



البنك السعودي للاستثمار  
The Saudi Investment Bank

**THE SAUDI INVESTMENT BANK**  
(A Saudi joint stock company)

---

---

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

---

---

**For the three-month period ended March 31, 2017**

**(Unaudited)**

# THE SAUDI INVESTMENT BANK

(A Saudi joint stock company)

## INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Amounts in SAR'000

		Mar. 31, 2017	Dec. 31, 2016	Mar. 31, 2016
	Notes	(Unaudited)	(Audited) Restated	(Unaudited) Restated
<b>ASSETS</b>				
Cash and balances with SAMA		7,844,243	5,684,338	4,287,465
Due from banks and other financial institutions	15	1,592,439	2,302,293	7,838,566
Investments, net	5,15	21,308,580	21,447,894	18,992,307
Loans and advances, net	6,15	60,290,073	60,249,052	61,615,260
Investments in associates	7	1,028,085	1,000,337	978,028
Property, equipment, and intangibles, net		974,041	987,600	1,012,599
Positive fair values of derivatives	11,15	3,866,111	1,914,717	1,175,178
Other real estate		418,723	418,724	152,836
Other assets		223,707	243,833	341,261
<b>Total assets</b>		<b>97,546,002</b>	<b>94,248,788</b>	<b>96,393,500</b>
<b>LIABILITIES AND TOTAL EQUITY</b>				
<b>Liabilities</b>				
Due to banks and other financial institutions	15	11,329,298	8,996,716	8,217,662
Customers' deposits	8,15	64,437,295	65,640,325	70,686,569
Term loans	9,15	1,998,347	2,032,187	2,020,518
Subordinated debt	10,15	2,021,180	2,002,373	2,013,674
Negative fair values of derivatives	11,15	3,393,281	1,424,927	921,270
Other liabilities		653,484	767,718	665,262
<b>Total liabilities</b>		<b>83,832,885</b>	<b>80,864,246</b>	<b>84,524,955</b>
<b>Equity</b>				
Share capital	16,22	7,000,000	7,000,000	6,500,000
Statutory reserve		4,210,000	4,210,000	3,946,000
Other reserves	5	517,515	509,651	(181,850)
Retained earnings	22	1,205,352	877,775	1,185,162
Proposed dividends	16,22	350,000	350,000	487,500
Shares held for employee options, net of share based provisions	20	(69,750)	(62,884)	(68,267)
Shareholders' equity		13,213,117	12,884,542	11,868,545
Tier I Sukuk	19	500,000	500,000	-
<b>Total equity</b>		<b>13,713,117</b>	<b>13,384,542</b>	<b>11,868,545</b>
<b>Total liabilities and equity</b>		<b>97,546,002</b>	<b>94,248,788</b>	<b>96,393,500</b>

The accompanying notes 1 to 23 form an integral part of these interim condensed consolidated financial statements.

# THE SAUDI INVESTMENT BANK

(A Saudi joint stock company)

## INTERIM CONSOLIDATED INCOME STATEMENT (Unaudited)

Amounts in SAR'000

For the three-month periods ended March 31

	Notes	2017	2016
Special commission income		876,564	717,238
Special commission expense		413,547	304,435
<b>Net special commission income</b>		<b>463,017</b>	412,803
Fee income from banking services, net		110,293	106,713
Exchange income, net		32,436	31,912
Dividend income		-	2,838
Gains on investments, net		19,216	36,879
Other operating loss		-	(401)
<b>Total operating income</b>		<b>624,962</b>	590,744
Salaries and employee-related expenses		147,621	145,264
Rent and premises-related expenses		38,835	34,449
Depreciation and amortization		23,027	22,169
Other general and administrative expenses		53,285	55,868
Impairment charge for credit losses		45,000	118,000
Impairment charge for investments		-	42,000
<b>Total operating expenses</b>		<b>307,768</b>	417,750
<b>Income from operating activities</b>		<b>317,194</b>	172,994
Share in earnings of associates	7	27,748	37,006
<b>Net income</b>		<b>344,942</b>	210,000
<b>Basic and diluted earnings per share (expressed in SAR per share)</b>	16	<b>0.49</b>	0.30

The accompanying notes 1 to 23 form an integral part of these interim condensed consolidated financial statements.

# THE SAUDI INVESTMENT BANK

(A Saudi joint stock company)

## INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

Amounts in SAR'000

For the three-month periods ended March 31

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
<b>Net income</b>		<b>344,942</b>	210,000
<b>Other comprehensive income-items that are or may be reclassified to consolidated income statement in subsequent periods:</b>			
Available for sale investments:			
- Net change in fair value		<b>16,080</b>	(187,629)
- Fair value gains transferred to interim consolidated income statement on disposal		<b>(8,216)</b>	(7,989)
Share in other comprehensive income of associates	7	-	2,000
Total other comprehensive income (loss)		<b>7,864</b>	(193,618)
<b>Total comprehensive income</b>		<b>352,806</b>	16,382

The accompanying notes 1 to 23 form an integral part of these interim condensed consolidated financial statements.

# THE SAUDI INVESTMENT BANK

## INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three-month periods ended March 31

2017 (SAR'000)										
	Notes	Share capital	Statutory reserve	Other reserves	Retained earnings	Proposed dividends	Shares held for employee options, net of share based provisions	Shareholders' equity	Tier 1 Sukuk	Total equity
Balances at the beginning of the period as previously reported	22	7,000,000	4,210,000	509,651	966,421	420,000	(62,884)	13,043,188	500,000	13,543,188
Effect of the retroactive application of the new Zakat and Income Tax Policy	22	-	-	-	(88,646)	(70,000)	-	(158,646)	-	(158,646)
Balances at the beginning of the period as restated	22	7,000,000	4,210,000	509,651	877,775	350,000	(62,884)	12,884,542	500,000	13,384,542
Net income		-	-	-	344,942	-	-	344,942	-	344,942
Total other comprehensive income		-	-	7,864	-	-	-	7,864	-	7,864
Total comprehensive income		-	-	7,864	344,942	-	-	352,806	-	352,806
Zakat for current period		-	-	-	(9,045)	-	-	(9,045)	-	(9,045)
Income Tax for current period		-	-	-	(6,229)	-	-	(6,229)	-	(6,229)
Income Tax for prior periods		-	-	-	(2,091)	-	-	(2,091)	-	(2,091)
Net movement in shares held for employee options	20	-	-	-	-	-	(6,866)	(6,866)	-	(6,866)
Balances at the end of the period		7,000,000	4,210,000	517,515	1,205,352	350,000	(69,750)	13,213,117	500,000	13,713,117

The accompanying notes 1 to 23 form an integral part of these interim condensed consolidated financial statements.

# THE SAUDI INVESTMENT BANK

## INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three-month periods ended March 31

2016 (SAR'000)										
	Notes	Share capital	Statutory reserve	Other reserves	Retained earnings	Proposed dividends	Shares held for employee options, net of share based provisions	Total Shareholders' equity	Tier 1 Sukuk	Total equity
Balances at the beginning of the period as previously reported	22	6,500,000	3,946,000	11,768	1,100,949	534,500	(56,755)	12,036,462	-	12,036,462
Effect of the retroactive application of the new Zakat and Income Tax Policy	22	-	-	-	(109,426)	(47,000)	-	(156,426)	-	(156,426)
Balances at the beginning of the period as restated	22	6,500,000	3,946,000	11,768	991,523	487,500	(56,755)	11,880,036	-	11,880,036
Net income		-	-	-	-	-	-	210,000	-	210,000
Total other comprehensive income (loss)		-	-	(193,618)	-	-	-	(193,618)	-	(193,618)
Total comprehensive income (loss)		-	-	(193,618)	210,000	-	-	16,382	-	16,382
Zakat for current period		-	-	-	(7,906)	-	-	(7,906)	-	(7,906)
Zakat for prior periods		-	-	-	(1,281)	-	-	(1,281)	-	(1,281)
Income Tax for current period		-	-	-	(5,454)	-	-	(5,454)	-	(5,454)
Income Tax for prior periods		-	-	-	(1,720)	-	-	(1,720)	-	(1,720)
Net movement in shares held for employee options	20	-	-	-	-	-	(11,512)	(11,512)	-	(11,512)
Balances at the end of the period		6,500,000	3,946,000	(181,850)	1,185,162	487,500	(68,267)	11,868,545	-	11,868,545

The accompanying notes 1 to 23 form an integral part of these interim condensed consolidated financial statements.

# THE SAUDI INVESTMENT BANK

(A Saudi joint stock company)

## INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

Amounts in SAR'000

For the three-month periods ended March 31

	Notes	2017	2016
<b>OPERATING ACTIVITIES</b>			
Net income		344,942	210,000
<b>Adjustments to reconcile net income to net cash from (used in) operating activities:</b>			
Net amortization of premiums (accretion of discounts) on investments		14,322	16,555
Net change in accrued special commission receivable		(57,342)	(97,376)
Net change in accrued special commission payable		(81,623)	76,104
Net change in deferred loan fees		31,364	21,119
Gain on investments, net		(19,216)	(36,879)
Impact of Zakat and Tax transfer to retained earnings		(17,365)	(16,361)
Depreciation and amortization	14	23,027	22,169
Impairment charge for credit losses		45,000	118,000
Impairment charge for investments		-	42,000
Share in earnings of associates	7	(27,748)	(37,006)
Share based provisions	20	4,316	7,749
		<u>259,677</u>	<u>326,074</u>
<b>Net (increase) decrease in operating assets:</b>			
Statutory deposit with SAMA		275,211	48,942
Due from banks and other financial institutions maturing after ninety days from acquisition date		(2,992)	(10,299)
Loans and advances, net		(70,775)	(1,388,645)
Positive fair values of derivatives		(1,960,503)	123,426
Other assets		20,127	(21,805)
<b>Net increase (decrease) in operating liabilities:</b>			
Due to banks and other financial institutions		2,322,213	2,882,638
Customers' deposits		(1,111,162)	135,292
Negative fair values of derivatives		1,953,445	(93,664)
Other liabilities		(107,842)	(53,968)
<b>Net cash from operating activities</b>		<u>1,577,399</u>	<u>1,947,991</u>
<b>INVESTING ACTIVITIES</b>			
Proceeds from sales and maturities of investments		1,148,930	438,783
Purchases of investments		(974,078)	(675,051)
Purchases of property, equipment, and intangibles	14	(9,468)	(13,205)
Proceeds from sale of property, equipment, and intangibles		-	1
<b>Net cash from (used in) investing activities</b>		<u>165,384</u>	<u>(249,472)</u>
<b>FINANCING ACTIVITIES</b>			
Purchases of shares for employee options	20	(17,574)	(33,225)
<b>Net cash used in financing activities</b>		<u>(17,574)</u>	<u>(33,225)</u>
<b>Increase in cash and cash equivalents</b>		<u>1,725,209</u>	<u>1,665,294</u>

Continued.

The accompanying notes 1 to 23 form an integral part of these interim condensed consolidated financial statements.

# THE SAUDI INVESTMENT BANK

(A Saudi joint stock company)

## INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

Amounts in SAR'000

For the three-month periods ended March 31

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
<b>Cash and cash equivalents</b>			
Cash and cash equivalents at the beginning of the period		<b>4,382,652</b>	7,103,969
Increase in cash and cash equivalents		<u><b>1,725,209</b></u>	<u>1,665,294</u>
Cash and cash equivalents at the end of the period	13	<u><b>6,107,861</b></u>	<u>8,769,263</u>
<b>Supplemental special commission information</b>			
Special commission received		<u><b>819,222</b></u>	<u>616,356</u>
Special commission paid		<u><b>495,707</b></u>	<u>228,818</u>
<b>Supplemental non-cash information</b>			
Total other comprehensive income (loss)		<u><b>7,864</b></u>	<u>(193,618)</u>

The accompanying notes 1 to 23 form an integral part of these interim condensed consolidated financial statements.



# THE SAUDI INVESTMENT BANK

(A Saudi joint stock company)

---

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Amounts in SAR'000

For the three-month periods ended March 31, 2017 and 2016

### 1. General

The Saudi Investment Bank (the "Bank"), a Saudi joint stock company, was formed pursuant to Royal Decree No. M/31 dated 25 Jumada II 1396H, corresponding to June 23, 1976 in the Kingdom of Saudi Arabia. The Bank operates under Commercial Registration No. 1010011570 dated 25 Rabie Awwal 1397H, corresponding to March 16, 1977 through its 49 branches (December 31, 2016: 48 branches; and March 31, 2016: 48 branches) in the Kingdom of Saudi Arabia. The address of the Bank's Head Office is as follows:

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

The Bank offers a full range of commercial and retail banking services. The Bank also offers Shariah compliant (non-interest based) banking products and services, which are approved and supervised by an independent Shariah Board.

### 2. Basis of preparation

On April 11, 2017, the Saudi Arabian Monetary Authority (SAMA) issued Circular no. 381000074519 with amendments regarding certain clarifications relating to the accounting for Zakat and Income tax. The impact of the Circular and amendments are as follows:

- The Accounting Standards for Commercial Banks promulgated by SAMA are no longer applicable from January 1, 2017; and
- Zakat and Income Tax are to be accrued on a quarterly basis and recognized in the consolidated statement of equity with a corresponding liability recognized in the consolidated statement of financial position.

Applying the above SAMA circular and amendments to the framework, these interim condensed consolidated financial statements as of and for the three month period ended March 31, 2017 have been prepared using International Accounting Standard (IAS) 34 – "Interim Financial Reporting", and SAMA guidance for the accounting of Zakat and Income Tax.

Until December 31, 2016, the consolidated financial statements were prepared in accordance with the Accounting Standards for Commercial Banks promulgated by SAMA and IFRS. This change in framework resulted in a change in the accounting policy for Zakat and Income Tax, as disclosed in note 4. The effects of this change are disclosed in note 22.

These interim condensed consolidated financial statements do not include all information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the annual consolidated financial statements as of and for the year ended December 31, 2016.

These interim condensed consolidated financial statements are expressed in Saudi Arabian Riyals (SAR) and are rounded off to the nearest thousand.

The preparation of these 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, liabilities and income and expense. Actual results may differ from these estimates. 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 of uncertainty were the same as those that applied to the annual consolidated financial statements as of and for the year ended December 31, 2016.

These interim condensed consolidated financial statements were approved by the Bank's Board of Directors on May 11, 2017.

## THE SAUDI INVESTMENT BANK

(A Saudi joint stock company)

---

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Amounts in SAR'000

For the three-month periods ended March 31, 2017 and 2016

#### 3. Basis of consolidation

These interim condensed consolidated financial statements are comprised of the financial statements of the Bank and the financial statements of the following subsidiaries (collectively referred to as the "Group"):

- a) "Alistithmar for Financial Securities and Brokerage Company" (Alistithmar Capital), a Saudi closed joint stock company, which is registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010235995 issued on 8 Rajab 1428H (corresponding to July 22, 2007), and is 100% owned by the Bank. The principal activities of Alistithmar Capital include dealing in securities as principal and agent, underwriting, management of investment funds and private investment portfolios on behalf of customers, and arrangement, advisory, and custody services relating to financial securities.
- b) "Saudi Investment Real Estate Company", a limited liability company, which is registered in the Kingdom of Saudi Arabia under commercial registration No.1010268297 issued on 29 Jumada Awal 1430H (corresponding to May 25, 2009), and is owned 100% by the Bank. The Company has not commenced any significant operations.
- c) "Saudi Investment First Company", a limited liability company, which is registered in the Kingdom of Saudi Arabia under commercial registration No. 1010427836 issued on 16 Muharram 1436H (corresponding to November 9, 2014), and is owned 100% by the Bank. The Company has not commenced any significant operations.

References to the "Bank" hereafter in these interim condensed consolidated financial statements refer to disclosures that are relevant only to the Bank and not collectively to the "Group".

The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies. Changes are made to the accounting policies of the subsidiaries when necessary to align with the accounting policies of the Bank.

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

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

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

The Group manages assets held in investment entities on behalf of investors. The financial statements of these entities are not included in these interim condensed consolidated financial statements except when the Group controls the entity.

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

# THE SAUDI INVESTMENT BANK

(A Saudi joint stock company)

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) Amounts in SAR'000

For the three month-periods ended March 31, 2017 and 2016

### 4. Significant accounting policies

The accounting policies used in the preparation of these interim condensed consolidated financial statements are consistent with those used in the preparation of the consolidated financial statements for the year ended December 31, 2016, except for the adoption of the following amendments to existing standards.

- Amendments to IASs'-'Disclosure Initiative" applicable from January 1, 2017.
- Amendments to IAS 12 – "Income taxes" applicable from January 1, 2017. These amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value.
- Amendments to IAS 7 – "Statement of Cash Flows", which is applicable for annual periods beginning on or after January 1, 2017. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities,, including both changes arising from cash flow and non-cash changes.

The adoption of the above amendments to existing standards have not had a significant impact on the current period or prior period interim condensed consolidated financial statements of the Group.

As described in note 2, the Group amended its accounting policy relating to Zakat and Income Tax effective on January 1, 2017. The effect of the new Zakat and Income Tax Policy is accounted for in these interim condensed consolidated financial statements retroactively.

The superceded Zakat and Income Tax Policy required only payments of Zakat and Income Tax to be recorded as an other asset until such amounts were reimbursed by a Bank's shareholders either through cash payments or by withholding the amounts from shareholder dividend payments. In addition, the superceded Zakat and Income Tax Standard did not require the accrual of Zakat and Income Tax in other liabilities.

The new Zakat and Income Tax Policy requires payments of Zakat and Income Tax previously included in other assets, and also accruals for Zakat and Income Tax to be included in other liabilities, with the corresponding amounts to be accounted for as a direct charge to Retained earnings. See note 22 for further disclosures.

### 5. Investments, net

Investments are classified as available for sale and are summarized as follows:

	Mar. 31, 2017 (Unaudited)	Dec. 31, 2016 (Audited)	Mar. 31, 2016 (Unaudited)
Fixed rate securities	15,445,897	15,186,836	12,578,037
Floating rate securities	4,813,629	5,079,496	5,264,341
Total special commission earning investments	20,259,526	20,266,332	17,842,378
Equities and others	884,366	1,017,747	1,021,028
Mutual funds	168,688	167,815	242,901
Total available for sale investments	21,312,580	21,451,894	19,106,307
Allowance for impairment	(4,000)	(4,000)	(114,000)
Investments, net	<u>21,308,580</u>	<u>21,447,894</u>	<u>18,992,307</u>

# THE SAUDI INVESTMENT BANK

(A Saudi joint stock company)

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Amounts in SAR'000

For the three-month periods ended March 31, 2017 and 2016

### 5. Investments, net (continued)

Other reserves classified in shareholders' equity are comprised of the following:

	Mar. 31, 2017 (Unaudited)	Dec. 31, 2016 (Audited)	Mar. 31, 2016 (Unaudited)
Unrealized gains on revaluation of available for sale investments.	515,923	508,059	(181,601)
Share of other comprehensive income (loss) of associates	1,592	1,592	(249)
Other reserves	<u>517,515</u>	<u>509,651</u>	<u>(181,850)</u>

### 6. Loans and advances, net

Loans and advances, net are comprised of the following:

	Mar. 31, 2017 (Unaudited)	Dec. 31, 2016 (Audited)	Mar. 31, 2016 (Unaudited)
Performing loans and advances:			
Consumer loans	16,613,529	16,566,115	15,445,308
Commercial loans and overdrafts	43,314,067	43,307,810	46,386,098
Others	<u>298,280</u>	<u>300,358</u>	<u>282,133</u>
Total performing loans and advances	60,225,876	60,174,283	62,113,539
Non performing loans and advances	<u>1,086,916</u>	<u>1,069,613</u>	<u>450,707</u>
Total loans and advances	61,312,792	61,243,896	62,564,246
Allowance for credit losses	<u>(1,022,719)</u>	<u>(994,844)</u>	<u>(948,986)</u>
Loans and advances, net	<u>60,290,073</u>	<u>60,249,052</u>	<u>61,615,260</u>

### 7. Investments in associates

Investments in associates as of March 31, 2017, December 31, 2016 and March 31, 2016 include the Bank's ownership interest in American Express Saudi Arabia (AMEX) of 50%, in Saudi Orix Leasing Company (ORIX) of 38%, and in Amlak International for Finance and Real Estate Development Co. (AMLAK) of 32%. The movement of investments in associates for the three-month periods ended March 31, 2017 and 2016, and for the year ended December 31, 2016, is summarized as follows:

	Mar. 31, 2017 (Unaudited)	Dec. 31, 2016 (Audited)	Mar. 31, 2016 (Unaudited)
Balance at the beginning of the period / year	1,000,337	939,022	939,022
Share in earnings	27,748	150,634	37,006
Dividends received	-	(92,917)	-
Share in other comprehensive income	-	3,598	2,000
Balance at the end of the period / year	<u>1,028,085</u>	<u>1,000,337</u>	<u>978,028</u>

## THE SAUDI INVESTMENT BANK

(A Saudi joint stock company)

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Amounts in SAR'000

For the three-month periods ended March 31, 2017 and 2016

#### 7. Investments in associates – (continued)

The Bank's share in the associates' assets, liabilities, and equity as of March 31, 2017 and 2016, and the income and expense for the three-month periods then ended, is summarized below:

	Mar. 31, 2017			Mar. 31, 2016		
	AMEX	ORIX	AMLAK	AMEX	ORIX	AMLAK
Total assets	435,719	608,294	1,059,590	458,949	761,903	1,028,016
Total Liabilities	221,312	286,468	687,143	268,344	448,176	666,461
Total equity	214,407	321,826	372,447	190,605	313,727	361,555
Total income	47,883	15,957	11,458	52,035	19,944	14,833
Total expenses	27,982	11,543	5,511	26,449	12,552	7,102

The head office of each associate company is located in Riyadh in the Kingdom of Saudi Arabia, with all operations conducted entirely in the Kingdom of Saudi Arabia.

One of the associate companies above has a potential additional Zakat liability as of December 31, 2016. If the method of the Zakat assessment by the General Authority for Zakat and Tax is upheld through all levels of the appeal process, the Group has agreed with the associate company that it is unconditionally liable for its share amounting to approximately SAR 63.6 million as of December 31, 2016.

#### 8. Customers' deposits

Customers' deposits are comprised of the following:

	Mar. 31, 2017 (Unaudited)	Dec. 31, 2016 (Audited)	Mar. 31, 2016 (Unaudited)
Time deposits	34,708,719	36,677,689	42,951,074
Savings deposits	4,729,508	4,073,660	5,075,764
Total special commission bearing deposits	39,438,227	40,751,349	48,026,838
Demand deposits	23,961,010	23,955,017	21,783,250
Other deposits	1,038,058	933,959	876,481
Customers' deposits	<u>64,437,295</u>	<u>65,640,325</u>	<u>70,686,569</u>

#### 9. Term loans

On May 30, 2011, the Bank entered into a five-year medium term loan facility agreement for an amount of SAR 1.0 billion for general corporate purposes. The facility was due and repaid on May 30, 2016. On June 24, 2012, the Bank entered into another five-year medium term loan facility agreement also for an amount of SAR 1.0 billion for general corporate purposes. The facility has been fully utilized and is repayable on September 5, 2017. On June 19, 2016, the Bank entered into another five year medium term loan facility agreement for an amount of SAR 1.0 billion for general corporate purposes. The facility has been fully utilized and is repayable on June 19, 2021.

The term loans bear commission at market based variable rates. The Bank has an option to effect early repayment of the term loans subject to the terms and conditions of the related facility agreements. The facility agreements above include covenants which require maintenance of certain financial ratios and other requirements, with which the Bank is in compliance. The Bank also has not had any defaults of principal or commission on the term loans.

# THE SAUDI INVESTMENT BANK

(A Saudi joint stock company)

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Amounts in SAR'000

For the three-month periods ended March 31, 2017 and 2016

### 10. Subordinated debt

On June 5, 2014 the Bank concluded the issuance of a SAR 2.0 billion subordinated debt issue through a private placement of a Shariah compliant Tier II Sukuk in the Kingdom of Saudi Arabia.

The Sukuk carries a half yearly profit equal to six month SIBOR plus 1.45%. The Sukuk has a tenor of ten years with the Bank retaining the right to call the Sukuk at the end of the first five year period, subject to certain regulatory approvals. The Bank has not had any defaults of principal or commission on the subordinated debt.

### 11. Derivatives

The table below sets out the positive and negative fair values of derivative financial instruments together with their notional amounts. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the end of the period / year, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are not indicative of market risk nor of the Group's exposure to credit risk, which is generally limited to the positive fair value of the derivatives.

	Mar. 31, 2017 (Unaudited)			Dec. 31, 2016 (Audited)			Mar. 31, 2016 (Unaudited)		
	Fair value		Notional amount	Fair value		Notional amount	Fair value		Notional amount
	Positive	Negative		Positive	Negative		Positive	Negative	
Held for trading:									
Forward foreign exchange contracts	74,012	48,091	8,212,294	82,847	53,125	9,464,413	24,538	16,014	4,030,296
Currency options	8,955	8,955	1,487,060	25,256	25,256	1,648,630	66,100	66,100	2,163,366
Commission rate swaps	2,572,550	2,574,366	9,281,234	805,345	813,420	6,788,527	553,073	554,369	5,024,611
Held as fair value hedges:									
Commission rate swaps	813,173	761,869	5,437,790	614,848	533,126	4,521,160	203,417	284,787	2,719,548
Associated company put option	397,421	-	-	386,421	-	-	328,050	-	-
Totals	3,866,111	3,393,281	24,418,378	1,914,717	1,424,927	22,422,730	1,175,178	921,270	13,937,821

The Bank, as part of its derivative management activities, has entered into a master agreement in accordance with the International Swaps and Derivatives Association (ISDA) directives. Under this agreement, the terms and conditions for derivative products purchased or sold by the Bank are unified. As part of the master agreement, a credit support annex (CSA) has also been signed. The CSA allows the Bank to receive improved pricing by way of exchange of mark to market amounts in cash as collateral whether in favor of the Bank or the counterparty.

As of March 31, 2017, the net cash collateral amounts held by the Bank totals SAR 34.3 million (December 31, 2016: SAR 46.7 million). As of March 31, 2016, the net cash collateral held by counterparties totals SAR 54.9 million.

The associated company put option included in the table above represents the estimated fair value of an option arising from an existing master agreement entered into by the Bank relating to an associated company. The terms of the agreement give the Bank a put option that is exercisable for the remaining term of the agreement. The put option grants the Bank the right to receive a payment in exchange for its shares one year after the option is exercised, based on pre-determined formulas included in the agreement.

## THE SAUDI INVESTMENT BANK

(A Saudi joint stock company)

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Amounts in SAR'000

For the three-month periods ended March 31, 2017 and 2016

#### 12. Commitments and contingencies

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

	Mar. 31, 2017 (Unaudited)	Dec. 31, 2016 (Audited)	Mar. 31, 2016 (Unaudited)
Letters of credit	2,015,159	1,882,749	2,206,454
Letters of guarantee	8,037,391	8,412,455	8,175,872
Acceptances	461,964	656,091	717,614
Irrevocable commitments to extend credit	306,027	313,205	256,024
Credit-related commitments and contingencies	<u>10,820,541</u>	<u>11,264,500</u>	<u>11,355,964</u>

The Bank has received final assessments for additional Zakat, Income tax, and withholding tax totalling approximately SAR 277 million relating to the Bank's 2003 to 2009 Zakat, Income tax, and withholding tax filings. Also refer to note 7 to these consolidated financial statements for pending Zakat assessments related to an associate company. The Bank has also received partial assessments for additional Zakat totalling approximately SAR 383 million relating to its 2010, 2011 and 2013 Zakat filings.

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

The Bank, in consultation with its professional Tax and Zakat advisors, has filed appeals for the above final and partial assessments with the General Authority for Zakat and Tax, and while management is confident of a favorable outcome on the basis of the appeals filed, it is awaiting responses and final decisions from the appeal and other available processes. Accordingly, no provisions for these amounts have been made in the Group's interim condensed consolidated financial statements as of March 31, 2017.

Further assessments, if any, for the years 2012, 2014, 2015, and 2016 are yet to be raised by the General Authority for Zakat and Tax. However, if the deductions for certain long-term investments from the Zakat base of the Bank are disallowed for these years, in line with the assessments already made, it would result in a significant additional Zakat exposure. This remains an industry wide issue and disclosure of such amounts might affect the Bank's position in this matter.

The Group is subject to legal proceedings in the ordinary course of business. No provision has been made in cases where professional legal advice indicates that it is not probable that any significant loss will arise. However, provisions are made for legal cases where management foresees the probability of an adverse outcome based on professional advice.



# THE SAUDI INVESTMENT BANK

(A Saudi joint stock company)

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Amounts in SAR'000

For the three-month periods ended March 31, 2017 and 2016

### 13. Cash and cash equivalents

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

	Mar. 31, 2017 (Unaudited)	Dec. 31, 2016 (Audited)	Mar. 31, 2016 (Unaudited)
Cash and balances with SAMA excluding statutory deposit	4,543,691	2,108,575	951,679
Due from banks and other financial institutions maturing within ninety days from the date of placement	1,564,170	2,274,077	7,817,584
Cash and cash equivalents	6,107,861	4,382,652	8,769,263

### 14. Operating segments

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

Performance is measured based on segment profit as management believes that this indicator is the most relevant in evaluating the results of certain segments relative to other entities that operate within these sectors.

Transactions between the operating segments are on normal commercial terms and conditions as approved by management.

The revenue from external parties reported to the Board is measured in a manner consistent with that in the interim consolidated income statement. Segment assets and liabilities are comprised of operating assets and liabilities. The Group's primary business is conducted in the Kingdom of Saudi Arabia. The Group's reportable segments are as follows:

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

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

**Treasury and Investments.** Money market, investments and treasury services.

**Business partners.** Investments in associates and related activities.

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

**Other.** Support functions, special credit, and other management and control units.

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

The segment information provided to the Bank's Board of Directors for the reportable segments for the Bank's total assets and liabilities as of March 31, 2017 and 2016, and its total operating income, expenses, and net income for the three-month periods then ended, are as follows:



# THE SAUDI INVESTMENT BANK

(A Saudi joint stock company)

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Amounts in SAR'000

For the three-month periods ended March 31, 2017 and 2016

### 14. Operating segments (continued)

March 31, 2017 (Unaudited)							
	Retail Banking	Corporate Banking	Treasury and Investments	Business Partners	Asset Management and Brokerage	Other	Total
Total assets	28,489,845	35,752,721	30,368,109	1,028,086	331,149	1,576,092	97,546,002
Total liabilities	46,904,638	17,447,153	18,743,408	97	(28,530)	766,119	83,832,885
Net special commission income	68,226	326,988	56,396	-	3,869	7,538	463,017
FTP net transfers	154,305	(124,369)	-	(24,857)	-	(5,079)	-
Net FTP contribution	222,531	202,619	56,396	(24,857)	3,869	2,459	463,017
Fee income (loss) from banking services, net	25,262	68,995	19,098	-	23,904	(26,966)	110,293
Other operating income (loss)	15,158	11,024	40,896	5,500	(243)	(20,683)	51,652
Total operating income	262,951	282,638	116,390	(19,357)	27,530	(45,190)	624,962
Direct operating expenses	93,070	17,230	6,229	679	21,515	-	138,723
Indirect operating expenses	62,084	43,355	18,606	-	-	-	124,045
Impairment charges, net	22,502	22,498	-	-	-	-	45,000
Total operating expenses	177,656	83,083	24,835	679	21,515	-	307,768
Income (loss) from operating activities	85,295	199,555	91,555	(20,036)	6,015	(45,190)	317,194
Share in earnings of associates	-	-	-	27,748	-	-	27,748
Net income for the period	85,295	199,555	91,555	7,712	6,015	(45,190)	344,942
Property, equipment, and intangibles additions	299	-	-	-	371	8,798	9,468
Depreciation and amortization	11,665	312	45	-	974	10,031	23,027

March 31, 2016 (Unaudited)							
	Retail Banking	Corporate Banking	Treasury and Investments	Business Partners	Asset Management and Brokerage	Other	Total
Total assets	27,836,603	38,160,774	27,942,757	978,028	394,048	1,081,290	96,393,500
Total liabilities	50,799,367	18,632,690	13,173,889	97	42,922	1,875,990	84,524,955
Net special commission income	78,080	253,936	98,395	-	4,565	(22,173)	412,803
FTP net transfers	95,570	(161,332)	88,576	(25,343)	-	2,529	-
Net FTP contribution	173,650	92,604	186,971	(25,343)	4,565	(19,644)	412,803
Fee income from banking services, net	39,174	43,175	195	-	17,411	6,758	106,713
Other operating income (loss)	21,764	18,510	42,643	14,445	100	(26,234)	71,228
Total operating income	234,588	154,289	229,809	(10,898)	22,076	(39,120)	590,744
Direct operating expenses	93,679	17,513	5,494	698	21,033	-	138,417
Indirect operating expenses	59,445	41,524	17,818	-	-	546	119,333
Impairment charges, net	62,002	55,998	42,000	-	-	-	160,000
Total operating expenses	215,126	115,035	65,312	698	21,033	546	417,750
Income (loss) from operating activities	19,462	39,254	164,497	(11,596)	1,043	(39,666)	172,994
Share in earnings of associates	-	-	-	37,006	-	-	37,006
Net income for the period	19,462	39,254	164,497	25,410	1,043	(39,666)	210,000
Property, equipment, and intangibles additions	4,962	623	-	-	33	7,587	13,205
Depreciation and amortization	11,705	325	45	-	1,239	8,855	22,169

---

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**  
**Amounts in SAR'000****For the three-month periods ended March 31, 2017 and 2016****15. Fair values of financial instruments**

The Group measures certain financial instruments, including derivatives and available for sale investments, at fair value at each interim consolidated statement of financial position date.

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

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the interim condensed consolidated financial statements are categorized within a fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1. Quoted prices in active markets for the same or identical instrument that an entity can access at the measurement date (i.e., without modification or proxy);

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

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

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

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

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

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

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

**Amounts in SAR'000**

**For the three-month periods ended March 31, 2017 and 2016**

**15. Fair values of financial instruments (continued)**

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

The following table summarizes the fair values of financial assets and financial liabilities by level of fair value hierarchy for financial instruments carried at fair value. It does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

March 31, 2017 (Unaudited)	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value:				
Derivative financial instruments	-	3,468,690	397,421	3,866,111
Available for sale investments	13,143,905	7,640,746	523,929	21,308,580
Total	13,143,905	11,109,436	921,350	25,174,691
Financial liabilities carried at fair value:				
Derivative financial instruments	-	3,393,281	-	3,393,281
Total	-	3,393,281	-	3,393,281
December 31, 2016 (Audited)	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value:				
Derivative financial instruments	-	1,528,296	386,421	1,914,717
Available for sale investments	13,398,792	7,520,053	529,049	21,447,894
Total	13,398,792	9,048,349	915,470	23,362,611
Financial liabilities carried at fair value:				
Derivative financial instruments	-	1,424,927	-	1,424,927
Total	-	1,424,927	-	1,424,927
March 31, 2016 (Unaudited)	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value:				
Derivative financial instruments	-	847,128	328,050	1,175,178
Available for sale financial investments	12,137,364	6,319,278	535,665	18,992,307
Total	12,137,364	7,166,406	863,715	20,167,485
Financial liabilities carried at fair value:				
Derivative financial instruments	-	921,270	-	921,270
Total	-	921,270	-	921,270

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**  
**Amounts in SAR'000****For the three-month periods ended March 31, 2017 and 2016****15. Fair values of financial instruments (continued)**

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

The total amount of the changes in fair value recognized in the March 31, 2017 interim consolidated income statement, which was estimated using valuation models, is a gain of SAR 11.0 million (2016: SAR 37.6 million).

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

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

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

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

Should the net effect of significant estimations of inputs vary by plus or minus ten percent, the fair value could increase or decrease by approximately SAR 107.7 million as of March 31, 2017 (March 31, 2016: SAR 102.9 million and December 31, 2016: SAR 107.7 million) due to estimating operating results of the associated company, could increase or decrease by approximately SAR 54.7 million as of March 31, 2017 (March 31, 2016: SAR 54.8 million and December 31, 2016: SAR 57.4 million) due to estimating the detrimental effects on the operating results of the associated company which may arise from an exercise of the option, and could increase or decrease by approximately SAR 27.5 million as of March 31, 2017 (March 31, 2016: SAR 27.5 million and December 31, 2016: SAR 27.5 million) due to estimating the fair value of the underlying investment.

# THE SAUDI INVESTMENT BANK

(A Saudi joint stock company)

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Amounts in SAR'000

For the three-month periods ended March 31, 2017 and 2016

### 15. Fair values of financial instruments (continued)

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

The following table summarizes the movement of the Level 3 fair values for the three month periods ended March 31, 2017 and 2016, and for the year ended December 31, 2016.

	Mar. 31, 2017	Dec. 31, 2016	Mar. 31, 2016
Fair values at the beginning of the period/year	915,470	839,392	839,392
Net change in fair value	11,331	87,543	28,542
Investments purchased	-	4,522	(307)
Investments sold	(5,451)	(15,987)	(3,912)
Fair values at the end of the period/year	921,350	915,470	863,715

The following table summarizes the estimated fair values of financial assets and financial liabilities as of March 31, 2017, and 2016 and December 31, 2016 that are not carried at fair value in the interim condensed consolidated financial statements, along with the comparative carrying amounts for each.

	Carrying values	Estimated fair values
<u>March 31, 2017 (Unaudited)</u>		
Financial assets:		
Due from banks and other financial institutions	1,592,439	1,592,439
Loans and advances, net	60,290,073	62,412,739
Total	61,882,512	64,005,178
Financial liabilities:		
Due to banks and other financial institutions	11,329,298	11,329,298
Customer deposits	64,437,295	63,559,348
Term loans, net	1,998,347	1,998,347
Subordinated debt, net	2,021,180	2,021,180
Total	79,786,120	78,908,173

# THE SAUDI INVESTMENT BANK

(A Saudi joint stock company)

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Amounts in SAR'000

For the three-month periods ended March 31, 2017 and 2016

### 15. Fair values of financial instruments (continued)

	Carrying values	Estimated fair values
<u>December 31, 2016 (Audited)</u>		
Financial assets:		
Due from banks and other financial institutions	2,302,293	2,302,293
Loans and advances, net	60,249,052	62,155,329
Total	62,551,345	64,547,622
Financial liabilities:		
Due to banks and other financial institutions	8,996,716	8,996,716
Customer deposits	65,640,325	64,762,600
Term loans, net	2,032,187	2,032,187
Subordinated debt, net	2,002,373	2,002,373
Total	78,671,601	77,793,876
	Carrying values	Estimated fair values
<u>March 31, 2016 (Unaudited)</u>		
Financial assets:		
Due from banks and other financial institutions	7,838,566	7,838,566
Loans and advances, net	61,615,260	63,411,642
Total	69,453,826	71,250,208
Financial liabilities:		
Due to banks and other financial institutions	8,217,662	8,217,662
Customer deposits	70,686,569	69,942,093
Term loans, net	2,020,518	2,020,518
Subordinated debt, net	2,013,674	2,013,674
Total	82,938,423	82,193,947

The estimated fair values of loans and advances, net are calculated using market based discounted cash flow models of individual loan portfolios using the weighted average estimated maturities of each individual loan portfolio. The estimated fair values of customer deposits are calculated using market based discounted cash flow models of individual deposit classes using the weighted average estimated maturities of each individual deposit class. These fair value estimates are considered as level 3 in the fair value hierarchy.

The fair values of other financial instruments that are not carried in the interim condensed consolidated financial statements at fair value are not significantly different from the carrying values. The fair values of term loans, subordinated debt, and due from banks and other financial institutions 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 special commission rates for similar financial instruments are not significantly different from the contractual rates, and because of the short duration of due from banks and other financial institutions, and due to banks and other financial institutions.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**
**Amounts in SAR'000**
**For the three-month periods ended March 31, 2017 and 2016**
**16. Dividends and earnings per share**

In 2016, the Board of Directors proposed a cash dividend of SAR 350.0 million equal to SAR 0.50 per share, net of Zakat to be withheld from the Saudi shareholders totalling SAR 70.0 million. The Board of Directors also proposed a bonus share issue of 50 million shares with a par value of SAR 10 per share, or one bonus share for each fourteen shares outstanding. The proposed cash dividend and bonus share issue were approved by the Bank's shareholders in an extraordinary general assembly meeting held on 20 Rajab, 1438 (corresponding to April 17, 2017). The net dividends were paid and the bonus shares were issued to the Bank's shareholders thereafter.

In 2015, the Board of Directors proposed a cash dividend of SAR 487.5 million equal to SAR 0.75 per share, net of Zakat to be withheld from the Saudi shareholders totalling SAR 47.0 million. The Board of Directors also proposed a bonus share issue of 50 million shares with a par value of SAR 10 per share, or one bonus share for each thirteen shares outstanding. The proposed cash dividend and bonus share issue were approved by the Bank's shareholders in an extraordinary general assembly meeting held on 26 Jumada II, 1437 (corresponding to April 4, 2016). The net dividends were paid and the bonus shares issued to the Bank's shareholders thereafter.

Basic and diluted earnings per share for the three-month periods ended March 31, 2017 and 2016 are calculated by dividing net income for the respective periods by 700 million shares.

**17. Capital adequacy**

The Group'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.

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

The following table summarises the Bank's Pillar I Risk Weighted Assets (RWA), Tier I and Tier II Capital, and Capital Adequacy Ratio percentages. The Tier I capital and Tier I and Tier II capital amounts as of December 31, 2016 and March 31, 2016 presented below have been restated to reflect the effect of the retroactive application of the new Zakat and income tax Policy as discussed in note 22. The Tier I and Tier I plus Tier II ratios have also been adjusted accordingly.

	Mar. 31, 2017 (Unaudited)	Dec. 31, 2016 (Audited) Restated	Mar. 31, 2016 (Unaudited) Restated
Credit Risk RWA	79,542,633	79,109,431	83,917,719
Operational Risk RWA	4,294,667	4,294,667	3,924,371
Market Risk RWA	2,005,873	605,492	3,127,769
Total Pillar- I RWA	<u>85,843,173</u>	<u>84,009,590</u>	<u>90,969,859</u>
Tier I Capital	13,694,822	13,366,247	11,850,250
Tier II Capital	<u>2,557,244</u>	<u>2,549,514</u>	<u>2,565,792</u>
Total Tier I & II Capital	<u>16,252,066</u>	<u>15,915,761</u>	<u>14,416,042</u>
Capital Adequacy Ratio			
Tier I Ratio	<u>15.95%</u>	<u>15.91%</u>	<u>13.03%</u>
Tier I + Tier II Ratio	<u>18.93%</u>	<u>18.95%</u>	<u>15.85%</u>

Capital adequacy and the use of Regulatory Capital are regularly monitored by the Bank's management. SAMA requires the Bank to hold a minimum level of Regulatory Capital and maintain a ratio of total Regulatory Capital to Risk Weighted Assets at or above the requirement of 9.25%.



# THE SAUDI INVESTMENT BANK

(A Saudi joint stock company)

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Amounts in SAR'000

For the three-month periods ended March 31, 2017 and 2016

### 18. Related party disclosures

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

The Bank's related party identification and disclosure of transactions policy complies with the guidelines issued by SAMA, and has been approved by the Bank's Board of Directors. These guidelines include the following definitions of related parties:

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

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

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

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

The balances as of March 31, 2017 and 2016 and December 31, 2016, resulting from such transactions included in the interim condensed consolidated financial statements are as follows:

	Mar. 31, 2017 (Unaudited)	Dec. 31, 2016 (Audited)	Mar. 31, 2016 (Unaudited)
Management of the Bank and/or members of their immediate family:			
Loans and advances	83,960	91,470	91,417
Customer deposits	169,800	316,326	147,825
Principal shareholders of the Bank and/or members of their immediate family:			
Due from banks and other financial institutions	3,014	33,429	13,835
Loans and advances	608,713	596,477	262,500
Customer deposits	9,939,082	10,924,783	14,400,387
Term loan	-	-	1,000,000
Subordinated debt	700,000	700,000	704,000
Commitments and contingencies	2,713,005	2,789,005	2,832,605



# THE SAUDI INVESTMENT BANK

(A Saudi joint stock company)

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Amounts in SAR'000

For the three-month periods ended March 31, 2017 and 2016

### 18. Related party disclosures (continued)

	Mar. 31, 2017 (Unaudited)	Dec. 31, 2016 (Audited)	Mar. 31, 2016 (Unaudited)
Affiliates of the Bank and entities for which the investment is accounted for by the Equity method of accounting:			
Loans and advances	671,883	1,022,467	782,430
Customer deposits	163,703	49,378	324,689
Commitments and contingencies	993,045	616,984	699,584

Trusts for the benefit of the Bank's employees such as pension or other benefits plans that are managed by the Bank:

Customer deposits and other liabilities	104,205	129,507	209,009
---	---------	---------	---------

Income and expense for the three-month periods ended March 31, 2017 and 2016, pertaining to transactions with related parties included in the interim condensed consolidated financial statements are as follows:

	Mar. 31, 2017 (Unaudited)	Mar. 31, 2016 (Unaudited)
Management of the Bank and/or members of their immediate family:		
Special commission income	720	767
Special commission expense	19	9
Fee income from banking services	5	2
Principal shareholders of the Bank and/or members of their immediate family:		
Special commission income	12,236	12,978
Special commission expense	7,147	9,497
Affiliates of the Bank and entities for which the investment is accounted for by the Equity method of accounting:		
Special commission income	3,252	711
Special commission expense	1	-
Fee income from banking services	1,405	916
Trusts for the benefit of the Bank's employees such as pension or other benefit plans that are managed by the Bank:		
Special commission expense	-	194
Board of Directors and other Board Committee members' remuneration	1,561	1,134

# THE SAUDI INVESTMENT BANK

(A Saudi joint stock company)

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Amounts in SAR'000

For the three-month periods ended March 31, 2017 and 2016

### 19. Tier I Sukuk

The Group completed the establishment of a Shari'a compliant Tier 1 Sukuk Program (the Program) in 2016. The Program has been approved by the Group's regulatory authorities and shareholders. On November 21, 2016, the Bank issued SAR 500 million under the Program.

The Tier 1 Sukuk securities are perpetual with no fixed redemption dates and represent an undivided ownership interest in the Sukuk assets, constituting an unsecured conditional and subordinated obligation of the Group classified under equity. However, the Group has the exclusive right to redeem or call the Tier 1 Sukuk debt securities in a specific period of time, subject to the terms and conditions stipulated in the Program.

The applicable profit rate on the Tier 1 Sukuk is payable semi-annual in arrears on each periodic distribution date, except upon the occurrence of a non-pay payment event or non-payment election by the Group, whereby the Group may at its sole discretion (subject to certain terms and conditions) elect not to make any distributions. Such a non-payment event or non-payment election are not considered to be an event of default and the amounts not paid thereof shall not be cumulative or compound with any future distributions.

### 20. Shares held for employee options, net of share based provisions

A summary of the movement in shares held for employee options, net of share based provisions for the three-month periods ended March 31, 2017 and 2016, and for the year ended December 31, 2016 is as follows:

	Mar. 31, 2017 (Unaudited)	Dec. 31, 2016 (Audited)	Mar. 31, 2016 (Unaudited)
Balances at the beginning of the period/year	(62,884)	(56,755)	(56,755)
Shares acquired	(17,574)	(58,206)	(33,225)
Share based provisions	4,316	33,996	7,749
Share vesting and granting, net of employee contributions	6,392	18,081	13,964
Net movement in shares held for employee contributions	(6,866)	(6,129)	(11,512)
Balances at the end of the period/year	(69,750)	(62,884)	(68,267)

### 21. Issued IFRS but not effective

The following standards or amendments to existing standards have been issued but not yet adopted by the Group, as their effective date for adoption is after January 1, 2017. These standards are summarized below:

- IFRS 9 - "Financial Instruments" applicable from January 1, 2018 provides guidance on the classification and measurement of financial assets and financial liabilities, provides requirements for de-recognition of financial instruments, and incorporates revised requirements for hedge accounting that will allow entities to better reflect their risk management activities in their financial statements.
- IFRS 15 - "Revenue from Contracts with Customers" applicable from January 1, 2018 sets out the requirements for recognizing revenue that apply to all contracts with customers (except for contracts that are within the scope of the Standards on leases, insurance contracts, and financial instruments).

# THE SAUDI INVESTMENT BANK

(A Saudi joint stock company)

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Amounts in SAR'000

For the three-month periods ended March 31, 2017 and 2016

### 21. Issued IFRS but not effective – (continued)

- IFRS 16 – “Leases” applicable from January 1, 2019 sets out the new requirements of lease accounting for lessees and lessors.
- Amendments to IFRS 2 – “Share-based Payment”, which is applicable for periods beginning on or after January 1, 2018. The amendments cover the measurement of cash-settled share based payments, the classification of share based payments settled net of tax withholdings, and the accounting for a modification of a share-based payment from cash settled to equity settled.

The Group is currently assessing the implication of these and the timing of adoption.

### 22. Zakat and Income Tax

A summary of the net effect on other assets, other liabilities, retained earnings, proposed dividends, and total equity resulting from the retroactive application of the new Zakat and Income Tax Policy described in note 4 as of December 31, 2015 and 2016, and as of March 31, 2016 follows.

	December 31, 2015				
	Other assets	Other liabilities	Retained earnings	Proposed dividends	Total equity
Balances as previously reported as of December 31, 2015	428,744	682,551	1,100,949	534,500	12,036,462
Unreimbursed Zakat payments as of December 31, 2015, net	(103,322)	-	(103,322)	-	(103,322)
Unreimbursed Income Tax payments as of December 31, 2015	(2,515)	-	(2,515)	-	(2,515)
Accrued Zakat as of December 31, 2015	-	26,403	(26,403)	-	(26,403)
Accrued Income Tax as of December 31, 2015	-	24,186	(24,186)	-	(24,186)
Zakat previously included in proposed dividends as of December 31, 2015	-	-	47,000	(47,000)	-
Effect of the retroactive application of the new Zakat and Income Tax Policy as of December 31, 2015	(105,837)	50,589	(109,426)	(47,000)	(156,426)
Balances as restated as of December 31, 2015	322,907	733,140	991,523	487,500	11,880,036

# THE SAUDI INVESTMENT BANK

(A Saudi joint stock company)

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Amounts in SAR'000

For the three-month periods ended March 31, 2017 and 2016

### 22. Zakat and Income Tax – (continued)

	December 31, 2016				
	Other assets	Other liabilities	Retained earnings	Proposed dividends	Total equity
Balances as previously reported as of December 31, 2016	356,543	721,782	966,421	420,000	13,543,188
Unreimbursed Zakat payments as of December 31, 2016	(108,595)	-	(108,595)	-	(108,595)
Unreimbursed Income Tax payments as of December 31, 2016, net	(4,115)	-	(4,115)	-	(4,115)
Accrued Zakat as of December 31, 2016, net	-	24,319	(24,319)	-	(24,319)
Accrued Income Tax as of December 31, 2016	-	21,617	(21,617)	-	(21,617)
Zakat previously included in proposed dividends as of December 31, 2016	-	-	70,000	(70,000)	-
Effect of the retroactive application of the new Zakat and Income Tax Policy as of December 31, 2016	(112,710)	45,936	(88,646)	(70,000)	(158,646)
Balances as restated as of December 31, 2016	<u>243,833</u>	<u>767,718</u>	<u>877,775</u>	<u>350,000</u>	<u>13,384,542</u>

  

	March 31, 2016				
	Other assets	Other liabilities	Retained earnings	Proposed dividends	Total equity
Balances as previously reported as of March 31, 2016	451,975	603,189	1,310,949	534,500	12,041,332
Unreimbursed Zakat payments as of March 31, 2016, net	(106,429)	-	(106,429)	-	(106,429)
Unreimbursed Income Tax payments as of March 31, 2016, net	(4,285)	-	(4,285)	-	(4,285)
Accrued Zakat as of March 31, 2016	-	32,483	(32,483)	-	(32,483)
Accrued Income Tax as of March 31, 2016	-	29,590	(29,590)	-	(29,590)
Zakat previously included in proposed dividends as of March 31, 2016	-	-	47,000	(47,000)	-
Effect of the retroactive application of the new Zakat and Income Tax Policy as of March 31, 2016	(110,714)	62,073	(125,787)	(47,000)	(172,787)
Balances as restated as of March 31, 2016	<u>341,261</u>	<u>665,262</u>	<u>1,185,162</u>	<u>487,500</u>	<u>11,868,545</u>

## THE SAUDI INVESTMENT BANK

(A Saudi joint stock company)

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Amounts in SAR'000

For the three-month periods ended March 31, 2017 and 2016

#### 22. Zakat and Income Tax – (continued)

A summary of the Bank's share capital and percentages of ownership follows.

	Mar. 31, 2017		Dec. 31, 2016		Mar. 31, 2016	
	SAR'000	%	SAR'000	%	SAR'000	%
Saudi shareholders	6,300,000	90.00	6,300,000	90.00	5,850,000	90.00
Foreign shareholders:						
J.P. Morgan International Finance Limited	525,000	7.50	525,000	7.50	487,500	7.50
Mizuho Corporate Bank Limited	175,000	2.50	175,000	2.50	162,500	2.50
	<u>7,000,000</u>	<u>100.00</u>	<u>7,000,000</u>	<u>100.00</u>	<u>6,500,000</u>	<u>100.00</u>

As of March 31, 2017 and December 31, 2016, the authorized, issued and fully paid-in share capital of the Bank consists of 700 million shares of SAR 10 each. During 2016, 50 million bonus shares were issued by the Bank increasing the issued number of shares outstanding from 650 million shares as of March 31, 2016 to the current 700 million shares.

The Bank's Zakat and Income Tax calculations and corresponding accruals and payments of Zakat and Income Tax are based on the above ownership percentages in accordance with the relevant provisions of the Saudi Arabian Zakat and Income Tax regulations.

#### 23. Comparative figures

Certain prior period figures other those described in note 22 have been reclassified to conform to the current period presentation. These reclassifications do not affect the Bank's net income or total equity.

-----