



INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED
September 30, 2016


البنك السعودي الفرنسي
Banque Saudi Fransi
JULIEN MAZE
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البنك السعودي الفرنسي
Banque Saudi Fransi
PATRICE COUVIGNES
MANAGING DIRECTOR


البنك السعودي الفرنسي
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KPMG Al Fozan & Partners
Certified Public Accountants

Report on Review of Interim Condensed Consolidated Financial Statements

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

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Banque Saudi Fransi (the "Bank") and its subsidiaries as of September 30, 2016, the related interim condensed consolidated statement of income, interim condensed consolidated statement of comprehensive income for the three months and nine months periods then ended, the interim condensed consolidated statement of changes in equity, the interim condensed consolidated statement of cash flows and the notes from (1) to (16) for the nine months period then ended. We have not reviewed note 17, nor the information related to "Basel III Pillar III Disclosures" cross-referenced therein, which is not required to be within the scope of our review. The Bank's management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with applicable Accounting Standards for Financial Institutions issued by the Saudi Arabian Monetary Agency ("SAMA") and with International Accounting Standard No. 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with generally accepted standards in the Kingdom of Saudi Arabia applicable to review engagements and with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia and International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with applicable Accounting Standards for Financial Institutions issued by SAMA and International Accounting Standard No. 34.



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Other Regulatory Matters

As required by SAMA, certain capital adequacy information has been disclosed in note 16 of the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in note 16 to the relevant analysis prepared by the Bank for submission to SAMA and found no material inconsistencies.

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Muharram 25, 1438AH
(October 26, 2016)



SAR '000	Notes	Sep 30, 2016 (Unaudited)	Dec 31, 2015 (Audited)	Sep 30, 2015 (Unaudited)
ASSETS				
Cash and balances with SAMA		9,250,431	9,768,284	11,737,618
Due from banks and other financial institutions		23,134,195	16,313,717	7,295,021
Investments, net	3	24,935,918	28,418,518	35,679,820
Positive fair value derivative	7	1,841,573	3,147,630	3,258,573
Loans and advances, net	4	133,936,898	123,769,457	124,408,128
Investment in associates	5	111,625	106,430	105,070
Property and equipment, net		703,175	691,129	670,997
Other assets		1,823,420	1,509,116	1,830,963
Total assets		195,737,235	183,724,281	184,986,190
LIABILITIES AND EQUITY				
Liabilities				
Due to banks and other financial institutions		7,541,059	1,557,190	878,895
Customers' deposits	6	147,277,417	141,852,100	143,947,973
Negative fair value derivative	7	2,873,994	3,382,103	1,858,804
Debt securities and sukuku		6,744,166	6,720,278	6,718,856
Other liabilities		2,836,604	2,728,809	3,220,929
Total liabilities		167,273,240	156,240,480	156,625,457
Equity				
Share capital	12	12,053,572	12,053,572	12,053,572
Statutory reserve		11,459,872	10,928,375	10,435,817
General reserve		982,857	982,857	982,857
Other reserves		(1,771,784)	(1,094,799)	732,115
Retained earnings		5,759,475	3,886,042	4,156,372
Proposed dividend		-	727,754	-
Treasury shares	13	(19,997)	-	-
Total equity		28,463,995	27,483,801	28,360,733
Total liabilities and equity		195,737,235	183,724,281	184,986,190

The accompanying notes 1 to 17 form an integral part of these interim condensed consolidated financial statements.


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SAR '000	For the three months ended		For the nine months ended	
	Sep 30, 2016	Sep 30, 2015	Sep 30, 2016	Sep 30, 2015
Special commission income	1,571,385	1,244,110	4,371,426	3,597,221
Special commission expense	435,878	199,998	1,132,265	574,074
Net special commission income	1,135,507	1,044,112	3,239,161	3,023,147
Fee and commission income, net	313,019	337,409	1,039,822	1,049,573
Exchange income, net	95,535	108,230	300,216	298,180
Trading income, net	42,072	69,817	164,304	273,589
Dividend income	7,704	9,858	15,990	16,913
Gains on non-trading investments, net	2,147	-	4,535	14,531
Other operating income	19,613	18,848	81,410	81,183
Total operating income	1,615,597	1,588,274	4,845,438	4,757,116
Salaries and employee related expenses	293,248	303,589	896,576	900,323
Rent and premises related expenses	43,619	38,655	125,150	119,216
Depreciation and amortization	34,990	31,757	103,484	96,816
Other general and administrative expenses	180,242	144,760	473,170	424,697
Impairment charge for credit losses, net	54,531	50,225	132,848	130,392
Impairment charge for investments, net	(167)	-	(20,980)	(11,250)
Other operating expenses	572	520	4,160	16,461
Total operating expenses	607,035	569,506	1,714,408	1,676,655
Net operating income	1,008,562	1,018,768	3,131,030	3,080,461
Share in earnings of associates, net	1,675	1,485	5,195	6,001
Net income for the period	1,010,237	1,020,253	3,136,225	3,086,462
Basic and diluted earnings per share for the period (SAR) - note 12	0.84	0.85	2.60	2.56

The accompanying notes 1 to 17 form an integral part of these interim condensed consolidated financial statements.


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SAR '000	For the three months ended		For the nine months ended	
	Sep 30, 2016	Sep 30, 2015	Sep 30, 2016	Sep 30, 2015
Net income for the period	1,010,237	1,020,253	3,136,225	3,086,462
Other comprehensive income (loss):				
Items that can be recycled back to consolidated statement of income in subsequent periods				
<u>Available for sale investments</u>				
Net change in the fair value	(59,268)	(79,851)	(134,406)	(233)
Income transferred to interim condensed consolidated statement of income	(2,147)	-	(4,535)	(14,531)
<u>Cash flow hedge</u>				
Net change in the fair value	(416,393)	354,841	(471,182)	775,730
Income transferred to interim condensed consolidated statement of income	41,477	(218,971)	(66,862)	(621,795)
Total comprehensive income for the period	573,906	1,076,272	2,459,240	3,225,633

The accompanying notes 1 to 17 form an integral part of these interim condensed consolidated financial statements.


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SAR '000	Share capital	Statutory reserve	General reserve	Retained earnings	Other reserves			Proposed dividend	Treasury shares	Total
					Available for sale investments	Cash flow hedge				
For the nine months period ended Sep 30, 2016										
Balance at the beginning of the period	12,053,572	10,928,375	982,857	3,886,042	67,669	(1,162,468)		727,754	-	27,483,801
Total comprehensive income for the period										
Net income for the period	-	-	-	3,136,225	-	-		-	-	3,136,225
Net change in the fair value	-	-	-	-	(134,406)	(471,182)		-	-	(605,588)
Net amount transferred to interim condensed consolidated statement of income	-	-	-	-	(4,535)	(66,862)		-	-	(71,397)
Interim gross dividend	-	-	-	(731,295)	-	-		-	-	(731,295)
Transferred to statutory reserves	-	531,497	-	(531,497)	-	-		-	-	-
Final dividend paid (2015)	-	-	-	-	-	-		(727,754)	-	(727,754)
Treasury shares purchased	-	-	-	-	-	-		-	(19,997)	(19,997)
Balance at the end of the period	12,053,572	11,459,872	982,857	5,759,475	(71,272)	(1,700,512)		-	(19,997)	28,463,995
For the nine months period ended Sep 30, 2015										
Balance at the beginning of the period	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 period										
Net income for the period	-	-	-	3,086,462	-	-		-	-	3,086,462
Net change in the fair value	-	-	-	-	(233)	775,730		-	-	775,497
Net amount transferred to interim condensed consolidated statement of income	-	-	-	-	(14,531)	(621,795)		-	-	(636,326)
Interim gross dividend	-	-	-	(665,197)	-	-		-	-	(665,197)
Transferred to statutory reserves	-	516,553	-	(516,553)	-	-		-	-	-
Final dividend paid (2014)	-	-	-	-	-	-		(671,040)	-	(671,040)
Balance at the end of the period	12,053,572	10,435,817	982,857	4,156,372	87,383	644,732		-	-	28,360,733

The accompanying notes to the interim condensed consolidated financial statements.

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BANQUE SAUDI FRANSI
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
Unaudited

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SAR '000	Note	For the nine months ended	
		Sep 30, 2016	Sep 30, 2015
<u>OPERATING ACTIVITIES</u>			
Net income for the period		3,136,225	3,086,462
Adjustments to reconcile net income to net cash from operating activities:			
Accretion of discounts / (premium) on non trading investments, net		10,594	(105,890)
Gains on non trading investments, net		(4,535)	(14,531)
Depreciation and amortization		103,484	96,816
Gain on disposal of property and equipment, net		(92)	(32)
Impairment charge for credit losses, net		132,848	130,392
Share in earnings of associates, net		(5,195)	(6,001)
Change in fair value of financial instruments		(8,769)	(97,043)
Operating income before changes in operating assets and liabilities		3,364,560	3,090,173
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA		584,993	(644,126)
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		(4,524,500)	-
Investments held as FVSI, trading		27,656	1,881,081
Loans and advances		(10,299,042)	(7,559,244)
Other assets		460,994	(1,092,651)
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		5,983,869	(2,984,670)
Customers' deposits		5,425,317	(1,237,564)
Other liabilities		(376,189)	1,122,459
Net cash from / (used in) operating activities		647,658	(7,424,542)
<u>INVESTING ACTIVITIES</u>			
Proceeds from sales and maturities of non trading investments		8,863,036	41,835,300
Purchase of non trading investments		(5,553,385)	(34,109,570)
Dividends received from associates		293	614
Purchase of property and equipment		(115,600)	(162,873)
Proceeds from sale of property and equipment		162	168
Net cash from investing activities		3,194,506	7,563,639
<u>FINANCING ACTIVITIES</u>			
Sukuk and term loan		-	(2,437,500)
Dividends paid		(1,459,049)	(1,336,237)
Purchase of Treasury shares		(19,997)	-
Net cash used in financing activities		(1,479,046)	(3,773,737)
Increase / (decrease) in cash and cash equivalents		2,363,118	(3,634,640)
Cash and cash equivalents at the beginning of the period		16,667,485	13,483,141
Cash and cash equivalents at the end of the period	9	19,030,603	9,848,501
Special commission received during the period		3,883,363	3,510,623
Special commission paid during the period		914,426	576,538
<u>Supplemental non-cash information</u>			
Net changes in fair value and transferred to interim condensed consolidated statement of income		(676,985)	139,171

The accompanying notes 1 to 17 form an integral part of these interim condensed consolidated financial statements.

1. General

Banque Saudi Fransi (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 branches 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 84 branches (September 30, 2015: 83 branches) in the Kingdom of Saudi Arabia, employing 3,186 people (September 30, 2015: 3,062).

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 and Sofinco Saudi Fransi having 100% share in equity. The Bank owns 100% (95% direct ownership and 5 % indirect ownership through its subsidiary) share in Sakan Real Estate Financing. These subsidiaries are incorporated in the Kingdom of Saudi Arabia. The Bank also owns BSF Sukuk Limited having 100% share in equity, incorporated in the Cayman Islands.

The Bank also formed a subsidiary, BSF Markets Limited registered in Cayman Islands having 100% share in equity. The objective of this company is derivative trading and Repo activities.

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 Corporate Insurance Company (Allianz Saudi Fransi) incorporated in the Kingdom of Saudi Arabia.

2. Basis of preparation

These interim condensed consolidated financial statements are prepared in accordance with the accounting standards for financial institutions promulgated by the Saudi Arabian Monetary Agency (SAMA) and IAS 34 – Interim Financial Reporting. The Bank also prepares its interim condensed consolidated financial statements to comply with the Banking Control Law and the Regulations for Companies in the Kingdom of Saudi Arabia.

The preparation of interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The interim condensed consolidated financial statements do not include all information and disclosures required for the annual consolidated financial statements, and should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2015. In preparing these interim condensed consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual consolidated financial statements as at and for the year ended December 31, 2015.

The accounting policies used in the preparation of these interim condensed consolidated financial statements are consistent with those of the annual consolidated financial statements for the year ended December 31, 2015 as described in the annual consolidated financial statements for the year ended December 31, 2015 except for the adoption of amendments to the existing standards as mentioned below which has had no significant financial impact on the financial statements of the Bank.

2. Basis of preparation (continued)

Amendments to existing standards

- Amendments to IFRS 10 – “Consolidated Financial Statements”, IFRS 12 – “Disclosure of Interests in Other Entities” and IAS 28 – “Investments in Associates”, applicable for the annual periods beginning on or after 1 January 2016, address three issues that have arisen in applying the investment entities exception under IFRS 10

- Amendments to IFRS 11 – “Joint Arrangements”, applicable for the annual periods beginning on or after 1 January 2016, require an entity acquiring an interest in a joint operation, in which the activity of the joint operation constitutes a business, to apply, to the extent of its share, all of the principles in IFRS 3 – “Business Combinations” and other IFRSs that do not conflict with the requirements of IFRS 11 Joint Arrangements.

- Amendments to IAS 1 – “Presentation of Financial Statements”, applicable for the annual periods beginning on or after 1 January 2016, clarify existing IAS 1 requirements in relation to;

The materiality requirements in IAS 1

That specific line items in the statement(s) of profit or loss and other comprehensive income (“OCI”) and the statement of financial position may be disaggregated

That entities have flexibility as to the order in which they present the notes to financial statements

That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

- Amendments to IAS 16 – “Property, Plant and Equipment” and IAS 38 – “Intangible Assets”, applicable for the annual periods beginning on or after 1 January 2016, restricts the use of ratio of revenue generated to total revenue expected to be generated to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

-Amendments to IAS 27 – “Separate Financial Statements”, applicable for the annual periods beginning on or after 1 January 2016, allows an entity to use the equity method as described in IAS 28 to account for its investments in subsidiaries, joint ventures and associates in its separate financial statements

The new standards, amendments to standards and interpretations to IFRS which are mandatory for the first time for the financial year beginning January 2016 did not result in material amendments to the presentation and disclosure of the accompanying interim condensed consolidated financial statements. These interim condensed consolidated financial statements are expressed in Saudi Arabian Riyals (SAR) and are rounded off to the nearest thousands.

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

Basis of consolidation

The interim condensed consolidated financial statements comprise the financial statements of the Bank and its subsidiaries; Saudi Fransi Capital, Saudi Fransi Insurance Agency, Saudi Fransi Financing & Leasing, Sofinco Saudi Fransi, Sakan real estate financing, BSF Sukuk Limited and BSF Markets Limited. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies. Adjustments are made wherever necessary in the financial statements of the subsidiaries to align with the Bank's interim condensed consolidated financial statements.

Subsidiaries are the entities that are controlled by the Bank. The Bank controls an entity when it is exposed, or has a right, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over that entity.

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

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

3. Investments, net

Investment securities are classified as follows:

SAR '000	Sep 30, 2016 (Unaudited)	Dec 31, 2015 (Audited)	Sep 30, 2015 (Unaudited)
Held as FVSI	182,969	210,625	272,487
Available for sale	8,431,116	7,482,435	7,757,279
Held to maturity	76,742	86,608	88,231
Other investments held at amortised cost	16,245,091	20,638,850	27,561,823
Total	24,935,918	28,418,518	35,679,820

Investments held as FVSI represent investments held for trading.

4. Loans and advances, net

SAR'000	Sep 30, 2016 (Unaudited)	Dec 31, 2015 (Audited)	Sep 30, 2015 (Unaudited)
Consumer loans	10,789,571	9,839,564	9,496,348
Commercial loans and overdrafts	111,756,749	104,501,040	104,660,474
Credit cards	551,182	515,201	549,910
Others	12,150,297	10,122,879	10,956,960
Performing loans and advances	135,247,799	124,978,684	125,663,692
Non-performing loans and advances ,net	1,093,655	1,129,719	1,060,627
Gross loans and advances	136,341,454	126,108,403	126,724,319
Allowance for impairment	(2,404,556)	(2,338,946)	(2,316,191)
Loans and advances, net	133,936,898	123,769,457	124,408,128

5. Investment in associates

SAR '000	Sep 30, 2016 (Unaudited)	Dec 31, 2015 (Audited)	Sep 30, 2015 (Unaudited)
Cost	151,645	151,645	151,645
Share of earnings / (losses), net	61,980	56,785	55,425
Impairment provision	(102,000)	(102,000)	(102,000)
Total	111,625	106,430	105,070

6. Customers' deposits

SAR'000	Sep 30, 2016 (Unaudited)	Dec 31, 2015 (Audited)	Sep 30, 2015 (Unaudited)
Demand	83,029,848	89,112,001	105,921,963
Saving	492,814	503,318	504,062
Time	59,485,803	47,339,480	31,325,462
Other	4,268,952	4,897,301	6,196,486
Total	147,277,417	141,852,100	143,947,973

7. Derivatives

The table below sets out the positive and negative fair values of derivative financial instruments held, together with their notional amounts. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the end of period, 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.

SAR '000	Sep 30, 2016 (Unaudited)			Dec 31, 2015 (Audited)			Sep 30, 2015 (Unaudited)		
	Positive fair value	Negative fair value	Notional amount	Positive fair value	Negative fair value	Notional amount	Positive fair value	Negative fair value	Notional amount
Held for trading									
Special commission rate swaps	1,319,379	1,239,781	162,073,073	2,402,535	2,327,184	147,456,785	1,518,013	1,508,352	138,610,803
Special commission rate futures and options	5,728	5,728	72,017,590	449	449	78,114,727	449	-	59,493,832
Forward rate agreements	-	-	-	-	-	500,000	-	-	-
Forward foreign exchange contracts	305,688	258,785	54,910,612	325,125	309,551	57,036,467	261,999	221,316	69,423,768
Currency options	105,366	105,366	28,174,381	91,058	91,058	52,518,716	92,014	92,014	61,495,578
Others	26,380	26,380	1,588,888	26,135	26,135	2,492,198	25,947	26,590	2,605,204
Held as fair value hedges									
Special commission rate swaps	10,875	6,393	3,076,500	6,853	8,222	3,076,500	29,111	10,173	3,076,500
Held as cash flow hedges									
Special commission rate swaps	68,157	1,231,561	74,265,952	295,475	619,504	79,065,611	1,331,040	359	79,458,836
Total	1,841,573	2,873,994	396,106,996	3,147,630	3,382,103	420,261,004	3,258,573	1,858,804	414,164,521

8. Credit related commitments and contingencies

The Bank's credit related commitments and contingencies are as follows:

SAR '000	Sep 30, 2016 (Unaudited)	Dec 31, 2015 (Audited)	Sep 30, 2015 (Unaudited)
Letters of credit	7,615,546	7,859,240	9,024,328
Letters of guarantee	49,107,057	55,664,139	55,070,728
Acceptances	2,696,548	2,940,017	3,605,360
Irrevocable commitments to extend credit	5,648,457	5,075,844	5,322,420
Total	65,067,608	71,539,240	73,022,836

9. Cash and cash equivalents

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

SAR '000	Sep 30, 2016 (Unaudited)	Dec 31, 2015 (Audited)	Sep 30, 2015 (Unaudited)
Cash and balances with SAMA excluding statutory deposit	1,095,908	1,028,768	2,554,109
Due from banks and other financial institutions maturing within three months from the date of acquisition	17,934,695	15,638,717	7,294,392
Total	19,030,603	16,667,485	9,848,501

10. Segment information

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 31 December 2015.

The Bank is organised into the following main operating segments:

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.

The Bank's total assets and liabilities as at September 30, 2016 and 2015, together with total operating income, total operating expenses and net income for the nine months then ended, by operating segments, are as follows:

(Unaudited) SAR '000"	Retail banking	Corporate banking	Treasury	Investment banking and brokerage	Total
Sep 30, 2016 (unaudited)					
Total assets	17,040,224	121,578,057	55,947,440	1,171,514	195,737,235
Total liabilities	79,693,244	62,817,435	23,680,744	1,081,817	167,273,240
Total operating income	1,134,971	2,353,651	1,150,619	206,197	4,845,438
Total operating expenses	875,734	519,548	185,838	133,288	1,714,408
Share in earnings of associates, net	-	-	5,195	-	5,195
Net income for the period	259,237	1,834,103	969,976	72,909	3,136,225
Inter-segment revenue	631,396	65,731	(697,127)	-	-
Impairment charges for credit losses, net	54,690	78,158	-	-	132,848
December 31, 2015 (Audited)					
Total assets	15,977,792	110,465,599	55,693,786	1,587,104	183,724,281
Total liabilities	77,454,529	65,059,259	12,296,535	1,430,157	156,240,480
Sep 30, 2015 (unaudited)					
Total assets	16,397,292	110,069,883	56,806,147	1,712,868	184,986,190
Total liabilities	72,922,628	71,690,008	10,464,137	1,548,684	156,625,457
Total operating income	1,128,108	2,324,969	1,043,006	261,033	4,757,116
Total operating expenses	834,870	504,959	181,445	155,381	1,676,655
Share in earnings of associates, net	-	-	6,001	-	6,001
Net income for the period	293,238	1,820,010	867,562	105,652	3,086,462
Inter-segment revenue	638,638	276,418	(915,056)	-	-
Impairment charges for credit losses, net	48,805	81,587	-	-	130,392

11. 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.

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.

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.

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.

SAR' 000	Level 1	Level 2	Level 3	Total
<u>Sep 30, 2016 (Unaudited)</u>				
Financial assets				
Derivative financial instruments positive fair value	-	1,841,573	-	1,841,573
Financial investments designated at FVSI (trading)	176,923	6,046	-	182,969
Financial investments available for sale	2,348,491	2,406,592	3,676,033	8,431,116
Total	2,525,414	4,254,211	3,676,033	10,455,658
Financial Liabilities				
Derivative financial instruments negative fair value	-	2,873,994	-	2,873,994
Total	-	2,873,994	-	2,873,994
<u>December 31, 2015 (Audited)</u>				
Financial assets				
Derivative financial instruments positive fair value	-	3,147,630	-	3,147,630
Financial investments designated at FVSI (trading)	176,014	34,611	-	210,625
Financial investments available for sale	2,419,195	2,292,336	2,770,904	7,482,435
Total	2,595,209	5,474,577	2,770,904	10,840,690
Financial Liabilities				
Derivative financial instruments negative fair value	-	3,382,103	-	3,382,103
Total	-	3,382,103	-	3,382,103
<u>Sep 30, 2015 (Unaudited)</u>				
Financial assets				
Derivative financial instruments positive fair value	-	3,258,573	-	3,258,573
Financial investments designated at FVSI (trading)	269,307	3,180	-	272,487
Financial investments available for sale	2,603,058	2,757,552	2,396,669	7,757,279
Total	2,872,365	6,019,305	2,396,669	11,288,339
Financial Liabilities				
Derivative financial instruments negative fair value	-	1,858,804	-	1,858,804
Total	-	1,858,804	-	1,858,804

The fair values of investments held at amortized cost are SAR 16,176 million (December 31, 2015: 20,475 million and September 30, 2015: 27,594 million) against carrying value of SAR 16,245 million (December 31, 2015: 20,639 million and September 30, 2015: 27,562 million) and fair values of investments held to maturity are SAR 78 million (December 31, 2015: 90 million and September 30, 2015: 83 million) compared to its carrying value of SAR 77 million (December 31, 2015: 87 million and September 30, 2015: 88 million). The fair values of commission bearing customers' deposits, debt securities, due from and due to banks and other financial institutions which are carried at amortized cost, are not significantly different from the carrying values included in the interim condensed 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 and other financial institutions. An active market for these instruments is not available and the Bank intends to realize the carrying value of these financial instruments through settlement with the counter party at the time of their respective maturities.

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 derivatives are based on the quoted market prices when available or by using the appropriate valuation technique. Financial investments available for sale comprise Mudarabah SAR 3,639 million (December 31, 2015: SAR 2,735 million and September 30, 2015: 2,361 million) which is classified as level 3. The Bank uses the discounted cash flow method using current yield curve to arrive at the fair value of loans and advances without adjusting credit spread which is SAR 138,353 million (December 31, 2015: SAR 127,383 million and September 30, 2015: SAR 126,284 million). The carrying values of those loans and advances are SAR 133,937 million (December 31, 2015: SAR 123,769 million and September 30, 2015 SAR 124,408 million)

12. Share capital and Earnings per share

The authorised, issued and fully paid share capital of the Bank consists of 1,205 million shares of SAR 10 each (December 31, 2015: 1,205 million shares of SAR 10 each and September 30, 2015: 1,205 million shares of SAR 10 each).

Basic and diluted earnings per share for the periods ended September 30, 2016 and 2015 are calculated on a weighted average basis by dividing the net income for the period by 1,205 million shares after excluding treasury shares consists of 0.93 million shares as of 30 September 2016 (31 December 2015: Nil shares and 30 September 2015: Nil shares).

The final net dividend of SAR 0.55 per share for the year ended 2015 has been approved by the shareholders at the General Assembly Meeting held on April 20, 2016.

13. Treasury Shares

During Q.3 2016, the Bank has initiated to acquire treasury shares under its Long Term Incentives (LTI) plan which grant appreciation award of BSF share performance to its eligible employees as per Board approved LTI scheme. The eligible employees will benefit the appreciation in value of BSF Shares over the Vesting Period. The Long Term Incentives plan scheme has not been commenced as of 30 September 2016.

14. Interim dividends

The Board of Directors recommended on 13 July 2016 an interim gross dividend of SAR 731 million. Zakat attributable to Saudi shareholders for the period amounted to SAR 47 million approximately. This will be deducted from their share of the dividend, resulting in net dividend to Saudi shareholders of SAR 0.55 per share. The income tax liability of the foreign shareholders will be deducted from their share of the dividend.

15. Comparative figures

The Accrued Special Commission Receivable or Payable on Financial Assets or Financial Liabilities, which was previously shown under "Other Assets" or "Other Liabilities" respectively, has now been shown together with the related asset or liability as required by IFRS for better presentation purposes. Accordingly, prior period numbers for the related assets or liabilities have been reclassified to conform to current period's presentation.

16. 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%.

Bank's total risk weighted assets and total Tier I & II Capital are as follows:

SAR' 000	Sep 30, 2016 (Unaudited)	Dec 31, 2015 (Audited)	Sep 30, 2015 (Unaudited)
Credit Risk RWA	182,717,826	172,930,080	172,710,928
Operational Risk RWA	11,466,275	10,712,625	10,521,737
Market Risk RWA	3,837,400	3,211,972	5,804,021
Total RWA	198,021,501	186,854,677	189,036,686
Tier I Capital	29,484,302	27,948,788	28,102,840
Tier II Capital	4,095,704	4,110,609	4,423,722
Total Tier I & II Capital	33,580,006	32,059,397	32,526,562
Capital Adequacy Ratio %			
Tier I ratio	14.89%	14.96%	14.87%
Tier I + Tier II ratio	16.96%	17.16%	17.21%

17. Basel III - Capital Structure

Certain disclosures on the Bank's capital structure are required to be published on the Bank's website. In due course, these disclosures will be published on the Bank's website (www.Alfransi.com.sa) as required by SAMA. Such disclosures are not subject to review/audit by the external auditors of the Bank.