



INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS  
FOR THE THREE MONTHS PERIOD ENDED  
March 31, 2017

  
البنك السعودي الفرنسي  
Banque Saudi Fransi  
SHAHID TAYYAB NASEEM  
N 005 A



  
البنك السعودي الفرنسي  
Banque Saudi Fransi  
PATRICE COUVIGNES  
MANAGING DIRECTOR



**KPMG Al Fozan & Partners**  
**Certified Public Accountants**

**INDEPENDENT AUDITORS' 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 consolidated statement of financial position of Banque Saudi Fransi and its subsidiaries (the "Bank") as of March 31, 2017, and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the three month period then ended and other explanatory notes (the "interim condensed consolidated financial statements"). The Bank's management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard No. 34 "Interim Financial Reporting" and Saudi Arabian Monetary Authority's ("SAMA") guidance for the accounting of zakat and tax. 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 the International Standard on Review Engagements 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' that is endorsed in the Kingdom of Saudi Arabia. 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 International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, 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.



**KPMG Al Fozan & Partners**  
**Certified Public Accountants**

## **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements as at March 31, 2017 are not prepared, in all material respects, in accordance with International Accounting Standard No. 34 "Interim Financial Reporting" and SAMA guidance on accounting for zakat and tax.

## **Other regulatory matters**

As required by SAMA, certain capital adequacy information has been disclosed in note (15) to the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in note (15) to the relevant analysis prepared by the Bank for submission to SAMA and found no material inconsistencies.

**PricewaterhouseCoopers**  
P.O. Box 8282  
Riyadh 11482  
Kingdom of Saudi Arabia

Bader I. Benmohareb  
Certified Public Accountant  
License Number 471

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

Abdullah Hamad Al Fozan  
Certified Public Accountant  
License Number 348

18 Sha'aban 1438H  
(May 14, 2017)



**BANQUE SAUDI FRANSI**  
**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**As at**

Page 2

SAR '000	Notes	Mar 31, 2017 (Unaudited)	Dec 31, 2016 (Audited)	Mar 31, 2016 (Unaudited)
<b>ASSETS</b>				
Cash and balances with SAMA		17,055,020	20,344,108	9,847,889
Due from banks and other financial institutions		29,547,724	25,338,632	21,529,945
Investments, net	3	23,673,529	24,074,379	22,215,896
Positive fair value derivative	7	1,834,043	1,741,695	2,533,867
Loans and advances, net	4	129,090,572	129,457,869	124,976,116
Investment in associates	5	114,431	113,220	108,234
Property and equipment, net		728,082	716,656	689,519
Other assets		2,314,658	1,642,150	2,114,095
<b>Total assets</b>		<b>204,358,059</b>	<b>203,428,709</b>	<b>184,015,561</b>
<b>LIABILITIES AND EQUITY</b>				
<b>Liabilities</b>				
Due to banks and other financial institutions		4,155,408	4,288,532	1,457,314
Customers' deposits	6	158,466,349	158,458,472	141,818,833
Negative fair value derivative	7	1,525,435	1,678,105	2,351,663
Debt securities and sukuk		6,746,309	6,726,112	6,742,204
Other liabilities		2,692,077	2,578,485	2,596,624
<b>Total liabilities</b>		<b>173,585,578</b>	<b>173,729,706</b>	<b>154,966,638</b>
<b>Equity</b>				
Share capital	12	12,053,572	12,053,572	12,053,572
Statutory reserve		11,805,933	11,805,933	10,928,375
General reserve		982,857	982,857	982,857
Other reserves		(638,475)	(863,584)	(607,479)
Retained earnings		6,148,660	5,139,428	4,963,844
Proposed dividend		530,366	647,995	727,754
Treasury shares	13	(110,432)	(67,198)	-
<b>Total equity</b>		<b>30,772,481</b>	<b>29,699,003</b>	<b>29,048,923</b>
<b>Total liabilities and equity</b>		<b>204,358,059</b>	<b>203,428,709</b>	<b>184,015,561</b>

The accompanying notes 1 to 15 form an integral part of these interim condensed consolidated financial statements.

**BANQUE SAUDI FRANSI**  
**INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME**  
**Unaudited**

Page 3

SAR '000	For the three months ended	
	Mar 31, 2017	Mar 31, 2016
Special commission income	1,623,022	1,366,808
Special commission expense	511,488	303,989
<b>Net special commission income</b>	<b>1,111,534</b>	<b>1,062,819</b>
Fee and commission income, net	337,971	365,374
Exchange income, net	93,327	103,400
Trading income, net	122,071	86,143
Dividend income	401	174
Gains / (losses) on non-trading investments, net	4,806	(5,468)
Other operating income	26,454	32,480
<b>Total operating income</b>	<b>1,696,564</b>	<b>1,644,922</b>
Salaries and employee related expenses	321,842	303,567
Rent and premises related expenses	41,881	41,292
Depreciation and amortization	35,382	32,757
Other general and administrative expenses	164,450	160,159
Impairment charge for credit losses, net	29,043	41,739
Impairment charge for investments, net	-	(11,250)
Other operating expenses	1,287	660
<b>Total operating expenses</b>	<b>593,885</b>	<b>568,924</b>
<b>Net operating income</b>	<b>1,102,679</b>	<b>1,075,998</b>
Share in earnings of associates, net	1,211	1,804
<b>Net income for the period</b>	<b>1,103,890</b>	<b>1,077,802</b>
Basic and diluted earnings per share for the period (SAR) - note 12	0.92	0.89

The accompanying notes 1 to 15 form an integral part of these interim condensed consolidated financial statements.

  
البنك السعودي الفرنسي  
Banque Saudi Fransi  
SHAHID TAYYAB NASEEM  
N 005 A



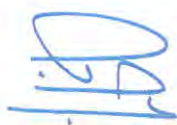
  
البنك السعودي الفرنسي  
Banque Saudi Fransi  
PATRICE COUVIGNES  
MANAGING DIRECTOR



SAR '000	For the three months ended	
	Mar 31, 2017	Mar 31, 2016
Net income for the period	1,103,890	1,077,802
Other comprehensive income (loss):		
Items that can be recycled back to consolidated statement of income in subsequent periods		
Available for sale investments		
Net change in the fair value	(4,993)	(54,961)
(Income) / loss transferred to interim condensed consolidated statement of income	(4,806)	5,468
Cash flow hedge		
Net change in the fair value	231,813	632,989
Loss / (Income) transferred to interim condensed consolidated statement of income	3,095	(96,176)
Total comprehensive income for the period	1,328,999	1,565,122

The accompanying notes 1 to 15 form an integral part of these interim condensed consolidated financial statements.

  
البنك السعودي الفرنسي  
Banque Saudi Fransi  
SHAHID TAYYAB NASEEM  
N 005 A



  
البنك السعودي الفرنسي  
Banque Saudi Fransi  
PATRICE COUVEGNES  
MANAGING DIRECTOR

**BANQUE SAUDI FRANSI**  
**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**Unaudited**

Page 5

SAR '000	Share capital	Statutory reserve	General reserve	Retained earnings	Other reserves		Proposed dividend	Treasury shares	Total
					Available for sale investments	Cash flow hedge			
<b>For the three months period ended Mar 31, 2017</b>									
Balance at the beginning of the period	12,053,572	11,805,933	982,857	5,139,428	31,343	(894,927)	647,995	(67,198)	29,699,003
Total comprehensive income for the period									
Net income for the period	-	-	-	1,103,890	-	-	-	-	1,103,890
Net change in the fair value	-	-	-	-	(4,993)	231,813	-	-	226,820
Net amount transferred to interim condensed consolidated statement of income	-	-	-	-	(4,806)	3,095	-	-	(1,711)
Zakat liability	-	-	-	(24,618)	-	-	(32,791)	-	(57,409)
Tax liability	-	-	-	(70,040)	-	-	(84,838)	-	(154,878)
Treasury shares purchased	-	-	-	-	-	-	-	(43,234)	(43,234)
Balance at the end of the period	12,053,572	11,805,933	982,857	6,148,660	21,544	(660,019)	530,366	(110,432)	30,772,481
<b>For the three months period ended Mar 31, 2016</b>									
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	-	-	-	1,077,802	-	-	-	-	1,077,802
Net change in the fair value	-	-	-	-	(54,961)	632,989	-	-	578,028
Net amount transferred to interim condensed consolidated statement of income	-	-	-	-	5,468	(96,176)	-	-	(90,708)
Balance at the end of the period	12,053,572	10,928,375	982,857	4,963,844	18,176	(625,655)	727,754	-	29,048,923

The accompanying notes 1 to 15 form an integral part of these interim condensed consolidated financial statements.

**BANQUE SAUDI FRANSI**  
**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
**Unaudited**

Page 6

SAR '000	Note	For the three months ended	
		Mar 31, 2017	Mar 31, 2016
<b>OPERATING ACTIVITIES</b>			
Net income for the period		1,103,890	1,077,802
Adjustments to reconcile net income to net cash used in operating activities:			
Accretion of discounts on non trading investments, net		1,200	926
(Gains) / Loss on non trading investments, net		(4,806)	5,468
Depreciation and amortization		35,382	32,757
(Gains) / Loss on disposal of property and equipment, net		(125)	47
Impairment charge for credit losses, net		29,043	41,739
Share in earnings of associates, net		(1,211)	(1,804)
Change in fair value of financial instruments		(9,557)	(9,395)
Operating income before changes in operating assets and liabilities		1,153,816	1,147,540
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA		(240,948)	109,911
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		(3,009,000)	(6,884,500)
Investments held as FVIS, trading		(213,018)	(70,852)
Loans and advances		338,580	(1,244,915)
Other assets		(520,824)	551,540
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		(133,124)	(99,876)
Customers' deposits		7,877	(33,267)
Other liabilities		(231,060)	(1,140,730)
Net cash used in operating activities		(2,847,701)	(7,665,149)
<b>INVESTING ACTIVITIES</b>			
Proceeds from sales and maturities of non trading investments		1,419,073	8,126,728
Purchase of non trading investments		(811,399)	(1,909,434)
Dividends received from associates		-	293
Purchase of property and equipment		(46,824)	(31,206)
Proceeds from sale of property and equipment		141	12
Net cash from investing activities		560,991	6,186,393
<b>FINANCING ACTIVITIES</b>			
Purchase of Treasury shares		(43,234)	-
Net cash used in financing activities		(43,234)	-
Decrease in cash and cash equivalents		(2,329,944)	(1,478,756)
Cash and cash equivalents at the beginning of the period		24,674,790	16,667,485
Cash and cash equivalents at the end of the period	9	22,344,846	15,188,729
Special commission received during the period		1,459,193	1,127,811
Special commission paid during the period		491,620	214,759
<b>Supplemental non-cash information</b>			
Net changes in fair value and transferred to interim condensed consolidated statement of income		225,109	487,320

The accompanying notes 1 to 15 form an integral part of these interim condensed consolidated financial statements.

  
 البنك السعودي الفرنسي  
 Banque Saudi Fransi  
 SHAHID TAYYAB NASEEM  
 N 005 A



  
 البنك السعودي الفرنسي  
 Banque Saudi Fransi  
 PATRICE COUVÈGNES  
 MANAGING DIRECTOR



## **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 86 branches (March 31, 2016: 83 branches) in the Kingdom of Saudi Arabia, employing 3,225 people (March 31, 2016: 3,181).

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

## **2. Basis of preparation**

The interim condensed consolidated financial statements of the Bank as at and for the quarter ended 31 March 2017 have been prepared using the IAS 34 – Interim Financial Reporting and SAMA guidance for the accounting of zakat and tax. 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 impact of SAMA Circular no. 381000074519 dated 11 April 2017 and subsequent amendments through certain clarifications relating to the accounting for zakat and tax are as follows:

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

Until 2016, the consolidated financial statements of the Bank was prepared in accordance with the Accounting Standards for Commercial Banks promulgated by SAMA and IFRS. This change in framework resulted in a change in accounting policy for zakat and tax.

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.

## **2. Basis of preparation (continued)**

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, 2016. 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, 2016.

The accounting policies, estimates and assumptions 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, 2016 as described in the annual consolidated financial statements for the year ended December 31, 2016, except for:

a) Change in the accounting policy in relation to accounting for zakat and tax

The Bank amended its accounting policy relating to zakat and tax and have started to accrue zakat and tax on a quarterly basis and charging it to retained earnings. Previously, zakat and tax were deducted from dividend upon payment to the shareholders and was recognized as a liability at that time. When dividend was proposed, zakat and tax were initially recorded as part of the proposed dividend apportioned from retained earnings and disclosed within equity. Subsequently upon approval of dividend by the shareholders at the general assembly, it was reclassified to other liabilities.

The Bank has accounted for this change in the accounting policy relating to zakat and tax prospectively as the impact of the change in the accounting policy for prior period / year presented was not considered material and hence comparative information has not been restated.

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.

### **Amendments to existing standards**

Amendments to IAS 7, Statement of cash flows on disclosure initiative: Applicable for annual periods beginning on or after 1 January 2017

These amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. This amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved.

Amendments to IAS 12, 'Income taxes' on Recognition of deferred tax assets for Unrealised losses: Annual periods beginning on or after 1 January 2017

These amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value.

### **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.

## 2. Basis of preparation (continued)

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

Investments are classified as follows:

<b>SAR '000</b>	<b>Mar 31, 2017 (Unaudited)</b>	<b>Dec 31, 2016 (Audited)</b>	<b>Mar 31, 2016 (Unaudited)</b>
Held as FVIS	390,574	177,556	281,477
Available for sale	7,772,047	7,576,637	7,775,511
Held to maturity	76,774	75,821	87,575
Other investments held at amortised cost	15,434,134	16,244,365	14,071,333
<b>Total</b>	<b>23,673,529</b>	<b>24,074,379</b>	<b>22,215,896</b>

Investments held as FVIS represent investments held for trading.

## 4. Loans and advances, net

<b>SAR'000</b>	<b>Mar 31, 2017 (Unaudited)</b>	<b>Dec 31, 2016 (Audited)</b>	<b>Mar 31, 2016 (Unaudited)</b>
Consumer loans	11,285,116	10,987,324	10,311,781
Commercial loans and overdrafts	118,474,623	119,253,027	115,391,577
Credit cards	491,976	515,372	522,902
Performing loans and advances	130,251,715	130,755,723	126,226,260
Non-performing loans and advances ,net	1,850,143	1,706,897	1,110,663
Gross loans and advances	132,101,858	132,462,620	127,336,923
Allowance for impairment	(3,011,286)	(3,004,751)	(2,360,807)
<b>Loans and advances, net</b>	<b>129,090,572</b>	<b>129,457,869</b>	<b>124,976,116</b>

## 5. Investment in associates

SAR '000	Mar 31, 2017 (Unaudited)	Dec 31, 2016 (Audited)	Mar 31, 2016 (Unaudited)
Cost	106,430	106,430	151,645
Share of earnings	110,001	108,790	58,589
Impairment provision	(102,000)	(102,000)	(102,000)
<b>Total</b>	<b>114,431</b>	<b>113,220</b>	<b>108,234</b>

## 6. Customers' deposits

SAR'000	Mar 31, 2017 (Unaudited)	Dec 31, 2016 (Audited)	Mar 31, 2016 (Unaudited)
Demand	86,185,123	88,525,872	92,544,777
Saving	490,418	618,883	462,521
Time	68,253,451	65,672,408	44,450,538
Other	3,537,357	3,641,309	4,360,997
<b>Total</b>	<b>158,466,349</b>	<b>158,458,472</b>	<b>141,818,833</b>

## 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	Mar 31, 2017 (Unaudited)			Dec 31, 2016 (Audited)			Mar 31, 2016 (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
<b>Held for trading</b>									
Special commission rate swaps	1,011,866	755,860	171,935,853	968,787	774,571	159,744,832	1,330,165	1,308,897	154,105,352
Special commission rate futures and options	31,806	31,806	71,773,959	11,574	25,098	70,206,099	7,051	6,426	75,333,263
Forward rate agreements	-	374	1,500,000	-	-	-	-	-	-
Forward foreign exchange contracts	336,936	191,942	53,237,034	334,087	261,526	52,424,564	317,046	250,637	59,245,024
Currency options	21,217	21,217	15,177,554	93,133	93,133	20,166,633	415,691	324,590	45,790,023
Others	36,871	36,871	1,123,369	42,358	42,358	1,316,557	68,965	44,605	1,974,552
<b>Held as fair value hedges</b>									
Special commission rate swaps	8,014	2,961	3,076,500	786	4,719	3,076,500	19,009	8,857	3,076,500
<b>Held as cash flow hedges</b>									
Special commission rate swaps	387,333	484,404	76,493,154	290,970	476,700	74,607,678	375,940	407,651	79,250,611
<b>Total</b>	<b>1,834,043</b>	<b>1,525,435</b>	<b>394,317,423</b>	<b>1,741,695</b>	<b>1,678,105</b>	<b>381,542,863</b>	<b>2,533,867</b>	<b>2,351,663</b>	<b>418,775,325</b>



## 8. Credit related commitments and contingencies

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

<b>SAR '000</b>	<b>Mar 31, 2017 (Unaudited)</b>	<b>Dec 31, 2016 (Audited)</b>	<b>Mar 31, 2016 (Unaudited)</b>
Letters of credit	7,745,974	7,511,482	9,167,627
Letters of guarantee	46,255,923	47,874,186	52,591,411
Acceptances	2,619,730	2,691,122	3,257,497
Irrevocable commitments to extend credit	4,296,697	4,340,502	4,413,165
<b>Total</b>	<b>60,918,324</b>	<b>62,417,292</b>	<b>69,429,700</b>

## 9. Cash and cash equivalents

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

<b>SAR '000</b>	<b>Mar 31, 2017 (Unaudited)</b>	<b>Dec 31, 2016 (Audited)</b>	<b>Mar 31, 2016 (Unaudited)</b>
Cash and balances with SAMA excluding statutory deposit	8,267,712	11,798,158	1,218,280
Due from banks and other financial institutions maturing within three months from the date of acquisition	14,077,134	12,876,632	13,970,449
<b>Total</b>	<b>22,344,846</b>	<b>24,674,790</b>	<b>15,188,729</b>

## 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 2016.

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.

## 10. Segment information (Continued)

**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 March 31, 2017 and 2016, together with total operating income, total operating expenses and net income for the three months then ended, by operating segments, are as follows:

(Unaudited) SAR '000"	Retail banking	Corporate banking	Treasury	Investment banking and brokerage	Total
<b>March 31, 2017 (unaudited)</b>					
Total assets	16,800,565	116,665,253	69,788,000	1,104,241	204,358,059
Total liabilities	80,749,266	74,848,730	16,975,335	1,012,247	173,585,578
Total operating income	381,676	808,871	443,305	62,712	1,696,564
Total operating expenses	324,432	155,247	70,598	43,608	593,885
Share in earnings of associates, net	-	-	1,211	-	1,211
Net income for the period	57,243	653,625	373,918	19,104	1,103,890
Inter-segment revenue	212,721	17,451	(230,172)	-	-
Impairment charges for credit losses, net	24,038	5,005	-	-	29,043
<b>December 31, 2016 (Audited)</b>					
Total assets	16,500,468	116,504,685	69,346,485	1,077,071	203,428,709
Total liabilities	82,875,331	72,637,713	17,272,000	944,662	173,729,706
<b>March 31, 2016 (unaudited)</b>					
Total assets	16,387,531	112,381,963	54,062,053	1,184,014	184,015,561
Total liabilities	80,740,548	61,299,936	11,830,765	1,095,389	154,966,638
Total operating income	388,708	788,107	404,213	63,894	1,644,922
Total operating expenses	285,055	178,865	58,211	46,793	568,924
Share in earnings of associates, net	-	-	1,804	-	1,804
Net income for the period	103,653	609,242	347,806	17,101	1,077,802
Inter-segment revenue	218,948	40,321	(259,269)	-	-
Impairment charges for credit losses, net	10,112	31,627	-	-	41,739

## 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.

## **11. Fair values of financial assets and liabilities (Continued)**

### **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.

**11. Fair values of financial assets and liabilities (Continued)**

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 data including broker rates etc.

<b>SAR' 000</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b><u>March 31, 2017 (Unaudited)</u></b>				
<b>Financial assets</b>				
Derivative financial instruments positive fair value	-	1,834,043	-	1,834,043
Financial investments designated at FVIS (trading)	384,526	6,048	-	390,574
Financial investments available for sale	1,228,211	3,177,760	3,366,076	7,772,047
<b>Total</b>	<b>1,612,737</b>	<b>5,017,851</b>	<b>3,366,076</b>	<b>9,996,664</b>
<b>Financial Liabilities</b>				
Derivative financial instruments negative fair value	-	1,525,435	-	1,525,435
<b>Total</b>	<b>-</b>	<b>1,525,435</b>	<b>-</b>	<b>1,525,435</b>
<b><u>December 31, 2016 (Audited)</u></b>				
<b>Financial assets</b>				
Derivative financial instruments positive fair value	-	1,741,695	-	1,741,695
Financial investments designated at FVIS (trading)	171,550	6,006	-	177,556
Financial investments available for sale	1,629,634	2,764,884	3,182,119	7,576,637
<b>Total</b>	<b>1,801,184</b>	<b>4,512,585</b>	<b>3,182,119</b>	<b>9,495,888</b>
<b>Financial Liabilities</b>				
Derivative financial instruments negative fair value	-	1,678,105	-	1,678,105
<b>Total</b>	<b>-</b>	<b>1,678,105</b>	<b>-</b>	<b>1,678,105</b>
<b><u>March 31, 2016 (Unaudited)</u></b>				
<b>Financial assets</b>				
Derivative financial instruments positive fair value	-	2,533,867	-	2,533,867
Financial investments designated at FVIS (trading)	273,426	8,051	-	281,477
Financial investments available for sale	2,437,791	2,399,367	2,938,353	7,775,511
<b>Total</b>	<b>2,711,217</b>	<b>4,941,285</b>	<b>2,938,353</b>	<b>10,590,855</b>
<b>Financial Liabilities</b>				
Derivative financial instruments negative fair value	-	2,351,663	-	2,351,663
<b>Total</b>	<b>-</b>	<b>2,351,663</b>	<b>-</b>	<b>2,351,663</b>



### **11. Fair values of financial assets and liabilities (Continued)**

The fair values of investments held at amortized cost are SAR 15,309 million (December 31, 2016: 16,110 million and March 31, 2016 : 14,022 million) against carrying value of SAR 15,434 million (December 31, 2016: 16,244 million and March 31, 2016: 14,071 million) and fair values of investments held to maturity are SAR 76.88 million (December 31, 2016: 75.91 million and March 31, 2016: 90 million) compared to its carrying value of SAR 77 million (December 31, 2016: 76 million and March 31, 2016: 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 3,306 million (December 31, 2016: SAR 3,146 million and March 31, 2016: 2,903 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 after adjusting internal credit spread which is SAR 131,255 million (December 31, 2016: SAR 131,720 million and March 31, 2016: SAR 126,896 million). The carrying values of those loans and advances are SAR 129,091 million (December 31, 2016: SAR 129,458 million and March 31, 2016 SAR 124,976 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, 2016: 1,205 million shares of SAR 10 each and March 31, 2016: 1,205 million shares of SAR 10 each).

Basic and diluted earnings per share for the periods ended March 31, 2017 and 2016 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 4.9 million shares as of March 31, 2017 (31 December 2016: 3.1 shares and March 31, 2016: Nil shares).

The final net dividend of SAR 0.50 per share for the year ended 2016 has been approved by the shareholders at the General Assembly Meeting held on April 20, 2017.

### **13. Treasury Shares**

During quarter three 2016, the Bank initiated a plan to acquire treasury shares as authorised by the Board under its Long Term Incentives (LTI) plan which will grant appreciation award of the Bank share performance to its eligible employees as per LTI scheme. The eligible employees will benefit from the appreciation in value of the Bank Shares over the Vesting Period. The Long Term Incentives plan scheme has not been commenced as of 31 March 2017.

#### 14. Comparative figures

The cumulative adjustment due to change in accounting policy, as mentioned in note 2(a), on the statement of changes in equity and statement of financial position has been recorded in the current period interim condensed consolidated financial statements which is clear from the table below.

<b>SAR' 000</b>	<b>Mar 31, 2017 (Unaudited)</b>		
	<b>Interim consolidated statement of changes in equity</b>		<b>Interim consolidated statement of financial position</b>
	<b>Retained earnings</b>	<b>Proposed dividend</b>	<b>Other Liabilities</b>
Zakat for the period	(24,618)	(32,791)	(57,409)
Tax for the period	(70,040)	(84,838)	(154,878)
<b>Total</b>	<b>(94,658)</b>	<b>(117,629)</b>	<b>(212,287)</b>

Certain prior period figures have been reclassified to conform to the current period's presentation.

#### 15. 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:

<b>SAR' 000</b>	<b>Mar 31, 2017 (Unaudited)</b>	<b>Dec 31, 2016 (Audited)</b>	<b>Mar 31, 2016 (Unaudited)</b>
Credit Risk RWA	182,736,165	176,255,171	176,598,581
Operational Risk RWA	11,866,763	11,660,390	11,012,525
Market Risk RWA	4,025,502	3,901,349	4,327,210
<b>Total RWA</b>	<b>198,628,430</b>	<b>191,816,910</b>	<b>191,938,316</b>
Tier I Capital	31,300,496	30,235,959	29,424,316
Tier II Capital	3,794,775	3,869,475	4,029,590
<b>Total Tier I &amp; II Capital</b>	<b>35,095,271</b>	<b>34,105,434</b>	<b>33,453,906</b>
Capital Adequacy Ratio %			
Tier I ratio	15.76%	15.76%	15.33%
Tier I + Tier II ratio	17.67%	17.78%	17.43%