BOARD OF DIRECTORS & FINANCIAL STATEMENTS 2015

البنك السعودي الفرنسي

Banque Saudi Fransi

بنــك الإمـتِيَاز | Banque of Excellence

Table of
Contents

بسم الله الرحمن الرحيم

King Salman Bin Abdulaziz Al-Saud
Custodian of the Two Holy Mosques

HRH Prince Mohamad Bin Salman Bin Abdulaziz Al-Saud
Deputy Crown Prince

HRH Prince Mohamad Bin Naif Bin Abdulaziz Al-Saud
Crown Prince First Deputy Premier

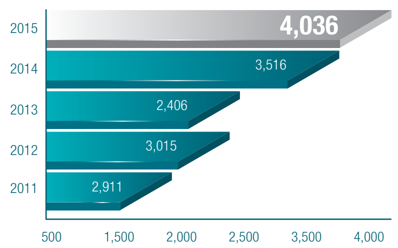
2015
Year at a Glance

Performance

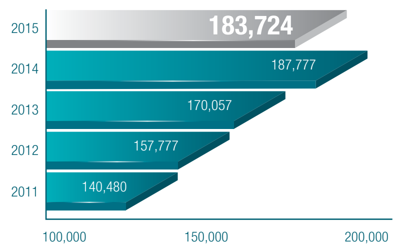
Net Income	SAR 4,036 million
Total Assets	SAR 183,724 million
Customers' Deposits	SAR 141,751 million
Loans & Advances, net	SAR 123,443 million
Total Equity	SAR 27,484 million
Total Liabilities	SAR 156,240 million

Net Income
SAR **4,036** million

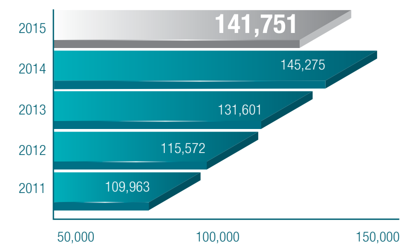
Net Income (in million SAR)



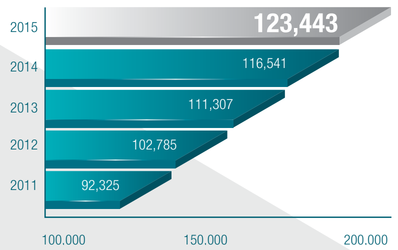
Total Assets (in million SAR)



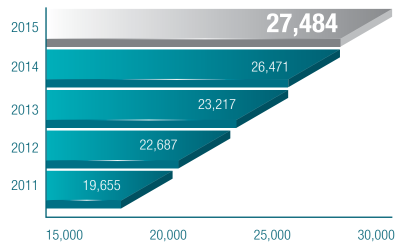
Customer's Deposits (in million SAR)



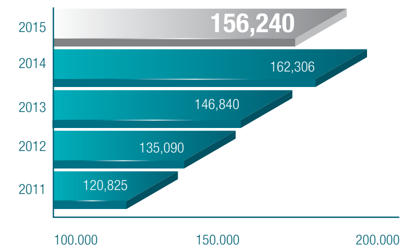
Loans & Advances (in million SAR)



Total Equity (in million SAR)



Total Liability (in million SAR)



Chairman's Statement

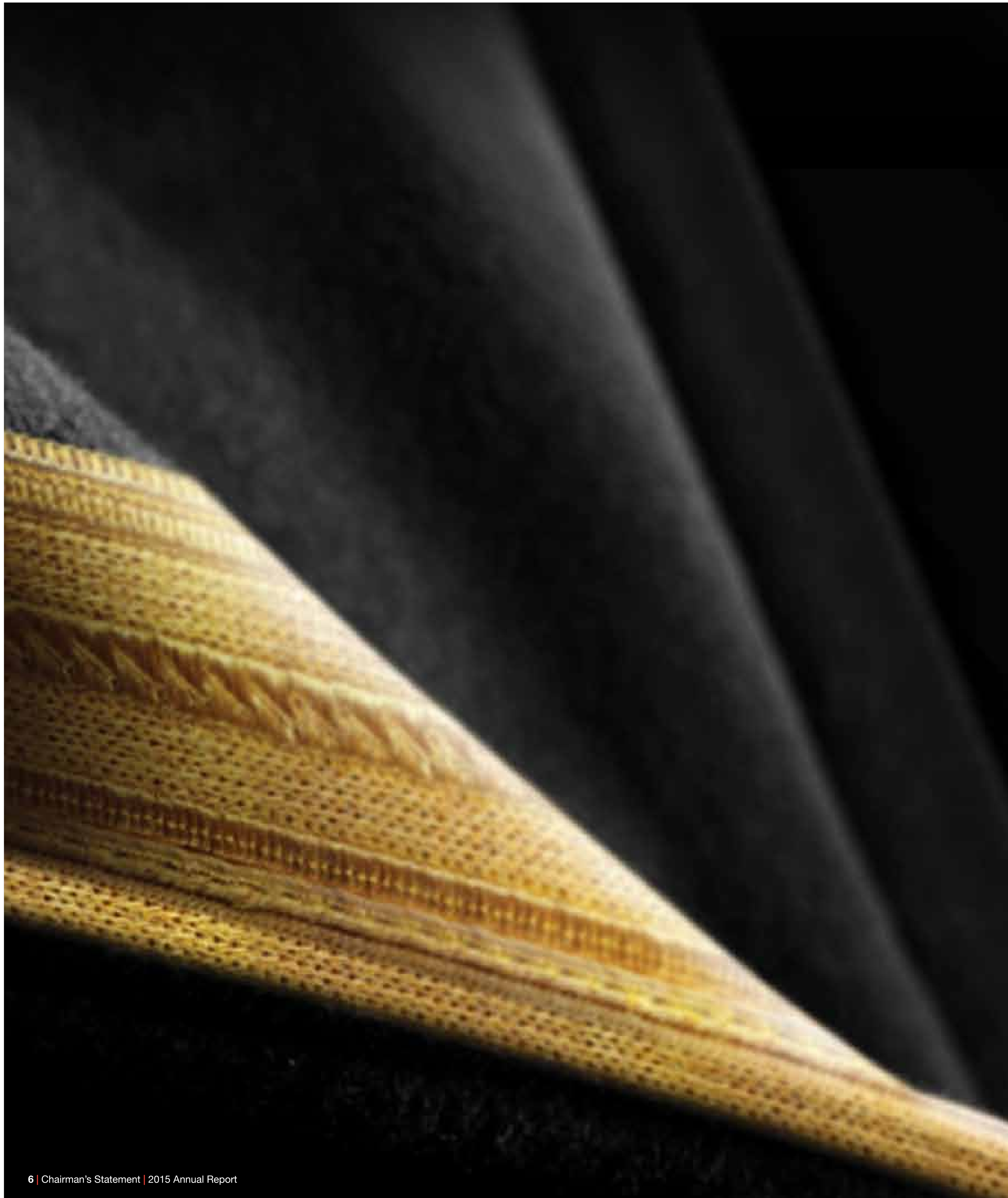
We have achieved outstanding results in 2015 scoring

Growth Rate of %14.79

On behalf of my colleagues on the board of directors, I am pleased to present the annual report and financial statements for the fiscal year ended in 31/12/2015.

BSF continued its successful journey despite the challenges and crises facing the world economy in general and the Arab region's economy in particular. BSF relied on the efforts of its senior executive management and employees in the implementation of the plans and directives of the Board of Directors and utilizing the strategic and positive advantages of the Kingdom of Saudi Arabia as manifested in the safe and stimulating investment environment within the banking sector that works with institutional discreet harmony under the prudent control of the Saudi Arabian Monetary Agency, and through the effective application of the principles, rules, regulations and institutional guidelines, global applications, best monitoring practices, and availability of academically qualified and technically trained human resources which reflect the Saudi banking supremacy in the region.

Speaking of the Bank's performance, in spite of the challenges BSF is facing in all economic sectors, it has achieved outstanding results in 2015 with net profit of SAR 4.036 billion compared to SAR 3.516 billion in 2014, scoring a growth rate of 14.79%.



These positive results have been realized through the relentless efforts of the executive management in implementing the strategic restructuring plan 2012-2016 and continued growth in all sectors of the Bank's operations.

This growth in profits came about as a result of development in the conventional services of the Bank whereby the loan portfolio increased by 5.92% to SAR 123.443 billion; deposits amounted to SAR 141.751 billion; investments reached SAR 28.321 billion; assets reached SAR 183.724 billion, and total shareholders' equity jumped to SAR 27 billion as a result of growth in the balance of statutory reserves.

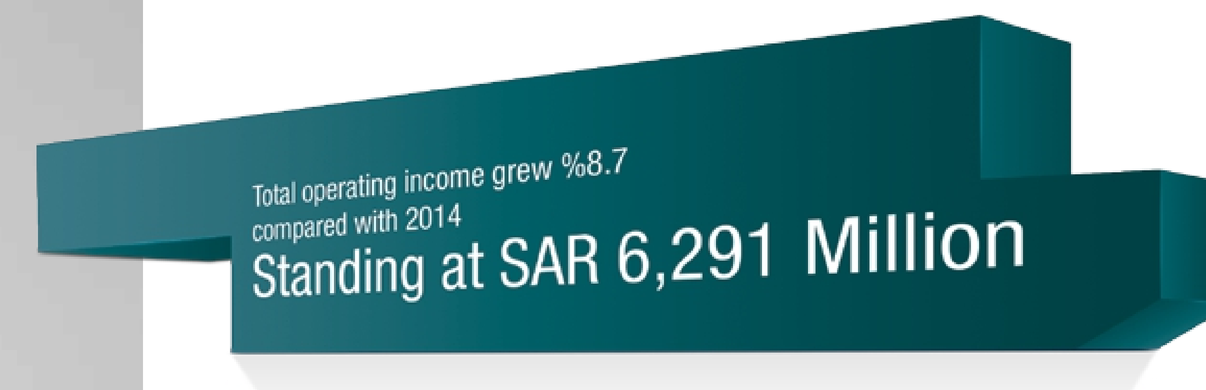
Acceptable levels of risk, liquidity and profitability have been maintained, and the Bank contributed to financing all sectors by following a strategy of fostering and diversifying its relations with the major companies in the Kingdom and launching diversified products and services in fields of opening and financing credits, issuing guarantees, management of cash and other banking services to maximize revenue.

The Bank also continued to provide financial and investment services through Saudi Fransi Capital, a wholly owned subsidiary of the Bank, which constitutes the investment arm of the BSF in the capital markets and plays an integrated role with the Bank for the provision of various banking, financial and investment services that meet the diverse banking and investment needs of the Bank's customers, thus maximizing the overall competitive position of the Bank.

Finally, I would like to thank BSF customers on your behalf for their nurtured confidence, all employees of the Bank for their relentless efforts and constant compliance with the directives of the Saudi Arabian Monetary Agency, the Capital Market Authority and the Ministry of Commerce and Industry and for their devoted dedication in support of the national economy under the leadership of the Custodian of the Two Holy Mosques, the Crown Prince and Deputy Crown Prince, may God protect and save them.

Sulaiman Abdulrahman Al Gwaiz
Chairman

Managing Director's **Statement**



BSF continued on the positive momentum and strategic drive created by its Medium-Term Plan 2014-2016 to deliver a very strong financial performance in 2015 while continuing transforming BSF into a client focus relationship Bank.

For the second year in a row, BSF posted a best ever Net Income reaching SAR 4,036 million, an increase of 14.8% vs 2014. This strong result came from a very solid business generation from the different business lines driven by cross-selling strategy coupled with long-term and prudent risk strategy resulting in low cost of risk.

Total Operating Income grew 8.7% compared with 2014 standing at SAR 6,291 million while at the same time loans and advances increased at a controlled pace of 5.9% in line with selective and prudent development policy. BSF continues to deploy its cross-selling strategy allowing to develop revenues at a faster pace than loan and accordingly to optimize utilization of the Bank's capital. The historical and leadership position in the Corporate segment provides a strong base to build upon.

At the same time, BSF affirmed its ambition in Retail as the assets grew 12.6% in 2015 for that segment on the back of a revamped strategic road map leveraging on expertise and technology transfer from Credit Agricole.

As highlighted, the low cost of risk recorded by BSF has been a key element of performance in 2015. The prudent risk policy strictly and consistently enforced by the Bank helped maintaining the cost of risk at a low 0.15% in average for the year while maintaining very solid reserves. Similarly, capital position is very solid with Capital Adequacy Ratio (Tier I + Tier II) at 17.16% by December 2015.

Those strong financial ratios are providing a healthy base to support our clients as the economic situation changes and continue to widen and deepen the scope of our relationships. More broadly, I am very confident that BSF will be well positioned to capture opportunities and continue playing a key role supporting the economic development of the Kingdom, now and in the future.

“Excellence at client service” is to be at the center of our project. BSF was awarded the “Best Bank in KSA” award in 2015 by the Banker Middle East demonstrating our efforts to strive toward excellence in serving our clients. Once again, I would like to thank all of our clients who have placed trust in BSF and reiterate that all BSF staff are dedicated to their satisfaction. I also take this opportunity to express my gratitude to the Chairman of the Board, H. E. Suleiman Al Gwaiz, all Board Members, Executive Committee, Audit Committee and Nomination & Compensation Committee Members for their strong involvement and continuous support.

I also wish to thank SAMA and the Capital Market Authority for their help and fruitful on going guidance and assistance.

Last, I also want to extend my appreciation to all BSF Staff for their personal commitment and their deep involvement in ensuring that the Bank continue to develop and indeed, day after day, put excellence at client service.

Patrice Couvegnes
Managing Director

Board of Directors

Sulaiman Abdulrahman Al Gwaiz
Chairman

Abdulrahman Rashed Al Rashed
Member

Mousa Omran Al Omran
Member

Dr. Khaled Hamed Hamed Al Mutabagani
Member

Patrice Couvegnes
Managing Director

Ammar Abdulwahid Al Khudairy
Member

Thierry Simon
Member

Ibrahim Mohammad Ibrahim Al Issa
Member

Jean Yves Hocher
Member

Mazen Abdulrazaq Al Romaih
Member

Management Team

Patrice Couvegnes
Managing Director

Mohamad Abdulhadi
Senior Executive Director Business

Jean Pierre Pallard
Senior Executive Director COO

Pierre Derajinski
Senior Executive Director RBG

Abdulrahman Al Sughayer
Secretary General Chief of Governance,Compliance & Control Group

Julien Maze
Chief Financial Officer

Riyadh Al Sharikh
Assistant Senior Executive Director Business

Abdulaziz Al Oraifi
Assistant Senior Executive Director RBG

Aurel Lavedrine
Chief Risk Officer

Muneer Khayat
Human Resources Group

Kamal Khodr
Corporate Banking Group

Abdulrahman Mutabagani
Business Banking Group

Adel Mallawi
Global Markets Group

Amer Othman
Wealth Management Group

Ahmad Jawdat
High NetWorth Group

Khaled Al Toukhi
Global Transaction Business

Mazen El Rayes
Islamic Banking Division

Robert Reynaud
Information System Group

Saadoun Al Saadoun
Corporate Operations Division

Osama Al Bakri
Property Management Division

Radhi Al Radhi
Procurement Division

Shahid Naseem
Accounting and Financial Control Division

Sameh Abdulhadi
Corporate Communications Department

Regional Managers

Abdulaziz Al Molhem
Eastern Region Manager

Mazen Tamimi
Western Region Manager

Financial **Management**

Best ever result for BSF corresponding to an increase of

14.8% Against 2014

Overall Performance

For the 12 months ended 31 December 2015, Banque Saudi Fransi's Net Income reached SAR 4,036 million. This is a best ever result for BSF corresponding to an increase of 14.8% against the SAR 3,516 million achieved in 2014. This very solid set of results allowed BSF to continue reinforcing all key financial indicators in capital, liquidity and risk areas demonstrating an overall healthy financial position.

Total assets stood at SAR 183,724 Million

Balance Sheet

Total Assets stood at SAR 183,724 million corresponding to a decrease of 2.7% compared to 2014. BSF pursued its policy of controlled and selective loan growth reaching SAR 123,443 million, an increase of 5.9% over the year. On the other hand, the Investments portfolio decreased substantially down to SAR 28,320 million (-37.2% year-on-year) as BSF reallocated part of its liquidity to lend into the interbank market with Due from banks reaching SAR 16,303 million (8x year-on-year).

On the liabilities side, Customers' Deposits positioned at SAR 141,751 million, a decrease of 2.4% as Demand Deposits receded from their historically high level of 2014 and were balanced by an increase in Time Deposits maintaining loan to deposit ratio at a healthy 83.15%.

Operating revenues amounted to SAR 6,291 Million

Operating Revenues

Operating Revenues amounted to SAR 6,291 million for the period representing a yearly increase of 8.7%. This growth in revenues came from solid Net Special Commission Income (SAR 4,055 million and +6.2%) while Non Special Commission Income (SAR 2,236 million and +13.5%) had a particularly strong performance supported by Trading and Exchange activities benefiting from large client flows in a more volatile market.

Operating Revenues continued to grow faster than Total Assets and Loans demonstrating the effect of the cross-selling strategy systematically implemented across the Bank. The positioning of BSF as a Relationship Bank and solution provider supporting its clients with all the spectrum of products is bearing fruits.

Risk Profile

Cost of risk stood at a very low point averaging 0.15% in 2015 as Impairment Charge for Credit Losses amounted to SAR 181 million further retreating from the SAR 321 million recorded in 2014. Similar to 2014, this low level of credit losses remained a key driver in the solid financial results of BSF in 2015. It is the outcome of long-term prudent risk policy and selective loan growth while economic conditions also remained supportive in terms of risk.

BSF has continued to reinforced its risk ratios in 2015 with further build-up of provisioning reserves now reaching SAR 2,339 million covering x2.07 the level of Non-Performing Loans while Collective Provisions alone amount to more than 1% of the Loans. Those very protective ratios allow BSF to confidently continue its development.

Capital Adequacy

Strong Net Income allowed to recommend distribution of a total dividend of SAR 1.05 per share corresponding to a gross cash out of SAR 1,393 million, an increase of 10.8% compared to 2014, and a gross pay-out ratio of 34.5%.

As a result of a controlled loan growth and prudent risk strategy, Risk Weighted Assets grew by a moderate 4.7% to SAR 186,855 million. Coupled with solid capital generation over the year, it translated into Capital Adequacy Ratios standing at a solid 17.16% (Tier I + Tier II ratio) and 14.96% (Tier I ratio) providing strong capital base to pursue the development of BSF.

Senior Executive Director
Business' Statement

Outstanding results exceeding the previous years's profitability

Strong Momentum

Outstanding results representing the culmination of well-orchestrated cross-selling initiatives and world class banking acumen.

We remain on track in executing the bank's conceived vision for the medium term plan, while being very diligent in growing our various portfolios without compromise on credit quality.

Corporate Banking

Unwavering support & commitment to existing Corporate Relationship

Unwavering support & commitment to existing corporate relationships, while actively but selectively establishing new quality relationships. A notable source of our growth in 2015 is attributed to our structured finance transactions where we participated in several mega deals in different industries.

Our strategy continues to be that of positioning ourselves as the 'bank of choice' for corporate clients, and aim to further expand our market share through innovative products and solutions, and continued focus on cross-selling initiatives.

Business **Banking**

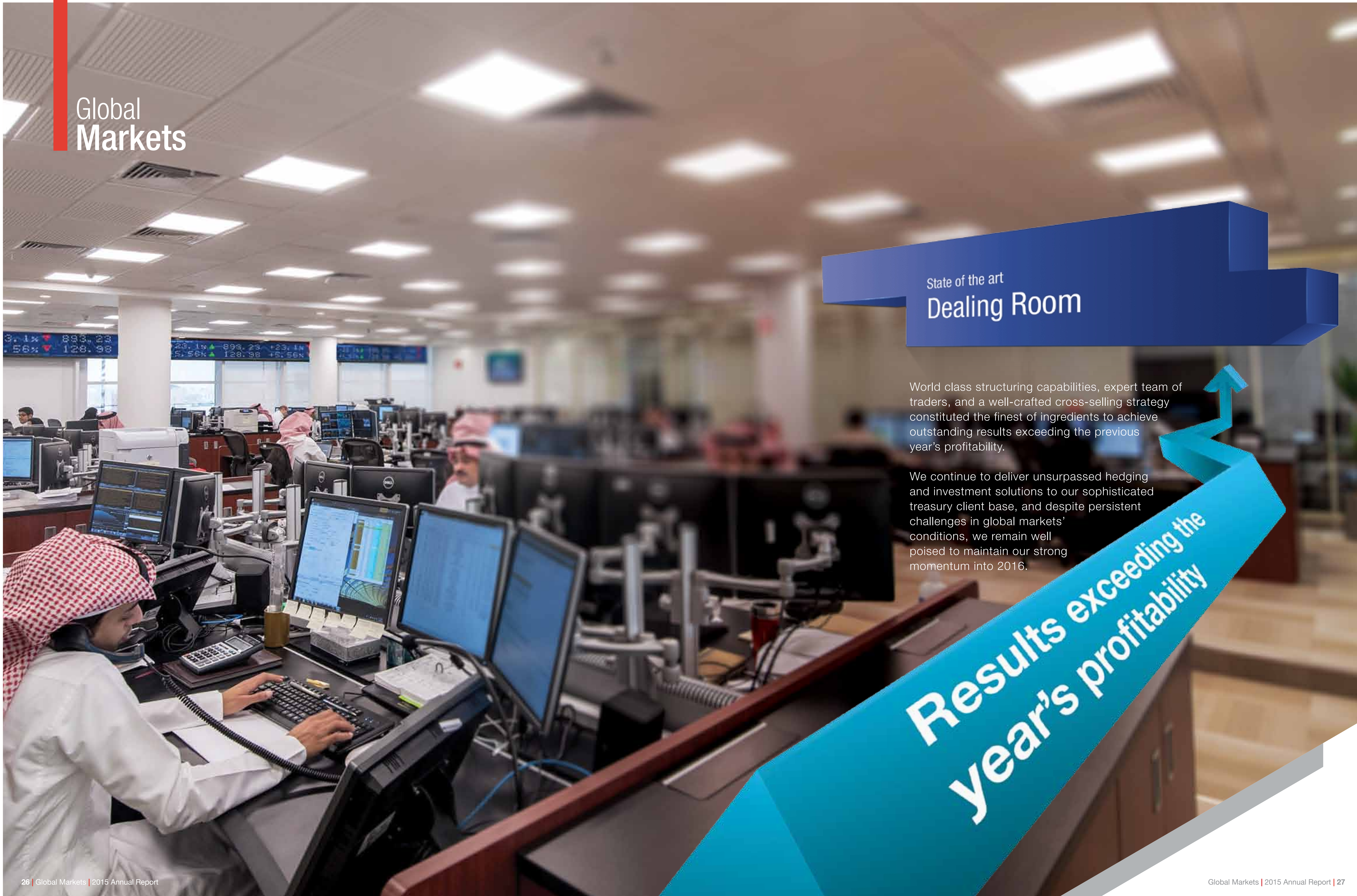
A consecutive year with Double Digit Growth

Positive market sentiments provided good opportunities for growth in the mid-level Business Banking segment, which translated into a consecutive year with double digit growth.

With the announcement of new government and private sectors' projects, prospects for new business generation remain very promising for the near future.

We expect government institutions to continue being of strategic focus for us, and foresee the small-to-medium enterprises remain an attractive thriving segment with above average growth potential.

Global Markets



State of the art Dealing Room

World class structuring capabilities, expert team of traders, and a well-crafted cross-selling strategy constituted the finest of ingredients to achieve outstanding results exceeding the previous year's profitability.

We continue to deliver unsurpassed hedging and investment solutions to our sophisticated treasury client base, and despite persistent challenges in global markets' conditions, we remain well poised to maintain our strong momentum into 2016.

Results exceeding the year's profitability

High Networth & Wealth Management

Exceptional growth in the Volume of Deposits

Exceptional growth in the volume of deposits, playing a significant role in surpassing the preceding year's revenues by a wide margin.

The outstanding results represent the amalgamation of many factors including the growth in client base in addition to cross-selling of international brokerage, fund investments, and structured products.

Very Positive Outlook

With higher interest rates anticipated in 2016, the outlook is positive due to expected increase in consumers' appetite for investments.

Islamic Banking

Developmental plan aimed at progressively strengthening our Islamic Banking Framework

The Islamic Sources and Uses of funds represented the majority of the bank's total, in line with local market trends where a paradigm shift continues to take place where banking preferences are gradually gravitating towards Islamic products and services for social and commercial reasons.

Driven by the strategic outlook conceived in 2013, we continue with solid footsteps in implementing a comprehensive five year developmental plan aimed at progressively strengthening our Islamic banking framework and the proliferation of new innovative products.

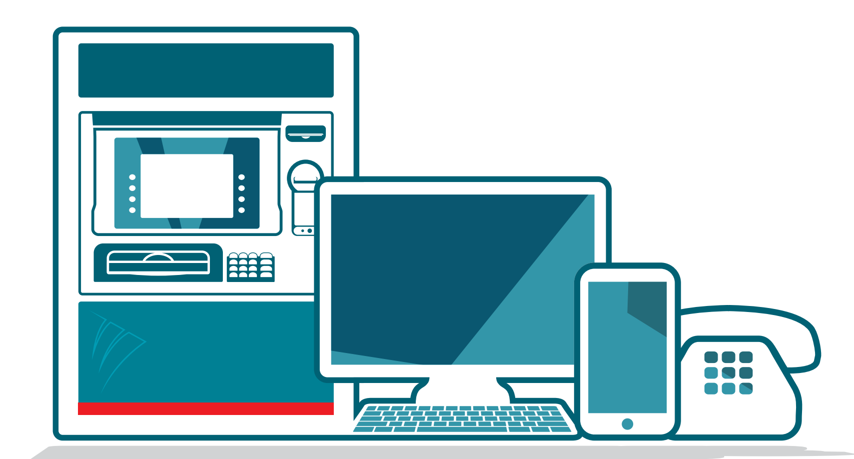
Global
Transaction Business

Increase electronic channels Utilization

E-channels' revenue grew in excess of one-fold, fueled by cross selling efforts that increased the bank's POS network penetration.

Numerous projects were undertaken to reinforce the various technology platforms, cater to requirements of various government agencies, and the enhancement of customers' experience on the bank's e-channels.

Looking ahead, we will proceed with resolving to increase electronic channels' utilization as a cost effective alternative to conventional banking.



Senior Executive Director
Retail Statement

Aiming to enhance the quality of service and the **Customer Experience**

Retail Banking Group adapted its organization and strategy in 2015 in order to deliver better quality of service to its clients by being more focused on their needs.

Many new products and services have been launched or will be launched early in 2016 (Islamic Credit Cards, Ijara Home Finance, Loan Buyout , REDF, etc.) and the same is happening on the key processes aiming to enhance the quality of service and the customer experience (new credit decision engine reducing the Time to Yes, new queuing system, etc.). Definitely, we want to be the preferred Bank of our clients and all those enhancements will contribute in achieving this goal.

"We want to be the **Preferred Bank** of our clients"

Retail Banking

Charm the Client

Initiative to better understand our consumers' needs and improve service delivery

We undertook a number of initiatives to better understand our customer needs and improve our service delivery.

One of the key priorities of the year 2015 was to enhance our retail product offering and this year we were able to successfully launch various key retail products that helped us close the much needed gaps and strengthen the overall product menu.

Islamic Credit Card was launched in June 2015 enhancing our menu of Shariah compliant products and also giving our Islamic branches another reason to cross sell existing customers.

Under the home finance line of products floating rate IJARA product was launched mid-November giving our individual customers and commercial clients another option to finance their homes.

With our constant pursuit of achieving excellence in our customer delivery we were able to bring another very powerful option to our branch banking customers i.e. VBV on debit cards, with this option going live during October 2015 our customers can also use their debit cards for their online purchases.

Another major achievement during 2015 was winning the REDF project for financing eligible Saudis under the REDF Accelerated program.

BSF has been chosen as the lead provider of this facility among the very few chosen banks. This program is scheduled to go live during first quarter of 2016.

Risk Management

The bank is well positioned to handle all the risk of

Banking Business

The Bank confirms that in 2015 there was no restructuring, business expansion nor discontinuance of any operations in BSF group.

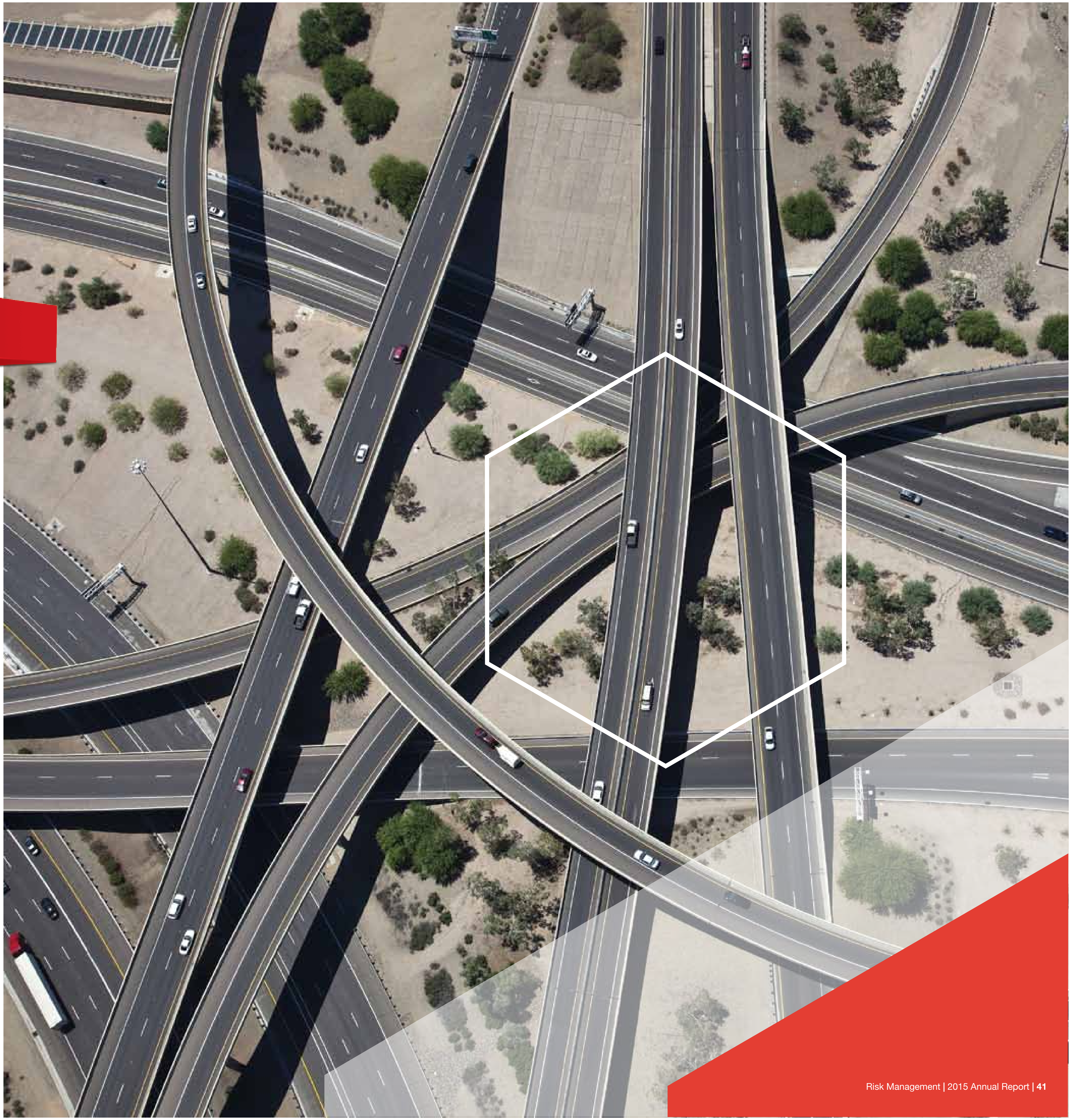
The business model of the Bank in 2016 remains along the same lines as that of 2015.

The risks that the Bank faces in the future are of the same types as the risks that the Bank faced in 2015.

The Bank has appropriate risk organization, governance structure, independent risk functions to handle the chief risks, namely credit, market and operational risks.

In order to make sure that key risks are properly identified, Risk Management Group (RMG) has established a program for reviewing periodically risk strategies of business lines at Senior Management and Board Risk Committee levels.

Through a process of aggregation of these strategies, RMG has formulated a Risk Appetite framework of the Bank with key risk indicators (KRI) approved by the Board and monitored at Board Risk Committee level at quarterly intervals. Policies and Procedures are periodically reviewed.



For example, as a major source of risks emanate from the credit loan portfolio, credit risk acceptance criteria are regularly reviewed for different segments of the loan book.

A major source of systemic risk in KSA is linked to the oil price. Since oil price is not expected to rise substantially in 2016 from the low levels seen in 2015, new government projects may be cancelled or postponed undermining the revenue stream of many customers.

While existing projects with an already approved budget outlay are to be pursued, clients may experience delay in the realization of their receivables leading in turn to the necessity of extending tenor or restructuring their credit facilities.

On the cost side, the partial withdrawal of subsidies and the resulting increase of utilities price is expected to lower notably operating profit margins of the energy intensive industries.

In addition, the borrowing cost of customers is poised to increase on the back of higher funding cost for banks and possible deterioration of the credit quality of some clients. This downward evolution of operating profit margins will affect most of the customers.

While lengthening of credit tenors or restructuring of facilities may be warranted for some customers, the majority of the clients should be capable to weather the systemic risk in 2016 through their own cost controlling measures.

Conduct risk may arise through personal actions of the staff which can cause a loss or a failure to make a profit if timeliness and degree to which staff comply with laid down Procedures and Policies of the Bank are not adequate.
It may also stem from unaligned cultural attitudes. RMG together with Business Lines have developed a Risk Culture program across the bank to address some behavioral weaknesses highlighting for example the importance of reducing the number of exceptions, the timely review of credit facilities etc.

Specific Key Performance Indicators are assigned to make sure that proper behavior and conduct are aligned with the Risk Appetite of the bank.

Overall the Bank believes it is well positioned to handle all the risks that emanate from the ordinary course of banking business.

Senior Executive Director
COO's Statement

Supporting the digital transformation of our bank
Operational Excellence

We continue to look for new opportunities to do business in smarter ways.

Support functions are central to delivering operational excellence. We will continue to invest in first-class systems and operations particularly for supporting the digital transformation of our bank. At the same time, we are committed to simplify our businesses and redouble our efforts on costs optimization.

Corporate **Operations**

2015 was a year of challenges & rewards for BSF Operations

2015 was a year of challenges and rewards for Corporate Operations Division (COD), during which COD had to cope with carrying out several investment projects, improving operational efficiency, and enhancing controls. In addressing these challenges, COD continues to realize the value of their assets – "Teamwork". COD focuses on service quality, external and internal customer satisfaction, cost saving, complex projects completion, operation efficiency, and control enhancements which are in harmony with Medium Term Plans.

COD continues to realize the value of their Assets – Teamwork

Awards and Recognition

The service excellence and operations efficiency positioned Banque Saudi Fransi for recognition and authorization by Ministry of Hajj as the only bank to process SEJEL Collection for local pilgrims. In addition, Saudi Arabian Monetary Agency (SAMA) commended BSF as the first bank to achieve the migration of Payroll (SPAN to MADA) Prepaid Cards successfully. Straight-Through-Processing (STP) of payments was recognized by international banks and several awards was granted to BSF.

Revenue and Cost Savings

Cross selling of financing deals have earned a valued commission income. Consistent implementation of tight settlement controls have collected a significant net amount charges. Nine IPO projects were launched successfully in 2015 confirming BSF continuous strength in this regard.

Prepaid MADA-SPAN Cards migration challenged the procurement process for plastic cards and had yield to a 20 % cost saving.

Applying international rules in charge back cards settlement had helped in substantial positive net amount to BSF. Mail Room Management (MRM) have negotiated and signed two new contracts, for discounted postage paid and express mail services of 10 %.

Advancing of Projects

A number of key development milestones delivered during the year to increase the capability, reduce turn-around time and cost, and automation of various processes. Corporate Operations Division successfully completed the automation of Letter of Guarantee for a key Client resulting to enhanced accuracy of transaction details, reduced processing time and replaced conventional communication with SWIFT.

Introduced and completed successfully the new functionalities into the Treasury system. Furthermore, in order to automate some controls for Foreign Exchange trades, Reconciliation of Counterparty confirmations were automated through specialized software. Saudi Arabian Monetary Agency (SAMA) requirements been complied thru the successful completion of Secured Document Construction to centralize and secure all customer Legal Files.

In addition, other AD-HOC projects were accomplished in order to satisfy customers demands.

The Cash Utilization Campaign helped building new credit card customers, to offer utilization of approved credit limits using channel such as, FransiPlus for cash advances without extra charges.

New Merchant Service Commission (MSC) definitions enriches relationship with existing merchants and inviting new ones to BSF with attractive service commissions and to increase the profitability of Acquiring business.

Instant issuance of Debit Infinite & Platinum Cards to new customers increases business at the branches and gain confidence by providing them first-rate services. Bonus Point for Islamic Credit Card is an additional feature offering bonus points on purchases of customers.

Improvement in Operational Efficiency and Controls

Remote clearing centers (formerly under Retail Banking Group) were successfully moved to the new Clearing System which have provided real time credit and debit of cheques processed, linking signature system for immediate signature verification.

Implementation of verification services on Payment system as the main communication hub for FransiPlus, FransiMobile and external entities.

Information System

ISG upgraded its footprint by procuring very
Powerful New Machines

2015 was the second year of Bank's three years Medium Term Plan (MTP 2014-16).The Bank's portfolio of IT projects continued to focus on alignment of IT investments with business strategies, priorities and the motto of BSF "Banque of Excellence".

ISG is continuously improving its project methodology targeting at higher levels of maturity for project governance. ISG is aiming to be more interactive and collaborative with business owners and stakeholders.

A Project has been initiated to implement the Project Portfolio Management (PPM) System. The PPM solution selected by ISG is the one ranked by Gartner as best PPM solution in the market.

ISG Guideline: A strategic alignment to support business needs

ISG has finalized a three-year plan defining the strategy to develop and support the Bank's business projects and initiatives. At the same time, ISG is committed to satisfy a demanding agenda to achieve the best possible level of operational quality of IT, that can be summarized by the motto "Banque of Excellence".

IT infrastructures: A Road Map for Transformation, Quality and Reliability

BSF Infrastructure and Operations Project aim at adopting the industry best practices and developing a set of initiatives to be executed over a predetermined time frame.

ISG continued to upgrade its technology footprint by procuring very advanced and powerful new machines.

This ensures taking over the part of load from decommissioned legacy system (Wings), and upgrade the capacity of IT infrastructure to support ever growing business demands.

IT Security: A Permanent Upgrade

As a continuous effort to protect Bank's information systems and sensitive customer data, necessary information security tools and technologies have been implemented. Expansion of security controls to better monitor and protect our IT infrastructure from known and unknown threats.

A highly reliable & richly functional new Contact Center system has been implemented in the beginning of 2015. It is targeted at transforming the Contact Center from a cost-center to profit center.

A brand new Corporate Customer Relationship Management (CRM) System has been selected for implementation at BSF.

This market leader best solution is robust, collaborative and flexible. Its main users are relationship officers and coverage team in Corporate Banking. At the same time, a new initiative has been taken to boost the retail market share of BSF.

ISG continues to support Risk Management Division to comply with the new regulations by implementing tools and systems required for IRB (internal ratings based approach), a program spanning over four years and comprised of about 50 IT and Non-IT projects.

Compliance with Recommendations of SAMA Audit and Internal Audit:

ISG emphasized the importance of closing the Audit recommendations with a timely manner in all LICC/ICC meetings conducted regularly by IT Risk and Internal control department and encouraged the ISG staff to provide the evidences to the auditors within the agreed time frame.

ISG succeed in meeting multiple regulatory, legal and audit requirements simultaneously. Vital communication by IT Risk and Internal control department on the Internal and External audit findings, key risk areas and recommendations within ISG led to reduce and close most of the findings during the year of 2015.

Property Management

Apply the best Engineering Practices

PMD has undertaken the execution of numerous key projects Kingdom-wide which were initiated in 2015. Besides the normal activities of maintenance, renovation and relocation of buildings and ATMs, HO went through a phase of major renovation upgrade and space allocation:

- PMD Completed 183 ATM projects Kingdom-wide, Opened 4 new branches and relocated businesses .
- It has also completed many development projects Kingdom-wide. The New BSF signage project Phase 1. Preparation of HO Annex 3 building, & design for more than 14 projects including the New Head Office Building 2.
- Furthermore PMD in 2015 have started major facility upgrade project; replacement of 5 Elevators in HO, 8th floor renovation, new generator for HO annex, new generators for DRC centers in Eastern, Western and Central regions.

Procurement

Effective alignment with Business Lines and partnership with suppliers

Procurement Division's Effective Alignment with Business Lines and Partnership with Suppliers

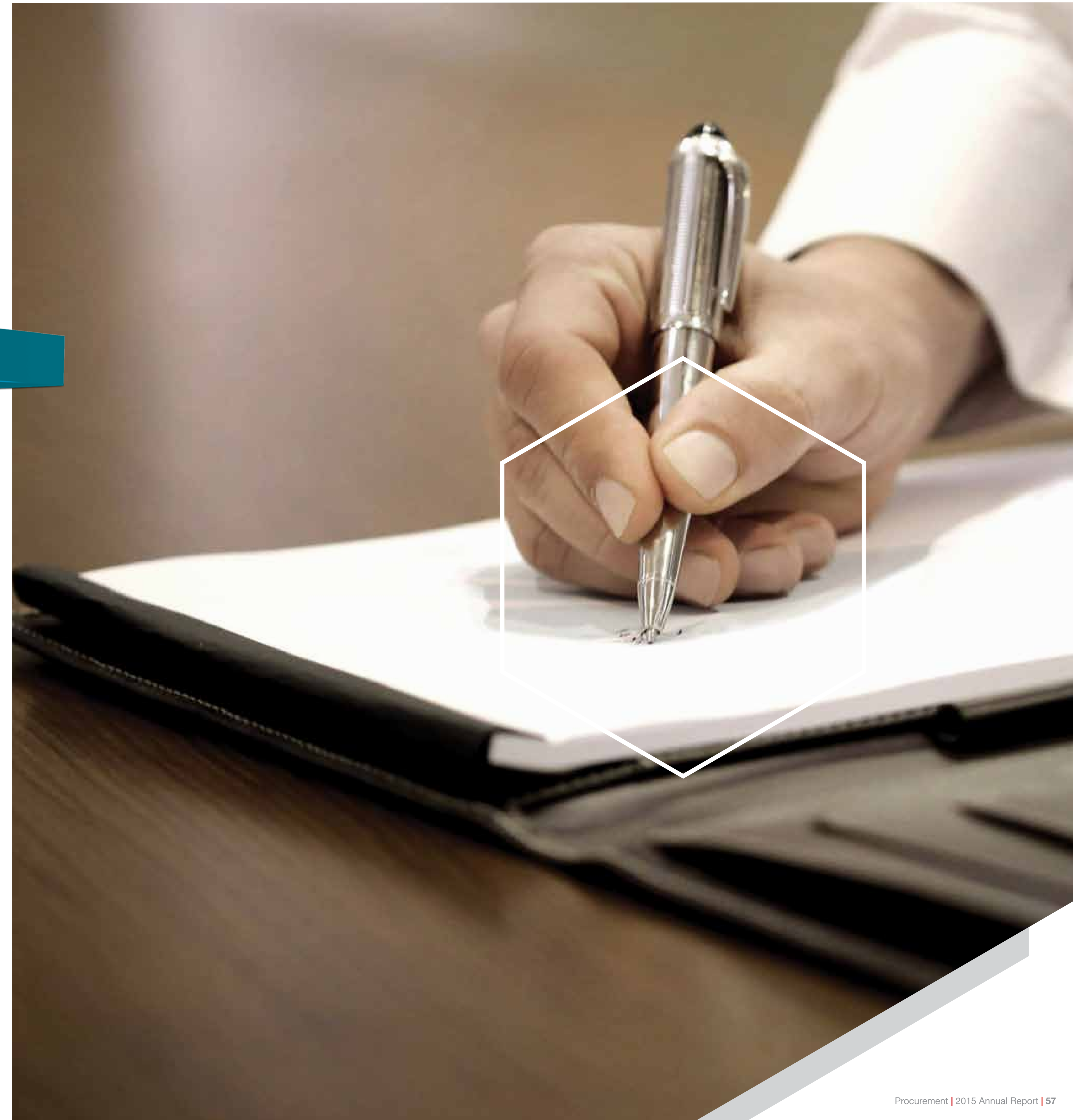
Procurement Division continued to empower the independent centralized control and negotiation over the Bank's commitments and to benefit BSF financially through improved business processes and controls.

The total financial cost optimization and savings in 2015 increased to two folds reflecting strong positive Businesses / Procurement collaborations.

This has been achieved through focusing on the real needs of business lines by understanding and challenging the requirements and scope of projects.

The most key capability of PD is the effective negotiation and development of partnerships with suppliers to deliver the right quantity of products with the best price.

Additionally, PD is managing a cross-functional cost optimization committee that resulted in many improvement initiatives.



Business Continuity

Achieving several milestones toward implementing
Over Than 80%
of sustainability

In 2015 Business Continuity Department has enhanced and leveraged the organization capability with regard to ensuring continuous services in case of major incidents or crisis that disrupts Banque Saudi Fransi normal operations.

Several projects and practices have been implemented covering aspects of technical and power infrastructure, recovery sites, planning, testing and exercising with new generators for power redundancy dedicated for Head Office Data Center.

Current BSF disaster recovery center hosts over than 80% of mission critical systems and application necessary to sustain the organization important functions.

Nevertheless, BSF has implemented 3 regional recovery sites hosting more than 350 office workstations for resuming critical daily functions.

Awareness, training, rehearsals, and testing have been conducted throughout 2015 to ensure staff comprehending of necessary actions and procedures that must be adhered to during abnormal situations.

Finance & Strategy

BSF completed the implementation of a new
Accounting System

Finance & Strategy Group gathers the Accounting & Financial Control Division (AFCD), the Financial Planning and Management Control Division (FPMCD), the Asset & Liability Management Department (ALMD) and the Corporate Communications Department. AFCD ensures full compliance & maximum disclosure of information in the light of International Financial Reporting Standards (IFRS) and regulatory guidelines by SAMA. It plays a key internal control function positioned as second level of control providing necessary assurance for key operations and processes of the bank.

In 2015, BSF completed a major milestone with the implementation of a new accounting system, the final piece of the replacement of its core banking system. This new set-up will provide scalability and agility to support BSF's current expansion while accommodating regulatory evolution.

FPMCD is primarily in charge of the budget preparation and follow-up. It also closely supervises the implementation of the 2014-2016 Medium Term Plan which is well on track for both quantitative and qualitative targets. A new plan will be prepared in 2016 covering the upcoming 3 years determining the key axis of development of BSF in a changing economic environment.

ALMD is in charge of managing interest rate risk and long-term liquidity risk of the Bank. It applies strict guidelines ensuring that those 2 key risks for the Bank are in check and in line with the limits defined.

Corporate Communications

Corporate Communications Department (CCD) continued its support to all departments in 2015.

In the field of internal communications, a large number of outreach and advertising campaigns were implemented internally and externally. In addition issuing our bimonthly staff magazine “Perspectives”.

In 2015 CCD focused on news coverage and presence on a daily basis in the press and the media as part of external communications, which was enhanced with the launch of the bank pages on various social networking platforms.

In recognition of the bank’s performance and KPI’s during 2014-2015, “The Banker Middle East” CPI Financial, the most famous publication in the financial and banking sector in the region, honored Banque Saudi Fransi with 5 different awards for the year 2015 as follows:

Human Resources

The vision and mission statements were incorporated through HR Structure

HR Transformation

HR mission and vision statements, to become "Employer of Choice" were set in alignment with BSF's strategic direction to be "Banque of Excellence". The vision and mission statements were incorporated throughout HR's structure, activities and programs. Highlights of HR's annual achievements are listed below.

Employee Engagement

The Employee Engagement Survey (Your Voice), launched during 2014, had a high participation rate of 83%. The analysis of the results identified four main themes requiring attention. The analysis of the results was followed by results sharing sessions with the Senior Management Committee, followed by 15 action planning workshops bank wide.

Break Time @ Your Voice

Following the Engagement Survey and to continue the momentum, the MD led town hall meetings attended by both Senior Management and staff in the three regions to share the results of the survey and actions undertaken.

Human Capital Awards

In line with BSF's vision to be the "Banque of Excellence" and in recognition to its revamp of its Human Capital activities and programs, BSF was awarded with the following prestigious awards and certificates during 2015:

Best Talent Acquisition Team

BSF received the award at 2015 LinkedIn Talent Awards MENA in November 2015. The appreciation reflects our hard work behind the utilization of the LinkedIn platform and the Recruiter sourcing tools.

ISO Certificate – Quality Management System

BSF Academy was awarded with ISO 9001 Quality Management System Certificate in September 2015 as the First Academy in the Saudi Arabian Banking Industry to attain this prestigious recognition.

Best Nationalization Initiative

BSF received the award in November 2015. In recognition of BSF's nationalization strategy, initiatives and commitment undertaken throughout the year to the Nationalization drive and retention activities for its Saudi workforce.

Employer of the Year

BSF received the award at 2015 Employer Excellence Awards in December by Naseba. The award reflects on BSF's Employment Brand, Talent Attraction & Staff Engagement strategies and initiatives throughout 2015.

Saudization Plan

BSF focuses on the development of Saudi nationals throughout its Kingdom-wide network. The aim is to completely align the Saudization Strategy with the Bank's Strategy and Business Plan, and thus ensure organizational sustainability. The carried out Saudization activities have substantially enhanced the Saudization Level and as a result the bank has reached the required Nitaqat compliant levels.

Development-Based Succession Planning and Talent Management

BSF introduced leading Talent Management activities to identify High Potential Talent; Successors through Development Based Succession Planning; Executive and Leadership Development Programs; and international assignments through the Global Mobility Framework in partnership with BSF's international partners CA-CIB.




Performance Management

In line with our MTP ambitions to foster a strong Performance Driven Culture which is based on Fairness and Transparency. This year, BSF has implemented the same successful Performance Management Exercise introduced last year. The performance management model started with an assessment of the business for each Group/Division using a "Business Assessment Fact Sheet". Then the Business Assessment results for each Group/Division were linked to the employees' performance. Finally, the year-end performance calibration exercise was conducted by Senior Managers to review and ensure consistency and fairness of the results.

Learning and Development

In alignment with BSF vision to be the "Banque of Excellence" BSF Academy is committed to deliver quality learning & development programs and solutions to BSF staff to sustain and grow their professional capabilities.

Teamwork Program

In March, BSF Academy prepared and launched "Teamwork" program and activities across the bank. The main drivers behind this program were:

- Employees' voice on the need of a teamwork culture across BSF
- The need to work as a team to achieve BSF Mid Term Plan
- Creating Synergy across all the bank's segments and enhancing cross-selling between business lines

Learning and Development Strategy Model Transformation (Equal Opportunities):
In alignment with HRG transformation and the new launch of BSF Academy, a Learning and Development transformation took place addressing a learning and development approach aligned with BSF vision of being the "Banque of Excellence" and is related to the banks' MTP.

BSF Learning & Development plans

Main focus is to ensure:

- Quality of the training - best in class in-house, local & international trainers and training providers
- "Bespoke" Methodology - Content of training tailored to BSF needs
- Effectiveness - Training aligned with BSF Direction by conducting a Training Needs Analysis (TNA)
- Competitiveness - Aims to be the Leading Bank in Training and Developing our employees which will support BSF in being "Employer of Choice"




Talent Acquisition

The Talent Acquisition team delivered on its commitment a high level recruitment services with decreased time to fill and focus on acquiring top quality Saudi candidates. The business lines' hiring requirements have been met our recently revamped internal sourcing & selection capabilities, substantially decreasing the costs related to the use of external recruitment agencies.

Graduate Recruitment & Career Fairs

The activities within Graduate recruitment have been focused on identifying and attracting the best graduates to join as direct hires or through Graduate Programs such as "The Banker" through participating in Career Fairs both locally (11 events) and internationally (2 events), to promote the Bank as an Employer of Choice.

The Banker – Banking Associate Program II - 2015

To continue in the success and achievements that were accomplished in 2014, BSF launched The Banker – Banking Associate Program II (2015) in October 2015. The top 25 Saudi graduates from local and international universities were selected for this program.

Employee Relations

As part of the HR transformation, an Employee Relations team has been established to address employee Complaints and Grievances in a fair and transparent way by following procedures and rules created in accordance with the provisions of Saudi labor law and BSF internal regulations and policies.

Exit Interviews

To enhance BSF's employee value proposition, and capture employees' views about the organization's practices and offerings ,Exit Interviews were started in January 2015 for all leavers.
The interviews are conducted by the assigned Business Line's HR Business Partner

Rewards Management

Standardized Performance Based Salary Cycle
In alignment with the Board Approved Salary Increments Budget, to align the Salaries with the Market's Pay practice, as well as to ensure the strong linkage of Rewards and Performance, BSF conducted a performance-based annual Salary Cycle for its employees in April.

Medical and Life Insurance Benefit

BSF reviewed the current Medical Insurance policy and Life/Personal Accident policy, and negotiated with the top providers to offer BSF staff enhanced service levels and insurance coverage while maintaining competitive pricing rates.

Medical Insurance for Parents
To increase BSF's competitiveness positioning in Rewards for the employees and increase their satisfaction, BSF attained competitive Medical Insurance rates for staff who wish to cover their parents at their own expense.

HR Policy

HR embarked on a project to completely revamp the HR policies.
The review of the HR Policy and practices aimed to ensure the following:

- Link HR Policies to Business Strategy
- Develop policies that support sound People Management practices
- Create a positive work environment through Consistent and fair HR policies
- Engage employees to achieve the planned Business Results

Governance,
Compliance & Control

The Governance, Compliance and Control Group is in charge of all regulatory and legal affairs of the Bank. This responsibility is assumed by the Secretary-General of the Bank, Chief of Governance, Compliance and Control Group.

A process of homogeneity and integration of certain businesses has been conducted, and the administrative processes cycle has been streamlined after the development of compliance and legal control infrastructure, in order to implement the Bank's policies of complying with the principles of corporate governance and guidelines in line with the instructions of the Saudi Arabian Monetary Agency, Capital Market Authority, the Corporate governance, in addition to facilitate mutual communication and strengthen the relations with these bodies.

This group falls under Secretariat General, Secretariat of the Board of Directors, Administrative Affairs department at the Secretariat General, the Translation Unit, Investor Relations Department, Legal Department, Corporate Security Department, Governance Department, Organizational Relationship Department, Properties Assessment Unit, Social Responsibility Department, Compliance Department, Services Quality Department, Anti-Financial Crimes Department, and Anti-Fraud.

Secretariat General

The Secretariat General provides administrative and technical support to all BSF departments in addition to the group of sister and affiliated companies. Also supervises the arrangement and preparation for meetings of the Board of Directors and its various committees,

Additionally, the Secretariat General implements the regulations and instructions of regulatory authorities and is keen to inform the chairman and members of the board of Directors, Audit Committee, relevant departments, sister and affiliated companies of the latest developments in this regard.

The Secretariat General announces the quarterly and annual financial results on Tadawul website and local newspapers, and announces material changes and developments as instructed by the Capital Market Authority.

Legal Division

Legal Division continued to expand its capabilities base by employing 7 new lawyers and support staff. In light of this investment, the Division is now responsible for providing legal advice to the Bank and its subsidiaries, including, but not limited to, legal advice (negotiation, drafting and review of agreements, instructing the external counsel, managing all litigation in which the Bank is involved and representing the Bank in meetings involving legal issues).

The Legal Division offers legal advice that safeguards the integrity and financial reputation of the Bank and supports it in various business sectors in the risks associated with the completion of its transactions and activities.

Corporate Security Division

Corporate Security Division (CSD) in the year 2015 achieved significant milestones toward its strategic objectives of enhancing the security of BSF electronic services, ensuring staff safety and protection of BSF assets against growing regional and international threats.

Corporate Security Division's efforts were recognized by BSF's achievement of continuous compliance status against ISO/IEC 27001, a globally recognized best-practice framework for addressing the entire range of security risks, and forms the backbone of a strong security risk management strategy.

BSF has also maintained a continuous compliance status against Payment Card Industry Data Security Standard (PCI DSS) certification - the rigorous data security standards that BSF applies in protecting customers' information, reducing credit card fraud and thereby enhancing customer confidence.

In terms of security awareness, CSD has put in place and executed plans to build and maintain a security conscious culture within its customers as well as its staff. BSF has enhanced its resilience by enhancing various security controls within BSF infrastructure. Major initiatives including but not limited to Data classification, proactive threat monitoring, users' activity monitoring, email malware protection, behavioral based anomaly detection for BSF online banking, coverage expansion for various security controls in BSF and its subsidiaries and conducting security risk assessment for critical BSF assets.

In terms of physical security and safety, Corporate Security Division accomplished significant achievements in enhancing the physical security and safety in BSF.

Corporate Governance Division

During 2015, Corporate Governance Division has conducted several activities including:

- Finalized the second phase of the Delegation of Authority Matrix and its Manual,
- Finalizing the first phase of reviewing, updating, and drafting the Bank's main policies.
- Review and update BSF BOD and BOD Committees Charters.
- Review and update BSF Shareholders Manual.
- Review and update the Transparency and Disclosure Policy.
- Review and update the Policy on Conflict of Interest for BOD and BOD Committees.
- Review and update BOD & BOD Committees Independency Assessment Document.

Organizational Relationship Department

The Organizational Relationship Department is in charge of following up all correspondence sent to the Secretariat General of the Bank from the Saudi Arabian Monetary Agency, Capital Market Authority, Ministry of Commerce and Industry, and other authorities after sending it to the concerned competent authorities.

The responses are reviewed to ensure their accuracy and compliance with the regulatory requirements.

Property Assessment

A Property Assessment Unit (PAU) was created in 26/05/2014. The main objectives of this unit is to ensure an accurate assessment of property/land related to Banque Saudi Fransi, conveyance of title deeds to the BSF-assigned attorney, build a coherent strategy and procedures for the management's decisions, and monitor the process of assessment, conveyance, issuance of all powers of attorney required by the Bank, and renewal of the commercial registers of the branches.

Social Responsibility

BSF Board of Directors, through the Social Responsibility Unit, is keen on supporting the largest possible segment of the community in all fields of health, culture, awareness, education and sports.

During 2015, Corporate Governance Division has conducted numerous activities

In the field of health, support has been extended (through a long term strategic partnership) to the Saudi Alzheimer's Disease Association.

Support was also extended to the Charitable Health Society for Patient Care (ENAYAH), targeting low-income patients afflicted with chronic diseases, by supplying them with medications and medical devices, assisting their families by providing them with adequate accommodation during the period of treatment if the patient is dislocated, in addition to spreading a culture of awareness and prevention of chronic diseases.

In the field of philanthropic work, support was extended to several programs including:

- Iftar Project
- Orphan Smile Program
- Ramadan Food Basket Program
- Rent Payment Program for low-income Families

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• Orphan Smile Program
• Ramadan Food Basket Program
• Rent Payment Program for low-income Families

In the field of sponsoring conferences, forums and exhibitions, BSF has sponsored several activities that had a significant economic and cultural impact on the community including:

- Conference on the role of Saudi banks in social responsibility ... Hopes and Reality
- Gold Sponsor of the Gulf Arab Conference "Small and Micro Projects in the Arab Countries … Reality and Aspirations"
- "Salman in their Eyes" Exhibition
- Major sponsor of "Impact of Endowments in the Support and Continuity of Charities" Forum
- First Forum on Social Responsibility in Madinah
- Conference on Social Responsibility and Disability

In line with its firm belief of the role of the family as the core of society and the importance of its support, BSF has sponsored and supported several including:

- Productive Families Ramadan Exhibition in Jeddah
- Productive families Exhibition in the Eastern Province

The Bank is also keen on being present in:

- International Childhood Cancer Day
- International Day of the Elderly
- World Diabetes Day

In line with the significant role of the BSF staff as an integral part of the community, the Bank has set up several health and cultural events for employees, including:

- Blood donation campaign "your blood .. the life of others."
- In the cultural field, in collaboration with Mutmainah Center, the Bank has conducted a training course (Understanding Characters) for its employees, presented by Professor Tariq Al-Habib.
- An awareness event on diabetes: symptoms, complications, and methods of prevention.

In recognition of the Bank's pioneering efforts in various areas of social responsibility, The Bank has won several awards at the local, regional (Gulf) and Arabic country levels, as follows:

- Best leading bank in the Arab region in the field of social responsibility, culminating in being crowned with the Golden Medal of Merit and a patent certificate in the field of social responsibility by the Arab Organization for Social Responsibility.

95% of Complaints solved in 5 days

- Best supportive bank for disabilities programs in 2015
- Arab Foundation Award for outstanding donors “Donor” in 2015
- Clean Work Environment Award, which is granted to enterprises that prohibit smoking inside offices or have implemented awareness and rehabilitation programs for their employees.

Compliance & Control

The compliance function in Banque Saudi Fransi is independent. It has been restructured during 2015 to align the new compliance strategy that inspired by the on-going developments in the local and global compliance environment.

It is a fundamental requirement that every compliance unit carries out its activities without any influence, interference or restrictions likely to affect its independence, in order to ensure a proper compliance is in place with all regulations and rules concerning ethics and compliance, issued by the Saudi Arabian Monetary Agency (SAMA) in respect of banking activities, Capital Market Authority (CMA) regulations as BSF is a listed company in the Saudi Stock Market, and any other relevant regulator body.

Compliance provides assistance to business lines in the development and implementation of compliance procedures and other documents, for example compliance manuals, internal codes of conduct and practical guides. It is well-known, that Banque Saudi Fransi has established a range of procedures and controls to improve the bank compliance with all regulations.

Service Quality Department

The Service Quality Department is the only department in BSF which is responsible for receiving, solving and responding to customer complaints which are received through all channels of communication provided by the Bank for its customers.

The number of received complaints during 2015 amounted to 7230 complaints, of which, 94.55% were solved within (five business days) which is the standard deadline set by BSF for resolving complaints.

All branches of the BSF were visited by officers of the Services Quality Department for staff training, receiving feedback and providing the latest updates to the automated customer complaints system.

Anti-Financial Crimes Department

This department was established to cope with the local and international developments, challenges and standards of combating financial crimes in all forms and types to ensure the consolidation of efforts and capabilities and achievement of the desired goals in combating and minimizing financial crimes in an optimal manner.

The Anti-Financial Crimes Department were as follows:

- Monitors all banking transactions and applying the instructions issued by regulatory authorities and international organizations regarding all types of sanctions.
- Setting up the necessary policies and measures to curb money laundering, financing terrorism, fraudulent transactions, and financial crimes.

Anti-Fraud

The Anti-Fraud Department receives banking fraud reports directly from the departments and branches of the Bank and third parties. These reports are handled in professional manners.

The management team at the department endeavors to create awareness among customers and employees about damages resulting from banking fraud in order to safeguard the Bank's reputation and protect its financial and human resources.

The Anti-Fraud Department sends educational and awareness messages to all the bank employees on a quarterly basis to make them aware of the seriousness of the situation and the great importance of combating fraud.

SAKAN Real Estate Financing Co.

SAKAN is a limited liability company, its contract was signed 19/02/1429H, corresponding to 26/03/2008.

The company is a member of the BSF group of companies with an independent board of directors consisting of a Chairman and a board member. SAKAN has been granted a license to register the real estate funded by BSF.

At the forefront of SAKAN's goals and priorities is providing after sale support services as manifested in management instruments, including conveyances of title and issuance of powers of attorney in line with applicable regulatory procedures.

Audit

Entity-Wide Risk
assessment exercise

Audit Division is an independent, objective assurance and consulting activity designed to add value and improve Bank's operations. It helps the Bank accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. It is an independent function within BSF reporting to the Board Audit Committee.

Audit Division conducted a high level entity-wide risk assessment exercise for the purpose of developing Internal Audit Plan for three years (2015-2017). The Risk Based Internal Audit Plan was prepared after taking into account the Bank's strategy, goals and objectives, management expectations as well as the results of the entity-wide risk assessment. Bank's Medium Term Plan and overall Strategy were one of the key input in the Risk Model for the Internal Audit Plan in order to align Internal Audit strategic plan with Bank's strategic objectives. In addition, as part of the exercise Audit Division developed a risk criteria for selection of branches for audit purposes.

As per the approved Internal Audit Plan for the year 2015, several key projects covering various functions, branches, processes and IT Systems/applications were launched and successfully completed by Audit Division.

In line with SAMA guidelines, BSF engaged an external consultant to perform Internal Control Framework Review (ICR) and a report was issued in the year 2014. Internal Audit performed follow-ups on the status of implementation related to ICR recommendations. Audit Division has continued to perform follow-up on SAMA recommendations and provided consulting services to various function for implementation of their recommendation.

Saudi
Fransi Capital

Leading position in Investment Banking

2015 was a year of significant accomplishments for Saudi Fransi Capital, in spite of the turbulent market conditions and challenging economic environment. The foundations of our organization continue to get stronger with each passing year, allowing us to set even more ambitious targets by counting on the diversity and strength of our client services and investment solutions. During the year, we wrestled with the critical problem of how low stock market liquidity was impacting our earnings and competitiveness in the brokerage business. Our Asset Management Division recorded stellar growth in its assets under management while also increasing its market share significantly. Most importantly, it recorded another impressive year in terms of out performance versus our benchmarks and our peer group while continuing to grow our suite of offerings.

A testament to this was SFC being awarded the prestigious “Lipper Fund” Award for being the Best Group over 3 years in Equities. Research and Investment Advisory continued to expand its coverage of local equities to include all major sectors and the most widely traded stocks with thematic pieces complementing investment ideas. The foundation was laid to shape the investment advisory function. This year, we launched a wholly-owned subsidiary, Saudi Fransi Capital International Ltd (SFCI), in the Dubai International Financial Centre. SFCI is regulated by the Dubai Financial Services Authority under a category 4 license (arranging and advising). The new entity will focus on developing an international client base outside of the Kingdom, as the new regulations on direct foreign participation in Saudi equities will attract increasing foreign institutional investment over the coming years.

Our leading position in investment banking was affirmed by winning the EMEA Finance award for the ‘Best Local Investment Bank’ for Saudi Arabia for the third year in a row. Throughout the year, a worthy mix of debt, equity, and Mergers and Acquisitions (M&A) transactions was completed.

السعودي الفرنسي كابيتال
Saudi Fransi Capital

Allianz
Saudi Fransi

Easy access to customers and highly
Motivated Employees

Allianz Saudi Fransi was established in 2007 as a joint venture between Banque Saudi Fransi, a prominent financial institution in Saudi Arabia and Allianz Group, one of today's leading global financial services providers.

Our business model and balanced portfolio allowed us to generate overall positive development. This helped the Company to achieve a Net Profit before zakat and tax of SAR 23.8 Mn, the highest since the establishment of the Company in 2007. This profit represents a growth of 50% compared to 2014 and is a result of the efficiency of our underwriting policy as well as marketing and service initiatives that helped us attracting more profitable business.

Moreover, Allianz Saudi Fransi reinforced the distribution channels by restructuring branches, recruiting new talents and training current employees to further empower them.

Top Executives from the Allianz Group visited Allianz Saudi Fransi during 2015. Indeed Allianz Group top executive travelled to Riyadh to visit the Company and Banque Saudi Fransi, showing their strong interests in the development of the Company and in the partnership with Banque Saudi Fransi. This was also an excellent opportunity for the managers of the Company to interact with both Top Executives through town hall meetings that were setup.

For 2016 we will continue following our profitable growth plan with the aim to be amongst one of the leading insurance companies in the Kingdom fulfilling Retail and Corporate customer needs with modern and innovative insurance solutions in various lines of business and through easy access to customers by various channels of distribution and highly motivated employees.

Profit represents a growth of 50% compared to 2014

Saudi Fransi
Leasing

New business volume representing a considerable
Market Share

Saudi Fransi Leasing in its 4th year of operation stands as one of the fastest emerging finance lease companies in Saudi Arabia with a growing market share in the local auto leasing activities. In 2015, SFL converted its legal status to Close Joint Stock Company (with 100% shareholding by BSF) and at the same time obtained the SAMA license as an approved finance leasing company.

During the year, the Saudi leasing market witnessed intense competition among the market players in terms of pricing, quick execution of decision & after sales service. SFL focused on the above key drivers and was able to achieved over 100% growth, surpassed the SAR 1 billion portfolio mark.

SFL continued to expand its dealer network covering all popular automobile brands in the Kingdom. We have a range of products catering to different segments of the market, at the same time our marketing and product development team is constantly monitoring the market sentiments and develop products campaigns to suit the needs of the customers and market. SFL has developed its customer service channels with new customer service offerings through our website for customer convenience & quick response, at the same time we have set up a full-fledged call center catering to prospective and existing customer request.

Our after sales service is customer centric, putting ease of use and customer convenience as top priority. With our current e-channel services SFL becomes the finest in the Saudi auto leasing market.

SFL has developed its customer service channel with new customer service

السعودي الفرنسي للتمويل التأجيري
Saudi Fransi For Finance Leasing

ANNUAL REPORT 2015

البنك السعودي الفرنسي

Banque Saudi Fransi

بنك الإمتياز | Banque of Excellence

بسم الله الرحمن الرحيم

HRH Prince Mohamad Bin Salman Bin Abdulaziz Al-Saud
Deputy Crown Prince

King Salman Bin Abdulaziz Al-Saud
Custodian of the Two Holy Mosques

HRH Prince Mohamad Bin Naif Bin Abdulaziz Al-Saud
Crown Prince First Deputy Premier

Board of Directors'
Report

Consistent growth, forefront financial Position in Saudi Market

The Board of Directors is pleased to present its report for the FY 2015

1. Establishment

Banque Saudi Fransi (BSF), a Saudi Joint Stock Company, was incorporated by Royal Decree No. M/23 dated 17 Jumada II 1397H (June 4, 1977).

Following the transfer of "Banque de l'Indochine et de Suez" operations in Saudi Arabia, Banque Saudi Fransi officially commenced its operations on 4 Safar 1410 (September 5, 1989) under CR No. 1010073368.

Banque Saudi Fransi has a network of 83 branches
82 in 2014

Banque Saudi Fransi has a network of 83 branches (82 in 2014).

The Bank's employees number is 3207 (3085 in 2014). The objectives of Banque Saudi Fransi include the offer of banking products and services, in addition to the offer of Islamic products approved and supervised by an independent Shariah Board.

Head office of the Bank is located at King Saud Road (Ex. Al Maather Street), Al Muraba District - P. O. Box 56006, Riyadh 11554, KSA.

2. BSF subsidiaries

The Bank owns the following subsidiaries:

Name of Company	Capital	Ownership %	Activity
Saudi Fransi Capital (SFC)	SAR 500 millions	100	Acts as principal and agent; and undertake, manage, arrange, advise and file in securities trading.
Saudi Fransi Financing and Leasing	SAR 100 millions	100	Leasing Financing of assets of vehicles (Cars, motorcycles, trucks),heavy equipment and machinery; as well as buying and registering these assets.
Sakan Real Estate Financing Company	SAR 500,000.00	100	Financing real estates and lands through Murabaha and leasing products, and buying lands and real estates, and make investments on behalf of the company
Saudi Fransi Insurance Agency	SAR 500,000.00	100	Insurance brokerage services.

BSF also owns 32.5% of the share capital (SAR 200 million) of Allianz Saudi Fransi. BSF also owns 10.9% of the share capital (SAR 20 million) of Saudi Credit Information Co. (Simah) and acquired 50% of Sofinco Saudi Fransi's shares (previously BSF's subsidiary with 50% capital share) to achieve 100% of the company's ownership and transferred its consumer financing activities and net assets to Saudi Fransi Leasing Co. and Sofinco's shareholders accepted to liquidate the company after its assets and liabilities are transferred.

In addition BSF owns certain shares in the capital of Saudi Financial Support Services Company (Saudi Traveler Cheques Co.) and the Saudi Stock Registration Company currently under liquidation after having been transferred with all its assets and liabilities to the Capital Market Authority and Tadawul. All the above–mentioned companies exist and established in KSA.

The Bank owns 27% of the share capital of "Bemo Saudi Fransi," a joint stock company incorporated in Syria with a capital of SAR 242.2 million. The Bank commenced business on 01/04/2004. From 01/08/2003, BSF also owns 10.33% of the share capital of "Bemo Lebanon Bank duly incorporated in Beirut, Lebanon with a capital of SAR 157.2 million.

Currently, all regulatory and contractual formalities are being followed to conclude the sale of BSF share in BBSF-Syria, and Bemo Lebanon as announced on 26/11/2011 through Tadawul, which stated that the Board of Directors of BSF had unanimously adopted a resolution to sell its 27% share holdings in Banque Bemo Saudi Fransi-Syria, and its 10.33% share holdings in Bemo Lebanon.

BSF has not been represented in the Board of Directors of both BBSF-Syria and Bemo Lebanon effective 26/11/2011. BSF major partners, Bemo Lebanon, have been duly informed of this decision. BSF also owns 100% of the share capital of BSF Sukuk Company Limited currently operating in the Cayman Islands.

3. Growth

Over the years, BSF has achieved consistent growth, which contributed to the support of its forefront financial position in the Saudi market, and positioning it as one of the modern and effective financial institutions, fully qualified to meet the challenges of the future. BSF has also made considerable progress in the development of Shariah compliant branches, products and services in the areas of retail banking, investment services and treasury.

4. During the twelve months ended December 31, 2015 BSF achieved the following:

Description	31/12/2015 (Million SAR)	31/12/2014 (Million SAR)	%
Net Income	4,036	3,516	14.79
Total Operating Income	6,291	5,786	8,73
Net Special Commission Income	4,055	3,817	6.24
Assets	183,724	188,777	-2.68
Investments	28,321	45,102	-37.21
Loans and Advances Portfolio	123,443	116,541	5.92
Customer Deposits	141,751	145,275	-2.43
Earnings per share	3.35	2.92	-

5. Consolidated statement of financial position as at December 31, 2015 and 2014

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

6. Consolidated statement of income for the years ended December 31, 2015 and 2014

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

7. Consolidated statement of comprehensive income for the years ended December 31, 2015 and 2014

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

8. Financial highlights for the last 5 years

SAR' 000	2015	2014	2013	2012	2011
Total assets	183,724,281	188,776,903	170,056,674	157,777,302	140,479,958
Investments and investments in associates, net	28,427,393	45,201,350	34,465,143	27,669,947	16,840,066
Loans and advances, net	123,442,765	116,540,684	111,306,904	102,785,372	92,325,042
Total liabilities	156,240,480	162,305,566	146,840,043	135,090,484	120,824,631
Customers' deposits	141,751,045	145,275,245	131,601,187	115,571,767	109,963,411
Total equity	27,483,801	26,471,337	23,216,631	22,686,818	19,655,327
Total operating income	6,291,498	5,786,036	5,052,535	5,009,551	4,584,774
Total operating expenses	2,262,415	2,270,494	2,650,283	1,996,216	1,657,484
Share in earnings/(losses) of associates, net	7,361	799	3,323	1,801	(16,348)
Net income	4,036,444	3,516,341	2,405,575	3,015,136	2,910,942
Net special commission income	4,055,279	3,816,976	3,363,303	3,305,777	3,137,071
Fees from banking services, net	1,327,521	1,291,650	1,149,565	1,173,483	1,050,052
Impairment charge for credit losses, net	180,901	320,934	957,420	455,175	157,908
Salaries and employees related expenses	1,249,079	1,062,105	952,546	875,686	828,111
Number of employees	3,207	3,085	2,988	2,677	2,788

9. The Bank's Major Business Lines

The Business Segment presented are defined as follow:

9-A. Retail Banking

Incorporates private and small establishment customers' demand accounts, overdrafts, loans, saving accounts, deposits, credit and debit cards, consumer loans, certain forex products and auto leasing and exchange operations.

9-B. Corporate Banking

Incorporates corporate and medium establishment customers' demand accounts, deposits, overdrafts, loans and other credit facilities and derivative products.

9-C. Global Markets

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

9-D. Investment banking and brokerage

Investment management services and asset management activities related to dealing, managing, arranging, advising and custody of securities, retail investments products, corporate finance and international and local shares brokerage services through BSF's affiliate (Saudi Fransi Capital).

9-E. The Bank's total assets and liabilities

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

SAR' 000	Retail banking	Corporate banking	Treasury	Investment banking & brokerage	Total
2015					
Total assets	15,977,792	110,465,599	55,693,786	1,587,104	183,724,281
Investment in associates	-	-	106,430	-	106,430
Total liabilities	77,454,529	65,059,259	12,296,535	1,430,157	156,240,480
Total operating income	1,506,182	3,058,470	1,405,988	320,858	6,291,498
Share in earnings of associates, net	-	-	7,361	-	7,361
Total operating expenses	1,087,568	720,044	251,075	203,728	2,262,415
Net income for the year	418,614	2,338,426	1,162,274	117,130	4,036,444
Results					
Net special commission income	1,199,339	2,170,294	638,359	47,287	4,055,279
Fees and commission income, net	171,536	886,857	(4,443)	273,571	1,327,521
Exchange income, net	53,377	-	351,095	-	404,472
Trading income, net	-	-	376,339	-	376,339
Impairment charges for credit losses, net	25,602	143,626	-	11,673	180,901
Depreciation and amortization	80,558	27,563	14,122	9,135	131,378

SAR' 000	Retail banking	Corporate banking	Treasury	Investment banking & brokerage	Total
2014					
Total assets	14,190,365	105,680,567	66,824,672	2,081,299	188,776,903
Investment in associates	-	-	99,069	-	99,069
Total liabilities	70,327,832	75,836,737	14,301,294	1,839,703	162,305,566
Total operating income	1,419,493	2,740,813	1,263,336	362,394	5,786,036
Share in earnings of associates, net	-	-	799	-	799
Total operating expenses	1,249,599	577,286	257,821	185,788	2,270,494
Net income for the year	169,894	2,163,527	1,006,314	176,606	3,516,341
Results					
Net special commission income	1,093,793	1,960,513	709,040	53,630	3,816,976
Fees and commission income, net	211,257	777,068	(5,438)	308,763	1,291,650
Exchange income, net	54,144	-	299,861	-	354,005
Trading income, net	-	-	202,587	-	202,587
Impairment charges for credit losses, net	211,650	109,284	-	-	320,934
Depreciation and amortization	79,795	25,643	10,320	9,298	125,056

9-F. Geographical Distribution

Following is a table showing income per province (Eastern, Western, Central, HO and affiliates) for 2015.

BSF and Affiliates (excluding SFC)

SAR 000/2015	Eastern	Western	Central	HO	Bank
Total Income	1,038,054	1,262,665	1,768,290	1,908,995	5,978,004
Total Expenses (before provisions)	(173,027)	(229,803)	(235,639)	(1,250,570)	(1,889,039)
Provisions	11,480	2,218	(75,008)	(108,341)	(169,651)
Net Income	876,507	1,035,080	1,457,643	550,084	3,919,314

SFC

SAR 000/ 2015	Eastern	Western	Central	HO	SFC
Total Income	21,596	29,787	62,020	207,452	320,855
Total Expenses	-	-	-	(203,725)	(203,725)
Net Income	21,596	29,787	62,020	3,727	117,130

BSF Group

SAR 000/ 2015	Eastern	Western	Central	HO	Bank
Total Income	1,059,650	1,292,452	1,830,310	2,116,447	6,298,859
Total Expenses (before provisions)	(173,027)	(229,803)	(235,639)	(1,454,295)	(2,092,764)
Provisions	11,480	2,218	(75,008)	(108,341)	(169,651)
Net Income	898,103	1,064,867	1,519,663	553,811	4,036,444

10. Business Line

10-A. Retail Banking

RBG crossed the one million mark in terms of customer portfolio during 2015 by focusing on customer needs and providing compelling proposition at competitive rates. We also started our journey on customer loyalty with the initiation of retail level loyalty program which would prove to be a binding force between our customers and overall product offering.

10-B. Corporate Banking

Unwavering support & commitment to existing corporate relationships, while actively but selectively establishing new quality relationships. A notable source of our growth in 2015 is attributed to our structured finance transactions where we participated in several mega deals in different industries. Our strategy continues to be that of positioning ourselves as the 'bank of choice' for corporate clients, and aim to further expand our market share through innovate products and solutions, and continued focus on cross-selling initiatives.

10-C. Business Banking

Positive market sentiments provided good opportunities for growth in the mid-level Business Banking segment, which translated into a consecutive year with double digit growth. With the announcement of new government and private sectors' projects, prospects for new business generation remain very promising for the near future. We expect government institutions to continue being of strategic focus for us, and foresee the small-to-medium enterprises remain an attractive thriving segment with above average growth potential.

10-D. Global Markets

World class structuring capabilities, expert team of traders, and a well-crafted cross-selling strategy constituted the finest of ingredients to achieve outstanding results exceeding the previous year's profitability. We continue to deliver unsurpassed hedging and investment solutions to our sophisticated treasury client base, and despite persistent challenges in global markets' conditions, we remain well poised to maintain our strong momentum into 2016.

10-E. Wealth Management & High Networth

Exceptional growth in the volume of deposits, playing a significant role in surpassing the preceding year's revenues by a wide margin. The outstanding results represent the amalgamation of many factors including the growth in client base in addition to cross-selling of international brokerage, fund investments, and structured products. With higher interest rates anticipated in 2016, the outlook is positive due to expected increase in consumers' appetite for investments.

10-F. Global Transactions

E-channels' revenue grew in excess of one-fold, fueled by cross selling efforts that increased the Bank's POS network penetration. Numerous projects where undertaken to reinforce the various technology platforms, cater for requirements of various government agencies, and the enhancement of customers' experience on the Bank's e-channels. Looking ahead, we will proceed with resolve to increase electronic channels' utilization as a cost effective alternative to conventional banking.

10-G. Islamic Banking

The Islamic Sources and Uses of funds represented the majority of the Bank's total, in line with local market trends where a paradigm shift continues to take place where banking preferences are gradually gravitating towards Islamic products and services for social and commercial reasons.

Driven by the strategic outlook conceived in 2013, we continue with solid footsteps in implementing a comprehensive five year developmental plan aimed at progressively strengthening our Islamic banking framework and the proliferation of new innovative products.

11. Operations

11-A. Corporate Operations Division

2015 was a year of challenges and rewards for Corporate Operations Division (COD), during which COD had to cope with carrying out several investment projects, improving operational efficiency, and enhancing controls. In addressing these challenges, COD continue to realize the value of their assets - "Teamwork".

COD focus on service quality, external and internal customer satisfaction, cost saving, complex projects completion, operation efficiency, and control enhancements are in harmony with Mid-Term Plans.

11-B. Business Continuity Department

In 2015, Business Continuity Department has enhanced and leveraged the organization capability with regard of ensuring continues services in case of major incidents or crisis that disrupting Banque Saud Fransi normal operations. Several projects and practices have been implemented covering aspects of technical and power infrastructure, recovery sites, planning, testing and exercising with a new generators for power redundancy dedicated for Head Office Data Center.

11-C. Property Management Division

Property Management Division is responsible for BSF property development, effectively applying for the best engineering practices in order to deliver the best image to BSF clients, this is being achieved by setting up new standards of furniture, signage and interior finishing.

Property Management Division has undertaken the execution of numerous key projects Kingdom wide which were initiated in 2015.

Beside the normal activities of maintenance renovation and relocation, of buildings and ATMs, the Head Office went through a phase of major renovation upgrade and space allocation.

11-D. Procurement Division

Procurement Division continued to empower the independent centralized control and negotiation over Bank's commitments and to benefit BSF financially through improved business processes and controls.

The total financial cost optimization and saving in 2015 increased to two folds, reflecting strong positive Businesses / Procurement collaborations.

11-E. Information Systems Group

2015 was the second year of Bank's three years Medium Term Plan (MTP 2014-16). Bank's portfolio of IT projects continued to focus on alignment of IT investments with business strategies, priorities and the motto of BSF "Banque of Excellence".

ISG is continuously improving its project methodology targeting at higher levels of maturity for project governance. ISG is aiming to be more interactive and collaborative with business owners and stakeholders. A Project has been initiated to implement the Project Portfolio Management (PPM) System. The PPM solution selected by ISG is the one ranked by Gartner as best PPM solution in the market.

12. Risk Management

The Bank confirms that in 2015 there was no restructuring, business expansion nor discontinuance of any operations in BSF Group.

The business model of the Bank in 2016 remains along the same lines as that of 2015.

The risks that the Bank faces in the future are of the same types as the risks that the Bank faced in 2015. The Bank has appropriate risk organization, governance structure, independent risk functions to handle the chief risks namely credit, market and operational risks. Potential risks facing the Bank revolve around, i) ongoing efforts to identify key risks and ability to maintain oversight of those risks; ii) systemic risks; iii) conduct risk.

In order to make sure that key risks are properly identified, Risk Management Group (RMG) has established a program for reviewing periodically risk strategies of business lines at Senior Management and Board Risk Committee levels. Through a process of aggregation of these strategies, RMG has formulated a Risk Appetite framework of the Bank with key risk indicators (KRI) approved by the Board and monitored at Board Risk Committee level at quarterly intervals. Policies and Procedures are periodically reviewed. For example, as a major source of risks emanate from the credit loan portfolio, credit risk acceptance criteria are regularly reviewed for different segments of the loan book.

A major source of systemic risk in KSA is linked to the oil price. Since oil price is not expected to rise substantially in 2016 from the low levels seen in 2015, new government projects may be cancelled or postponed undermining the revenue stream of many customers. While existing projects with an already approved budget outlay are to be pursued, clients may experience delay in the realization of their receivables leading in turn to the necessity of extending tenor or restructuring their credit facilities.

On the cost side, the partial withdrawal of subsidies and the resulting increase of utilities price is expected to lower notably operating profit margins of the energy intensive industries. In addition, the borrowing cost of customers is poised to increase on the back of higher funding cost for banks and possible deterioration of the credit quality of some clients. This downward evolution of operating profit margins will affect most of the customers. While lengthening of credit tenors or restructuring of facilities may be warranted for some customers, the majority of the clients should be capable to weather the systemic risk in 2016 through their own cost controlling measures.
Conduct risk may arise through personal actions of the staff which can cause a loss or a failure to make a profit if timeliness and degree to which staff complies with laid down Procedures and Policies of the Bank are not adequate. It may also stem from unaligned cultural attitudes. RMG together with Business Lines have developed a Risk Culture program across the Bank aiming to stave off typical behavioral weaknesses. Specific Key Performance Indicators are assigned to make sure that proper behavior and conduct are aligned with the Risk Appetite of the Bank.

Overall the Bank believes it is well positioned to handle all the risks that emanate from the ordinary course of banking business.

12-A. Policies, Norms and Methodology

In 2015, BSF revised substantially its Risk Governance and existing Risk Appetite framework with incorporation of additional risk indicators and tolerance ranges. The Risk Appetite indicators are tested at quarterly intervals comparing the actual profile vis-a-vis the laid down parameters and reported to the Board Risk Committee. Any deviations from the indicator value or acceptable tolerance bands are flagged off for further action by Senior Management. Risk culture actions in 2015 were focused on Risk Governance and Risk Appetite.

Stress Testing models were substantially improved in accordance with SAMA Regulation for its use in Capital planning within the ICAAP regulatory framework. Portfolio Risk Department in 2015 revised the Corporate Credit Policies incorporating - among others - revised Credit Risk Acceptance criteria for different segments of the loan book and Economic Sector Caps.

While the existing Corporate Risk Rating model was validated, back tested and its discriminatory power found satisfactory, findings from the back testing and validation study have been used to build a new and enhanced Corporate Risk Rating model, also validated during the year.

A separate rating model for Small Corporates was also developed to cater to the needs of the medium and emerging corporates segment of the loan book. Likewise a dedicated rating model for income producing real estate clients was also developed. All of these models will be deployed in 2016 in the new rating platform and is part of the ongoing Basel 2 / IRB project of the Bank.

For Retail, all application scorecards have been completed and validated, with dedicated monitoring file for each of them to enable immediate rating monitoring and yearly back testing. Behavioral scorecards are still under development with the risk modelling team for implementation in 2016 including training of branches by the Retail Business Line.

Retail Credit Policies are updated on a quarterly basis for approval of the Board Risk Committee.

12-B. Credit Risk

The credit granting and approval process is done in credit committees with differing levels of credit approval delegation powers. The highest credit committee is the Executive Committee of the Board. The Credit Risk Department tenders an independent risk opinion on the credit requests emanating from Business Lines to aid decision making in the credit committees. In the governance structure the Credit Risk Department is entrusted with the responsibility of providing the credit risk opinions. The Bank aims to maintain a well-diversified and healthy credit portfolio within the framework of pertinent Risk Appetite credit indicators, updated Credit Policy guidelines, prudential Economic Sectorial Caps, revised Risk Acceptance Criteria laid down for different segments of the loan book and emphasis on the importance of Risk culture.

The Risk Acceptance criteria emerge from the confluence of Risk Appetite formulation and regular Risk Strategies presented by each Business Line, reviewed by Risk Management and approved at Board Risk Committee level as part of the policy guideline.

12-C. Market Risk

Concerning Market Risk monitoring, the Bank has clearly defined policies & procedures related to market risk activity, as well as a comprehensive set of market risk limits (together with loss alerts) which are reviewed at least annually, and independently monitored on a daily basis by a dedicated Market Risk Department.

In order to manage the market risk in the trading book, the Bank applies on a daily basis a VaR (Value-at-Risk) methodology in order to assess the market risk positions held and also uses Stress scenarios to estimate the potential economic loss based on a set of assumptions and changes in market conditions.

In addition, BSF has Service Level Agreements with its Partner Credit Agricole CIB for reinforcing cooperation and assistance in capital market activities (market risk and counterparty risk).

12-D. Operational Risk

The year 2015, has been strategically significant for Operational Risk Management in being able to enhance the overall Operational Risk culture, to further strengthen the Bank's processes and services, ensuring smooth and improved business operations. Key Operational Risk Management objectives primarily include the management and mitigation of operational risk in a cost effective manner within targeted levels of risk appetite. The approach is in line with the SAMA Regulations (including BIS requirements) as well as international best practice frameworks.

One of the most noticeable achievements included the end-to-end deployment of the Operational Risk Management System ensuring unification of all Operational Risk activities (Incident & Loss Data Management, Risk & Control Assessment, Key Risk Indicator Monitoring, Scenario Analysis, Remediation Management, Regulatory and Internal Reporting).

The solution also sets the platform for carrying out state-of-the-art risk analytics, including losses forecasting, risk aggregations, controls optimization, stress testing and related predictive analytics. Furthermore, a group-wide Risk Register development exercise was carried out, following the ISO 31000 Framework, for documenting all applicable risks by business processes. The content developed includes business process listings by business entities, applicable operational risks with their corresponding details, controls with their corresponding details as well as business process flow visualizations. Based on this exercise, the Risk & Control Self-Assessment will be carried out across the Group, for the rating and treatment of key operational risks in 2016.

Another significant achievement of 2015 includes the establishment of the IT Risk Management Department within Operational Risk Management, responsible for conducting IT Risk Assessments, Profile Reviews, IT Incidents Investigations, as well as providing an independent risk opinion on IT Change Requests, New Products & Activities as well as the IT Business Project Office's ongoing projects. In addition to this, enhancement on the Incident Investigation Procedure, Fraud Risk Assessment, Detailed Process Assessments, Branch Assessments and Key Risk Indicators establishment were among the main achievements.

12-E. Basel II: Internal Rating approach

Since 2008 BSF computes its Risk Weighted Assets (RWA) under the standardized approach for credit, market and operational risks in compliance with SAMA requirements.

Going forward BSF has decided to replace the standardized approach with the internal rating approach: IRB Foundation for the Corporate portfolio and IRB Advanced for the Retail banking. This will help the Bank in the future to align Pillar 1 Capital calculations and internal Pillar 2 Capital models. In that perspective, a shaping phase of IRB implementation has been completed to identify qualitative and quantitative gaps following SAMA's guidelines. Each functional and technical gap has been mapped with a specific sub-project and then aggregated to support planning and budget of the global IRB program's implementation, forming integral part of the "Medium Term Plan 2016."

For the Retail activities, application scorecards have been validated, with implementation in early 2016. Behavioral scorecards to be implemented in 2016 will complete the requirements for IRB advanced. For the Non-retail activities, the selection of a new rating platform in 2015 will give rise in 2016 to the migration of all of BSF's existing internal rating models to the new platform. Among other transforming projects that BSF has launched in recent years, IRB Program provides a real opportunity to enhance its risk management by spreading an advanced risk culture to support a sound business growth.

13. Finance & Strategy Group (FSG)

Finance & Strategy Group gathers the Accounting & Financial Control Division (AFCD), the Financial Planning and Management Control Division (FPMCD), the Asset & Liability Management Department (ALMD) and the Corporate Communications Department. AFCD ensures full compliance & maximum disclosure of information in the light of International Financial Reporting Standards (IFRS) and regulatory guidelines by SAMA. It plays a key internal control function positioned as second level of control providing necessary assurance for key operations and processes of the bank. In 2015, BSF completed a major milestone with the implementation of a new accounting system, the final piece of the replacement of its core banking system.

This new set-up will provide scalability and agility to support BSF's current expansion while accommodating regulatory evolution. FPMCD is primarily in charge of the budget preparation and follow-up. It also closely supervises the implementation of the 2014-2016 Medium Term Plan which is well on track for both quantitative and qualitative targets. A new plan will be prepared in 2016 covering the upcoming 3 years determining the key axis of development of BSF in a changing economic environment. ALMD is in charge of managing interest rate risk and long-term liquidity risk of the Bank. It applies strict guidelines ensuring that those 2 key risks for the Bank are in check and in line with the limits defined.

13-A. Corporate Communication

Corporate Communications Division (CCD) continued its support to all departments in 2015. In the field of internal communications, a large number of outreach and advertising campaigns were implemented internally within the BSF network. In addition, issuing our bimonthly staff magazine "Perspectives". Advertising and marketing campaigns have been implemented to promote the full range of products and services along with many exhibitions and events that have been organized for Corporate and Retail Banking Groups inside and outside the Kingdom. In 2015 CCD focused on news coverage and presence on a daily basis in the press and the media as part of external communications, which was enhanced with the launch of the Bank pages on various social networking platforms.

14. Human Resources Group

HR mission and vision statements, to become "Employer of Choice" were set in alignment with BSF's strategic direction to be "Bank of Excellence". The vision and mission statements were incorporated throughout HR's structure, activities and programs.

The Employee Engagement Survey (Your Voice), launched during 2014, had a high participation rate of 83%.

14-A. Saving Plan 2015

The Bank is keen to motivate its employees with programs and bonuses enhancing their confidence and loyalty, the following table shows staff saving plan for 2015:

SAVING PLAN – 2015 – SAR			
Description	Employee Contribution	Bank Contribution	Total Contribution
At January 2015	38,557,525	30,749,038	69,306,563
Contribution during 2015	10,474,109	8,203,744	18,677,853
Refund Contribution during 2015	-6,879,361	-5,771,936	-12,651,297
December 2015 (EOY)	42,152,273	33,180,846	75,333,119

14-B. Ethical principles and profession fundamentals for BSF staff

BSF rules and regulations include controls and rules regulate the workflow in the Bank. These controls and rules are adhered by any one directly or indirectly represents the Bank. They are:

1. Behaviors, General ethics and profession fundamentals:

- Basics that are followed during work like: (comply with working hours)
- Reporting actual and potential violations like: (fraud cases or fraud attempts)
- Confidential information like: (information related to a customer)
- Avoiding conflicts of interests and it includes: give and receive gifts and business transactions for related entities.
- Using the internal and special information (personal investments)
- Complying with Anti-money laundering policy (reporting suspected activities)
- Protecting the Bank's assets.
- Correctness of the financial records and reports.
- Bullying and harassment.
- Safe workplace and free of prohibited items.
- Fairness in dealing.
- Convenience of the products and investments offered to the customers.

2. Acceptable use policies of computer, e-mail and internet services.

Profession fundamentals:

- Treat others how you want to be treated.
- Take personal responsibility for your actions.
- Conduct personal and work related business as per applicable laws and regulations.
- Be honest in all work issues.
- Complying with ethical principles and profession fundamentals by the Bank's staff and representatives is one of work duties and legal orders which should adhered to. Failure to do so, leads to take the disciplinary procedures which may reach terminating the contract as per Article 80 Paragraph (2) of Labor Law and the applicable bylaws of the Bank. Violating these regulations may lead to violate general laws which might expose the employee and the Bank to criminal penalties.
- Penalties are applied by consulting the related division, Legal Division and Human Resources Group. Assuming the penalty is associated with the conditions related to the violation.

14-C. Financial compensation and incentive policy

The Bank adopts leading market practices in its compensation and benefits policies. These practices are to ensure fairness, transparency, internal equity and market competitiveness.

In addition, the compensation and benefits practices ensure the alignment of the Bank, Divisions and employees' performance levels, as well as safeguard the Bank against uncalculated material risk taking.

15. Governance, Compliance and Control Group

Governance, Compliance and Control Group undertakes all the Bank's regulatory and legal affairs due to their importance. This responsibility is assigned to The Secretary General, Chief of Governance Compliance and Control Group. Some business lines have been integrated and administrative processes cycle has been reduced after developing the infrastructure of compliance and control to implement the Bank's policies towards compliance with governance principles and instructions, in line with SAMA, Capital Market Authority and Companies Law instructions, facilitate mutual communications and strengthen the relationships with these entities.

This group includes: Secretariat General, Board of Directors secretariat, Secretariat General Administrative Affairs Department, Translation Unit, Investors Relationship Department, Legal Division, Corporate Security Division, Corporate Governance Division, Regulatory Relationship Department, Property Assessment Unit, Corporate Social Responsibility Department, Compliance Division, Service Quality Division, Anti-Financial Crimes Division and Anti-Fraud Department.

15-A. Secretariat General

Secretariat General provides administrative and technical support to all Bank's departments/divisions and the group of sisters and associate companies. It oversees the meeting's arrangements and preparations of Boards of Directors and their different committees and General Assembly, the updates of the information with competent authorities, monitoring the changes in the capital , selecting Boards of Directors' members and the formation of the committees of Boards of Directors and boards of managers of sister companies. It applies the instructions and regulations received from regulators, to inform the Chairman and members of Board of Directors, Audit committee, concerned departments and sister and associate companies with the related updates.

Also, it announces quarterly and annual financial results on Tadawul and Local newspapers as well as the significant changes and updates as per CMA instructions. Secretariat General oversees the preparation of the Board of Directors' report to shareholders once the Bank completed preparing its fiscal year results through coordination with all concerned departments to publish this report and the financial results in newspapers, official gazette and Tadawul website. Secretariat General Administrative Affairs Department handles all instructions received from SAMA via SAMA Net regarding legal and banking affairs, and it is also responsible for all SAMA's circulars and correspondences.

15-B. Legal Division

Legal division is an independent and specialized division that reports directly to Secretary General, Chief of Governance Compliance and Control Group. After its establishment on 2013, it continued to extend its capabilities and to hire lawyers and support staff. In light of this recruitment, the Division is responsible for providing legal consultation for the Bank and its subsidiaries. This legal consultation includes (negotiation, preparing and reviewing agreements, directing the external adviser, managing all cases in which the Bank is a party and representing the Bank in the meetings that involve Legal issues). The advice and consultation provided by the Legal Division to all Bank's divisions/departments are extremely important for the Bank to fulfill its obligations towards customers, regulators and shareholders, and to improve the Bank's culture of excellence and integrity. The division provides the legal consultation that protects the Bank's safety and financial reputation and assists the Bank in different business lines regarding risks associated with the completion of transactions and activities.

15-C. Corporate Security Division

Driven by the BSF's vision of "Banque of Excellence", Corporate Security Division (CSD) in the year 2015 achieved significant milestones toward its strategic objectives of enhancing the security of BSF electronic services, ensuring staff safety and protection of BSF assets against growing regional and international threats. Corporate Security Division's efforts were recognized by BSF's achievement of continuous compliance status against ISO/IEC 27001, a globally recognized best-practice framework for addressing the entire range of security risks, and forms the backbone of a strong security risk management strategy. BSF has also maintained a continuous compliance status against Payment Card Industry Data Security Standard (PCI DSS) certification the rigorous data security standards that BSF applies in protecting customers' information, reducing credit card fraud and thereby enhancing customer confidence.

15-D. Corporate Governance Division

During 2015, Corporate Governance Division has conducted several activities including:

- Finalized the second phase of the Delegation of Authority Matrix and its Manual, which have been completed and approved by the BOD, and then circulated to Bank's groups and divisions.
- Finalizing the first phase of reviewing, updating, and drafting the Bank's main policies.
- Review and update BSF BOD and BOD Committees Charters.
- Review and update BSF Shareholders' Manual.
- Review and update the Transparency and Disclosure Policy.
- Review and update the Policy on Conflict of Interest for BOD and BOD Committees.
- Review and update BOD & BOD Committees Independency Assessment Document.

15-E. Regulatory Relations Department

RRD is responsible for following up all correspondences sent to the BSF Secretariat General by SAMA, CMA, Ministry of Commerce and Industry and the competent bodies after referring them to the BSF concerned departments. Responses are reviewed and processed to ensure their accuracy and compliance to the requirements of the regulatory bodies. RRD also follows up C.Rs of the BSF branches and have them updated and issued at the specified time.

15-F. Property Assessment Unit

Property Assessment Unit has been created in 26/5/2014. The main purposes of this unit (PAU) is to secure an accurate assessment of Properties/Lands involving BSF, transfer the title deeds to the BSF nominee, and to build a coherent strategy and procedures for the management's decisions, and to watch over the smooth and accurate progress of the assessment process.

15-G. Corporate Social Responsibility Department

The Bank's Board of Directors has focused on supporting the largest possible group of society in all health, cultural, awareness, educational and sport areas through the social responsibility committee. In the health area, the Bank has supported the Saudi Society for Alzheimer's (through a long term strategic partnership). The Bank has also supported the Charitable Health Society for Patients Care (ENAYAH), this society is targeting the sick needy patients who are infected with chronic diseases, providing medications, medical devices and help their families find the proper resident during the treatment period for patients from other cities, also contributing in spreading awareness and prevention from chronic diseases.

15-H. Compliance & Control Division

The compliance function in Banque Saudi Fransi is independent. It has been restructured during 2015 to align the new compliance strategy that inspired by the on-going developments in the local and global compliance environment. The new structure can be briefed as follows:

- Central Region Compliance
- Eastern Region Compliance
- Western Region Compliance
- Treasury and FATCA
- IT Compliance
- Assessment and Reporting
- Compliance Advisory
- Subsidiaries Compliance

15-I. Services Quality Division

Service Quality Division is the only responsible for receiving and handling customers complaints. It receives, solves and replies to the complaints received by communication channels available for customers. The number of the received complaints in 2015 was about 7,230. 94.55% thereof were solved within the timeframe of BSF standards (5 business days), and 99.27% were solved within the timeframe of SAMA standards (10 business days). Regarding awareness and training, Service Quality Division in collaboration with Corporate Communications Division, RBG and Global Transactions, implemented the campaign of Customer Care 2015 covering all ATMs, emails and SMSs. All branches of BSF country-wide were visited by Service Quality Division officers for the purpose of training the staff, listening to their comments and providing them with latest updates on the complaints automated system.

15-J. Anti-Financial Crimes Division

Anti-Financial Crimes Division was established in 2014 and comprises three independent units, including Fighting Money Laundering, Fighting Fraud, and Self-Oversight.

The Division was established to keep up with the developments, challenges and local and international standards that are concerned with encountering all forms of financial crimes. The intention is to consolidate efforts and capabilities and to achieve the set objectives in the best possible manner in fighting and preventing financial crimes in the banking sector.

15-K. Anti-Fraud & Investigation Department

The Anti-Fraud & Investigation Department receives all reports on banking fraud cases directly from BSF departments, branches and external bodies to be professionally addressed. Also, it is responsible for raising awareness about banking frauds among customers & employees to protect the Bank's reputation, financial and human resources. The Anti-Fraud & Investigation also sends educational messages to all BSF staff on a quarterly basis to let everyone understands the seriousness of the situation, the importance of countering fraud and the followed procedures in this regard. In all regions of the Kingdom, the department organizes training courses on a regular basis throughout the year.

16. Internal Audit

Internal Audit Division is an independent, objective assurance and consulting activity designed to add value and improve Bank's operations. It helps the Bank accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Internal Audit is an independent function within BSF reporting to the Board Audit Committee. The scope of the Audit division encompasses all Groups, Divisions, Departments, activities and locations of BSF and its subsidiaries. Audit acts as the "third line of defense" and the role of audit does not diminish or abdicate the responsibilities of senior management or employees in the management of the day to day operations of BSF. Internal Audit has unconstrained access to all people, premises, systems, documents and records as well as any supporting means it considers necessary in the performance of its functions.

16-A. Internal Audit Activities

Internal Audit Division conducted a high level entity-wide risk assessment exercise for the purpose of developing Internal Audit Plan for three years (2015-2017). The Risk Based Internal Audit Plan was prepared after taking into account the Bank's strategy, goals and objectives, management expectations as well as the results of the entity wide risk assessment.

Bank's Medium Term Plan and overall Strategy were one of the key input in the Risk Model for the Internal Audit Plan in order to align Internal Audit strategic plan with Bank's strategic objectives. In addition, as part of the exercise Internal Audit Division developed a risk criteria for selection of branches for audit purposes. As per the approved Internal Audit Plan for the year 2015, several key projects covering various functions, branches, processes and IT systems/applications were launched and successfully completed by Internal Audit Division. Internal Audit Division was further strengthened by hiring experienced resources. Internal Audit Division also updated the existing branch audit methodology and audit program. In line with SAMA guidelines, BSF engaged an external consultant to perform Internal Control Framework Review (ICR) and a report was issued in the year 2014. Internal Audit performed follow-ups on the status of implementation related to ICR recommendations. Internal Audit Division has continued to perform follow-up on SAMA recommendations and provided consulting services to various function for implementation of their recommendation.

16-B. Effectiveness of Internal Controls

Management has adopted Internal Controls integrated framework as recommended by SAMA through its guidelines on Internal Controls. Internal Audit Division monitors the effectiveness of internal control system across the Bank following a risk-based audit approach.

Internal Audit accomplishes this by independently reviewing the design effectiveness and operating efficiency of internal controls to ensure that the Bank is operating within its stated Risk Appetite.

All significant and material findings of Internal Audit assessments are reported to the Audit Committee of the Board. The Audit Committee actively monitors the adequacy and effectiveness of the internal control system to ensure that identified risks are mitigated to safeguard the interest of the Bank. Management is responsible for ensuring implementation of the internal audit recommendations on a timely manner.

In addition, a Bank wide Internal Control Framework Review was conducted by an Independent Consultant in line with SAMA guidelines in Internal Controls and a report was issued in 2014. Internal Audit is performing regular follow-up to check the implementation status and the results of the follow-up are communicated to Board Audit Committee.

Based on the results of the ongoing evaluation of internal controls carried out during the year, the Management considers that the Bank's existing internal control system is adequately designed, operating effectively, and monitored consistently. Nevertheless, the Management continuously endeavors to enhance and further strengthen the internal control system of the Bank.

17. Statement of Internal Control

Management is responsible for establishing and maintaining an adequate and effective internal control system. The set of standards, policies and procedures that the Board and senior management have established is designed to provide effective internal control for managing risks within the accepted risk appetite of the Bank and to achieve the strategic objectives of the Bank. Bank has adopted a 'Three Lines of Defense' approach for managing risks faced by the Bank. The First line of defense is under business lines where each function, under the supervision of the senior management is entrusted with the responsibility for setting policies, procedures and standards across all areas.

The Second Line of Defense comprises of various risk management and control functions which maintain oversight. Control functions include Compliance, Legal, Operational Risk and Permanent Control etc. Risks are evaluated and reported to the Board and senior management through various committees including Compliance Committee, Internal Control Committee, Board Risk Committee and Audit Committee. Operational Risk performs Risk & Control Self-Assessment and Control testing to identify and evaluate risk factors which could adversely affect performance, information and compliance objectives. The Compliance function ensures adherence to regulatory requirements. Identified deficiencies are reviewed regularly by local Internal Control Committee to ensure rectifications of such deficiencies and that risks are mitigated accordingly.

Internal Audit Division represents the Third Line of Defense and monitors the effectiveness of internal control system across the Bank following a risk-based audit approach. Internal Audit accomplishes this by independently reviewing the design effectiveness and operating efficiency of internal controls to ensure that the Bank is operating within its stated Risk Appetite. The Head of Internal Audit Division reports to Audit Committee. All significant and material findings of Internal Audit assessments are reported to the Audit Committee of the Board. The Audit Committee actively monitors the adequacy and effectiveness of the internal control system to ensure that identified risks are mitigated to safeguard the interest of the Bank. Management is responsible for ensuring implementation of the internal audit recommendations on a timely manner.

Concerted and integrated efforts are made by all functions of the Bank to improve the control environment at grass root level through continuous reviewing and streamlining of procedures to prevent and rectify any control deficiencies.

The Banks' internal control system has been designed to provide reasonable assurance to the Board, on the management of risks to achieve the Bank's strategic objectives. Internal controls systems, no matter how well designed, have inherent limitations, and may not prevent or detect all control deficiencies. Moreover, the projection of current evaluations of the effectiveness to future periods is subject to a limitation that controls may become inadequate due to changes in conditions or compliance with policies or procedures. Management has adopted Internal Controls integrated framework as recommended by SAMA through its guidelines on Internal Controls. Audit Committee also reviews the assessment report on the effectiveness of the internal control system, as prepared by the Internal Audit Division of the Bank. The report on assessment of internal controls does not contain material weaknesses in the Bank's internal control framework which has not been adequately addressed by the management.

Based on the results of the ongoing evaluation of internal controls carried out by Management during the year, the Management considers that the Bank's existing internal control system is adequately designed, operating effectively, and monitored consistently. Nevertheless, the Management continuously endeavors to enhance and further strengthen the internal control system of the Bank. Based on the above, the Board of Directors has duly endorsed Managements' evaluation of the internal control system, as prescribed by SAMA.

18. Internal Control Framework

The following Internal Control components, are in place:

1. Control Environment: Analysis of the control environment in terms of the integrity, ethics and competence of personnel; the organization structure; the Board of Directors and Senior Management; Management's philosophy and operating style; attention and direction provided by the Board and Committees especially Risk & Audit; personnel policies and practices and; management of external influences affecting operations and practices. Key activities include Risk & Control Self-Assessment, Control Testing and Permanent Control Set up & Management.
2. Risk Assessment & Management: Identification and evaluation of risk factors which could adversely affect performance information and compliance objectives. Key practices include:
   a. Clear Objectives from Board & Management on risk identification and assessment.
   b. Risk Management Committee and Risk Management Function identify risks which can hinder in achieving business objectives.
   c. Identification and Assessment of changes that can impact the internal control system.
   d. Involving Risk Management, Audit and Compliance in Risk Assessment Process.
   e. Updating the Risks & related Assessments over time as well as with New Products and Activities.
   f. Risk Coverage (Insurance).
3. Instituting Controls: Establishment of Control Policies and Procedures as well as Verification on the adherence to these Controls (via Control Assessment and Testing).
4. Accounting, Information & Communication System: Ensure that the:
   a. Accounting systems adequately identify, assemble, analyze, classify, record and report the transactions.
   b. Information systems are classified by type, number and depth of reports for operational, financial, managerial and compliance related activities. (Includes analysis of the systems including profile reviews and assessments).
   c. Adequacy of the communication systems.

5. Self-Assessment & Monitoring: Board and Management oversight of the Internal Control, reviews and audit findings, reporting on deviations to the Board, adequate documentation and ensure the independence of the evaluators from the entities evaluated.

19. Joint-Venture Companies

19-A. Saudi Fransi Leasing Co.

Saudi Fransi Leasing in its 4th year of operation stands as one of the fastest emerging finance lease companies in Saudi Arabia with a growing market share in the local auto leasing activities.

In 2015, SFL converted its legal status to Close Joint Stock Company (with 100% shareholding by BSF) and at the same time obtained the SAMA license as an approved finance leasing company.

19-B. Sakan for Real Estate Financing

In 2014, Sakan for Real Estate Financing, achieved the following:

Modification of the form of undertaking, receiving purchases, power of attorney and acceptance of ownership transfer to legal attorneys, periodic review of all purchase powers of attorney issued by Sakan Company to all employees for the purpose of renewal or cancellation of what is to be cancelled of them, follow up of customers applications in case of full payment with the relevant departments till owner transfer is completed, issuance of real estate authorizations for Bank customers and employees, finalization of deeds maintenance program.

19-C. Saudi Fransi Capital

2015 was a year of significant accomplishments for Saudi Fransi Capital, in spite of the turbulent market conditions and challenging economic environment.

The foundations of our organization continue to get stronger with each passing year, allowing us to set even more ambitious targets by counting on the diversity and strength of our client services and investment solutions.

19-D. The Assets, Liabilities and Issued share capital of subsidiaries are as follows:

SAR 000	Saudi Fransi Capital (100%)			Saudi Fransi Leasing (100%)		
	2015	2014	%	2015	2014	%
Total assets	2,560,209	2,884,328	-11%	1,309,056	366,107	258%
Total liabilities	1,430,169	1,867,408	-23%	1,185,648	266,837	344%
Equity	1,130,040	1,016,920	11%	123,408	99,270	24%
Total operating income	320,858	360,514	-11%	52,459	17,278	204%
Total operating expenses	(203,728)	(183,908)	11%	(28,400)	(13,809)	106%
Net Income	117,130	176,606	-34%	24,059	3,469	594%
Issued and paid up Share Capital	500,000	500,000		100,000	100,000	

The paid up share Capital of Sofinco Saudi Fransi and SAFIA is 100 million and 0.5 million respectively. The assets and liabilities of the other subsidiaries are not material. Sofinco Saudi Fransi is under liquidation process.

The financial results of Saudi Fransi Co., SAFIA & Sakan are not substantial and have not been disclosed; The same applies to BSF subsidiaries such as SIMAH and Saudi Traveler Cheques.

19-E. Debt instruments of subsidiaries

There is no debt instruments issued by the subsidiaries i.e. Saudi Fransi Capital, Saudi Fransi Leasing, Sonfico and SAFIA.

19-F. The following table shows the outstanding loans and advances as of December 31, 2015 provided by BSF to its subsidiaries:

Name of the subsidiary	SAR 000
Saudi Fransi Capital	1,369,172 *
Saudi Fransi Leasing	1,130,000 **

* The following is the loans details of Saudi Fransi Capital:

SAR 000	2015	2014
Loan Outstanding at the beginning	1,791,586	1,662,475
Proceeds from loans	6,089,254	8,510,132
Repayment of loans	6,511,668	8,381,021
Closing balance of loans	1,369,172	1,791,586

** The following is the loans details of Saudi Fransi for Finance Leasing:

SAR'000	31 Dec 2015	31 Dec 2014
Opening balance of loan	250,000	30,000
Proceeds from loan	940,000	220,000
Repayment of loans	60,000	-
Closing balance of loans	1,130,000	250,000

There is no any other loans outstanding by subsidiaries except the above loans provided by BSF.

20. Sister Companies

20-A. Allianz Saudi Fransi Cooperative Insurance Company

Allianz Saudi Fransi was established in 2007 as a joint venture between Banque Saudi Fransi, a prominent financial institution in Saudi Arabia and Allianz Group, one of today's leading global financial services providers.

Our business model and balanced portfolio allowed us to generate overall positive development. This helped the Company to achieve a Net Profit-before Zakat and tax-of SAR 23.8 million, the highest since the establishment of the Company in 2007.

This profit represents a growth of 50% compared to 2014 and is a result of the efficiency of our underwriting policy as well as marketing and service initiatives that helped us attracting more profitable business.

20-B. Investment in associates

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

Investment in associates represents 27% shareholding in interest in the Banque BEMO Saudi Fransi (2014: 27%) and 32.5% shareholding in Saudi Fransi Cooperative Insurance Company (Allianz Saudi Fransi) (2014: 32.5%) incorporated in the Kingdom of Saudi Arabia.

The quoted price of the Bank's investment in Saudi Fransi Cooperative Insurance Company (Allianz Saudi Fransi) as at December 31,2015 was SAR 268 million (2014: SAR 222 million).

The Bank's share of associates' financial statements

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

21. Investments:

21-A. These comprise the following:

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

21-B. The analysis of investments by counterparty is as follows:

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

21-C. Credit risk exposure on investments

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

Saudi government bonds comprise Saudi government development and guaranteed bonds and treasury bills. Investment grade includes investments having credit exposure equivalent to Standard and Poor's rating of AAA to BBB. Unrated investments include local equities foreign equities, funds and Mudarabah SAR 3,653 million (2014: SAR 4,075 million). Investments held as FVIS represent investments held for trading and include Islamic securities (Sukuk) of SAR 119 million (2014: SAR 12 million). Available for sale investments include Islamic securities (Sukuk) of SAR 2,819 million (2014: SAR 3,159 million). Unquoted investments include Saudi Government Bonds and treasury bills of SAR 16,407 million (2014: SAR 33,600 million).

22. Debt securities and Sukuks

The Bank raised funds through medium term Shariah compliant Sukuk of USD 750 million for 5 years in May 2012, under a USD 2 Billion programme listed on the London Stock Exchange. In addition, the Bank issued a privately placed SAR 1,900 million unsecured subordinated Sukuk in December 2012 for a period of 7 years. The Sukuk is settled through the Tadawul depository system. However, the Bank has an option to repay the unsecured subordinated Sukuk after 5 years, subject to prior approval of SAMA and terms and conditions of the agreement. In addition to the above, the Bank also issued a private placed SAR 2,000 million unsecured subordinated Sukuk in June 2014 for a period of 10 years. The Sukuk is settled through Tadawul depository system. However, the Bank has an option to repay the unsecured subordinated Sukuk after 5 years, subject to prior approval of SAMA and terms and conditions of the agreement.

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

Debt instruments issued by subsidiaries:
Additionally ,there is no debt instruments issued by the subsidiaries.

22-A. Term Loans

There is no Term Loans outstanding on BSF.

23. Capital adequacy

The Bank's objectives when managing capital are, to comply with the capital requirements set by SAMA; to safeguard the Bank's ability to continue as a going concern; and to maintain a strong capital base. Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management. The Bank monitors the adequacy of its capital using ratios established by SAMA.

These ratios measure capital adequacy by comparing the Bank's eligible capital with its statement of financial position assets, commitments and notional amount of derivatives at a weighted amount to reflect their relative risk. SAMA requires holding the minimum level of the regulatory capital of and maintaining a ratio of total regulatory capital to the Risk-Weighted Asset (RWA) at or above the agreed minimum of 8%.

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

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

24. Basel III: Capital Structure

Certain qualitative and quantitative disclosures have to be made. These disclosures are available on BSF website (www.alfransi.com.sa) and in the annual report as per SAMA requirements.

25. Doubtful Debts

The allowance for impairment of credit losses has reached to SAR. 2,339 million at the end of 2015 with coverage ratio of 207%. The net charge to income (provision net of recoveries) of SAR 181 million (2014: SAR 321 million) in respect of impairment charge for credit losses for the year is net of recoveries of SAR 189 million (2014: SAR 393 million). The allowance for impairment includes SAR 1,313 million (2014: SAR 1,210 million) evaluated on a collective impairment basis.

26. Future Plans

A Medium Term Plan covering 2014~2016 has been elaborated by Senior Management and endorsed by Board of Directors in September 2013. This Medium Term Plan takes into account the evolution of the market and regulation and aims at ensuring a sustainable development of the Bank on the medium and long-run. Banque Saudi Fransi 2015 results and achievements have been overall in line or exceeding the targets set for the first two years of the Medium Term Plan 2014~2016.

The strategic directions set by this Plan remains in place while figures have been fine-tuned as part of the 2016 Budget exercise to take into account 2015 results and the change in economic environment driven by lower oil price. Entering the final year of its Medium Term Plan covering 2014~2016, BSF's management will implement and launch a new Medium Term Plan that will lay out the strategic priorities and key objectives for the years 2017~2019.

27. Economic Environment

In 2015, the global economy was dominated by three major forces: the fall in commodity prices, especially oil, the prospect of higher interest rates in the United-States, and the economic slowdown in China. Despite the collapse in oil price witnessed since the second half of 2014, the government of Saudi Arabia unveiled in December 2015 a supportive budget for the year 2016 maintaining a sustained level of expenditures.

This counter-cyclical economic policy in the 2016 fiscal budget highlights the government intention to stimulate the economy while implementing a wide range of announced economic reforms. With USD 620 billion of foreign reserves as of December 2015 and a very low level of debt to GDP, Saudi Arabia's economy has the capacity to sustain a weaker oil-price environment over a prolonged period of time.

Although, the Bank's management considers that the economic context will be challenging in 2016 with an expected slowdown in activity and less favorable risk environment, it believes that it will also create opportunities for BSF considering the need for financing coupled with the prudent risk management followed by the Bank.

In terms of economic environment, overall GDP growth reached 3.4% in 2015 with GDP for non-oil sector growing at 3.7%. Consensus analysis published in January 2016 projects a GDP growth of 1.2% to 2.7% in 2016. Government spending will continue to stimulate the economy albeit at slower pace, supported by Bank lending and domestic consumption demand. The non-oil private sector should also slowdown with a 3% growth expected in 2016.

Despite this expected deceleration, BSF believes that those government expenditures will continue to trickle down into the economy while financing needs will provide opportunities to develop the Bank's activities. The focus on the development of strategic infrastructure shall benefit BSF's Corporates clients while the Bank can also leverage on its recognized expertise in the project finance area to support those infrastructure programs.

28. Strategy

BSF has developed a client-centered strategy aiming at ensuring a well-balanced contribution to the net profit of the Bank from its different business lines. BSF has been historically geared toward Corporates holding a leading position in the Corporate Banking sector. The Bank's objective is to strengthen this position through relationship excellence and systematic cross-selling. Corporate Banking will maintain its strong market share in terms of assets and further increase its presence in the infrastructure finance sector. Corporate Banking will also be a key driver in the effort to develop a comprehensive and mutually beneficial relationship with BSF's Corporate Clients offering large scope of products and services. BSF is also committed to continue developing its Retail Banking activities and growing Wealth Management franchise to position as a reference Bank on the middle and upper segments. Retail Banking's asset increased by 13% in 2015 as efforts to develop product range translate into higher activity.

Specific effort has been put in place to significantly accelerate level of activity in capital markets, treasury and investment banking areas which are a natural complement to the Corporate Banking business. In a still low interest rate environment, BSF is giving strong emphasis on the deployment of its assets and a higher contribution of its fee based businesses through systematic cross-selling implementation. Finally, BSF maintains a tight risk management developing its risk culture across the Bank. This approach has helped BSF maintaining a low cost of risk over the years. Such principles remain at the heart of BSF model.

29. BSF Credit ratings

Ratings	Standard & Poor's Ratings Services	Moody's Investors Service	Fitch Ratings
Long-term ratings	A	Aa3	A
Short-term ratings	A-1	P-1	F1
Outlook / Review	Negative	Stable	Negative
Last published credit opinion	05/11/2015	16/12/2015	03/11/2015

30. General Rights of Shareholders

BSF's Articles of Association illustrates the following shareholders' rights:

- Being entitled for a share of profits that are decided to be distributed.
- Attending the General Assemblies, participating in deliberations, and voting on its decisions.
- Having the right to dispose shares.
- Having the right to observe the Board's works and consider the Board member as liable/responsible (file a law suit).
- Having the right to ask questions and to be provided with information in a compliant way with the Financial Market Law and its implementation rules.
- In case the term of the company was ended or was having a dissolution prior to its set term, then the Extraordinary General Assembly shall decide based on the Boards' suggestion to execute liquidation, appoint one or more liquidator, and determine their fees and authorities.
- The Board's power/authority shall be ended with the expiration of the company, despite that the company's Board shall remain existent until a liquidator is appointed. The company's entities/ bodies /sections shall remain competent in a way that does not contrast with the liquidator's competencies.
- The Bank shall confirm that it did not receive any request from the company's legal accountant indicating holding a General Assembly during the ended fiscal year that was not held. The Bank shall also confirm that it did not receive from the shareholders who own 5% of the capital or more a request of holding a General Assembly during the ended fiscal year which was not held.

As per BSF's Articles of Association, the Bank's two General Assemblies' dates were announced which were held during the year (15/04/2015 & 16/12/2015). Moreover, their locations and agenda were announced through the media, Saudi Official Gazette, and the local newspaper in Riyadh (Okaz and Alyaum) dd, 8/3 - 9/3/ - 10/3/2015G consecutively. This was also published in Tadwul electronic website, dd 01/03/2015G.

A reminder was also published on 30/03/2015G. As for the Second Assembly related to the election of the Board's members in its new session that started on 01/01/2016G and ends on 31/12/2018G, which announcement was published through local newspaper in Riyadh (Okaz and Alyaum) on 8/11 - 9/11 - 11/11/2015G consecutively, as well as publishing that through the electronic website of Tadwul on 04/11/2015G and publishing a reminder on 03/12/2015G.

As per Paragraph (i) of the Fifth Article of the Governance Regulations issued by the Capital Market Authority, the Bank shall enable the shareholders to view the General Assembly's meeting minutes once the request is being submitted to the General Secretariat of the Bank.

The Bank shall also inform the market with the results of the General Assembly once it is done as per the Paragraph (j) of the Fifth Article of the Governance Regulations issued by the Capital Market Authority. This was done by publishing the two General Assemblies work results' in the electronic website of Tadwul dated, 15/4/2015G (For the First General Assembly) and 17/12/2015G (For the Second General Assembly) then publishing that through the media such as the economic briefs.

Paragraph (b) of BSF's Articles of Association of the Thirty Third Article indicates that the election of the Board's members shall be pursuant to the accumulative voting system.

Moreover, the Bank also clarifies that the stipulation of the Third Article of the Corporate Governance Regulations which include a number of requirements related to the shareholders' rights among which is the right of having a share of the company's assets upon liquidation is not applicable on the Bank since there is no clear stipulation in BSF's Articles of Association of this requirement, however, Article Forty Fifth of the Articles of Association has dealt with matters related to the Bank's liquidation and the relevant procedures in accordance with the Companies Law.

31. Dividend Policy

Cash distribution of dividends by the Bank depends on several factors, including disposition and recommendation of the Board of Directors, based on the following:

1. Financial position of the Bank.
2. Results of the Bank's operations.
3. Current capital adequacy and prospective financial position of the Bank;
4. Liquidity requirements in the short and medium term, given the Bank's expansion plans and projects;
5. In accordance with Article 42 of the Articles of Association of the Bank, the distribution of the annual net profit, after deducting all expenses and other costs, and formation of the required provisions for doubtful debts, investment losses and contingent liabilities that the Board deems necessary in accordance with the provisions of the Banking Control Law, will be as follows:
   - Zakat payable by Saudi shareholders and tax payable by the foreign shareholders will be calculated

following the rules and regulations in force in the Kingdom of Saudi Arabia. The Bank will pay such amount to competent authorities from the net income distributed to these parties.

- A minimum of 25% of net profits after deduction of Zakat and tax as stated in the foregoing paragraph (1) will be transferred to the statutory reserve until this reserve becomes at least equal to the paid up capital of the Bank.
- After the deduction of Zakat and income tax, the Board of Directors shall calculate the amount that must be distributed to the shareholders of the remaining profits with due consideration to the capital adequacy ratio centers (current and future) and regulatory requirements to ensure the Bank's capital adequacy over the short and medium terms. In the case of recommendation to distribute cash dividends, an amount of the profits equivalent to no less than 5% of the paid-up capital shall be allocated for the distribution of cash dividends to Saudi and non-Saudi shareholders pro rate to their shareholdings of the paid-up capital as recommended by the Board of Directors and approved by the General Assembly. If the amount of the remaining profits are insufficient to pay dividends due to eligible Saudi or non-Saudi shareholders, the shareholders shall not demand to be paid such dividends for the following year or years. The General Assembly shall not be entitled to decide the distribution of profits in excess of the rate proposed by the Board of Directors.
- After the allocation of the amounts set forth in foregoing paragraphs (1), (2) and (3), the balance shall be used as proposed by the Board of Directors and decided by the General Assembly.
- In calculating statutory reserve and other provisions from net profits (after Zakat and tax), the share capital ratio of the Saudi and non-Saudi shareholders must be maintained. The two groups of shareholders must contribute to these provisions proportionate to their share capital ratios, provided that their contributions shall be deducted from their respective shares in net profits.

6. Cash dividends shall be distributed to shareholders at the place and time determined by the Board of Directors in accordance with applicable regulations.
7. Board may decide not to distribute cash dividends and in lieu thereof use such dividends in the settlement of debts, obligations, or commitments of shareholders to the Bank Shareholders must be informed of this policy during the General Assembly meeting and must be stated in the report of the Board of Directors.
8. Such a policy is to be brought to the Shareholders' knowledge and minuted in General Assembly's meeting.

32. Basic and Diluted Earnings per Share

Basic and diluted earnings per share for the years ended December 31, 2015 and 2014 are calculated by dividing the net income for the year attributable to equity holders' of the Bank by 1,205.36 million shares.

33. Gross dividend

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

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

34. Zakat

Zakat attributable to the Saudi shareholders for the year amounted approximately to SAR 88 million (2014: SAR 77 million) which will be deducted from their share of dividend. The Bank has filed its Zakat returns for the financial years up to and including the year 2014 with the Department of Zakat and Income Tax "DZIT". The Bank has received Zakat assessments for the years up to 2009 raising additional demands aggregating to SAR 156 Million.

The above additional exposure is mainly on account of disallowance of certain long-term investments and addition of term borrowings by the DZIT. The basis for this additional aggregate Zakat liability is being contested by the Bank in conjunction with all the Banks in Saudi Arabia. The Bank has also formally contested these assessments and is awaiting a response from DZIT. The Zakat assessments for the years 2010 to 2014 have not been finalized by the DZIT and the Bank may not be able to determine reliably the impact of such assessments.

35. Income Tax

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

The Zakat and incomes tax due on the shareholders are as follows:

SAR. 000	2015	2014
Zakat due by the Saudi shareholders	88,000	77,000
Income tax due by the non-Saudi shareholders (CA-CIB)	258,000	227,000
Total	346,000	304,000

36. Other Payments

2015 (SAR 000)				
TYPE OF SERVICE	Saudi Offices	Resident Offices	Non Resident	TOTAL
Administrative	2,295	518	12,360	15,173
Financial	800	-	4,037	4,837
Economic	-	-	-	-
Grand Total	3,095	518	16,397	20,010

2014 (SAR 000)				
TYPE OF SERVICE	Saudi Offices	Resident Offices	Non Resident	TOTAL
Administrative	1,889	368	10,837	13,094
Financial	600	-	2,529	3,129
Economic	-	-	-	-
Grand Total	2,489	368	13,366	16,223

36-A. Fines Paid

(SAR 000)	2015
Delay fines paid to MOL	200
CMA fines	140
Fines (ATM and others)	1,373

37. Members of the Board of Directors

The Board of Directors of BSF consists of ten (10) directors. According to the Articles of Association of the BSF, the Saudi directors are selected by the shareholders for a term of three years. Clear-cut policies, standards, procedures and charter are in place and being implemented for membership in the Board of Directors.

The standards set forth in the Articles of Association and governance regulations of the Bank and those set forth by the Saudi Arabian Monetary Agency, the Corporate Act and Corporate Governance Regulations are being complied with.

Term in office of the current Board of Directors started from 01/01/2013 till 31/12/2015. Voting was conducted on the current Board elections (by cumulative voting) in accordance with paragraph (b) of Article 33 of the Bank's Articles of Association. Currently, the Board of Directors has four independent members, representing more than one-third of the board members. According to applicable regulations, 1000 shares have been withheld as security for the membership of each board director.

Additionally, BSF shall immediately advise the Capital Market Authority and the Market of the termination from office of any of the members of the Board of Directors setting out the reasons for such termination. It is to be noted here that there was a change in the structure of the current Board of Directors the term of which expires on December 31, 2015.

37-A. The Saudi Directors

Suliman Bin Abdulrahman Al Gwaiz	Chairman	(Non-executive), representative of GOSI
Abdulrahman Rashed Al Rashed	Vice-chairman	(Non-executive)
Ibrahim Mohammed Al Issa	Member	(Independent)
Mousa Omran Al Omran	Member	(Independent)
Ammar Abdulwahid Al Khudhairi	Member	(Non-executive)
Khaled Hamed Mutabagani	Member	(Independent)
Mazin Abdulrazak Sulaiman Al Rumaih	Member	(Independent)

37-B. Board Members Representatives of the Foreign Partner (Credit Agricole Corporate and Investment Bank)

Patrice Couvegnes	Member	(Executive) Managing Director
Thierry Simon	Member	(Non-executive)
Jean Yves Hocher	Member	(Non-executive)

37-C. The Board of Directors held four (4) meetings this year, with an attendance rate of 87%. Following is the attendance record of these meetings:

Name	Capacity	1st Meeting 07/01/2015	2nd Meeting 16/04/2015	3rd Meeting 10/09/2015	4th Meeting 16/12/2015
Suliman Abdulrahman Al Gwaiz	Non-Executive	attend	attend	attend	attend
Abdulrahman Rashed Al Rashed	Non-Executive	attend	attend	X	attend
Ibrahim bin Mohammed Al Issa	Independent	attend	attend	X	attend
Mousa Omran Al Omran	Independent	X	attend	attend	attend
Khaled Hamed Mutabagani	Independent	attend	attend	attend	X
Ammar Abdulwahid Al Khudhairi	Non-Executive	attend	attend	attend	attend
Mazin Abdulrazak Sulaiman Al Rumaih*	Independent	X	attend	attend	attend
Thierry Simon	Non-Executive	attend	attend	attend	attend
Jean Yves Hocher	Non-Executive	attend	attend	attend	X
Patrice Couvegnes	Executive	attend	attend	attend	attend

* Appointed members of the Board in 2015

37-D. Interest securities and contractual rights

The Bank acknowledges that there is no change in interest securities and contractual rights offering belonging to members of the Board of Directors or a Senior Executives and their relatives in the shares, the source religion or any of its subsidiaries tools and there is no change in that interest or those rights during the fiscal year 2014.

37-E. During the Year 2015, the Board of Directors has approved the following:

1. Ratifying the annual financial statements of 2014 (during its meeting on 19/02/2015), profit and loss statement, dividends distribution statement after the Assembly's approval, the Board's report, and General Assembly's invitation.
2. Approving the Policies, Standards, and Procedures regulation of the Board of Directors Membership and the updated Board of Directors Charter and ratify and present it to the ordinary general assembly held on 15/04/2015.
3. Approving the Nomination and Remuneration Committee updated regulation and ratify and present it to the ordinary General Assembly held on 15/04/2015.
4. Approving on the Audit Committee updated charter and ratify and present it to the ordinary General Assembly held on 15/04/2015.
5. Approving Donations and Social Contribution Committee updated charter and ratify and present it to the ordinary General Assembly held on 15/04/2015.
6. Approving the Shareholders Manual and ratify and present it to the ordinary General Assembly held on 15/04/2015.
7. Following up with the administrative restructuring project presented to the board on 14/12/2011.
8. Approving the distribution of dividends for BSF shareholders as profits for the 1st half of the fiscal year 2015.
9. Approving the distribution of dividends for BSF shareholders as profits for the 2nd half of the fiscal year 2015.
10. Approving the annual preliminary financial statements for 2015, profit and loss statement, dividends distribution statement after the Assembly's approval, the Board's report, and General Assembly's invitation in the 3rd quarter of 2016.

37-F. Remunerations of the Board of Directors:

Bonuses and allowances of the Board of Directors or members from outside the Board is accordance with frameworks set by the instructions by the supervisory authorities, and governed in general the main principles for the governance of Banks operating in Saudi and controls the compensation issued by the SAMA and a list of corporate governance issued by the CMA, and the provisions of the corporate system and the Statute of the BSF and BSF governance as well as the compensation policy, The following table shows the total remuneration of the Board of Directors in 2015 (bonuses and all indemnification) SAR 000:

Name	Independent Directors		Executive Directors		Non-executive Directors	
	bonuses	compensations	bonuses	compensations	bonuses	compensations
Suliman Abdulrahman Al Gwaiz	-		-	-	360	24
Abdulrahman Rashed Al Rashed	-		-	-	360	32
Ibrahim Mohammed Al Issa	360	24	-	-	-	-
Mousa Omran Al Omran	360	29	-	-	-	-
Khalid Hamid Mutabagani	360	18	-	-	-	-
Ammar Abdulwahid Al Khudhairi	-	-	-	-	360	21
Mazin Abdulrazak Al Rumaih	330	9	-	-		-
Thierry Simon	-	-	-	-	360	42
Jean Yves Hocher	-	-	-	-	150	18
Patrice Couvegnes	-	-	360	24	-	-
Total	1.410	80	360	24	1.590	137

37-G. Membership of BSF directors in the Boards of Directors of other companies:

Name	Other companies	capacity
Sulaiman Abdulrahman Al Gwaiz	• Maaden | Saudi Arabian Mining Company • The Saudi Industrial Investment Group • Etihad Etisalat Company-Mobily • Hassana Investment Company	• Member of the Board of Directors • Member of the Board of Directors • Member of the Board of Directors • Member of the Board of Directors
Abdulrahman Rashid Al Rashid	• Rashed Al Rashed & Sons Co. • UNICOIL - Universal Metal Coating Company Ltd-Al Jubail • Jana Marine Services Co. • Civil Works Company • Hotels of Dammam Co.	• Executive Partner • Chairman of the Board of Directors • Member of the Board of Directors • Member of the Board of Directors • Member of the Board of Directors • Member of the Board of Directors
Mousa Omran Al Omran	• Almarai Company	• Member of the Board of Directors
Khalid Hamed Mutbkani	-	-
Ibrahim Mohammad Al Eisa	• Taiba Holding Co. • Almarai Company • Yanbu Cement Company • The Savola Group	• Chairman of the Board of Directors • Member of the Board of Directors Member of the Board of Directors • Member of the Board of Directors
Ammar Abdulwahed Al Khudairy	• Morgan Stanley Saudi Arabia • Allianz Saudi Franci • Fawaz Alhokair Group • Body Masters Gym Company • Zohoor Alreef co. • Amwal Al Khaleej Commercial Investment Company	• Deputy Chairman of the Board • Chairman of the Board of Directors Member of the Board of Directors • Chairman of the Board of Directors Member of the Board of Directors Managing Director
Mazen Abdulrazaq Sulaiman Al Rumaih	• Dr. Sulaiman Al Habib Medical Services Group Holding Co.	Member of the Board of Directors
Patrice Couvegnes	• Allianz Saudi Franci (Bank's representative) • Saudi Fransi Capital	Member of the Board of Directors Member of the Board of Directors
Jean Yves Hocher	-	-
Thierry Simon	-	-

37-H. Shareholdings of Directors, Senior Executives, Spouses and Minor Children in BSF as of 12/31/2015:

Directors

Name	Shares owned at the start of 2015	Ownership percentage at the start of the year	Net change in the number of shares	Percentage of change during the year	Shares owned at the end of 2015	Ownership percentage at the end of the year
Ibrahim Mohammed Al Issa	7.833	0.00%	2533 buy	32%	10333	0.00%
Abdulrahman Rashed Al Rashed	2,666	0.00%	-	-	2,666	0.00%
Khaled Hamed Mutabagani	59,624	0.00%	-	-	59,624	0.00%
Mousa Omran Al Omran and family	1,174,785	0.00%	-	-	1,174,785	0.00%
Ammar Abdul Wahid Al Khudhairi	1000	-	1000	-	1000	0.00%
Mazin Abdulrazak Sulaiman Al Rumaih	2000	0.00%	1000	50%	3000	0.00%

Senior Executives

Name	Shares owned at the start of 2015	Ownership percentage at the start of the year	Net change in the number of shares	Percentage of change during the year	Shares owned at the end of 2015	Ownership percentage at the end of the year
Mazen Hani Tamimi and family	1,259.050	0.00%	-	-	1,259.050	0.10%

38. Share Ownership

Shareholdings of the major shareholders of the Banque Saudi Fransi as at 31/12/2015 are as follows:
Major Shareholders other than Directors and Senior Executives holding 1% or more

Name	Shares owned at the start of 2015	Ownership percentage at the start of the year	Net change in the number of shares	Percentage of change during the year	Shares owned at the end of 2015	Ownership percentage at the end of the year
CACIB	375, 000, 000	31.11%	-	-	375, 000, 000	31.11%
GOSI	160,195,361	13.29%	-	-	160,195,361	13.29%
Rashed Alabdulrahman Al Rashed & Sons	118,488,543	9.83%	-	-	118,488,543	9.83%
Asala Company	53,333,333	4.42%	-	-	53,333,333	4.42%
Samba Capital Investment Fund 1	24,232,676	2.01%	-	-	24,232,676	2.01%
PPA	22,127,601	1.84%	-	-	22,127,601	1.84%
Omran Mohammed Abdulrahman Al Omran	21,977,137	1.82%	-	-	21,977,137	1.82%
Adnan Hamza Mohammed Suleiman Bogari	18,192,060	1.51%	-	-	18,192,060	1.51%
Ibrahim bin Abdulaziz Al Toug	16,658,320	1.38%	-	-	16,658,320	1.38%
Hamed Hamed Mutabugani	16,631,220	1.38%	-	-	16,631,220	1.38%
Olayan Saudi Investment Company Limited	13,682,373	1.14%	-88,593	0.00%	13,593,780	1.13%

38-A. None of a special interest in any of the eligibility to vote the stock category, told the Bank of any change in the rights during the financial year 2015

39. Assignment of Interests by BSF Directors, Senior Executives or Shareholders

The Bank does not have information on any arrangements or agreements under which any of the directors, senior executives or shareholders have assigned any salary, compensation or rights to dividends.

40. Transactions with BSF Directors

Transactions with related parties, including members of the Board of Directors, are carried out on an arm's length basis. Transactions with related parties are subject to the criteria set out in the Banking Control Law issued by the Saudi Arabian Monetary Agency. All facilities are provided to related parties after having adequate securities in accordance with Bank's strict Credit Policy. All related party balances and transactions are properly recorded and, where appropriate, adequately disclosed in the financial statements.

BSF senior management affirms that no BSF director or any of their relatives of the first degree of kinship or the management senior officers have any relationship with the companies that carry out any business for or have contracts with the BSF. Other than the information contained in the Auditor's Report of the Consolidated Financial Statements, BSF has not entered into any significant contracts during the year involving material interests for any Directors or with the Executive Management or any party related therewith.

41. Related party transactions and balances

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

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

* Other major shareholders represent shareholdings (excluding the foreign shareholder) of more than 5% of the Bank's share capital.

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

SAR' 000	2015	2014
Total Special commission Income	61,871	52,935
Total Special commission expense	37,216	39,578
Fees ,commission income and others, net	18,270	33,232
Directors' fees	3,601	3,651
Other general and administrative expenses	1,305	1,489

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

42. Top Five Executives including MD and Financial Manager:

Description	(SAR 000)
Salaries and remuneration	13,931
Allowances	129
Annual and periodical bonus	23,728
Total	37,788

43. Board of Directors' Committees

Banque Saudi Fransi's Board of Directors' Committees are: Executive Committee, Audit Committee, Nomination and Compensation Committee, Donation and Social Contribution Committee and Board Risk Committee. Each such committee operates under its own charter, as follows:

43-A. Executive Committee

The Executive Committee is formed by the Board of Directors and exercises the powers of the Board in follow-up and management of business affairs of the Bank, this committee is composed of 7 members and was formed for a term of three years from (01/01/2013) through (31/12/2015), as follows:

1. Patrice Couvegnes	Chairman
2. Suliman Abdulrahman Al Gwaiz	Member
3. Abdulrahman Rashed Al Rashed	Member
4. Ibrahim Mohammed Al Issa	Member
5. Mousa Omran Al Omran	Member
6. Ammar Abdulwahid Al Khudhairi	Member
7. Thierry Simon	Member

The Executive Committee held six (6) meetings in 2015 with an attendance rate of 87%. The Secretary General of the Bank assumes the functions of the secretary of this Committee.

Its main responsibilities include but not limited to:

- Taking timely decisions on issues on which a delay may have an adverse impact on the reputation and working of BSF. Decisions requiring Board's approval or approval of the other committees will not be made by this Committee.
- Identifying and monitoring the key risks of BSF and evaluate their management;
- Overseeing the bank-wide risk management framework and governance; approving risk management policies that establish the appropriate approval levels for decisions and other cheques and balances to manage risk;
- Monitoring the parameters of Risk Appetite, as determined and approved by the Board;
- Implementing risk strategy, monitoring key indicators and obtaining reasonable assurances that Bank's risk management policies for significant risks are being adhered to;
- Giving advice to the Board on the risk impact of any strategic decision that the Board may be contemplating;
- Reviewing on annual basis, the results of Internal Capital Adequacy Assessment Process (ICAAP), results of Stress Testing and Capital at Risk (CaR) reporting;
- Satisfying itself that policies are in place to manage the risks to which BSF is exposed to including market, operational, liquidity, credit, insurance, regulatory, legal, and reputational risk;
- Critically assessing business strategies and plans;
- Regularly monitoring and measuring the long term objectives set by the Board;
- Reviewing and making recommendations to the Board with respect to the governance documents, such as the Bylaws and Articles of Association;
- Reviewing budget and spending as proposed by the Business Lines and Support Divisions and sending it to the Board for its review and approval;
- Reviewing general management, legal, and personnel matters. In fulfilling this responsibility, the Committee shall review legislative, regulatory, and legal matters that may affect BSF. Review current or pending litigation involving BSF, and review other matters that may materially affect BSF's operations;
- Reviewing and submitting the write offs of the loans to the Board for their approval.
- Assessing initiatives, taken by the business, with reference to their performance and risk.
- Assessing the adequacy and effectiveness of business continuity and disaster recovery plan.

43-B. Audit Committee

The Audit Committee of the Bank was formed by the Board of Directors to represent and assist BSF's Board of Directors in fulfilling its oversight responsibility relating to:

- The integrity of BSF's financial statements.
- The overall financial reporting and disclosure controls process within BSF.
- The systems of internal accounting and financial controls across BSF.
- The system of internal controls over the operations of BSF.
- The internal audit functions over BSF (including Internal Audit charter, plans, activities, and reporting).
- The annual independent external audit of BSF financial statements.
- Oversee the effectiveness of the system for monitoring compliance with laws and regulations.

- Monitoring of significant risks or exposures across the Bank and steps taken to minimize such risks.
- Overseeing and evaluating the performance of BSF's independent auditors, including a review and evaluation of the independent auditors' qualifications and independence, the engagement partner, and the concurring partner.
- Review the external auditors' proposed audit plan, scope and approach, including coordination of audit effort with internal audit.
- Review internal audit plans and activities including review and approval of a risk based internal audit plan and internal audit risk assessment.

The Audit Committee comprises of five (5) members, chaired by one of the member of the Board of Directors of the Bank and four (4) non-executive members. Audit Committee members possess high academic qualifications and professional experience, including knowledge of accounting standards and the ability to read financial reports and understand the rules and regulations issued by competent authorities.

The Saudi Arabian Monetary Agency approved the nomination of the following Audit Committee members of the Bank for a three year term from 01/01/2013 to 31/12/2015:

1. Abdulrahman Rashed Al Rashed	Chairman, member of Board of Directors, BSF
2. Jean Pierre Tremenbert	Member, Head of Inspection Generale of CA-CIB
3. Eid Faleh Seif Al Shammari	Member, independent
4. Abdullah A lMuneef	Member, independent
5. Mohammad Ikhwan	Member, independent

The Head of Internal Audit Department acts as Secretary of this Committee. The Audit Committee held four (4) meetings during the year covering all important matters with an attendance rate of 88%.

Some of the key activities performed by Audit Committee during their meetings were:

- The Audit Committee reviewed the annual financial statements for the year 2014 in their meeting (No.1/2015) held on 27 January 2015 in Riyadh and quarterly financial statements of 2015 in their quarterly meetings during the year with the external auditors and submitted its recommendations to the Board of Directors in line with the requirements of SAMA and the CMA.
- Audit Committee also discussed key matters including overview, scope and approach of external audit work, significant matters for the period, Zakat & income tax status, collective impairment model, adequacy of provision etc.
- Deliberations during meetings are recorded and forwarded to the Board of Directors, and matters contained therein are followed up with the Secretary of the Audit Committee and BSF Management.
- Audit Committee reviewed framework for the risk assessment exercise conducted by Internal Audit for the development of risk based internal audit plan and approved of three years Strategic Risk Based Internal Audit Plan.
- Monitoring and review of Internal Audit Activity status. Reviewed and discussed significant internal control related issues raised by Internal Audit Division through internal audit reports.
- The Committee was also involved in the assessment of the performance of internal and external auditors of the Bank and reviewed the main risks relating to the quality and adequacy of internal controls of the Bank on a regular basis.
- The Audit Committee also reviewed fraud cases in collaboration with the head of Compliance.
- Audit Committee discussed new regulations and guidelines, compliance related violations and other related matters.
- Committee members reviewed and discussed minutes of Board Risk Committee meetings held during the year.

43-C. Nomination and Compensation Committee

The Nomination and Compensation Committee (NCCOM) consists of four (4) non-executive members of the Board and prominent specialists.

The Executive Members of the Board attend NCCOM meetings on a permanent basis as observers. The NCCOM is governed by an action plan that organizes the submission of recommendations to the BOD with regard to appointment of BOD members; evaluation of skills of BOD members and senior executives on a periodic basis; reviews the structure or composition of the BOD; ensures the independence of independent BOD members; supervises the process of drafting a succession plan; identifies an incentives and rewards system for members of the BOD and its committees and Executive Management Officers.

The term of the NCCOM is three (3) years. By a decision of the BOD, term in office of the members of this Committee can be extended or other members may be nominated for another 3-year term. NCCOM members do not receive any remuneration.

Members of the NCCOM:	
1. Mousa Omran AlOmran	Chairman
2. Khalid Hamid Mutabghani	Member
3. Jean Yves Hocher	Member
4. Ivana Bonnet	Member

The NCCOM held four (4) meetings in 2014, with an attendance rate of 100%. The Secretary General of the Bank assumes the functions of the secretary of this Committee.

Functions of NCCOM include but are not limited to:

1. Oversee the design and operation of the BSF compensation system and policy on behalf of the Board of Directors, and their regular review and presentation to the Board of Directors for final approval;
2. Evaluate the practices under which compensation is disbursed for potential revenues, whose timing or likelihood of occurrence remain uncertain;
3. Present recommendations to the Board on the level and structure of compensation of key executives of the Bank, featuring, to this end, executives whose appointment is subject to obtaining 'No Objection' from SAMA.
4. Determine the total value of bonuses depending on the risk-adjusted earnings of the Bank for payment of performance bonuses.

5. Review the compliance of the compensation policy with the regulatory rules and with the principles and standards of the Financial Stability Board (FSB);
6. Identify weaknesses and strengths of the BOD and make recommendations regarding changes that can be made in this respect;
7. Review candidate files for membership to the BOD to assess their competence and ability to serve as members of the BOD and the extent of their independence, and make recommendations to the BOD through the Secretariat General for final approval prior to presentation to competent authorities.
8. Study of applications to run for leadership positions and determine their relevance to the actual needs of the Bank in this regard in collaboration with the Human Resources Department. The Committee shall also review the contracts of senior staff before their termination and recommend their renewal or replacement to the Board of Directors, which in turn authorizes the senior management to take a final decision thereto.

43-D. Board Risk Committee

Based on SAMA directives to Banks operating in the Kingdom of Saudi Arabia, BSF Board of Directors approved the creation and formation of a BOD committee to be named Risk Committee, the quality of which and number of its members and their responsibilities to be determined according to the instructions received from regulators. Then a Risk Committee was formed consisting of five (5) members from the Board of Directors or other competent persons, as follows:

1. Abdulrahman Rashed Al Rashed	Chairman, (Member of the Board of Directors)
2. Ammar Abdulwahid Al Khudhairi	Member of the Board of Directors
3. Thierry Simon	Member of the Board of Directors
4. Daniel Puyo	Member, Chief Risk Officer at Credit Agricole CIB
5. Patrice Couvegnes	Member, Managing Director

The Risk Committee held three (3) meetings with an attendance rate of 100%. The Committee operates under a charter that sets out its responsibilities, functions and number of meetings.

Major duties and responsibilities of the Risk Committee include the following:

Make recommendations on public policies and general guidelines on the extent of BSF ability to take risk to enable the administration to develop specific plans for each business unit/risk category; review and follow-up risks encountered by the BSF within the context of ability to take risks as approved by the Board; ensure the safety of the process of internal capital adequacy; review, deliberate and make recommendations on the practices of risk management and guidance on the strategies adopted by the Risk Department. Ensure the adequacy and effectiveness of risk levels at the BSF, in terms of collecting information on risks, analysis and assessment of risks; benefit from the results of competitive advantages of the BSF; set up risk measurement methodologies at the enterprise level in order to measure and evaluate risk management strategy and to ensure that it copes with regulatory, operational and legal updates as well as the stated business objectives of BSF; consider and provide responses to the proposals of the Managing Director and make notes thereon, if needed, regarding the impact of the risks associated with any strategic decision which may be considered by the BSF; and reporting to the BOD when strategies being considered by the Managing Director involve a possibility (though weak) that the BSF would go beyond acceptable risk limits; ensure approval of all changes to the risk policies as stated in the BSF Delegation of Authorities system; provide appropriate advice to BSF management about fulfilling its responsibilities with respect to risk management; submit periodic (semi-annual) reports to the BOD regarding the following matters or if the threat reaches an unacceptable level: Reporting to the Board of Directors on risks that exceeded acceptable levels even after they are reinstated to acceptable levels. The Risk Committee is also responsible for monitoring credit risk activities in addition to the function of credit risk management in general.

The Committee is also in charge of the following tasks related to credit risk management to ensure the implementation of credit risk policies and strategies by the Board and the Executive Committee; to follow-up the credit risk of the Bank in general, and to ensure compliance with the limits of the approved risk by a committee of the Council and the Executive Committee; provide information for the formulation of Credit Policy of the Bank, especially those related to credit risk, including, for example, the development of standards for the provision of credit proposals, financial rules, and classification criteria and standards; make recommendations to the Executive Committee on matters related to delegating authority to approve the credit, and the hedging limits on large credit operations, criteria for loan guarantees, portfolio management, mechanism of loan review, risk concentrations, monitoring and evaluation of the risks and prices of loans, and earmarking of provisions as needed; handling any other issues related to credit risk management; review the Committee's charter on a periodic basis, at least once a year, and recommend to the BOD regarding any amendments as necessary; lay down an annual plan and timetable for the Committee's activities for next year, including periodic meetings of the Committee and meetings with the management, and other activities in light of the Committee's roles and responsibilities as specified in its charter.

43-E. Donations and Social Contribution Committee

This Committee convenes to lay down an appropriate mechanism for donations and social contributions in which the Bank is involved. The committee consists of three (3) members, as follows:

1. Abdulrahman Rashed Al Rashed	Chairman
2. Ibrahim Mohammed Al Issa	Member
3. Patrice Couvegnes	Member

Secretary General of the Bank acts as secretary of this Committee.

The committee held one (1) meeting in 2015 with an attendance rate of 100%.

The primary task of the Donations and Social Contribution Committee is to represent and assist the Board in overseeing the review of recommendations and the credentials of the contributions made by the members for consideration; the selection of charities with which the Bank is interested to set up partnerships on an annual basis; objectively identifying the needs of charitable partnerships; provide means of communication between members of the BOD and selected charities concerning the actions of the Committee; Contribute to the BSF vision and strategic plan by ensuring the optimal implementation of BSF social contribution strategy in support of the goals of social contribution at the highest level; protect, enhance and develop the status of the BSF with related parties; follow up the performance of BSF social contributions.

Through this Committee, BSF Board of Directors is keen to focus on the support of the largest possible segment of society in all areas.

44. Certified Public Accountants

The General Assembly of shareholders held on 16/04/2014 appointed Messrs. KPMG Al Fozan and Al Sadhan and Messrs. Pricewaterhouse Coopers as the Bank's certified public accountants for the fiscal year 2015 and for one year.

45. Accounting Standards

The BSF consolidated financial statements were prepared according to the accounting standards for financial institutions issued by the Saudi Arabian Monetary Agency and the International Financial Reporting Standards. The BSF also prepares its consolidated financial statements in line with the Banking Control Law and Corporate Act of Saudi Arabia and Articles of Association of the Bank.

There are no substantial deviations in the accounting standards applied by the Bank from the accounting standards issued by the Saudi Organization for Certified Public Accountants (SOCPA). We also confirm that there are no significant differences in the operating results for the previous year's results or expectations announced by the Bank. Following are the significant accounting policies adopted in the preparation of the Bank's consolidated financial statements.

With the exception of changes in the accounting policies set out in Note 3 (a) below, accounting policies adopted in the preparation of these consolidated financial statements are consistent with those used last year.
The Board of Directors affirms to the shareholders and other related parties to the best of its knowledge, that:
Article Forty Third of the Listing Rules (23 - a - b - c)

A. Accounting records were prepared correctly;
B. Internal control system was prepared according to sound principles and implemented effectively.
C. There is no doubt as to the Bank's ability to continue its activities.

46. Disclosure

The Bank's management believes that it has in place a suitable control system that permits it to prepare interim financial statements consistent with the financial and accounting standards duly issued by the Saudi Arabian Monetary Agency as well as International Accounting and Reporting Standards. The present financial statements have been prepared on the basis of this system.

Directors have been briefed of all information covering a period not exceeding one year from the ending date of last year. The Bank prepared the Governance Regulations which was also presented to and approved by the Board of Directors. BSF announces all material developments and changes on Tadawul website due to the importance of disclosure of such information to the shareholders.

Disclosure is also made according to BSF Disclosure Charter and its regulations, CMA's/SAMA's Governance Regulations and BSF Compliance Regulations. The responsibility for disclosure was entrusted to two (2) representatives of the BSF: a director and a senior executive.

47. Corporate Governance

BSF operates under its own Corporate Governance regulations duly approved by the BOD in addition to SAMA policies and directives. BSF also continues to comply with the principles, provisions and guidelines of Corporate Governance regulations issued by the Capital Market Authority. In addition, directors are continuously updated by the Chairman regarding matters received from the competent authorities.

BSF Governance Regulations are being updated from time to time in line with the directives of relevant regulatory authorities. BSF complied with the Corporate Governance clauses which are consistent with the Bank's Articles of Association, excluding Articles: 3,6 (d) and 11 (a) of the Corporate Governance regulations issued by CMA as follows:

Article Number	Requirements	Reasons for Non-application
Three	It includes a number of requirements related to the shareholders including the shareholder's proportionate right to the company's assets upon liquidation	This requirement does not apply to BSF due to the absence of an explicit clause stipulating such requirement under BSF's articles of association. However, Article 45 of the articles of association included matters and procedures related to liquidation of the Bank that are consistent with the provisions of the Corporate Act.
Six, Para (d)	Investors, who are judicial persons acting on behalf of others, such as investment funds, must disclose their policies in voting and actual voting in their annual reports. They must also disclose the way by which they deal with any significant conflict of interest that might impact the exercise of the basic interests in their investments.	BSF has no legal capacity to bind judicial investors acting on behalf of others, such as investment funds, to disclose their policies in voting.
Eleven (a)	The Board of Directors shall avoid issuing general of indefinite power of attorney.	For the purpose of facilitating the Bank's business

In conclusion, the Board of Directors extends its deepest gratitude, first and foremost, to Almighty Allah and then to the Custodian of the Two Holy Mosques, the Crown Prince and the Deputy Crown Prince for their continuous support of the banking sector.

The Board of Directors would also like to thank the Ministry of Finance and National Economy, Saudi Arabian Monetary Agency, Capital Market Authority and Ministry of Commerce and Industry for their support of the Bank's initiatives of enhancing the level of banking services to make them easily accessible to the public.

The Board of Directors would also like to thank the distinguished customers of the Bank for their nurtured and highly appreciated confidence. Appreciation and gratitude is also extended to our colleagues who have contributed to these achievements.

Audit Committee

High academic qualifications and Professional Experience

For Directors Report 31 Dec 2015

The Audit Committee of the Bank was formed by the Board of Directors to represent and assist BSF's Board of Directors in fulfilling its oversight responsibility relating to:

- The integrity of BSF's financial statements.
- The overall financial reporting and disclosure controls process within BSF.
- The systems of internal accounting and financial controls across BSF.
- The system of internal controls over the operations of BSF.
- The internal audit functions over BSF (including Internal Audit charter, plans, activities, and reporting).
- The annual independent external audit of BSF financial statements.
- Oversee the effectiveness of the system for monitoring compliance with laws and regulations.
- Monitoring of significant risks or exposures across the Bank and steps taken to minimize such risks.
- Overseeing and evaluating the performance of BSF's independent auditors, including a review and evaluation of the independent auditors' qualifications and independence, the engagement partner, and the concurring partner
- Review the external auditors' proposed audit plan, scope and approach, including coordination of audit effort with internal audit.
- Review internal audit plans and activities including review and approval of a risk based internal audit plan and internal audit risk assessment.

The Audit Committee comprises of five (5) members, chaired by one of the member of the Board of Directors of the Bank and four non-executive members. Audit Committee members possess high academic qualifications and professional experience, including knowledge of accounting standards and the ability to read financial reports and understand the rules and regulations issued by competent authorities.

The Saudi Arabian Monetary Agency approved the nomination of the following Audit Committee members of the Bank for a three-year term from 01/01/2013 to 31/12/2015:

1. Mr. Abdulrahman Rashed Al Rashed
   Chairman, member of Board of Directors, BSF
2. Mr. Jean Pierre Tremenbert
   Member, Head of Inspection Generale of CA-CIB
3. Mr. Eid Faleh Seif Al Shammari
   Member, independent
4. Dr. Abdullah Al Muneef
   Member, independent
5. Dr. Mohammad Ikhwan
   Member, independent

The Head of Internal Audit Division acts as Secretary of this Committee. The Audit Committee held four (4) meetings during the year covering all important matters with an attendance rate of 88%.

Some of the key activities performed by Audit Committee during their meetings were:

- The Audit Committee reviewed the annual financial statements for the year 2014 and quarterly financial statements of 2015 with the external auditors and submitted its recommendations to the Board of Directors in line with the requirements of SAMA and the CMA.
- Audit Committee also discussed key matters including overview, scope and approach of external audit work, significant matters for the period, Zakat & income tax status, collective impairment model, adequacy of provision etc.
- Deliberations during meetings are recorded and forwarded to the Board of Directors, and matters contained therein are followed up with the Secretary of the Audit Committee and BSF Management.
- Audit Committee reviewed framework for the risk assessment exercise conducted by Internal Audit for the development of risk based internal audit plan and approved of three years Strategic Risk Based Internal Audit Plan
- Monitoring and review of Internal Audit Activity status. Reviewed and discussed significant internal control related issues raised by Internal Audit Division through internal audit reports.
- The Committee was also involved in the assessment of the performance of internal and external auditors of the Bank and reviewed the main risks relating to the quality and adequacy of internal controls of the Bank on a regular basis.
- The Audit Committee also reviewed fraud cases in collaboration with the head of Compliance
- Audit Committee discussed new regulations and guidelines, compliance-related violations and other related matters;
- Committee members reviewed and discussed minutes of Board Risk Committee meetings held during the year.

Statement of Control

Management is responsible for establishing and maintaining an adequate and effective internal control system. The set of standards, policies and procedures that the Board and senior management have established is designed to provide effective internal control for managing risks within the accepted risk appetite of the Bank and to achieve the strategic objectives of the Bank.

The bank has adopted a 'Three Lines of Defense' approach for managing risks faced by the Bank. The First line of defense is under business lines where each function, under the supervision of the senior management is entrusted with the responsibility for setting policies, procedures and standards across all areas.

The Second Line of Defense comprises of various risk management and control functions which maintain oversight. Control functions include Compliance, Legal, Operational Risk and Permanent Control etc. Risks are evaluated and reported to the Board and senior management through various committees including Compliance Committee, Internal Control Committee, Board Risk Committee and Audit Committee.

Operational Risk performs Risk & Control Self-Assessment and Control testing to identify and evaluate risk factors which could adversely affect performance, information and compliance objectives.

The Compliance function ensures adherence to regulatory requirements. Identified deficiencies are reviewed regularly by local Internal Control Committee to ensure rectifications of such deficiencies and that risks are mitigated accordingly.

Audit Division represents the Third Line of Defense and monitors the effectiveness of internal control system across the bank following a risk-based audit approach. Internal Audit accomplishes this by independently reviewing the design effectiveness and operating efficiency of controls to ensure that the Bank is operating within its stated Risk Appetite. The Head of Internal Audit Division reports to Audit Committee.

All significant and material findings of Internal Audit assessments are reported to the Audit Committee of the Board. The Audit Committee actively monitors the adequacy and effectiveness of the internal control system to ensure that identified risks are mitigated to safeguard the interest of the Bank. Management is responsible for ensuring implementation of the internal audit recommendations on a timely manner.

Concerted and integrated efforts are made by all functions of the Bank to improve the control environment at grass root level through continuous reviewing and streamlining of procedures to prevent and rectify any control deficiencies.

The Banks' Internal control system has been designed to provide reasonable assurance to the Board, on the management of risks to achieve the Bank's strategic objectives.

Internal control system, no matter how well designed, have inherent limitations, and may not prevent or detect all control deficiencies. Moreover, the projection of current evaluations of the effectiveness to future periods is subject to a limitation that controls may become inadequate due to changes in conditions or compliance with policies or procedures.

Management has adopted Internal Control integrated framework as recommended by SAMA through its guidelines on Internal Control. Audit Committee also reviews the assessment report on the effectiveness of the internal control system, as prepared by the Audit Division of the Bank. The report on assessment of internal control does not contain material weaknesses in the bank's internal control framework which has not been adequately addressed by the management.

Based on the results of the ongoing evaluation of internal controls carried out by Management during the year, the Management considers that the Bank's existing internal control system is adequately designed, operating effectively, and monitored consistently. Nevertheless, the Management continuously endeavors to enhance and further strengthen the internal control system of the Bank.

Based on the above, the Board of Directors has duly endorsed Managements' evaluation of the internal control system, as prescribed by SAMA

Abdulrahman Al-Sughayer
Secretary General Chief Governance
Compliance & Control

Patrice Couvegnes
Managing Director

Sulaiman A. Al-Gwaiz
Chairman

Independent
Auditors'Report

KPMG Al Fozan & Partners
Certified Public Accountants

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

We have audited the accompanying consolidated financial statements of Banque Saudi Fransi ("The Bank") and its subsidiaries (collectively referred to as "the Group") which comprise the consolidated statment of financial position as at December 31, 2015 and the consolidated statment of income, consolidated statments of comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes from (1) to (24). We have not audited note 39, nor the information related to "Basel III- Capital Structures and pillar 3 Disclosures" cross referenced therein, which is not required to be within the scope of our audit.

Managment's Responsibility for Consolidated Financial Statment

Managment is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Accounting Standards for Financail Institutions issued by the Saudi Arabian Monetary Agency ("SAMA") and International Financial Reporting Standards and to comply with the relevant provisions of Regulations for Companies, the Banking Control law in Kingdom of Saudi Arabia and the Bank's Articles of Association. In addition, mafagment is responsible for such internal controls as managment determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due 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 requirments 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 of 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 Banks's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstance, 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 managment, as well as evaluating the overall presentation of the consolidated financial statements.

We belive that the audit evidance we have obtaind is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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

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

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

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

Abdullah Hamad Al Fozan
Certified Public Accountant
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PricewaterhouseCoopers

P.O. Box 13934
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Kingdom of Saudi Arabia

[illegible]ohammed [illegible]. Al Obaidi
Certified Public Accountant
Registration No. 367

8 Jumada Al-Awwal 1437H
17 February 2016

Consolidated Statement of Financial Position

As at December 31, 2015 and 2014

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

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

Consolidated Statement of Income

For The Years Ended December 31, 2015 And 2014

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

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

Consolidated Statement
# of Comprehensive Income
As at December 31, 2015 and 2014

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

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

Consolidated Statement
# of Changes In Equity
For The Years Ended December 31, 2015 And 2014

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

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

Consolidated Statement
of Cash Flows

For The Years Ended December 31, 2015 And 2014

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

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

Notes to the Consolidated
Financial Statements

For the years ended December 31, 2015 and 2014

1. General

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

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

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

2. Basis of preparation

a. Statement of compliance

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

b. Basis of measurement and presentation

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

c. Functional and presentation currency

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

d. Critical accounting judgments, estimates and assumptions

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

It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. Such judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. Significant areas where management has used estimates, assumptions or exercised judgments are as follows:

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

i. Impairment for credit losses on loans and advances

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

A collective component of the total allowance is established for:
- groups of homogeneous loans that are not considered individually significant; and
- groups of assets that are individually significant but that were not found to be individually impaired (loss incurred but not reported or IBNR).

The collective allowance for groups of homogeneous loans is established using statistical methods such as roll rate methodology for retail loans, a formula approach based on historical loss rate experience. The roll rate methodology uses statistical analysis of historical data on delinquency to estimate the amount of loss. In assessing the need for collective loss allowance for non retail loans management considers factors such as credit quality as reflected by the internal rating model. The internal rating is in turn based on qualitative parameters (economic environment, market position of borrower client, quality of financial statements, management) and quantitative financial ratios (leverage, profitability, debt servicing, and liquidity).
The impairment loss on loans and advances is disclosed in more detail in Note 7 and Note 32.

ii. Fair value measurements

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

iii. Impairment of available for sale equity and debt instruments investments

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

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

iv. Classification of held to maturity investments

The Bank follows the guidance or requirement of International Accounting Standard (IAS) 39 "Financial Instruments: Recognition and Measurement" on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity.

v. Determination of control over investees

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

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. As a result the Group has concluded that it acts as an agent for the investors in all cases, and therefore has not consolidated these funds.

3. Summary of significant accounting policies

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

a. Change in accounting policies

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

Amendments to existing standard

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

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

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

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

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

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

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

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

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

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

b. Basis of consolidation

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

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

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:

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

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights granted by equity instruments such as shares

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. The results of subsidiaries acquired or disposed of during the year, if any, are included in the consolidated statement of income from the effective date of the acquisition or up to the effective date of disposal, as appropriate.

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

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

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

i. List of significant subsidiaries

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

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

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

ii. Significant restriction

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

c. Investment in associates

Investments in associates are initially recognised at cost and subsequently accounted for under the equity method of accounting. An associate is an entity in which the Bank holds 20% to 50% of the voting power and over which it has significant influence (but not control), over financial and operating policies and which is neither a subsidiary nor a joint venture.

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

d. Settlement and trade date accounting

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

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

e. Derivatives financial instruments and hedge accounting

Derivative financial instruments including forward foreign exchange contracts, commission rate futures, forward rate agreements, currency and commission rate swaps, and currency and commission rate options (both written and purchased) are measured at fair value.

All derivatives are carried at their fair value as assets where the fair value is positive and as liabilities where the fair value is negative. Fair values are obtained by reference to quoted market prices, discounted cash flow models and pricing models, as appropriate.

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

i. Derivatives held for trading

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

ii. Embedded derivatives

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

iii. Hedge accounting

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

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

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

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting. A formal assessment is undertaken by comparing the hedging instrument's effectiveness in offsetting the changes in fair value or cash flows attributable to the hedged risk in the hedged item, both at inception and at each quarter end on an ongoing basis. Prospective testing is performed mainly through matching the critical terms of both hedge item and instrument.

A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated were offset by the hedging instrument in a range of 80% to 125% and were expected to achieve such offset in future periods.

Hedge ineffectiveness is recognized in the income statement in 'Net trading income'. For situations where the hedged item is a forecast transaction, the Bank also assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the statement of income.

Fair value hedges

In relation to fair value hedges, which meet the criteria for hedge accounting, any gain or loss from re-measuring the hedging instruments to fair value is recognized immediately in the consolidated statement of income. The related portion of the hedged item is adjusted against the carrying amount of the hedged item and is recognized in the consolidated statement of income.

For hedged items measured at amortised cost, where the fair value hedge of a commission bearing financial instrument ceases to meet the criteria for hedge accounting or is sold, exercised or terminated, the cumulative adjustment to the carrying amount of a hedge item is amortised to the income statement on a recalculated effective interest rate over the residual period to maturity, unless the hedged item has been derecognised, in which case it is recognised in the income statement immediately. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated statement of income.

Cash flow hedges

In relation to cash flow hedges which meet the criteria for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized directly in other comprehensive income and the ineffective portion, if any, is recognized in the consolidated statement of income.

For cash flow hedges affecting future transactions, the gains or losses recognized in other comprehensive income, are transferred to the consolidated statement of income in the same period in which the hedged transaction affects the consolidated statement of income.

However, if the Bank expects that all or a portion of a loss recognized in other comprehensive income will not be recovered in one or more future periods, it shall reclassify into the statement of income as a reclassification adjustment the amount that is not to be recognized.

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

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

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

f. Foreign currencies

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

The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year adjusted for effective commission rate and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income, except for differences arising on the retranslation of available for sale equity instruments and effective cash flow hedges in foreign currencies.

Translation gains or losses on non-monetary items carried at fair value are included as part of the fair value adjustment on investment securities available for sale, unless the non-monetary items have an effective hedging strategy. Realized and unrealized gains or losses on exchange are credited or charged to exchange income or deferred in other comprehensive income for qualifying cash flow hedges and qualifying net investment hedges to the extent hedges are effective.

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

g. Offsetting financial instruments

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

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

h. Revenue / expense recognition

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

Special commission income and expense

Special commission income and expense for all special commission bearing financial instruments, except for those classified as held for trading or designated as at fair value through income statement, (FVIS) are recognized in the consolidated statement of income using the effective commission rate basis. The effective commission rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective commission rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective commission rate and the change in carrying amount is recorded as special commission income or expense.
If the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, special commission income continues to be recognised using the original effective yield applied to the new carrying amount.

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

Exchange income / loss

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

Fees and commission income

Fees and commissions are recognized when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred and, together with the related direct costs, are recognized as an adjustment to the effective yield on the loan. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportionate basis. Fees received on asset management, wealth management, financial planning, custody services and other similar services that are provided over an extended period of time, are recognized over the period when the service is being provided. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period. Other fees and commission expense, which relate mainly to transaction and service fees, are expensed as the services are received.

Dividend income

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

Trading income

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

Income / (loss) from FVIS financial instruments

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

i. Sale and repurchase agreements

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

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

j. Investments

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

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

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

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

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

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

ii. Available for sale

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

Investments which are classified as “available-for-sale” are initially recognised at fair value including direct and incremental transaction costs and subsequently measured at fair value except for unquoted equity securities whose fair value cannot be reliably measured are carried at cost. Unrealised gain or loss arising from a change in an investment’s fair value is recognised in other comprehensive income. On de-recognition, any cumulative gain or loss previously recognized in other comprehensive income is included in the consolidated statement of income. Special commission income is recognised in the consolidated statement of income on an effective yield basis. Dividend income is recognised in the consolidated statement of income when the Bank becomes entitled to the dividend. Foreign exchange gains or loss on available for sale debt security investments are recognised in the consolidated statement of income.

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

iii. Held to maturity

Held to maturity investments are non-derivative financial assets which have fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold up to the maturity, other than those classified as “Other investments held at amortised cost”, are classified as ‘held to maturity’ and which are not designated as at FVIS or AFS.

Held to maturity investments are initially recognised at fair value including direct and incremental transaction costs and subsequently measured at amortized cost, less provision for impairment in their value. Amortized cost is calculated by taking into account any discount or premium on acquisition using an effective yield basis.

Any gain or loss on such investments is recognized in the consolidated statement of income when the investment is de-recognized or impaired.

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

iv. Other investments held at amortized cost

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

k. Loans and advances

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

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

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

i. Available for sale

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

ii. Loans and advances held at amortized cost

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

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

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

l. Due from banks and other financial institutions

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

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

m. Impairment of financial assets

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

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

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

i. Impairment of available for sale financial assets

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

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

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

ii. Financial assets carried at amortized cost

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

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

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

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

current economic condition in which the borrowers operate. Any deterioration in country risk, industry, as well as identified structural weaknesses or deterioration in cash flows. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted, and the amount of the loss has been determined. Once a financial asset has been written down to its estimated recoverable amount, special commission income is thereafter recognized based on the rate of special commission that was used to discount the future cash flows for the purpose of measuring the recoverable amount. When a financial asset is uncollectible, it is written off against the related provision for impairment through allowance for impairment account.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the consolidated statement of income in impairment charge for credit losses. Loans whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. Restructuring policies and practices are based on indicators or criteria which, indicate that payment will most likely continue. The loans continue to be subject to an individual or collective impairment assessment.

n. Other real estate

The Bank, in the ordinary course of business, acquires certain real estate against settlement of due loans and advances. Such real estate is considered as assets held for sale and is initially stated at the lower of net realizable value of due loans and advances and the current fair value of the related properties, less any costs to sell. No depreciation is charged on such real estate. Subsequent to the initial recognition, such real estate is revalued on a periodic basis and unrealized losses on revaluation, and losses or gains on disposal, are charged or credited to operating income or expense.

o. Property and equipment

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

Buildings	33 years
Leasehold improvements	Over the lease period or economic life whichever is shorter
Software programme and automation project	2 to 5 years
Furniture, equipment and vehicles	4 to10 years

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

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

p. Financial liabilities

All money market deposits, placements, customers' deposits and term loans are initially recognized at cost, being the fair value of the consideration received less transaction costs. Subsequently all commission bearing financial liabilities other than those held at FVIS or, where fair values have been hedged, are measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium. Premiums are amortized and discounts are accreted on an effective yield basis to maturity and taken to special commission expense.

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

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

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

q. Provisions

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

r. Accounting for leases

i. Where the Bank is the lessee

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

ii. Where the Bank is the lessor

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

s. Cash and cash equivalents

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

t. De-recognition of financial instruments

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

u. Zakat and income tax

Under Saudi Arabian Zakat and Income tax laws, Zakat and income tax are the liabilities of Saudi and foreign shareholders, respectively. Zakat is computed on the Saudi shareholders' share of equity and /or net income using the basis defined under the Zakat regulations. Income tax is computed on the foreign shareholders' share of net income for the year. Zakat and income tax are not charged to the consolidated statement of income as they are deducted from the dividends paid to the shareholders. If no dividend is declared then Zakat is deducted from the retained earnings and tax is deducted from the retained earnings in proportion to foreign shareholding and remaining tax is claimed from the foreign shareholders.

v. Investment management, brokerage and corporate finance services

The Bank offers investment management, brokerage and corporate finance services to its customers, through its subsidiaries, which include management of certain investment funds in consultation with professional investment advisors and brokerage services. The Bank's share of these funds is included in the available for sale investments and fees earned are disclosed under related party transactions. Assets held in trust or in a fiduciary capacity are not treated as assets of the subsidiary and accordingly are not included in the consolidated financial statements.

w. Non-commission based banking products

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

High level definitions of non-commission based banking products

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

ii. Mudarabah is an agreement between the Bank and a customer whereby the Bank invests in a specific transaction. The Bank is called "rabb-ul-mal" while the management and work is exclusive responsibility of the customer who is called "mudarib". The profit is shared as per the terms of the agreement but the loss is borne by the Bank.

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

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

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

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

x. Short term employee benefits

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

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

y. End of service benefits

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

4. Cash and balances with SAMA

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

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

5. Due from banks and other financial institutions

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

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

Notes to the Consolidated
Financial Statements

For the years ended December 31, 2015 and 2014

6. Investments, net

a. These comprise the following:

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

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

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

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

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

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

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

6 Investments, net (Continued)

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

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

e. Credit risk exposure on investments

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

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

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

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

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

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

Unquoted investments include Saudi Government Bonds and treasury bills of SAR 16,407 million (2014: SAR 33,600 million).
Unquoted equity shares of SAR 36 million (2014: SAR 39 million) which are carried at cost, are also included under equities available for sale.

7. Loans and advances, net

a. Loans and advances are classified as follows:

Loans and advances held at amortised cost

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

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

7. Loans and advances, net (Continued)

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

i. Movement in allowance for impairment of credit losses

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

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

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

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

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

7. Loans and advances, net (Continued)

ii. Movement of collective impairment provision:

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

c. Credit quality of loans and advances

i. Neither past due nor impaired

SAR' 000	2015				
	Overdraft & Commercial loans	Credit Cards	Consumer Loans	Other	Total
Very strong quality including sovereign (A+ to B)	23,275,371	7,885	341	2,772,851	26,056,448
Good quality (C+ to C)	44,455,064	9,815	1,464	2,262,291	46,728,634
Satisfactory quality (C- to E +)	31,232,333	427,919	9,606,216	4,472,189	45,738,657
Special mention (E to E -)	4,705,609	2,008	50,341	597,557	5,355,515
Total	103,668,377	447,627	9,658,362	10,104,888	123,879,254

SAR' 000	2014				
	Overdraft & Commercial loans	Credit Cards	Consumer Loans	Other	Total
Very strong quality including sovereign (A+ to B)	27,094,707	6,410	581	2,077,089	29,178,787
Good quality (C+ to C)	45,979,942	9,958	2,726	2,538,021	48,530,647
Satisfactory quality (C- to E +)	24,509,476	457,254	8,421,176	3,287,630	36,675,536
Special mention (E to E -)	2,473,964	1,155	11,657	228,732	2,715,508
Total	100,058,089	474,777	8,436,140	8,131,472	117,100,478

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

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

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

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

7. Loans and advances, net (Continued)

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

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

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

7. Loans and advances, net (Continued)

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

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

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

7. Loans and advances, net (Continued)

d. Collateral

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

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

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

8. Investment in associates

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

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

The Bank's share of associates' financial statements:

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

9. Property and equipment, net

SAR' 000	Land & buildings	Leasehold improvements	Furniture, equipment & vehicles	Computer & Software	2015 Total	2014 Total
Cost						
Balance at the beginning of the year	585,613	78,169	458,716	332,038	1,454,536	1,424,344
Additions	80,235	26,088	36,040	75,213	217,576	110,489
Disposals and retirements	(7)	(27,660)	(9,066)	(41,563)	(78,296)	(80,297)
Balance at the end of the year	665,841	76,597	485,690	365,688	1,593,816	1,454,536
Accumulated depreciation and amortization						
Balance at the beginning of the year	250,344	7,560	376,027	215,529	849,460	804,426
Charge for the year	19,106	30,329	25,704	56,239	131,378	125,056
Disposals and retirements	(7)	(27,658)	(8,936)	(41,550)	(78,151)	(80,022)
Balance at the end of the year	269,443	10,231	392,795	230,218	902,687	849,460
Net book value as at December 31, 2015	396,398	66,366	92,895	135,470	691,129	605,076
Net book value as at December 31, 2014	335,269	70,609	115,001	84,197	605,076	619,918

Leasehold improvements as at December 31, 2015 include work in progress amounting to SAR 13 million (2014: SAR 3 million).

10. Other assets

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

11. Derivatives

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

a. Swaps

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

b. Forwards and futures

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

c. Forward rate agreements

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

d. Options

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

Held for trading purposes

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

Arbitrage involves identifying, with the expectation of profiting from price differentials between markets or products. The bank also holds structured derivative which are fully back to back in accordance with the bank's risk management strategy.

Held for hedging purposes

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

The Board of Directors has established the levels of currency risk by setting limits on counterparty and currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

The Board of Directors has also established the level of commission rate risk by setting commission rate sensitivity limits. Commission rate exposure in terms of the sensitivity is reviewed on a periodic basis and hedging strategies are used to reduce the exposure within the established limits.

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

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

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

Cash flow hedges

The Bank is exposed to variability in future commission income cash flows on non-trading assets and liabilities which bear variable commission rate. The Bank uses commission rate swaps as cash flow hedges of these commission rate risks. Also, as a result of firm commitments in foreign currencies, such as its issued foreign currency debt, the Bank is exposed to foreign exchange and commission rate risks which are hedged with cross currency commission rate swaps.

11. Derivatives (Continued)

Below is the schedule indicating as at 31 December, the periods when the hedged cash flows are expected to occur and when they are expected to affect profit or loss:

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

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

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

The tables below show the positive and negative fair values of derivative financial instruments held, together with their notional amounts analyzed by the term to maturity and monthly average.

The notional amounts, which provide an indication of the volumes of the transactions outstanding at the year end, do not necessarily reflect the amounts of future cash flows involved.

These notional amounts, therefore, are neither indicative of the Bank's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor to market risk.

11. Derivatives (Continued)

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

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

11. Derivatives (Continued)

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

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

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

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

12. Due to banks and other financial institutions

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

13. Customers' deposits

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

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

Customers' deposits include foreign currency deposits as follows:

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

14. Debt securities and Sukuks

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

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

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

15. Other liabilities

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

16. Share capital

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

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

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

17. Statutory and general reserve

In accordance with Saudi Arabian Banking Control Law and the Articles of Association of the Bank, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid up capital of the Bank.

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

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

18. Other reserves

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

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

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

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

19. Commitments and contingencies

a. Legal proceedings

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

b. Capital commitments

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

c. Credit related commitments and contingencies

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

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

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

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

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

Commitments to extend credit represent unused portion of authorizations to extend credit, principally in the form of loans and advances, guarantees and letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss, which cannot readily be quantified, is expected to be considerably less than the total unused commitment as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of these commitments could expire or terminate without being funded.

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

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

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

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

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

19. Commitments and contingencies (Continued)

d. Operating lease commitments

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

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

20. Special commission income and expense

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

21. Fees and commission income, net

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

22. Trading income, net

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

23. Dividend income

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

24. Gains on non-trading investments, net

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

25. Other operating income

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

26. Other operating expenses

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

27. Basic and diluted earnings per share

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

28. Gross dividend, Zakat and income tax

The Board of Directors has proposed final net dividend of SAR 0.55 (2014: SAR 0.50) per share for the year which is subject to the approval of the shareholders at the Annual General Assembly Meeting and the regulatory agencies.

The Board of Directors has declared interim gross dividend of SAR 665 million (SAR 0.50 net per share). Total gross dividend to Saudi shareholders was SAR 960 million and total dividend to foreign shareholders was SAR 433 million.

Gross dividend

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

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

i. Zakat

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

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

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

ii. Income tax

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

29. Cash and cash equivalents

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

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

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

30. Employees compensation practices

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

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

Senior executives:

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

Employees engaged in risk taking activities:

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

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

Employees engaged in control functions:

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

Other employees:

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

Governance of Compensation

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

NCCOM: Terms of Reference

a. Overseeing the compensation system's design and operation on behalf of the Board of Directors;
b. Preparing the Compensation Policy and placing it before the Board for approval;
c. Periodically reviewing the Compensation Policy on its own or when advised by the Board, and making recommendations to the Board for amending/updating the Policy;
d. Periodically evaluating the adequacy and effectiveness of the Compensation Policy to ensure that its stated objectives are achieved;
e. Evaluating practices by which compensation is paid for potential future revenues whose timing and likelihood remain uncertain;
f. Making recommendations to the Board on the level and composition of remuneration of key executives of the Bank. The key executives for this purpose will include all those executives whose appointment is subject to no objection by SAMA;
g. Determination of bonus pool based on risk-adjusted profit of the Bank for payment of performance bonus;
h. Reviewing compliance of the Compensation Policy with these Rules and the FSB principles and Standards;

i. Performing any other related tasks to comply with the regulatory requirements.
j. Considering the suitability of candidates for membership of the Board in accordance with the Articles of Association and approved policies and standards;
k. Undertaking an annual review of the requirement of suitable skills and qualifications for the membership of the Board;
l. Recommending to the Board criteria for the composition of the Board and its Committees, including the number of Board members, and independence of directors;
m. Conducting an annual evaluation of the independent status of each candidate proposed for election at the General Assembly meeting and reporting the results of such evaluation to the Board;
n. Satisfying itself to the Board and its committees, as applicable, are in compliance with all regulatory requirements, including its composition;
o. Assisting the Board in reviewing the adequacy of the succession planning process and oversee its implementation;
p. Reviewing the performance and making recommendations to the Board regarding the compensation of the Senior Management of BSF;
q. Reviewing and assessing the adequacy of this Charter every three years and submitting this Charter and any amendments to the Board for approval;
r. Conducting self-evaluation to assess the Committee's contribution and effectiveness in fulfilling its mandate and present it to the Board every three years.

Salient Features of BSF Compensation Policy

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

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

In line with the Saudi banking industry practices, BSF uses a mix of fixed and variable compensation. The former is driven by job size, responsibility, supply and jobs' relative worth in the market. The latter is driven by performance thus payment is based on meeting pre-agreed targets. The fixed compensation package is composed of base salary, allowances and fringe benefits. As a standard practice in the Kingdom, the fixed income is driven by a base pay that is regularly benchmarked and compared with competition to ensure competitiveness. As per Saudi banking industry practice, BSF pays a Performance Bonus, the variable component. As a form of incentive, the Bonus Pool is set by Management and NCCOM working closely with Chief Risk Officer, Chief Financial Officer and Human Resources Manager based on the year's performance or net profit adjusted to the full range of identifiable risks.

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

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

31. Operating segments

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

Transactions between operating segments are approved by the management as per agreed terms and are reported according to the Bank's internal transfer pricing policy. These terms are in line with normal commercial terms and conditions. The revenue from external parties report to the Board is measured in a manner consistent with that in the consolidated statement of income. There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since December 31, 2014. The Bank's primary business is conducted in the Kingdom of Saudi Arabia.

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

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

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

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

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

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

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

SAR' 000	Retail banking	Corporate banking	Treasury	Investment banking & brokerage	Total
2015					
Total assets	15,977,792	110,465,599	55,693,786	1,587,104	183,724,281
Investment in associates	-	-	106,430	-	106,430
Total liabilities	77,454,529	65,059,259	12,296,535	1,430,157	156,240,480
Total operating income	1,506,182	3,058,470	1,405,988	320,858	6,291,498
Share in earnings of associates, net	-	-	7,361	-	7,361
Total operating expenses	1,087,568	720,044	251,075	203,728	2,262,415
Net income for the year	418,614	2,338,426	1,162,274	117,130	4,036,444
Results					
Net special commission income	1,199,339	2,170,294	638,359	47,287	4,055,279
Fees and commission income, net	171,536	886,857	(4,443)	273,571	1,327,521
Exchange income, net	53,377	-	351,095	-	404,472
Trading income, net	-	-	376,339	-	376,339
Impairment charges for credit losses, net	25,602	143,626	-	11,673	180,901
Depreciation and amortization	80,558	27,563	14,122	9,135	131,378

SAR' 000	Retail banking	Corporate banking	Treasury	Investment banking & brokerage	Total
2014					
Total assets	14,190,365	105,680,567	66,824,672	2,081,299	188,776,903
Investment in associates	-	-	99,069	-	99,069
Total liabilities	70,327,832	75,836,737	14,301,294	1,839,703	162,305,566
Total operating income	1,419,493	2,740,813	1,263,336	362,394	5,786,036
Share in earnings of associates, net	-	-	799	-	799
Total operating expenses	1,249,599	577,286	257,821	185,788	2,270,494
Net income for the year	169,894	2,163,527	1,006,314	176,606	3,516,341
Results					
Net special commission income	1,093,793	1,960,513	709,040	53,630	3,816,976
Fees and commission income, net	211,257	777,068	(5,438)	308,763	1,291,650
Exchange income, net	54,144	-	299,861	-	354,005
Trading income, net	-	-	202,587	-	202,587
Impairment charges for credit losses, net	211,650	109,284	-	-	320,934
Depreciation and amortization	79,795	25,643	10,320	9,298	125,056

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

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

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

32. Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and will cause the other party to incur a financial loss. Credit exposures arise principally in lending activities that lead to loans and advances, and investing activities. There is also credit risk on credit related commitments and contingencies and derivatives. The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and by continually assessing the creditworthiness of counterparties. The Bank's risk management policies are designed to identify and to set appropriate risk limits and to monitor the risks and adherence to limits.

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

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

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

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

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

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

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

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

The Bank gives utmost importance to the ability of the obligors to service debt from their core business generated cash flows. Collateral is never the principal rationale for granting credit. However collateral is taken as a risk mitigant and as a secondary means of repayment for perceived weakness in credit quality. Accepted collaterals are valued at periodical intervals and reviewed for marketability and enforcement. The Bank reviews its loan portfolios to assess Specific Provisions for impaired credits on a quarterly basis. The quantum of Specific Provisions set up is based on the difference between carrying amount of the loan and the estimated recoverable amount.

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

Geographical concentration

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

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

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

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

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

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

33. Market risk

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

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

a. Market risk -Trading book

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

A VAR methodology estimates the potential negative change in market value of a portfolio at a given confidence level and over a specified time horizon. The Bank uses simulation models to assess the possible changes in the market value of the trading book based on historical data. VAR models are usually designed to measure the market risk in a normal market environment and therefore the use of VAR has limitations because it is based on historical correlations and volatilities in market prices and assumes that the future movements will follow a statistical distribution. The VAR that the Bank measures is an estimate, using a confidence level of 99% of the potential loss that is not expected to be exceeded if the current market positions were to be held unchanged for one day. The use of 99% confidence level depicts that within a one-day horizon, losses exceeding VAR figure should occur, on average, not more than once every hundred days.

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

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

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

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

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

b. Market risk non- trading book

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

i. Special commission rate risk

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

The following table depicts the sensitivity to a reasonable possible change in special commission rates, with other variables held constant, on the Bank's consolidated statement of income or equity. The sensitivity of the special commission income is the effect of the assumed changes in special commission rates with a lowest

33. Market Risk (Continued)

level at 0%, on the net special commission income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at December 31, 2015, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing the fixed rate available for sale financial assets, including the effect of any associated hedges as at December 31, 2015 for the effect of assumed changes in special commission rate. The sensitivity of equity is analyzed by maturity of the asset or swap. All the banking book exposures are monitored and analyzed in currency concentrations and relevant sensitivities are disclosed in SAR thousands.

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

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

Special commission rate sensitivity of assets, liabilities and derivatives

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

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

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

33. Market risk (Continued)

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

Net gap between derivative financial instruments represents the net notional amounts of these financial instruments, which are used to manage the special commission rate risk. The effective special commission rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortized cost and a current market rate for a floating rate instrument or an instrument carried at fair value.

ii. Currency Risk

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

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

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

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

iii. Currency position

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

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

iv. Equity Price Risk

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

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

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

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

34. Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to become unavailable immediately. To mitigate this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining an appropriate balance of cash, cash equivalents, and readily marketable securities. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of both the Bank and operating subsidiaries. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

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

a. Maturity analysis of assets and liabilities

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

34. Liquidity Risk (Continued)

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

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

34. Liquidity risk (Continued)

b. Analysis of financial liabilities by remaining contractual maturities

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

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

35. Fair values of financial assets and liabilities

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

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

Valuation models

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

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

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

Valuation Framework

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

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

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

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

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

Determination of fair value and fair value hierarchy

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

Level 1: quoted prices in active markets for the same instrument (i.e. without modification or repackaging)
Level 2: quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data: and
Level 3: valuation techniques for which any significant input is not based on observable market data.

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

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

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

Financial investments classified as available for sale (AFS)

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

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

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

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

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

Derivative products valued using a valuation technique with market observable inputs are mainly commission rate swaps and options, currency swaps and forward foreign exchange contracts. The most frequently applied valuation

techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including foreign exchange spot and forward rates and commission rate curves. Other investments in level 2 are valued based on market observable date including broker rates etc.

36. Related party transactions and balances

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

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

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

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

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

37. Capital adequacy

The Bank's objectives when managing capital are, to comply with the capital requirements set by SAMA; to safeguard the Bank's ability to continue as a going concern; and to maintain a strong capital base. Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management.

The Bank monitors the adequacy of its capital using ratios established by SAMA. These ratios measure capital adequacy by comparing the Bank's eligible capital with its statement of financial position assets, commitments and notional amount of derivatives at a weighted amount to reflect their relative risk. SAMA requires holding the minimum level of the regulatory capital of and maintaining a ratio of total regulatory capital to the risk-weighted asset (RWA) at or above the agreed minimum of 8%.

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

The RWAs, total capital and related ratios as at December 31, 2015 and 2014 are calculated using the framework and the methodologies defined under the Basel III framework.

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

38. Investment management, brokerage and corporate finance services

The Bank offers investment services to its customers through its subsidiary, which include management of certain investment funds in consultation with professional investment advisors as well as brokerage services. Income from the subsidiaries is included in the consolidated statement of income under fees and commission income, net.

Determining whether the Bank controls such an investment fund usually depends on the assessment of the aggregate economic interests of the Bank in the Fund (comprising of its investments, any carried profit and expected management fees) and the investors' rights to remove the Fund Manager.

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

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

39. Disclosure under BASEL III framework

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

40. Prospective changes in International Financial Reporting Framework

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

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

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

41. Comparative figures

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

42. Board of Directors approval

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

Introduction

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

Basel II is an international initiative allowing national regulators around the world to implement a more risk-sensitive framework for the assessment of risks and the calculation of minimum regulatory capital i.e. the minimum capital that banks must hold. SAMA has issued the framework and guidance regarding implementation of the capital reforms under Basel III -.

The Regulatory Capital under Basel III is a new framework incorporating a more pure and loss absorbent capital structure. The RWAs under Basel III will be an aggregate of RWA under Basel II and enhancements and modifications to these RWA under Basel II.5 and Basel III frameworks.

SAMA's Basel II framework describes the following three pillars which are designed to be mutually re-enforcing and are meant to ensure a capital base which corresponds to the overall risk profile of the bank:

- **Pillar 1**: Calculation of minimum capital requirements and the capital adequacy ratio based on charges for credit, market, and operations risk stemming from the bank's operations;
- **Pillar 2**: The Supervisory Review process which includes the Internal Capital Adequacy Assessment Process (ICAAP) to assess risks not covered under Pillar 1 and the adequacy of capital to cover these risks as well as Pillar 1 requirements for current and future activities of the bank;
- **Pillar 3**: Market discipline through public disclosures that are designed to provide transparency on capital structures, risk exposures, risk mitigation and the risk management process.

The Basel III framework is composed of the following major enhancements (1 to 5) which are to be implemented on a staggered approach up to 2019.

i) Strengthening the quality of Regulatory Capital
ii) Enhanced Risk Coverage
iii) Leverage Ratio
iv) Introduction of Capital buffers
v) Introduction of Global Liquidity Standards [Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR)]

This report is part of the Pillar 3 process under SAMA's Basel III guidelines. The information provided in this report has not been subject to an external audit. An explanation of approaches adopted by the Bank for measuring minimum capital requirement for various Pillar 1 risks as well the Internal Capital Adequacy Assessment Process (ICAAP) under Pillar 2 are discussed in subsequent sections of this report.

Pillar 3-Qualitative
Disclosures

31 December 2015

Scope Of Application

The name of the top corporate entity in the group, to which these regulations apply, is Banque Saudi Fransi (the Bank).

The consolidated financial statements are prepared in accordance with the Accounting Standards for Financial Institutions promulgated by the Saudi Arabian Monetary Agency (SAMA) and International Financial Reporting Standards (IFRS). The Bank prepares its consolidated financial statements to comply with the requirements of Banking Control Law and the Regulations for Companies in the Kingdom of Saudi Arabia.

The following entities of the group are fully consolidated with the results of Banque Saudi Fransi for regulatory purposes:

1. **Saudi Fransi Capital (SFC):** This entity is 100% owned by the Bank and is incorporated in the Kingdom of Saudi Arabia. SFC is engaged in brokerage business, asset management and corporate finance.
2. **Saudi Fransi Leasing (SFL):** This entity is 100% owned by the Bank and is incorporated in the Kingdom of Saudi Arabia. SFL is engaged in consumer finance activity.
3. **Saudi Fransi Insurance Agency (SAFIA):** This entity is 100% owned by the Bank and is incorporated in the Kingdom of Saudi Arabia. SAFIA is engaged in insurance brokerage services.
4. **Sofinco Saudi Fransi:** This entity is 100% owned by the Bank.. Sofinco Saudi Fransi's consumer finance business and related net assets have been transferred to Saudi Fransi Financing & Leasing. The shareholders of the Sofinco Saudi Fransi have agreed to liquidate the company after finalizing the transfer of the assets and liabilities and settlement of all legal obligations.
5. **BSF Sukuk Limited:** This entity is 100% owned by the bank and is incorporated in the Cayman Islands.

Investments in the following entities represent significant minority investments:

1. **Banque BEMO Saudi Fransi (BBSF):** BBSF is incorporated in Syria as a commercial bank. The Bank owns 27% of the ordinary share capital of BBSF.
2. **Banque BEMO:** This entity is incorporated in Lebanon as a commercial bank. The Bank owns 10% of the ordinary share capital of Banque BEMO.
3. **Saudi Fransi Cooperative Insurance Company (Allianz Saudi Fransi):** This entity is incorporated in the Kingdom of Saudi Arabia. The Bank owns 32.5% of the ordinary share capital of Allianz Saudi Fransi.

Equity investments are generally risk weighted at 100%. Under Basel III, significant minority investments in commercial entities and financial institutions below a defined threshold which under Basel II were deducted 50% from Tier 1 and 50% from Tier 2 will receive the risk weight of 1250% and 250% respectively. There are no restrictions, or other major impediments, on transfer of funds or regulatory capital within the group. The bank is required to transfer at least 25% of its net profit to statutory reserves before declaration of dividend until the amount of statutory reserves is equal to the paid up capital of the bank.

Capital Structure

The authorised, issued and fully paid share capital of the Bank consists of 1,205.3 million shares of SAR 10 each (2014: 1,205,.3 million shares of SAR 10 each).

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

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

The Bank has not issued any capital instruments of innovative, complex, or hybrid nature

CAPITAL STRUCTURE AS AT 31 DECEMBER 2015		
	Components of Capital	SAR '000
A	Core Capital – Tier 1	
	Eligible paid-up share capital	12,053,572
	Statutory and general reserves	11,911,232
	Retained earnings	4,613,796
	Other reserves	(1,094,799)
	Cash flow hedge reserve	464,987
	Total Tier 1	27,948,788
B	Supplementary Capital – Tier 2	
	Qualifying general provisions	1,312,609
	Subordinated Loan Capital	2,798,000
	Total Tier 2	4,110,609
	Total Eligible Capital (A+B)	32,059,397

Pillar 3-Qualitative Disclosures

31 December 2015

Capital Adequacy

The approaches adopted by the Bank for measuring minimum capital requirements under Pillar 1 of the Basel Accord are described in the following sections.

Pillar 1 – Minimum Capital Requirements

Pillar 1 of the Basel III Accord, as adopted and implemented by SAMA, covers the minimum regulatory capital requirement that a bank is expected to maintain to cover credit, market and operational risks stemming from its business operations. It also sets out the basis for consolidation of entities for capital adequacy reporting requirements, the definition and calculations of Risk Weighted Assets (RWA) and the various options given to banks to calculate these Risk Weighted Assets.

The regulatory capital requirements are calculated according to the following formula (expressed as a percentage):

$$\text{Minimum Capital Requirements} = \frac{\text{Capital Base}}{\text{RWA}}$$

Where the Minimum Capital Requirements are to be ≥ 8%

Credit Risk

The Bank has adopted the Standardized Approach for measuring minimum capital requirement for credit risk. Under this approach, exposures are assigned to portfolio segments based on the type of counterparty. The major portfolios defined are sovereigns, banks, corporate, retail, equity, and others (including high net worth individuals).

Each segment has counterparty risk weights ranging from 0% to 150% depending on ratings assigned by qualified external credit assessment agencies, if any.

Initial exposures after application of specific provisions, if any, and / or eligible credit risk mitigants, are multiplied by the specified risk weight of the counterparty to arrive at the Risk Weighted Asset (RWA).

Off-balance sheet exposures are adjusted using product type specified Credit Conversion Factors (CCF) before determining the RWAs. Similarly, derivatives are considered at their Credit Equivalent Amount before determining RWAs.

Minimum capital for Credit Risk is calculated as 8% multiplied by the aggregated mitigant adjusted RWAs for the Bank's exposures.

Market Risk

The Bank uses the Standardized Approach to calculate the regulatory capital requirements relating to market risks (covering interest rates, equity, foreign exchange, and commodity prices).

The resultant measure of regulatory capital is multiplied by 12.5 (reciprocal of 8%) to provide a comparable risk weighted exposure number for market risks.

Operations Risk

The Bank uses the Standardized Approach for calculation of regulatory capital requirements in terms of operations risk. This approach applies a range of beta coefficients (12%-18%) to the average gross income for the preceding three financial years to each of eight predetermined business lines.

The resultant measure of regulatory capital is multiplied by 12.5 (reciprocal of 8%) to provide a comparable risk weighted exposure number for operations risks.

Internal Capital Adequacy Assessment Process (ICAAP)

The oversight for assessment of credit, market, operations, and others risks such as liquidity, concentration, macroeconomic, legal, and reputation risks and the adequacy of capital to meet current and future requirements of the Bank lies with the Executive Committee (EC) of the Bank's Board of Directors.

An updated ICAAP document is presented to SAMA on at least an annual basis, with interim updates being undertaken in the event of material changes in the bank's strategy or operating environment.

Risk Management

The management of main risks for the Bank is specifically organized under the Risk Management Division (RMD). This division performs the role of second reading of risk after the business divisions who originate and own the risks. RMD plays a crucial role in policy making.

The head of RMD reports directly to the Managing Director and interacts with the EC in presenting and managing matters related to Credit, Market, and Operations Risks.

Credit Risk

For measuring minimum capital requirement for credit risk using the Standardized Approach under Basel III, the Bank implemented a dedicated capital measurement system supplied by a leading global vendor. Using this system, exposures are measured at the most granular level so that transaction level data are correctly used for proper calculation of risk weights, credit conversion factors, and allocation of credit risk mitigants.

Pillar 3-Qualitative
Disclosures
31 December 2015

The credit risk adjudication process in the Bank is materially centralized and significant exposures are routinely reported to the EC. The Bank uses an internal rating methodology for classification of counterparty risk and in the management of the underlying exposures appropriately.

The Bank also follows SAMA's guidelines for asset classification, particularly those relating to past due /non-performing loans. Impairment is recognized at a counterpart level i.e. all dues from the counterpart including full principal amount are included under the amounts shown as impaired.

A specific provision is made for past due exposures assessed as impaired at the counterpart level. Specific provision amounts are calculated according to guidelines contained in IAS 39.

In addition to specific counterpart level provisions for impaired assets, the Bank also employs methods to determine and make collective provisions on a portfolio level based on certain internal risk grades for counterpart exposures. For the purpose of determining counterparty risk weights, the Bank uses external credit assessments from Standard and Poors, Moodys, and Fitch.

In the context of the Bank's portfolio, external credit assessments are mainly applicable to the banks / financial institutions asset class. A majority of BSF's Corporate asset portfolio is in the Kingdom of Saudi Arabia; not externally rated; and hence in the 100% risk weight category.

The 0% risk weighted assets under Other Assets pertain to Cash and Cash Equivalents and the current replacement costs i.e. mark to market values of derivative exposures where these amounts are already included (under banks & corporate asset classes) in the calculation of credit equivalent amount and RWAs.

The Bank uses a wide range of collaterals in the process of managing its counterparty risks. However, the applicable financial collateral for credit risk mitigation under Basel III is restricted to pledge of cash margins and deposits held with the Bank.

Guarantees used for risk transfer purposes are mainly bank guarantees that meet the requirements stipulated in the Accord.

A break up of gross credit risk exposures i.e. exposures after off-setting provisions but before application of credit mitigants (including off balance sheet exposures after applying credit conversion factors and derivative exposures at their credit equivalent values) is presented below with their respective risk weights:

GROSS CREDIT EXPOSURES AS AT 31 DECEMBER 2015			
Portfolios	Amount	Risk Weight Buckets	Amount
	SAR '000s		SAR '000s
Sovereigns & Central Banks	28,870,184	0%	29,134,332
		20%	7,500
Banks & securities Firms	18,133,667	0%	37,500
		20%	17,568,073
		50%	8,485,495
		100%	140,092
Corporates	110,719,526	0%	472,000
		20%	2,843,648
		50%	1,278,688
		100%	133,376,475
		150%	11,616
Retail Non-mortgages	8,342,440	75%	8,118,591
		100%	70,966
		150%	13,308
Residential Mortgages	2,277,458	100%	2,277,458
Equity	650,982	100%	517,500
		250%	133,482
Others (including VIP Exposures)	17,270,472	0%	4,069,290
		100%	13,245,183
TOTAL	186,264,729		

Market Risk

The market risk for capital market activities in the Bank is managed and monitored using a combination of VAR, stress testing, and sensitivity analysis. The EC has set limits for what constitutes acceptable level of risks in managing the trading book. The Market Risk Department within the Risk Management Division is responsible for measurement and controls involved in management of market risks.

Market risk activity at the bank is governed by the bank's Market Risk Committee which meets regularly, and is closely supervised by a dedicated Market Risk Department that reports independently to the bank's Chief Risk Officer.
For the measurement of minimum capital requirement for market risks under Pillar 1, the Bank uses the Standardized Approach.

MARKET RISK (Standardized Approach) – 31 DECEMBER 2015	
Category	Capital Requirement Amount SAR '000s
Interest Rate	252,316
Equities	-
Foreign Exchange	4,642
TOTAL	256,958

Operational Risk

Risk Management objectives and risk mitigating strategies

The bank has put in place a comprehensive Group-wide Risk and Control framework for risk identification and management. Operational Risk is primarily managed by prescribing adequate controls and mitigation measures, which are being reviewed and updated on a regular basis.

Operational Risk & Permanent Control Department presents the status of control implementation, areas of risk and required actions for various business entities to the Internal Control Committees. BSF has also implemented a robust Business Continuity Plan to ensure continuity of critical operations.

This ensures that there is a clear understanding of responsibility and accountability in managing and mitigating operational risks; improve internal controls and thereby reduce the probability and potential impact of losses; maintain an incident and operational loss data base; and improve the risk and control awareness across the Bank. All new products and services are risk assessed prior to implementation. Operational risk policies are approved by the Board.

Risk management structure, governance and risk reporting

Board Risk Management Committee oversees Group-wide risk management. Bank has put in place a detailed framework for Operational Risk Management with well-defined policies and procedures. Board Risk Committee and Internal Control Committees oversee bank wide implementation of the operational risk activities.

The collection of operational risk loss data is done directly from the loss originating points. A well-designed system for reporting operational incidents and the identified loss events and data in the most granular form is put in place. Operational Risk department is the custodian of the central repository for operational loss data of the Bank.

Consolidation and analysis of operational loss data is presented to the Executive Committee on a quarterly basis. BSF has developed a process-based Risk and Control Self-Assessment (RCSA) methodology in order to identify high frequency and low impact risks (recurring risks); identify rare and high impact risks (exceptional risks); identify the specific controls in place to mitigate the risks; and organize frequent assessment efforts to determine continuing quality of process controls.

The followings are key aspects of the control mechanism:

- The operational risk management framework of the Bank is governed by the Operational Risk Management Policy and Procedures.
- The implementation is supported by an operational risk management system and designated operational risk coordinators within different units across the bank.
- Loss data is evaluated and processes are reviewed for improvements in mitigation techniques
- Risk & Control Self-Assessment is conducted and key risk exposures are identified & assessed against existing controls to evaluate improvement opportunities.
- Key Risk Indicators are also defined for monitoring of risk exposures.
- Identification, Analysis, Evaluation, Monitoring and Treatment of IT Risks across the organization. This extends to Detailed IT Service based assessments and related actionable recommendations.
- Regular Stress Testing and Scenario Analysis has been conducted as per SAMA requirements.
- Internal Control Monitoring through detailed risk assessments.

The Bank currently uses the Standardized Approach for assessment of minimum capital requirement for operations risk under Pillar 1 of the Accord.

Equity risk

Equity risk represents the risk faces by the bank due to decrease in fair value of equities in the non-trading investment portfolio as a result of changes in equity indices and the value of individual stocks. The Bank's nature of the equity risk exposure includes:

- Investment in associates;
- Available for sale equity investment;
- Investment in subsidiaries.

An associate is an entity in which the bank has significant influence and which is neither a subsidiary nor a joint venture. Accordingly, these investments are classified as investment in associates. Investments in associates are initially recognised at cost and subsequently accounted for under the equity method of accounting.

These investments are subject to recurring review and assessment for possible impairment, to the extent that the carrying value of the equity investment must not exceed its recoverable amount.

Where the equity investment is not subject to the significant influence or control, it is recognized as available for sale investment. These securities are initially carried at fair value plus transaction costs. After initial recognition these investments are measured at fair value.
For an available for sale equity investment where the fair value has not been hedged, any gain or loss arising from a change in its fair value is recognized directly in 'Other reserves' under shareholders' equity until the investment is derecognized or impaired, at which time the cumulative gain or loss previously recognized in shareholders' equity is included in the consolidated statement of income for the year.

At the year end, Unrealised gain of SAR 117 million recognized directly in other reserves due to change in fair value of equities under available for sale investment portfolio.

Fair value of quoted investments in active markets are based on current bid prices and if it not traded in active market then fair value is established by the valuation techniques. If there is any objective evidence of impairment due to significant or prolonged decline in the fair value below its cost then impairment charges are recognized in the consolidated statement of income.

The impairment loss cannot be reversed through consolidated statement of income as long as the asset continues to be recognised i.e. any increase in fair value after impairment has been recorded can only be recognised in equity. On derecognition, any cumulative gain or loss previously recognised in equity is included in the consolidated statement of income for the year.

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

The table below shows the carrying value and fair value of equities as of 31st December 2015.

Equity Investment- SAR(000)	Carrying Value	Fair value
Value of publicly traded equities	573,148	573,148
Value of privately held equities	77,834	77,834
Total	650,982	650,982

Interest Rate Risk in the Banking Book

It is the Bank's policy to transfer interest rate risk positions from all business lines for central management, whereby short term positions are managed by the Global Markets Group (GMG) under a limit framework monitored by the Market Risk Committee, while long term positions are managed by the Asset & Liability Management department (ALM) under a limit framework monitored by the Asset & Liability Committee (ALCO). Natural on balance sheet hedges as well as off balance sheet derivatives are used to manage net exposures arising from contractual as well as assumed re-pricing mismatches.

GMG positions are monitored on a daily basis, while ALM positions are monitored on a monthly basis, with the ability for daily monitoring. GMG positions are predominantly of a contractual nature, while ALM positions include contractual positions as well as some with no specific repricing terms, for which behavioural assumptions are made based on stability analysis. Such analysis is updated and reviewed on a quarterly basis.

Most notable of the non-maturity products are the bank's non commission bearing deposits. No assumptions are currently made in relation to the bank's loan prepayments.

Stress testing and sensitivity analysis are performed on a regular basis as part a bank-wide stress testing framework, with results reported to ALCO, the Board Risk Committee and SAMA.

The following table shows the change in economic value of the bank's banking book balance sheet as at December 31 2015 for a 200bp standardized shock and equates to 0.43% of capital. The average absolute change in economic value during 2015 amounted to SAR 134Mio, with a minimum of SAR 137 Mio and a maximum of SAR 454 Mio.

INTEREST RATE RISK IN BANKING BOOK – 200 bps rate shock	
Currency	Change in Economic Value SAR (000)
SAR	(216,858)
USD	79,679
TOTAL	(137,179)

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