THE NATIONAL COMMERCIAL BANK

(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED

<u>31 DECEMBER 2015 AND AUDITORS' REPORT</u>

Ernst & Young **KPMG Al Fozan & Al Sadhan**

CONTENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of The National Commercial Bank (the "Bank") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes from 1 to 45. We have not audited note 40.2, nor the information related to "Basel III Pillar 3 disclosures" cross-referenced therein, which is not required to be within the scope of our audit.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with 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.

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

KPMG Al Fozan & Partners

Opinion

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

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

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6 Jumada Al Awal 1437H
15 February 2016
Jeddah

The National Commercial Bank
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2015 AND 2014

	Notes	2015 SR '000	2014 SR '000
ASSETS			
Cash and balances with SAMA	4	**27,559,154**	28,818,569
Due from banks and other financial institutions	5	**20,102,519**	19,863,020
Investments, net	6	**132,997,549**	152,903,040
Financing and advances, net	7	**251,531,030**	220,722,363
Investments in associates, net	8	**423,740**	407,835
Other real estate, net	9	**876,264**	858,520
Property and equipment, net	10	**3,716,091**	3,427,399
Goodwill and other intangible assets, net	11	**470,282**	693,298
Other assets	12	**11,663,800**	7,184,040
Total assets		**449,340,429**	434,878,084
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks and other financial institutions	14	**47,719,572**	35,449,488
Customers' deposits	15	**323,282,273**	333,095,491
Debt securities issued	16	**9,862,828**	9,550,496
Other liabilities	17	**12,930,199**	9,861,718
Total liabilities		**393,794,872**	387,957,193
EQUITY			
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK			
Share capital	18	**20,000,000**	20,000,000
Treasury shares		**(190,510)**	(190,510)
Statutory reserve	19	**19,383,697**	17,172,081
Other reserves (cumulative changes in fair values)	20	**726,547**	1,617,888
Retained earnings		**9,833,777**	7,371,935
Proposed dividend	29	**1,495,975**	1,296,512
Foreign currency translation reserve		**(2,787,000)**	(2,054,269)
Equity attributable to shareholders of the Bank		**48,462,486**	45,213,637
Tier 1 Sukuk	28	**5,700,000**	-
Equity attributable to equity holders of the Bank		**54,162,486**	45,213,637
NON-CONTROLLING INTERESTS	41	**1,383,071**	1,707,254
Total equity		**55,545,557**	46,920,891
Total liabilities and equity		**449,340,429**	434,878,084

The accompanying notes 1 to 45 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEARS ENDED 31 DECEMBER 2015 AND 2014

	Notes	2015 SR '000	2014 SR '000
Special commission income	22	**15,333,421**	13,679,867
Special commission expense	22	**(2,555,087)**	(2,275,740)
Net special commission income		**12,778,334**	11,404,127
Fee income from banking services, net	23	**3,336,295**	3,442,973
Exchange income, net		**1,074,884**	807,569
(Loss) income from FVIS investments, net		**(12,011)**	108,132
Trading income, net	24	**212,443**	111,774
Dividend income		**179,915**	142,664
Gains on non-trading investments, net	25	**277,696**	519,459
Other operating (expenses), net		**(361,862)**	(289,671)
Total operating income		**17,485,694**	16,247,027
Salaries and employee-related expenses		**3,550,908**	3,261,770
Rent and premises-related expenses		**719,273**	722,649
Depreciation of property and equipment	10	**614,772**	500,686
Amortisation of intangible assets	11	**189,337**	189,337
Other general and administrative expenses		**1,471,624**	1,660,189
Impairment charge for financing and advances losses, net	7.3	**1,600,347**	995,464
Impairment charge on investments, net	6.7	**109,647**	149,727
Total operating expenses		**8,255,908**	7,479,822
Income from operations, net		**9,229,786**	8,767,205
Other (expenses) income			
Other non-operating (expenses) income, net	26	**(81,357)**	25,986
Net other (expenses) income		**(81,357)**	25,986
Net income for the year		**9,148,429**	8,793,191
Net income for the year attributable to:			
Equity holders of the Bank		**9,089,183**	8,655,150
Non-controlling interests		**59,246**	138,041
Net income for the year		**9,148,429**	8,793,191
Basic and diluted earnings per share (expressed in SR per share)	27	**4.56**	4.34

The accompanying notes 1 to 45 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED 31 DECEMBER 2015 AND 2014

	Notes	2015 SR '000	2014 SR '000
Net income for the year		**9,148,429**	8,793,191
Other comprehensive (loss) income items that are or may be reclassified to the consolidated statement of income:			
Foreign currency translation reserve - (losses)		**(1,044,067)**	(496,180)
Available for sale financial assets:			
- Net change in fair values		**(799,115)**	688,031
- Transfers to consolidated statement of income		**(144,217)**	(496,257)
- Impairment charge on available for sale investments	6.7	**87,147**	100,048
Cash flow hedges:			
- Effective portion of change in fair values	13	**(276,768)**	19,078
- Net transfers to consolidated statement of income	13	**219,603**	(12,859)
Total comprehensive income for the year		**7,191,012**	8,595,052
Attributable to:			
Equity holders of the Bank		**7,465,111**	8,555,591
Non-controlling interests		**(274,099)**	39,461
Total comprehensive income for the year		**7,191,012**	8,595,052

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2015 AND 2014

		Attributable to equity holders of the Bank												
				Other reserves										
	Notes	Share capital SR' 000	Treasury shares SR' 000	Statutory reserve SR' 000	Available for sale financial assets reserve SR' 000	Cash flow hedge reserves SR' 000	Retained earnings SR' 000	Proposed dividend SR' 000	Foreign currency translation reserve SR' 000	Total equity attributable to shareholders of the Bank SR' 000	Tier 1 Sukuk SR' 000	Total SR' 000	Non-controlling interests SR' 000	Total equity SR' 000
2015														
Balance as at 1 January 2015		**20,000,000**	**(190,510)**	**17,172,081**	**1,580,874**	**37,014**	**7,371,935**	**1,296,512**	**(2,054,269)**	**45,213,637**	**-**	**45,213,637**	**1,707,254**	**46,920,891**
Total comprehensive (loss)/income for the year												-		
Exchange difference on translating foreign operations		-	-	-	-	-	-	-	**(732,731)**	**(732,731)**	-	**(732,731)**	**(311,336)**	**(1,044,067)**
Net changes in fair value of cash flow hedges	20	-	-	-	-	**(259,154)**	-	-	-	**(259,154)**	-	**(259,154)**	**(17,614)**	**(276,768)**
Net changes in fair values of available for sale investments		-	-	-	**(794,720)**	-	-	-	-	**(794,720)**	-	**(794,720)**	**(4,395)**	**(799,115)**
Net transfers to consolidated statement of income		-	-	-	**(57,070)**	**219,603**	-	-	-	**162,533**	-	**162,533**	-	**162,533**
Net income for the year		-	-	-	-	-	**9,089,183**	-	-	**9,089,183**	-	**9,089,183**	**59,246**	**9,148,429**
		-	-	-	**(851,790)**	**(39,551)**	**9,089,183**	-	**(732,731)**	**7,465,111**	-	**7,465,111**	**(274,099)**	**7,191,012**
Transfer to statutory reserve	19	-	-	**2,211,616**	-	-	**(2,211,616)**	-	-	-	-	-	-	-
Adjustments in non-controlling interests and subsidiaries		-	-	-	-	-	**17,029**	-	-	**17,029**	-	**17,029**	**(49,147)**	**(32,118)**
Premium on acquisition of non-controlling interests (see note 1.2(a1))		-	-	-	-	-	**(22,384)**	-	-	**(22,384)**	-	**(22,384)**	**(937)**	**(23,321)**
Tier 1 Sukuk		-	-	-	-	-	-	-	-	-	**5,700,000**	**5,700,000**	-	**5,700,000**
Tier 1 Sukuk related costs		-	-	-	-	-	**(53,675)**	-	-	**(53,675)**	-	**(53,675)**	-	**(53,675)**
Bonus issue	18			-	-	-	-	-	-	-	-	-	-	-
Capital injection	1.2(b)	-	-	-	-	-	-	-	-	-	-	-	-	-
Proposed final dividend for 2015		-	-	-	-	-	**(1,495,975)**	**1,495,975**	-	-	-	-	-	-
Zakat	17	-	-	-	-	-	**(1,265,013)**	-	-	**(1,265,013)**	-	**(1,265,013)**	-	**(1,265,013)**
Dividends paid for 2015 (interim) and 2014 (final)	29	-	-	-	-	-	**(1,595,707)**	**(1,296,512)**	-	**(2,892,219)**	-	**(2,892,219)**	-	**(2,892,219)**
Balance as at 31 December 2015		**20,000,000**	**(190,510)**	**19,383,697**	**729,084**	**(2,537)**	**9,833,777**	**1,495,975**	**(2,787,000)**	**48,462,486**	**5,700,000**	**54,162,486**	**1,383,071**	**55,545,557**
2014														
Balance as at 1 January 2014		15,000,000	(177,093)	15,102,989	1,323,153	30,795	9,699,260	1,645,573	(1,690,770)	40,933,907	-	40,933,907	1,602,273	42,536,180
Total comprehensive income/(loss) for the year												-		
Exchange difference on translating foreign operations		-	-	-	-	-	-	-	(363,499)	(363,499)	-	(363,499)	(132,681)	(496,180)
Net changes in fair value of cash flow hedges	20	-	-	-	-	19,078	-	-	-	19,078	-	19,078	-	19,078
Net changes in fair values of available for sale investments		-	-	-	653,930	-	-	-	-	653,930	-	653,930	34,101	688,031
Net transfers to consolidated statement of income		-	-	-	(396,209)	(12,859)	-	-	-	(409,068)	-	(409,068)	-	(409,068)
Net income for the year		-	-	-	-	-	8,655,150	-	-	8,655,150	-	8,655,150	138,041	8,793,191
		-	-	-	257,721	6,219	8,655,150	-	(363,499)	8,555,591	-	8,555,591	39,461	8,595,052
Transfer to statutory reserve	19	-	-	2,069,092	-	-	(2,069,092)	-	-	-	-	-	-	-
Adjustments in non-controlling interests and subsidiaries		-	-	-	-	-	12,667	-	-	12,667	-	12,667	(28,450)	(15,783)
Premium on acquisition of non-controlling interests		-	-	-	-	-	-	-	-	-	-	-	-	-
Tier 1 Sukuk		-	-	-	-	-	-	-	-	-	-	-	-	-
Tier 1 Sukuk related costs		-	-	-	-	-	-	-	-	-	-	-	-	-
Bonus issue	18	5,000,000	(13,417)	-	-	-	(4,986,583)	-	-	-	-	-	-	-
Capital injection	1.2(b)	-	-	-	-	-	-	-	-	-	-	-	93,970	93,970
Proposed final dividend for 2014		-	-	-	-	-	(1,296,512)	1,296,512	-	-	-	-	-	-
Zakat	17	-	-	-	-	-	(1,047,248)	-	-	(1,047,248)	-	(1,047,248)	-	(1,047,248)
Dividends paid for 2014 (interim) and 2013 (final)	29	-	-	-	-	-	(1,595,707)	(1,645,573)	-	(3,241,280)	-	(3,241,280)	-	(3,241,280)
Balance as at 31 December 2014		20,000,000	(190,510)	17,172,081	1,580,874	37,014	7,371,935	1,296,512	(2,054,269)	45,213,637	-	45,213,637	1,707,254	46,920,891

The accompanying notes 1 to 45 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2015 AND 2014

	Notes	2015 SR' 000	2014 SR' 000
OPERATING ACTIVITIES			
Net income for the year		**9,148,429**	8,793,191
Adjustments to reconcile net income to net cash from operating activities:			
Amortisation of premium on non-trading investments, net		**509,361**	199,345
(Gains) on non-trading investments, net		**(277,696)**	(519,459)
(Gains) on disposal of property and equipment, net	26	**(17,523)**	(23,608)
(Gains) on disposal of other real estate, net		**(606)**	(147,898)
Loss on disposal of other repossessed assets		**15,443**	7,304
Depreciation of property and equipment	10	**614,772**	500,686
Amortisation of intangible assets	11	**189,337**	189,337
Impairment charge for financing losses, net	7.3	**1,600,347**	995,464
(Reversal) of impairment allowance and share of results of associates	26	**(15,905)**	(52,370)
Impairment charge on investments, net	6.7	**109,647**	149,727
		11,875,606	10,091,719
Net decrease/(increase) in operating assets:			
Statutory deposits with SAMA		**321,019**	(2,497,646)
Due from banks and other financial institutions with original maturity of more than three months		**(2,352,921)**	(5,287,683)
Held as fair value through income statement (FVIS) investments		**273,297**	(369,522)
Financing and advances, net		**(40,762,751)**	(37,210,618)
Other real estate		**56,544**	32,570
Other assets		**(4,014,357)**	(1,241,752)
Net (decrease)/increase in operating liabilities:			
Due to banks and other financial institutions		**14,433,684**	11,511,739
Customers' deposits		**(3,482,756)**	34,858,920
Other liabilities		**1,802,169**	905,316
Net cash (used in) from operating activities		**(21,850,466)**	10,793,043
INVESTING ACTIVITIES			
Proceeds from sale and maturities of non-trading / non-FVIS investments		**76,287,419**	101,699,095
Purchase of non-trading / non-FVIS investments		**(58,635,720)**	(128,691,562)
Purchase of property and equipment	10	**(1,022,661)**	(1,254,126)
Proceeds from disposal of property and equipment		**24,292**	89,920
Net cash from (used in) investing activities		**16,653,330**	(28,156,673)
FINANCING ACTIVITIES			
Debt securities issued	16	**1,306,166**	8,204,344
Net movement in non-controlling interests		**(55,479)**	79,603
Issuance of perpetual sukuk net of associated costs		**5,646,325**	-
Dividends paid final		**(1,595,707)**	(1,595,707)
Dividend paid interim		**(1,296,512)**	(1,645,573)
Net cash from financing activities		**4,004,793**	5,042,667
Net (decrease) in cash and cash equivalents		**(1,192,343)**	(12,320,963)
Foreign currency translation reserve - net movement on cash and cash equivalents at the beginning of the year		**(982,467)**	(293,196)
Cash and cash equivalents at the beginning of the year		**17,980,403**	30,594,562
Cash and cash equivalents at the end of the year	30	**15,805,593**	17,980,403
Special commission income received during the year		**15,456,814**	13,079,439
Special commission expense paid during the year		**2,595,622**	1,947,801
<u>Supplemental non-cash information</u>			
Movement in other reserve and transfers to consolidated statement of income		**(913,350)**	298,041

The accompanying notes 1 to 45 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2015

1. GENERAL

(1.1) Introduction

The financial statements comprise the consolidated financial statements of The National Commercial Bank (the Bank) and its subsidiaries (the Group).

The National Commercial Bank is a Saudi Joint Stock Company formed pursuant to Cabinet Resolution No. 186 on 22 Dhul Qida 1417H (30 March 1997) and Royal Decree No. M/19 on 23 Dhul Qida 1417H (31 March 1997), approving the Bank's conversion from a General Partnership to a Saudi Joint Stock Company.

The Bank commenced business as a partnership under registration certificate authenticated by a Royal Decree on 28 Rajab 1369H (15 May 1950) and is registered under commercial registration No. 4030001588 issued on 27 Dhul Hijjah 1376H (24 July 1957). The Bank initiated business in the name of "The National Commercial Bank" under Royal Decree No. 3737 on 20 Rabi Thani 1373H (26 December 1953). The date of 1 July 1997 was determined to be the effective date of the Bank's conversion from a General Partnership to a Saudi Joint Stock Company.

The Bank operates through its 344 branches (2014: 333 branches), 17 retail service centres (2014: 14 centres), 8 corporate service centres (2014: 9 centres) and 138 QuickPay remittance centers (2014: 97 centres) in the Kingdom of Saudi Arabia and two overseas branches (Lebanon and Bahrain). The Board of Directors in their meeting dated 23 November 2015 resolved to close the Bank's branch operations domiciled in Beirut, Lebanon (the "branch"). As at 31 December 2015, legal formalities in respect of the closure of the Branch are in progress.

The Bank's Head Office is located at the following address:

The National Commercial Bank
Head Office
King Abdul Aziz Street
P.O. Box 3555
Jeddah 21481, Saudi Arabia
www.alahli.com

The objective of the Group is to provide a full range of banking services. The Group also provides non-special commission based banking products in compliance with *Shariah* rules, which are approved and supervised by an independent *Shariah* Board.

In an extraordinary general assembly meeting held on 31 March 2014 (corresponding to 30 Jumadi-AlAwal 1435H), the shareholders approved to offer 25% of the Bank's share capital (after capital increase) to the general public under an Initial Public Offering (IPO) and to a minority shareholder of the Bank. The IPO was made for 15% of the Bank's share capital and an additional 10% was allocated to the Public Pension Agency. The shares offered were part of the shareholding of a majority shareholder of the Bank. The IPO was approved by the regulatory authorities and the subscription for the IPO took place between 19 October 2014 to 2 November 2014 and the Bank's shares have been trading on Saudi Stock Exchange (Tadawul) since 12 November 2014.

(1.2) Group's subsidiaries

The details of the Group's subsidiaries are as follows:

(a) NCB Capital Company (NCBC)

In April 2007, the Bank formed a capital market company, namely, NCBC, a Saudi Joint Stock Company formed in accordance with Capital Market Authority's Resolution No. 2-83-2005 dated 21 Jumad Awal 1426H (28 June 2005), and registered in the Kingdom of Saudi Arabia to manage the Bank's investment services and asset management activitives. The Bank has a 90.71% (2014: 90.71%) direct ownership interest in NCBC and an indirect ownership of 7.16% (2014: 4.23%) (the indirect ownership is held via an intermediary trust for future grant to NCBC employees).

(a.1) Eastgate Capital Holdings Inc. (Eastgate)

The Group has a 97.88% (2014: 66.46%) effective ownership interest in Eastgate Capital Holdings Inc. (Eastgate), a Middle East-based private equity firm acquired through its subsidiary, NCBC. NCBC initially acquired a 77% direct ownership interest in Eastgate, which was reduced to 70% on 5 September 2013 without losing control. During the year ended 31 December 2015, NCBC completed the buy-out of the residual 30% from the non-controlling shareholders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2015

1. GENERAL (continued)

(1.2) **Group's subsidiaries (continued)**

(a.2) NCBC Investment Management Umbrella Company Plc

The Group has a 97.88% (2014: 70.31%) effective aggregate ownership in NCB Capital Saudi Arabian Equity Fund and NCB Capital GCC Equity Fund both of which are registered in Dublin, Ireland under NCBC Investment Management Umbrella Company Plc. The Funds have been established for investments in GCC and KSA based equities via two special purpose entities (SPEs) incorporated in the Kingdom of Bahrain, namely, NCB Capital KSA Equity Company W.L.L. and NCB Capital GCC Equity Company W.L.L.

During the period, NCBC redeemed its capital in NCB Capital GCC Equity Fund and currently is in the process of liquiditing the Fund and the related SPE i.e. NCB Capital GCC Equity Company W.L.L.

(b) Türkiye Finans Katılım Bankası A.Ş. (TFK)

The Bank has a 67.03% (2014: 67.03%) ownership interest in Türkiye Finans Katılım Bankası A.Ş. (the Turkish Bank). The Turkish Bank operates as a participation bank, by collecting funds through current accounts and profit sharing accounts, and lending funds to consumer and corporate customers, through finance leases and profit/loss sharing partnerships. On 29 August 2014 TFK's shareholders resolved to increase the Turkish Bank's capital from Turkish Lira (TL) 1,775 to TL 2,600 million (SR 4,443 million to SR 5,803 million) through capitalization of retained earnings of TL 600 million (SR 984 million) and cash contribution of TL 225 million (SR 375 million). The Bank's share of such cash contribution was TL 169 million (SR 281 million). The increase has been approved by the Turkish Banking Regulatory and Supervision Agency (BRSA).

At 31 December 2015, TFK fully owns the issued share capital of TF Varlık Kiralama AŞ, (TFVK) and TFKB Varlik Kiralama A.Ş., which are special purpose entities (SPEs) established in connection with issuance of sukuks by TFK.

(c) Real Estate Development Company (Redco)

The Bank formed Real Estate Development Company (Redco) as a Limited Liability Company registered in the Kingdom of Saudi Arabia under Commercial Registration number 4030146558 dated 21 Dhul Qida 1424H (corresponding to 13 January 2004). The Bank has a 100% ownership (2014: 100%) in Redco. The objectives of Redco primarily include keeping and managing title deeds and collateralised real estate properties on behalf of the Bank.

(d) Alahli Insurance Service Marketing Company

The Group has 100% (2014: 100%) effective ownership in Alahli Insurance Service Marketing Company, a Limited Liability Company registered in the Kingdom of Saudi Arabia under Commercial Registration number 4030195150 dated Dhul Hijjah 21, 1430H, corresponding to December 8, 2009. The Company is engaged as an insurance agent for distribution and marketing of Islamic insurance products in Saudi Arabia.

(e) Saudi NCB Markets Limited

The Bank formed Saudi NCB Markets Limited as a Limited Liability Company registered in the Cayman Islands under Commercial Registration number 866144671587 dated 26 Safar 1437H (corresponding to 8 December 2015). The Bank has 100% ownership. The objectives of Saudi NCB Markets Limited is trading in derivatives and Repos/Reverse Repos on behalf of Bank.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2015

2. BASIS OF PREPARATION

(2.1) Statement of compliance

The consolidated financial statements are prepared in accordance with Accounting Standards for Financial Institutions promulgated by the Saudi Arabian Monetary Agency (SAMA) and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). These consolidated financial statements are prepared in compliance with Banking Control Law, the provision of Regulations for Companies in the Kingdom of Saudi Arabia and the Bank's Articles of Association.

(2.2) Basis of measurement

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

(2.3) Functional and presentation currency

These consolidated financial statements are presented in Saudi Riyals (SR) which is the Bank's functional currency and have been rounded off to the nearest thousand Saudi Riyals, except as otherwise indicated.

(2.4) Basis of consolidation

The consolidated financial statements comprise the financial statements of "The National Commercial Bank" and its subsidiaries (see note 1.2). The financial statements of the subsidiaries are prepared for the same reporting year as that of the Bank, using consistent accounting policies.

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

(2.5) Critical accounting judgements, estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. Such judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. Revisions to accounting estimates are recognized in the period in which the estimate is revised and any future period affected.

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

(a) Impairment charge for financing losses

The Group reviews its non-performing financing and advances at each reporting date to assess whether a specific allowance for financing losses should be recorded in the consolidated statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the specific allowance.

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

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2. BASIS OF PREPARATION (continued)

(2.5) **Critical accounting judgements, estimates and assumptions (continued)**

(b) Fair value of financial instruments that are not quoted in an active market

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

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

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

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

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

Financial instruments for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy (see note 37).

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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

(c) Impairment of available for sale investments

The Group exercises judgment to consider impairment on the available for sale investments at each reporting date. This includes determination of a significant or prolonged decline in the fair value below cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Group evaluates among other factors, the normal volatility in share prices. In addition, the Group considers impairment to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

The Group considers 30% or more, as a reasonable measure for significant decline below its cost, irrespective of the duration of the decline, and is recognized in the consolidated statement of income as impairment charge on investments. Prolonged decline represents decline below cost that persists for 1 year or longer irrespective of the amount and is, thus, recognized in the consolidated statement of income as impairment charge on investments. The previously recognized impairment loss in respect of equity investments cannot be reversed through the consolidated statement of income.

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

(d) Classification of held to maturity investments

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

2. BASIS OF PREPARATION (continued)

(2.5) Critical accounting judgments and estimates (continued)

(e) Going concern

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

(f) Impairment of non-financial assets

The carrying amounts of the non-financial assets are reviewed at each reporting date or more frequently to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit (CGUs) exceeds its recoverable amount. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The fair value less cost to sell is based on observable market prices or, if no observable market prices exist, estimated prices for similar assets or if no estimated prices for similar assets are available, then based on discounted future cash flow calculations.

For the purpose of impairment testing (see note 11), goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

The subsidiaries are regarded as a cash-generating unit for the purpose of impairment testing of their respective goodwill. Impairment losses are recognised in the consolidated statement of income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of other assets including the intangible assets in the unit (group of units) on a pro rata basis on condition that the carrying amount of other assets should not be reduced below their fair values.

Where goodwill forms part of a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative foreign currency translation reserve and unimpaired goodwill is recognised in the consolidated statement of income.

The previously recognized impairment loss in respect of goodwill cannot be reversed through the consolidated statement of income.

Non-financial assets held under Murabaha arrangements are measured at their lower of cost and net realizable value. Net realizable value is the estimated selling price, less selling expenses. Any impairment loss arising as a result of carrying these assets at their net realizable values is recognized in the consolidated statement of income under other operating income, net.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2. BASIS OF PREPARATION (continued)

(2.5) Critical accounting judgments and estimates (continued)

(g) Determination of control over investment funds

The Group acts as Fund Manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the Fund (comprising any carried interests and expected management fees) and the investors rights to remove the Fund Manager.

(h) Provisions for liabilities and charges

The Group receives legal claims in the ordinary course of business. Management makes judgments in assigning the risk that might exists in such claims. It also sets appropriate provisions against probable losses. The claims are recorded or disclosed, as appropriate, in the consolidated financial statements based on the best estimate of the amount required to settle the claim.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Except for the change in accounting policies resulting from new and amended IFRS, as detailed in note 3.1 below, the accounting policies adopted in the preparation of these financial statements are consistent those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2014.

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

(3.1) Changes in accounting policies

The accounting policies adopted are consistent with those used in the preparation of the Group's annual financial statements for the year ended 31 December 2014 except for amendments and revisions to existing standards and a new interpretation mentioned below. The changes do not have any material impact on the financial statements of the Group other than few additional disclosures.

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

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

- IFRS 1 – "first time adoption of IFRS" : the amendment clarifies that a first time adopter is permitted but not required to apply a new or revised IFRS that is not yet mandatory but is available for early adoption.
- IFRS 2 amended to clarify the definition of 'vesting condition' by separately defining 'performance condition' and 'service condition'.
- 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.
- IFRS 8 – "operating segments" has been amended to explicitly require disclosure of judgments made by management in applying aggregation criteria.
- 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.1) **Changes in accounting policies (continued)**

- 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.
- 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. 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.

(3.2) **Settlement date accounting**

All regular way purchases and sales of financial assets are recognized and derecognized on the settlement date, i.e. the date on which the asset is delivered to the counterparty. When settlement date accounting is applied, the Group accounts for any change in fair value between the trade date and the settlement date in the same way as it accounts for the acquired asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

(3.3) **Derivative financial instruments and hedge accounting**

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

(3.3.1) 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 for the year and are disclosed in trading income. Derivatives held for trading also include those derivatives, which do not qualify for hedge accounting as described below.

(3.3.2) 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 statement of income. The embedded derivatives separated from the host are carried at fair value in the trading book with changes in fair value recognised in the consolidated statement of income.

(3.3.3) 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 Group 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 an unrecognized 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 Group will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.3) **Derivative financial instruments and hedge accounting (continued)**

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

(3.3.4) Fair value hedges

In relation to fair value hedges, which meet the criteria for hedge accounting, any gain or loss from remeasuring the hedging instruments to fair value is recognized immediately in the consolidated statement of income. Any gain or loss on the hedged item attributable to fair value changes relating to the risks being hedged is adjusted against the carrying amount of the hedged item and recognized in the consolidated statement of income (in the same line item as hedging instrument). Where the fair value hedge of a special commission bearing financial instrument ceases to meet the criteria for hedge accounting, the adjustment in the carrying value is amortised to the consolidated statement of income over the remaining life of the instrument.

(3.3.5) 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 initially in other reserves under equity 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 reserves, 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 Group expects that all or a portion of a loss recognized in other comprehensive income will not be recovered in one or more future periods, it shall reclassify into the statement of income as a reclassification adjustment the amount that is not to be recognized.

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 Group revokes the designation then hedge accounting is discontinued prospectively. At that point of time, any cumulative gain or loss on the cash flow hedging instrument that was recognized in other reserves from the period when the hedge was effective is transferred from equity to statement of income when the forecasted transaction occurs. Where the hedged forecasted transaction is no longer expected to occur and affects the statement of income, the net cumulative gain or loss recognized in other reserves is transferred immediately to the consolidated statement of income.

(3.4) **Foreign currencies**

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currency of NCB, NCBC and Redco is Saudi Riyals. The functional currency for the Turkish Bank is Turkish Lira and the functional currency of Eastgate, NCBC Investment Management Umbrella Company Plc and Saudi NCB Markets Limited is U.S. Dollars.

(a) Transactions and balances

Transactions in foreign currencies are translated into the functional currency at the spot exchange rates prevailing at transaction dates. Monetary assets and liabilities at the year-end (other than monetary items that form part of the net investment in a foreign operation), denominated in foreign currencies, are retranslated into the functional currency at the exchange rates prevailing at the reporting date. Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income. Non-monetary assets measured at fair value in a foreign currency are translated using the exchange rates prevailing at the date when the fair value was determined.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.4) **Foreign currencies (continued)**

(b) Foreign operations

As at the reporting date, the assets and liabilities of the foreign operations are translated into the Group's presentation currency (Saudi Riyals) at the rate of exchange ruling at the statement of financial position date, equity (pre-acquisition) is translated at historical exchange rate at the date of acquisition and income and expenses of the statement of income are translated at the spot exchange rates prevailing at transaction dates on daily basis. Exchange differences arising on translation are taken directly to a separate component of equity (foreign currency translation reserve) and are recognized in consolidated statement of comprehensive income. However, if the operation is a non-wholly owned subsidiary, then the relevant proportionate share of the foreign exchange translation reserve is allocated to the non-controlling interest. The deferred cumulative amount of exchange differences recognised in equity will be recognised in the statement of income in 'Other operating expenses' or 'Other operating income' at the time of any future disposal or partial disposal with loss of control.

Goodwill and intangible assets arising on the acquisition of the foreign operations and fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at the closing rate.

(3.5) **Offsetting financial instruments**

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

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

(3.6) **Revenue / expenses recognition**

Special commission income and expenses for all special commission-bearing financial instruments, except for those classified as held for trading or designated at fair value through income statement (FVIS), including fees which are considered an integral part of the effective yield of a financial instrument, are recognized in the consolidated statement of income using the effective special commission rate basis including premiums amortised and discounts accreted during the year. The effective special commission rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability to the carrying amount of the financial asset or financial liability. When calculating the effective special commission rate, the Group estimates future cash flows considering all contractual terms of the financial instrument but excluding future financing losses.

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

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, special commission income continues to be recognised using the rate of special commission used to discount the future cash flows for the purpose of measuring the impairment loss.

The calculation of the effective special commission rate includes all fees 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.

When the Group enters into a special commission rate swap to change special commission from fixed to floating (or vice versa), the amount of special commission income or expense is adjusted by the net special commission on the swap to the extent hedge is considered to be effective.

Income from FVIS financial instruments relates to financial assets designated as FVIS and includes all realised and unrealised fair value changes.

Exchange income from banking services are recognized when earned.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.6) **Revenue / expenses recognition (continued)**

Fees income and expenses are recognized on an accrual basis as the service is provided. Financing commitment fees for financing arrangement that are likely to be drawn down are deferred and recognized as an adjustment to the effective yield on the financing arrangement, if material. Portfolio and other management advisory and service fee income are recognized based on the applicable service contracts, usually on a time-proportionate basis. Fee income received on other services that are provided over an extended period of time, are recognized rateably over the period when the service is being provided, if material.

Other fee expenses mainly relate to transaction and services fee, which are expensed as related services are provided.

(3.7) **Trading income (loss), net**

Results arising from trading activities include all realized and unrealized gains and losses from changes in fair value and related special commission income or expense, dividends for financial assets held for trading and foreign exchange differences on open positions. This also includes any ineffective portion of the gain or loss on hedging instruments.

(3.8) **Sale and repurchase agreements**

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognized in the statement of financial position as the Group retains substantially all the risks and rewards of ownership. These assets continue to be measured in accordance with related accounting policies for investments held for trading, available for sale, held to maturity and other investments held at amortised cost. The counterparty liability for amounts received under these agreements is included in "due to banks and other financial institutions" or "customers' deposits", as appropriate. The difference between sale and repurchase price is treated as special commission expense which is accrued over the life of the repo agreement using the effective special commission rate.

Assets purchased with a corresponding commitment to resell at a specified future date (reverse repo) are not recognized in the statement of financial position, as the Group does not obtain control over the assets. Amounts paid under these agreements are included in "cash and balances with SAMA", "due from banks and other financial institutions" or "financing and advances", as appropriate. The difference between purchase and resale price is treated as special commission income which is accrued over the life of the reverse repo agreement using the effective yield basis.

(3.9) **Business combinations**

Business combinations are accounted for using the acquisition method of accounting. The cost of an acquisition, being total consideration of the acquisition, is measured as the fair value of the assets given and liabilities incurred or assumed at the date of acquisition, plus costs directly attributable to the acquisition that occured prior to 1 January 2010. For any subsequent acquisitions, the cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition related costs are expensed as incurred and are included in administrative expenses.

Identifiable assets acquired (including previously unrecognized intangible assets) and liabilities (including contingent liabilities) in an acquisition are measured initially at fair values at the date of acquisition, irrespective of the extent of any non-controlling interest. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill.

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

Upon loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in the consolidated statement of income. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investment or other categories of investment in accordance with the Group's relevant accounting policy.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.9) Business combinations (continued)

(a) Subsidiaries

Subsidiaries are entities which are controlled by the Group. To meet the definition of control, all three criteria must be met:

i) the Group has power over the entity;
ii) the Group has exposure, or rights, to variable returns from its involvement with the entity; and
iii) the Group has the ability to use its power over the entity to affect the amount of the entity's returns.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which the control is transferred from the Group. The results of subsidiaries acquired or disposed of during the year, if any, are included in the consolidated statement of income from the date of the acquisition or up to the date of disposal, as appropriate.

(b) Non-controlling interests

Non-controlling interests represent the portion of net income and net assets of subsidiaries not owned, directly or indirectly, by the Bank in its subsidiaries and are presented separately in the consolidated statement of income and within equity in the consolidated statement of financial position, separately from Bank's equity. Any losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(c) Associates

Associates are enterprises over which the Group exercises significant influence. Investments in associates are initially recognized at cost and subsequently accounted for under the equity method of accounting and are carried in the consolidated statement of financial position at the lower of the equity-accounted value or the recoverable amount.

Equity-accounted value represents the cost plus post-acquisition changes in the Group's share of net assets of the associate (share of the results, reserves and accumulated gains/losses based on latest available financial statements) less impairment, if any.

The previously recognized impairment loss in respect of investment in associate can be reversed through the consolidated statement of income, such that the carrying amount of investment in the consolidated statement of financial position remains at the lower of the equity-accounted (before allowance for impairment) or the recoverable amount.

(d) Transactions eliminated on consolidation

Inter-group balances, income and expenses (except for foreign currency transaction gains or losses) arising from inter-group transactions are eliminated in full in preparing the consolidated financial statements.

(3.10) Goodwill and other intangible assets

(a) Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses; impairment loss of goodwill is charged to the consolidated statement of income. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that its carrying value may be impaired.

(b) Other intangible assets

Intangible assets in the statement of financial position comprise of customer deposits relationships, the value of the TFK's brands, and other banking relationships. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.10) **Goodwill and other intangible assets (continued)**

(b) Other intangible assets (continued)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over their estimated useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of income under amortization of intangible assets.

Amortisation of intangible assets is calculated using the straight-line method over their estimated remaining useful lives of 1-2 years.

Intangible assets with indefinite lives are reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

(3.11) **Investments**

All investment securities are financial assets which are initially recognized at cost, being the fair value of the consideration given, including incremental direct transaction costs except for those transaction charges related to investments held as FVIS or for trading, which are not added to the cost at initial recognition and are charged to the consolidated statement of income. Premiums are amortised and discounts accreted using the effective yield basis and are taken to special commission income.

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

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

Following initial recognition, subsequent transfers between the various classes of investments are not ordinarily permissible.

The subsequent period-end accounting treatment for each class of investment are determined on the basis as set out in the following paragraphs:

(a) Held for trading

Investments classified as held for trading are acquired principally for the purpose of selling or repurchasing in the short term.

Securities which are held for trading are subsequently measured at fair value and any gains or losses arising from a change in fair value are included in the consolidated statement of income in the period in which it arises and are disclosed as trading income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.11) **Investments (continued)**

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

Investments in this category are classified as FVIS on initial recognition. An investment may be designated as FVIS by the management if it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as "an accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on different bases; or a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Group's key management personnel. These include all hedge fund and mutual fund investments that are managed by the Group, directly or indirectly, and whose performance is evaluated on a fair value basis. Equity instruments that do not have a quoted market price in an active market and whose fair values cannot be reliably measured are not classified under this category.

After initial recognition, investments at FVIS are measured at fair value and any change in the fair value is recognized in the consolidated statement of income for the period in which it arises and are disclosed as income from FVIS investments.

(c) Available for sale (AFS)

Available for sale investments are non-derivative investments that are designated as AFS or not classified as another category of financial assets, and 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. Any unrealised gains or losses arising from changes in fair value are recognized through the consolidated statement of comprehensive income in "other reserves" under equity until the investments are derecognized or impaired whereupon any cumulative gains or losses previously recognized in equity are reclassified to consolidated statement of income for the period and are disclosed as gains/(losses) on non-trading investments.

For impairment of available for sale investments, see note 3.14(b).

(d) Held to maturity

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

Investments classified as held to maturity cannot ordinarily be sold or reclassified without impacting the Group's ability to use this classification and cannot be designated as a hedged item with respect to special commission rate or prepayment risk, reflecting the intention to hold them to maturity.

(e) Other investments held at amortised cost

Investments having fixed or determinable payments that are not quoted in an active market are classified as other investments held at amortised cost. Such investments whose fair values have not been hedged are stated at amortised cost using an effective yield basis, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition using effective yield method. Any gain or loss is recognized in the consolidated statement of income when the investment is derecognized and are disclosed as gains/(losses) on non-trading investments.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.12) Financing and advances

Financing and advances are non-derivative financial assets originated or acquired by the Group with fixed or determinable payments.

Financing and advances are recognised when cash is advanced to borrowers. They are derecognized when either the borrower repays their obligations, or the financing and advances are sold or written off, or substantially all the risks and rewards of ownership are transferred.

Financing and advances are initially measured at fair value of the consideration given.

Following initial recognition, financing and advances for which fair value has not been hedged are stated at cost less any amount written off and specific and portfolio (collective) allowances for impairment.

For presentation purposes, allowance for financing losses is deducted from financing and advances.

(3.13) Due from banks and other financial institutions

Due from banks and other financial institutions are financial assets which are mainly 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. Due from banks and other financial institutions are initially measured at cost, being the fair value of the consideration given.

Following initial recognition, due from banks and other financial institutions are stated at cost less any amount written-off and specific allowances for impairment, if any, and a portfolio (collective) allowance for counterparty risk.

(3.14) Impairment of financial assets

An assessment is made at the date of each statement of financial position to determine whether there is objective evidence that a financial asset or a group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss is recognized for changes in its carrying amount as follows:

(a) Impairment of financial assets held at amortised cost

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.14) **Impairment of financial assets (continued)**

(a) Impairment of financial assets held at amortised cost (continued)

Financing and advances are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. In the latter case, renegotiation can result in an extension of the due date of payment or repayment plans under which the Group offers a revised rate of commission to genuinely distressed borrowers. This may result in the asset continuing to be overdue and individually impaired as the renegotiated payments of commission and principal do not recover the original carrying amount of the financing. In other cases, renegotiation leads to a new agreement, which is treated as a new financing. Restructuring policies and practices are based on indicators or criteria which, indicate that payment will most likely continue. The financings continue to be subject to an individual or collective impairment assessment, calculated using the financing’s original effective yield rate.

The Group also considers evidence of impairment at a collective assets level. The collective provision could be based on following criteria i.e deterioration in internal grading or external credit ratings allocated to the borrower or group of borrowers, the current economic climate in which the borrowers operate and the experience and historical default patterns that are embedded in the components of the credit portfolio.

Corporate financings are written off when they are determined to be uncollectible. This determination is reached after considering information such as the number of days for which the financing has been past due, significant changes in the borrower financial position such that the borrower can no longer settle its obligations, or to the extent that proceeds from collateral held are insufficient to cover the obligations.

Consumer financings are considered to be impaired when a payment is overdue by 90 days or more. Since the risk metrics for consumer financings are based on a collective “pool” basis, rather than on individual financings, the allowances for consumer financings are also computed on a “pool basis” using the ‘flow rate” methodology. The allowance coverage is 100% for such non-performing financings which reach the “write-off point”.

The carrying amount of the asset is adjusted through the use of an allowance for impairment account and the amount of the adjustment is included in the consolidated statement of income.

(b) Impairment of financial assets held at fair value

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

If, in a subsequent period, the amount of the impairment loss on debt instruments decreases upon subsequent increase in the fair value and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the issuer's credit rating), the previously recognized impairment loss is reversed by adjusting the provision account. The amount of the reversal is recognized in the consolidated statement of income as a reversal of allowance for impairment on investment.

Where a loss has been recognized directly under equity, the cumulative net loss balance recognized in equity is transferred to the consolidated statement of income as impairment loss when the asset is considered to be impaired.

For equity investments held as available for sale, a significant or prolonged decline in fair value below its cost represents objective evidence of impairment [also see note 2.5(c)]. Unlike debt securities, the previously recognized impairment loss of equity investments cannot be reversed through the consolidated statement of income as long as the asset continues to be recognized, that is, any increase in fair value, after impairment has been recorded, can only be recognized in equity.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.14) Impairment of financial assets (continued)

The Group writes off its financial assets when the respective business units together with Risk Management determine that the financial assets are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligations, or that proceeds from collateral will not be sufficient to pay back the entire exposure. The financial assets are, then, written off only in circumstances where effectively all possible means of recovery have been exhausted. For consumer financings, write off decisions are generally based on a product specific past due status. When a financial asset is uncollectible, it is written off against the related allowance for impairment, if any, and any amounts in excess of available allowance are directly charged to the consolidated statement of income.

For impairment of non-financial assets, see note [2.5(f)].

(3.15) Other real estate and repossessed assets

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

Subsequent to the initial recognition, such assets are revalued on a periodic basis and adjusted for any subsequent provision for unrealized revaluation losses. Previously recognised unrealised revaluation losses of such assets can be reversed through the consolidated statement of income on an individual basis upon subsequent increase in fair value. Any unrealised losses on revaluation (or reversal), realized losses or gains on disposal and net rental income are recognised in the consolidated statement of income as other operating income expense, net.

The other real estate assets are disclosed in note 9 while other repossessed assets are included in other assets. Gain/loss on disposal of repossessed assets are included in other operating income, net.

(3.16) Property and equipment

Property and equipment are measured at cost less accumulated depreciation and accumulated impairment loss. Freehold land is not depreciated. Changes in the expected useful lives are accounted for by changing the period or method, as appropriate, and treated as changes in accounting estimates.

The depreciable amount of other property and equipment is depreciated using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	40 years
Leasehold improvements	Over the lease period or useful economic life whichever is shorter
Furniture, equipment and vehicles	4-10 years

The assets’ residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at the date of each statement of financial position.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the consolidated statement of income and are disclosed as other non-operating income (expenses).

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

(3.17) Financial liabilities

All money market deposits, customers’ deposits and debt securities issued are initially recognized at cost, net of transaction charges, being the fair value of the consideration received. Subsequently, all commission bearing financial liabilities, are measured at amortised cost by taking into account any discount or premium. Premiums are amortised and discounts are accreted on an effective yield basis to maturity and taken to special commission expense.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.18) Financial guarantees and financing commitments

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

The specific and portfolio (collective) allowances for letters of credit, guarantees and acceptances are included and presented under other liabilities.

Financing commitments are firm commitments to provide credit under prespecified terms and conditions.

(3.19) Provisions

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

(3.20) Accounting for leases

(a) Where the Group is the lessee

All leases entered into by the Group are 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, net of anticipated rental income (if any), is recognized as an expense in the period in which termination takes place.

(b) Where the Group is the lessor

When assets are transferred under a finance lease, including assets under a lease arrangement in compliance with *Shariah* rules *(Ijara),* the present value of the lease payments is recognised as a receivable and disclosed under financing and advances. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return and is disclosed as special commission income.

(3.21) Zakat, overseas income tax and deferred tax

Zakat is the liability of the shareholders. Zakat is computed on the higher of net adjusted income or adjusted shareholders' equity using the basis defined under the Saudi Zakat Regulations. Zakat is paid by the Bank on the shareholder's behalf and is not charged to the consolidated statement of income but is deducted from the gross dividend paid to the shareholders or charged to retained earnings as an appropriation of net income if no dividend has been distributed.

Overseas branches and subsidiaries are subject to income tax as per rules and regulations of the country in which they are incorporated and such taxes are reported under non-operating expenses.

For overseas subsidiaries that are subject to income tax, the deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.22) **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 deposits, and due from banks and other financial institutions with original maturity of three months or less.

(3.23) **Derecognition of financial instruments**

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

In instances where the Group is assessed to have transferred a financial asset, the asset is derecognized if the Group has transferred substantially all the risks and rewards of ownership. Where the Group has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognized only if the Group has not retained control of the financial asset. The Group 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 derecognized when it is extinguished, that is, when the obligation specified in the contract is either discharged, cancelled or expires.

(3.24) **Investment management services**

The financial statements of investment management mutual funds are not included in the consolidated financial statements of the Group. Transactions with the funds are disclosed under related party transactions; the Group's share of these funds is included in held for trading investments.

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

(3.25) **Financing products in compliance with Shariah rules**

In addition to conventional banking products, the Bank offers its customers certain non-special commission based financing products that comply with Shariah rules. These are approved and overseen by the Bank's Shariah Board.

(3.25.1) Murabaha

Murabaha is a Shariah-compliant form of financing where the Bank, based on requests from its customers, purchases specific commodities and sells them to the customers at an agreed-upon price equal to the Bank's cost plus a specified profit margin, which is payable on a deferred basis in agreed-upon installments. The main uses of Murabaha are in residential, commercial real estate, and trade finance.

(3.25.2) Tayseer

Tayseer Alahli is a Shariah-compliant financing instrument introduced by the Bank for customers in need of cash financing. It involves the Bank buying commodities from international or local markets and selling them to customers at agreed-upon deferred installment terms. Customers, on their own, or by appointing an agent, resell the commodities to third parties for cash. The main uses of Tayseer are in personal finance, credit cards, corporate finance, structured finance, syndications, project finance, as well as interbank transactions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.25) **Financing products in compliance with Shariah rules (continued)**

(3.25.3) Ijara with a promise to transfer ownership

Ijara is a Shariah-compliant form of financing where the Bank, based on requests from customers, purchases assets with agreed-upon specifications on a cash basis and leases them to customers for an agreed-upon rent to be settled in agreed-upon installments. If the assets are in existance then it is considered to be a specified Ijara, while if the assets are not in existance then it is considered to be a forward Ijara in which case it remains a liability on the Bank to deliver the agreed upon usufruct. In the Ijara contract, the Bank promises to transfer ownership of the assets to its customers at the end of the lease periods, either by sale at nominal prices or in the form of grants. The main uses of Ijara are in auto lease, residential finance, commercial real estate finance, and structured finance. The main uses of forward Ijara are in project finance as well as structured finance.

(3.25.4) Istisna'a

Istisna'a is a contract for the acquisition of assets to be manufactured in accordance with the specifications of the one who requests the assets to be manufactured/procured. In this product the Bank can either be the manufacturer/procurer (Saani) or the party who is seeking the assets to be manufactured/procured (Mustasni). In project finance , the Bank takes the role of Mustasni and agrees with the customer to deliver specified assets for an agreed upon price. The Bank pays for the asset in staged payments. At the same time, the Bank enters into a forward Ijara and leases the assets to be constructured to the customer with promise to transfer ownership. The main use of Istisna'a is in project finance combined with forward Ijara to finance the construction of new projects.

All the above Shariah-compliant financing products are accounted for in conformity with the accounting policies described in these consolidated financial statements. They are included in financing and advances.

(3.26) **Shariah-compliant deposit products**

The Bank offers its customers certain deposit products that comply with Shariah rules. These are approved and overseen by the Bank's Shariah Board.

(3.26.1) AlKhairaat

AlKhairaat is a Shariah-compliant product based on commodity Murabaha. The Bank acts as an agent for its customers in purchasing commodities on their behalf with their funds and then purchases these commodities for its own account from customers at agreed-upon price and deferred maturities (3,6,9 or 12 months). Being a retail product, customers are allowed to choose the investment amount, tenure, and currency. Since the Bank purchases commodities from its customers, it is liable to them for the capital they invested plus a profit.

(3.26.2) Structured AlKhairaat

This product is an enhanced deposit product which provides a Shariah compliant alternative to structured deposits. It combines a AlKhairaat placement with a promise to enter into a secondary Murabaha transaction for the benefit of the customer where the profit will be linked to a predetermined index. These are capital protected up to a specified percentage (typically 95-100%).

These Shariah-compliant deposit products are accounted for in conformity with the accounting policies described in these financial statements. They are included in customers' deposit.

(3.27) **Shariah-compliant treasury products**

The Bank offers its customers certain treasury products that comply with Shariah rules. These are approved and overseen by the Bank's Shariah Board and Shariah advisor.

(3.27.1) Structured Hedging Products

These products are offered to clients to hedge their existing exposure to foreign currencies. It is based on the concept of Waad (binding promise) where the Bank promises to buy/sell a particular amount of foreign currency at an agreed upon price. It may include only one Waad or a combination of Waads.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.27) Shariah-compliant treasury products (continued)

(3.27.2) Structured Investment Products

These products are offered to clients to offer them a return that is typically higher than a standard AlKhairaat. There are based on the Structured AlKhairaat product and are designed to give the customers exposure to a number of indexes including foreign currencies, precious metals and Shariah compliant equity indexes.

(3.27.3) Rates Products

These products are offered to clients who have exposure to fixed/floating rates and need hedging solutions. The products are designed around the concept of Waad to enter into Murabaha where the profit is based on a rates index or formula. It may include only one Waad or a combination of Waads.

(3.27.4) Commodity Products

These products are offered to clients who have exposure to commodity prices and need hedging solutions. These products are designed around the concept of Waad to enter into Murabaha where the profit is based on a commodity price index. It may include only one Waad or a combination of Waads.

(3.28) Treasury shares

Treasury shares are recorded at acquisition cost and presented as a deduction from equity. Any gains or losses on disposal of such shares are reflected under equity and shall not be recognized in the consolidated statement of income.

(3.29) End of service benefits

The provision for end of service benefits is based on the rules stated under the Saudi Arabian Labor and Workmen Law and in accordance with the local statutory requirements of the foreign branches and subsidiaries. The provision for the Bank is also in line with independent actuarial valuation.

(3.30) Staff compensation

The Bank’s Board of Directors and its Nomination, Compensation and Governance Committee oversee the design and implementation of the Bank's Compensation System in accordance with SAMA’s Compensation Rules and Financial Stability Board (FSB) Principles and Standards of Sound Compensation Practice.

The Nomination, Compensation and Governance Committee was established by the Board of Directors and is composed of four non-executive members including the Chairman of the Committee. The Committee's role and responsibilities are in line with SAMA’s Compensation Rules.

The Committee is responsible for the development and implementation of the compensation system and oversight of its execution, with the objective of preventing excessive risk-taking and promoting corporate financial soundness. The Committee submits its recommendations, resolutions and reports to the Board of Directors for approval.

Key elements of compensation in the Bank:

(3.30.1) Fixed Compensation

The fixed compensation includes salaries, allowances and benefits. Salaries are set in relation to market rates to attract, retain and motivate talented individuals. Salary administration is based on key processes such as job evaluation, performance appraisal and pay scales structure. The competitiveness of pay scales is monitored and maintained through participation in regular market pay surveys.

(3.30.2) Variable Compensation

Variable compensation aims at driving performance and limiting excessive risk taking. The Bank operates two plans under variable compensation:

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.30) **Staff compensation (continued)**

(a) Short Term Incentive Plan (Annual Performance Bonus)

The annual performance bonus aims at supporting the achievement of a set of annual financial and non-financial objectives. The financial objectives relate to the economic performance of the Bank is business, while the non-financial objectives relate to some other critical objectives relating, for example, to complying with risk and control measures, employees development, teamwork, staff morale etc.

The Bank has established a regular performance appraisal process aimed at assessing employees' performance and contribution. Annual performance bonus payments are based on employee contributions, business performance and the Bank's overall results. The overall annual performance bonus pool is set as a percentage of the Bank's net income, adjusted to reflect the core performance of the employees. The Bank does not operate a guaranteed bonus plan.

The cost of this plan is recognized in the consolidated statement of income of the year to which it relates and is normally paid during the 1st quarter of the following year.

(b) Long Term Performance Plan

This plan aims at driving and rewarding achievements that lead to long term corporate success, measured on the basis of Return On Equity (ROE) attributable to the equity holders of the Bank. The plan is rolled out in 3-year cycles. The Bank's actual performance is assessed at the end of each cycle for determining actual payout amounts.

Although all executives whose roles and accountabilities are likely to influence the Bank's long term success are eligible to participate in this plan, their actual selection to participate in the plan is made through a vetting process to ensure their meeting of some mission critical criteria.

The cost of the plan is estimated by reference to a set of expected return-on-equity forecasts at the beginning of each cycle and is reviewed annually.

The estimated plan cycle cost is apportioned and charged equally to the annual statements of income of the plan years. The estimate is revised annually and the difference between the latter and former estimate is apportioned and charged equally over the balance of the plan cycle.

4. CASH AND BALANCES WITH SAMA

	2015 **SR '000**	2014 SR '000
Cash in hand	**8,569,899**	6,723,337
Balances with SAMA:		
Statutory deposit	**18,981,091**	19,302,110
Money market placements and current accounts	**8,164**	2,793,122
Total	**27,559,154**	28,818,569

In accordance with article (7) of the Banking Control Law and regulations issued by Saudi Arabian Monetary Agency (SAMA), the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its demand, savings, time and other deposits calculated at the end of each Gregorian month (see note 34). The statutory deposits with SAMA are not available to finance the Bank's day-to-day operations and therefore are not part of cash and cash equivalents (see note 30).

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5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2015 **SR '000**	2014 SR '000
Current accounts	**6,154,171**	7,004,914
Money market placements	**13,013,893**	11,923,653
Reverse repos	**934,455**	934,453
Due from banks and other financial institutions	**20,102,519**	19,863,020

The credit quality of due from banks and other financial institutions is managed using reputable external credit rating agencies.

The table below shows the credit quality by class of asset.

	2015 **SR '000**	2014 SR '000
Investment grade (credit rating (AAA to BBB-))	**19,352,284**	18,973,924
Non-investment grade (credit rating (BB+ to C))	**679,338**	377,186
Unrated	**70,897**	511,910
Due from banks and other financial institutions	**20,102,519**	19,863,020

6. INVESTMENTS, NET

(6.1) Investments are classified as follows:

(a) Held for trading

	Domestic		**International**		**Total**	
	2015 **SR '000**	2014 SR '000	**2015** **SR '000**	2014 SR '000	**2015** **SR '000**	2014 SR '000
Mutual funds	**694,083**	876,523	**42,953**	100,184	**737,036**	976,707
Held for trading	**694,083**	876,523	**42,953**	100,184	**737,036**	976,707

(b) Held as FVIS

	Domestic		**International**		**Total**	
	2015 **SR '000**	2014 SR '000	**2015** **SR '000**	2014 SR '000	**2015** **SR '000**	2014 SR '000
Hedge funds	**-**	-	**2,104,279**	2,137,905	**2,104,279**	2,137,905
Held as FVIS	**-**	-	**2,104,279**	2,137,905	**2,104,279**	2,137,905

6. INVESTMENTS, NET (continued)

(6.1) Investments are classified as follows (continued):

(c) Available for sale

	Domestic		International		Total	
	2015 SR '000	2014 SR '000	**2015 SR '000**	2014 SR '000	**2015 SR '000**	2014 SR '000
Fixed rate securities	-	-	**21,472,518**	17,725,408	**21,472,518**	17,725,408
Floating rate securities	-	-	**4,015,350**	5,630,591	**4,015,350**	5,630,591
Equity instruments	**829,330**	1,170,148	**5,068,955**	4,226,392	**5,898,285**	5,396,540
Available for sale, gross	**829,330**	1,170,148	**30,556,823**	27,582,391	**31,386,153**	28,752,539
Allowance for impairment	-	-	**(913,607)**	(831,886)	**(913,607)**	(831,886)
Available for sale, net	**829,330**	1,170,148	**29,643,216**	26,750,505	**30,472,546**	27,920,653

(d) Held to maturity

	Domestic		International		Total	
	2015 SR '000	2014 SR '000	**2015 SR '000**	2014 SR '000	**2015 SR '000**	2014 SR '000
Fixed rate securities	-	-	**1,668,808**	1,447,583	**1,668,808**	1,447,583
Held to maturity	-	-	**1,668,808**	1,447,583	**1,668,808**	1,447,583

(e) Other investments held at amortised cost

	Domestic		International		Total	
	2015 SR '000	2014 SR '000	**2015 SR '000**	2014 SR '000	**2015 SR '000**	2014 SR '000
Fixed rate securities	**16,559,912**	47,699,721	**57,554,449**	50,187,157	**74,114,361**	97,886,878
Floating rate securities	**6,398,848**	6,070,836	**17,524,171**	16,512,154	**23,923,019**	22,582,990
Other investments held at amortised cost, gross	**22,958,760**	53,770,557	**75,078,620**	66,699,311	**98,037,380**	120,469,868
Allowance for impairment	-	-	**(22,500)**	(49,676)	**(22,500)**	(49,676)
Other investments held at amortised cost, net	**22,958,760**	53,770,557	**75,056,120**	66,649,635	**98,014,880**	120,420,192
Investments, net	**24,482,173**	55,817,228	**108,515,376**	97,085,812	**132,997,549**	152,903,040

6. INVESTMENTS, NET (continued)

(6.2) The analysis of the composition of investments is as follows:

	2015 SR '000			2014 SR '000		
	Quoted	**Unquoted**	**Total**	Quoted	Unquoted	Total
Fixed rate securities	**19,274,332**	**77,981,355**	**97,255,687**	18,813,485	98,246,384	117,059,869
Floating rate securities	**4,015,349**	**23,923,020**	**27,938,369**	5,620,458	22,593,123	28,213,581
Hedge funds	-	**2,104,279**	**2,104,279**	-	2,137,905	2,137,905
Equity instruments	**806,929**	**5,091,356**	**5,898,285**	1,140,746	4,255,794	5,396,540
Mutual funds and others	**737,036**	-	**737,036**	976,707	-	976,707
Investments, gross	**24,833,646**	**109,100,010**	**133,933,656**	26,551,396	127,233,206	153,784,602
Allowance for impairment	**(22,639)**	**(913,468)**	**(936,107)**	(24,274)	(857,288)	(881,562)
Investments, net	**24,811,007**	**108,186,542**	**132,997,549**	26,527,122	126,375,918	152,903,040

The above unquoted fixed rate securities and floating rate securities mainly comprise Saudi Government Securities, Foreign Government and Foreign Quasi Government Bonds.

Fixed and floating rate securities also include sovereign, corporate and bank bonds.

Quoted instruments are those which are quoted in an active market. Unquoted instruments also include certain securities which are quoted but for which there is no active market. The carrying value of such securities amounts to SR 72,384 million (2014: SR 59,199 million).

Unquoted equity instruments include investments amounting to SR 48 million (2014: SR 55 million), net of allowance for impairment, that are carried at cost as their fair values cannot be reliably measured.

Other investments held at amortised cost include investments having an amortized cost of SR 8,388 million (31 December 2014: SR 7,883 million) which are held under a fair value hedge relationship. As at 31 December 2015, the fair value of these investments amounts to SR 8,538 million (31 December 2014: SR 8,038 million).

Investments, net, include Saudi Treasury bills, and Saudi Government Development bonds, and Saudi Government Sukuk, that are issued by the Ministry of Finance of Saudi Arabia amounting to SR 5,781 million (31 December 2014: SR 36,636 million) and investments, net also include sukuks amounting to SR 33,868 million (31 December 2014: SR 30,809).

(6.3) Collateral given

The Bank conducts Repo transactions under the terms that are usually based on the applicable GMRA (Global Master Repurchase Agreement) collateral guidelines. The counterparty is allowed to sell or repledge those securities in the event of default by the Bank (see note 14).

The carrying amount and fair value of securities pledged under agreement to repurchase (repo) are as follows:

	2015 SR '000		2014 SR '000	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Available for sale	**7,194,435**	**7,194,435**	3,972,449	3,972,449
Held to maturity	**183,559**	**191,636**	-	-
Investments held at amortised cost	**16,625,963**	**16,654,859**	2,584,373	2,661,721
Total	**24,003,957**	**24,040,930**	6,556,822	6,634,170

The Bank has placed a margin deposit of SR 117 million (2014: SR 147 million) as an additional security for these repo transactions.

6. INVESTMENTS, NET (continued)

(6.4) The analysis of unrealized revaluation gains/losses and fair values of held to maturity investments and other investments held at amortised cost are as follows:

(a) Held to maturity

	2015 SR '000				2014 SR '000			
	Carrying value	**Gross unrealized gain**	**Gross unrealized loss**	**Fair value**	Carrying value	Gross unrealized gain	Gross unrealized loss	Fair value
Fixed rate securities	**1,668,808**	**48,864**	**-**	**1,717,672**	1,447,583	103,842	-	1,551,425
Held to maturity	**1,668,808**	**48,864**	**-**	**1,717,672**	1,447,583	103,842	-	1,551,425

(b) Other investments held at amortised cost

	2015 SR '000				2014 SR '000			
	Carrying value	**Gross unrealized gain**	**Gross unrealized loss**	**Fair value**	Carrying value	Gross unrealized gain	Gross unrealized loss	Fair value
Fixed rate securities	**74,114,361**	**744,988**	**(1,561,013)**	**73,298,336**	97,886,878	1,075,810	(575,229)	98,387,459
Floating rate securities	**23,923,019**	**273,462**	**(202,166)**	**23,994,315**	22,582,990	208,355	(87,956)	22,703,389
Other investments held at amortised cost, gross	**98,037,380**	**1,018,450**	**(1,763,179)**	**97,292,651**	120,469,868	1,284,165	(663,185)	121,090,848
Allowance for impairment	**(22,500)**	**-**	**-**	**(22,500)**	(49,676)	-	-	(49,676)
Total	**98,014,880**	**1,018,450**	**(1,763,179)**	**97,270,151**	120,420,192	1,284,165	(663,185)	121,041,172

(6.5) Counterparty analysis of the Group's investments, net of allowance for impairment

	2015 SR '000	2014 SR '000
Government and Quasi Government	**105,310,807**	133,481,607
Corporate	**11,612,024**	8,458,804
Banks and other financial institutions	**16,074,718**	10,962,629
Total	**132,997,549**	152,903,040

6. INVESTMENTS, NET (continued)

(6.6) Credit quality of investments

The credit quality of investments (excluding investment in equity instruments, hedge funds and mutual funds) is managed using reputable external credit rating agencies.

The table below shows the credit quality by class of asset.

	2015 SR '000	2014 SR '000
Performing:		
Saudi Government Bonds, Sukuk and Treasury Bills	**5,780,851**	36,636,451
Investment grade	**117,595,295**	107,615,881
Non-investment grade	**1,795,411**	992,728
Unrated	**-**	5,889
Total performing	**125,171,557**	145,250,949
Less: portfolio (collective) allowance	**(22,639)**	(57,345)
Net performing	**125,148,918**	145,193,604

Investments classified under investment grade above comprise of credit exposures equivalent to Aaa to Baa3 ratings determined by reputable rating agencies.

(6.7) Movement in the allowance for impairment on investments

The accumulated credit-related allowance for investments is as follows:

	2015 SR '000	2014 SR '000
Balance at beginning of the year	**881,562**	1,075,665
Net charge for the year	**109,647**	149,727
(Written-off)	**(55,102)**	(343,830)
Balance at the end of the year	**936,107**	881,562

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7. FINANCING AND ADVANCES, NET

(7.1) Financing and advances

	SR '000				
	Credit cards	**Consumer**	**Corporate**	**Others**	**Total**
2015					
Performing financing and advances	**3,391,463**	**79,649,911**	**161,435,773**	**8,935,557**	**253,412,704**
Non-performing financing and advances	**95,196**	**619,981**	**2,965,168**	**1,604**	**3,681,949**
Total financing and advances	**3,486,659**	**80,269,892**	**164,400,941**	**8,937,161**	**257,094,653**
Allowance for financing losses (specific and collective)	**(136,247)**	**(1,464,636)**	**(3,932,495)**	**(30,245)**	**(5,563,623)**
Financing and advances, net	**3,350,412**	**78,805,256**	**160,468,446**	**8,906,916**	**251,531,030**

	SR '000				
	Credit cards	Consumer	Corporate	Others	Total
2014					
Performing financing and advances	2,857,685	72,358,008	138,699,693	9,087,986	223,003,372
Non-performing financing and advances	80,446	468,913	2,282,070	19,827	2,851,256
Total financing and advances	2,938,131	72,826,921	140,981,763	9,107,813	225,854,628
Allowance for financing losses (specific and collective)	(113,890)	(1,258,384)	(3,729,746)	(30,245)	(5,132,265)
Financing and advances, net	2,824,241	71,568,537	137,252,017	9,077,568	220,722,363

Others include private banking customers and bank loans.

Financing and advances, net, include financing products in compliance with Shariah rules mainly Murabaha, Tayseer and Ijara amounting to SR 205,490 million (2014: SR 172,955 million).

Allowance for financing losses related to financing products in compliance with Shariah rules is SR 4,792 million (2014: SR 4,137 million).

Special commission relating to non-performing financing and advances at December 31, 2015 is SR 64 million (2014: SR 87.4 million).

7. FINANCING AND ADVANCES, NET (continued)

(7.2) Movements in the allowance for financing losses

The accumulated allowance for financing losses is as follows:

	SR '000				
	Credit cards	**Consumer**	**Corporate**	**Others**	**Total**
2015					
Balance at beginning of the year	**113,890**	**1,258,384**	**3,729,746**	**30,245**	**5,132,265**
Foreign currency translation adjustment	**(4,252)**	**(14,868)**	**(161,032)**	-	**(180,152)**
Provided during the year	**200,430**	**1,207,602**	**986,013**	-	**2,394,045**
Bad debts (written off)	**(166,254)**	**(986,073)**	**(323,762)**	-	**(1,476,089)**
(Recoveries) of amounts previously provided	**(7,567)**	**(19,217)**	**(298,470)**	-	**(325,254)**
Other adjustments	-	**18,808**	-	-	**18,808**
Balance at the end of the year	**136,247**	**1,464,636**	**3,932,495**	**30,245**	**5,563,623**

	SR '000				
	Credit cards	Consumer	Corporate	Others	Total
2014					
Balance at beginning of the year	67,922	803,085	3,902,667	68,508	4,842,182
Foreign currency translation adjustment	(3,022)	(7,177)	(76,943)	-	(87,142)
Provided (reversed) during the year	177,740	1,278,832	825,108	(38,263)	2,243,417
Bad debts (written off)	(126,697)	(810,770)	(641,062)	-	(1,578,529)
(Recoveries) of amounts previously provided	(2,053)	(5,586)	(280,024)	-	(287,663)
Other adjustments	-	-	-	-	-
Balance at the end of the year	113,890	1,258,384	3,729,746	30,245	5,132,265

(7.3) Impairment charge for financing losses in the consolidated statement of income represents:

	2015 SR '000	2014 SR '000
Additions during the year	**2,394,045**	2,243,417
(Recoveries) of amounts previously provided	**(325,254)**	(287,663)
	2,068,791	1,955,754
(Reversal)/charge against indirect facilities (included in other liabilities) (note 17)	**(97,643)**	97,379
(Recoveries) of debts previously written-off	**(371,472)**	(1,060,739)
Direct write-off	**671**	3,070
Net charge for the year (impairment charge for financing losses, net)	**1,600,347**	995,464

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7. FINANCING AND ADVANCES, NET (continued)

(7.4) Credit quality of financing and advances

The Group employs an internally developed risk evaluation framework based on risk ratings for assessment of its corporate obligors. The associated rating models are managed by a specialised unit that ensure the end to end robustness of the involved processes. Risk assessment is conducted using a rating scale consisting of 17 risk rating grades, of which sixteen grades are related to the performing portfolio as follows:

• Investment Grade is composed of Very Strong Credit Quality (AAA to BBB-)
• Non-Investment Grade is composed of: Good and satisfactory Credit Quality (BB+ to C)

The lowest rating grade (Default) relate to the non-performing portfolio.

The table below details the credit quality of financing and advances by asset class.

	SR '000 Loans and advances			
	Consumer and Credit cards	Corporate	Others	Total
2015				
Performing:				
Investment Grade	-	49,362,342	1,949,046	51,311,388
Non-Investment Grade	-	109,152,415	2,530,743	111,683,158
Unrated	83,041,374	2,921,016	4,455,768	90,418,158
Total	83,041,374	161,435,773	8,935,557	253,412,704
Less: portfolio (collective) allowance	(1,190,388)	(1,486,564)	(30,245)	(2,707,197)
Net performing	81,850,986	159,949,209	8,905,312	250,705,507
Non-performing:				
Total non-performing	715,177	2,965,168	1,604	3,681,949
Less: specific allowance	(410,495)	(2,445,931)	-	(2,856,426)
Net non-performing	304,682	519,237	1,604	825,523
Total financing and advances, net	82,155,668	160,468,446	8,906,916	251,531,030
Past due but not impaired (performing)				
Less than 30 days	2,707,045	1,655,599	2,215	4,364,859
30-59 days	877,534	566,871	1,369	1,445,774
60-89 days	412,611	390,845	-	803,456
Total	3,997,190	2,613,315	3,584	6,614,089

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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7. FINANCING AND ADVANCES, NET (continued)

(7.4) Credit quality of financing and advances (continued)

	SR '000 Loans and advances			
	Consumer and Credit cards	Corporate	Others	Total
2014				
Performing:				
Investment Grade	-	46,863,249	1,207,781	48,071,030
Non-Investment Grade	-	89,650,516	4,481,310	94,131,826
Unrated	75,215,693	2,185,928	3,398,895	80,800,516
Total	75,215,693	138,699,693	9,087,986	223,003,372
Less: portfolio (collective) allowance	(1,025,289)	(1,699,964)	(30,245)	(2,755,498)
Net performing	74,190,404	136,999,729	9,057,741	220,247,874
Non-performing:				
Total non-performing	549,359	2,282,070	19,827	2,851,256
Less: specific allowance	(346,985)	(2,029,782)	-	(2,376,767)
Net non-performing	202,374	252,288	19,827	474,489
Total financing and advances, net	74,392,778	137,252,017	9,077,568	220,722,363
Past due but not impaired (performing)				
Less than 30 days	2,465,137	1,320,944	-	3,786,081
30-59 days	607,419	485,568	-	1,092,987
60-89 days	285,061	314,731	-	599,792
Total	3,357,617	2,121,243	-	5,478,860

Unrated loans mainly comprise of consumer, credit cards, small businesses and private banking financing and advances.

7. FINANCING AND ADVANCES, NET (continued)

(7.4) Credit quality of financing and advances (continued)

Collateral

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

Fair value of collateral held by Group against financing and advances by each category are as follows:

	2015 SR '000	2014 SR '000
Neither past due nor impaired	**75,270,442**	69,253,226
Past due but not impaired	**3,874,790**	2,991,781
Impaired	**1,438,690**	794,902
Total	**80,583,922**	73,039,909

Those collaterals, which are not readily convertible into cash (i.e. real estate), are accepted by the Group with intent to dispose off in case of default by the customer.

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7. FINANCING AND ADVANCES, NET (continued)

(7.5) Economic sector risk concentrations for the financing and advances and allowances for financing losses are as follows:

2015	**Performing SR' 000**	**Non-performing SR' 000**	**Specific allowance SR' 000**	**Financing and advances, net SR' 000**
Government and quasi Government	**3,092,573**	-	-	**3,092,573**
Banks and other financial institutions	**4,548,671**	**199**	**(131)**	**4,548,739**
Agriculture and fishing	**810,354**	**38,231**	**(24,005)**	**824,580**
Manufacturing	**30,847,077**	**628,839**	**(525,561)**	**30,950,355**
Mining and quarrying	**6,082,992**	**55,830**	**(42,731)**	**6,096,091**
Electricity, water, gas and health services	**13,183,452**	**23,554**	**(9,833)**	**13,197,173**
Building and construction	**20,365,034**	**613,663**	**(497,118)**	**20,481,579**
Commerce	**50,775,855**	**1,308,842**	**(1,103,384)**	**50,981,313**
Transportation and communication	**11,762,926**	**90,151**	**(79,615)**	**11,773,462**
Services	**21,983,759**	**133,203**	**(102,932)**	**22,014,030**
Consumer loans and credit cards	**83,041,374**	**715,177**	**(410,495)**	**83,346,056**
Others	**6,918,637**	**74,260**	**(60,621)**	**6,932,276**
	253,412,704	**3,681,949**	**(2,856,426)**	**254,238,227**
Portfolio (collective) allowance				**(2,707,197)**
Financing and advances, net				**251,531,030**

2014	Performing SR' 000	Non-performing SR' 000	Specific allowance SR' 000	Financing and advances, net SR' 000
Government and quasi Government	2,427,208	-	-	2,427,208
Banks and other financial institutions	5,760,277	3,211	(2,997)	5,760,491
Agriculture and fishing	825,282	25,776	(17,846)	833,212
Manufacturing	30,458,237	484,610	(421,329)	30,521,518
Mining and quarrying	4,219,715	5,265	(2,739)	4,222,241
Electricity, water, gas and health services	10,010,757	8,531	(7,875)	10,011,413
Building and construction	15,892,234	559,573	(512,413)	15,939,394
Commerce	41,480,370	1,044,017	(936,016)	41,588,371
Transportation and communication	12,240,738	42,951	(38,070)	12,245,619
Services	19,679,496	37,146	(32,769)	19,683,873
Consumer loans and credit cards	75,215,693	549,360	(346,984)	75,418,069
Others	4,793,365	90,816	(57,729)	4,826,452
	223,003,372	2,851,256	(2,376,767)	223,477,861
Portfolio (collective) allowance				(2,755,498)
Financing and advances, net				220,722,363

7. FINANCING AND ADVANCES, NET (continued)

(7.6) Financing and advances include finance lease receivables (including Ijara in compliance with Shariah rules) which are analysed as follows:

	2015 SR '000	2014 SR '000
Gross receivables from finance leases:		
Less than 1 year	**567,140**	1,219,720
1 to 5 years	**15,660,798**	13,387,245
Over 5 years	**24,464,791**	18,577,964
	40,692,729	33,184,929
Unearned finance income on finance leases		
Less than 1 year	**(177,216)**	(148,016)
1 to 5 years	**(3,443,509)**	(3,270,850)
Over 5 years	**(6,342,164)**	(5,344,604)
	(9,962,889)	(8,763,470)
Net finance lease receivables	**30,729,840**	24,421,459

Allowance for uncollectable finance lease receivables included in the allowance for financing losses is SR 660 million (2014: SR 513 million).

8. INVESTMENT IN ASSOCIATES, NET

	2015 SR '000	2014 SR '000
Cost:		
At the beginning of the year	**1,014,000**	1,487,450
Disposal	**-**	(473,450)
At 31 December	**1,014,000**	1,014,000
Allowance for impairment and share of results:		
At beginning of the year	**(606,165)**	(658,535)
Share of net income	**15,905**	52,370
At 31 December	**(590,260)**	(606,165)
Investment in associates, net	**423,740**	407,835

Investment in associates represents a 60% (31 December 2014: 60%) ownership interest in the Commercial Real Estate Markets Company and 30% (31 December 2014: 30%) ownership interest in Al-Ahli Takaful Company, which are both registered in the Kingdom of Saudi Arabia.

During the year ended 31 December 2014, an associate of the Bank (Al Behar Real Estate Investment Company) (“the associate”) distributed its capital among its shareholders as a part of its liquidation process and as a consideration transferred the title of certain real estate properties to the Bank. Accordingly, the Bank received properties having a market value of SR 473.4 million, as a result of this, the Bank has reversed previously recognized impairment losses in respect of the associate amounting to SR 253.7 million. Subsequent to the transfer of legal title, the Bank has leased these properties (“leased properties”) under an Ijara arrangement for a period of 5 years and recognized a gain on derecognition of the leased properties amounting to SR 146.6 million which was recognised in the consolidated statement of income for the year ended 31 December 2014 as a part of other non-operating (expenses) income, net.

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9. OTHER REAL ESTATE, NET

	2015 SR '000	2014 SR '000
Cost:		
At beginning of the year	**933,167**	285,972
Additions	**81,442**	1,153,165
Disposals	**(55,938)**	(505,970)
At 31 December	**958,671**	933,167
Provision and foreign currency translation:		
Foreign currency translation adjustment	**(42,264)**	(27,066)
Provision for impairment	**(40,143)**	(47,581)
At 31 December	**(82,407)**	(74,647)
Total	**876,264**	858,520

During last year 2014 the Bank received certain real estate properties, amounting to SR 0.6 billion, as full and final settlement against a previously written-off loan.

10. PROPERTY AND EQUIPMENT, NET

	2015			2014		
	Land, buildings and leasehold improvements SR '000	**Furniture, equipment and vehicles SR '000**	**Total SR '000**	Land, buildings and leasehold improvements SR '000	Furniture, equipment and vehicles SR '000	Total SR '000
Cost:						
At beginning of the year	**3,804,190**	**3,228,731**	**7,032,921**	3,247,168	2,698,413	5,945,581
Foreign currency translation adjustment	**(87,946)**	**(93,885)**	**(181,831)**	(20,188)	(35,975)	(56,163)
Additions	**359,791**	**662,870**	**1,022,661**	612,214	641,912	1,254,126
Disposals and retirements	**(14,670)**	**(37,485)**	**(52,155)**	(35,004)	(75,619)	(110,623)
At 31 December	**4,061,365**	**3,760,231**	**7,821,596**	3,804,190	3,228,731	7,032,921
Accumulated depreciation:						
At beginning of the year	**1,554,749**	**2,050,773**	**3,605,522**	1,443,600	1,740,453	3,184,053
Foreign currency translation adjustment	**(14,724)**	**(54,679)**	**(69,403)**	(11,399)	(23,507)	(34,906)
Charge for the year	**163,306**	**451,466**	**614,772**	135,168	365,518	500,686
Disposals and retirements	**(10,153)**	**(35,233)**	**(45,386)**	(12,620)	(31,691)	(44,311)
At 31 December	**1,693,178**	**2,412,327**	**4,105,505**	1,554,749	2,050,773	3,605,522
Net book value:						
As at 31 December	**2,368,187**	**1,347,904**	**3,716,091**	2,249,441	1,177,958	3,427,399

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11. GOODWILL AND OTHER INTANGIBLE ASSETS, NET

(11.1) Net book value

	2015		2014	
	Goodwill SR '000	Other intangibles SR '000	Goodwill SR '000	Other intangibles SR '000
Cost:				
At beginning of the year	**1,213,769**	**951,188**	1,330,927	1,043,001
Foreign currency translation adjustment	**(245,467)**	**(192,385)**	(117,158)	(91,813)
At 31 December	**968,302**	**758,803**	1,213,769	951,188
Amortisation, impairment and foreign currency translation:				
At beginning of the year	**720,499**	**751,160**	790,030	710,262
Amortisation charge for the year	-	**189,337**	-	189,337
Foreign currency translation adjustment	**(145,710)**	**(258,463)**	(69,531)	(148,439)
At 31 December	**574,789**	**682,034**	720,499	751,160
Net book value:				
At 31 December	**393,513**	**76,769**	493,270	200,028

(11.2) Türkiye Finans Katılım Bankası A.Ş., (TFK)

In accordance with the requirements of International Financial Reporting Standards (IFRS), the Group's management has carried out an impairment test as at 30 November 2015 (2014: 30 November 2014), in respect of the goodwill arising on the acquisition of Türkiye Finans Katılım Bankası A.Ş (TFK).

The recoverable amount for TFK as a Cash Generating Unit (CGU) has been determined based on a value in use calculation, using Discounted Dividends Model projections from the financial budgets approved by the senior management covering five-year period. In preparing the forecasts for the value in use calculation, management has made certain assumptions regarding the future cash flows, levels of earnings and the terminal value. Moreover, the key assumptions used in the calculation of value in use are the pre-tax discount rate and the terminal growth rate, where the pre-tax discount rate determination was most sensitive to the market beta factor, equity risk premium, risk free rate and country specific risk premium.

A pre-tax discount rate of 16.4% (30 November 2014: 14.7%) was used to discount future cash flows over a five year period and a terminal growth rate of 15.4% (30 November 2014: 15.7%) was used in the terminal value calculation.

The management compared the value in use, calculated based on the above assumptions, with the carrying value of TFK as at the date of the impairment test. As a result, the value in use of TFK was higher than its carrying value; hence, no impairment loss on goodwill has been recorded in respect of TFK for the year ended 31 December 2015.

If the pre-tax discount rate used for the value in use calculation had been adjusted by +/-1% with all other factors remaining constant, the value in use of TFK, as a CGU, would have been lower by SR 567.49 million and higher by SR 691.97 million, respectively. If the growth rate used for the value in use calculation had been adjusted by +/-1% with all other factors remaining constant, the value in use of TFK, as a CGU, would have been lower by SR 460.43 million and higher by same amount, respectively.

Moreover, since the value in use calculation resulted in a higher value than the carrying value of the TFK CGU, as such, the fair value less cost to sell was not required to be estimated, as per the requirements of IFRS.

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12. OTHER ASSETS

	2015	2014
	SR '000	SR '000
Accrued special commission income receivable:		
- banks and other financial institutions	**45,444**	22,301
- investments	**1,186,346**	1,032,445
- financing and advances	**1,419,296**	1,183,175
- derivatives	**112,500**	139,697
Total accrued special commission income receivable	**2,763,586**	2,377,618
Prepayments and accounts receivable	**629,843**	427,094
Margin deposits against derivatives and repos (notes 6.3, 14 and 32)	**1,924,559**	1,018,290
Assets purchased - Murabaha	**2,352,665**	916,033
Positive fair value of derivatives, net (note 13)	**2,489,033**	1,039,048
Others	**1,504,114**	1,405,957
Total	**11,663,800**	7,184,040

13. DERIVATIVES

In the ordinary course of business, the Group 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 special commission rate swaps, counterparties generally exchange fixed and floating rate special commission payments in a single currency without exchanging principal. For currency swaps, fixed special commission payments and principal are exchanged in different currencies. For cross-currency special commission rate swaps, principal and fixed and floating special commission payments are exchanged in different currencies.

(b) Forwards and futures

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

(c) Forward rate agreements

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

(d) Options

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

13. DERIVATIVES (continued)

(e) Structured derivative products

Structured derivative products provide financial solutions to the customers of the Group to manage their risks in respect of foreign exchange, special commission rate and commodity exposures and enhance yields by allowing deployment of excess liquidity within specific risk and return profiles. The majority of the Group's structured derivative transactions are entered on a back-to-back basis with various counterparties.

(13.1) Derivatives held for trading purposes

Most of the Group's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers and banks in order, 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 profiting from price differentials between markets or products.

(13.2) Derivatives held for hedging purposes

The Group has adopted a comprehensive system for the measurement and management of risk (see note 32 - credit risk, note 33 - market risk and note 34 - liquidity risk). Part of the risk management process involves managing the Group's exposure to fluctuations in foreign exchange and special commission rates to reduce its exposure to currency and special commission rate risks to acceptable levels as determined by the Board of Directors within the guidelines issued by SAMA.

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

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

The Group uses special commission rate swaps to hedge against the special commission rate risk arising from specifically identified fixed special commission rate exposures. The Group also uses special 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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13. DERIVATIVES (continued)

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

				(SR '000) Notional amounts by term to maturity				
2015	**Positive fair value**	**Negative fair value**	**Notional amount**	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Monthly average**
Held for trading:								
Special commission rate swaps	**487,725**	**(402,733)**	**55,968,253**	**1,881,702**	**5,438,073**	**34,062,484**	**14,585,994**	**47,168,525**
Special commission rate options and futures	**43,843**	**(43,895)**	**1,363,040**	**-**	**-**	**596,540**	**766,500**	**1,408,710**
Forward foreign exchange contracts	**235,340**	**(147,937)**	**120,780,866**	**59,481,896**	**52,361,235**	**8,937,735**	**-**	**135,017,506**
Options	**6,499**	**(6,499)**	**469,269**	**289,014**	**180,255**	**-**	**-**	**286,974**
Structured derivatives	**1,576,664**	**(1,576,656)**	**100,677,103**	**13,429,753**	**38,784,483**	**44,862,867**	**3,600,000**	**160,941,800**
Held as fair value hedges:								
Special commission rate swaps	**100,956**	**(343,736)**	**11,404,632**	**-**	**280,457**	**6,128,714**	**4,995,461**	**10,167,392**
Held as cash flow hedges:								
Special commission rate swaps	**38,006**	**(470,869)**	**12,088,637**	**-**	**1,750,288**	**8,282,335**	**2,056,014**	**13,034,609**
Total fair value, net (notes 12 & 17)	**2,489,033**	**(2,992,325)**	**302,751,800**	**75,082,365**	**98,794,791**	**102,870,675**	**26,003,969**	

				(SR '000) Notional amounts by term to maturity				
2014	Positive fair value	Negative fair value	Notional amount	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading:								
Special commission rate swaps	392,995	(434,800)	38,342,362	638,364	2,984,461	27,317,096	7,402,441	32,715,063
Special commission rate options and futures	56,411	(56,411)	1,472,487	-	-	-	1,472,487	694,363
Forward foreign exchange contracts	90,525	(56,886)	96,510,925	37,870,198	52,834,804	5,805,923	-	79,261,524
Options	2,868	(2,868)	224,869	20,000	22,369	182,500	-	466,788
Structured derivatives	393,031	(393,189)	91,133,259	11,867,137	38,293,905	39,972,217	1,000,000	117,879,501
Held as fair value hedges:								
Special commission rate swaps	16,580	(320,097)	9,268,872	-	-	4,091,536	5,177,336	7,520,130
Held as cash flow hedges:								
Special commission rate swaps	86,638	(96,456)	12,333,122	937,500	391,667	8,239,912	2,764,043	11,169,525
Total fair value, net (notes 12 & 17)	1,039,048	(1,360,707)	249,285,896	51,333,199	94,527,206	85,609,184	17,816,307	

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13. DERIVATIVES (continued)

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

2015			(SR '000)			
Description of hedged items	**Fair value**	**Cost**	**Risk**	**Hedging instrument**	**Positive fair value**	**Negative fair value**
Fixed rate instruments	**11,768,445**	**11,404,632**	Fair value	Special commission rate swap	**100,956**	**(343,736)**
Fixed rate and floating rate instruments	**11,915,061**	**12,088,637**	Cash flow	Special commission rate swap	**38,006**	**(470,869)**

2014			(SR '000)			
Description of hedged items	Fair value	Cost	Risk	Hedging instrument	Positive fair value	Negative fair value
Fixed rate instruments	9,683,809	9,268,872	Fair value	Special commission rate swap	16,580	(320,097)
Fixed rate and floating rate instruments	12,366,139	12,333,121	Cash flow	Special commission rate swap	86,638	(96,456)

The gains on the hedging instruments for fair value hedges are SR 13.4 million (2014: loss of SR 153 million). The loss on the hedged items attributable to the hedged risk are SR 13.4 million (2014: gain of SR 153 million). Thus, the net fair value is SR nil (2014: SR nil).

Approximately 32% (2014: 24%) of the positive fair value of the Group's derivatives are entered into with financial institutions and 68% (2014: 76%) of the positive fair value contracts are with non-financial institutions at the consolidated statement of financial position date. Derivative activities are mainly carried out under the Group's Treasury segment.

Cash flows hedges:

The Bank is exposed to variability in future special commission cash flows on non-trading assets and liabilities which bear special commission at a variable rate. The Bank generally uses special commission rate swaps as hedging instruments to hedge against these special commission rate risks.

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:

		SR' 000		
2015	**Within 1 year**	**1-3 years**	**3-5 years**	**Over 5 years**
Cash inflows (assets)	**314,162**	**726,384**	**280,026**	**99,705**
Cash outflows (liabilities)	**(323,665)**	**(612,252)**	**(269,101)**	**(132,917)**
Net cash inflows/outflows	**(9,503)**	**114,132**	**10,925**	**(33,212)**

		SR' 000		
2014	Within 1 year	1-3 years	3-5 years	Over 5 years
Cash inflows (assets)	304,912	539,282	473,261	147,581
Cash outflows (liabilities)	(186,076)	(360,574)	(304,728)	(152,742)
Net cash inflows/outflows	118,836	178,708	168,533	(5,161)

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13. DERIVATIVES (continued)

Cash flows hedges (continued)

The special commission income and expense relating to cash flow hedges recognized in the consolidated statement of income during the year was as follows:

	2015	2014
	SR '000	SR '000
Special commission income	**278,999**	305,178
Special commission expense	**(289,091)**	(301,528)
Net special commission (expense) income	**(10,092)**	3,650

Movements in the other reserve of cash flows hedges:

	2015	2014
	SR '000	SR '000
Balance at beginning of the year	**37,014**	30,795
Net gain/(loss) on cash flow hedges reclassified to the consolidated statement of income	**219,603**	(12,859)
(Losses)/gains from changes in fair value recognised directly in equity, net (effective portion)	**(276,768)**	19,078
Balance at end of the year	**(20,151)**	37,014

The discontinuation of hedge accounting due to disposal of both the hedging instruments and the hedged items, resulted in reclassification of the associated cumulative losses of SR 8 million (2014: SR 9.2) from equity to consolidated statement of income, included in the losses above.

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14. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2015 **SR '000**	2014 SR '000
Current accounts	**3,522,994**	5,972,734
Money market deposits	**21,604,691**	22,768,154
Repos (note 6.3)	**22,591,887**	6,708,600
Total	**47,719,572**	35,449,488

15. CUSTOMERS' DEPOSITS

	2015 **SR '000**	2014 SR '000
Current accounts	**228,518,197**	251,905,754
Savings	**160,239**	152,178
Time	**75,992,742**	67,034,136
Others	**18,611,095**	14,003,423
Total	**323,282,273**	333,095,491

Other customers’ deposits include SR 4,741 million (2014: SR 4,167 million) of margins held for irrevocable commitments and contingencies (note 21).

Foreign currency deposits included in customers' deposits:

	2015 **SR '000**	2014 SR '000
Current accounts	**12,983,148**	15,366,826
Savings	**341**	341
Time	**38,157,027**	34,492,715
Others	**2,045,309**	1,627,972
Total	**53,185,825**	51,487,854

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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16. DEBT SECURITIES ISSUED

Issuer	Period of issue	Tenure	Particulars	2015 SR '000	2014 SR '000
National Commercial Bank	Feb 2014	10 years	Non-covertible unlisted sukuk, callable on the 5th anniversary of the issue date, carrying profit payable semi-annually.	**5,000,000**	5,000,000
Türkiye Finans Katılım Bankası A.Ş.	May 2013	5 years	Non-covertible sukuk listed on the Irish Stock Exchage, carrying profit at a fixed rate payable semi-annually.	**1,504,092**	1,503,544
	April 2014	5 years	Non-covertible sukuk listed on the Irish Stock Exchage, carrying profit at a fixed rate payable semi-annually.	**1,848,530**	1,867,294
	June 2014	5 years	Non-covertible unlisted sukuk, carrying profit at a fixed rate payable semi-annually.	**696,927**	853,578
	August 2014	6 months	Non-convertible sukuk listed on the Borsa Istanbul, carrying profit payable semi-annually.	-	229,450
	December 2014	6 months	Non-convertible sukuk listed on the Borsa Istanbul, carrying profit payable quarterly.	-	96,630
	February 2015	5 years	Non-covertible unlisted sukuk, carrying profit payable semi-annually.	**130,674**	-
	May 2015	5 years	Non-covertible unlisted sukuk, carrying profit at a fixed rate payable semi-annually.	**182,943**	-
	July 2015	6 months	Non-convertible sukuk listed on the Borsa Istanbul, carrying profit payable at maturity.	**88,562**	-
	August 2015	6 months	Non-convertible sukuk listed on the Borsa Istanbul, carrying profit payable quarterly.	**124,534**	-
	November 2015	6 months	Non-convertible sukuk listed on the Borsa Istanbul, carrying profit payable quarterly.	**190,206**	-
	December 2015	6 months	Non-convertible sukuk listed on the Borsa Istanbul, carrying profit payable at maturity.	**96,360**	-
Total				**9,862,828**	9,550,496

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17. OTHER LIABILITIES

	2015 SR '000	2014 SR '000
Accrued special commission expense payable:		
- banks and other financial institutions	**45,388**	6,337
- customers' deposits	**197,884**	298,518
- debt securities issued	**70,022**	67,423
- derivatives	**260,421**	241,972
Total accrued special commission expense payable	**573,715**	614,250
Negative fair value of derivatives (note 13)	**2,992,325**	1,360,707
Zakat (NCB and NCBC)	**1,254,154**	999,841
Staff-related payables	**1,989,122**	1,871,041
Accrued expenses and accounts payable	**694,099**	801,125
Allowances for indirect facilities (note 7.3)	**381,906**	523,708
Others	**5,044,878**	3,691,046
Total	**12,930,199**	9,861,718

18. SHARE CAPITAL

The authorized, issued and fully paid share capital of the Bank consists of 2,000,000,000 shares of SR 10 each (31 December 2014: 2,000,000,000 shares of SR 10 each) wholly owned by Saudi shareholders. The capital of the Bank excluding treasury shares consists of 1,994,633,531 shares of SR 10 each (31 December 2014: 1,994,633,531 shares of SR 10 each).

The Board of Directors in its meeting held on 29 January 2014 (corresponding to 28 Rabi Althani 1435H) proposed to increase the authorised and issued share capital of the Bank from SR 15 billion to SR 20 billion through capitalization of SR 5 billion from retained earnings and issuance of 33.33% bonus shares (one share for each three shares held as at 31 December 2013). The proposed increase in share capital was approved by the shareholders in the extraordinary general assembly meeting held on 31 March 2014.

19. STATUTORY RESERVE

In accordance with Saudi Arabian Banking Control Law, a minimum of 25% of the annual net income, inclusive of the overseas branches, is required to be transferred to a statutory reserve until this reserve equals the paid up capital of the Bank. Moreover, in accordance with the Regulation for Companies in Saudi Arabia, NCBC is also required to transfer a minimum of 10% of its annual net income (after Zakat) to statutory reserve.

Pursuant to the Lebanese Money and Credit Law, the Lebanon branch is required to transfer 10% of its annual net income to statutory reserve. The Turkish Bank transfers 5% of its previous year annual net income to statutory reserve.

The statutory reserves are not currently available for distribution.

20. OTHER RESERVES (CUMULATIVE CHANGES IN FAIR VALUES)

Other reserves represent the net unrealized revaluation gains (losses) of cash flow hedges (effective portion) and available for sale investments. The movement of other reserves during the year is included under consolidated statement of other comprehensive income and the consolidated statement of changes in equity. These reserves are not available for distribution.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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21. COMMITMENTS AND CONTINGENCIES

(21.1) Legal proceedings

The Bank was named as one of many Saudi and non-Saudi defendants in certain lawsuits initiated in the United States commencing in 2002. Over the following financial periods, the Bank filed motions to dismiss the lawsuits (based on a lack of United States jurisdiction over the Bank), followed by appeals/ petitions for rehearing by the plaintiffs.

Finally, on 30 June 2014, the Supreme Court denied plaintiffs' petition for a writ of certiorari ("order of denial"), citing 25 July 2014 as the deadline for submission of a petition for rehearing of the order of denial. The Court's rules provide that the order of denial "will not be suspended pending disposition of a petition for rehearing" absent a further order of the Court, and that a petition for rehearing must be limited strictly to "intervening circumstances of a substantial or controlling effect or to other substantial grounds not previously presented." The Bank's US Legal Counsel took the position that the plaintiffs cannot, in good faith, satisfy the rule governing a petition for rehearing given that the Court's order of denial was entered shortly after plaintiffs' response to the Solicitor General's brief, which addressed all relevant issues. Thereafter, the Bank had been advised by its US Legal Counsel that these legal proceedings were substantively concluded in its favor as of 30 June 2014 being the date of the Court's order of denial. Subsequently, the Bank's Legal Counsel has confirmed that the plaintiffs have not filed any petition for rehearing. Accordingly, the aforesaid proceeding stands finally terminated in favor of the Bank.

(21.2) Capital and other non-credit related commitments

The Group's capital commitments as at 31 December 2015 in respect of building and equipment purchases are not material to the financial position of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2015

21. COMMITMENTS AND CONTINGENCIES (continued)

(21.3) Credit-related commitments and contingencies

Credit-related commitments and contingencies mainly comprise letters of credit, guarantees, acceptances and commitments to extend credit (irrevocable). The primary purpose of these instruments is to ensure that funds are available to customers as required.

Guarantees including standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that customers cannot meet their obligations to third parties, carry the same credit risk as financing and advances.

Cash requirements under guarantees are normally considerably less than the amount of the related commitment because the Group does not generally expect the third party to draw funds under the agreement.

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

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

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

(a) The contractual maturity structure of the Group's credit-related commitments and contingencies is as follows:

			(SR '000)		
2015	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Letter of credit	**7,655,304**	**3,210,068**	**457,459**	**11,961**	**11,334,792**
Guarantees	**9,112,220**	**21,391,035**	**15,808,240**	**5,081,196**	**51,392,691**
Acceptances	**2,707,690**	**1,714,042**	**10,044**	**3,315**	**4,435,091**
Irrevocable commitments to extend credit	**287,058**	**994,960**	**12,120,088**	**842,441**	**14,244,547**
Total	**19,762,272**	**27,310,105**	**28,395,831**	**5,938,913**	**81,407,121**

			(SR '000)		
2014	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letter of credit	13,694,319	3,957,289	349,444	7,730	18,008,782
Guarantees	11,571,486	21,542,067	15,144,325	5,362,655	53,620,533
Acceptances	2,627,932	1,345,636	74,678	16,401	4,064,647
Irrevocable commitments to extend credit	536,170	3,249,529	6,800,886	-	10,586,585
Total	28,429,907	30,094,521	22,369,333	5,386,786	86,280,547

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21. COMMITMENTS AND CONTINGENCIES (continued)

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

	2015 SR '000	2014 SR '000
Government and quasi Government	**10,093,346**	8,061,362
Corporate and establishment	**57,392,196**	59,651,147
Banks and other financial institutions	**12,964,542**	17,472,026
Others	**957,037**	1,096,012
Total	**81,407,121**	86,280,547

(21.4) Operating lease commitments

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

	2015 SR '000	2014 SR '000
Less than 1 year	**251,742**	238,691
1 to 5 years	**690,771**	630,876
Over 5 years	**409,692**	449,882
Total	**1,352,205**	1,319,449

22. NET SPECIAL COMMISSION INCOME

	2015 SR '000	2014 SR '000
Special commission income:		
Investments - available for sale	**761,460**	607,278
Investments - held to maturity	**28,654**	35,133
Other investments held at amortised cost	**2,741,767**	2,556,135
Sub total - investments	**3,531,881**	3,198,546
Due from banks and other financial institutions	**280,071**	109,916
Financing and advances	**11,521,469**	10,371,405
Total	**15,333,421**	13,679,867
Special commission expense:		
Due to banks and other financial institutions	**486,910**	358,447
Customers' deposits	**1,623,238**	1,652,515
Debt securities issued	**444,939**	264,778
Total	**2,555,087**	2,275,740
Net special commission income	**12,778,334**	11,404,127

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23. FEE INCOME FROM BANKING SERVICES, NET

	2015 SR '000	2014 SR '000
Fee income:		
Shares brokerage	**361,912**	466,813
Investment management services	**355,619**	317,332
Finance and lending	**1,476,910**	1,588,548
Credit cards	**364,317**	301,725
Trade finance	**687,619**	710,789
Others	**379,995**	331,115
Total	**3,626,372**	3,716,322
Fee expenses:		
Shares brokerage	**70,239**	89,359
Investment management services	**1,882**	4,373
Credit cards	**217,956**	179,617
Total	**290,077**	273,349
Fee income from banking services, net	**3,336,295**	3,442,973

Others include fees and expenses in respect of miscellaneous banking activities.

24. TRADING INCOME, NET

	2015 SR '000	2014 SR '000
Foreign exchange	**179,987**	32,074
Mutual funds	**9,294**	5,508
Derivatives	**23,162**	74,192
Total	**212,443**	111,774

25. GAINS ON NON-TRADING INVESTMENTS, NET

	2015 SR '000	2014 SR '000
Gains on disposal of available for sale investments, net	**148,549**	496,257
Gains on disposal of other investments held at amortised cost, net	**129,147**	23,202
Total	**277,696**	519,459

26. OTHER NON-OPERATING (EXPENSES) INCOME, NET

	2015 SR '000	2014 SR '000
Income tax of foreign operations	**(93,864)**	(133,820)
8)	**15,905**	52,370
Gain on disposal of property and equipment	**17,523**	23,608
Net other (expenses) income	**(20,921)**	83,828
Total	**(81,357)**	25,986

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27. BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share for the years ended 31 December 2015 and 31 December 2014 is calculated by dividing the net income attributable to equity holders of the Bank for the year by the weighted average number of shares outstanding during the year (see note 18).

The calculation of diluted earnings per share is not applicable to the Group.

28. TIER 1 SUKUK

The Bank through a Shari'a compliant arrangement ("the arrangement") issued Tier 1 Sukuks (the "Sukuks"), aggregating to SR 5.7 billion. The arrangment was approved by the regulatory authorities and the shareholders of the Bank.

These Sukuks are perpetual securities in respect of which there is no fixed redemption dates and represents an undivided ownership interest of the Sukukholders in the Sukuk assets, with each Sakk constituting an unsecured, conditional and subordinated obligation of the Bank classified under equity. However, the Bank shall have the exclusive right to redeem or call the Sukuks in a specific period of time, subject to the terms and conditions stipulated in the Sukuk Agreement.

The applicable profit rate on the Sukuks is payable quarterly in arrears on each periodic distribution dates, except upon the occurrence of a non-pay payment event or non-payment election by the Bank, whereby the Bank may at its sole discretion (subject to certain terms and conditions) elect not to make any distributions. Such non-payment event or non-payment election are not considered to be events of default and the amounts not paid thereof shall not be cumulative or compound with any future distributions.

29. NET DIVIDEND AND ZAKAT

During the year, the Board of Directors recommended dividends, net of zakat, for the year as follows:

	Amount SR '000		Rate per share SR	
	2015	2014	**2015**	2014
Interim dividend paid	**1,595,707**	1,595,707	**0.80**	0.80
Proposed final dividend	**1,495,975**	1,296,512	**0.75**	0.65
Total net dividend	**3,091,682**	2,892,219	**1.55**	1.45
Zakat attributable to the Bank's shareholders	**1,230,013**	1,020,837		
Total gross dividend	**4,321,695**	3,913,056		

Zakat assessments have been finalized with the Department of Zakat and Income Tax (DZIT) for all years up to 2011. The Bank has submitted Zakat returns for the years 2012, 2013 and 2014 and obtained final Zakat certificates. The Zakat returns for the years 2012, 2013 and 2014 are currently under review by DZIT and Zakat assessment for these years is awaited.

30. CASH AND CASH EQUIVALENTS

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

	2015 **SR '000**	2014 SR '000
Cash and balances with SAMA excluding statutory deposits (note 4)	**8,578,063**	9,516,459
Due from banks and other financial institutions with original maturity of three months or less (note 5)	**7,227,530**	8,463,944
Total	**15,805,593**	17,980,403

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31. OPERATING SEGMENTS

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Group management.

The Group has five reportable segments, as described below, which are the Group's strategic divisions. The strategic divisions offer different products and services, and are managed separately based on the Group's management and internal reporting structure.

Retail	-	Provides banking services, including lending and current accounts in addition to products in compliance with Shariah rules which are supervised by the independent Shariah Board, to individuals and private banking customers.
Corporate	-	Provides banking services including all conventional credit-related products and financing products in compliance with Shariah rules to small sized businesses medium and large establishments and companies.
Treasury	-	Provides a full range of treasury products and services, including money market and foreign exchange, to the Group’s clients, in addition to carrying out investment and trading activities (local and international) and managing liquidity risk, market risk and credit risk (related to investments).
Capital Market	-	Provides wealth management, asset management, investment banking and shares brokerage services (local, regional and international).
International	-	Comprises banking services provided outside Saudi Arabia including TFK and the Bank's Beirut branch.

Transactions between the operating segments are recorded as per the Bank and its subsidiaries' transfer pricing system.

The supports and Head Office expenses are allocated to segments using activity-based costing.

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31. OPERATING SEGMENTS (continued)

(31.1) The Group's total assets and liabilities at year end, its operating income and expenses (total and main items) and net income for the year, by business segments, are as follows:

			(SR '000)			
2015	**Retail**	**Corporate**	**Treasury**	**Capital Market**	**International**	**Total**
Total assets	**99,694,869**	**145,727,608**	**153,445,153**	**1,857,694**	**48,615,105**	**449,340,429**
Total liabilities	**196,224,868**	**100,054,583**	**54,614,936**	**658,240**	**42,242,245**	**393,794,872**
Fee income from banking services, net	**1,102,467**	**1,098,330**	**-**	**686,787**	**448,711**	**3,336,295**
Operating income	**6,468,470**	**4,169,666**	**3,969,746**	**691,380**	**2,186,432**	**17,485,694**
Operating expenses of which:	**4,354,470**	**1,116,194**	**445,834**	**363,107**	**1,976,303**	**8,255,908**
- Depreciation of property and equipment	**344,834**	**105,852**	**47,274**	**24,071**	**92,741**	**614,772**
- Impairment charge for financing losses, net	**1,001,940**	**(86,706)**	**-**	**-**	**685,113**	**1,600,347**
- Impairment charge on investments, net	**-**	**-**	**108,961**	**686**	**-**	**109,647**
Net income (Bank and non-controlling interests)	**2,111,398**	**3,061,010**	**3,521,760**	**328,013**	**126,248**	**9,148,429**

			(SR '000)			
2014	Retail	Corporate	Treasury	Capital Market	International	Total
Total assets	88,915,469	122,439,684	168,362,035	1,512,857	53,648,039	434,878,084
Total liabilities	143,199,689	163,954,984	34,501,902	305,194	45,995,424	387,957,193
Fee income from banking services, net	1,089,905	1,064,939	-	739,879	548,250	3,442,973
Operating income	5,721,013	3,728,312	3,790,230	754,357	2,253,115	16,247,027
Operating expenses of which:	4,094,665	775,060	405,943	413,191	1,790,963	7,479,822
- Depreciation of property and equipment	261,344	93,004	29,420	21,358	95,560	500,686
- Impairment charge for financing losses, net	1,090,101	(486,017)	-	-	391,380	995,464
- Impairment charge on investments, net	-	-	136,555	13,172	-	149,727
Net income (Bank and non-controlling interests)	1,551,359	3,249,141	3,302,618	325,616	364,457	8,793,191

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31. OPERATING SEGMENTS (continued)

(31.2) The Group's credit exposure, by business segments, is as follows:

			(SR '000)			
2015	**Retail**	**Corporate**	**Treasury**	**Capital Market**	**International**	**Total**
Statement of financial position assets	**80,574,800**	**136,360,870**	**143,217,504**	**524,064**	**43,282,407**	**403,959,645**
Commitments and contingencies (credit equivalent)	**378,089**	**32,519,985**	**-**	**-**	**18,766,534**	**51,664,608**
Derivatives (credit equivalent)	**-**	**-**	**3,427,473**	**-**	**269,182**	**3,696,655**

			(SR '000)			
2014	Retail	Corporate	Treasury	Capital Market	International	Total
Statement of financial position assets	71,514,711	112,778,205	157,958,064	212,896	47,750,067	390,213,943
Commitments and contingencies (credit equivalent)	353,212	25,706,787	-	-	15,819,723	41,879,722
Derivatives (credit equivalent)	-	-	2,758,451	-	113,835	2,872,286

The credit exposure of assets as per statement of financial position comprises the carrying value of due from banks and other financial institutions, investments subject to credit risk, financing and advances, accrued special commission income, margin deposits against derivatives and repos and positive fair value of derivatives.

The credit equivalent of commitments and contingencies and derivatives is calculated according to SAMA’s prescribed methodology.

32. CREDIT RISK

The Group manages exposure to credit risk, which is the risk that one party to a financial instrument or transaction will fail to discharge an obligation and will cause the other party to incur a financial loss. Credit exposures arise principally in credit-related risk that is embedded in financing and advances and investments. There is also credit risk in off-balance sheet financial instruments, such as trade-finance related products derivatives and financing commitments.

For financing and advances and off-balance sheet financing to borrowers, the Group assesses the probability of default of counterparties using internal rating models. For investments, due from banks and off-balance sheet financial instruments with international counterparties, the Group uses external ratings of the major rating agencies.

The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Group's risk management policies are designed to identify risks and to set appropriate risk limits and to monitor the risks and adherence to limits. Actual exposures against limits are monitored daily.

The Group manages the credit exposure relating to its trading activities by monitoring credit limits, entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposure. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk. The Group's credit risk for derivatives represents the potential cost to replace the derivative contracts if counterparties fail to fulfill their obligation and the Group assesses counterparties using the same techniques as for its financing activities in order to control the level of credit risk taken.

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

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

The debt securities included in investments are mainly sovereign risk and high-grade securities. Analysis of investments by counterparty is provided in note (6.5). For details of the composition of the financing and advances refer to note (7.5). Information on credit risk relating to derivative instruments is provided in note (13) and for commitments and contingencies in note (21). The information on the Bank's total maximum credit exposure is given in note (32.1).

Each individual corporate borrower is rated based on an internally developed debt rating model that evaluates risk based on financial, qualitative and industry specific inputs. The associated loss estimate norms for each grade have been developed based on the Group's experience. These risk ratings are reviewed on a regular basis.

Performing credit cards and consumer financing are classified as standard as they are performing and have timely repayment with no past dues.

The Group in the ordinary course of lending activities holds collaterals as security to mitigate credit risk in the financing and advances (refer to note 7.4). These collaterals mostly include time and other cash deposits, financial guarantees from other banks, local and international equities, real estate and other fixed assets. The collaterals are held mainly against commercial and individual loans and are managed against relevant exposures at their net realizable values. The Group holds real estate collateral against transfer of title deed (ifrag) as a collateral but due to the difficulty in seizing and liquidating them, the Group does not consider them as immediate cash flow for impairment assessment for non-performing financing. Financial instruments such as financing and advances and customers' deposits are shown gross on the consolidated statement of financial position and no offsetting has been done. The positive and negative fair values of derivatives are shown gross on the consolidated statement of financial position and no offsetting has been done (refer to notes 12, 13 and 17). Collateral generally is not held against due from banks and other financial institutions, except when securities are held as part of reverse repurchase agreements (refer to note 5). The carrying amount and fair value of securities pledged and the margin deposit under agreements to repurchase (repo) are disclosed in notes 6.3, 12 and 14. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2015 and 31 December 2014.

32. CREDIT RISK (continued)

The Group seeks to manage its credit risk exposure through the diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or businesses. It also takes security when appropriate. The Group also seeks additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant financing and advances. The Group monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained periodically.

Specific allowances for financing losses for the impaired lending portfolio are maintained by the Group’s Credit Risk Management in addition to credit-related specific allowance for investments. Exposures falling within certain high risk ratings are considered impaired and appropriate specific allowances are individually made. An additional portfolio (collective) allowance is allocated over the performing financing and advances as well as investments [refer to notes (3.14 and 2.5(a)) for accounting policy of impairment of financial assets].

(32.1) Maximum credit exposure

Maximum exposure to credit risk without taking into account any collateral and other credit enhancements is as follows:

	2015	2014
	SR '000	SR '000
Assets		
Due from banks and other financial institutions (note 5)	**20,102,519**	19,863,020
Investments (note 6.6)	**125,148,918**	145,193,604
Financing and advances, net (note 7.4)	**251,531,030**	220,722,363
Other assets - margin deposits against derivatives and repos, and accrued special commission income receivable (note 12)	**4,688,145**	3,395,908
Total assets	**401,470,612**	389,174,895
Contingent liabilities and commitments, net (notes 15,17 and 21.3)	**76,284,007**	81,590,260
Derivatives - positive fair value, net (note 13)	**2,489,033**	1,039,048
Total maximum exposure	**480,243,652**	471,804,203

33. MARKET RISK

Market risk is the risk that changes in market prices, such as special commission rate, credit spreads (not relating to changes in the obligor's / issuer's credit standing), equity prices and foreign exchange rates, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Group separates its exposure to market risk between trading and banking books. Trading book is mainly held by the Treasury division and includes positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

Overall authority for market risk is vested in the Board of Directors. The Risk Group is responsible for the development of detailed risk management policies (subject to review and approval by the Board of Directors) and for the day-to-day review of their implementation.

(33.1) MARKET RISK-TRADING BOOK

The principal tool used to measure and control market risk exposure within the Group's trading book is Value at Risk (VaR). The VaR of a trading position is the estimated loss that will arise on the position over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used by the Group is based upon a 99 percent confidence level and assumes a 1-day holding period, except for Fair Value through Income Statement (FVIS) investments which are computed over a 3-month holding period (i.e., VaR is measured daily, except for VaR on FVIS investments which are computed on a monthly basis), to facilitate the comparison with the trading income (loss) which is also computed and reported on a daily and monthly basis respectively for these products. The model computes volatility and correlations using relevant historical market data.

The Group uses VaR limits for total market risk embedded in its trading activities including derivatives related to foreign exchange and special commission rate. The Group also assesses the market risks using VaR in its FVIS investments which are controlled by volume limits. The overall structure of VaR limits is subject to review and approval by the Board of Directors. VaR limits are allocated to the trading book. The daily reports of utilisation of VaR limits are submitted to the senior management of the Group. In addition, regular summaries about various risk measures including the Economic Capital are submitted to the Risk Committee of the Board.

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

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

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

(iii) VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day.

(iv) The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.

(v) The VaR measure is dependent upon the Group's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

The limitations of the VaR methodology are recognised by supplementing VaR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading book. In addition, the Group uses stress tests to model the financial impact of exceptional market scenarios on individual trading book and the Group's overall trading position.

33. MARKET RISK (continued)

(33.1) MARKET RISK-TRADING BOOK (continued)

The table below shows the VaR related information for the year ended 31 December 2015 and 31 December 2014 for both Held for Trading and Held as FVIS portfolios:

	(SR '000) Held for Trading			
2015	**Foreign exchange risk**	**Special commission risk**	**Overall risk**	**FVIS**
VaR as at 31 December 2015	**180**	**334**	**514**	**797,177**
Average VaR for 2015	**365**	**307**	**672**	**843,629**

	(SR '000) Held for Trading			
2014	Foreign exchange risk	Special commission risk	Overall risk	FVIS
VaR as at 31 December 2014	362	99	461	747,211
Average VaR for 2014	126	151	277	756,001

(33.2) MARKET RISK - BANKING BOOK

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

(33.2.1) SPECIAL COMMISSION RATE RISK

Special commission rate risk arises from the possibility that changes in special commission rates will affect future cash flows or the fair values of financial instruments. The Group's Assets-Liabilities Committee (ALCO) has established limits on the special commission rate gap. Positions are regularly monitored and reported on a monthly basis to ALCO and hedging strategies are used to ensure positions are maintained within the established limits. In case of stressed market conditions, the asset-liability gap may be monitored more frequently.

The following table depicts the sensitivity due to reasonably possible changes in special commission rates, with other variables held constant, on the Group’s consolidated statement of income or equity. The sensitivity of the income is the effect of the assumed changes in special commission rates on the net special commission income for one year, based on the special commission bearing non-trading financial assets and financial liabilities held as at 31 December 2015, including the effect of hedging instruments. The sensitivity of the equity is calculated by revaluing the fixed rate available for sale financial assets, including the effect of any associated hedges, as at 31 December 2015 for the effect of assumed changes in special commission rates. The sensitivity of equity is analyzed by maturity of the assets or cash flow hedge swaps. All significant banking book exposures are monitored and analyzed in currency concentrations and relevant sensitivities are disclosed in local currency. The sensitivity analysis does not take account of actions by the Group that might be taken to mitigate the effect of such changes.

33. MARKET RISK (continued)

(33.2) MARKET RISK - BANKING BOOK (continued)

(33.2.1) SPECIAL COMMISSION RATE RISK (continued)

2015	**Increase / decrease in basis points**	**Sensitivity of special commission income**	**SR '000 Sensitivity of equity (other reserves)**				
			Within 3 months	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Currency							
SR	**± 10**	**± 87,289**	**-**	**± 755**	**± 18,362**	**± 10,709**	**± 29,826**
USD	**± 10**	**± 16,048**	**± -**	**± 845**	**± 14,710**	**± 132,800**	**± 148,355**

2014	Increase / decrease in basis points	Sensitivity of special commission income	SR '000 Sensitivity of equity (other reserves)				
			Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Currency							
SR	± 10	± 93,388	-	± -	± 23,434	± 16,243	± 39,677
USD	± 10	± 3,423	± 29	± -	± 16,831	± 111,349	± 128,209

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33. MARKET RISK (continued)

(33.2) MARKET RISK - BANKING BOOK (continued)

(33.2.1) SPECIAL COMMISSION RATE RISK (continued)

(a) Special commission rate sensitivity of assets, liabilities and off-statement of financial position items

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

The table below summarizes the Group's exposure to special commission rate risks.

	SR '000					
2015	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Non-special commission bearing**	**Total**
Assets						
Cash and balances with SAMA	-	-	-	-	27,559,154	27,559,154
Due from banks and other financial institutions	9,057,115	3,797,500	-	-	7,247,904	20,102,519
Investments, net	22,528,960	10,945,467	37,843,507	53,824,574	7,855,041	132,997,549
Financing and advances, net	61,534,461	70,875,180	98,188,215	20,292,325	640,849	251,531,030
Investment in associates, net	-	-	-	-	423,740	423,740
Other real estate, net	-	-	-	-	876,264	876,264
Property and equipment, net	-	-	-	-	3,716,091	3,716,091
Goodwill and other intangible assets, net	-	-	-	-	470,282	470,282
Other assets	-	-	-	-	11,663,800	11,663,800
Total assets	93,120,536	85,618,147	136,031,722	74,116,899	60,453,125	449,340,429
Liabilities and equity						
Due to banks and other financial institutions	41,474,060	2,024,610	3,760,497	-	460,405	47,719,572
Customers' deposits	54,833,370	20,175,171	1,135,585	1,009,405	246,128,742	323,282,273
Debt securities issued	213,096	286,566	8,429,245	933,921	-	9,862,828
Other liabilities	-	-	-	-	12,930,199	12,930,199
Equity attributable to equity holders of the Bank	-	-	-	-	54,162,486	54,162,486
Non-controlling interests	-	-	-	-	1,383,071	1,383,071
Total liabilities and equity	96,520,526	22,486,347	13,325,327	1,943,326	315,064,903	449,340,429
On-statement of financial position gap	(3,399,990)	63,131,800	122,706,395	72,173,573	(254,611,778)	
Off-statement of financial position gap	8,366,124	3,919,287	(7,858,004)	(4,178,437)	248,971	
Total special commission rate sensitivity gap	4,966,134	67,051,087	114,848,391	67,995,136	(254,362,807)	
Cumulative special commission rate sensitivity gap	4,966,134	72,017,221	186,865,612	254,860,748	497,941	

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33. MARKET RISK (continued)

(33.2) MARKET RISK - BANKING BOOK (continued)

(33.2.1) SPECIAL COMMISSION RATE RISK (continued)

(a) Special commission rate sensitivity of assets, liabilities and off-statement of financial position items (continued)

SR '000

2014	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-special commission bearing	Total
Assets						
Cash and balances with SAMA	2,792,980	-	-	-	26,025,589	28,818,569
Due from banks and other financial institutions	7,453,417	5,099,900	375,000	934,453	6,000,250	19,863,020
Investments, net	35,144,130	33,276,571	29,891,833	46,881,073	7,709,433	152,903,040
Financing and advances, net	39,916,305	109,053,158	61,784,986	9,633,368	334,546	220,722,363
Investment in associates, net	-	-	-	-	407,835	407,835
Other real estate, net	-	-	-	-	858,520	858,520
Property and equipment, net	-	-	-	-	3,427,399	3,427,399
Goodwill and other intangible assets, net	-	-	-	-	693,298	693,298
Other assets	-	-	-	-	7,184,040	7,184,040
Total assets	85,306,832	147,429,629	92,051,819	57,448,894	52,640,910	434,878,084
Liabilities and equity						
Due to banks and other financial institutions	22,997,380	8,830,711	3,122,425	-	498,972	35,449,488
Customers' deposits	43,585,941	24,393,664	442,084	-	264,673,802	333,095,491
Debt securities issued	-	326,080	9,224,416	-	-	9,550,496
Other liabilities	-	-	-	-	9,861,718	9,861,718
Equity attributable to equity holders of the Bank	-	-	-	-	45,213,637	45,213,637
Non-controlling interests	-	-	-	-	1,707,254	1,707,254
Total liabilities and equity	66,583,321	33,550,455	12,788,925	-	321,955,383	434,878,084
On-statement of financial position gap	18,723,511	113,879,174	79,262,894	57,448,894	(269,314,473)	
Off-statement of financial position gap	7,909,957	1,623,096	(6,557,260)	(2,975,793)	-	
Total special commission rate sensitivity gap	26,633,468	115,502,270	72,705,634	54,473,101	(269,314,473)	
Cumulative special commission rate sensitivity gap	26,633,468	142,135,738	214,841,372	269,314,473	-	

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

33. MARKET RISK (continued)

(33.2) MARKET RISK - BANKING BOOK (continued)

(33.2.2) CURRENCY RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Board has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

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

Currency	**2015 SR '000 Long (short)**	2014 SR '000 Long (short)
US Dollar	**(1,095,263)**	571,672
TRY	**4,659,840**	4,664,978

Long position indicates that assets in a foreign currency are higher than the liabilities in the same currency; the opposite applies to short position.

The table below indicates the extent to which the Group was exposed to currency risk at 31 December 2015 on its significant foreign currency positions. The analysis is performed for reasonably possible movements of the currency rate against the Saudi Riyal with all other variables held constant, including the effect of hedging instruments, on the consolidated statement of income; the effect on equity of foreign currencies other than Turkish Lira (TRY) is not significant. A negative amount in the table reflects a potential net reduction in consolidated statement of income, while a positive amount reflects a net potential increase. The sensitivity analysis does not take account of actions by the Group that might be taken to mitigate the effect of such changes.

	2015 SR '000			2014 SR '000		
Currency	**Increase/ decrease in currency rate in %**	**Effect on profit**	**Effect on equity**	Increase/ decrease in currency rate in %	Effect on profit	Effect on equity
TRY	**± 10%**	**± 23,320**	**± 465,984**	± 10%	± 37,409	± 466,498

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33. MARKET RISK (continued)

(33.2) MARKET RISK - BANKING BOOK (continued)

(33.2.3) EQUITY PRICE RISK

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the levels of equity index and the value of individual stocks.

The effect on equity (other reserves) as a result of a change in the fair value of equity instruments quoted on Saudi Stock Exchange (Tadawul) and held as available-for-sale at 31 December 2015 and 31 December 2014, due to reasonably possible changes in the prices of these quoted shares held by the Group, with all other variables held constant, is as follows:

	2015 SR '000		2014 SR '000	
Market index - (Tadawul)	**Increase / decrease in market prices %**	**Effect on equity (other reserves)**	Increase / decrease in market prices %	Effect on equity (other reserves)
Impact of change in market prices	**± 10%**	**± 80,693**	± 10%	± 114,075

34. LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to be less readily available. To mitigate this risk, management has diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, maintaining an appropriate balance of cash, cash equivalents and readily marketable securities and monitors future cash flows and liquidity on a daily basis. The Group has lines of credit in place that it can access to meet liquidity needs.

In accordance with the Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA of 7% of total demand deposits and 4% of savings and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of not less than 20% of the deposit liabilities, in the form of cash, Saudi Government Development Bonds or assets which can be converted into cash within a period not exceeding 30 days. The Bank has the ability to raise additional funds through repo facilities available with SAMA against Saudi Government Development Bonds up to 75% of the nominal value of bonds held.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. One of these methods is to maintain limits on the ratio of liquid assets to deposit liabilities, set to reflect market conditions. Liquid assets consists of cash, short-term bank deposits and liquid debt securities available for immediate sale and Saudi Government Bonds excluding repos. Deposits liabilities include both customers and Banks, excluding non-resident Bank deposits in foreign currency.

(34.1) Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2015 and 31 December 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 on the basis of the remaining period at the consolidated statement of financial position date to the contractual maturity date and do not take into account the effective expected maturities as shown on note (34.2) below (Maturity analysis of assets and liabilities for the expected maturities). Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

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34. LIQUIDITY RISK (continued)

(34.1) Analysis of financial liabilities by remaining contractual maturities (continued)

			SR '000			
Financial liabilities	**On demand**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
As at 31 December 2015						
Due to banks and other financial institutions	**3,520,842**	**39,250,683**	**2,166,826**	**3,207,788**	**-**	**48,146,139**
Customers' deposits	**247,291,874**	**53,797,733**	**8,331,674**	**13,213,994**	**1,041,530**	**323,676,805**
Debt securities issued	**-**	**285,390**	**1,030,889**	**5,230,990**	**5,692,651**	**12,239,920**
Derivative financial instruments (gross contractual amounts payable)	**-**	**64,381,417**	**93,460,849**	**61,141,110**	**2,915,703**	**221,899,079**
Other liabilities	**2,224,664**	**5,503,435**	**-**	**-**	**-**	**7,728,099**
Total undiscounted financial liabilities	**253,037,380**	**163,218,658**	**104,990,238**	**82,793,882**	**9,649,884**	**613,690,042**

			SR '000			
Financial liabilities	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
As at 31 December 2014						
Due to banks and other financial institutions	5,972,733	23,498,690	4,593,810	1,929,634	-	35,994,867
Customers' deposits	264,886,451	43,516,248	10,586,133	14,409,898	-	333,398,730
Debt securities issued	-	275,609	380,998	5,374,676	5,478,946	11,510,229
Derivative financial instruments (gross contractual amounts payable)	-	45,444,307	93,990,085	84,825,362	17,816,307	242,076,061
Other liabilities	2,160,336	4,143,201	-	-	-	6,303,537
Total undiscounted financial liabilities	273,019,520	116,878,055	109,551,026	106,539,570	23,295,253	629,283,424

The contractual maturity structure of the credit-related contingencies and commitments are shown under note (21.3(a)).

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34. LIQUIDITY RISK (continued)

(34.2) MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled. See note (34.1) above for the contractual undiscounted financial liabilities.

			(SR '000)		
2015	**0-30 days**	**1 to 12 months**	**Over 1 year**	**No-fixed maturity**	**Total**
Assets					
Cash and balances with SAMA	-	-	8,578,062	18,981,092	27,559,154
Due from banks and other financial institutions	2,287,658	995,038	16,819,823	-	20,102,519
Investments, net	1,726,446	934,253	122,481,809	7,855,041	132,997,549
Financing and advances, net	24,737,071	72,233,978	154,559,981	-	251,531,030
Investment in associates, net	-	-	-	423,740	423,740
Other real estate, net	-	-	-	876,264	876,264
Property and equipment, net	-	-	-	3,716,091	3,716,091
Goodwill and other intangible assets, net	-	-	-	470,282	470,282
Other assets	-	-	-	11,663,800	11,663,800
Total assets	28,751,175	74,163,269	302,439,675	43,986,310	449,340,429
Liabilities and equity					
Due to banks and other financial institutions	27,224,166	942,912	16,029,500	3,522,994	47,719,572
Customers' deposits	20,530,386	10,478,980	72,082,775	220,190,132	323,282,273
Debt securities issued	-	-	9,862,828	-	9,862,828
Other liabilities	-	-	-	12,930,199	12,930,199
Total liabilities	47,754,552	11,421,892	97,975,103	236,643,325	393,794,872
Total equity	-	-	-	55,545,557	55,545,557
Total liabilities and equity	47,754,552	11,421,892	97,975,103	292,188,882	449,340,429

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34. LIQUIDITY RISK (continued)

(34.2) MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

2014			(SR '000)		
	0-30 days	1 to 12 months	Over 1 year	No-fixed maturity	Total
Assets					
Cash and balances with SAMA	2,792,981	-	6,723,479	19,302,109	28,818,569
Due from banks and other financial institutions	2,281,589	974,844	16,606,587	-	19,863,020
Investments, net	3,183,207	33,965,209	108,037,957	7,716,667	152,903,040
Financing and advances, net	17,045,321	73,497,129	130,179,913	-	220,722,363
Investment in associates, net	-	-	-	407,835	407,835
Other real estate, net	-	-	-	858,520	858,520
Property and equipment, net	-	-	-	3,427,399	3,427,399
Goodwill and other intangible assets, net	-	-	-	693,298	693,298
Other assets	-	-	-	7,184,040	7,184,040
Total assets	25,303,098	108,437,182	261,547,936	39,589,868	434,878,084
Liabilities and equity					
Due to banks and other financial institutions	12,358,315	951,024	16,167,415	5,972,734	35,449,488
Customers' deposits	17,298,594	8,690,121	59,935,223	247,171,553	333,095,491
Debt securities issued	-	-	9,550,496	-	9,550,496
Other liabilities	-	-	-	9,861,718	9,861,718
Total liabilities	29,656,909	9,641,145	85,653,134	263,006,005	387,957,193
Total equity	-	-	-	46,920,891	46,920,891
Total liabilities and equity	29,656,909	9,641,145	85,653,134	309,926,896	434,878,084

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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35. GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES, COMMITMENTS AND CONTINGENCIES AND CREDIT EXPOSURE

(35.1) The distribution by geographical region for major categories of assets, liabilities and commitments and contingencies and credit exposure at year end is as follows:

2015			(SR '000)			
	The Kingdom of Saudi Arabia	GCC and Middle East	Europe	Turkey	Other countries	Total
Assets						
Cash and balances with SAMA	24,750,540	31,248	515,760	552,899	1,708,707	27,559,154
Due from banks and other financial institutions	4,013,866	4,554,353	1,228,020	6,248,753	4,057,527	20,102,519
Investments, net	24,482,173	37,267,376	7,360,288	3,509,535	60,378,177	132,997,549
Financing and advances, net	207,230,233	3,700,951	2,788,595	36,455,813	1,355,438	251,531,030
Investment in associates, net	423,740	-	-	-	-	423,740
Goodwill and other intangible assets, net	-	-	-	470,282	-	470,282
Total	260,900,552	45,553,928	11,892,663	47,237,282	67,499,849	433,084,274
Liabilities						
Due to banks and other financial institutions	7,538,674	11,997,651	18,236,104	6,888,456	3,058,687	47,719,572
Customers' deposits	291,546,703	2,868,707	24,663	28,818,170	24,030	323,282,273
Debt securities issued	5,000,000	-	-	4,862,828	-	9,862,828
Total	304,085,377	14,866,358	18,260,767	40,569,454	3,082,717	380,864,673
Commitments and contingencies (note 21.3)	49,696,021	2,667,233	1,900,851	16,063,088	11,079,928	81,407,121
Credit exposure (credit equivalent) (note 31.2):						
Commitments and contingencies	32,433,012	1,395,553	1,307,638	9,730,998	6,797,407	51,664,608
Derivatives	1,967,751	637,404	822,318	269,182	-	3,696,655

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35. GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES, COMMITMENTS AND CONTINGENCIES AND CREDIT EXPOSURE (continued)

(35.1) The distribution by geographical region for major categories of assets, liabilities and commitments and contingencies and credit exposure at year end is as follows (continued):

(SR '000)

2014	The Kingdom of Saudi Arabia	GCC and Middle East	Europe	Turkey	Other countries	Total
Assets						
Cash and balances with SAMA	26,531,347	17,876	651,269	343,477	1,274,600	28,818,569
Due from banks and other financial institutions	3,658,734	3,204,803	1,309,893	8,669,006	3,020,584	19,863,020
Investments, net	55,817,228	35,507,070	5,165,542	5,081,258	51,331,942	152,903,040
Financing and advances, net	175,311,181	1,891,345	4,481,310	38,582,217	456,310	220,722,363
Investment in associates, net	407,835	-	-	-	-	407,835
Goodwill and other intangible assets, net	-	-	-	693,298	-	693,298
Total	261,726,325	40,621,094	11,608,014	53,369,256	56,083,436	423,408,125
Liabilities						
Due to banks and other financial institutions	2,141,272	14,836,084	4,729,063	8,767,175	4,975,894	35,449,488
Customers' deposits	301,501,631	195,477	24,641	31,302,451	71,291	333,095,491
Debt securities issued	5,000,000	-	-	4,550,496	-	9,550,496
Total	308,642,903	15,031,561	4,753,704	44,620,122	5,047,185	378,095,475
Commitments and contingencies (note 21.3)	49,624,983	4,396,803	2,443,174	17,149,275	12,666,312	86,280,547
Credit exposure (credit equivalent) (note 31.2):						
Commitments and contingencies	26,070,820	1,400,266	1,155,162	8,551,768	4,701,706	41,879,722
Derivatives	1,685,282	333,529	739,640	113,835	-	2,872,286

The credit equivalent of commitments and contingencies and derivatives is calculated according to SAMA's prescribed methodology.

35. GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES, COMMITMENTS AND CONTINGENCIES AND CREDIT EXPOSURE (continued)

(35.2) The distribution by geographical concentration of non-performing financing and advances and specific allowance are as follows:

	(SR '000)		
2015	**The Kingdom of Saudi Arabia**	**Turkey**	**Total**
Non performing financing and advances	**2,074,867**	**1,607,082**	**3,681,949**
Less: specific allowance	**(1,790,210)**	**(1,066,216)**	**(2,856,426)**
Net	**284,657**	**540,866**	**825,523**
2014			
Non performing financing and advances	1,889,278	961,978	2,851,256
Less: specific allowance	(1,682,343)	(694,423)	(2,376,766)
Net	206,935	267,555	474,490

36. 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 in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

The fair values of on-balance sheet financial instruments, except for other investments held at amortised cost and held-to-maturity investments which are carried at amortised cost, are not significantly different from the carrying values included in the consolidated financial statements. The fair values of financing and advances, commission bearing customers' deposits, due from/to banks and other financial institutions which are carried at amortised cost, are not significantly different from the carrying values included in the consolidated financial statements, since the current market commission rates for similar financial instruments are not significantly different from the contracted rates, and for the short duration of due from/to banks and other financial institutions. The estimated fair values of held-to-maturity investments and other investments held at amortised cost are based on quoted market prices when available or pricing models when used in the case of certain fixed rate bonds respectively. The fair values of these investments are disclosed in note 6.4.

The fair values of derivatives and other off-balance sheet financial instruments are based on the quoted market prices when available and/or by using the appropriate valuation techniques.

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37. DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY

The Group 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.

Level 2: quoted prices in active markets for similar assets and liabilities or 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.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	(SR '000)			
2015	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Derivative financial instruments	**-**	**2,489,033**	**-**	**2,489,033**
Financial assets designated at FVIS	**-**	**1,927,370**	**176,909**	**2,104,279**
Financial assets available for sale	**23,365,658**	**6,295,244**	**811,644**	**30,472,546**
Held for trading	**737,036**	**-**	**-**	**737,036**
Other investments held at amortized cost, net - fair value hedged (see note (6.2))	**-**	**8,537,642**	**-**	**8,537,642**
Total	**24,102,694**	**19,249,289**	**988,553**	**44,340,536**
Financial liabilites				
Derivative financial instruments	**-**	**2,992,325**	**-**	**2,992,325**
Total	**-**	**2,992,325**	**-**	**2,992,325**

	(SR '000)			
2014	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments	-	1,039,048	-	1,039,048
Financial assets designated at FVIS	5,688	1,666,531	465,686	2,137,905
Financial investments available for sale	20,667,613	6,175,356	1,077,684	27,920,653
Held for trading	976,707	-	-	976,707
Other investments held at amortized cost, net - fair value hedged (see note (6.2))	-	8,038,110	-	8,038,110
Total	21,650,008	16,919,045	1,543,370	40,112,423
Financial liabilites				
Derivative financial instruments	-	1,360,707	-	1,360,707
Total	-	1,360,707	-	1,360,707

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37. DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

Financial instruments carried at fair value and classified under level 3 in the fair value hierarchy primarily represent private equities, which are valued using one or more of the following techniques:

Valuation technique	Significant unobserable inputs	Fair value measurement sensitivity to unobservable inputs
Discounted cash flows method	• Expected entity growth rates. • Risk-adjusted discount rates.	The estimated fair value would increase (decrease) if: • Risk-adjusted discount
Multiples method	• Liquidity/marketability discounts. • Control premium.	The estimated fair value would increase (decrease) if: • Liquidity/marketability discounts were lower (higher) • Control premium were higher (lower).

37. DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

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 in respect of financial assets designated as FVIS and available for sale.

Movement of level 3 is as follows:

	2015 **SR '000**	2014 SR '000
Balance at beginning of the year	**1,543,370**	1,546,058
Total gains/(losses) (realized and unrealized) in consolidated statement of income	**-**	-
Total (losses)/gains in consolidated statement of comprehensive income	**(135,251)**	172,679
Purchases	**48,536**	12,090
(Sales)	**(240,087)**	(155,418)
(Settlements)	**4,034**	(15,866)
Transfer to/(from) level 3	**(232,049)**	(16,173)
Balance at end of the year	**988,553**	1,543,370

38. RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Group transacts business with related parties. In the opinion of the management and the Board, the related party transactions are performed on an arm's length basis. The related party transactions are governed by the limits set by the Banking Control Law and the regulations issued by SAMA. Related party balances include the balances resulting from transactions with Governmental shareholders. All other Government transactions are entered/conducted also at market rates.

(38.1) The balances as at 31 December included in the financial statements are as follows:

	2015 **SR '000**	2014 SR '000
Bank's Board of Directors and senior executives:		
Financing and advances	**316,089**	260,904
Customers' deposits	**665,940**	834,107
Commitment and contingencies	**228,041**	253,397
Investments	**3,422**	2,181
Other liabilities - end of service benefits	**26,682**	20,161
Major shareholders:		
Customers' deposits	**24,378,166**	28,082,508
Commitment and contingencies	**107,953**	107,953
Investments	**881,509**	750,100
Group's investment funds:		
Investments	**737,083**	876,525
Customers' deposits	**159,093**	120,806

Major shareholders represent shareholdings of more than 5% of the Bank's issued share capital. Related parties are the persons or close members of those persons' families and their affiliate entities where they have control, joint control or significant influence over these entities.

38. RELATED PARTY TRANSACTIONS (continued)

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

	2015 SR '000	2014 SR '000
Special commission income	**49,068**	68,109
Special commission expense	**307,755**	261,860
Fees and commission income and expense, net	**267,981**	305,545

(38.3) The total amount of compensation paid to the Group key management personnel and Board of Directors during the year is

	2015 SR '000	2014 SR '000
Directors' remuneration	**14,694**	13,764
Short-term employee benefits	**120,344**	122,528
End of service benefits	**5,662**	3,603

The Bank's Board of Directors includes the Board and Board related committees (Executive Committee, Risk Management Committee, Compensation and Nomination Committee and Audit Committee). For Bank's senior executives compensation, refer to note 39.

39. GROUP'S STAFF COMPENSATION

The total cost of the Group's compensation is as follows:

	2015			2014		
Categories of employees	**Number of employees**	**Fixed compensation (on accrual basis) SR '000**	**Variable compensation (on cash basis) SR '000**	Number of employees	Fixed compensation (on accrual basis) SR '000	Variable compensation (on cash basis) SR '000
Senior executives	**14**	**27,981**	**55,983**	14	26,583	62,241
Employees engaged in risk taking activities	**322**	**131,175**	**43,124**	296	117,095	45,326
Employees engaged in control functions	**385**	**141,299**	**42,024**	354	122,877	35,721
Other employees	**7,442**	**1,358,835**	**282,114**	6,912	1,222,168	264,793
Other employee related benefits	**-**	**435,120**	**-**	-	350,238	-
Subsidiaries	**4,423**	**514,960**	**104,061**	4,780	582,691	134,171
Group total	**12,586**	**2,609,370**	**527,306**	12,356	2,421,652	542,252

All forms of payment for fixed and variable compensation are in cash.

The Bank's senior executives are those persons, including an executive director, having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly.

Employees engaged in risk taking activities comprise those officers of the business sectors of Individual Banking, Corporate and Treasury, who are the key drivers in undertaking business transactions, and managing related business risks.

Employees engaged in control functions include employees in Risk Management, Internal Audit, Compliance, Finance and Legal divisions.

The Group's variable compensation recognized as staff expenses in the consolidated statement of income for 2015 is SR 475 million (2014: SR 446.7 million) which will be paid to employees during quarter 1 of 2016.

40. CAPITAL ADEQUACY

(40.1) Capital adequacy ratio

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

The Group monitors the adequacy of its capital using the ratios and weights established by SAMA. These ratios measure capital adequacy by comparing the Group's eligible capital with its statement of financial position assets, commitments and contingencies and notional amount of derivatives at a weighted amount to reflect their relative credit risk, market risk and operational risk. SAMA requires Banks to hold the minimum level of the regulatory capital and maintain a ratio of total eligible capital to the risk-weighted asset at or above the agreed minimum of 8%. Regulatory Capital is computed for Credit, Market and Operational risks which comprise the Pillar 1 minimum capital requirements.

SAMA has issued the framework and guidance regarding implementation of the capital reforms under Basel III - which are effective from 1 January 2013. Accordingly, the Group's consolidated Risk Weighted Assets (RWA), total eligible capital and related ratios on a consolidated group basis are calculated under the Basel III framework.

The following table summarizes the Bank's Pillar-1 Risk Weighted Assets, Tier 1 and Tier 2 capital and capital adequacy ratios.

	Risk weighted assets	
	2015	2014
	SR 000	SR 000
Credit risk	**328,281,725**	277,142,137
Operational risk	**29,525,304**	26,973,029
Market risk	**7,347,137**	8,666,722
Total Pillar-1 - risk weighted assets	**365,154,166**	312,781,888
Core capital (Tier 1)	**55,101,066**	46,061,990
Supplementary capital (Tier 2)	**7,707,197**	7,755,498
Core and supplementary capital (Tier 1 and Tier 2)	**62,808,263**	53,817,488
Capital Adequacy Ratio (Pillar 1):-		
Core capital (Tier 1)	**15.1%**	14.7%
Core and supplementary capital (Tier 1 and Tier 2)	**17.2%**	17.2%

Tier 1 capital of the Group comprises share capital, statutory reserve, other reserves, proposed dividend, retained earnings, tier 1 eligible debt securities and non-controlling interests less treasury shares, goodwill, intangible assets, foreign currency translation reserve and other prescribed deductions. Tier 2 capital comprises of eligible debt securities issued and prescribed amounts of eligible portfolio (collective) provisions less prescribed deductions.

The Group uses the Standardized approach of Basel III to calculate the risk weighted assets and required Regulatory Capital for Pillar -1 (including credit risk, market risk and operational risk). The Group's Risk Management is responsible for ensuring that minimum required Regulatory Capital calculated is compliant with Basel III requirements. Quarterly prudential returns are submitted to SAMA showing the Capital Adequacy Ratio.

(40.2) BASEL III PILLAR 3 DISCLOSURES

Under Basel III Pillar 3, certain quantitative and qualitative disclosures are required, and these disclosures, which are not required to be externally audited, will be made available on the Bank's website **www.alahli.com** as required by the Saudi Arabian Monetary Agency (SAMA).

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41. GROUP'S INTEREST IN OTHER ENTITES

41.1 MATERIAL PARTLY-OWNED SUBSIDIARIES

a) Significant restrictions

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 TFK operate. The supervisory frameworks require TFK to keep certain levels of regulatory capital and liquid assets, limits its exposure to other parts of the Group and comply with other ratios. The carrying amounts of TFK's assets and liabilities are SR 48,164 million and SR 44,044 million respectively (2014: SR 53,068 million and SR 48,098 million respectively).

b) Non-controlling interests in subsidiaries

The following table summarises the information relating to the Group's subsidiary (TFK) that has material non-controlling interests (NCI).

	2015	2014
	SR '000	SR '000
Summarised statement of financial position		
Financing and advances	**36,455,813**	38,582,217
Other assets	**11,707,766**	14,486,129
Liabilities	**44,044,222**	48,097,653
Net assets	**4,119,357**	4,970,693
Carrying amount of NCI	**1,358,152**	1,638,837
Summarised statement of income		
Total operating income	**2,173,193**	2,207,944
Net income	**158,567**	593,563
Total comprehensive income	**(851,335)**	67,197
Total comprehensive income allocated to NCI	**(287,127)**	22,663
Summarised cash flow statement		
Net cash from (used in) from operating activities	**(2,505,429)**	153,560
Net cash (used in) investing activities	**(376,796)**	(1,804,765)
Net cash from financing activities	**1,473,664**	3,401,904
Net (decrease) / increase in cash and cash equivalents	**(1,408,561)**	1,750,699

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41. GROUP'S INTEREST IN OTHER ENTITES (continued)

41.2 INVOLVEMENT WITH UNCONSOLIDATES STRUCTURED ENTITIE

The table below describes the types of structured entities that the Group does not consolidate but in which it holds an interest.

Type of structured entity	Nature and purpose	Interest held by the Group
Mutual funds	To generate fees from managing assets on behalf of third party investors. These funds are financed through the issue of units to investors.	• Investments in units issued by the fund • Management fees
Hedge funds	To generate returns from trading in the units/shares of the fund and/or via distributions made by the fund. These funds are financed through the issue of units/shares to investors.	• Investments in units issued by the fund
Private equity funds	To generate returns from long-term capital appreciation in the net worth of the fund, reaslised via periodic distributions and eventual exit at the end of the life of the fund. These funds are financed through the issue of units/ shares to investors.	• Investments in units/ shares issued by the fund

The table below sets out an analysis of the carrying amounts of interests held by the Group in unconsolidated structured entities. The maximum exposure to loss is the carrying amount of the assets held.

	2015 **SR '000**	2014 SR '000
Mutual funds	**737,036**	**976,707**
Hedge funds	**2,104,279**	**2,137,905**
Private equity funds	**682,978**	**1,020,565**
Total	**3,524,293**	4,135,177

The Group considers itself a sponsor of a structured entity when it facilitates the establishment of the structured entity. At 31 December 2015, the Group holds an interest in all structured entities, which is, has sponsored. These are mainly represented by mutual funds established and managed by NCBC and private equity funds established and managed by Eastgate.

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42. INVESTMENT SERVICES

The Bank offers investment management services to its customers through its subsidiary NCB Capital. Assets under management outstanding at 31 December 2015 amounted to SR 74,809 million (2014: SR 53,407 million) (note 3.24).

43. COMPARATIVE FIGURES

Certain prior year figures have been reclassified to confirm to current year presentation, which are not material in nature.

44. PROSPECTIVE CHANGES IN ACCOUNTING POLICIES

Standards issued but not yet effective up to the date of issuance of the Group consolidated financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective. The Group is currently assessing the implications of the below mentioned standards and amendments on the Group's consolidated financial statements and the related timing of adoption.

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

Effective for annual periods	Standard, amendment or interpretation	Summary of requirements
1 January 2018	IFRS 9	Financial Instruments
1 January 2018	IFRS 15	Revenue from contracts with customers
1 January 2016	Amendments of 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	Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
1 January 2016	Amendments to IFRSs	Annual improvements to IFRSs 2012-2014 cycle
1 January 2016	Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities : Applying the Consolidation Exception
1 January 2016	Amendments to IAS 1	Disclosure Initiative

45. BOARD OF DIRECTORS' APPROVAL

The consolidated financial statements were approved by the Board of Directors on 27 January 2016 (corresponding to 18 Jumad Awal 1437H).