

البنك
السعودي
الفرنسي
Banque
Saudi
Fransi



**BANQUE SAUDI FRANSI
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2016**


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


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KPMG Al Fozan & Partners
Certified Public Accountants

**Independent Auditors' Report on the Audit of the Consolidated Financial Statements
To the Shareholders of Banque Saudi Fransi (A Saudi Joint Stock Company)**

Opinion

We have audited the consolidated financial statements of Banque Saudi Fransi (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated income statement; the consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes from 1 to 42.

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

- present fairly, in all material respects, the consolidated financial position of the Bank as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Accounting Standards for Commercial Banks issued by the Saudi Arabian Monetary Authority ("SAMA") and with International Financial Reporting Standards ("IFRS"); and.
- comply with the requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's By-laws in so far as they affect the preparation and presentation of the consolidated financial statements.

Basis for Opinion

We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia and International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Kingdom of Saudi Arabia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of the most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each key audit matter, a description of how our audit addressed the matter is set out below:

The key audit matter	How the matter was addressed in our audit
Impairment of loans and advances At 31 December 2016, the gross loans and advances amounted to Saudi Riyals 132,462.6 million against which impairment provision of Saudi Riyals 3,004.7 million was maintained.	We assessed the design and implementation, and tested the operating effectiveness of the key controls over management's processes for establishing and monitoring both specific and collective impairment.



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The key audit matter	How the matter was addressed in our audit
<p>These include impairment against specific loans & advances and collective impairment for corporate and retail loans recorded on a portfolio basis through the use of models.</p> <p>We considered this as a key audit matter as the Bank makes complex and subjective judgments and makes assumptions to determine the impairment and the timing of recognition of such impairment.</p> <p>In particular, the determination of impairment against loans and advances includes:</p> <ul style="list-style-type: none"> • The identification of impairment events and methods and judgments used to calculate the impairment against specific corporate loans and advances; • The use of assumptions underlying the calculation of collective impairment for portfolios of loans and advances, and the use of the models to make those calculations; and • An assessment of the Bank's exposure to certain industries affected by economic conditions. <p><i>Refer to the significant accounting policies note 3m(ii) to the consolidated financial statements, note 2d(i) which contains the disclosure of significant accounting estimates relating to impairment against loans and advances and impairment assessment methodology used by the Bank and note 7 which contains the disclosure of impairment against loans and advances.</i></p>	<p>We tested a sample of loans and advances (including loans that had not been identified by management as potentially impaired) to form our own assessment as to whether impairment events had occurred and to assess whether impairment had been identified, appropriately measured and recorded in a timely manner.</p> <p>We also selected a sample of loans for industries adversely affected by the current economic conditions to evaluate management's impairment assessment for such loans and advances.</p> <p>Where impairment was individually determined for specific loans and advances, we tested the assumptions underlying the impairment calculation including forecasted future cash flows, discount rates and the estimated recovery from any underlying collateral, etc.</p> <p>For the collective impairment models used by the Bank, we tested:</p> <ul style="list-style-type: none"> • the extracts of historical data from underlying systems. • the assumptions used by management including probability of default, loss given default analysis and delinquency analysis used in the models; and • the mathematical calculations within the models.
<p>Fees and commission income</p> <p>In connection with granting loans / facilities, the Bank charges transaction and service fees. Such fees are to be deferred and amortized over the lives of the respective loans / facilities within consolidated statement of</p>	<p>We assessed the design and implementation and tested the operating effectiveness of the key controls over the setting of assumptions and judgments and their application.</p>



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<p>income. However, due to the volume of transactions, such fees are recognised by the management based on certain judgments and assumptions.</p> <p>We considered this as a key audit matter since the use of management judgments and assumptions could impact fees and commission income and Special commission income.</p> <p><i>Refer to the significant accounting policies note 3(h) to the consolidated financial statements.</i></p>	<p>We obtained the management's assessment of the impact of the use of assumptions and judgments on fees and commission income and:</p> <ul style="list-style-type: none"> • traced the data and information used by the management to the source documents. • assessed management's estimation of the impact of the use of assumptions and judgments on the recognition of fees and commission income and special commission income for the year.
<p>Valuation of Derivatives</p> <p>The Bank has entered into commission rate swaps (CRS), forward foreign exchange contracts and certain structured derivative contracts. CRS, forward foreign exchange contracts and structured derivative contracts are over the counter (OTC) derivatives, and hence, the valuation of these contracts is subjective as it takes into account a number of assumptions and model calibrations.</p> <p>The majority of these derivatives are held for trading, however, the Bank utilizes certain CRS for cash flow hedge accounting purposes in the consolidated financial statements for hedging the cash flow risks. An inappropriate valuation of derivatives could have a material impact on the consolidated financial statements and in case of cash flow hedge may result in an ineffectiveness in hedge and thus impact the hedge accounting.</p> <p>We considered this as key audit matter as there is complexity and subjectivity involved in determining the valuation.</p> <p><i>Refer to the significant accounting policies note 3(e) to the consolidated financial statements, and note 11 and 35, which explains the derivative positions and the</i></p>	<p>We assessed the design and implementation, and tested the operating effectiveness of the key controls over management's processes for valuation of derivatives including the testing of relevant controls covering the fair valuation process for derivatives.</p> <p>We selected a sample of derivatives and:</p> <ul style="list-style-type: none"> • Tested the accuracy of the particulars of the derivatives by comparing the terms and conditions with relevant agreements and deal confirmations; • Checked the accuracy and appropriateness of the key inputs to the valuation models; and • Involved our valuation specialists to perform an independent valuation of the derivatives and compared the results with management's valuation methodology.



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The key audit matter	How the matter was addressed in our audit
<i>valuation methodology respectively, used by the Bank.</i>	
<p>Valuation of available for sale investments</p> <p>Available for sale investments comprise a portfolio of debt, equity securities and other investments. These instruments are measured at fair value with the corresponding fair value changes recognized in other comprehensive income.</p> <p>The fair value of available for sale investments which are not traded in an active market is determined through the application of valuation techniques which often involve the exercise of judgment by the management and the use of assumptions and estimates.</p> <p>Estimation uncertainty exists for those instruments not traded in an active market and where the internal modelling techniques use:</p> <ul style="list-style-type: none"> • significant observable valuation inputs (i.e. level 2 investments) and • significant unobservable valuation inputs (i.e. level 3 instruments). <p>Estimation uncertainty is particularly high for level 3 instruments.</p> <p>In the Bank's accounting policies, the management has described the key sources of estimation involved in determining the valuation of level 2 and level 3 financial instruments and in particular when the fair value is established using valuation techniques due to the instrument's complexity or due to the lack of availability of market based data.</p> <p>The valuation of the Bank's available for sale investments in level 2 and 3 categories was considered a key audit matter given the degree of complexity involved in valuing these financial instruments and the</p>	<p>We assessed the design and implementation and tested the operating effectiveness of the key controls over management's processes for performing valuation of investments classified as available for sale which are not traded in an active market.</p> <p>We performed an assessment of the methodology and appropriateness of the valuation models and inputs used to value available for sale investments.</p> <p>We tested the valuation of a sample of available for sale investments not traded in an active market. As part of these audit procedures, we assessed key inputs used in the valuation such as the expected cash flows, risk free rates and credit spreads by benchmarking them with external data.</p>



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The key audit matter	How the matter was addressed in our audit
<p>significance of the judgment and estimates made by the management.</p> <p><i>Refer to the significant accounting policies note 3(j) to the consolidated financial statements, notes 35 which explains the investment valuation methodology used by the Bank and note 2(d)(ii) which explains critical judgments and estimates.</i></p>	
<p>Impairment of investments</p> <p>As at 31 December 2016, the Bank had investments (excluding fair value through income statement investments - FVIS) i.e. available for sale investments, held to maturity and other investments held at amortised cost (refer to note 6 for details of these investments). These investments include equities, mutual funds, corporate bonds and sukuku which are subject to the risk of impairment in value due to either adverse market situations and / or liquidity constraints faced by the issuers.</p> <p>For assessing the impairment of equities, management monitors the volatility of share prices and uses the criteria of significant or prolonged decline in their fair values below their costs as the basis for determining impairment. A significant or prolonged decline in fair value below its cost represents objective evidence of impairment. The determination of what is significant or prolonged requires judgment. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the equity instrument at initial recognition. In assessing whether it is prolonged, the decline is evaluated against the period in which the fair value of the equity instrument has been below its original cost at initial recognition.</p> <p>For debt instruments such as corporate bonds and sukuku, generally the management considers them to be impaired when there is</p>	<p>We assessed the design and implementation and tested the operating effectiveness of the key controls over management's processes for identifying significant or prolonged decline in the fair value of equities and/or any defaults on corporate bonds/sukuku.</p> <p>For equity investments, on a sample basis, we:</p> <ul style="list-style-type: none"> Assessed the appropriateness of management criteria for determining the significant or prolonged decline in the value of investments; Evaluated the basis for determining the costs and fair value of investments; Tested the costs and valuations; and Checked the price fluctuation / movement during the holding period to determine if the investment meets the significant or prolonged criteria. <p>For corporate bonds/sukuku, on a sample basis, we assessed the creditworthiness of counter parties and cash flows from the instrument to consider any defaults based on the terms and conditions of the issuance of these bonds/sukuku.</p>



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<p>evidence of a deterioration in the financial health of the investee, industry or sector performance, changes in technology and operational and financing cash flows.</p> <p>We considered this as a key audit matter since the assessment of impairment requires significant judgment by management and the potential impact of impairment could be material to the consolidated financial statements.</p> <p><i>Refer to note 3(m) of the consolidated financial statements for the accounting policy relating to the impairment of non-trading investments, note 2(d)(iii) for the critical accounting estimates and judgments, and notes 33 and 32 for the disclosures of market and credit risks respectively.</i></p>	
<p>Zakat</p> <p>The Bank files its zakat return with the General Authority of Zakat and Tax ("GAZT") on an annual basis. The GAZT has issued assessment orders for the years from 2005 up to 2009, which resulted in significant additional zakat exposure amounting to Saudi Riyals 156 million. The significant additional zakat exposure resulted mainly due to disallowance of certain long-term investments and the addition of long term financing to the zakat base by the GAZT. The interpretation of the GAZT is being challenged by the Bank and the appeal proceedings are underway before the Higher Appeal Committee.</p> <p>Assessments for the years 2010 to 2015 are yet to be raised. However, in line with the assessments finalized by the GAZT for the years 2005 to 2009, if long-term investments are disallowed and long-term financing is added to the Zakat base this would result in an additional zakat exposure. The amount of the potential additional zakat exposure is not disclosed in the consolidated financial</p>	<p>We reviewed the correspondences between the Bank and the GAZT and the Bank's zakat / tax advisors.</p> <p>We examined the matters in dispute, used our knowledge of zakat regulations and involved our zakat specialists to assess available evidence and considered whether additional provision is required.</p> <p>We held meetings with those charged with governance and executive management of the Bank to obtain an update on the Zakat matter and the results of their interactions with the relevant authorities.</p> <p>We also assessed the appropriateness of the disclosures, in light of the facts and circumstances of the Bank.</p>



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<p>statements as management believes that this might affect the Bank's position in this matter.</p> <p>The management makes judgments about the incidence and quantum of zakat liabilities (which are subject to the future outcome of assessments by the GAZT) and based on such assessments, the management is confident of a favourable outcome of the appeal process as referred to above.</p> <p>We considered this as a key audit matter as it involves significant management estimation and assessments and the additional exposure could be material to the consolidated financial statements.</p> <p><i>Refer to note 3(u) for the accounting policy relating to zakat and income taxes and provisions and note 28 for the related disclosures for Zakat and tax.</i></p>	

Other Information included in the Bank's 2016 Annual Report

Other information consists of the information included in the Bank's 2016 annual report, other than the consolidated financial statements and our auditors' report thereon. Management is responsible for the other information in its annual report. The annual report is expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the other information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Accounting Standards for Financial Institutions issued by the SAMA, IFRSs, the applicable requirements of the Regulations for Companies, the Banking Control Law in the



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Kingdom of Saudi Arabia and the Bank's Bye-laws (or Articles of Association), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia and ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.



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**Independent Auditors' Report on the Audit of the Consolidated Financial Statements
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- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Bank audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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February 27, 2017
(corresponding to 30 Jumada Al Awwal 1438H)



BANQUE SAUDI FRANSI
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at December 31, 2016 and 2015

SAR' 000	Notes	2016	2015
ASSETS			
Cash and balances with SAMA	4	20,344,108	9,768,284
Due from banks and other financial institutions	5	25,338,632	16,313,717
Investments, net	6	24,074,379	28,418,518
Positive fair value derivative	11	1,741,695	3,147,630
Loans and advances, net	7	129,457,869	123,769,457
Investment in associates	8	113,220	106,430
Property and equipment, net	9	716,656	691,129
Other assets	10	1,642,150	1,509,116
Total assets		203,428,709	183,724,281
LIABILITIES AND EQUITY			
Liabilities			
Due to banks and other financial institutions	12	4,288,532	1,557,190
Customers' deposits	13	158,458,472	141,852,100
Negative fair value derivative	11	1,678,105	3,382,103
Debt securities and sukuks	14	6,726,112	6,720,278
Other liabilities	15	2,578,485	2,728,809
Total liabilities		173,729,706	156,240,480
Equity			
Share capital	16	12,053,572	12,053,572
Statutory reserve	17	11,805,933	10,928,375
General reserve	17	982,857	982,857
Other reserves	18	(863,584)	(1,094,799)
Retained earnings		5,139,428	3,886,042
Proposed dividend	28	647,995	727,754
Treasury Shares	37	(67,198)	-
Total equity		29,699,003	27,483,801
Total liabilities and equity		203,428,709	183,724,281

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


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BANQUE SAUDI FRANSI
CONSOLIDATED STATEMENT OF INCOME
For the years ended December 31, 2016 and 2015

SAR' 000	Notes	2016	2015
Special commission income	20	5,970,622	4,875,373
Special commission expense	20	1,714,435	820,094
Net special commission income		4,256,187	4,055,279
Fees and commission income, net	21	1,363,990	1,327,521
Exchange income, net		395,862	404,472
Trading income, net	22	200,394	376,339
Dividend income	23	16,024	16,913
Gains on non trading investments, net	24	50,483	6,602
Other operating income	25	116,774	104,372
Total operating income		6,399,714	6,291,498
Salaries and employee related expenses		1,223,730	1,249,079
Rent and premises related expenses		173,589	143,412
Depreciation and amortization	9	137,706	131,378
Other general and administrative expenses		602,581	537,434
Impairment charge for credit losses, net	7	768,374	180,901
Impairment charge for investment, net		(20,980)	(11,250)
Other operating expenses	26	11,270	31,461
Total operating expenses		2,896,270	2,262,415
Net operating income		3,503,444	4,029,083
Share in earnings of associates, net	8	6,790	7,361
Net income for the year		3,510,234	4,036,444
Basic and diluted earnings per share (in SAR)	27	2.91	3.35

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BANQUE SAUDI FRANSI
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the years ended December 31, 2016 and 2015

SAR' 000	Notes	2016	2015
Net income for the year		3,510,234	4,036,444
Other comprehensive income (loss):			
Items that can be recycled back to consolidated statement of income in subsequent periods			
<u>Available for sale investments</u>			
Net change in the fair value	18	14,157	(27,876)
Net amount transferred to consolidated statement of income	18	(50,483)	(6,602)
<u>Cash flow hedge</u>			
Effective portion of change in the fair value	18	279,876	(830,270)
Net amount transferred to consolidated statement of income	18	(12,335)	(822,995)
Total comprehensive income for the year		3,741,449	2,348,701

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BANQUE SAUDI FRANSI
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the years ended December 31, 2016 and 2015

	Notes	Attributable to equity holders of the Bank						
		Share capital	Statutory reserve	General reserve	Retained earnings	Other reserves	Proposed dividend	Treasury Shares
						Available for sales investments	Cash flow hedges	
								Total
SAR' 000								
2016								
Balance at the beginning of the year		12,053,572	10,928,375	982,857	3,886,042	67,669	(1,162,468)	727,754
Total comprehensive income for the year		-	-	-	3,510,234	-	-	-
Net Income for the year	18	-	-	-	3,510,234	-	-	-
Net change in the fair value		-	-	-	-	14,157	279,876	3,510,234
Net amount transferred to consolidated statement of income	18	-	-	-	-	(50,483)	(12,335)	294,033
Transfer to statutory reserve	17	-	877,558	-	(877,558)	-	-	(82,818)
Interim gross dividend for 2016	28	-	-	-	(731,295)	-	-	-
Final dividend paid 2015	28	-	-	-	-	-	-	(731,295)
Final proposed dividend for 2016	28	-	-	-	(647,995)	-	-	(727,754)
Treasury shares purchased	37	-	-	-	-	-	-	-
								(67,198)
Balance at the end of the year		12,053,572	11,805,933	982,857	5,139,428	31,343	(894,927)	29,699,003
2015								
Balance at the beginning of the year		12,053,572	9,919,264	982,857	2,251,660	102,147	490,797	26,471,337
Total comprehensive income for the year		-	-	-	4,036,444	-	-	-
Net Income for the year	18	-	-	-	4,036,444	-	-	-
Net change in the fair value		-	-	-	-	(27,876)	(830,270)	4,036,444
Net amount transferred to consolidated statement of income	18	-	-	-	-	(8,602)	(822,995)	(858,146)
Transfer to statutory reserve	17	-	1,009,111	-	(1,009,111)	-	-	(829,597)
Interim gross dividend for 2015	28	-	-	-	(665,197)	-	-	-
Final dividend paid 2014	28	-	-	-	-	-	-	(665,197)
Final proposed dividend for 2015	28	-	-	-	(727,754)	-	-	(671,040)
Balance at the end of the year		12,053,572	10,928,375	982,857	3,886,042	67,669	(1,162,468)	27,483,801

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

BANQUE SAUDI FRANSI
CONSOLIDATED STATEMENT OF CASH FLOWS
For the years ended December 31, 2016 and 2015

SAR' 000	Notes	2016	2015
OPERATING ACTIVITIES			
Net income for the year		3,510,234	4,036,444
Adjustments to reconcile net income to net cash from / (used in) operating activities			
Accretion of Premium / (discount) on non-trading investments, net		14,245	(127,732)
Gains on non trading investments, net		(50,483)	(6,602)
Depreciation and amortization	9	137,706	131,378
Gains on disposal of property and equipment, net		(71)	(53)
Impairment charge for credit losses, net	7	768,374	180,901
Impairment charge for investment		-	-
Share in earnings from associates, net	8	(6,790)	(7,361)
Change in fair value of financial instruments		1,944	(87,304)
Net (increase) / decrease in operating assets:		4,375,159	4,119,671
Statutory deposit with SAMA	4	193,566	(200,143)
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		(11,787,000)	(664,448)
Investments held as FVIS (trading)		33,069	1,942,028
Loans and advances, net		(6,460,018)	(7,085,136)
Other assets		1,541,531	(2,390,892)
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		2,731,342	(2,306,335)
Customers' deposits		16,606,372	(3,362,059)
Other liabilities		(1,848,289)	2,183,627
Net cash from / (used in) operating activities		5,385,732	(7,763,687)
INVESTING ACTIVITIES			
Proceeds from sale and maturities of non trading investments		10,351,194	54,248,231
Purchase of non trading investments		(6,040,505)	(39,309,699)
Dividend received from associates		293	614
Acquisition of property and equipment		(163,471)	(217,576)
Proceeds from sale of property and equipment		309	198
Net cash from investing activities		4,147,820	14,721,768
FINANCING ACTIVITIES			
Repayment of term loans		-	(2,437,500)
Purchase of treasury shares		(67,198)	-
Dividends paid	28	(1,459,049)	(1,336,237)
Net cash used in financing activities		(1,526,247)	(3,773,737)
Increase in cash and cash equivalents		8,007,305	3,184,344
Cash and cash equivalents at the beginning of the year		16,667,485	13,483,141
Cash and cash equivalents at the end of the year	29	24,674,790	16,667,485
Special commission received during the year		5,603,177	4,788,947
Special commission paid during the year		1,430,113	815,799
Supplemental non cash information			
Net changes in fair value and transfers to consolidated statement of income		231,215	(1,687,743)

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

BANQUE SAUDI FRANSI
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2016 and 2015

1 General

Banque Saudi Fransi (BSF the Bank) is a Saudi Joint Stock Company established by Royal Decree No. M/23 dated Jumada Al Thani 17, 1397H (corresponding to June 4, 1977). The Bank formally commenced its activities on Muharram 1, 1398H (corresponding to December 11, 1977), by taking over the operations of the Banque de l'Indochine et de Suez in the Kingdom of Saudi Arabia. The Bank operates under Commercial Registration Number. 1010073368 dated Safar 4, 1410H (corresponding to September 5, 1989), through its 86 branches (2015: 83 branches) in the Kingdom of Saudi Arabia, with 3,233 employees (2015: 3,207). 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.

Sofinco Saudi Fransi's consumer finance business and related net assets have been transferred to Saudi Fransi Financing & Leasing. The shareholders of the Sofinco Saudi Fransi have agreed to liquidate the company after finalizing the transfer of the assets and liabilities and settlement of all legal obligations.

2 Basis of preparation

a) Statement of compliance

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

b) Basis of measurement and presentation

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

c) Functional and presentation currency

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

2 Basis of preparation (Continued)

d) Critical accounting judgments, estimates and assumptions

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

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

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

(i) Impairment for credit losses on loans and advances

The Bank reviews its loan portfolio to assess specific impairment on a monthly basis. In determining whether an impairment loss should be recorded, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group. Management uses estimates based on historical loss experience for loans with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its cash flows. The methodology and assumptions used for estimating both the amount and the timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

A collective component of the total allowance is established for:

- groups of homogeneous loans that are not considered individually significant; and
- groups of assets that are individually significant but that were not found to be individually impaired (loss incurred but not reported' or IBNR).

The collective allowance for groups of homogeneous loans is established using statistical methods such as scorecard model to determine the probability of default for non-retail obligors. In assessing the need for collective loss allowance for non retail loans management considers factors such as credit quality as reflected by the internal rating model. The internal rating is in turn based on qualitative parameters (economic environment, market position of borrower client, quality of financial statements, management) and quantitative financial ratios (leverage, profitability, debt servicing, and liquidity).

The collective provision is the product of $EAD * PD * LGD$

Where EAD = Exposure at default

PD = Probability of default

LGD = Loss given default

The collective impairment model relies on the ratings sourced from the internal rating models and the associated probability of default.

The impairment loss on loans and advances is disclosed in more detail in Note 7 and Note 32.

2 Basis of preparation (Continued)

(ii) Fair value measurements

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

(iii) Impairment of available for sale equity and debt instruments investments

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

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

(iv) Classification of held to maturity investments

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

(v) Determination of control over investees

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

Investment funds

The Group acts as Fund Manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the Fund (comprising any carried interests and expected management fees) and the investors' rights to remove the Fund Manager. As a result the Group has concluded that it acts as an agent for the investors in all cases, and therefore has not consolidated these funds.

3 Summary of significant accounting policies

The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below. Except for the change in accounting policies resulting from new and amended IFRS and IFRIC guidance, as detailed in note 3 (a) below, the accounting policies adopted in the preparation of these consolidated financial statements are consistent those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2015.

a) Change in accounting policies

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

New standards

IFRS 14 – “Regulatory Deferral Accounts”, applicable for the annual periods beginning on or after 1 January 2016, allows an entity, whose activities are subject to rate regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first time adoption of IFRS. The standard does not apply to existing IFRS preparers. Also, an entity whose current GAAP does not allow the recognition of rate-regulated assets and liabilities, or that has not adopted such policy under its current GAAP, would not be allowed to recognise them on first-time application of IFRS.

Amendments to existing standards

- i) Amendments to IFRS 10 – “Consolidated Financial Statements”, IFRS 12 – “Disclosure of Interests in Other Entities” and IAS 28 – “Investments in Associates”, applicable for the annual periods beginning on or after 1 January 2016, address three issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures its subsidiaries at fair value. Furthermore, only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.
- ii) Amendments to IFRS 11 – “Joint Arrangements”, applicable for the annual periods beginning on or after 1 January 2016, require an entity acquiring an interest in a joint operation, in which the activity of the joint operation constitutes a business, to apply, to the extent of its share, all of the principles in IFRS 3 – “Business Combinations” and other IFRSs that do not conflict with the requirements of IFRS 11 Joint Arrangements. Furthermore, entities are required to disclose the information required by IFRS 3 and other IFRSs for business combinations. The amendments also apply to an entity on the formation of a joint operation if, and only if, an existing business is contributed by one of the parties to the joint operation on its formation. Furthermore, the amendments clarify that, for the acquisition of an additional interest in a joint operation in which the activity of the joint operation constitutes a business, previously held interests in the joint operation must not be remeasured if the joint operator retains joint control.
- iii) Amendments to IAS 1 – “Presentation of Financial Statements”, applicable for the annual periods beginning on or after 1 January 2016, clarify, existing IAS 1 requirements in relation to;
 - The materiality requirements in IAS 1
 - That specific line items in the statement(s) of profit or loss and other comprehensive income (“OCI”) and the statement of financial position may be disaggregated

3 Summary of significant accounting policies (continued)

- That entities have flexibility as to the order in which they present the notes to financial statements
 - That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.
- iv) Amendments to IAS 16 – “Property, Plant and Equipment” and IAS 38 – “Intangible Assets”, applicable for the annual periods beginning on or after 1 January 2016, restricts the use of ratio of revenue generated to total revenue expected to be generated to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.
- v) Amendments to IAS 16 – “Property, Plant and Equipment” and IAS 41 – “Agriculture”, applicable for the annual periods beginning on or after 1 January 2016, change the scope of IAS 16 to include biological assets that meet the definition of bearer plants. Agricultural produce growing on bearer plants will remain within the scope of IAS 41. In addition, government grants relating to bearer plants will be accounted for in accordance with IAS 20 – “Accounting for Government Grants and Disclosure of Government Assistance”, instead of IAS 41.
- vi) Amendments to IAS 27 – “Separate Financial Statements”, applicable for the annual periods beginning on or after 1 January 2016, allows an entity to use the equity method as described in IAS 28 to account for its investments in subsidiaries, joint ventures and associates in its separate financial statements.
- vii) Annual improvements to IFRS 2012-2014 cycle applicable for annual periods beginning on or after 1 January 2016. A summary of the amendments is as follows:
- IFRS 5 – “Non-current Assets Held for Sale and Discontinued Operations”, amended to clarify that changing from one disposal method to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5.
 - IFRS 7 – “Financial Instruments: Disclosures” has been amended to clarify that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. The nature of the fee and the arrangement should be assessed in order to consider whether the disclosures are required under IFRS 7 and the assessment must be done retrospectively. IFRS 7 has been further amended to clarify that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report.
 - IAS 19 – “Employee Benefits” – amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

3 Summary of significant accounting policies (continued)

b) Basis of consolidation

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

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

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

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

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

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

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

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

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

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

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

3 Summary of significant accounting policies (continued)

(i) List of significant subsidiaries

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

Name of the subsidiary	Principal place of business	Ownership interest	
		2016	2015
Saudi Fransi Capital	K.S.A	100%	100%
Saudi Fransi Insurance Agency	K.S.A	100%	100%
Saudi Fransi Financing and Leasing	K.S.A	100%	100%
Sakan real estate financing	K.S.A	100%	100%

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

(ii) Significant restriction

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

c) Investment in associates

Investments in associates are initially recognised at cost and subsequently accounted for under the equity method of accounting.

An associate is an entity in which the Bank holds 20% to 50% of the voting power and over which it has significant influence (but not control), over financial and operating policies and which is neither a subsidiary nor a joint venture.

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

d) Settlement and trade date accounting

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

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

3 Summary of significant accounting policies (continued)

e) Derivatives financial instruments and hedge accounting

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

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

i) Derivatives held for trading

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

ii) Embedded derivatives

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

iii) Hedge accounting

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

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

In order to qualify for hedge accounting, the hedge should be expected to be highly effective i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item, and should be reliably measurable. At inception of the hedge, the risk management objective and strategy is documented including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Bank will assess the effectiveness of the hedging relationship. At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting. A formal assessment is undertaken by comparing the hedging instrument's effectiveness in offsetting the changes in fair value or cash flows attributable to the hedged risk in the hedged item, both at inception and at each quarter end on an ongoing basis. Prospective testing is performed mainly through matching the critical terms of both hedge item and instrument.

3 Summary of significant accounting policies (continued)

A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated were offset by the hedging instrument in a range of 80% to 125% and were expected to achieve such offset in future periods. Hedge ineffectiveness is recognized in the income statement in 'Net trading income'. For situations where the hedged item is a forecast transaction, the Bank also assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the statement of income.

Fair value hedges

In relation to fair value hedges, which meet the criteria for hedge accounting, any gain or loss from re-measuring the hedging instruments to fair value is recognized immediately in the consolidated statement of income. The related portion of the hedged item is adjusted against the carrying amount of the hedged item and is recognized in the consolidated statement of income. For hedged items measured at amortised cost, where the fair value hedge of a commission bearing financial instrument ceases to meet the criteria for hedge accounting or is sold, exercised or terminated, the cumulative adjustment to the carrying amount of a hedge item is amortised to the income statement on a recalculated effective interest rate over the residual period to maturity, unless the hedged item has been derecognised, in which case it is recognised in the income statement immediately. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated statement of income.

Cash flow hedges

In relation to cash flow hedges which meet the criteria for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized directly in other comprehensive income and the ineffective portion, if any, is recognized in the consolidated statement of income. For cash flow hedges affecting future transactions, the gains or losses recognized in other comprehensive income, are transferred to the consolidated statement of income in the same period in which the hedged transaction affects the consolidated statement of income. However, if the Bank expects that all or a portion of a loss recognized in other comprehensive income will not be recovered in one or more future periods, it shall reclassify into the consolidated statement of income as a reclassification adjustment the amount that is not to be recognized.

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

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

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

f) Foreign currencies

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

3 Summary of significant accounting policies (continued)

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

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

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

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

g) Offsetting financial instruments

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

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

h) Revenue / expense recognition

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

Special commission income and expense

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

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

If the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, special commission income continues to be recognised using the original effective yield applied to the new carrying amount.

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

3 Summary of significant accounting policies (continued)

Exchange income / loss

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

Fees and commission income

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

Dividend income

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

Trading income / (loss)

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

Income / (loss) from FVIS financial instruments

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

i) Sale and repurchase agreements

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

The difference between sale and repurchase price is treated as special commission expense and is accrued over the life of the repo agreement, on an effective yield basis.

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

3 Summary of significant accounting policies (continued)

j) Investments

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

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

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

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

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

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

ii) Available for sale

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

Investments which are classified as "available-for-sale" are initially recognised at fair value including direct and incremental transaction costs and subsequently measured at fair value except for unquoted equity securities whose fair value cannot be reliably measured are carried at cost. Unrealised gain or loss arising from a change in an investment's fair value is recognised in other comprehensive income. On de-recognition, any cumulative gain or loss previously recognized in other comprehensive income is included in the consolidated statement of income.

Special commission income is recognised in the consolidated statement of income on an effective yield basis. Dividend income is recognised in the consolidated statement of income when the Bank becomes entitled to the dividend. Foreign exchange gains or loss on available for sale debt security investments are recognised in the consolidated statement of income.

3 Summary of significant accounting policies (continued)

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

iii) Held to maturity

Held to maturity investments are non-derivative financial assets which have fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold up to the maturity, other than those classified as "Other investments held at amortised cost", are classified as 'held to maturity' and which are not designated as at FVIS or AFS. Held to maturity investments are initially recognised at fair value including direct and incremental transaction costs and subsequently measured at amortized cost, less provision for impairment in their value. Amortized cost is calculated by taking into account any discount or premium on acquisition using an effective yield basis. Any gain or loss on such investments is recognized in the consolidated statement of income when the investment is de-recognized or impaired.

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

iv) Other investments held at amortized cost

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

k) Loans and advances

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

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

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

(i) Available for sale

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

3 Summary of significant accounting policies (continued)

(ii) Loans and advances held at amortized cost

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

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

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

l) Due from banks and other financial institutions

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

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

m) Impairment of financial assets

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

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

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

i) Impairment of available for sale financial assets

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

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

3 Summary of significant accounting policies (continued)

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

ii) Financial assets carried at amortized cost

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

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

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

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

Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted, and the amount of the loss has been determined. Once a financial asset has been written down to its estimated recoverable amount, special commission income is thereafter recognized based on the rate of special commission that was used to discount the future cash flows for the purpose of measuring the recoverable amount. When a financial asset is uncollectible, it is written off against the related provision for impairment through allowance for impairment account.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the consolidated statement of income in impairment charge for credit losses.

Loans whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. Restructuring policies and practices are based on indicators or criteria which, indicate that payment will most likely continue. The loans continue to be subject to an individual or collective impairment assessment.

3 Summary of significant accounting policies (continued)

n) Other real estate

The Bank, in the ordinary course of business, acquires certain real estate against settlement of due loans and advances. Such real estate is considered as assets held for sale and is initially stated at the lower of net realizable value of due loans and advances and the current fair value of the related properties, less any costs to sell. No depreciation is charged on such real estate.

Subsequent to the initial recognition, such real estate is revalued on a periodic basis and unrealized losses on revaluation, and losses or gains on disposal, are charged or credited to operating income or expense.

o) Property and equipment

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

Buildings	33 years
Leasehold improvements	Over the lease period or economic life whichever is shorter
Furniture, equipment and vehicles	4 to 10 years
Software programme and automation project	2 to 5 years

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

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

p) Financial Liabilities

All money market deposits, placements, customers' deposits and term loans are initially recognized at cost, being the fair value of the consideration received less transaction costs.

Subsequently all commission bearing financial liabilities other than those held at FVIS or, where fair values have been hedged, are measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium. Premiums are amortized and discounts are accreted on an effective yield basis to maturity and taken to special commission expense.

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

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

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

3 Summary of significant accounting policies (continued)

q) Provisions

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

r) Accounting for leases

i) Where the Bank is the lessee

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

ii) Where the Bank is the lessor

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

s) Cash and cash equivalents

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

t) De-recognition of financial instruments

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

u) Zakat and income tax

Under Saudi Arabian Zakat and Income tax laws, Zakat is computed on the Saudi shareholders' share of equity and /or net income using the basis defined under the zakat regulations. Income tax is computed on the foreign shareholders' share of net income for the year.

3 Summary of significant accounting policies (continued)

Zakat and income tax are not charged to the consolidated statement of income as they are deducted from the dividends paid to the shareholders. If no dividend is declared then zakat is deducted from the retained earnings and tax is deducted from the retained earnings in proportion to foreign shareholding and remaining tax is claimed from the foreign shareholders.

v) Investment management, brokerage and corporate finance services

The Bank offers investment management, brokerage and corporate finance services to its customers, through its subsidiaries, which include management of certain investment funds in consultation with professional investment advisors and brokerage services. The Bank's share of these funds is included in the available for sale investments and fees earned are disclosed under related party transactions.

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

w) Non-commission based banking products

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

High level definitions of non-commission based banking products

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

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

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

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

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

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

3 Summary of significant accounting policies (continued)

x) Short term employee benefits

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

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

y) End of service benefits

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

4 Cash and balances with SAMA

SAR' 000	2016	2015
Cash on hand	931,144	1,024,118
Statutory deposit	8,545,950	8,739,516
Current account	14	4,650
Money market placements with SAMA	10,867,000	-
Total	20,344,108	9,768,284

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

5 Due from banks and other financial institutions

SAR' 000	2016	2015
Current accounts	1,120,530	4,006,052
Money market placements	24,218,102	12,307,665
Total	25,338,632	16,313,717

5 Due from banks and other financial institutions (continued)

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

The table below shows the credit quality by class

SAR' 000	2016	2015
Investment grade (credit rating AAA to BBB)	25,148,432	15,748,405
Non-investment grade (credit rating below BBB)	189,482	564,594
Unrated	718	718
Total	25,338,632	16,313,717

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

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6 Investments, net

a) These comprise the following:

SAR' 000	2016			2015		
	Domestic	International	Total	Domestic	International	Total
i) Held as FVIS						
Fixed rate securities	44,690	126,860	171,550	7,305	157,930	165,235
Floating rate securities	6,006	-	6,006	30,075	15,315	45,390
Held as FVIS	50,696	126,860	177,556	37,380	173,245	210,625
ii) Available for sale (AFS)						
Fixed rate securities	158,320	1,214,958	1,373,278	139,646	1,323,462	1,463,108
Floating rate securities	2,389,802	56,501	2,446,303	2,280,978	94,122	2,375,100
Equities	194,877	31,773	226,650	474,430	31,424	505,854
Other	3,155,323	375,083	3,530,406	2,765,245	373,129	3,138,374
Available for sale	5,898,322	1,678,315	7,576,637	5,660,299	1,822,137	7,482,436
iii) Held to maturity						
Fixed rate securities	75,821	-	75,821	76,607	-	76,607
Other	-	-	-	10,000	-	10,000
Held to maturity	75,821	-	75,821	86,607	-	86,607
iv) Other investments held at amortized cost, net						
Fixed rate securities	11,957,250	-	11,957,250	20,088,528	-	20,088,528
Floating rate notes	4,287,115	187,500	4,474,615	550,322	232,500	782,822
Other investments held at amortized cost, gross	16,244,365	187,500	16,431,865	20,638,850	232,500	20,871,350
Allowance for impairment	-	(187,500)	(187,500)	-	(232,500)	(232,500)
Other investments held at amortized cost, net	16,244,365	-	16,244,365	20,638,850	-	20,638,850
Investments, net	22,269,204	1,805,175	24,074,379	26,423,136	1,995,382	28,418,518

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6 Investments, net (Continued)

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

SAR' 000	2016			2015		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Fixed rate securities	1,544,829	12,033,070	13,577,899	1,625,188	20,168,291	21,793,479
Floating rate securities / notes	268,916	6,658,008	6,926,924	659,099	2,544,212	3,203,311
Equities	190,662	35,988	226,650	470,216	35,638	505,854
Other	9,188	3,521,218	3,530,406	38,698	3,109,676	3,148,374
	2,013,595	22,248,284	24,261,879	2,793,201	25,857,817	28,651,018
Allowance for impairment	-	(187,500)	(187,500)	-	(232,500)	(232,500)
Investments, net	2,013,595	22,060,784	24,074,379	2,793,201	25,625,317	28,418,518

Other investment includes Mudarabah SAR 3,146 million (2015: SAR 2,737 million).

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

SAR' 000	2016				2015			
	Carrying value	Gross unrealized gains	Gross unrealized losses	Fair Value	Carrying value	Gross unrealized gains	Gross unrealized losses	Fair Value
i) Held to maturity								
Fixed rate securities	75,821	86	-	75,907	76,607	1,988	-	78,595
Other	-	-	-	-	10,000	-	-	10,000
Total	75,821	86	-	75,907	86,607	1,988	-	88,595
ii) Other investments held at amortized cost								
Fixed rate securities	11,957,250	-	(122,478)	11,834,772	20,088,528	760	(242,305)	19,846,983
Floating rate notes	4,474,615	750	(12,437)	4,462,928	782,822	-	(1,462)	781,360
Allowance for impairment	(187,500)	-	-	(187,500)	(232,500)	-	-	(232,500)
Total	16,244,365	750	(134,915)	16,110,200	20,638,850	760	(243,767)	20,395,843

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

6 Investments, net (Continued)

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

SAR' 000	2016	2015
Government and quasi government	16,015,787	20,586,547
Corporate	6,058,050	5,356,109
Banks and other financial institutions	1,991,354	2,437,164
Other	9,188	38,698
Total	24,074,379	28,418,518

e) i) Credit risk exposure on investments

SAR' 000	2016	2015
Saudi government and guaranteed bonds and treasury bills	15,537,768	20,168,291
Investment grade	1,907,744	2,106,378
Unrated	6,628,867	6,143,849
Total	24,074,379	28,418,518

Saudi government bonds comprise Saudi government development and guaranteed bonds and treasury bills. Investment grade includes investments having credit exposure equivalent to Standard and Poor's rating of AAA to BBB. Unrated investments include local equities, foreign equities, funds and Mudarabah SAR 3,757 million (2015: SAR 3,644 million).

ii) Credit risk exposure on investments

SAR' 000	2016	2015	2016	2015
	Investment grade		Unrated	
Held as FVIS	177,556	210,625	-	-
Available for sale	1,756,131	1,898,908	5,820,506	5,583,528
Held to maturity	75,821	76,607	-	10,000
Other investments held at amortised cost	15,436,004	20,088,529	808,361	550,321
Total	17,445,512	22,274,669	6,628,867	6,143,849

6 Investments, net (Continued)

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

SAR' 000	2016	2015
Balance at the beginning of the year	449,147	437,083
Provided during the year	-	23,314
Recoveries during the year	(34,851)	(11,250)
Written off during the year	(72,958)	-
Balance at the end of the year	341,338	449,147

Investments held as FVIS represent investments held for trading and include Islamic securities (Sukuk) of SAR 72 million (2015: SAR 120 million).

Available for sale investments include Islamic securities (Sukuk) of SAR 2,800 million (2015: SAR 2,829 million).

Unquoted investments include Saudi Government Bonds and treasury bills of SAR 11,793 million (2015: SAR 16,446 million).

Unquoted equity shares of SAR 36 million (2015: SAR 36 million) which are carried at cost, as their fair value cannot be reliably measured, are also included under equities available for sale.

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7 Loans and advances, net

a) Loans and advances are classified as follows:

Loans and advances held at amortised cost

SAR' 000	2016			
	Overdraft & Commercial loans	Credit Cards	Consumer Loans	Total
Performing loans and advances - gross	119,253,027	515,372	10,987,324	130,755,723
Non performing loans and advances, net	1,509,645	51,321	145,931	1,706,897
Total loans and advances	120,762,672	566,693	11,133,255	132,462,620
Allowance for impairment	(2,674,118)	(74,216)	(256,417)	(3,004,751)
Loans and advances held at amortised cost, net	118,088,554	492,477	10,876,838	129,457,869

SAR' 000	2015			
	Overdraft & Commercial loans	Credit Cards	Consumer Loans	Total
Performing loans and advances- gross	114,623,919	515,201	9,839,564	124,978,684
Non-performing loans and advances, net	910,843	55,005	163,871	1,129,719
Total loans and advances	115,534,762	570,206	10,003,435	126,108,403
Allowance for impairment	(2,006,676)	(34,813)	(297,457)	(2,338,946)
Loans and advances held at amortised cost, net	113,528,086	535,393	9,705,978	123,769,457

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7 Loans and advances, net (Continued)

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

i) Movement in allowance for impairment of credit losses

SAR' 000	2016			
	Overdraft & Commercial loans	Credit Cards	Consumer Loans	Total
Balance at beginning of the year	2,006,676	34,813	297,457	2,338,946
Provided during the year	735,178	76,172	83,417	894,767
Written off during the year	(1,502)	(27,673)	(73,394)	(102,569)
Recoveries of amounts previously provided	(66,234)	(9,096)	(51,063)	(126,393)
Balance at the end of the year	2,674,118	74,216	256,417	3,004,751

SAR' 000	2015			
	Overdraft & Commercial loans	Credit Cards	Consumer Loans	Total
Balance at beginning of the year	1,882,291	51,085	369,804	2,303,180
Provided during the year	218,215	30,041	121,394	369,650
Written off during the year	(152)	(29,961)	(115,022)	(145,135)
Recoveries of amounts previously provided	(93,678)	(16,352)	(78,719)	(188,749)
Balance at the end of the year	2,006,676	34,813	297,457	2,338,946

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

The net charge to income (provision net of recoveries) of SAR 768 million (2015: SAR 181 million) in respect of impairment charge for credit losses for the year is net of recoveries of SAR 126 million (2015: SAR 189 million). The allowance for impairment includes SAR 1,413 million (2015: SAR 1,313 million) evaluated on a collective impairment basis.

Non performing loans and advances are disclosed net of accumulated special commission in suspense of SAR 245 million (2015: SAR 202 million).

ii) Movement of collective impairment provision:

SAR' 000	2016	2015
Balance at the beginning of the year	1,312,609	1,209,556
Provided during the year, net	100,866	158,053
Reversal of amounts previously provided	-	(55,000)
Balance at the end of the year	1,413,475	1,312,609

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7 Loans and advances, net (Continued)

c) Credit quality of loans and advances

i) Neither past due nor impaired

SAR' 000	2016			
	Overdraft & Commercial loans	Credit Cards	Consumer Loans	Total
Very strong quality including sovereign (A+ to B)	29,248,297	10,662	249	29,259,208
Good quality (C+ to C)	41,014,167	16,090	3,715	41,033,972
Satisfactory quality (C- to E +)	42,476,163	416,841	10,676,824	53,569,828
Special mention (E to E -)	6,043,364	1,992	45,068	6,090,424
Total	118,781,991	445,585	10,725,856	129,953,432
SAR' 000	2015			
	Overdraft & Commercial loans	Credit Cards	Consumer Loans	Total
Very strong quality including sovereign (A+ to B)	26,048,222	7,885	341	26,056,448
Good quality (C+ to C)	46,717,355	9,815	1,464	46,728,634
Satisfactory quality (C- to E +)	36,017,910	427,919	9,619,520	46,065,349
Special mention (E to E -)	5,303,166	2,008	50,341	5,355,515
Total	114,086,653	447,627	9,671,666	124,205,946

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

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

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

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

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7 Loans and advances, net (Continued)

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

SAR' 000	2016			
	Overdraft & Commercial loans	Credit Cards	Consumer Loans	Total
From 1 day to 30 days	234,849	53,312	211,020	499,181
From 31 days to 90 days	121,295	16,475	50,448	188,218
From 91 days to 180 days	15,328	-	-	15,328
More than 180 days	99,564	-	-	99,564
Total	471,036	69,787	261,468	802,291

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

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7 Loans and advances, net (Continued)

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

SAR' 000	Performing	Non Performing, net	Allowance for impairment losses	Loans and advances, net
<u>2016</u>				
Government and quasi Government	4,596,347	-	-	4,596,347
Banks and other financial institutions	4,026,266	-	(41,175)	3,985,091
Agriculture and fishing	1,733,754	17,226	(14,374)	1,736,606
Manufacturing	22,086,517	81,646	(407,388)	21,760,775
Mining and quarrying	4,080,686	-	(5,669)	4,075,017
Electricity, water, gas and health services	8,796,705	4,949	(29,415)	8,772,239
Building and construction	12,805,310	694,934	(1,039,816)	12,460,428
Commerce	26,971,314	375,590	(473,594)	26,873,310
Transportation and communication	7,199,578	12,036	(86,111)	7,125,503
Services	13,320,905	286,907	(324,790)	13,283,022
Consumer loans and credit cards	11,502,696	197,252	(330,633)	11,369,315
Others	13,635,645	36,357	(251,786)	13,420,216
Total	130,755,723	1,706,897	(3,004,751)	129,457,869
<u>2015</u>				
Government and quasi Government	3,054,862	-	-	3,054,862
Banks and other financial institutions	2,595,534	-	(28,448)	2,567,086
Agriculture and fishing	2,262,461	17,659	(28,175)	2,251,945
Manufacturing	21,917,688	46,481	(431,037)	21,533,132
Mining and quarrying	4,494,994	-	(9,724)	4,485,270
Electricity, water, gas and health services	9,316,451	4,953	(36,509)	9,284,895
Building and construction	12,460,051	211,288	(533,247)	12,138,092
Commerce	25,543,594	356,522	(484,253)	25,415,863
Transportation and communication	8,735,311	11,877	(111,437)	8,635,751
Services	11,888,110	174,201	(219,434)	11,842,877
Consumer loans and credit cards	10,354,765	218,876	(332,270)	10,241,371
Others	12,354,863	87,862	(124,412)	12,318,313
Total	124,978,684	1,129,719	(2,338,946)	123,769,457

Loans and advances include Islamic related products of SAR 76,186 million (2015: SAR 70,811 million).

d) Collateral

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

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7 Loans and advances, net (Continued)

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

SAR' 000	2016	2015
Gross receivable from finance leases:		
Less than 1 year	992,019	318,466
1 to 5 years	2,614,118	1,676,804
More than 5 years	7,733,001	8,568,921
Unearned future finance income on finance lease	(676,861)	(413,785)
Net receivable from finance leases	10,662,277	10,150,406

8 Investment in associates

SAR' 000	2016	2015
Opening balance	106,430	99,069
Share of earnings	6,790	7,361
Closing balance	113,220	106,430

Investment in associates represents 27% shareholding in interest in the Banque BEMO Saudi Fransi (2015: 27%) and 32.5% shareholding in Saudi Fransi Cooperative Insurance Company (Allianz Saudi Fransi) (2015: 32.5%) incorporated in the Kingdom of Saudi Arabia. The quoted price of the Bank's investment in Saudi Fransi Cooperative Insurance Company (Allianz Saudi Fransi) as at December 31, 2016 was SAR 212 million (2015 :SAR 268 million).

The Bank's share of Banque Bemo Saudi Fransi and Allianz Saudi Fransi financial statements:

SAR' 000	Banque Bemo Saudi Fransi - Syria		Allianz Saudi Fransi	
	2016	2015	2016	2015
Total assets	456,911	507,738	648,276	620,208
Total liabilities	401,800	454,076	576,335	554,908
Total equity	55,111	53,662	71,941	65,300
Total income	31,711	35,853	175,540	134,588
Total expenses	11,168	14,995	166,920	127,284

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9 Property and equipment, net

SAR' 000	Land and buildings	Leasehold improvements	Furniture, equipment and vehicles	Computer and Soft ware	2016 Total	2015 Total
Cost						
Balance at the beginning of the year	665,841	76,597	485,690	365,688	1,593,816	1,454,536
Additions	24,579	40,500	22,330	76,062	163,471	217,576
Disposals and retirements	(538)	(27,047)	(2,154)	(44,084)	(73,823)	(78,296)
Balance at the end of the year	689,882	90,050	505,866	397,666	1,683,464	1,593,816
Accumulated depreciation and amortization						
Balance at the beginning of the year	269,443	10,231	392,795	230,218	902,687	849,460
Charge for the year	20,551	29,407	27,023	60,725	137,706	131,378
Disposals and retirements	(498)	(25,114)	(1,966)	(46,007)	(73,585)	(78,151)
Balance at the end of the year	289,496	14,524	417,852	244,936	966,808	902,687
Net book value as at December 31, 2016	400,386	75,526	88,014	152,730	716,656	
Net book value as at December 31, 2015	396,398	66,366	92,895	135,470		691,129

Leasehold improvements as at December 31, 2016 include work in progress amounting to SAR 28 million (2015: SAR 13 million).

10 Other assets

SAR' 000	2016	2015
Accounts receivable	605,156	510,136
Other real estate	464,830	470,932
Others	572,164	528,048
Total	1,642,150	1,509,116

11 Derivatives

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

a) Swaps

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

b) Forwards and futures

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

c) Forward rate agreements

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

d) Options

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

Held for trading purposes

Most of the Bank's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers, Banks and other financial institutions in order, inter alia, to enable them to transfer, modify or reduce current and future risks. Positioning involves managing market risk positions with the expectation of profiting from favorable movements in prices, rates or indices. Arbitrage involves identifying, with the expectation of profiting from price differentials between markets or products. The bank also holds structured derivative which are fully back to back in accordance with the bank's risk management strategy.

Held for hedging purposes

The Bank has adopted a comprehensive system for the measurement and the management of risk. Part of the risk management process involves managing the Bank's exposure to fluctuations in foreign exchange and commission rates to reduce its exposure to currency and commission rate risks to an acceptable level as determined by the Board of Directors in accordance with the guidelines issued by SAMA. The Board of Directors has established the levels of currency risk by setting limits on counterparty and currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits. The Board of Directors has also established the level of commission rate risk by setting commission rate sensitivity limits. Commission rate exposure in terms of the sensitivity is reviewed on a periodic basis and hedging strategies are used to reduce the exposure within the established limits.

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11 Derivatives (Continued)

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

The Bank uses forward foreign exchange contracts and currency rate swaps to hedge against specifically identified currency risks. In addition, the Bank uses commission rate swaps and commission rate futures to hedge against the commission rate risk arising from specifically identified fixed commission rate exposures. The Bank also uses commission rate swaps to hedge against the cash flow risk arising on certain floating rate exposures. In all such cases, the hedging relationship and objective, including details of the hedged items and hedging instrument are formally documented and the transactions are accounted for as fair value or cash flow hedges.

Cash flow hedges

The Bank is exposed to variability in future special commission income cash flows on non-trading assets and liabilities which bear variable commission rate. The Bank uses commission rate swaps as cash flow hedges of these commission rate risks. Also, as a result of firm commitments in foreign currencies, such as its issued foreign currency debt, the Bank is exposed to foreign exchange and commission rate risks which are hedged with cross currency commission rate swaps. Below is the schedule indicating as at 31 December, the periods when the hedged cash flows are expected to occur and when they are expected to affect profit or loss:

SAR' 000	Within 1 year	1-3 years	3-5 years	Over 5 years
2016				
Cash inflows (assets)	1,497,342	2,133,499	606,060	28,141
Cash out flows (liabilities)	(1,443,960)	(2,402,927)	(550,593)	(33,649)
Net cash inflow / (outflow)	53,382	(269,428)	55,467	(5,508)
2015				
Cash inflows (assets)	1,556,907	2,463,431	1,105,202	20,275
Cash out flows (liabilities)	(1,188,053)	(3,047,441)	(1,221,857)	(31,482)
Net cash inflow / (outflow)	368,854	(584,010)	(116,655)	(11,207)

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

SAR' 000	2016	2015
Special commission income	1,594,971	1,490,482
Special commission expense	(1,582,636)	(667,487)
Net gain on cash flow hedges transferred to consolidated statement of income	12,335	822,995

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

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11 Derivatives (Continued)

Derivative financial instruments SAR' 000			Notional amounts by term to maturity					
	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
2016								
Held for trading								
Commission rate swaps	968,787	774,571	159,744,832	10,246,915	18,841,829	113,643,221	17,012,867	159,343,342
Commission rate futures and options	11,574	25,098	70,206,099	1,189,947	7,078,307	59,000,770	2,937,075	74,515,925
Forward rate agreements	-	-	-	-	-	-	-	83,833
Forward foreign exchange contracts	334,087	261,526	52,424,564	20,693,217	20,982,292	10,749,055	-	56,722,645
Currency options	93,133	93,133	20,166,633	5,912,104	11,974,866	2,279,663	-	35,026,847
Others	42,358	42,358	1,316,557	526,957	219,250	570,350	-	1,820,086
Held as fair value hedges								
Commission rate swaps	786	4,719	3,076,500	-	2,812,500	264,000	-	3,076,500
Held as cash flow hedges								
Commission rate swaps	290,970	476,700	74,607,678	2,400,000	14,037,500	57,328,178	842,000	76,826,804
Total	1,741,695	1,678,105	381,542,863	40,969,140	75,946,544	243,835,237	20,791,942	407,415,982
Derivative financial instruments SAR' 000			Notional amounts by term to maturity					
	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
2015								
Held for trading								
Commission rate swaps	2,402,535	2,327,184	147,456,785	8,018,378	16,840,749	107,459,406	15,138,252	139,122,366
Commission rate futures and options	449	449	78,114,727	-	12,415,136	61,334,611	4,364,980	50,469,561
Forward rate agreements	-	-	500,000	-	500,000	-	-	41,667
Forward foreign exchange contracts	325,125	309,551	57,036,467	22,907,049	22,479,707	11,649,711	-	71,202,915
Currency options	91,058	91,058	52,518,716	8,829,230	24,192,662	19,496,824	-	57,202,727
Others	26,135	26,135	2,492,198	692,556	653,937	1,145,705	-	2,530,722
Held as fair value hedges								
Commission rate swaps	6,853	8,222	3,076,500	-	-	3,076,500	-	3,494,000
Held as cash flow hedges								
Commission rate swaps	295,475	619,504	79,065,611	2,000,000	8,069,361	68,654,250	342,000	78,939,681
Total	3,147,630	3,382,103	420,261,004	42,447,213	85,151,552	272,817,007	19,845,232	403,003,639

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11 Derivatives (Continued)

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

SAR' 000						
Description of hedged items	Fair value	Cost	Risk	Hedging instrument	Positive fair value	Negative fair value
2016						
Fixed commission rate loans	267,396	264,000	Fair value	Commission rate swap	-	4,719
Fixed commission rate debt securities and sukuk	2,812,690	2,812,500	Fair value	Commission rate swap	786	-
Floating commission rate investments	5,389,588	5,388,928	Cash flow	Commission rate swap	24,680	24,020
Floating commission rate loans	69,245,113	69,218,750	Cash flow	Commission rate swap	266,290	452,680
2015						
Fixed commission rate loans	275,002	264,000	Fair value	Commission rate swap	-	8,222
Fixed commission rate debt securities and sukuk	2,812,889	2,812,500	Fair value	Commission rate swap	6,853	-
Floating commission rate investments	1,689,854	1,702,500	Cash flow	Commission rate swap	2,599	15,245
Floating commission rate loans	77,329,347	77,363,111	Cash flow	Commission rate swap	292,876	604,259

The net (losses) /gains on the hedging instruments for fair value hedge are SAR -4 million (2015: SAR -1 million). The net gains on the hedged item attributable to the hedged risk are SAR 4 million (2015: SAR 11 million).

Approximately 72% (2015: 85%) of the net positive fair values of the Bank's derivatives are entered into with financial institutions and less than 17% (2015: 10%) of the net positive fair values of the derivatives are with any single counterpart group at the reporting date. The derivative activities are mainly carried out under Bank's treasury banking segment. The Bank has posted SAR 106 million % (2015: SAR 90 million) collaterals under CSA agreements and EMIR.

12 Due to banks and other financial institutions

SAR' 000	2016	2015
Current accounts	261,496	241,016
Money market deposits	4,027,036	1,316,174
Total	4,288,532	1,557,190

13 Customers' deposits

SAR' 000	2016	2015
Demand	88,525,872	89,112,001
Saving	618,883	503,569
Time	65,672,408	47,339,481
Other	3,641,309	4,897,049
Total	158,458,472	141,852,100

Other customers' deposits include SAR 2,027 million (2015: SAR 2,504 million) related to margins held for irrevocable commitments. Time deposits include Islamic related products of SAR 18,934 million (2015: SAR 21,448 million).

13 Customers' deposits (Continued)

Customers' deposits include foreign currency deposits as follows:

SAR' 000	2016	2015
Demand	9,423,524	7,377,917
Saving	25,137	16,418
Time	12,576,746	8,283,675
Other	628,652	582,474
Total	22,654,059	16,260,484

14 Debt securities and Sukuks

The Bank raised funds through medium term Sharia compliant sukuk of USD 750 million at a fixed rate of 2.947% for 5 years in May 2012, under a USD 2 Billion programme listed on the London Stock Exchange. In addition, the Bank issued a privately placed SAR 1,900 million unsecured subordinated sukuk in December 2012 for a period of 7 years. The sukuk carries effective special commission income at three months' SIBOR plus 110 basis point. This sukuk is settled through the Tadawul depository system. However, the Bank has an option to repay the unsecured subordinated sukuk after 5 years, subject to prior approval of SAMA and terms and conditions of the agreement.

In addition to the above, the Bank also issued a privately placed SAR 2,000 million unsecured subordinated sukuk in June 2014 for a period of 10 years. The sukuk carries effective special commission income at three months' SIBOR plus 140 basis point. The sukuk is settled through Tadawul depository system. However, the Bank has an option to repay the unsecured subordinated sukuk after 5 years, subject to prior approval of SAMA and terms and conditions of the agreement.

15 Other liabilities

SAR' 000	2016	2015
Accounts payable and accrued expenses	1,670,427	1,811,356
Others	908,058	917,453
Total	2,578,485	2,728,809

16 Share capital

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

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

SAR' 000	%	2016	2015
Saudi shareholders	68.9	8,303,572	8,303,572
Credit Agricole Corporate and Investment Bank (CA-CIB)	31.1	3,750,000	3,750,000
Total	100	12,053,572	12,053,572

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17 Statutory and general reserve

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

An amount of SAR 878 million (2015: SAR 1,009 million) has been transferred from the retained earnings to statutory reserve during the year. This reserve is not available for distribution.

The Bank had appropriated SAR 983 million to general reserve from retained earnings in the previous years.

18 Other reserves

SAR' 000	Cash flow hedges	Available for sale investments	Total
2016			
Balance at beginning of the year	(1,162,468)	67,669	(1,094,799)
Net change in fair value	279,876	14,157	294,033
Transfer to consolidated statement of income	(12,335)	(50,483)	(62,818)
Net movement during the year	267,541	(36,326)	231,215
Balance at the end of the year	(894,927)	31,343	(863,584)
2015			
Balance at beginning of the year	490,797	102,147	592,944
Net change in fair value	(830,270)	(27,876)	(858,146)
Transfer to consolidated statement of income	(822,995)	(6,602)	(829,597)
Net movement during the year	(1,653,265)	(34,478)	(1,687,743)
Balance at the end of the year	(1,162,468)	67,669	(1,094,799)

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

Transfer to consolidated statement of income from available for sale reserve represents, gains and losses on disposal of available for sale investments amounting to SAR 50 million (2015: SAR 7 million).

19 Commitments and contingencies

a) Legal proceedings

As at December 31, 2016 there were 37 (2015: 23) legal proceedings outstanding against the Bank. No material provision has been made as the related professional legal advice indicates that it is unlikely that any significant loss will arise.

b) Capital commitments

As at December 31, 2016 the Bank had capital commitments of SAR 174 million (2015: SAR 57 million) in respect of buildings and equipment purchases.

c) Credit related commitments and contingencies

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

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

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

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

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

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

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19 Commitments and contingencies (continued)

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

SAR' 000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
2016					
Letters of credit	3,972,208	2,424,974	1,114,300	-	7,511,482
Letters of guarantee	10,108,390	24,715,582	12,709,701	340,513	47,874,186
Acceptances	1,566,848	1,050,312	73,962	-	2,691,122
Irrevocable commitments to extend credit	847,412	2,077,590	1,143,830	271,670	4,340,502
Total	16,494,858	30,268,458	15,041,793	612,183	62,417,292
2015					
Letters of credit	3,373,106	3,297,878	1,188,256	-	7,859,240
Letters of guarantee	11,548,988	21,870,378	21,975,316	269,457	55,664,139
Acceptances	144,747	2,499,199	296,071	-	2,940,017
Irrevocable commitments to extend credit	400,030	544,728	3,712,165	418,921	5,075,844
Total	15,466,871	28,212,183	27,171,808	688,378	71,539,240

The outstanding unused portion of non-firm commitments which can be revoked unilaterally at any time by the Bank as at December 31, 2016 is SAR 127,834 million (2015: SAR 123,581 million).

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

SAR' 000	2016	2015
Government and quasi government	94,321	59,001
Corporate	55,149,941	62,177,448
Banks and other financial institutions	7,030,257	9,064,769
Other	142,773	238,021
Total	62,417,292	71,539,239

d) Operating lease commitments

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

SAR' 000	2016	2015
Less than 1 year	21,201	21,856
1 to 5 years	119,889	68,226
Over 5 years	235,803	148,549
Total	376,893	238,631

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20 Special commission income and expense

SAR' 000	2016	2015
Special commission income		
Investments		
– Available for sale	216,962	164,979
– Held to maturity	3,896	2,853
– Other investments held at amortized cost	366,014	303,322
	586,872	471,154
Due from banks and other financial institutions	301,077	45,682
Loans and advances	5,082,673	4,358,537
Total	5,970,622	4,875,373
Special commission expense		
Due to banks and other financial institutions	34,703	8,050
Customers' deposits	1,475,146	649,383
Term loans and debt securities	204,586	162,661
Total	1,714,435	820,094

21 Fees and commission income, net

SAR' 000	2016	2015
Fees and commission income		
– Share trading, brokerage, fund management and corporate finance	278,300	312,336
– Trade finance	471,687	505,248
– Project finance and advisory and corporate loans	446,151	365,678
– Card products	268,140	209,615
– Other banking services	159,295	136,108
Total fees and commission income	1,623,573	1,528,985
Fees and commission expense		
– Share trading and brokerage	39,300	40,332
– Card products	212,870	149,016
– Other banking services	7,413	12,116
Total fees and commission expense	259,583	201,464
Fees and commission income, net	1,363,990	1,327,521

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22 Trading income, net

SAR' 000	2016	2015
Investments- held as FVIS (trading), net	6,916	34,656
Derivatives, net	193,478	341,683
Total	200,394	376,339

23 Dividend income

SAR' 000	2016	2015
Available for sale investments- Equities	16,024	16,913

24 Gains on non-trading investments, net

SAR' 000	2016	2015
Available for sale- realized gain	50,483	6,602

25 Other operating income

SAR' 000	2016	2015
Gains on disposal of property and equipment	159	164
Reversal of provision on other assets	13,871	-
Recoveries of written off loans	92,714	82,476
Other	10,030	21,732
Total	116,774	104,372

26 Other operating expenses

SAR' 000	2016	2015
Loss on disposal of property and equipment	88	111
Provision on other assets	-	23,314
Other	11,182	8,036
Total	11,270	31,461

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27 Basic and diluted earnings per share

Basic and diluted earnings per share for the years ended December 31, 2016 and 2015 are calculated on a weighted average basis by dividing the net income for the year by 1,205 million shares after excluding treasury shares consists of 3.1 million shares as of 31 December 2016 (31 December 2015: Nil shares).

28 Gross dividend, zakat and income tax

The Board of Directors has proposed final gross dividend of SAR 648 million (2015: SAR 728 million) i.e. SAR 0.50 (2015: SAR 0.55) net per share for the year which is subject to the approval of the shareholders at the Annual General Assembly Meeting and the regulatory agencies. The Board of Directors has declared interim gross dividend of SAR 731 million (2015: SAR 665 million) i.e. SAR 0.55 (2015: SAR 0.50) net per share. Total gross dividend to Saudi shareholders was SAR 950 million (2015: SAR 960 million) and total dividend to foreign shareholders was SAR 429 million (2015: SAR 433 million).

Gross dividend

SAR' 000	2016	2015
Interim dividend	731,295	665,197
Final proposed gross dividend	647,995	727,754
Total	1,379,290	1,392,951

The zakat and income tax, attributable to Saudi and foreign shareholders are as follows:

i) Zakat

Zakat attributable to the Saudi shareholders for the year amounted approximately to SAR 80 million (2015: SAR 88 million) which will be deducted from their share of dividend.

The Bank has filed its Zakat and Income Tax returns with the General Authority for Zakat and Tax (GAZT) and paid Zakat and Income Tax for financial years up to and including the year 2015 and has received the assessments for the years up to 2009 in which the GAZT raised additional demands aggregating to SAR 156 million for the years up to 2009. These additional demands include SAR 156 million on account of "disallowance of long-term investments and the addition of long term financing to the Zakat base by the GAZT". The basis for the additional Zakat liability is being contested by the Bank before the Higher Appeal Committee. Management is confident of a favourable outcome on the aforementioned appeals and has therefore not made any provisions in respect of the above.

The assessments for the years 2010 to 2015 are yet to be raised by the GAZT. However, if long-term investments are disallowed and long-term financing is added to the Zakat base, in line with the assessments finalized by GAZT for the years referred to above, it would result in significant additional zakat exposure to the bank which remains an industry wide issue and disclosure of which might affect the bank's position in this matter.

ii) Income tax

Income tax payable in respect of foreign shareholder – CA-CIB's current year's share of income tax is approximately SAR 218 million (2015: SAR 258 million) which will be deducted from their share of dividend.

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29 Cash and cash equivalents

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

SAR' 000	2016	2015
Cash and balances with SAMA excluding statutory deposit (note 4)	11,798,158	1,028,768
Due from banks and other financial institutions maturing within ninety days from the date of acquisition	12,876,632	15,638,717
Total	24,674,790	16,667,485

Due from banks and other financial institutions maturing after ninety days from the date of acquisition were SAR 12,462,000 (2015: SAR 675,000)

30 Employees compensation practices

SAR' 000	2016				
Categories of employees	Number of employees	Fixed compensation	Variable compensation	Total compensation	Forms of payment
Senior executives	20	40,354	58,478	98,832	Cash
Employees engaged in risk taking activities	385	213,210	87,494	300,704	Cash
Employees engaged in control functions	389	130,842	36,953	167,795	Cash
Other employees	2,439	462,788	61,487	524,275	Cash
Total	3,233	847,194	244,412	1,091,606	

SAR' 000	2015				
Categories of employees	Number of employees	Fixed compensation	Variable compensation	Total compensation	Forms of payment
Senior executives	22	49,466	61,956	111,422	Cash
Employees engaged in risk taking activities	320	213,512	88,267	301,779	Cash
Employees engaged in control functions	335	128,279	33,793	162,072	Cash
Other employees	2,530	522,805	82,531	605,336	Cash
Total	3,207	914,062	266,547	1,180,609	

Senior executives:

This comprises senior management having responsibility and authority for formulating strategies, directing and controlling the activities of the Bank including MD.

30 Employees compensation practices (Continued)

Employees engaged in risk taking activities:

This comprises managerial staff within the business lines (Corporate, Retail, Treasury and Investment banking and Brokerage), who are responsible for executing and implementing the business strategy on behalf of the Bank. This includes those involved in recommending and evaluating credit limits and credit worthiness, pricing of loans, undertaking and executing business proposals, treasury dealing activities, investment management and brokerage services.

Employees engaged in control functions:

This refers to employees working in divisions that are not involved in risk taking activities but engaged in review functions (Risk Management, Compliance, Corporate Governance, Legal, Internal Audit, Finance and Accounting). These functions are fully independent from risk taking units.

Other employees:

This includes all other employees of the Bank, excluding those already reported under the above categories.

Governance of Compensation

The Board of Directors of BSF, through the Nomination and Compensation Committee (NCCOM) is responsible for the overall design and oversight of the compensation and performance management system.

NCCOM: Terms of Reference

- a. Overseeing the compensation system's design and operation on behalf of the Board of Directors;
- b. Preparing the Compensation Policy and placing it before the Board for approval;
- c. Periodically reviewing the Compensation Policy on its own or when advised by the Board, and making recommendations to the Board for amending/updating the Policy;
- d. Periodically evaluating the adequacy and effectiveness of the Compensation Policy to ensure that its stated objectives are achieved;
- e. Evaluating practices by which compensation is paid for potential future revenues whose timing and likelihood remain uncertain;
- f. Making recommendations to the Board on the level and composition of remuneration of key executives of the Bank. The key executives for this purpose will include all those executives whose appointment is subject to no objection by SAMA;
- g. Determination of bonus pool based on risk-adjusted profit of the Bank for payment of performance bonus;
- h. Reviewing compliance of the Compensation Policy with these Rules and the FSB principles and Standards;
- i. Performing any other related tasks to comply with the regulatory requirements.
- j. Considering the suitability of candidates for membership of the Board in accordance with the Articles of Association and approved policies and standards;
- k. Undertaking an annual review of the requirement of suitable skills and qualifications for the membership of the Board;
- l. Recommending to the Board criteria for the composition of the Board and its Committees, including the number of Board members, and independence of directors;
- m. Conducting an annual evaluation of the independent status of each candidate proposed for election at the General Assembly meeting and reporting the results of such evaluation to the Board;
- n. Satisfying itself to the Board and its committees, as applicable, are in compliance with all regulatory requirements, including its composition;
- o. Assisting the Board in reviewing the adequacy of the succession planning process and oversee its implementation;
- p. Reviewing the performance and making recommendations to the Board regarding the compensation of the Senior Management of BSF;

30 Employees compensation practices (Continued)

- q. Reviewing and assessing the adequacy of this Charter every three years and submitting this Charter and any amendments to the Board for approval;
- r. Conducting self-evaluation to assess the Committee's contribution and effectiveness in fulfilling its mandate and present it to the Board every three years.

Salient Features of BSF Compensation Policy

Operating in Saudi Arabia the sole Middle Eastern country member of the G20, BSF Management working closely with the Board of Directors' has an ingrained culture and track record of running prudent compensation policy during periods of both prosperity and financial crisis. BSF follows strict governance-orientated compensation practices. BSF compensation system is designed to promote meritocracy, control excessive risk-taking and ensures effective risk management. The compensation policy as recently amended by the NCCOM and approved by the Board, conforms to compensation related corporate governance and supports the SAMA rules and Financial Stability Board (FSB) guidelines. It is structured to meet challenges i.e. attracting, retaining and motivating highly skilled staff, recognizing that:

- a) BSF success heavily depends on the talents and efforts of highly skilled individuals;
- b) Competition within the Kingdom and the Gulf's financial services industry for qualified talents has often been intense.

In line with the Saudi banking industry practices, BSF uses a mix of fixed and variable compensation. The former is driven by job size, responsibility, supply and jobs' relative worth in the market. The latter is driven by performance thus payment is based on meeting pre-agreed targets.

The fixed compensation package is composed of base salary, allowances and fringe benefits. As a standard practice in the Kingdom, the fixed income is driven by a base pay that is regularly benchmarked and compared with competition to ensure competitiveness.

As per Saudi banking industry practice, BSF pays a Performance Bonus, the variable component. As a form of incentive, the Bonus Pool is set by Management and NCCOM working closely with Chief Risk Officer, Chief Financial Officer and Human Resources Manager based on the year's performance or net profit adjusted to the full range of identifiable risks.

BSF as part of its reward philosophy aims on the perfect blend of benefits that is externally competitive to retain, motivate and engage. A level playing field has always been an important consideration in our reward strategy. BSF has designed its compensation structure with prudence. Variable pay deferral, for instance, is generally a sound way to encourage long-term commitment. But doing so when most banks, both in the country and in the region are still paying one-time in cash, requires a degree of caution.

Allocation of Bonus to Groups and Divisions is based on Key Performance Indicator (KPI) target achievements. Distribution of bonus to individual employees is based on review of performance by respective supervisors measured in terms of meeting the KPI target.

31 Operating segments

Operating segments are identified on the basis of internal reports about components of the Bank that are regularly reviewed by the Bank's Board of Directors in its function as chief decision maker in order to allocate resources to the segments and to assess its performance.

Transactions between operating segments are approved by the management as per agreed terms and are reported according to the Bank's internal transfer pricing policy. These terms are in line with normal commercial terms and conditions. The revenue from external parties report to the Board is measured in a manner consistent with that in the consolidated statement of income.

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since December 31, 2015. The Bank's primary business is conducted in the Kingdom of Saudi Arabia.

a) The Bank's reportable segments under IFRS 8 are as follows:

Retail Banking – incorporates private and small establishment customers' demand accounts, overdrafts, loans, saving accounts, deposits, credit and debit cards, consumer loans, certain forex products and auto leasing.

Corporate Banking – incorporates corporate and medium establishment customers' demand accounts, deposits, overdrafts, loans and other credit facilities and derivative products.

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

Investment banking and brokerage – Investment management services and asset management activities related to dealing, managing, arranging, advising and custody of securities, retail investments products, corporate finance and international and local shares brokerage services and insurance.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit as included in the internal management reports that are reviewed by chief decision maker. Segment profit is used to measure performance as the management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

The Bank's total assets and liabilities as at December 31, 2016 and 2015, its total operating income and expenses, share in earnings / (losses) of associates and its net income attributable to equity holders of the Bank for the years then ended by operating segments, are as follows:

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31 Operating segments (Continued)

SAR' 000	Retail banking	Corporate banking	Treasury	Investment banking and brokerage	Total
<u>2016</u>					
Total assets	16,500,468	116,504,685	69,346,485	1,077,071	203,428,709
Investment in associates	-	-	113,220	-	113,220
Total liabilities	82,875,331	72,637,713	17,272,000	944,662	173,729,706
Total operating income	1,491,064	3,102,854	1,530,734	275,062	6,399,714
Share in earnings of associates, net	-	-	6,790	-	6,790
Total operating expenses	1,189,306	1,286,645	246,307	174,012	2,896,270
Net income for the year	301,758	1,816,209	1,291,217	101,050	3,510,234
<u>Results</u>					
Net special commission income	1,175,587	2,160,985	883,317	36,298	4,256,187
Fees and commission income, net	173,251	937,734	14,242	238,763	1,363,990
Exchange income, net	52,232	1,390	342,240	-	395,862
Trading income, net	-	-	200,394	-	200,394
Inter-segment revenue	817,742	72,447	(890,189)	-	-
Impairment charges for credit losses, net	79,514	688,860	-	-	768,374
Depreciation and amortization	77,747	37,499	16,709	5,751	137,706
<u>2015</u>					
Total assets	15,977,792	110,465,599	55,693,786	1,587,104	183,724,281
Investment in associates	-	-	106,430	-	106,430
Total liabilities	77,454,529	65,059,259	12,296,535	1,430,157	156,240,480
Total operating income	1,506,182	3,058,470	1,405,988	320,858	6,291,498
Share in earnings of associates, net	-	-	7,361	-	7,361
Total operating expenses	1,087,568	720,044	251,075	203,728	2,262,415
Net income for the year	418,614	2,338,426	1,162,274	117,130	4,036,444
<u>Results</u>					
Net special commission income	1,199,339	2,170,294	638,359	47,287	4,055,279
Fees and commission income, net	171,536	886,857	(4,443)	273,571	1,327,521
Exchange income, net	53,377	-	351,095	-	404,472
Trading income, net	-	-	376,339	-	376,339
Inter-segment revenue	867,000	334,520	(1,201,520)	-	-
Impairment charges for credit losses, net	37,275	143,626	-	-	180,901
Depreciation and amortization	80,558	27,563	14,122	9,135	131,378

31 Operating segments (Continued)

b) The Bank's credit exposure by operating segments is as follows:

SAR' 000	Retail banking	Corporate banking	Treasury	Investment banking and brokerage	Total
2016					
Statement of financial position assets	15,322,009	116,360,153	65,712,316	1,002,586	198,397,064
Commitments and contingencies	168,960	34,132,696	-	-	34,301,656
Derivatives	-	-	4,049,377	-	4,049,377
2015					
Statement of financial position assets	14,680,574	110,437,652	50,728,079	1,505,983	177,352,288
Commitments and contingencies	183,001	38,127,044	-	-	38,310,045
Derivatives	-	-	6,037,048	-	6,037,048

Credit exposure comprises the carrying value of consolidated statement of financial position assets excluding cash, property and equipment, positive fair value of derivative other assets and credit equivalent value of commitments, contingencies and derivatives. The credit equivalent value of commitments, contingencies and derivatives are calculated as per SAMA guidelines.

32 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and will cause the other party to incur a financial loss. Credit exposures arise principally in lending activities that lead to loans and advances, and investing activities. There is also credit risk on credit related commitments and contingencies and derivatives.

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

The Bank's credit risk for derivatives represents the potential cost to replace the derivative contracts if counterparties fail to fulfill their obligation, and to control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

The Bank seeks to manage its credit risk exposure through diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or business. It also takes security when appropriate. The Bank also seeks additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

32 Credit risk (Continued)

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

The Bank regularly reviews its risk management policies and systems to reflect changes in markets products and emerging best practice.

On an ongoing basis, the Bank continues to improve its organization and resources in order to achieve strict, prudent and exhaustive risk management. Credit granting is done through a credit committee approach. There are multiple credit committees with delegated authority for credit approval with the highest committee being the Executive Committee of the Board. The delegation to the credit committees is through a risk metric dependent on requested quantum of credit facilities and the credit risk rating. The credit granting due diligence process in the Bank is governed by the tenets in the Credit Policy approved by the Board Risk Committee.

Credit risk management function under the Chief Risk Officer is independent of the Business Lines and has the responsibility of providing risk opinions on credit requests received from business lines to credit committees as part of credit granting due diligence and ongoing monitoring of the credit portfolio.

The Credit Policy lays down credit underwriting standards through the risk acceptance criteria for different sections of the Banking book. The risk acceptance criteria are approved by the Board Risk Committee. The risk acceptance criteria in turn have to broadly conform to the approved risk appetite statement of the Bank. In order to avoid sectorial credit concentrations and achieve diversification of the loan portfolio the Credit Policy lays down economic sector caps for sectors. The sectorial exposures are reviewed and monitored at regular intervals.

Credit risk assessment is done through the in house credit risk rating system. The Corporate credit risk rating system has 7 investment grades, 6 non-investment grades and three default grades. All credit risk ratings are subject to annual review and credit risk ratings are refreshed at yearly intervals. The final credit risk rating that is assigned to a borrower is the one that is approved by the delegated Credit Committee. There are various rating methodologies for different sections of the Banking book. The Bank has a close monitoring mechanism to review the credit quality and rating migrations and periodical reports are submitted to the Board Risk Committee.

The Bank gives utmost importance to the ability of the obligors to service debt from their core business generated cash flows. Collateral is never the principal rationale for granting credit. However collateral is taken as a risk mitigant and as a secondary means of repayment for perceived weakness in credit quality. Accepted collaterals are valued at periodical intervals and reviewed for marketability and enforcement.

The Bank reviews its loan portfolios to assess Specific Provisions for impaired credits on a quarterly basis. The quantum of Specific Provisions set up is based on the difference between carrying amount of the loan and the estimated recoverable amount.

The debt securities included in the investment portfolio are mainly sovereign risk. For analysis of investments by counterparty and the details of the composition of investments, and loans and advances, refer to notes 6 and 7, respectively. Information on credit risk relating to derivative instruments is provided in note 11 and for commitments and contingencies in note 19.

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32 Credit risk (Continued)

Geographical concentration

- a) The distribution by geographical region for major categories of assets, liabilities, commitments and contingencies and credit exposure accounts is as follows:

SAR' 000	Saudi Arabia	GCC & Middle East	Europe	North America	Other Countries	Total
2016						
Assets						
Cash and balances with SAMA						
Cash in hand	879,181	2,737	30,077	19,149	-	931,144
Balances with SAMA	19,412,964	-	-	-	-	19,412,964
Due from banks and other financial institutions						
Current account	-	147,024	150,252	779,498	43,756	1,120,530
Money market placements	16,901,462	4,395,228	2,921,412	-	-	24,218,102
Investments, net						
Held as FVIS	50,696	126,860	-	-	-	177,556
Available for sale	5,898,322	1,260,703	417,612	-	-	7,576,637
Held to maturity	75,821	-	-	-	-	75,821
Other investments held at amortised cost	16,244,365	-	-	-	-	16,244,365
Investment in associates	71,025	42,195	-	-	-	113,220
Positive fair value of derivatives						
Held for trading	429,583	246,747	773,609	-	-	1,449,939
Held as fair value hedges	-	-	786	-	-	786
Held as cash flow hedges	40,207	22,248	228,515	-	-	290,970
Loans and advances, net						
Over draft and commercial loans	116,387,080	601,082	555,775	-	544,617	118,088,554
Credit cards	492,293	20	-	-	164	492,477
Consumer loans	10,876,838	-	-	-	-	10,876,838
Property and equipment, net	715,515	1,141	-	-	-	716,656
Other assets	1,535,986	11,738	67,425	27,001	-	1,642,150
Total assets	190,011,338	6,857,723	5,145,463	825,648	588,537	203,428,709

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32 Credit risk (Continued)

SAR' 000	Saudi Arabia	GCC & Middle East	Europe	North America	Other Countries	Total
2016						
Liabilities						
Due to banks and other financial institutions						
Current accounts	-	178,792	50,760	28,978	2,966	261,496
Money market deposits	1,062,706	2,964,330	-	-	-	4,027,036
Customers' deposits						
Demand	88,378,323	56,088	8,879	-	82,582	88,525,872
Time	63,642,540	2,029,213	89	-	566	65,672,408
Saving	618,868	15	-	-	-	618,883
Other	3,630,328	220	1,361	-	9,400	3,641,309
Negative fair value of derivatives						
Held for trading	445,575	126,156	624,765	190	-	1,196,686
Held as fair value hedges	-	-	4,719	-	-	4,719
Held as cash flow hedges	39,407	61,110	376,183	-	-	476,700
Debt securities and sukuks	3,905,163	-	2,820,949	-	-	6,726,112
Other liabilities	2,578,485	-	-	-	-	2,578,485
Total	164,301,395	5,415,924	3,887,705	29,168	95,514	173,729,706
Commitments and contingencies						
Letters of credit	7,188,616	231,463	21,913	11,765	57,725	7,511,482
Letters of guarantee	41,141,063	1,142,892	4,247,867	428,841	913,523	47,874,186
Acceptances	2,614,339	37,662	626	-	38,495	2,691,122
Irrevocable commitments to extend credit	4,261,002	-	79,500	-	-	4,340,502
Total	55,205,020	1,412,017	4,349,906	440,606	1,009,743	62,417,292
Maximum Credit exposure (stated at credit equivalent amounts)						
Derivatives						
Held for trading	1,272,382	623,312	1,193,615	367,054	2,668	3,459,031
Held as fair value hedges	-	-	2,106	-	-	2,106
Held as cash flow hedges	67,732	51,730	356,126	112,652	-	588,240
Total	1,340,114	675,042	1,551,847	479,706	2,668	4,049,377
Commitments and contingencies						
Letters of credit	3,019,411	46,293	4,305	2,431	11,545	3,083,985
Letters of guarantee	23,830,025	809,444	2,084,075	194,254	362,700	27,280,498
Acceptances	2,614,339	5,751	626	-	70,405	2,691,121
Irrevocable commitments to extend credit	1,230,152	-	15,900	-	-	1,246,052
Total	30,693,927	861,488	2,104,906	196,685	444,650	34,301,656

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32 Credit risk (Continued)

SAR' 000	Saudi Arabia	GCC & Middle East	Europe	North America	Other Countries	Total
2015 Assets						
Cash and balances with SAMA						
Cash in hand	976,928	2,130	23,938	21,122	-	1,024,118
Balances with SAMA	8,744,166	-	-	-	-	8,744,166
Due from banks and other financial institutions						
Current account	-	861,325	399,405	2,733,533	11,789	4,006,052
Money market placements	6,285,394	4,765,582	205,789	750,643	300,257	12,307,665
Investments, net						
Held as FVIS	37,379	143,417	29,829	-	-	210,625
Available for sale	5,660,299	1,444,636	377,501	-	-	7,482,436
Held to maturity	86,607	-	-	-	-	86,607
Other investments held at amortised cost	20,638,850	-	-	-	-	20,638,850
Investment in associates	64,235	42,195	-	-	-	106,430
Positive fair value of derivatives						
Held for trading	645,426	93,599	2,105,809	468	-	2,845,302
Held as fair value hedges	-	-	6,853	-	-	6,853
Held as cash flow hedges	64,898	4,741	225,836	-	-	295,475
Loans and advances, net						
Overdraft & commercial loans	111,971,050	629,206	514,583	-	413,247	113,528,086
Credit cards	535,393	-	-	-	-	535,393
Consumer loans	9,705,978	-	-	-	-	9,705,978
Property and equipment, net	689,521	1,608	-	-	-	691,129
Other assets	1,404,662	-	50,438	54,016	-	1,509,116
Total assets	167,510,786	7,988,439	3,939,981	3,559,782	725,293	183,724,281

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32 Credit risk (Continued)

SAR' 000	Saudi Arabia	GCC & Middle East	Europe	North America	Other Countries	Total
<u>2015</u>						
Liabilities						
Due to banks and other financial institutions						
Current accounts	-	76,736	147,830	14,582	1,868	241,016
Money market deposits	986,544	327,858	1,672	-	100	1,316,174
Customers' deposits						
Demand	88,941,880	56,270	28,583	2,841	82,427	89,112,001
Time	47,172,222	164,998	-	-	2,261	47,339,481
Saving	503,552	17	-	-	-	503,569
Other	4,887,985	-	5,245	-	3,819	4,897,049
Negative fair value of derivatives						
Held for trading	1,746,474	139,504	868,399	-	-	2,754,377
Held as fair value hedges	-	-	8,222	-	-	8,222
Held as cash flow hedges	57,479	69,408	492,617	-	-	619,504
Debt securities and sukuks	3,907,389	-	2,812,889	-	-	6,720,278
Other liabilities	2,725,307	3,502	-	-	-	2,728,809
Total	150,928,832	838,293	4,365,457	17,423	90,475	156,240,480
Commitments and contingencies						
Letters of credit	7,572,437	199,276	8,709	9,314	69,504	7,859,240
Letters of guarantee	46,923,190	1,620,710	5,926,963	449,814	743,462	55,664,139
Acceptances	2,869,195	11,642	56,495	-	2,685	2,940,017
Irrevocable commitments to extend credit	4,674,007	-	234,720	-	167,117	5,075,844
Total	62,038,829	1,831,628	6,226,887	459,128	982,768	71,539,240
Maximum Credit exposure (stated at credit equivalent amounts)						
Derivatives						
Held for trading	1,867,843	434,459	2,063,529	1,002,793	2,312	5,370,936
Held as fair value hedges	-	-	-	-	22,236	22,236
Held as cash flow hedges	109,080	29,490	393,229	112,077	-	643,876
Total	1,976,923	463,949	2,456,758	1,114,870	24,548	6,037,048
Commitments and contingencies						
Letters of credit	3,015,318	39,855	3,293	-	15,764	3,074,230
Letters of guarantee	24,906,969	2,317,332	3,364,480	232,083	394,367	31,215,231
Acceptances	2,867,306	11,642	57,782	-	2,685	2,939,415
Irrevocable commitments to extend credit	1,000,802	-	46,944	-	33,423	1,081,169
Total	31,790,395	2,368,829	3,472,499	232,083	446,239	38,310,045

32 Credit risk (Continued)

Credit equivalent amounts reflect the amounts that result from translating the Bank's credit related commitments and contingencies and derivatives liabilities into the risk equivalent of loans using credit conversion factors prescribed by SAMA. Credit conversion factor is meant to capture the potential credit risk related to the exercise of the commitment.

b) The distribution by geographical concentration of non - performing loans and advances and impairment for credit losses are as follows:

SAR ' 000	2016		2015	
	Non performing, net	Allowance for impairment of credit losses	Non performing, net	Allowance for impairment of credit losses
Kingdom of Saudi Arabia	1,706,897	3,004,751	1,129,719	2,338,946
Total	1,706,897	3,004,751	1,129,719	2,338,946

Allowance for impairment of credit losses includes specific and collective provisions.

33 Market risk

Market Risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate due to changes in market variables such as Interest rates, Foreign Exchange rates and Equity prices. The Bank classifies Market Risk exposures into either Trading or non-trading or Banking Book.

Market Risk within Trading & Banking Book is managed and monitored using various indicators such as Value at Risk, Stress Testing and Sensitivities analysis.

a) Market risk -Trading book

The Board has set limits for the acceptable level of risks in managing the Trading Book. In order to manage the Market Risk in Trading Book, the Bank applies on a daily basis a VAR methodology in order to assess the Market Risk positions held and also to estimate the potential economic loss based on a set of assumptions and changes in market conditions.

A VAR methodology estimates the potential negative change in market value of a portfolio at a given confidence level and over a specified time horizon. The Bank uses simulation models to assess the possible changes in the market value of the trading book based on historical data. VAR models are usually designed to measure the market risk in a normal market environment and therefore the use of VAR has limitations because it is based on historical correlations and volatilities in market prices and assumes that the future movements will follow a statistical distribution.

The VAR that the Bank measures is an estimate, using a confidence level of 99% of the potential loss that is not expected to be exceeded if the current market positions were to be held unchanged for one day. The use of 99% confidence level depicts that within a one-day horizon, losses exceeding VAR figure should occur, on average, not more than once every hundred days. A specific process of VAR backtesting is in this regard performed on a daily basis.

The VAR represents the risk of portfolios at the close of a business day, and it does not account for any losses that may occur beyond the defined confidence interval. The actual trading results however, may differ from the VAR calculations and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions.

33 Market risk (Continued)

To overcome the VAR limitations mentioned above, the Bank also carries out Stress tests of its portfolio to simulate conditions outside normal confidence intervals. The potential losses occurring under Stress test conditions are reported regularly to the Bank's ALM and Market Risk committees for their review.

The Bank's VaR related information for the year ended December 31, 2016 and 2015 are follows:

SAR ' 000	Foreign exchange rate	Special commission rate risk	Overall Trading
<u>2016</u>			
VaR as at December 31, 2016	37	4,666	4,651
Average VaR for 2016	164	5,364	5,367
Maximum VaR for 2016	1,024	7,735	7,731
Minimum VaR for 2016	6	3,019	3,043
<u>2015</u>			
VaR as at December 31, 2015	17	6,332	6,330
Average VaR for 2015	172	3,294	3,317
Maximum VaR for 2015	724	6,825	6,810
Minimum VaR for 2015	8	1,248	1,251

Overall Trading VaR incorporates compensation effect of positions coming from realized P&L in foreign currencies.

b) Market risk non- trading book

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

i) Special commission rate risk

Special commission rate risk arises from the possibility that the changes in special commission rates will affect either the fair values or the future cash flows of the financial instruments. The Board has established special commission rate gap limits for stipulated periods. The Bank monitors positions daily and uses hedging strategies to ensure maintenance of positions within the established gap limits.

The following table depicts the sensitivity to a reasonable possible change in special commission rates, with other variables held constant, on the Bank's consolidated statement of income or equity. The sensitivity of the special commission income is the effect of the assumed changes in special commission rates with a lowest level at 0%, on the net special commission income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at December 31, 2016, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing the fixed rate available for sale financial assets, including the effect of any associated hedges as at December 31, 2016 for the effect of assumed changes in special commission rate. The sensitivity of equity is analyzed by maturity of the asset or swap. All the banking book exposures are monitored and analyzed in currency concentrations and relevant sensitivities are disclosed in SAR thousands.

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33 Market risk (Continued)

SAR' 000		2016					
Currency	BPS change	Sensitivity of special commission income	Sensitivity of Equity				Total
			6 months or less	Over 6 month to 1 year	Over 1 year to 5 years	Over 5 years	
USD	+100	38,710	(470)	(528)	(542)	-	(1,540)
	-100	(49,851)	470	528	542	-	1,540
SAR	+100	72,699	(4,493)	(5,204)	(159,083)	(89,921)	(258,701)
	-100	(56,135)	4,493	5,204	159,083	89,921	258,701

SAR' 000		2015					
Currency	BPS change	Sensitivity of special commission income	Sensitivity of Equity				Total
			6 months or less	Over 6 months to 1 year	Over 1 year to 5 years	Over 5 years	
USD	+100	66,457	(431)	(1,164)	(1,703)	-	(3,298)
	-100	(65,545)	431	1,164	1,703	-	3,298
SAR	+100	(8,709)	(4,008)	(99)	(34,046)	(771)	(38,924)
	-100	(3,364)	4,008	99	34,046	771	38,924

Special commission rate sensitivity of assets, liabilities and derivatives

The Bank manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market special commission rates on its financial position and cash flows. The Board sets limits on the level of mismatch of special commission rate re-pricing that may be undertaken, which is monitored daily by the Bank's Treasury.

The table below summarises the Bank's exposure to special commission rate risks. Included in the table are the Bank's financial instruments at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

The Bank is exposed to special commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and derivative instruments that mature or re-price in a given period. The Bank manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

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33 Market risk (Continued)

SAR' 000	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission	Total
2016						
Assets						
Cash and balances with SAMA						
Cash in hand	-	-	-	-	931,144	931,144
Balances with SAMA	10,867,000	-	-	-	8,545,964	19,412,964
Due from banks and other financial institutions						
Current account	-	-	-	-	1,120,530	1,120,530
Money market placements	13,156,102	11,062,000	-	-	-	24,218,102
Investments, net						
Held as FVIS	41,035	78,109	54,696	3,716	-	177,556
Available for sale	1,227,296	2,020,001	3,718,419	-	610,921	7,576,637
Held to maturity	824	74,997	-	-	-	75,821
Other investments held at amortised cost	3,848,962	512,744	6,050,000	5,832,659	-	16,244,365
Investment in associates	-	-	-	-	113,220	113,220
Positive fair value of derivatives						
Held for trading	-	-	-	-	1,449,939	1,449,939
Held as fair value hedges	-	-	-	-	786	786
Held as cash flow hedges	-	-	-	-	290,970	290,970
Loans and advances, net						
Credit cards	470,756	-	-	-	21,721	492,477
Consumer loans	213,818	436,436	6,642,452	3,528,240	55,892	10,876,838
Over draft and commercial loans	58,941,888	20,137,186	17,414,327	21,557,145	38,008	118,088,554
Property and equipment, net	-	-	-	-	716,656	716,656
Other assets	-	-	-	-	1,642,150	1,642,150
Total assets	88,767,681	34,321,473	33,879,894	30,921,760	15,537,901	203,428,709

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33 Market risk (Continued)

SAR' 000	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission	Total
Liabilities and shareholders' equity						
Due to banks and other financial institutions						
Current accounts	-	-	-	-	261,496	261,496
Money market deposits	3,889,536	137,500	-	-	-	4,027,036
Customers' deposits						
Demand	8,245,578	-	-	-	80,280,294	88,525,872
Saving	-	-	-	-	618,883	618,883
Time	40,379,162	21,266,853	3,461,586	-	564,807	65,672,408
Other	-	-	-	-	3,641,309	3,641,309
Debt securities and sukuks	3,913,422	2,812,690	-	-	-	6,726,112
Negative fair value of derivatives						
Held for trading	-	-	-	-	1,196,686	1,196,686
Held as fair value hedges	-	-	-	-	4,719	4,719
Held as cash flow hedges	-	-	-	-	476,700	476,700
Other liabilities	-	-	-	-	2,578,485	2,578,485
Shareholders' equity	-	-	-	-	29,699,003	29,699,003
Total liabilities and shareholders' equity	56,427,698	24,217,043	3,461,586	-	119,322,382	203,428,709
commission rate sensitivity						
- On statement of financial position	32,339,983	10,104,430	30,418,308	30,921,760	(103,784,481)	
commission rate sensitivity						
- Off statement of financial position	(69,228,961)	14,672,369	53,661,454	895,138		
Total commission rate sensitivity gap	(36,888,978)	24,776,799	84,079,762	31,816,898	(103,784,481)	
Cumulative commission rate sensitivity gap	(36,888,978)	(12,112,179)	71,967,583	103,784,481	-	

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33 Market risk (Continued)

SAR' 000	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission	Total
<u>2015</u>						
Assets						
Cash and balances with SAMA						
Cash in hand	-	-	-	-	1,024,118	1,024,118
Balances with SAMA	-	-	-	-	8,744,166	8,744,166
Due from banks and other financial institutions						
Current account	-	-	-	-	4,006,052	4,006,052
Money market placements	11,982,665	325,000	-	-	-	12,307,665
Investments, net						
Held as FVIS	49,926	75,945	84,754	-	-	210,625
Available for sale	879,413	2,274,870	3,422,124	-	906,029	7,482,436
Held to maturity	820	826	84,961	-	-	86,607
Other investments held at amortised cost	7,743,521	1,009,365	5,650,000	6,235,964	-	20,638,850
Investment in associates	-	-	-	-	106,430	106,430
Positive fair value of derivatives						
Held for trading	-	-	-	-	2,845,302	2,845,302
Held as fair value hedges	-	-	-	-	6,853	6,853
Held as cash flow hedges	-	-	-	-	295,475	295,475
Loans and advances, net						
Credit cards	506,281	-	-	-	29,112	535,393
Consumer loans	187,379	1,163,332	4,203,146	4,126,777	25,344	9,705,978
Over draft and commercial loans	51,051,997	48,583,714	11,762,031	2,081,418	48,926	113,528,086
Property and equipment, net	-	-	-	-	691,129	691,129
Other assets	-	-	-	-	1,509,116	1,509,116
Total assets	72,402,002	53,433,052	25,207,016	12,444,159	20,238,052	183,724,281

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33 Market risk (Continued)

SAR' 000	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission	Total
Liabilities and shareholders' equity						
Due to banks and other financial institutions						
Current accounts	-	-	-	-	241,016	241,016
Money market deposits	1,312,735	1,767	1,672	-	-	1,316,174
Customers' deposits						
Demand	4,462,738	-	-	-	84,649,263	89,112,001
Saving					503,569	503,569
Time	23,396,929	23,187,935	569,168	-	185,449	47,339,481
Other	-	-	-	-	4,897,049	4,897,049
Negative fair value of derivatives						
Held for trading	-	-	-	-	2,754,377	2,754,377
Held as fair value hedges	-	-	-	-	8,222	8,222
Held as cash flow hedges	-	-	-	-	619,504	619,504
Debt securities and sukuku	3,907,389	-	2,812,889	-	-	6,720,278
Other liabilities	-	-	-	-	2,728,809	2,728,809
Shareholders' equity	-	-	-	-	27,483,801	27,483,801
Total liabilities and shareholders' equity	33,079,791	23,189,702	3,383,729	-	124,071,059	183,724,281
commission rate sensitivity						
- On statement of financial position	39,322,211	30,243,350	21,823,287	12,444,159	(103,833,007)	
commission rate sensitivity						
- Off statement of financial position	(69,940,346)	(161,475)	69,630,183	471,638		
Total commission rate sensitivity gap	(30,618,135)	30,081,875	91,453,470	12,915,797	(103,833,007)	
Cumulative commission rate sensitivity gap	(30,618,135)	(536,260)	90,917,210	103,833,007	-	

33 Market risk (Continued)

Net gap between derivative financial instruments represents the net notional amounts of these financial instruments, which are used to manage the special commission rate risk.

The effective special commission rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortized cost and a current market rate for a floating rate instrument or an instrument carried at fair value.

ii) Currency Risk

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Board has set limits on positions by currencies, which are monitored daily, and hedging strategies are also used to ensure that positions are maintained within the limits.

The table below shows the currencies to which the Bank has a significant exposure as at December 31, 2016 and 2015 on its non-trading monetary assets and liabilities and forecasted cash flows. The analysis calculates the effect of reasonable possible movement of the currency rate against SAR, with all other variables held constant, on the consolidated statement of income (due to the fair value of the currency sensitive non-trading monetary assets and liabilities) and equity (due to change in fair value of commission rate swaps used as cash flow hedges). A positive effect shows a potential increase in the consolidated statement of income or equity; whereas a negative effect shows a potential net reduction in the consolidated statement of income or equity.

SAR' 000	2016			2015		
Currency Exposures	Change in Currency Rate in %	Effect on Net Income	Effect on Equity	Change in Currency Rate in %	Effect on Net Income	Effect on Equity
USD	+5	(13,210)	616	+5	(6,677)	458
EUR	-3	30	-	-3	(44)	-

There is no material impact on equity and net income due to change in other foreign currencies.

iii) Currency position

The Bank manages exposure to effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. At the end of the year, the Bank had the following significant net exposures denominated in foreign currencies:

SAR' 000	2016 (Short) / long	2015 Long
US Dollar	(93,841)	42,472
Euro	(988)	1,466
Pound Sterling	(276)	281
Other	13,486	13,802
Total	(81,619)	58,021

33 Market risk (Continued)

iv) Equity Price Risk

Equity price risk refers to the risk of decrease in fair values of equities in the Bank's non-trading investment portfolio as a result of reasonable possible changes in levels of equity indices and the value of individual stocks.

The effect on the Bank's equity investments held as available for sale due to reasonable possible change in equity indices, with all other variables held constant is as follows:

SAR' 000	2016		2015	
Market Indices	Change in equity Price %	Effect on market value	Change in equity Price %	Effect on market value
Tadawul	+5	11,086	+5	23,647
Tadawul	-5	(11,086)	-5	(23,647)

There is no material impact on market value due to change in prices of listed international securities.

34 Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to become unavailable immediately. To mitigate this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining an appropriate balance of cash, cash equivalents, and readily marketable securities.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of both the Bank and operating subsidiaries. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

In accordance with the Banking Control Law and the Regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% of total customers' demand deposits, and 4% of due to banks and other financial institutions (excluding balances due to SAMA and non-resident foreign currency deposits), saving deposits, time deposits, margins of letters of credit and guarantee, excluding all type of repo deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of not less than 20% of its deposit liabilities, in the form of cash, Saudi Government securities or assets which can be converted into cash within a period not exceeding 30 days. The Bank can also raise additional funds through repo facilities available with SAMA against its holding of Saudi Government securities up to 75% of the nominal value of securities.

a) Maturity analysis of assets and liabilities

The table below summarizes the maturity profile of the Bank's assets and liabilities. The expected maturities of assets and liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date and do not take into account the effective maturities as indicated by the Bank's deposit retention history. Management monitors the maturity profile to ensure that adequate liquidity is maintained. For presentation purposes all demand, saving and other deposit balances have been shown in no fixed maturity.

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34 Liquidity risk (Continued)

SAR' 000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
2016						
Assets						
Cash and balances with SAMA						
Cash in hand	-	-	-	-	931,144	931,144
Balances with SAMA	10,867,000	-	-	-	8,545,964	19,412,964
Due from banks and other financial institutions						
Current account	-	-	-	-	1,120,530	1,120,530
Money market placements	13,156,102	11,062,000	-	-	-	24,218,102
Investments, net						
Held as FVIS	35,029	84,115	54,696	3,716	-	177,556
Available for sale	392,074	593,951	4,942,733	1,036,958	610,921	7,576,637
Held to maturity	824	74,997	-	-	-	75,821
Other investments held at amortised cost	90,779	-	6,908,928	9,244,658	-	16,244,365
Investment in associates	-	-	-	-	113,220	113,220
Positive fair value of derivatives						
Held for trading	-	-	-	-	1,449,939	1,449,939
Held as fair value hedges	-	-	-	-	786	786
Held as cash flow hedges	-	-	-	-	290,970	290,970
Loans and advances, net						
Credit cards	470,756				21,721	492,477
Consumer loans	213,818	436,436	6,642,452	3,528,240	55,892	10,876,838
Over draft and commercial loans	48,447,985	18,635,903	23,082,186	26,669,320	1,253,160	118,088,554
Property and equipment, net	-	-	-	-	716,656	716,656
Other assets	-	-	-	-	1,642,150	1,642,150
Total assets	73,674,367	30,887,402	41,630,995	40,482,892	16,753,053	203,428,709

34 Liquidity risk (Continued)

SAR' 000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
2016						
Liabilities and shareholders' equity						
Due to banks and other financial institutions						
Current accounts	-	-	-	-	261,496	261,496
Money market deposits	3,889,300	137,736	-	-	-	4,027,036
Customers' deposits						
Demand	-	-	-	-	88,525,872	88,525,872
Saving	-	-	-	-	618,883	618,883
Time	39,308,288	15,538,382	9,260,931	1,000,000	564,807	65,672,408
Other	-	-	-	-	3,641,309	3,641,309
Negative fair value of derivatives						
Held for trading	-	-	-	-	1,196,686	1,196,686
Held as fair value hedges	-	-	-	-	4,719	4,719
Held as cash flow hedges	-	-	-	-	476,700	476,700
Debt securities and sukuku	13,422	2,812,690	1,900,000	2,000,000	-	6,726,112
Other liabilities					2,578,485	2,578,485
Shareholders' equity	-	-	-	-	29,699,003	29,699,003
Total liabilities and shareholders' equity	43,211,010	18,488,808	11,160,931	3,000,000	127,567,960	203,428,709

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34 Liquidity risk (Continued)

SAR' 000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
<u>2015</u>						
Assets						
Cash and balances with SAMA						
Cash in hand	-	-	-	-	1,024,118	1,024,118
Balances with SAMA	-	-	-	-	8,744,166	8,744,166
Due from banks and other financial institutions						
Current account	-	-	-	-	4,006,052	4,006,052
Money market placements	11,982,665	325,000	-	-	-	12,307,665
Investments, net						
Held as FVIS	4,536	91,260	84,754	30,075	-	210,625
Available for sale	17,343	816,158	4,737,374	1,005,532	906,029	7,482,436
Held to maturity	820	826	84,961	-	-	86,607
Other investments held at amortised cost	7,706,789	499,097	5,855,000	6,577,964	-	20,638,850
Investment in associates	-	-	-	-	106,430	106,430
Positive fair value of derivatives						
Held for trading	-	-	-	-	2,845,302	2,845,302
Held as fair value hedges	-	-	-	-	6,853	6,853
Held as cash flow hedges	-	-	-	-	295,475	295,475
Loans and advances, net						
Credit cards	506,281	-	-	-	29,112	535,393
Consumer loans	187,379	1,163,332	4,203,146	4,126,777	25,344	9,705,978
Over draft and commercial loans	40,219,050	27,309,306	28,007,155	16,144,465	1,848,110	113,528,086
Property and equipment, net	-	-	-	-	691,129	691,129
Other assets	-	-	-	-	1,509,116	1,509,116
Total assets	60,624,863	30,204,979	42,972,390	27,884,813	22,037,236	183,724,281

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34 Liquidity risk (Continued)

SAR' 000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
<u>2015</u>						
Liabilities and shareholders' equity						
Due to banks and other financial institutions						
Current accounts	-	-	-	-	241,016	241,016
Money market deposits	1,312,735	1,767	1,672	-	-	1,316,174
Customers' deposits						
Demand	-	-	-	-	89,112,001	89,112,001
Saving	-	-	-	-	503,569	503,569
Time	20,336,387	16,546,971	10,270,674	-	185,449	47,339,481
Other	-	-	-	-	4,897,049	4,897,049
Negative fair value of derivatives						
Held for trading	-	-	-	-	2,754,377	2,754,377
Held as fair value hedges	-	-	-	-	8,222	8,222
Held as cash flow hedges	-	-	-	-	619,504	619,504
Debt securities and sukuks	7,389	-	4,712,889	2,000,000	-	6,720,278
Other liabilities	-	-	-	-	2,728,809	2,728,809
Shareholders' equity	-	-	-	-	27,483,801	27,483,801
Total liabilities and shareholders' equity	21,656,511	16,548,738	14,985,235	2,000,000	128,533,797	183,724,281

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34 Liquidity risk (Continued)

b) Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Bank's financial liabilities as at December 31, 2016 and 2015 based on contractual undiscounted repayment obligations. As special commission payments up to contractual maturity are included in the table, totals do not match with the consolidated statement of financial position. The contractual maturities of liabilities have been determined based on the remaining period at the reporting date to the contractual maturity date and do not take into account the effective expected maturities. The Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

SAR' 000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
2016						
Due to banks and other financial institutions						
current accounts	-	-	-	-	261,496	261,496
money market deposits	3,890,749	137,736	-	-	-	4,028,485
Customers' deposits						
Demand	-	-	-	-	88,525,872	88,525,872
Saving	-	-	-	-	618,883	618,883
Time	25,233,628	30,045,484	9,557,186	1,023,150	564,807	66,424,255
Other	-	-	-	-	3,641,309	3,641,309
Debt securities and Sukuks	-	2,854,132	2,089,274	2,153,180	-	7,096,586
Total	29,124,377	33,037,352	11,646,460	3,176,330	93,612,367	170,596,886
2015						
Due to banks and other financial institutions						
current accounts	-	-	-	-	241,016	241,016
money market deposits	1,314,362	1,990	1,741	-	-	1,318,093
Customers' deposits						
Demand	-	-	-	-	89,112,001	89,112,001
Saving	-	-	-	-	503,569	503,569
Time	20,397,917	16,818,512	11,187,456	-	185,449	48,589,334
Other	-	-	-	-	4,897,049	4,897,049
Debt securities and Sukuks	19,820	142,343	5,206,790	2,180,069	-	7,549,022
Total	21,732,099	16,962,845	16,395,987	2,180,069	94,939,084	152,210,084

35 Fair values of financial assets and liabilities

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

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Valuation models

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premium used in estimating discount rates, bond and equity prices and foreign currency exchange rates.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. The Bank uses widely recognized valuation models for determining the fair value of common and simpler financial instruments.

Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple over-the-counter derivatives such as interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Valuation models that employ significant unobservable inputs require a higher degree of management judgment and estimation in the determination of fair value. Management judgment and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of the probability of counterparty default and prepayments and selection of appropriate discount rates. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties; to the extent that the Bank believes that a third party market participant would take them into account in pricing a transaction. Fair values aims also to reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank and the counterparty where appropriate.

Valuation Framework

The Bank has an established control framework with respect to the measurement of fair values. This framework includes a Market Risk Department, which is independent of Front Office management and reports to the Chief Risk Officer, and which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements. Specific controls include:

- verification of observable pricing;
- re-performance of model valuations;
- a review and approval process for new models and changes to models involving Risk Division;
- back-testing of models against observed market transactions and analysis and investigation of significant daily valuation movements

When third party information, such as broker quotes or pricing services, is used to measure fair value, Market Risk Department assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS. This includes:

35 Fair values of financial assets and liabilities (Continued)

- verifying that the broker or pricing service is approved by the Bank for use in pricing the relevant type of financial instrument;
- understanding how the fair value has been arrived at and the extent to which it represents actual market transactions;
- when prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement; and
- if a number of quotes for the same financial instrument have been obtained, then how fair value has been determined using those quotes

Any significant valuation issue is reported at a regular frequency (in addition to whenever deemed necessary) to the Bank Market Risk Committee in order to take appropriate actions accordingly.

Determination of fair value and fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted prices in active markets for the same instrument (i.e. without modification or repackaging)

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

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

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35 Fair values of financial assets and liabilities (Continued)

SAR' 000	Level 1	Level 2	Level 3	Total
2016				
<u>Financial assets</u>				
Derivative financial instruments	-	1,741,695	-	1,741,695
Financial investments designated at FVIS (trading)				
-Fixed rate securities	171,550	-	-	171,550
-Floating rate securities	-	6,006	-	6,006
Total	171,550	6,006	-	177,556
Financial investments available for sale				
-Fixed rate securities	1,373,278	-	-	1,373,278
-Floating rate securities	56,502	2,389,801	-	2,446,303
-Equity	190,666	-	35,984	226,650
-Others	9,188	375,083	3,146,135	3,530,406
Total	1,629,634	2,764,884	3,182,119	7,576,637
Total	1,801,184	4,512,585	3,182,119	9,495,888
<u>Financial Liabilities</u>				
Derivative financial instruments negative fair value	-	1,678,105	-	1,678,105
Total	-	1,678,105	-	1,678,105
2015				
<u>Financial assets</u>				
Derivative financial instruments	-	3,147,630	-	3,147,630
Financial investments designated at FVIS(trading)				
-Fixed rate securities	162,080	3,155	-	165,235
- Floating rate securities	15,315	30,075	-	45,390
Total	177,395	33,230	-	210,625
Financial investments available for sale				
-Fixed rate securities	1,463,108	-	-	1,463,108
-Floating rate securities	93,806	2,281,294	-	2,375,100
-Equity	470,216	-	35,638	505,854
-Others	28,697	373,129	2,736,548	3,138,374
Total	2,055,827	2,654,423	2,772,186	7,482,436
Total	2,233,222	5,835,283	2,772,186	10,840,691
<u>Financial Liabilities</u>				
Derivative financial instruments negative fair value	-	3,382,103	-	3,382,103
Total	-	3,382,103	-	3,382,103

35 Fair values of financial assets and liabilities (Continued)

Financial investments available for sale include Mudarabah SAR 3,146 million (2015: SAR 2,737 million) which are classified as level 3. This mudarabah investment is valued based on discounted cash flow models, which incorporate assumptions regarding an appropriate credit spread. During the year there have been no transfers in between level 1, level 2 and level 3.

The following table shows a reconciliation from the beginning balances to the ending balances for the fair value measurements in Level 3 of the fair value hierarchy:

Financial investments classified as available for sale (AFS)

SAR' 000	2016	2015
Balance at the beginning of the year	2,772,186	3,500,961
Issues	1,596,000	730,000
Settlements	(1,182,965)	(1,460,057)
Change in the value	(3,102)	1,282
Balance at the end of the year	3,182,119	2,772,186

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

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

The fair values of on-statement of financial position financial instruments, except for held to maturity and other financial instruments held at amortized cost are not significantly different from the carrying values included in the consolidated financial statements. The fair values of loans and advances, commission bearing customers' deposits, debt securities, due from and due to banks which are carried at amortized cost, are not significantly different from the carrying values included in the consolidated financial statements, since the current market commission rates for similar financial instruments are not significantly different from the contracted rates, and due to the short duration of due from and due to banks.

The estimated fair values of the held to maturity investments and other investments held at amortized cost are based on quoted market prices when available or pricing models when used in the case of certain fixed rate bonds. Consequently, differences can arise between carrying values and fair value estimates. The fair values of these investments are disclosed in note 6. The fair values of derivatives are based on the quoted market prices when available or by using the appropriate valuation technique.

Derivative products valued using a valuation technique with market observable inputs are mainly commission rate swaps and options, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including foreign exchange spot and forward rates and commission rate curves. Other investments in level 2 are valued based on market observable data including broker rates etc.

The fair values of investments held at amortized cost are SAR 16,110 million (December 31, 2015: 20,396 million against carrying value of SAR 16,244 million (December 31, 2015: 20,639 million) and fair values of investments held to maturity are SAR 75.91 million (December 31, 2015: 88.6 million) compared to its carrying value of SAR 75.82 million (December 31, 2015: 86.61 million).

35 Fair values of financial assets and liabilities (Continued)

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 3,146 million (December 31, 2015: SAR 2,737 million) which is classified as level 3. The fair value of Mudarabah is derived on discounted cash flow method using current yield curve after adjusting internal credit spread. 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 131,720 million (December 31, 2015: SAR 125,417 million). The carrying values of those loans and advances are SAR 129,458 million (December 31, 2015: SAR 123,769 million).

36 Related party transactions and balances

In the ordinary course of its activities, the Bank transacts business with related parties. In the opinion of the management and the Board, the related party transactions are carried out on an arm's length basis. The related party transactions are governed by limits set by the Banking Control Law and Regulations issued by SAMA. The balances as at December 31, 2016 and 2015 resulting from such transactions included in the consolidated financial statements are as follows:

SAR' 000	2016	2015
CA-CIB Group		
Due from banks and other financial institutions	1,184,495	285,082
Due to banks and other financial institutions	15,566	79,422
Derivatives at fair value, net	58,356	(79,151)
Commitments and contingencies	1,853,255	2,594,366
Associates		
Investments	113,220	106,430
Due to banks and other financial institutions	7,714	7,757
Customers' deposits	100,617	99,638
Commitments and contingencies	300	-
Directors, auditors, other major shareholders' and their affiliates		
Loans and advances	817,487	3,102,827
Customers' deposits	5,621,805	6,420,687
Derivatives at fair value, net	58,560	118,223
Commitments and contingencies	256,231	527,786
Bank's mutual funds		
Derivatives at fair value, net	-	1,039
Customers' deposits	360,728	93,009

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36 Related party transactions and balances (Continued)

Other major shareholders represent shareholdings excluding the foreign shareholder of more than 5% of the Bank's share capital. Income and expenses pertaining to transactions with related parties included in the consolidated financial statements are as follows:

SAR' 000	2016	2015
Special commission income		
-CA-CIB group	7,346	3,839
-Directors, auditors, other major shareholders' and their affiliates	34,765	58,030
-Associates	6	2
Total Special commission income	42,117	61,871
Special commission expense		
-CA-CIB group	1,024	713
-Directors, auditors, other major shareholders' and their affiliates	36,753	36,066
-Associates	299	418
-Bank's mutual funds	507	19
Total Special commission expense	38,583	37,216
Fees ,commission income and others, net	9,913	18,270
Directors' fees	3,906	3,601
Other general and administrative expenses	614	1,305

The total amount of short term benefits paid to key management personnel during the year was SAR 116 million (2015: SAR 115 million). The key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly.

37 Treasury Shares

During Q.3 2016, the Bank has initiated to acquire treasury shares as authorised by the Board under its Long Term Incentives (LTI) plan which will grant appreciation award of BSF share performance to its eligible employees as per LTI scheme. The eligible employees will benefit the appreciation in value of BSF Shares over the Vesting Period. The Long Term Incentives plan scheme has not been commenced as of 31 December 2016.

38 Capital adequacy

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

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

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

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38 Capital adequacy (continued)

The RWAs, total capital and related ratios as at December 31, 2016 and 2015 are calculated using the framework and the methodologies defined under the Basel III framework.

SAR' 000	2016	2015
Credit Risk RWA	176,255,171	172,930,080
Operational Risk RWA	11,660,390	10,712,625
Market Risk RWA	3,901,349	3,211,972
Total RWA	191,816,910	186,854,677
Tier I Capital	30,235,959	27,948,788
Tier II Capital	3,869,475	4,110,609
Total Tier I & II Capital	34,105,434	32,059,397
Capital Adequacy Ratio %		
Tier I ratio	15.76%	14.96%
Tier I + Tier II ratio	17.78%	17.16%

39 Investment management, brokerage and corporate finance services

The Bank offers investment services to its customers through its subsidiary, which include management of certain investment funds in consultation with professional investment advisors as well as brokerage services. Income from the subsidiaries is included in the consolidated statement of income under fees and commission income, net. Determining whether the Bank controls such an investment fund usually depends on the assessment of the aggregate economic interests of the Bank in the Fund (comprising of its investments, any carried profit and expected management fees) and the investors' rights to remove the Fund Manager.

As a result of the above assessment, the Bank has concluded that it acts as an agent for the investors in all cases, and therefore has not consolidated these funds. However, the Bank's share of these funds is included in the available for sale investments and fees earned are disclosed under related party transactions.

The value of the mutual funds and other private investment portfolio managed by the Bank through its subsidiary was SAR 3,997 million (2015: SAR 5,173 million). The Bank through its subsidiary offers Islamic investment management services to its customers, which include management of certain investment funds in consultation with professional investment advisors, having net asset values as of December 31, 2016 totalling SAR 2,796 million (2015: SAR 3,506 million).

40 Prospective changes in International Financial Reporting Framework

The Bank has chosen not to early adopt the following amendments to existing standards and newly issued standards but not yet effective for the Bank's accounting years beginning on or after 1 January 2017 and is currently assessing their impact.

Following is a brief on the new IFRS and amendments to IFRS effective for annual periods beginning on or after 1 January 2017.

		Effective for annual periods beginning on or after
IFRS 9	Financial instruments	1 January 2018
IFRS 15	Revenue from contracts with customers	1 January 2017
Amendments to IAS 7	Disclosure Initiative	1 January 2017
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions	1 January 2018
IFRS 16	Leases	1 January 2019

41 Comparative figures

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

42 Board of Directors approval

The consolidated financial statements were approved by the Board of Directors on February 12, 2017 corresponding to 15 Jumada Alawal 1438H.