البنك
السعودي
الفرنسي
Banque
Saudi
Fransi

BANQUE SAUDI FRANSI
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2015

البنك السعودي الفرنسي
Banque Saudi Fransi
JULIEN MAZE
M - 145 A

البنك السعودي الفرنسي
Banque Saudi Fransi
PATRICE COUVEGNES
MANAGING DIRECTOR

KPMG Al Fozan & Partners
Certified Public Accountants

pwc

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Banque Saudi Fransi
(A Saudi Joint Stock Company)

We have audited the accompanying consolidated financial statements of Banque Saudi Fransi ("the Bank") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at December 31, 2015, and the consolidated statement of income, consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes from (1) to (42). We have not audited note 39, nor the information related to "Basel III – Capital Structures and 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 Accounting Standards for Financial Institutions issued by the Saudi Arabian Monetary Agency ("SAMA") and International Financial Reporting Standards and to comply with the relevant 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 controls as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether 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 Bank's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

البنك السعودي الفرنسي
Banque Saudi Fransi
JULIEN MAZE
M - 145 A

البنك السعودي الفرنسي
Banque Saudi Fransi
PATRICE COUVEGNES
MANAGING DIRECTOR

KPMG Al Fozan & Partners
Certified Public Accountants

pwc

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 consolidated financial position of the Group as at December 31, 2015, its consolidated financial performance and consolidated cash flows for the year then ended in accordance with Accounting Standards for Financial Institutions issued by SAMA and with International Financial Reporting Standards; and
- comply with the relevant provisions 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.

KPMG Al Fozan & Partners
Certified Public Accountants
P.O. Box 92876
Riyadh 11663
Kingdom of Saudi Arabia

Abdullah Hamad Al Fozan
Certified Public Accountant
Registration No. 348

PricewaterhouseCoopers

P.O. Box 13934
Riyadh 11414
Kingdom of Saudi Arabia

Mohammed A. Al Obaidi
Certified Public Accountant
Registration No. 367

8 Jumada Al-Awwal 1437H
17 February 2016

Banque Saudi Fransi
JULIEN MAZE
M-145 A

Banque Saudi Fransi
PATRICE COUVEGNES
MANAGING DIRECTOR

BANQUE SAUDI FRANSI
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at December 31, 2015 and 2014

SAR' 000	Notes	2015	2014
ASSETS			
Cash and balances with SAMA	4	**9,768,284**	20,013,841
Due from banks and other financial institutions	5	**16,303,165**	2,008,673
Investments, net	6	**28,320,963**	45,102,281
Loans and advances, net	7	**123,442,765**	116,540,684
Investment in associates	8	**106,430**	99,069
Property and equipment, net	9	**691,129**	605,076
Other assets	10	**5,091,545**	4,407,279
Total assets		**183,724,281**	188,776,903
LIABILITIES AND EQUITY			
Liabilities			
Due to banks and other financial institutions	12	**1,557,147**	3,863,482
Customers' deposits	13	**141,751,045**	145,275,245
Debt securities and Sukuks	14	**6,712,889**	9,131,067
Other liabilities	15	**6,219,399**	4,035,772
Total liabilities		**156,240,480**	162,305,566
Equity			
Share capital	16	**12,053,572**	12,053,572
Statutory reserve	17	**10,928,375**	9,919,264
General reserve	17	**982,857**	982,857
Other reserves	18	**(1,094,799)**	592,944
Retained earnings		**3,886,042**	2,251,660
Proposed dividend	28	**727,754**	671,040
Total equity		**27,483,801**	26,471,337
Total liabilities and equity		**183,724,281**	188,776,903

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

البنك السعودي الفرنسي
Banque Saudi Fransi
JULIEN MAZE
M - 145 A

البنك السعودي الفرنسي
Banque Saudi Fransi
PATRICE COUVEGNES
MANAGING DIRECTOR

BANQUE SAUDI FRANSI
CONSOLIDATED STATEMENT OF INCOME
For the years ended December 31, 2015 and 2014

SAR' 000	Notes	2015	2014
Special commission income	20	**4,875,373**	4,565,415
Special commission expense	20	**820,094**	748,439
Net special commission income		**4,055,279**	3,816,976
Fees and commission income, net	21	**1,327,521**	1,291,650
Exchange income, net		**404,472**	354,005
Trading income, net	22	**376,339**	202,587
Dividend income	23	**16,913**	16,007
Gains on non trading investments, net	24	**6,602**	35,273
Other operating income	25	**104,372**	69,538
Total operating income		**6,291,498**	5,786,036
Salaries and employee related expenses		**1,249,079**	1,062,105
Rent and premises related expenses		**143,412**	156,173
Depreciation and amortization	9	**131,378**	125,056
Other general and administrative expenses		**537,434**	504,004
Impairment charge for credit losses, net	7	**180,901**	320,934
Impairment charge for investment, net		**(11,250)**	45,500
Other operating expenses	26	**31,461**	56,722
Total operating expenses		**2,262,415**	2,270,494
Net operating income		**4,029,083**	3,515,542
Share in earnings of associates, net	8	**7,361**	799
Net income for the year		**4,036,444**	3,516,341
Basic and diluted earnings per share (in SAR)	27	**3.35**	2.92

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

البنك السعودي الفرنسي
Banque Saudi Fransi
JULIEN MAZE
M - 145 A

البنك السعودي الفرنسي
Banque Saudi Fransi
PATRICE COUVEGNES
MANAGING DIRECTOR

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

SAR' 000	Notes	2015	2014
Net income for the year		**4,036,444**	3,516,341
Other comprehensive income (loss):			
Items that may be recycled back to consolidated statement of income in subsequent periods			
Available for sale investments			
Net change in the fair value	18	**(27,876)**	168,685
Net amount transferred to consolidated statement of income	18	**(6,602)**	(35,913)
Cash flow hedge			
Effective portion of change in the fair value	18	**(830,270)**	848,868
Net amount transferred to consolidated statement of income	18	**(822,995)**	(657,364)
Total comprehensive income for the year		**2,348,701**	3,840,617

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

البنك السعودي الفرنسي
Banque Saudi Fransi
JULIEN MAZE
M - 145 A

البنك السعودي الفرنسي
Banque Saudi Fransi
PATRICE COUVEGNES
MANAGING DIRECTOR

BANQUE SAUDI FRANSI
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the years ended December 31, 2015 and 2014

		Attributable to equity holders of the Bank							
						Other reserves			
SAR' 000	Notes	Share capital	Statutory reserve	General reserve	Retained earnings	Available for sales investments	Cash flow hedges	Proposed dividend	Total
2015									
Balance at the beginning of the year		12,053,572	9,919,264	982,857	2,251,660	102,147	490,797	671,040	26,471,337
Total comprehensive income for the year									
Net Income for the year		-	-	-	4,036,444	-	-	-	4,036,444
Net change in the fair value	18	-	-	-	-	(27,876)	(830,270)	-	(858,146)
Net amount transferred to consolidated statement of income	18	-	-	-	-	(6,602)	(822,995)	-	(829,597)
Transfer to statutory reserve	17	-	1,009,111	-	(1,009,111)	-	-	-	-
Interim gross dividend for 2015	28	-	-	-	(665,197)	-	-	-	(665,197)
Final dividend paid 2014	28	-	-	-	-	-	-	(671,040)	(671,040)
Final Proposed dividend for 2015	28	-	-	-	(727,754)	-	-	727,754	-
Balance at the end of the year		12,053,572	10,928,375	982,857	3,886,042	67,669	(1,162,468)	727,754	27,483,801
2014									
Balance at the beginning of the year		9,040,179	9,040,179	982,857	3,884,748	(30,625)	299,293	-	23,216,631
Total comprehensive income for the year									
Net Income for the year		-	-	-	3,516,341	-	-	-	3,516,341
Net change in the fair value	18	-	-	-	-	168,685	848,868	-	1,017,553
Net amount transferred to consolidated statement of income	18	-	-	-	-	(35,913)	(657,364)	-	(693,277)
Transfer to statutory reserve	17	-	879,085	-	(879,085)	-	-	-	-
Interim gross dividend for 2014	28	-	-	-	(585,911)	-	-	-	(585,911)
Final Proposed dividend for 2014	28	-	-	-	(671,040)	-	-	671,040	-
Stock dividend		3,013,393	-	-	(3,013,393)	-	-	-	-
Balance at the end of the year		12,053,572	9,919,264	982,857	2,251,660	102,147	490,797	671,040	26,471,337

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

البنك السعودي الفرنسي
Banque Saudi Fransi
JULIEN MAZE
M - 145 A

البنك السعودي الفرنسي
Banque Saudi Fransi
PATRICE COUVEGNES
MANAGING DIRECTOR

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

SAR' 000	Notes	2015	2014
OPERATING ACTIVITIES			
Net income for the year		**4,036,444**	3,516,341
Adjustments to reconcile net income to net cash from /(used in) operating activities			
Accretion of discounts on non-trading investments, net		**(127,732)**	(199,035)
Gains on non trading investments, net		**(6,602)**	(35,273)
Depreciation and amortization		**131,378**	125,056
Gains on disposal of property and equipment, net		**(53)**	(165)
Impairment charge for credit losses, net		**180,901**	320,934
Impairment charge for Investment		**-**	68,000
Share in earnings from associates, net		**(7,361)**	(799)
Change in fair value of financial instruments		**(87,304)**	15,479
		4,119,671	3,810,538
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA	4	**(200,143)**	(750,726)
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		**(675,000)**	-
Investments held as FVIS (trading)		**1,942,028**	(1,825,101)
Loans and advances, net		**(7,085,136)**	(5,557,586)
Other assets		**(2,390,892)**	(274,637)
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		**(2,306,335)**	195,589
Customers' deposits		**(3,362,059)**	13,701,233
Other liabilities		**2,183,627**	(405,029)
Net cash (used in)/ from operating activities		**(7,774,239)**	8,894,281
INVESTING ACTIVITIES			
Proceeds from sale and maturities of non trading investments		**54,248,231**	41,854,428
Purchase of non trading investments		**(39,309,699)**	(50,466,915)
Dividend received from associates		**614**	1,260
Acquisition of property and equipment		**(217,574)**	(110,489)
Proceeds from sale of property and equipment		**196**	440
Net cash from / (used in) investing activities		**14,721,768**	(8,721,276)
FINANCING ACTIVITIES			
Repayment of term loans		**(2,437,500)**	-
Proceeds from issuance of debt securities and Sukuks		**-**	2,000,000
Dividends paid	28	**(1,336,237)**	(585,911)
Net cash (used in) / from financing activities		**(3,773,737)**	1,414,089
Increase in cash and cash equivalents		**3,173,792**	1,587,094
Cash and cash equivalents at the beginning of the year		**13,483,141**	11,896,047
Cash and cash equivalents at the end of the year	29	**16,656,933**	13,483,141
Special commission received during the year		**4,785,667**	4,504,348
Special commission paid during the year		**813,583**	759,490
Supplemental non cash information			
Net changes in fair value and transfers to consolidated statement of income		**1,687,743**	324,276

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

البنك السعودي الفرنسي Banque Saudi Fransi JULIEN MAZE M - 145 A

البنك السعودي الفرنسي Banque Saudi Fransi PATRICE COUVEGNES MANAGING DIRECTOR

1 General

Banque Saudi Fransi (BSF the Bank) is a Saudi Joint Stock Company established by Royal Decree No. M/23 dated Jumada Al Thani 17, 1397H (corresponding to June 4, 1977). The Bank formally commenced its activities on Muharram 1, 1398H (corresponding to December 11, 1977), by taking over the operations of the Banque de l'Indochine et de Suez in the Kingdom of Saudi Arabia. The Bank operates under Commercial Registration Number. 1010073368 dated Safar 4, 1410H (corresponding to September 5, 1989), through its 83 branches (2014: 82 branches) in the Kingdom of Saudi Arabia, with 3,207 employees (2014: 3,085). The objective of the Bank is to provide a full range of banking services, including Islamic products, which are approved and supervised by an independent Shariah Board. The Bank's Head Office is located at King Saud Road, P.O. Box 56006, Riyadh 11554, Kingdom of Saudi Arabia.

The Bank owns a subsidiary, Saudi Fransi Capital (100% share in equity) engaged in brokerage, asset management and corporate finance business. The Bank owns Saudi Fransi Insurance Agency (SAFIA), Saudi Fransi Financing & Leasing, Sakan Real Estate Financing and Sofinco Saudi Fransi having 100% share in equity. These subsidiaries are incorporated in the Kingdom of Saudi Arabia. Sofinco Saudi Fransi's consumer finance business and related net assets have been transferred to Saudi Fransi Financing & Leasing. The shareholders of the Sofinco Saudi Fransi have agreed to liquidate the company after finalizing the transfer of the assets and liabilities and settlement of all legal obligations. The Bank also owns BSF Sukuk Limited having 100% share in equity, incorporated in the Cayman Islands.

The Bank has investments in associates and owns 27% shareholding in Banque BEMO Saudi Fransi, incorporated in Syria and 32.5% shareholding in Saudi Fransi Corporative Insurance Company (Allianz Saudi Fransi) incorporated in the Kingdom of Saudi Arabia.

2 Basis of preparation

a) Statement of compliance

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

b) Basis of measurement and presentation

The consolidated financial statements are prepared under the cost /amortized cost convention except for the measurement at fair value of derivatives, available for sale and Fair Value through Income Statement (FVIS) financial instruments. In addition, as explained fully in the related notes, financial assets and liabilities that are hedged in a fair value hedging relationship, and otherwise are adjusted to record changes in fair value attributable to the risks that are being hedged.

c) Functional and presentation currency

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

2 Basis of preparation (Continued)

d) Critical accounting judgments, estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting judgments, estimates and assumptions that affect the reported amounts of assets and liabilities.

It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. Such judgments, 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. Significant areas where management has used estimates, assumptions or exercised judgments are as follows:

The key assumptions concerning the future and other key sources of estimating uncertainty at the reporting date, that 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 Bank 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 Bank. Such changes are reflected in the assumptions when they occur.

(i) Impairment for credit losses on loans and advances

The Bank reviews its loan portfolio to assess specific impairment on a quarterly basis. In determining whether an impairment loss should be recorded, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group.

A collective component of the total allowance is established for:

- groups of homogeneous loans that are not considered individually significant; and
- groups of assets that are individually significant but that were not found to be individually impaired (loss incurred but not reported' or IBNR).

The collective allowance for groups of homogeneous loans is established using statistical methods such as roll rate methodology for retail loans, a formula approach based on historical loss rate experience. The roll rate methodology uses statistical analysis of historical data on delinquency to estimate the amount of loss.In assessing the need for collective loss allowance for non retail loans management considers factors such as credit quality as reflected by the internal rating model. The internal rating is in turn based on qualitative parameters (economic environment, market position of borrower client, quality of financial statements , management) and quantitative financial ratios (leverage, profitability, debt servicing, and liquidity).

The impairment loss on loans and advances is disclosed in more detail in Note 7 and Note 32.

(ii) Fair value measurements

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

2 Basis of preparation (Continued)

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

The Bank exercises judgment to consider impairment on the available-for-sale equity and debt investments at each reporting date. This includes determination of a significant or prolonged decline in the fair value below its cost. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. In assessing whether it is prolonged, the decline is evaluated against the period in which the fair value of the asset has been below its original cost at initial recognition. In making an assessment of whether an investment in debt instruments is impaired, the Group considers the factors such as market's assessment of creditworthiness as reflected in the bond yields, rating agencies' assessments of creditworthiness, country's ability to access the capital markets for new debt issuance and probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

In making this judgement, the Bank evaluates among other factors, the normal volatility in share/debt price, deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

(iv) Classification of held to maturity investments

The Bank follows the guidance or requirement of International Accounting Standard (IAS) 39 "Financial Instruments: Recognition and Measurement" on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. In making this judgment, the Bank 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 judgements that can have a significant effect in the case of the Group's interests in investments funds.

<u>Investment funds</u>

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

3 Summary of significant accounting policies

The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below. Except for the change in accounting policies resulting from new and amended IFRS and IFRIC guidance, as detailed in note 3 (a) below, the accounting policies adopted in the preparation of these consolidated financial statements are consistent those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2014.

a) Change in accounting policies

The accounting policies adopted in the preparation of these consolidated financial statements are consistent with those used in the previous year except for the adoption of the following new standards and other amendments to existing standards and a new interpretation mentioned below which has had no material impact on the condensed (consolidated) financial statements of the Group on the current period or prior periods and is not expected to have a material effect in future periods:

Amendments to existing standard

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

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

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

b) IFRS 2 amended to clarify the definition of 'vesting condition' by separately defining 'performance condition' and 'service condition'.

c) IFRS 3 – "business combinations" amended to clarify the classification and measurement of contingent consideration in a business combination. It has been further amended to clarify that the standard does not apply to the accounting for the formation of all types of joint arrangements in IFRS 11.

d) IFRS 8 – "operating segments" has been amended to explicitly require disclosure of judgments made by management in applying aggregation criteria.

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

f) IAS 16 – "Property plant and equipment" and IAS 38 – "intangible assets": – the amendments clarify the requirements of revaluation model recognizing that the restatement of accumulated depreciation (amortisation) is not always proportionate to the change in the gross carrying amount of the asset.

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

h) IAS 40 – "investment property" clarifies that an entity should assess whether an acquired property is an investment property under IAS 40 and perform a separate assessment under IFRS 3 to determine whether the acquisition constitutes a business combination.

3 Summary of significant accounting policies (continued)

b) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries (the Group) i.e. Saudi Fransi Capital, Saudi Fransi Insurance Agency, Saudi Fransi Financing and Leasing, Sakan real estate financing, Sofinco Saudi Fransi and BSF Sukuk Limited. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies. Reclassifications have been made wherever necessary to the financial statements of the subsidiaries to bring them in line with the Bank's consolidated financial statements.

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

Control is achieved when the Group 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.

Specifically, the Group controls an investee if and only if the Group has:
-Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)

-Exposure, or rights, to variable returns from its involvement with the investee, and
-The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:
-The contractual arrangement with the other vote holders of the investee
-Rights arising from other contractual arrangements
-The Group's voting rights and potential voting rights granted by equity instruments such as shares
The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. The results of subsidiaries acquired or disposed of during the year, if any, are included in the consolidated statement of income from the effective date of the acquisition or up to the effective date of disposal, as appropriate.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:
-Derecognises the assets (including goodwill) and liabilities of the subsidiary
-Derecognises the carrying amount of any non-controlling interests
-Derecognises the cumulative translation differences recorded in equity
-Recognises the fair value of the consideration received
-Recognises the fair value of any investment retained
-Recognises any surplus or deficit in profit or loss
-Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

Balances between the Bank and its subsidiaries including any income and expenses arising from intra-group transactions, are eliminated in preparing these consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3 Summary of significant accounting policies (continued)

(i) List of significant subsidiaries

The table below provides details of the significant subsidiaries of the Group

Name of the subsidiary	Principal place of business	Ownership interest 2015	Ownership interest 2014
Saudi Fransi Capital	K.S.A	100%	100%
Saudi Fransi Insurance Agency	K.S.A	100%	100%
Saudi Fransi Financing and Leasing	K.S.A	100%	100%
Sakan real estate financing	K.S.A	100%	100%

Apart from the above subsidiaries, the Bank also owns BSF Sukuk Limited having 100% share in equity, incorporated in the Cayman Islands. Sofinco Saudi Fransi has no material impact on the Group financial statements.

(ii) Significant restriction

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory frameworks within which banking subsidiaries operate.

c) Investment in associates

Investments in associates are initially recognised at cost and subsequently accounted for under the equity method of accounting.

An associate is an entity in which the Bank holds 20% to 50% of the voting power and over which it has significant influence (but not control), over financial and operating policies and which is neither a subsidiary nor a joint venture.

Investments in associates are carried in the statement of financial position at cost, plus post-acquisition changes in the Company's share of net assets of the associate, less any impairment in the value of individual investments. The Bank's shares of its associates' post-acquisition profits or losses are recognized in the statement of income, and its share of post-acquisition movements in other comprehensive income is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

d) Settlement and trade date accounting

All regular way purchases and sales of financial assets are recognized and derecognized in the consolidated statement of financial position on the settlement date i.e. the date on which the asset is acquired from or delivered to the counter party. The Bank accounts for any change in fair value which is recognized from the trade date. Regular purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or follow convention in the market place.

All other financial assets and liabilities are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

3 Summary of significant accounting policies (continued)

e) Derivatives financial instruments and hedge accounting

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

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

i) Derivatives held for trading

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

ii) Embedded derivatives

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

iii) Hedge accounting

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

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

In order to qualify for hedge accounting, the hedge should be expected to be highly effective i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item, and should be reliably measurable. At inception of the hedge, the risk management objective and strategy is documented including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Bank will assess the effectiveness of the hedging relationship. At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting. A formal assessment is undertaken by comparing the hedging instrument's effectiveness in offsetting the changes in fair value or cash flows attributable to the hedged risk in the hedged item, both at inception and at each quarter end on an ongoing basis. Prospective testing is performed mainly through matching the critical terms of both hedge item and instrument.

3 Summary of significant accounting policies (continued)

A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated were offset by the hedging instrument in a range of 80% to 125% and were expected to achieve such offset in future periods. Hedge ineffectiveness is recognized in the income statement in 'Net trading income'. For situations where the hedged item is a forecast transaction, the Bank also assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the statement of income.

Fair value hedges

In relation to fair value hedges, which meet the criteria for hedge accounting, any gain or loss from re-measuring the hedging instruments to fair value is recognized immediately in the consolidated statement of income. The related portion of the hedged item is adjusted against the carrying amount of the hedged item and is recognized in the consolidated statement of 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 cumulative adjustment to the carrying amount of a hedge item is amortised to the income statement on a recalculated effective interest rate over the residual period to maturity, unless the hedged item has been derecognised, in which case it is recognised in the income statement immediately. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated statement of income.

Cash flow hedges

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

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

Hedge accounting is discontinued when the hedging instrument is expired or sold, terminated or exercised, or no longer qualifies for hedge accounting, or the forecast transaction is no longer expected to occur or the Bank revokes the designation then hedge accounting is discontinued prospectively.

At that point of time, any cumulative gain or loss on the cash flow hedging instrument that was recognised in other comprehensive income from the period when the hedge was effective is transferred from equity to consolidated statement of income when the forecasted transaction occurs. Where the hedged forecasted transaction is no longer expected to occur and affects the consolidated statement of income, the net cumulative gain or loss recognised in "other comprehensive income" is transferred immediately to the consolidated statement of income for the year.

f) Foreign currencies

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

3 Summary of significant accounting policies (continued)

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 commission rate and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

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

Non-monetary assets and liabilities denominated in foreign currencies measured at fair value are translated using the exchange rate at the date when the fair value is determined.

g) Offsetting financial instruments

Financial assets and liabilities are offset and reported net in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts, and 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 statement of income 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 the economic benefits will flow to the Bank, 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 bearing financial instruments, except for those classified as held for trading or designated as at fair value through income statement, (FVIS) are recognized in the consolidated statement of income using the effective commission rate basis. The effective commission rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective commission rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

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

3 Summary of significant accounting policies (continued)

Exchange income / loss

Exchange income / loss is recognised as discussed in foreign currencies policy above.

Fees and commission income

Fees and commissions are recognized when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred and, together with the related direct costs, are recognized as an adjustment to the effective yield on the loan. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportionate basis. Fees received on asset management, wealth management, financial planning, custody services and other similar services that are provided over an extended period of time, are recognized 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 recognised on a straight-line basis over the commitment period. Other fees and commission expense, which relate mainly to transaction and service fees, are expensed as the services are received.

Dividend income

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

Trading income

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

Income / (loss) from FVIS financial instruments

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

i) Sale and repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos), continue to be recognized in the consolidated statement of financial position and are measured in accordance with related accounting policies for investments held as FVIS (held for trading), available for sale, held to maturity and other investments held at amortized cost. The counter-party liability for amounts received under these agreements is included in “Due to banks and other financial institutions” or “Customers’ deposits”, as appropriate.

The difference between sale and repurchase price is treated as special commission expense and is accrued over the life of the repo agreement, on an effective yield basis.

Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos), are not recognized in the consolidated statement of financial position, as the Bank does not obtain control over the assets. Amounts paid under these agreements are included in “Cash and balances with SAMA”, “Due from banks and other financial institutions” or “Loans and advances”, as appropriate. The difference between purchase and resale price is treated as special commission income and is accrued over the life of the reverse repo agreement, on an effective yield basis.

3 Summary of significant accounting policies (continued)

j) Investments

All investment securities are initially recognized at fair value and except for investments held at FVIS, include the acquisition costs associated with the investments. Transaction costs, if any, are not added to fair value measurement at initial recognition of investments held at FVIS. Premiums are amortized and discounts are accreted using the effective yield basis and are taken to special commission income. Amortized cost is calculated by taking into account any discount or premium on acquisition.

For securities that are traded in organized financial markets, fair value is determined by reference to exchange quoted market bid prices at the close of business on the reporting date without deduction for transaction costs. Fair value of managed assets and investments in mutual funds are determined by reference to declared net assets values which approximate the fair 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 or the underlying net asset base of the security. Where the fair values cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

Following initial recognition, subsequent transfers between the various categories of investments are not ordinarily permissible. The subsequent period end reporting values for the various categories of investments are determined as follows:

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

Investments held as FVIS are classified as either investment held for trading or those designated as fair value through income statement on initial recognition. Investments classified as trading are acquired principally for the purpose of selling or repurchasing in short term or if designated as such by the management in accordance with criteria laid down in IAS 39. After initial recognition, investments at FVIS are measured at fair value and any change in the fair value is recognised in the consolidated statement of income for the year in which it occurs. Transaction costs, if any, are not added to the fair value measurement at initial recognition of FVIS investments. Special commission income, dividend income and gain or loss incurred on financial assets held as FVIS are reflected as trading income or expense in the consolidated statement of income.

ii) Available for sale

Available for sale investments are those non-derivative equity and debt securities which are neither classified as Held to maturity investments, loans and receivables nor designated as FVIS, that are intended to be held for an unspecified period of time, which may be sold in response to needs for liquidity or changes in special commission rates, exchange rates or equity prices.

Investments which are classified as “available-for-sale” are initially recognised at fair value including direct and incremental transaction costs and subsequently measured at fair value except for unquoted equity securities whose fair value cannot be reliably measured are carried at cost. Unrealised gain or loss arising from a change in an investment’s fair value is recognised in other comprehensive income. On de-recognition, any cumulative gain or loss previously recognized in other comprehensive income is included in the consolidated statement of income.

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

3 Summary of significant accounting policies (continued)

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

iii) Held to maturity

Held to maturity investments are non-derivative financial assets which have fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold up to the maturity, other than those classified as “Other investments held at amortised cost”, are classified as ‘held to maturity’ and which are not designated as at FVIS or AFS. Held to maturity investments are initially recognised at fair value including direct and incremental transaction costs and subsequently measured at amortized cost, less provision for impairment in their 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 statement of income when the investment is de-recognized or impaired.

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

iv) Other investments held at amortized cost

Investments with fixed or determinable payments that are not quoted in an active market are classified as ‘other investments held at amortized cost’. Other investments held at amortized cost, where the fair value has not been hedged are stated at amortized cost using the effective yield basis, less provision for impairment. Any gain or loss is recognized in the consolidated statement of income when the investment is derecognized or impaired.

k) Loans and advances

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

All loans and advances are initially measured at fair value, plus incremental direct transaction costs and are subsequently measured at amortised cost except when Bank chooses to carry loans as FVIS when the Bank intends to sell immediately or in the near term.

Following the initial recognition subsequent transfers between the various categories of loans and advances is not ordinarily permissible. The subsequent period end reporting values for various classes of loans and advances are determined on the basis as set out in the following paragraphs:

(i) Available for sale

Loans and advances which are not part of a hedging relationship and are available for sale, are subsequently measured at fair value and gains or losses arising from changes in fair value are recognized directly in ‘other reserves’ under shareholders’ equity until the loans or advances are de-recognized or impaired, at which time the cumulative gain or loss previously recognized in other reserves is included in the consolidated statement of income for the year.

3 Summary of significant accounting policies (continued)

(ii) Loans and advances held at amortized cost

Loans and advances originated or acquired by the Bank that have not been designated in a fair value hedge, are stated at amortized cost.

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

For presentation purposes, impairment charge for credit losses is deducted as an allowance from loans and advances.

l) Due from banks and other financial institutions

Due from banks and other financial institutions are financial assets which include money market placements with fixed or determinable payments and fixed maturities that are not quoted in an active market. Money market placements are not entered into with the intention of immediate or short-term resale. They are initially measured at cost, being the fair value of the consideration given.

Following the initial recognition, these are stated at cost less any amount written off and provisions for impairment, if any.

m) Impairment of financial assets

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

An assessment is made at each reporting date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. Objective evidence may include indications that the borrower is experiencing significant financial difficulty, default or delinquency in special commission or principal payments, the probability that it will enter bankruptcy or other financial reorganization and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in economic conditions that correlate with defaults. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment losses recognized based on the present value of future anticipated cash flows for changes in its carrying amounts as follows:

The Bank considers evidence of impairment for loans and advances and held to maturity investments at both a specific asset and collective level.

i) Impairment of available for sale financial assets

In the case of debt instruments classified as available for sale, the Bank assesses individually whether there is an 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 statement of income.

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

3 Summary of significant accounting policies (continued)

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

ii) Financial assets carried at amortized cost

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

A loan is classified as impaired when, in management's opinion, there has been deterioration in credit quality to the extent that there is no longer reasonable assurance of timely collection of the full amount of principal and special commission income.

Impairment charge for credit losses is based upon the management's judgment of the adequacy of the provisions. Such assessment takes into account the composition and volume of the loans and advances, the general economic conditions and the collectability of the outstanding loans and advances. Considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the required level of provisions. Such estimates are necessarily based on assumptions about several factors and actual results may differ resulting in future changes in such provisions.

Specific provisions are evaluated individually for all different types of loans and advances, whereas additional provisions are evaluated based on collective impairment of loans and advances, and are created for credit losses where there is objective evidence that the unidentified potential losses are present at the reporting date. The amount of the specific provision is the difference between the carrying amount and the estimated recoverable amount. The collective provision is based upon deterioration in the internal credit ratings allocated to the borrower or group of borrowers. These internal grading take into consideration factors such as the current economic condition in which the borrowers operate. any deterioration in country risk, industry, as well as identified structural weaknesses or deterioration in cash flows.

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 recognized based on the rate of special commission that was used to discount the future cash flows for the purpose of measuring the recoverable amount. When a financial asset is uncollectible, it is written off against the related provision for impairment through allowance for impairment account.

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 statement of income in impairment charge for credit losses.

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

3 Summary of significant accounting policies (continued)

n) Other real estate

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

Subsequent to the initial recognition, such real estate is revalued on a periodic basis and unrealized losses on revaluation, and losses or gains on disposal, are charged or credited to operating income or expense.

o) Property and equipment

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

Buildings	33 years
Leasehold improvements	Over the lease period or economic life whichever is shorter
Software programme and automation project	2 to 5 years
Furniture, equipment and vehicles	4 to10 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 amount. These are included in the consolidated statement of income.

p) Financial Liabilities

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

Subsequently all commission bearing financial liabilities other than those held at FVIS or, 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 are accreted on an effective yield basis to maturity and taken to special commission expense.

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

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

Fee received is recognised in the consolidated statement of income on a straight line basis over the life of the guarantee.

3 Summary of significant accounting policies (continued)

q) Provisions

Provisions are recognized when the Group has a present legal or constructive obligation arising from past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the costs to settle the obligation can be reliably measured or estimated.

r) Accounting for leases

i) Where the Bank is the lessee

Leases entered into by the Bank are all operating leases. Payments made under operating leases are charged to the consolidated statement of income on a straight line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

ii) Where the Bank is the lessor

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

s) Cash and cash equivalents

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

t) De-recognition of financial instruments

A financial asset or a part of financial assets, or a part of group of similar financial assets is derecognized when the contractual rights to the cash flows from the financial asset expires and if the Bank has transferred substantially all the risks and rewards of ownership. Where the Bank has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognised only if the Bank has not retained control of the financial asset. The Bank recognises separately as assets or liabilities any rights and obligations created or retained in the process. A financial liability or a part of a financial liability can only be derecognised when it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expired.

u) Zakat and income tax

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

3 Summary of significant accounting policies (continued)

Zakat and income tax are not charged to the consolidated statement of income as they are deducted from the dividends paid to the shareholders. If no dividend is declared then zakat is deducted from the retained earnings and tax is deducted from the retained earnings in proportion to foreign shareholding and remaining tax is claimed from the foreign shareholders.

v) Investment management, brokerage and corporate finance services

The Bank offers investment management, brokerage and corporate finance services to its customers, through its subsidiaries, which include management of certain investment funds in consultation with professional investment advisors and brokerage services. The Bank's share of these funds is included in the available for sale investments and fees earned are disclosed under related party transactions.

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

w) Non-commission based banking products

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

High level definitions of non-commission based banking products

(i) Murabaha is an agreement whereby the Bank sells to a customer a commodity or an asset, which the Bank 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) Mudarabah is an agreement between the Bank and a customer whereby the Bank invests in a specific transaction. The Bank is called "rabb-ul-mal" while the management and work is exclusive responsibility of the customer who is called "mudarib". The profit is shared as per the terms of the agreement but the loss is borne by the Bank.

(iii) Ijarah is a an agreement whereby the Bank, 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.

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

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

All non-commission based banking products other than Mudarabah are included in "loans and advances", whereas mudarabah is included in "investments". These non-commission based banking products are accounted for in accordance with IFRS and are in conformity with the accounting policies described in these consolidated financial statements.

3 Summary of significant accounting policies (continued)

x) Short term employee benefits

Short term employee benefits are measured on an undiscounted basis and are expensed as the related services are provided.

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

y) End of service benefits

The benefits payable to the employees of the Bank at the end of their services are provided in accordance with the guidelines set by the Saudi Arabian Labor Law .These are included in other liabilities in the consolidated statement of financial position.

4 Cash and balances with SAMA

SAR' 000	2015	2014
Cash on hand	1,024,118	887,225
Statutory deposit	8,739,516	8,539,373
Current account	4,650	46,316
Money market placements	-	10,540,927
Total	9,768,284	20,013,841

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

5 Due from banks and other financial institutions

SAR' 000	2015	2014
Current accounts	4,006,052	1,398,673
Money market placements	12,297,113	610,000
Total	16,303,165	2,008,673

Balances due from banks and other financial institutions are investment grade. Investment grade includes due from banks and other financial institutions having credit exposure equivalent to Standard and Poor's rating of AAA to BBB.

6 Investments, net

a) These comprise the following:

SAR' 000	2015 Domestic	2015 International	2015 Total	2014 Domestic	2014 International	2014 Total
i) Held as FVIS						
Fixed rate securities	7,280	156,574	163,854	2,085,050	57,302	2,142,352
Floating rate securities	30,075	15,315	45,390	-	-	-
Other	-	-	-	8,920	-	8,920
Held as FVIS	37,355	171,889	209,244	2,093,970	57,302	2,151,272
ii) Available for sale (AFS)						
Fixed rate securities	138,750	1,314,596	1,453,346	405,592	1,113,631	1,519,223
Floating rate securities	2,275,075	93,806	2,368,881	3,170,274	94,287	3,264,561
Equities	474,430	31,424	505,854	508,371	34,385	542,756
Other	2,763,963	373,129	3,137,092	3,513,520	-	3,513,520
Available for sale	5,652,218	1,812,955	7,465,173	7,597,757	1,242,303	8,840,060
iii) Held to maturity						
Fixed rate securities	75,789	-	75,789	2,271	-	2,271
Other	10,000	-	10,000	10,000	-	10,000
Held to maturity	85,789	-	85,789	12,271	-	12,271
iv) Other investments held at amortized cost, net						
Fixed rate securities	20,013,757	-	20,013,757	34,013,678	-	34,013,678
Floating rate notes	547,000	232,500	779,500	85,000	243,750	328,750
Other investments held at amortized cost, gross	20,560,757	232,500	20,793,257	34,098,678	243,750	34,342,428
Allowance for impairment	-	(232,500)	(232,500)	-	(243,750)	(243,750)
Other investments held at amortized cost, net	20,560,757	-	20,560,757	34,098,678	-	34,098,678
Investments, net	26,336,119	1,984,844	28,320,963	43,802,676	1,299,605	45,102,281

6 Investments, net (Continued)

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

SAR' 000	2015 Quoted	2015 Unquoted	2015 Total	2014 Quoted	2014 Unquoted	2014 Total
Fixed rate securities	1,614,045	20,092,701	21,706,746	1,409,605	36,267,919	37,677,524
Floating rate securities / notes	657,723	2,536,048	3,193,771	631,583	2,961,728	3,593,311
Equities	470,216	35,638	505,854	504,156	38,600	542,756
Other	38,698	3,108,394	3,147,092	70,079	3,462,361	3,532,440
	2,780,682	25,772,781	28,553,463	2,615,423	42,730,608	45,346,031
Allowance for impairment	-	(232,500)	(232,500)	-	(243,750)	(243,750)
Investments, net	2,780,682	25,540,281	28,320,963	2,615,423	42,486,858	45,102,281

Other investment includes Mudarabah SAR 2,735 million (2014: SAR 3,462 million).

c) The analysis of unrealized gains and losses and the fair values of held to maturity investments and other investments held at amortized cost, are as follows:

SAR' 000	2015 Carrying value	2015 Gross unrealized gains	2015 Gross unrealized losses	2015 Fair Value	2014 Carrying value	2014 Gross unrealized gains	2014 Gross unrealized losses	2014 Fair Value
i) Held to maturity								
Fixed rate securities	75,789	2,807		78,596	2,271	67	-	2,338
Other	10,000	-	-	10,000	10,000	213	-	10,213
Total	85,789	2,807	-	88,596	12,271	280	-	12,551
ii) Other investments held at amortized cost								
Fixed rate securities	20,013,757	761	(167,535)	19,846,983	34,013,678	14,441	(13,385)	34,014,734
Floating rate notes	779,500	1,860	-	781,360	328,750	-	(638)	328,112
Allowance for impairment	(232,500)	-	-	(232,500)	(243,750)	-	-	(243,750)
Total	20,560,757	2,621	(167,535)	20,395,843	34,098,678	14,441	(14,023)	34,099,096

The fair value of the fixed rate securities disclosed above is considered as level 2 for fair value hierarchy disclosure purpose.

6 Investments, net (Continued)

d) The analysis of investments by counterparty is as follows:

SAR' 000	2015	2014
Government and quasi government	20,509,485	37,021,254
Corporate	5,344,594	5,796,743
Banks and other financial institutions	2,428,186	2,212,150
Other	38,698	72,134
Total	28,320,963	45,102,281

e) Credit risk exposure on investments

SAR' 000	2015	2014
Saudi government bonds	20,092,701	36,267,919
Investment grade	2,093,966	2,754,788
Unrated	6,134,296	6,079,574
Total	28,320,963	45,102,281

Saudi government bonds comprise Saudi government development and guaranteed bonds and treasury bills. Investment grade includes investments having credit exposure equivalent to Standard and Poor's rating of AAA to BBB. Unrated investments include local equities, foreign equities, funds and Mudarabah SAR 3,653 million (2014: SAR 4,075 million).

f) Movement of allowance for impairment of investments and other assets:

SAR' 000	2015	2014
Balance at the beginning of the year	437,083	410,440
Provided during the year	23,314	75,389
Recoveries during the year	(11,250)	(48,746)
Written off during the year	-	-
Balance at the end of the year	449,147	437,083

Investments held as FVIS represent investments held for trading and include Islamic securities (Sukuk) of SAR 119 million (2014: SAR 12 million).

Available for sale investments include Islamic securities (Sukuk) of SAR 2,819 million (2014: SAR 3,159 million).

Unquoted investments include Saudi Government Bonds and treasury bills of SAR 16,407 million (2014: SAR 33,600 million).

Unquoted equity shares of SAR 36 million (2014: SAR 39 million) which are carried at cost, are also included under equities available for sale.

7 Loans and advances, net

a) Loans and advances are classified as follows:

Loans and advances held at amortised cost

	2015				
SAR' 000	Overdraft & Commercial loans	Credit Cards	Consumer Loans	Other	Total
Performing loans and advances - gross	104,205,643	515,201	9,826,260	10,104,888	124,651,992
Non performing loans and advances, net	910,843	55,005	163,871	-	1,129,719
Total loans and advances	105,116,486	570,206	9,990,131	10,104,888	125,781,711
Allowance for impairment	(2,061,676)	(34,813)	(242,457)	-	(2,338,946)
Loans and advances held at amortised cost, net	103,054,810	535,393	9,747,674	10,104,888	123,442,765

	2014				
SAR' 000	Overdraft & Commercial loans	Credit Cards	Consumer Loans	Other	Total
Performing loans and advances- gross	100,301,744	544,420	8,683,773	8,131,472	117,661,409
Non-performing loans and advances, net	865,990	54,571	261,894	-	1,182,455
Total loans and advances	101,167,734	598,991	8,945,667	8,131,472	118,843,864
Allowance for impairment	(1,882,291)	(51,085)	(369,804)	-	(2,303,180)
Loans and advances held at amortised cost, net	99,285,443	547,906	8,575,863	8,131,472	116,540,684

7 Loans and advances, net (Continued)

b) Movement in allowance for impairment of credit losses are classified as follows:

i) Movement in allowance for impairment of credit losses

SAR' 000	2015				
	Overdraft & Commercial loans	Credit Cards	Consumer Loans	Other	Total
Balance at beginning of the year	1,882,291	51,085	369,804	-	2,303,180
Provided during the year	218,215	30,041	121,394	-	369,650
Written off during the year	(152)	(29,961)	(115,022)	-	(145,135)
Recoveries of amounts previously provided	(38,678)	(16,352)	(133,719)	-	(188,749)
Balance at the end of the year	2,061,676	34,813	242,457	-	2,338,946

SAR' 000	2014				
	Overdraft & Commercial loans	Credit Cards	Consumer Loans	Other	Total
Balance at beginning of the year	1,748,083	54,983	414,508	733	2,218,307
Provided during the year	478,916	44,054	191,401	-	714,371
Written off during the year	(4,932)	(38,132)	(192,997)	-	(236,061)
Recoveries of amounts previously provided	(339,776)	(9,820)	(43,108)	(733)	(393,437)
Balance at the end of the year	1,882,291	51,085	369,804	-	2,303,180

The impairment charge for credit losses includes provisions made against non performing commitments and contingencies.

The net charge to income (provision net of recoveries) of SAR 181 million (2014: SAR 321 million) in respect of impairment charge for credit losses for the year is net of recoveries of SAR 189 million (2014: SAR 393 million). The allowance for impairment includes SAR 1,313 million (2014: SAR 1,210 million) evaluated on a collective impairment basis.

Non performing loans and advances are disclosed net of accumulated special commission in suspense of SAR 202 million (2014: SAR 146 million).

ii) Movement of collective impairment provision:

SAR' 000	2015	2014
Balance at the beginning of the year	1,209,556	923,410
Provided during the year ,net	158,053	286,146
Reversal of amounts previously provided	(55,000)	-
Balance at the end of the year	1,312,609	1,209,556

7 Loans and advances, net (Continued)

c) Credit quality of loans and advances

i) Neither past due nor impaired

SAR' 000	2015				
	Overdraft & Commercial loans	Credit Cards	Consumer Loans	Other	Total
Very strong quality including sovereign (A+ to B)	23,275,371	7,885	341	2,772,851	26,056,448
Good quality (C+ to C)	44,455,064	9,815	1,464	2,262,291	46,728,634
Satisfactory quality (C- to E +)	31,232,333	427,919	9,606,216	4,472,189	45,738,657
Special mention (E to E -)	4,705,609	2,008	50,341	597,557	5,355,515
Total	103,668,377	447,627	9,658,362	10,104,888	123,879,254
SAR' 000	2014				
	Overdraft & Commercial loans	Credit Cards	Consumer Loans	Other	Total
Very strong quality including sovereign (A+ to B)	27,094,707	6,410	581	2,077,089	29,178,787
Good quality (C+ to C)	45,979,942	9,958	2,726	2,538,021	48,530,647
Satisfactory quality (C- to E +)	24,509,476	457,254	8,421,176	3,287,630	36,675,536
Special mention (E to E -)	2,473,964	1,155	11,657	228,732	2,715,508
Total	100,058,089	474,777	8,436,140	8,131,472	117,100,478

Very strong quality: Capitalization, earnings, financial strength, liquidity, management, market reputation and repayment ability are excellent.

Good quality: Capitalization, earnings, financial strength, liquidity, management, market reputation and repayment ability are good.

Satisfactory quality: Facilities require regular monitoring due to financial risk factors. Ability to repay remains at a satisfactory level.

Special mention: Facilities require close attention of management due to deterioration in the borrowers' financial condition. However, repayment is currently protected.

7 Loans and advances, net (Continued)

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

SAR' 000	2015			
	Overdraft & Commercial loans	Credit Cards	Consumer Loans	Total
From 1 day to 30 days	359,980	52,743	128,307	541,030
From 31 days to 90 days	127,748	14,831	39,591	182,170
From 91 days to 180 days	39,280	-	-	39,280
More than 180 days	10,258	-	-	10,258
Total	537,266	67,574	167,898	772,738

SAR' 000	2014			
	Overdraft & Commercial loans	Credit Cards	Consumer Loans	Total
From 1 day to 30 days	163,614	54,015	195,968	413,597
From 31 days to 90 days	43,801	14,825	44,029	102,655
From 91 days to 180 days	23,669	803	7,636	32,108
More than 180 days	12,571	-	-	12,571
Total	243,655	69,643	247,633	560,931

7 Loans and advances, net (Continued)

iii) Economic sector risk concentrations for the loans and advances and allowance for impairment losses are as follows:

SAR' 000	Performing	Non Performing, net	Allowance for impairment losses	Loans and advances, net
2015				
Government and quasi Government	3,046,877	-	-	3,046,877
Banks and other financial institutions	2,588,749	-	(28,448)	2,560,301
Agriculture and fishing	2,256,547	17,659	(28,175)	2,246,031
Manufacturing	21,860,396	46,481	(431,037)	21,475,840
Mining and quarrying	4,483,244	-	(9,724)	4,473,520
Electricity, water, gas and health services	9,292,098	4,953	(36,509)	9,260,542
Building and construction	12,427,481	211,288	(533,247)	12,105,522
Commerce	25,476,824	356,522	(484,253)	25,349,093
Transportation and communication	8,712,477	11,877	(111,437)	8,612,917
Services	11,857,035	174,201	(219,434)	11,811,802
Consumer loans and credit cards	10,341,461	218,876	(277,270)	10,283,067
Others	12,308,803	87,862	(179,412)	12,217,253
Total	124,651,992	1,129,719	(2,338,946)	123,442,765
2014				
Government and quasi Government	3,336,693	-	-	3,336,693
Banks and other financial institutions	1,728,722	-	(29,968)	1,698,754
Agriculture and fishing	2,328,176	17,659	(31,904)	2,313,931
Manufacturing	23,969,862	34,614	(274,916)	23,729,560
Mining and quarrying	4,484,044	-	(21,056)	4,462,988
Electricity, water, gas and health services	8,907,837	-	(48,165)	8,859,672
Building and construction	10,674,651	194,387	(412,950)	10,456,088
Commerce	21,749,707	344,365	(482,499)	21,611,573
Transportation and communication	8,212,209	2,981	(114,893)	8,100,297
Services	7,626,016	174,159	(234,861)	7,565,314
Consumer loans and credit cards	9,228,193	316,465	(420,889)	9,123,769
Others	15,415,299	97,825	(231,079)	15,282,045
Total	117,661,409	1,182,455	(2,303,180)	116,540,684

Loans and advances include Islamic related products of SAR 70,811 million (2014: SAR 67,183 million).

d) Collateral

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

7 Loans and advances, net (Continued)

e) Loans and advances include finance lease receivables, which are analyzed as follows:

SAR' 000	2015	2014
Gross receivable from finance leases:		
1 to 5 years	345,672	492,736
More than 5 years	8,549,996	7,134,205
Net receivable from finance leases	8,895,668	7,626,941

8 Investment in associates

SAR' 000	2015	2014
Opening balance	99,069	166,270
Impairment provision	-	(68,000)
Share of earnings	7,361	799
Closing balance	106,430	99,069

Investment in associates represents 27% shareholding in interest in the Banque BEMO Saudi Fransi (2014: 27%) and 32.5% shareholding in Saudi Fransi Cooperative Insurance Company (Allianz Saudi Fransi) (2014: 32.5%) incorporated in the Kingdom of Saudi Arabia. The quoted price of the Bank's investment in Saudi Fransi Cooperative Insurance Company (Allianz Saudi Fransi) as at December 31,2015 was SAR 268 million (2014 :SAR 222 million).

The Bank's share of associates' financial statements:

SAR' 000	Banque Bemo Saudi Fransi - Syria		Allianz Saudi Fransi	
	2015	2014	2015	2014
Total assets	791,697	781,287	570,127	522,274
Total liabilities	708,732	717,403	504,827	462,222
Total equity	82,965	63,884	65,300	60,052
Total income	55,575	32,773	135,308	149,111
Total expenses	24,894	19,652	127,561	143,948

9 Property and equipment, net

SAR' 000	Land and buildings	Leasehold improvements	Furniture, equipment and vehicles	Computer and Soft ware	2015 Total	2014 Total
Cost						
Balance at the beginning of the year	585,613	78,169	458,716	332,038	1,454,536	1,424,344
Additions	80,235	26,088	36,040	75,213	217,576	110,489
Disposals and retirements	(7)	(27,660)	(9,066)	(41,563)	(78,296)	(80,297)
Balance at the end of the year	665,841	76,597	485,690	365,688	1,593,816	1,454,536
Accumulated depreciation and amortization						
Balance at the beginning of the year	250,344	7,560	376,027	215,529	849,460	804,426
Charge for the year	19,106	30,329	25,704	56,239	131,378	125,056
Disposals and retirements	(7)	(27,658)	(8,936)	(41,550)	(78,151)	(80,022)
Balance at the end of the year	269,443	10,231	392,795	230,218	902,687	849,460
Net book value as at December 31, 2015	396,398	66,366	92,895	135,470	691,129	605,076
Net book value as at December 31, 2014	335,269	70,609	115,001	84,197	605,076	

Leasehold improvements as at December 31, 2015 include work in progress amounting to SAR13 million (2014: SAR 3 million).

10 Other assets

SAR' 000	2015	2014
Accrued special commission receivable – Banks and other financial institutions	12,304	281
– Investments	96,273	48,019
– Loans and advances	329,502	300,073
Total accrued special commission receivable	438,079	348,373
Accounts receivable	506,869	665,998
Positive fair value of derivatives (note 11)	3,147,630	2,693,296
Other real estate	470,932	451,670
Others	528,035	247,942
Total	5,091,545	4,407,279

11 Derivatives

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

a) Swaps

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

b) Forwards and futures

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

c) Forward rate agreements

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

d) Options

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

Held for trading purposes

Most of the Bank’s derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers, Banks and other financial institutions 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. The bank also holds structured derivative which are fully back to back in accordance with the bank’s risk management strategy.

Held for hedging purposes

The Bank has adopted a comprehensive system for the measurement and the management of risk. Part of the risk management process involves managing the Bank’s exposure to fluctuations in foreign exchange and commission rates to reduce its exposure to currency and commission rate risks to an acceptable level as determined by the Board of Directors in accordance with the guidelines issued by SAMA. The Board of Directors has established the levels of currency risk by setting limits on counterparty and currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits. The Board of Directors has also established the level of commission rate risk by setting commission rate sensitivity limits. Commission rate exposure in terms of the sensitivity is reviewed on a periodic basis and hedging strategies are used to reduce the exposure within the established limits.

11 Derivatives (Continued)

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

The Bank uses forward foreign exchange contracts and currency rate swaps to hedge against specifically identified currency risks. In addition, the Bank uses commission rate swaps and commission rate futures to hedge against the commission rate risk arising from specifically identified fixed commission rate exposures. The Bank also uses commission rate swaps to hedge against the cash flow risk arising on certain floating rate exposures. In all such cases, the hedging relationship and objective, including details of the hedged items and hedging instrument are formally documented and the transactions are accounted for as fair value or cash flow hedges.

Cash flow hedges

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

SAR' 000	Within 1 year	1-3 years	3-5 years	Over 5 years
2015				
Cash inflows (assets)	1,556,907	2,463,431	1,105,202	20,275
Cash out flows (liabilities)	(1,188,053)	(3,047,441)	(1,221,857)	(31,482)
Net cash inflow	368,854	(584,010)	(116,655)	(11,207)
2014				
Cash inflows (assets)	1,373,043	2,127,041	1,080,938	2,600
Cash out flows (liabilities)	(387,696)	(1,975,426)	(989,115)	(1,845)
Net cash inflow / (outflow)	985,347	151,615	91,823	755

The net gain on cash flow hedges transferred to the consolidated statement of income during the year was as follows:

SAR' 000	2015	2014
Special commission income	1,490,482	1,291,388
Special commission expense	(667,487)	(634,024)
Net gain on cash flow hedges transferred to consolidated statement of income	822,995	657,364

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

11 Derivatives (Continued)

Derivative financial instruments SAR' 000	Positive fair value	Negative fair value	Notional amounts by term to maturity: Notional amount total	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
2015								
Held for trading								
Commission rate swaps	2,402,535	2,327,184	147,456,785	8,018,378	16,840,749	107,459,406	15,138,252	139,122,366
Commission rate futures and options	449	-	78,114,727	-	12,415,136	61,334,611	4,364,980	50,469,561
Forward rate agreements	-	-	500,000	-	500,000	-	-	41,667
Forward foreign exchange contracts	325,125	309,551	57,036,467	22,907,049	22,479,707	11,649,711	-	71,202,915
Currency options	91,058	-	52,518,716	8,829,230	24,192,662	19,496,824	-	57,202,727
Others	26,135	-	2,492,198	692,556	653,937	1,145,705	-	2,530,722
Held as fair value hedges								
Commission rate swaps	6,853	8,222	3,076,500	-	-	3,076,500	-	3,494,000
Held as cash flow hedges								
Commission rate swaps	295,475	619,503	79,065,611	2,000,000	8,069,361	68,654,250	342,000	78,939,681
Total (notes 10 and 15)	3,147,630	3,264,460	420,261,004	42,447,213	85,151,552	272,817,007	19,845,232	403,003,639

Derivative financial instruments SAR' 000	Positive fair value	Negative fair value	Notional amounts by term to maturity: Notional amount total	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
2014								
Held for trading								
Commission rate swaps	1,230,703	1,187,968	128,091,488	7,603,337	21,049,073	91,754,196	7,684,882	133,213,875
Commission rate futures and options	93	-	35,032,365	-	7,880,405	24,309,130	2,842,830	29,304,576
Forward rate agreements	-	-	-	-	-	-	-	-
Forward foreign exchange contracts	99,195	69,062	65,425,936	33,859,410	23,228,152	8,338,374	-	52,921,021
Currency options	57,593	-	58,472,384	9,445,606	27,375,734	21,651,044	-	49,440,275
Others	24,291	4,240	2,027,163	461,385	253,739	1,312,039	-	2,264,292
Held as fair value hedges								
Commission rate swaps	36,208	10,197	5,581,500	2,437,500	67,500	3,076,500	-	5,118,090
Held as cash flow hedges								
Commission rate swaps	1,245,213	2,967	71,020,073	3,235,000	7,379,659	60,297,414	108,000	57,459,011
Total (notes 10 and 15)	2,693,296	1,274,434	365,650,909	57,042,238	87,234,262	210,738,697	10,635,712	329,721,140

11 Derivatives (Continued)

The table below shows a summary of hedged items, the nature of the risk being hedged, the hedging instrument and its fair value.

SAR' 000 Description of hedged items	Fair value	Cost	Risk	Hedging instrument	Positive fair value	Negative fair value
2015						
Fixed commission rate loans	275,002	264,000	Fair value	Commission rate swap	-	8,222
Fixed commission rate debt securities and sukuk	2,812,889	2,812,500	Fair value	Commission rate swap	6,852	-
Floating commission rate investments	1,689,854	1,702,500	Cash flow	Commission rate swap	2,599	15,245
Floating commission rate loans	77,329,347	77,363,111	Cash flow	Commission rate swap	292,870	604,258
2014						
Fixed commission rate loans	340,275	331,500	Fair value	Commission rate swap	-	10,197
Fixed commission rate debt securities and sukuk	5,231,067	5,250,000	Fair value	Commission rate swap	36,208	-
Floating commission rate investments	1,387,203	1,367,500	Cash flow	Commission rate swap	19,830	128
Floating commission rate loans	69,687,770	69,652,573	Cash flow	Commission rate swap	1,225,383	2,839

The net (losses) /gains on the hedging instruments for fair value hedge are SAR -1 million (2014: SAR 26 million). The net gains on the hedged item attributable to the hedged risk are SAR 11 million (2014: SAR 10 million).

Approximately 85% (2014: 78%) of the net positive fair values of the Bank's derivatives are entered into with financial institutions and less than 10% (2014: 14%) of the net positive fair values of the derivatives are with any single counterpart group at the reporting date. The derivative activities are mainly carried out under Bank's treasury banking segment. The Bank has posted SAR 90 million collaterals under CSA agreements.

12 Due to banks and other financial institutions

SAR' 000	2015	2014
Current accounts	241,016	406,153
Money market deposits	1,316,131	3,457,329
Total	1,557,147	3,863,482

13 Customers' deposits

SAR' 000	2015	2014
Demand	89,110,951	102,369,250
Saving	503,318	437,508
Time	47,239,727	38,215,470
Other	4,897,049	4,253,017
Total	141,751,045	145,275,245

Other customers' deposits include SAR 2,504 million (2014: SAR 2,091 million) related to margins held for irrevocable commitments. Time deposits include Islamic related products of SAR 21,448 million (2014: SAR 16,257 million).

13 Customers' deposits (Continued)

Customers' deposits include foreign currency deposits as follows:

SAR' 000	2015	2014
Demand	7,377,917	8,883,271
Saving	16,418	11,724
Time	8,283,675	13,124,821
Other	582,474	896,605
Total	16,260,484	22,916,421

14 Debt securities and Sukuks

The Bank raised funds through medium term Sharia compliant sukuk of USD 750 million for 5 years in May 2012, under a USD 2 Billion programme listed on the London Stock Exchange. In addition, the Bank issued a privately placed SAR 1,900 million unsecured subordinated sukuk in December 2012 for a period of 7 years. The sukuk is settled through the Tadawul depository system. However, the Bank has an option to repay the unsecured subordinated sukuk after 5 years, subject to prior approval of SAMA and terms and conditions of the agreement.

In addition to the above, the Bank also issued a private placed SAR 2,000 million unsecured subordinated sukuk in June 2014 for a period of 10 years. The sukuk is settled through Tadawul depository system. However, the Bank has an option to repay the unsecured subordinated sukuk after 5 years, subject to prior approval of SAMA and terms and conditions of the agreement.

The unsecured fixed rate bonds of USD 650 million issued in 2010 were settled in full during 2015.

15 Other liabilities

SAR' 000	2015	2014
Accrued special commission payable – Banks and other financial institutions	43	958
– customers' deposits	101,055	48,880
– debt securities and sukuks	9,605	54,354
Total accrued special commission payable	110,703	104,192
Accounts payable and accrued expenses	1,811,356	1,733,280
Negative fair value of derivatives (note 11)	3,264,460	1,274,434
Others	1,032,880	923,866
Total	6,219,399	4,035,772

16 Share capital

The authorised, issued and fully paid share capital of the Bank consists of 1,205 million shares of SAR 10 each (December 31, 2014: 1,205 million shares of SAR 10 each).

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

SAR' 000	%	2015	2014
Saudi shareholders	68.9	8,303,572	8,303,572
Credit Agricole Corporate and Investment Bank (CA-CIB)	31.1	3,750,000	3,750,000
Total	100	12,053,572	12,053,572

17 Statutory and general 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.

An amount of SAR 1,009 million (2014: SAR 879 million) has been transferred from the retained earnings to statutory reserve during the year. This reserve is not available for distribution.

The Bank had appropriated SAR 983 million to general reserve from retained earnings.

18 Other reserves

SAR' 000	Cash flow hedges	Available for sale investments	Total
2015			
Balance at beginning of the year	490,797	102,147	592,944
Net change in fair value	(830,270)	(27,876)	(858,146)
Transfer to consolidated statement of income	(822,995)	(6,602)	(829,597)
Net movement during the year	(1,653,265)	(34,478)	(1,687,743)
Balance at the end of the year	(1,162,468)	67,669	(1,094,799)
2014			
Balance at beginning of the year	299,293	(30,625)	268,668
Net change in fair value	848,868	168,685	1,017,553
Transfer to consolidated statement of income	(657,364)	(35,913)	(693,277)
Net movement during the year	191,504	132,772	324,276
Balance at the end of the year	490,797	102,147	592,944

Other reserves represent the net unrealized revaluation gains / (losses) of cash flow hedges and available for sale investments. These reserves are not available for distribution.

Transfer to consolidated statement of income from available for sale reserve represents, gains and losses on disposal of available for sale investments amounting to SAR 7 million (2014: SAR 36 million).

18 Other reserves (Continued)

Accordingly, the cumulative gain or loss recognised previously in other comprehensive income and gain or loss on disposal of investments during the year and impairment charges have been transferred to consolidated statement of income. For cash flow hedges, the amount shown as balance of reserves as at December 31, 2015 is expected to affect the consolidated statement of income in the coming one to five years.

19 Commitments and contingencies

a) Legal proceedings

As at December 31, 2015 there were 23 (2014: 18) legal proceedings outstanding against the Bank. No material provision has been made as the related professional legal advice indicates that it is unlikely that any significant loss will arise.

b) Capital commitments

As at December 31, 2015 the Bank had capital commitments of SAR 57million (2014: SAR 45 million) in respect of buildings and equipment purchases.

c) Credit related commitments and contingencies

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

Guarantees and standby letters of credit, which represent irrecoverable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans and advances.

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

Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement.

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

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

19 Commitments and contingencies (continued)

i) The contractual maturity structure for the Bank's commitments and contingencies is as follows:

SAR' 000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
2015					
Letters of credit	3,373,106	3,297,878	1,188,256	-	7,859,240
Letters of guarantee	11,548,988	21,870,378	21,975,316	269,457	55,664,139
Acceptances	144,747	2,499,199	296,071	-	2,940,017
Irrevocable commitments to extend credit	400,030	544,728	3,712,165	418,921	5,075,844
Total	15,466,871	28,212,183	27,171,808	688,378	71,539,240
2014					
Letters of credit	7,008,627	3,965,672	463,478	-	11,437,777
Letters of guarantee	13,264,978	20,530,667	23,758,487	632,636	58,186,768
Acceptances	1,633,151	1,675,252	342,170	-	3,650,573
Irrevocable commitments to extend credit	355,954	998,692	2,384,647	47,250	3,786,543
Total	22,262,710	27,170,283	26,948,782	679,886	77,061,661

The outstanding unused portion of non-firm commitments which can be revoked unilaterally at any time by the Bank as at December 31, 2015 is SAR 123,581 million (2014: SAR 105,533 million).

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

SAR' 000	2015	2014
Government and quasi government	59,001	49,903
Corporate	62,177,448	66,663,203
Banks and other financial institutions	9,064,769	10,130,790
Other	238,021	217,765
Total	71,539,239	77,061,661

d) Operating lease commitments

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

SAR' 000	2015	2014
Less than 1 year	21,856	28,119
1 to 5 years	68,226	84,574
Over 5 years	148,549	151,361
Total	238,631	264,054

20 Special commission income and expense

SAR' 000	2015	2014
Special commission income		
Investments		
– Available for sale	164,979	185,757
– Held to maturity	2,853	146
– Other investments held at amortized cost	303,322	310,836
	471,154	496,739
Due from banks and other financial institutions	45,682	27,202
Loans and advances	4,358,537	4,041,474
Total	4,875,373	4,565,415
Special commission expense		
Due to banks and other financial institutions	8,050	18,700
Customers' deposits	649,383	530,942
Term loans and debt securities	162,661	198,797
Total	820,094	748,439

21 Fees and commission income, net

SAR' 000	2015	2014
Fees and commission income		
- Share trading, brokerage, fund management and corporate finance	312,336	360,015
- Trade finance	505,248	451,973
- Project finance and advisory and corporate loans	365,678	345,361
- Card products	209,615	139,025
- Other banking services	136,108	179,657
Total fees and commission income	1,528,985	1,476,031
Fees and commission expense		
- Share trading and brokerage	40,332	58,252
- Card products	149,016	119,913
- Other banking services	12,116	6,216
Total fees and commission expense	201,464	184,381
Fees and commission income, net	1,327,521	1,291,650

22 Trading income, net

SAR' 000	2015	2014
Foreign exchange (losses) / gains, net	(148)	(1,004)
Investments- held as FVIS (trading), net	34,656	17,414
Derivatives, net	341,831	186,177
Total	376,339	202,587

23 Dividend income

SAR' 000	2015	2014
Available for sale investments- Equities	16,913	16,007

24 Gains on non-trading investments, net

SAR' 000	2015	2014
Available for sale	6,602	35,273

25 Other operating income

SAR' 000	2015	2014
Gains on disposal of property and equipment	164	250
Recoveries of written off loans	82,476	63,352
Other	21,732	5,936
Total	104,372	69,538

26 Other operating expenses

SAR' 000	2015	2014
Loss on disposal of property and equipment	111	84
Provision on other assets	23,314	7,389
Other	8,036	49,249
Total	31,461	56,722

27 Basic and diluted earnings per share

Basic and diluted earnings per share for the years ended December 31, 2015 and 2014 are calculated by dividing the net income for the year attributable to equity holders' of the Bank by 1,205 million shares .

28 Gross dividend, zakat and income tax

The Board of Directors has proposed final net dividend of SAR 0.55 (2014: SAR 0.50) per share for the year which is subject to the approval of the shareholders at the Annual General Assembly Meeting and the regulatory agencies. The Board of Directors has declared interim gross dividend of SAR 665 million (SAR 0.50 net per share). Total gross dividend to Saudi shareholders was SAR 960 million and total dividend to foreign shareholders was SAR 433 million.

Gross dividend

SAR' 000	2015	2014
Interim dividend	665,197	585,911
Final proposed gross dividend	727,754	671,040
Total	1,392,951	1,256,951

The zakat and income tax, attributable to Saudi and foreign shareholders are as follows:

i) Zakat

Zakat attributable to the Saudi shareholders for the year amounted approximately to SAR 88 million (2014: SAR 77 million) which will be deducted from their share of dividend.

The Bank has filed its Zakat returns for the financial years up to and including the year 2014 with the Department of Zakat and Income Tax (the "DZIT"). The Bank has received Zakat assessments for the years up to 2009 raising additional demands aggregating to SAR 156 Million. The above additional exposure is mainly on account of disallowance of certain long-term investments and addition of term borrowings by the DZIT. The basis for this additional aggregate Zakat liability is being contested by the Bank in conjunction with all the Banks in Saudi Arabia. The Bank has also formally contested these assessments and is awaiting a response from DZIT.

The zakat assessments for the years 2010 to 2014 have not been finalized by the DZIT and the Bank may not be able to determine reliably the impact of such assessments.

ii) Income tax

Income tax payable in respect of foreign shareholder – CA-CIB's current year's share of income tax is approximately SAR 258 million (2014: SAR 227 million) which will be deducted from their share of dividend.

29 Cash and cash equivalents

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

SAR' 000	2015	2014
Cash and balances with SAMA excluding statutory deposit (note 4)	1,028,768	11,474,468
Due from banks and other financial institutions maturing within ninety days from the date of acquisition	15,628,165	2,008,673
Total	16,656,933	13,483,141

Due from banks and other financial institutions maturing after ninety days from the date of acquisition were SAR 675,000 (2014: SAR Nil)

30 Employees compensation practices

SAR' 000	2015				
Categories of employees	Number of employees	Fixed compensation	Variable compensation	Total compensation	Forms of payment
Senior executives	22	49,466	61,956	111,422	Cash
Employees engaged in risk taking activities	320	213,512	88,267	301,779	Cash
Employees engaged in control functions	335	128,279	33,793	162,072	Cash
Other employees	2,530	522,805	82,531	605,336	Cash
Total	3,207	914,062	266,547	1,180,609	

SAR' 000	2014				
Categories of employees	Number of employees	Fixed compensation	Variable compensation	Total compensation	Forms of payment
Senior executives	21	37,215	46,397	83,612	Cash
Employees engaged in risk taking activities	295	170,153	86,550	256,703	Cash
Employees engaged in control functions	288	88,109	29,208	117,317	Cash
Other employees	2,481	432,784	65,948	498,732	Cash
Total	3,085	728,261	228,103	956,364	

Senior executives:

This comprises senior management having responsibility and authority for formulating strategies, directing and controlling the activities of the Bank including MD.

Employees engaged in risk taking activities:

This comprises managerial staff within the business lines (Corporate, Retail, Treasury and Investment banking and Brokerage), who are responsible for executing and implementing the business strategy on behalf of the Bank.

30 Employees compensation practices (Continued)

This includes those involved in recommending and evaluating credit limits and credit worthiness, pricing of loans, undertaking and executing business proposals, treasury dealing activities, investment management and brokerage services.

Employees engaged in control functions:

This refers to employees working in divisions that are not involved in risk taking activities but engaged in review functions (Risk Management, Compliance, Corporate Governance, Legal, Internal Audit, Finance and Accounting). These functions are fully independent from risk taking units.

Other employees:

This includes all other employees of the Bank, excluding those already reported under the above categories.

Governance of Compensation

The Board of Directors of BSF, through the Nomination and Compensation Committee (NCCOM) is responsible for the overall design and oversight of the compensation and performance management system.

NCCOM: Terms of Reference

a. Overseeing the compensation system's design and operation on behalf of the Board of Directors;
b. Preparing the Compensation Policy and placing it before the Board for approval;
c. Periodically reviewing the Compensation Policy on its own or when advised by the Board, and making recommendations to the Board for amending/updating the Policy;
d. Periodically evaluating the adequacy and effectiveness of the Compensation Policy to ensure that its stated objectives are achieved;
e. Evaluating practices by which compensation is paid for potential future revenues whose timing and likelihood remain uncertain;
f. Making recommendations to the Board on the level and composition of remuneration of key executives of the Bank. The key executives for this purpose will include all those executives whose appointment is subject to no objection by SAMA;
g. Determination of bonus pool based on risk-adjusted profit of the Bank for payment of performance bonus;
h. Reviewing compliance of the Compensation Policy with these Rules and the FSB principles and Standards;
i. Performing any other related tasks to comply with the regulatory requirements.
j. Considering the suitability of candidates for membership of the Board in accordance with the Articles of Association and approved policies and standards;
k. Undertaking an annual review of the requirement of suitable skills and qualifications for the membership of the Board;
l. Recommending to the Board criteria for the composition of the Board and its Committees, including the number of Board members, and independence of directors;
m. Conducting an annual evaluation of the independent status of each candidate proposed for election at the General Assembly meeting and reporting the results of such evaluation to the Board;
n. Satisfying itself to the Board and its committees, as applicable, are in compliance with all regulatory requirements, including its composition;
o. Assisting the Board in reviewing the adequacy of the succession planning process and oversee its implementation;
p. Reviewing the performance and making recommendations to the Board regarding the compensation of the Senior Management of BSF;
q. Reviewing and assessing the adequacy of this Charter every three years and submitting this Charter and any amendments to the Board for approval;

30 Employees compensation practices (Continued)

r. Conducting self-evaluation to assess the Committee's contribution and effectiveness in fulfilling its mandate and present it to the Board every three years.

Salient Features of BSF Compensation Policy

Operating in Saudi Arabia the sole Middle Eastern country member of the G20, BSF Management working closely with the Board of Directors' has an ingrained culture and track record of running prudent compensation policy during periods of both prosperity and financial crisis. BSF follows strict governance-orientated compensation practices. BSF compensation system is designed to promote meritocracy, control excessive risk-taking and ensures effective risk management. The compensation policy as recently amended by the NCCOM and approved by the Board, conforms to compensation related corporate governance and supports the SAMA rules and Financial Stability Board (FSB) guidelines. It is structured to meet challenges i.e. attracting, retaining and motivating highly skilled staff, recognizing that:

a) BSF success heavily depends on the talents and efforts of highly skilled individuals;
b) Competition within the Kingdom and the Gulf's financial services industry for qualified talents has often been intense.

In line with the Saudi banking industry practices, BSF uses a mix of fixed and variable compensation. The former is driven by job size, responsibility, supply and jobs' relative worth in the market. The latter is driven by performance thus payment is based on meeting pre-agreed targets.

The fixed compensation package is composed of base salary, allowances and fringe benefits. As a standard practice in the Kingdom, the fixed income is driven by a base pay that is regularly benchmarked and compared with competition to ensure competitiveness.

As per Saudi banking industry practice, BSF pays a Performance Bonus, the variable component. As a form of incentive, the Bonus Pool is set by Management and NCCOM working closely with Chief Risk Officer, Chief Financial Officer and Human Resources Manager based on the year's performance or net profit adjusted to the full range of identifiable risks.

BSF as part of its reward philosophy aims on the perfect blend of benefits that is externally competitive to retain, motivate and engage. A level playing field has always been an important consideration in our reward strategy. BSF has designed its compensation structure with prudence. Variable pay deferral, for instance, is generally a sound way to encourage long-term commitment. But doing so when most banks, both in the country and in the region are still paying one-time in cash, requires a degree of caution.

Allocation of Bonus to Groups and Divisions is based on Key Performance Indicator (KPI) target achievements. Distribution of bonus to individual employees is based on review of performance by respective supervisors measured in terms of meeting the KPI target.

31 Operating segments

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

Transactions between operating segments are approved by the management as per agreed terms and are reported according to the Bank's internal transfer pricing policy. These terms are in line with normal commercial terms and conditions. The revenue from external parties report to the Board is measured in a manner consistent with that in the consolidated statement of income.

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since December 31, 2014. The Bank's primary business is conducted in the Kingdom of Saudi Arabia.

a) The Bank's reportable segments under IFRS 8 are as follows:

Retail Banking – incorporates private and small establishment customers' demand accounts, overdrafts, loans, saving accounts, deposits, credit and debit cards, consumer loans, certain forex products and auto leasing.

Corporate Banking – incorporates corporate and medium establishment customers' demand accounts, deposits, overdrafts, loans and other credit facilities and derivative products.

Treasury – incorporates treasury services, trading activities, investment securities, money market, Bank's funding operations and derivative products.

Investment banking and brokerage – Investment management services and asset management activities related to dealing, managing, arranging, advising and custody of securities, retail investments products, corporate finance and international and local shares brokerage services and insurance.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit as included in the internal management reports that are reviewed by chief decision maker. Segment profit is used to measure performance as the management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

The Bank's total assets and liabilities as at December 31, 2015 and 2014, its total operating income and expenses, share in earnings / (losses) of associates and its net income attributable to equity holders of the Bank for the years then ended by operating segments, are as follows:

31 Operating segments (Continued)

SAR' 000	Retail banking	Corporate banking	Treasury	Investment banking and brokerage	Total
2015					
Total assets	15,977,792	110,465,599	55,693,786	1,587,104	183,724,281
Investment in associates	-	-	106,430	-	106,430
Total liabilities	77,454,529	65,059,259	12,296,535	1,430,157	156,240,480
Total operating income	1,506,182	3,058,470	1,405,988	320,858	6,291,498
Share in earnings of associates, net	-	-	7,361	-	7,361
Total operating expenses	1,087,568	720,044	251,075	203,728	2,262,415
Net income for the year	418,614	2,338,426	1,162,274	117,130	4,036,444
Results					
Net special commission income	1,199,339	2,170,294	638,359	47,287	4,055,279
Fees and commission income, net	171,536	886,857	(4,443)	273,571	1,327,521
Exchange income, net	53,377	-	351,095	-	404,472
Trading income, net	-	-	376,339	-	376,339
Impairment charges for credit losses, net	25,602	143,626	-	11,673	180,901
Depreciation and amortization	80,558	27,563	14,122	9,135	131,378
2014					
Total assets	14,190,365	105,680,567	66,824,672	2,081,299	188,776,903
Investment in associates	-	-	99,069	-	99,069
Total liabilities	70,327,832	75,836,737	14,301,294	1,839,703	162,305,566
Total operating income	1,419,493	2,740,813	1,263,336	362,394	5,786,036
Share in earnings of associates, net	-	-	799	-	799
Total operating expenses	1,249,599	577,286	257,821	185,788	2,270,494
Net income for the year	169,894	2,163,527	1,006,314	176,606	3,516,341
Results					
Net special commission income	1,093,793	1,960,513	709,040	53,630	3,816,976
Fees and commission income, net	211,257	777,068	(5,438)	308,763	1,291,650
Exchange income, net	54,144	-	299,861	-	354,005
Trading income, net	-	-	202,587	-	202,587
Impairment charges for credit losses, net	211,650	109,284	-	-	320,934
Depreciation and amortization	79,795	25,643	10,320	9,298	125,056

31 Operating segments (Continued)

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

SAR' 000	Retail banking	Corporate banking	Treasury	Total
2015				
Statement of financial position assets	14,635,099	110,156,436	50,619,972	175,411,507
Commitments and contingencies	183,001	38,127,044	-	38,310,045
Derivatives	-	-	6,037,048	6,037,048
2014				
Statement of financial position assets	13,235,023	105,421,209	62,230,561	180,886,793
Commitments and contingencies	212,243	41,648,213	-	41,860,456
Derivatives	-	-	5,313,007	5,313,007

Credit exposure comprises the carrying value of consolidated statement of financial position assets excluding cash, property and equipment, other assets and credit equivalent value of commitments, contingencies and derivatives. The credit equivalent value of commitments, contingencies and derivatives are calculated as per the Saudi Arabian Monetary Agency (SAMA) guidelines.

32 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and will cause the other party to incur a financial loss. Credit exposures arise principally in lending activities that lead to loans and advances, and investing activities. There is also credit risk on credit related commitments and contingencies and derivatives.

The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and by 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.

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.

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 Bank's performance to developments affecting a particular industry or geographical location.

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

32 Credit risk (Continued)

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

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

On an ongoing basis, the Bank continues to improve its organization and resources in order to achieve strict, prudent and exhaustive risk management. Credit granting is done through a credit committee approach. There are multiple credit committees with delegated authority for credit approval with the highest committee being the Executive Committee of the Board. The delegation to the credit committees is through a risk metric dependent on requested quantum of credit facilities and the credit risk rating. The credit granting due diligence process in the Bank is governed by the tenets in the Credit Policy approved by the Board Risk Committee.

Credit risk management function under the Chief Risk Officer is independent of the Business Lines and has the responsibility of providing risk opinions on credit requests received from business lines to credit committees as part of credit granting due diligence and ongoing monitoring of the credit portfolio.

The Credit Policy lays down credit underwriting standards through the risk acceptance criteria for different sections of the Banking book. The risk acceptance criteria are approved by the Board Risk Committee. The risk acceptance criteria in turn have to broadly conform to the approved risk appetite statement of the Bank. In order to avoid sectorial credit concentrations and achieve diversification of the loan portfolio the Credit Policy lays down economic sector caps for sectors. The sectorial exposures are reviewed and monitored at regular intervals.

Credit risk assessment is done through the in house credit risk rating system. The Corporate credit risk rating system has 7 investment grades, 6 non-investment grades and three default grades. All credit risk ratings are subject to annual review and credit risk ratings are refreshed at yearly intervals. The final credit risk rating that is assigned to a borrower is the one that is approved by the delegated Credit Committee. There are various rating methodologies for different sections of the Banking book. The Bank has a close monitoring mechanism to review the credit quality and rating migrations and periodical reports are submitted to the Board Risk Committee.

The Bank gives utmost importance to the ability of the obligors to service debt from their core business generated cash flows. Collateral is never the principal rationale for granting credit. However collateral is taken as a risk mitigant and as a secondary means of repayment for perceived weakness in credit quality. Accepted collaterals are valued at periodical intervals and reviewed for marketability and enforcement.

The Bank reviews its loan portfolios to assess Specific Provisions for impaired credits on a quarterly basis. The quantum of Specific Provisions set up is based on the difference between carrying amount of the loan and the estimated recoverable amount.

The debt securities included in the investment portfolio are mainly sovereign risk. For analysis of investments by counterparty and the details of the composition of investments, and loans and advances, refer to notes 6 and 7, respectively. Information on credit risk relating to derivative instruments is provided in note 11 and for commitments and contingencies in note 19.

32 Credit risk (Continued)

Geographical concentration

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

SAR' 000	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	Other Countries	Total
2015						
Assets						
Cash and balances with SAMA	9,721,094	2,130	23,938	21,122	-	9,768,284
Due from banks and other financial institutions	6,280,000	5,622,825	605,018	3,483,533	311,789	16,303,165
Investments and investment in associates, net	26,400,353	1,619,915	407,125	-	-	28,427,393
Loans and advances, net	121,892,475	625,393	512,785	-	412,112	123,442,765
Total	164,293,922	7,870,263	1,548,866	3,504,655	723,901	177,941,607
Liabilities						
Due to banks and other financial institutions	986,500	404,595	149,502	14,582	1,968	1,557,147
Customers' deposits	141,458,236	169,338	33,828	2,841	86,802	141,751,045
Debt securities & sukuks	3,900,000	-	-	-	2,812,889	6,712,889
Total	146,344,736	573,933	183,330	17,423	2,901,659	150,021,081
Commitments and contingencies	62,038,826	1,431,767	6,216,640	503,131	1,348,875	71,539,239
Credit exposure (credit equivalent value)						
Commitments and contingencies	31,790,394	2,368,843	3,429,836	233,946	487,026	38,310,045
Derivatives	1,976,919	463,951	2,478,993	1,114,870	2,315	6,037,048
2014						
Assets						
Cash and balances with SAMA	20,013,841	-	-	-	-	20,013,841
Due from banks and other financial institutions	500,000	227,464	230,596	1,045,182	5,431	2,008,673
Investments and investment in associates, net	43,859,547	1,334,470	7,333	-	-	45,201,350
Loans and advances, net	115,332,313	846,954	150,980	-	210,437	116,540,684
Total	179,705,701	2,408,888	388,909	1,045,182	215,868	183,764,548
Liabilities						
Due to banks and other financial institutions	59,438	3,593,908	157,747	11,110	41,279	3,863,482
Customers' deposits	144,984,224	171,634	27,528	58	91,801	145,275,245
Debt securities & sukuks	3,900,000	-	2,416,784	-	2,814,283	9,131,067
Total	148,943,662	3,765,542	2,602,059	11,168	2,947,363	158,269,794
Commitments and contingencies	67,161,591	1,618,010	5,674,397	289,793	2,317,869	77,061,660
Credit exposure (credit equivalent value)						
Commitments and contingencies	37,149,146	809,787	2,787,666	146,036	967,821	41,860,456
Derivatives	2,081,204	445,333	2,782,021	4,449	-	5,313,007

32 Credit risk (Continued)

Credit equivalent amounts reflect the amounts that result from translating the Bank's credit related commitments and contingencies and derivatives liabilities into the risk equivalent of loans using credit conversion factors prescribed by SAMA. Credit conversion factor is meant to capture the potential credit risk related to the exercise of the commitment.

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

SAR ' 000	2015 Non performing, net	2015 Allowance for impairment of credit losses	2014 Non performing, net	2014 Allowance for impairment of credit losses
Kingdom of Saudi Arabia	1,129,719	2,338,946	1,182,455	2,303,180
Total	1,129,719	2,338,946	1,182,455	2,303,180

Allowance for impairment of credit losses includes specific and collective provisions.

33 Market risk

Market Risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate due to changes in market variables such as Interest rates, Foreign Exchange rates and Equity prices. The Bank classifies Market Risk exposures into either Trading or non-trading or Banking Book.

Market Risk within Trading & Banking Book is managed and monitored using various indicators such as Value at Risk, Stress Testing and Sensitivities analysis.

a) Market risk -Trading book

The Board has set limits for the acceptable level of risks in managing the Trading Book. In order to manage the Market Risk in Trading Book, the Bank applies on a daily basis a VAR methodology in order to assess the Market Risk positions held and also to estimate the potential economic loss based on a set of assumptions and changes in market conditions.

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

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

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

33 Market risk (Continued)

To overcome the VAR limitations mentioned above, the Bank also carries out Stress tests of its portfolio to simulate conditions outside normal confidence intervals. The potential losses occurring under Stress test conditions are reported regularly to the Bank's ALM and Market Risk committees for their review.

The Bank's VaR related information for the year ended December 31, 2015 and 2014 are follows:

SAR ' 000	Foreign exchange rate	Special commission rate risk	Overall Trading
2015			
VaR as at December 31, 2015	17	6,332	6,330
Average VaR for 2015	172	3,294	3,317
Maximum VaR for 2015	724	6,825	6,810
Minimum VaR for 2015	8	1,248	1,251
2014			
VaR as at December 31, 2014	17	1,673	1,672
Average VaR for 2014	90	1,182	1,220
Maximum VaR for 2014	633	4,377	4,396
Minimum VaR for 2014	3	354	357

Overall Trading VaR incorporates compensation effect of positions coming from realized P&L in foreign currencies.

b) Market risk non- trading book

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

i) Special commission rate risk

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

The following table depicts the sensitivity to a reasonable possible change in special commission rates, with other variables held constant, on the Bank's consolidated statement of income or equity. The sensitivity of the special commission income is the effect of the assumed changes in special commission rates with a lowest level at 0%, on the net special commission income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at December 31, 2015, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing the fixed rate available for sale financial assets, including the effect of any associated hedges as at December 31, 2015 for the effect of assumed changes in special commission rate. The sensitivity of equity is analyzed by maturity of the asset or swap. All the banking book exposures are monitored and analyzed in currency concentrations and relevant sensitivities are disclosed in SAR thousands.

33 Market risk (Continued)

SAR' 000	2015						
Currency	BPS change	Sensitivity of special commission income	Sensitivity of Equity				Total
			6 months or less	Over 6 month to 1 year	Over 1 year to 5 years	Over 5 years	
USD	+100	66,457	(431)	(1,164)	(1,703)	-	(3,298)
	-100	(65,545)	431	1,164	1,703	-	3,298
SAR	+100	(8,709)	(4,008)	(99)	(34,046)	(771)	(38,924)
	-100	(3,364)	4,008	99	34,046	771	38,924

SAR' 000	2014						
Currency	BPS change	Sensitivity of special commission income	Sensitivity of Equity				Total
			6 months or less	Over 6 month to 1 year	Over 1 year to 5 years	Over 5 years	
USD	+100	(124,321)	(606)	(834)	(15,480)	(1)	(16,921)
	-100	42,117	606	834	15,480	1	16,921
SAR	+100	(16,294)	(1,698)	(3,845)	(49,754)	(194,172)	(249,469)
	-100	(62,655)	1,698	3,845	49,754	194,172	249,469

Special commission rate sensitivity of assets, liabilities and derivatives

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

The table below summarises the Bank's exposure to special commission rate risks. Included in the table are the Bank's financial instruments at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

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

33 Market risk (Continued)

SAR' 000	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total
2015						
Assets						
Cash and balances with SAMA	-	-	-	-	9,768,284	9,768,284
Due from banks and other financial institutions	11,972,113	325,000	-	-	4,006,052	16,303,165
Investments and investment in associates ,net	8,583,618	3,353,512	9,339,399	6,243,184	907,680	28,427,393
Loans and advances, net	51,418,965	49,747,046	15,965,177	6,208,195	103,382	123,442,765
Property and equipment, net	-	-	-	-	691,129	691,129
Other assets	-	-	-	-	5,091,545	5,091,545
Total assets	71,974,696	53,425,558	25,304,576	12,451,379	20,568,072	183,724,281
Liabilities and shareholders' equity						
Due to banks and other financial institutions	1,312,692	1,767	1,672	-	241,016	1,557,147
Customers' deposits	27,758,932	23,187,935	569,168	-	90,235,010	141,751,045
Debt securities and Sukuk	3,900,000	-	2,812,889	-	-	6,712,889
Other liabilities	-	-	-	-	6,219,399	6,219,399
Shareholders' equity	-	-	-	-	27,483,801	27,483,801
Total liabilities and shareholders' equity	32,971,624	23,189,702	3,383,729	-	124,179,226	183,724,281
Net gap between assets and liabilities	39,003,072	30,235,856	21,920,847	12,451,379	(103,611,154)	-
Net gap between derivative financial instruments	(69,940,346)	(161,475)	69,630,183	471,638	-	-
Total commission rate sensitivity gap	(30,937,274)	30,074,381	91,551,030	12,923,017	(103,611,154)	
Cumulative commission rate sensitivity gap	(30,937,274)	(862,893)	90,688,137	103,611,154	-	-
2014						
Assets						
Cash and balances with SAMA	10,540,927	-	-	-	9,472,914	20,013,841
Due from banks and other financial institutions	610,000	-	-	-	1,398,673	2,008,673
Investments and investment in associates ,net	16,859,869	19,530,912	5,440,790	2,667,875	701,904	45,201,350
Loans and advances, net	61,241,824	41,234,195	13,589,396	386,438	88,831	116,540,684
Property and equipment, net	-	-	-	-	605,076	605,076
Other assets	-	-	-	-	4,407,279	4,407,279
Total assets	89,252,620	60,765,107	19,030,186	3,054,313	16,674,677	188,776,903
Liabilities and shareholders' equity						
Due to banks and other financial institutions	3,457,329	-	-	-	406,153	3,863,482
Customers' deposits	27,528,906	11,123,767	736,456	-	105,886,116	145,275,245
Debt securities	6,316,784	-	2,814,283	-	-	9,131,067
Other liabilities	-	-	-	-	4,035,772	4,035,772
Shareholders' equity	-	-	-	-	26,471,337	26,471,337
Total liabilities and shareholders' equity	37,303,019	11,123,767	3,550,739	-	136,799,378	188,776,903
Net gap between assets and liabilities	51,949,601	49,641,340	15,479,447	3,054,313	(120,124,701)	
Net gap between derivative financial instruments	(59,602,920)	2,608,562	56,861,653	132,705	-	-
Total commission rate sensitivity gap	(7,653,319)	52,249,902	72,341,100	3,187,018	(120,124,701)	
Cumulative commission rate sensitivity gap	(7,653,319)	44,596,583	116,937,683	120,124,701	-	-

33 Market risk (Continued)

Net gap between derivative financial instruments represents the net notional amounts of these financial instruments, which are used to manage the special commission rate risk.

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

ii) Currency Risk

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Board has set limits on positions by currencies, which are monitored daily, and hedging strategies are also used to ensure that positions are maintained within the limits.

The table below shows the currencies to which the Bank has a significant exposure as at December 31, 2015 and 2014 on its non-trading monetary assets and liabilities and forecasted cash flows. The analysis calculates the effect of reasonable possible movement of the currency rate against SAR, with all other variables held constant, on the consolidated statement of income (due to the fair value of the currency sensitive non-trading monetary assets and liabilities) and equity (due to change in fair value of commission rate swaps used as cash flow hedges). A positive effect shows a potential increase in the consolidated statement of income or equity; whereas a negative effect shows a potential net reduction in the consolidated statement of income or equity.

SAR' 000	2015			2014		
Currency Exposures	Change in Currency Rate in %	Effect on Net Income	Effect on Equity	Change in Currency Rate in %	Effect on Net Income	Effect on Equity
USD	+5	(6,677)	458	+5	(12,824)	121
EUR	-3	(44)	-	-3	(178)	-

There is no material impact on equity and net income due to change in other foreign currencies.

iii) Currency position

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

SAR' 000	2015 (Short) / long	2014 (Short) / long
US Dollar	42,472	(142,218)
Euro	1,466	5,926
Pound Sterling	281	(1,298)
Other	13,802	12,194
Total	58,021	(125,396)

33 Market risk (Continued)

iv) Equity Price Risk

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

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

SAR' 000	2015		2014	
Market Indices	Change in equity Price %	Effect on market value	Change in equity Price %	Effect on market value
Tadawul	+5	23,647	+5	24,423
Tadawul	-5	(23,647)	-5	(24,423)

There is no material impact on market value due to change in prices of listed international securities.

34 Liquidity risk

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

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

In accordance with the Banking Control Law and the Regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% of total customers' demand deposits, and 4% of due to banks and other financial institutions (excluding balances due to SAMA and non-resident foreign currency deposits), saving deposits, time deposits, margins of letters of credit and guarantee, excluding all type of repo deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of not less than 20% of its deposit liabilities, in the form of cash, Saudi Government securities or assets which can be converted into cash within a period not exceeding 30 days. The Bank can also raise additional funds through repo facilities available with SAMA against its holding of Saudi Government securities up to 75% of the nominal value of securities.

a) Maturity analysis of assets and liabilities

The table below summarizes the maturity profile of the Bank's assets and liabilities. The expected maturities of assets and liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date and do not take into account the effective maturities as indicated by the Bank's deposit retention history. Management monitors the maturity profile to ensure that adequate liquidity is maintained. For presentation purposes all demand, saving and other deposit balances have been shown in no fixed maturity.

34 Liquidity risk (Continued)

SAR' 000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
2015						
Assets						
Cash and balances with SAMA	-	-	-	-	9,768,284	9,768,284
Due from banks and other financial institutions	11,972,113	325,000	-	-	4,006,052	16,303,165
Investments and investment in associates, net	7,631,931	1,407,343	10,866,868	7,613,571	907,680	28,427,393
Loans and advances, net	40,586,018	28,472,638	32,210,301	20,271,242	1,902,566	123,442,765
Property and equipment, net	-	-	-	-	691,129	691,129
Other assets	-	-	-	-	5,091,545	5,091,545
Total assets	60,190,062	30,204,981	43,077,169	27,884,813	22,367,256	183,724,281
Liabilities and shareholders' equity						
Due to banks and other financial institutions	1,312,692	1,767	1,672	-	241,016	1,557,147
Customers' deposits	20,236,702	16,546,971	10,270,674	-	94,696,698	141,751,045
Debt securities and sukuks	-	-	4,712,889	2,000,000	-	6,712,889
Other liabilities	-	-	-	-	6,219,399	6,219,399
Shareholders' equity	-	-	-	-	27,483,801	27,483,801
Total liabilities and shareholders' equity	21,549,394	16,548,738	14,985,235	2,000,000	128,640,914	183,724,281

SAR' 000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
2014						
Assets						
Cash and balances with SAMA	10,540,927	-	-	-	9,472,914	20,013,841
Due from banks and other financial institutions	610,000	-	-	-	1,398,673	2,008,673
Investments and investment in associates, net	15,075,546	18,780,195	6,644,255	3,999,450	701,904	45,201,350
Loans and advances, net	51,766,617	21,951,685	26,257,625	13,708,399	2,856,358	116,540,684
Property and equipment, net	-	-	-	-	605,076	605,076
Other assets	-	-	-	-	4,407,279	4,407,279
Total assets	77,993,090	40,731,880	32,901,880	17,707,849	19,442,204	188,776,903
Liabilities and shareholders' equity						
Due to banks and other financial institutions	3,457,329	-	-	-	406,153	3,863,482
Customers' deposits	24,997,398	9,201,897	3,687,893	-	107,388,057	145,275,245
Debt securities and sukuks	2,416,784	-	4,714,283	2,000,000	-	9,131,067
Other liabilities	-	-	-	-	4,035,772	4,035,772
Shareholders' equity	-	-	-	-	26,471,337	26,471,337
Total liabilities and shareholders' equity	30,871,511	9,201,897	8,402,176	2,000,000	138,301,319	188,776,903

34 Liquidity risk (Continued)

b) Analysis of financial liabilities by remaining contractual maturities

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

SAR' 000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
2015						
Due to banks and other financial institutions	1,314,362	1,990	1,741	-	241,016	1,559,109
Customers' deposits	20,298,233	16,818,512	11,187,456	-	94,696,698	143,000,899
Debt securities and Sukuks	19,820	142,343	5,206,790	2,180,069	-	7,549,022
Total	21,632,415	16,962,845	16,395,987	2,180,069	94,937,714	152,109,030
2014						
Due to banks and other financial institutions	3,457,612	561	-	-	406,153	3,864,326
Customers' deposits	25,005,645	9,293,461	3,848,320	-	107,388,057	145,535,483
Debt securities	2,484,631	203,540	5,096,555	2,206,855	-	9,991,581
Total	30,947,888	9,497,562	8,944,875	2,206,855	107,794,210	159,391,390

35 Fair values of financial assets and liabilities

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

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Valuation models

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premium used in estimating discount rates, bond and equity prices and foreign currency exchange rates.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. The Bank uses widely recognized valuation models for determining the fair value of common and simpler financial instruments.

35 Fair values of financial assets and liabilities (Continued)

Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple over-the-counter derivatives such as interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Valuation models that employ significant unobservable inputs require a higher degree of management judgment and estimation in the determination of fair value. Management judgment and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of the probability of counterparty default and prepayments and selection of appropriate discount rates. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties; to the extent that the Bank believes that a third party market participant would take them into account in pricing a transaction. Fair values aims also to reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank and the counterparty where appropriate.

Valuation Framework

The Bank has an established control framework with respect to the measurement of fair values. This framework includes a Market Risk Department, which is independent of Front Office management and reports to the Chief Risk Officer, and which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements. Specific controls include:

- verification of observable pricing;
- re-performance of model valuations;
- a review and approval process for new models and changes to models involving Risk Division;
- back-testing of models against observed market transactions and analysis and investigation of significant daily valuation movements

When third party information, such as broker quotes or pricing services, is used to measure fair value, Market Risk Department assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS. This includes:

- verifying that the broker or pricing service is approved by the Bank for use in pricing the relevant type of financial instrument;
- understanding how the fair value has been arrived at and the extent to which it represents actual market transactions;
- when prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement; and
- if a number of quotes for the same financial instrument have been obtained, then how fair value has been determined using those quotes

Any significant valuation issue is reported at a regular frequency (in addition to whenever deemed necessary) to the Bank Market Risk Committee in order to take appropriate actions accordingly.

Determination of fair value and fair value hierarchy

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

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

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.

35 Fair values of financial assets and liabilities (Continued)

SAR' 000	Level 1	Level 2	Level 3	Total
2015				
Financial assets				
Derivative financial instruments	-	3,147,630	-	3,147,630
Financial investments designated at FVIS (trading)				
-Fixed rate securities	176,014	3,155	-	179,169
-Floating rate securities	-	30,075	-	30,075
Total	176,014	33,230	-	209,244
Financial investments available for sale				
-Fixed rate securities	1,453,347	-	-	1,453,347
-Floating rate securities	93,806	2,275,074		2,368,880
-Equity	470,216	-	35,638	505,854
-Others	401,826	-	2,735,266	3,137,092
Total	2,419,195	2,275,074	2,770,904	7,465,173
Total	2,595,209	5,455,934	2,770,904	10,822,047
Financial Liabilities				
Derivative financial instruments negative fair value	-	3,264,460	-	3,264,460
Total	-	3,264,460	-	3,264,460
2014				
Financial assets				
Derivative financial instruments	-	2,632,447	-	2,632,447
Financial investments designated at FVIS(trading)				
-Fixed rate securities	114,257	2,028,095	-	2,142,352
-Others	8,920	-	-	8,920
Total	123,177	2,028,095	-	2,151,272
Financial investments available for sale				
-Fixed rate securities	1,295,348	223,875	-	1,519,223
-Floating rate securities	94,288	3,170,273	-	3,264,561
-Equity	504,156	-	38,600	542,756
-Others	51,159	-	3,462,361	3,513,520
Total	1,944,951	3,394,148	3,500,961	8,840,060
Total	2,068,128	8,054,690	3,500,961	13,623,779
Financial Liabilities				
Derivative financial instruments negative fair value	-	1,274,434	-	1,274,434
Total	-	1,274,434	-	1,274,434

35 Fair values of financial assets and liabilities (Continued)

Financial investments available for sale include Mudarabah SAR 2,735 million (2014: SAR 3,462 million) which are classified as level 3. This mudarabah investment is valued based on discounted cash flow models, which incorporate assumptions regarding an appropriate credit spread. During the year there have been no transfers in between level 1, level 2 and level 3.

The following table shows a reconciliation from the beginning balances to the ending balances for the fair value measurements in Level 3 of the fair value hierarchy:

Financial investments classified as available for sale (AFS)

SAR' 000	2015	2014
Balance at the beginning of the year	3,500,961	4,251,158
Issues	730,000	1,220,000
Settlements	(1,460,057)	(1,783,575)
Transferred out of Level 3	-	(186,622)
Balance at the end of the year	2,770,904	3,500,961

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

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

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

The estimated fair values of the held to maturity investments and other investments held at amortized cost are based on quoted market prices when available or pricing models when used in the case of certain fixed rate bonds. Consequently, differences can arise between carrying values and fair value estimates. The fair values of these investments are disclosed in note 6. The fair values of derivatives are based on the quoted market prices when available or by using the appropriate valuation technique.

Derivative products valued using a valuation technique with market observable inputs are mainly commission rate swaps and options, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including foreign exchange spot and forward rates and commission rate curves. Other investments in level 2 are valued based on market observable date including broker rates etc.

36 Related party transactions and balances

In the ordinary course of its activities, the Bank transacts business with related parties. In the opinion of the management and the Board, the related party transactions are carried out on an arm's length basis. The related party transactions are governed by limits set by the Banking Control Law and Regulations issued by SAMA. The balances as at December 31, 2015 and 2014 resulting from such transactions included in the consolidated financial statements are as follows:

SAR' 000	2015	2014
CA-CIB Group		
Due from banks and other financial institutions	285,082	155,678
Due to banks and other financial institutions	79,422	18,636
Derivatives at fair value, net	(79,151)	64,116
Commitments and contingencies	2,594,366	3,296,579
Associates		
Investments	106,430	99,069
Due to banks and other financial institutions	99,638	59,441
Customers' deposits	7,757	7,962
Directors, auditors, other major shareholders' and their affiliates		
Loans and advances	3,102,827	2,543,586
Customers' deposits	6,420,687	6,595,563
Derivatives at fair value, net	118,223	29,424
Commitments and contingencies	527,786	593,864
Bank's mutual funds		
Derivatives at fair value, net	1,039	1,377
Customers' deposits	93,009	207,038

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

SAR' 000	2015	2014
Special commission income		
-CA-CIB group	3,839	1,606
-Directors, auditors, other major shareholders' and their affiliates	58,030	51,322
-Associates	2	4
-Bank's mutual funds	-	3
Total Special commission income	61,871	52,935
Special commission expense		
-CA-CIB group	713	700
-Directors, ,auditors, other major shareholders' and their affiliates	36,066	38,812
-Associates	418	6
-Bank's mutual funds	19	60
Total Special commission expense	37,216	39,578
Fees ,commission income and others, net	18,270	33,232
Directors' fees	3,601	3,651
Other general and administrative expenses	1,305	1,489

36 Related party transactions and balances (Continued)

The total amount of short term benefits paid to key management personnel during the year was SAR 115 million (2014: SAR 105 million). The key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly.

37 Capital adequacy

The Bank's objectives when managing capital 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 monitored daily by the Bank's management.

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 statement of financial position assets, commitments and notional amount of derivatives at a weighted amount to reflect their relative risk. SAMA requires holding the minimum level of the regulatory capital of and maintaining a ratio of total regulatory capital to the risk-weighted asset (RWA) at or above the agreed minimum of 8%.

SAMA has issued the framework and guidance regarding implementation of the capital reforms under Basel III - which are effective from January 1, 2013. Accordingly, the Group's consolidated Risk Weighted Assets (RWA), total capital and related ratios on a consolidated group basis, calculated under the Basel III framework. The RWAs, total capital and related ratios as at December 31, 2015 and 2014 are calculated using the framework and the methodologies defined under the Basel III framework.

SAR' 000	2015	2014
Credit Risk RWA	172,930,080	163,526,870
Operational Risk RWA	10,712,625	9,825,237
Market Risk RWA	3,211,972	5,138,115
Total RWA	186,854,677	178,490,222
Tier I Capital	27,948,788	26,373,178
Tier II Capital	4,110,609	4,425,556
Total Tier I & II Capital	32,059,397	30,798,734
Capital Adequacy Ratio %		
Tier I ratio	14.96%	14.78%
Tier I + Tier II ratio	17.16%	17.26%

38 Investment management, brokerage and corporate finance services

The Bank offers investment services to its customers through its subsidiary, which include management of certain investment funds in consultation with professional investment advisors as well as brokerage services.Income from the subsidiaries is included in the consolidated statement of income under fees and commission income, net. Determining whether the Bank controls such an investment fund usually depends on the assessment of the aggregate economic interests of the Bank in the Fund (comprising of its investments, any carried profit and expected management fees) and the investors' rights to remove the Fund Manager.

38 Investment management, brokerage and corporate finance services (Continued)

As a result of the above assessment, the Bank has concluded that it acts as an agent for the investors in all cases, and therefore has not consolidated these funds. However, the Bank's share of these funds is included in the available for sale investments and fees earned are disclosed under related party transactions.

The value of the mutual funds and other private investment portfolio managed by the Bank through its subsidiary was SAR 6,135 million (2014: SAR 4,971 million).The Bank through its subsidiary offers Islamic investment management services to its customers, which include management of certain investment funds in consultation with professional investment advisors, having net asset values as of December 31, 2015 totalling SAR 3,506 million (2014: SAR 2,468 million).

39 Disclosure under BASEL III framework

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

40 Prospective changes in International Financial Reporting Framework

The Bank has chosen not to early adopt the following amendments to existing standards and newly issued standards but not yet effective for the Bank's accounting years beginning on or after 1 January 2016 and is currently assessing their impact.

Following is a brief on the new IFRS and amendments to IFRS effective for annual periods beginning on or after 1 January 2016.

		Effective for annual periods beginning on or after
IFRS 9	Financial instruments	1 January 2018
IFRS 15	Revenue from contracts with customers	1 January 2018
IFRS 14	Regulatory Deferral Accounts	1 January 2016
Amendments of IFRS 11	Accounting for acquisitions of interests in joint operations	1 January 2016
Amendments to IAS 16 and IAS 38	Clarification of acceptable methods of depreciation and amortization	1 January 2016
Amendments to IAS 16 and IAS 41	Agriculture: bearer plants	1 January 2016
Amendments to IAS 27	Equity Method in Separate Financial Statements	1 January 2016

41 Comparative figures

Prior year figures have been reclassified wherever necessary to conform to current year's presentation.

42 Board of Directors approval

The consolidated financial statements were approved by the Board of Directors on February 15, 2016 corresponding to 06 Jumada Alawal 1437 AH.