market prices or commission rates.

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The Bank continuously assesses the adequacy and effectiveness of its reporting and monitoring tools and metrics in light of the changing risk environment.

The Bank's risk management infrastructure (including data aggregation and reporting of risk data, systems and processes, and employee skill sets) responds to and supports its business and risk strategy as well as its current and future risk profile. The Bank therefore has a robust and well developed risk infrastructure in place as it is an essential pre-requisite for the effective measurement, monitoring, reporting, and control of its Risk Capacity, Risk Appetite, Risk Profile and Other Risk Limits. The reporting has been designed in such a way to support customized measurement, monitoring, and control of the Bank's evolving risks.

RISK MANAGEMENT

Credit Risk Management

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

Credit Risk Management Strategy

The approach to credit risk management is based on a foundation which preserves the independence and integrity of credit risk assessment.

The Bank has a comprehensive framework of managing credit risk, which includes an independent credit risk review function and credit risk monitoring process.

Management and reporting processes are therefore combined with clear policies, limits, and approval structures which guide the day-to-day initiation and management of the Bank's credit risk exposure. This approach includes credit limits that are established for all customers after a careful assessment of their creditworthiness.

Standing procedures, outlined in the Bank's Credit Policy Guide approved by the Board of Directors, require that all credit proposals must either be reviewed and approved by the Credit Committee, or the Board's Executive Committee.

Whenever necessary, credit facilities are secured by acceptable forms of collateral to mitigate the related credit risks.

The Board defines the Bank's credit risk management strategy and approves significant credit risk policies to ensure alignment of the Bank's exposure with its overall risk policies.

The Bank uses external ratings of the major rating agencies, where available.

The Bank controls credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and by continually assessing the creditworthiness of counterparties.

The Bank's credit risk management policies are designed to identify and set appropriate risk limits and to monitor the risks and adherence to those limits. Actual exposures against limits are routinely monitored.

The Bank's credit risk for derivatives represents the potential cost to replace the derivative contracts if counterparties fail to fulfill their obligation, and to control the level of credit risk taken. The Bank assesses counterparties using the same techniques as for its lending activities.

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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. Loan Portfolio Concentration risk is well managed and monitored under the Bank's Risk Appetite Framework.

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

The Bank seeks to manage its credit risk exposure through diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations, businesses or industries.

The Bank also takes security when appropriate. In addition, the Bank seeks additional collateral from counterparties as soon as impairment indicators are noticed for the relevant individual loans or advances.

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

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

Credit Risk Management Structure
Senior management and respective committees implement the Board's credit risk strategy and develop policies and procedures for identifying, assessing, monitoring, and controlling credit risk.

The Bank's Executive Committee meets periodically to review loan portfolio quality and standards and to approve credits above predetermined levels. The Bank's Audit Committee appointed by the Board reviews the audit reports submitted by the Bank's Internal Auditor throughout the year.

Key Features of Credit Risk Management
Credit facilities are granted based on detailed credit risk assessments which consider the purpose of the facility and source of repayment, prevailing and potential macro-economic factors, industry trends, and the customer's positioning within its industry peer-group.

In compliance with SAMA regulations, lending to individual board members and related parties is fully secured and monitored by the Credit Committee. Such transactions are made on substantially the same terms, including special commission rates as those prevailing at the time for comparable transactions with unrelated parties.

All new proposals and or material changes to existing credit facilities are reviewed and approved by the Credit Committee and / or by the Executive Committee within the provisions of the Credit Policy Guide approved by the Board.

The credit facility administration process is undertaken by a segregated function to ensure proper execution of all credit approvals and maintenance of documentation, and proactive control over maturities, expiry of limits, collateral valuation, and legal covenants.

Credit Risk Monitoring, Reporting and Measurement System
The Bank's exposures are continuously monitored through a system of triggers and early-warning signals aimed at detecting adverse symptoms that could result in deterioration of credit risk quality. The triggers and early-warning systems are supplemented by facility utilization and collateral valuation monitoring together with a review of upcoming credit facility expiration and market intelligence to

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enable timely corrective action by management. The results of the monitoring process are reflected in the Bank's internal rating process.

Credit risk is monitored on an ongoing basis with formal monthly and quarterly reporting to the Credit Committee, senior management, Board Risk Committee and the Board to ensure awareness of shifts in credit quality and portfolio performance along with changing external factors such as economic and business cycles.

Consumer credit risk reporting includes a daily dashboard for consumer and small business lending, classification, and delinquency monitoring.

Specialized and focused Remedial Management and Special Credit Unit teams handle the management and collection of problem credit facilities and take any legal action if required.

Credit Risk Mitigation Strategy

Portfolio diversification is the cornerstone of the Bank's credit risk mitigation strategy, which is implemented through customer, industry, and geographical limit structures.

To ensure diversification at the portfolio level, interrelated companies with the same management or ownership structure are classified and treated as one entity. The Bank limits its credit concentration to various types of counterparties as per the Rules on Large Exposures issued by SAMA in 2015, with which the Bank fully complies.

Credit risk mitigants such as collateral and guarantees are effective mitigating factors within the Bank's portfolio and collateral quality is continuously monitored and assessed.

Past-due and impairment

Credit facilities are classified as past due when a payment has not been received on its contractual payment date, or if the facility is in excess of pre-approved limits.

A credit facility is generally considered impaired if the interest or a principal installment is past due for more than 90 days and the exposure is downgraded to a non-performing category.

Approaches for Specific and General Impairment

Non-performing loans are managed and monitored as irregular facilities and are classified into Sub-standard and Doubtful categories which are then used to guide the provisioning process of general as well as specific impairment provisions.

The Bank uses a credit classification system as a tool to assist in managing the quality of credit risk within the lending portfolio. The Bank maintains ten classification grades that differentiate between performing, past due but not impaired, and impaired portfolios, and allocates portfolio provisions and specific provisions accordingly.

The Credit Committee conducts quality classification exercises over all of its existing borrowers subject to the guidelines provided in the Credit Policy Guide.

Consumer loan loss provisions are allocated on the basis of portfolio provisioning in compliance with SAMA regulatory requirements.

The adequacy of provisions are regularly reviewed and adjusted according to a portfolio risk analysis undertaken on a monthly basis.

The Bank uses external ratings (where available) from Fitch, S&P and Moody's to supplement internal ratings during the process of determining credit limits. Unrated public issue instruments are risk-weighted at 100% for capital adequacy purposes.

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Standardized Approach and Supervisory Risk Weights
The Bank currently uses the Standardized Approach for the credit risk capital calculation charge under SAMA guidelines as amended from time to time. The Bank uses the ratings issued by Standard & Poor's (S&P), Moody's, and Fitch, which are the External Credit Assessment Institutions (ECAIs) approved by SAMA for the Standardized Approach. There has been no change in the ECAI used by the Bank during 2015. The Bank has not yet implemented the internal ratings-based (IRB) Approach.

The Bank does not use any specific agency exclusively for any particular type of exposure. The available ratings of any of the above three approved ECAIs on the obligors classified as Sovereign, Public Sector Entities, Multilateral Development Banks, Banks and Security Firms, and Corporates are used for risk weighting the exposures on them. The Bank's exposure to the obligors therefore reflects the correct issue rating from an acceptable ECAI long-term issuer rating.

Distinction between long-term and short-term claims is made only in respect of claims on banks. Generally, short-term ratings are deemed to be issue specific to be used only for the rated short-term facility. Short-term ratings are not used for any other short-term claims. If there are three or more assessments with different risk weights, the assessments corresponding to the two lowest risk weights are referred to and the higher of those risk weights is applied.

In general, the Bank follows the guidelines issued by SAMA with respect to the use of ECAI ratings. The alignments of the ratings of each ECAI are made as per the standard mapping published by SAMA.

Exposure Related To Counterparty Credit Risk
The Bank manages and controls credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Bank's risk management policies are designed to identify and to set appropriate risk limits and to monitor the risks and adherence to limits. Actual exposures against limits are routinely monitored.

In addition to monitoring credit limits, the Bank manages the credit exposure relating to any trading activities. The Bank may close out transactions or assign them to other counterparties to mitigate credit risk.

The Bank's credit risk for 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, the Bank assesses counterparties using the same techniques as for its lending activities.

Securitization
The Bank does not have any Securitization exposure or risk.

Market Risk Management
The Bank recognizes market risk as the risk due to potential losses in on-and off-balance sheet positions arising from movements in market prices such as interest rates, foreign exchange rates, equity prices and commodity prices.

Market-Risk Management Framework
The Bank has in place a market-risk management framework which governs the Bank's trading and non-trading activities related to market risk. The Bank separates market risk related activities between its banking book and its trading book. The relevant department heads within the Treasury and Investment Group are responsible for managing market risk arising from any trading investment and asset liability management (ALM) activities within the mandated limits of risk policy of the Bank.

The Bank's Asset Liability Committee (ALCO) is responsible for management and oversight of market risk inherent within the Bank's trading and non-trading activities.

The Market Risk Department is responsible for monitoring and reporting the Bank's market risk exposures.

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For regulatory capital purposes, the Bank calculates its market risk capital requirements according to the Standardized methodology.

All activities giving rise to market risk are conducted within a structure of approved credit and position exposure limits.

Monitoring and Control of Market Risk
The monitoring and control of market risk is handled by an independent Market Risk Department which is responsible for ensuring market risk exposures are measured in accordance with defined policies and monitored daily against the prescribed control limits. The Bank has established a market risk management policy which incorporates specified market risk measurements and limits included in the Bank's Treasury Policy Guide approved by the Board of Directors. The ALCO, Treasury and Investment Group and the Market Risk Departments are primarily responsible for managing, monitoring and controlling this risk in accordance with approved policies.

Liquidity Risk Management
Liquidity risk in the banking book is routinely monitored through liquidity risk limits based on short-term and long-term maturities, loan-to-deposit ratios, and SAMA liquidity ratios such as the daily liquidity ratio, liquidity coverage ratio and net stable funding ratio. The Bank manages it's liquidity through domestic money markets including swaps and repo markets and through international money markets such as US dollar and GCC markets.

Diversification of funding is an important component of the Bank's liquidity management strategy. The two largest components of customer deposits include time deposits and commodity deposits. The Bank conducts liquidity-risk stress tests whereby the stress scenarios incorporate both internal and external liquidity risk factors. The Bank seeks to maintain a cushion of unencumbered, high quality, liquid assets that can be liquidated or repoed in times of stressed liquidity. The Bank's stress tests in 2015 showed that the Bank has continued to maintain a sufficient amount of liquidity under various stressed scenarios.

Interest Rate Risk in the Banking Book
Interest rate risk in the banking book (IRRBB) is the exposure of the Bank's financial position to adverse movements in interest rates. Changes in interest rates affect earnings by changing its net special commission income and also affect the underlying value of assets, liabilities and off-balance sheet financial instruments. The main sources of interest rate risk are repricing risk, yield curve risk, basis risk, and optionality risk.

The Bank's interest rate risk management process includes implementation of interest rate strategies and policies, gap analysis of rate sensitive assets and liabilities in banking activities, as well as a system of internal controls. In particular, they address the need for effective interest rate risk measurement and monitoring and related control functions within the interest rate risk management process.

The interest-rate risk in the banking book is managed through a gap management system in accordance with the ALCO approved risk appetite and pre-defined limits.

All interest rate sensitive assets and liabilities are segregated according to their appropriate interest re-pricing maturity dates, currency and gaps, and are managed accordingly.

The Bank also monitors the potential long-term effects of changes in the interest rates on the present value of all future cash flows by using economic value of equity analysis to analyze and measure the risk on capital.

To hedge and minimize interest risk due to interest rate movements, the Bank uses approved hedging products and strategies to periodically rebalance assets and liabilities to maintain interest rate sensitive positions within desired tolerance levels.

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Equity Price Risk in the Banking Book
The Bank's equity risk exposures primarily include: available for sale (FS) exchange traded local equity investments and Investment in associates.

Substantially all of the AFS equities in the banking book are actively quoted on the Saudi stock exchange on a daily basis and are liquid. The Bank follows prudent practices in managing its diversified portfolio of equities and routinely monitors the portfolio for constantly changing market risks.

Investments in associates are strategic in nature and are accounted for using the equity method of accounting.

Operational Risk Management
Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational Risk includes Legal Risk, and but excludes Strategic and Reputational Risks. Strategic and Reputational Risks are captured under Pillar II capital charges. The Bank has put in place a detailed framework of operational risk management with a well-defined operational risk management policy.

Operational Risk Strategies and Processes
The Bank's Operational Risk Management Framework approved by the Board provides a structured approach to identify, assess, monitor, and control operational risk through:

- Conducting Risk and Control Self-Assessment (RCSA) workshops and issuing risk profile reports with Ratings of the Risk Entity;
- Monitoring of agreed Action Plans that have emerged as a result of RCSA workshops;
- Maintaining operational risk loss event databases for analysis and reporting;
- Implementing and monitoring of Key Risk Indicators;
- Creating awareness about the risk management concepts with a focus on operational risk management among the Bank employees through e-learning;
- Reviewing and updating Operational Risk Policies & Procedures and the functionality of the ORM System to improve Operational Risk Management in the Bank;
- Conducting Annual Qualitative and Quantitative risk analysis covering all risk entities within a Business/Support Group; and
- Reviewing operational risks and suggesting mitigants in respect of new products.

An operational risk appetite matrix is also used for monitoring operational risk losses on an ongoing basis.

The key components of this framework are comprehensively documented through policies and procedures.

Structure and Organization of the Operational Risk Management Function
The Operational Risk Management Committee (ORMC) has the overall responsibility of supervising the implementation of the operational risk management framework across the Bank.

The Operational Risk Management Department (ORMD) functions as an integral part of the Risk Management Group. The Bank has adopted a structured and proactive approach for the management of operational risks. The ORMD is subject to regular audit by the Bank's Internal Audit Department.

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Scope and Nature of the Operational Risk Management Function

The ORMD collects data related to operational losses from day-to-day operations and feeds the same into the Operational Risk Management system. This covers activities including:

- Feeding the results of RCSA workshops for risk and control assessment;
- Providing follow-up on actions;
- Maintaining an Operational Risk Loss Event Database; and
- Generating various standard reports for monitoring and control.

Any new products of the Bank are also assessed for inherent operational risks. The Bank's insurance contracts are also subject to ORMD review on an annual basis. In addition, the outsourcing contracts of the Bank are reviewed by the ORMD from an operational risk perspective.

The Bank is currently using the Basic Indicator Approach to calculate at the Operational Risk Capital Charge by taking 15% of the average adjusted gross operating income of the Bank for the last three years as defined by Basel III and and SAMA Basel III guidelines.