



البنك
السعودي
الفرنسي
Banque
Saudi
Fransi



INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED
June 30, 2017


البنك السعودي الفرنسي
Banque Saudi Fransi
ADEL MALLAWI
RM 129 A


البنك السعودي
Banque Saudi Fransi
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KPMG Al Fozan & Partners
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON REVIEW OF
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

TO: THE SHAREHOLDERS OF BANQUE SAUDI FRANSI
(A Saudi Joint Stock Company)

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Banque Saudi Fransi and its subsidiaries (the "Bank") as of June 30, 2017, the related interim condensed consolidated statements of income, comprehensive income for the three and six months period then ended, the interim condensed consolidated statement of changes in equity, cash flows for the six months period then ended and other explanatory notes (the "interim condensed consolidated financial statements"). The Bank's management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard No. 34 "Interim Financial Reporting" and Saudi Arabian Monetary Authority's ('SAMA') guidance for the accounting of zakat and tax. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

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



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Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements as at June 30, 2017 are not prepared, in all material respects, in accordance with International Accounting Standard No. 34 "Interim Financial Reporting" and SAMA guidance on accounting for zakat and tax.

Other regulatory matters

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

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July 24, 2017



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

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SAR '000	Notes	June 30, 2017 (Unaudited)	Dec 31, 2016 (Audited)	June 30, 2016 (Unaudited)
ASSETS				
Cash and balances with SAMA		18,335,023	20,344,108	10,452,136
Due from banks and other financial institutions		27,218,468	25,338,632	25,185,052
Investments, net	3	25,441,300	24,074,379	23,889,125
Positive fair value derivative	7	1,922,927	1,741,695	2,069,045
Loans and advances, net	4	129,382,565	129,457,869	129,636,625
Investment in associates	5	116,752	113,220	109,950
Property and equipment, net		728,912	716,656	695,778
Other assets		2,198,298	1,642,150	1,874,473
Total assets		205,344,245	203,428,709	193,912,184
LIABILITIES AND EQUITY				
Liabilities				
Due to banks and other financial institutions		1,922,509	4,288,532	13,510,558
Customers' deposits	6	163,904,255	158,458,472	138,809,840
Negative fair value derivative	7	1,348,440	1,678,105	2,953,236
Debt securities and sukuks		3,904,225	6,726,112	6,722,054
Other liabilities		2,635,464	2,578,485	3,275,115
Total liabilities		173,714,893	173,729,706	165,270,803
Equity				
Share capital	12	12,053,572	12,053,572	12,053,572
Statutory reserve		11,805,933	11,805,933	10,928,375
General reserve		982,857	982,857	982,857
Other reserves		(138,612)	(863,584)	(1,335,453)
Retained earnings		7,064,175	5,139,428	6,012,030
Proposed dividend		-	647,995	-
Treasury shares	13	(138,573)	(67,198)	-
Total equity		31,629,352	29,699,003	28,641,381
Total liabilities and equity		205,344,245	203,428,709	193,912,184

The accompanying notes 1 to 16 form an integral part of these interim condensed consolidated financial statements.


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BANQUE SAUDI FRANSI
INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME
Unaudited

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SAR '000	For the three months ended		For the six months ended	
	Jun 30, 2017	Jun 30, 2016	Jun 30, 2017	Jun 30, 2016
Special commission income	1,675,151	1,433,233	3,298,173	2,800,041
Special commission expense	507,785	364,437	1,019,273	668,426
Net special commission income	1,167,366	1,068,796	2,278,900	2,131,615
Fee and commission income, net	256,240	361,429	594,211	726,803
Exchange income, net	85,063	101,281	178,390	204,681
Trading income, net	80,276	36,089	202,347	122,232
Dividend income	4,067	8,112	4,468	8,286
Gains on non-trading investments, net	14,331	7,856	19,137	2,388
Other operating income	23,051	29,317	49,505	61,797
Total operating income	1,630,394	1,612,880	3,326,958	3,257,802
Salaries and employee related expenses	315,651	299,761	637,493	603,328
Rent and premises related expenses	44,430	40,239	86,311	81,531
Depreciation and amortization	37,927	35,737	73,309	68,494
Other general and administrative expenses	162,348	160,730	326,798	320,889
Impairment charge for credit losses, net	58,568	36,578	87,611	78,317
Impairment charge / (reversal) for investments, net	3,500	(9,563)	3,500	(20,813)
Other operating expenses	5,604	2,928	6,891	3,588
Total operating expenses	628,028	566,410	1,221,913	1,135,334
Net operating income	1,002,366	1,046,470	2,105,045	2,122,468
Share in earnings of associates, net	2,324	1,716	3,535	3,520
Net income for the period	1,004,690	1,048,186	2,108,580	2,125,988
Basic and diluted earnings per share for the period (SAR) - note 12	0.84	0.87	1.76	1.76

The accompanying notes 1 to 16 form an integral part of these interim condensed consolidated financial statements.


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BANQUE SAUDI FRANSI
INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Unaudited

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SAR '000	For the three months ended		For the six months ended	
	Jun 30, 2017	Jun 30, 2016	Jun 30, 2017	Jun 30, 2016
Net income for the period	1,004,690	1,048,186	2,108,580	2,125,988
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	43,574	(20,177)	38,581	(75,138)
Income transferred to interim condensed consolidated statement of income	(14,331)	(7,856)	(19,137)	(2,388)
<u>Cash flow hedge</u>				
Net change in the fair value	525,114	(687,778)	756,927	(54,789)
Income transferred to interim condensed consolidated statement of income	(54,494)	(12,163)	(51,399)	(108,339)
Total comprehensive income for the period	1,504,553	320,212	2,833,552	1,885,334

The accompanying notes 1 to 16 form an integral part of these interim condensed consolidated financial statements.


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

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SAR '000	Share capital	Statutory reserve	General reserve	Retained earnings	Other reserves		Proposed dividend	Treasury shares	Total
					Available for sale investments	Cash flow hedge			
<u>For the six months period ended June 30, 2017</u>									
Balance at the beginning of the period	12,053,572	11,805,933	982,857	5,139,428	31,343	(894,927)	647,995	(67,198)	29,699,003
Total comprehensive income for the period									
Net income for the period	-	-	-	2,108,580	-	-	-	-	2,108,580
Net change in the fair value	-	-	-	-	38,581	756,927	-	-	795,508
Net amount transferred to interim condensed consolidated statement of income	-	-	-	-	(19,137)	(51,399)	-	-	(70,536)
Zakat liability	-	-	-	(47,789)	-	-	(32,791)	-	(80,580)
Tax liability	-	-	-	(136,044)	-	-	(84,838)	-	(220,882)
Treasury shares purchased	-	-	-	-	-	-	-	(71,375)	(71,375)
Final Dividend paid -2016	-	-	-	-	-	-	(530,366)	-	(530,366)
Balance at the end of the period	12,053,572	11,805,933	982,857	7,064,175	50,787	(189,399)	-	(138,573)	31,629,352
<u>For the six months period ended June 30, 2016</u>									
Balance at the beginning of the period	12,053,572	10,928,375	982,857	3,886,042	67,669	(1,162,468)	727,754	-	27,483,801
Total comprehensive income for the period									
Net income for the period	-	-	-	2,125,988	-	-	-	-	2,125,988
Net change in the fair value	-	-	-	-	(75,138)	(54,789)	-	-	(129,927)
Net amount transferred to interim condensed consolidated statement of income	-	-	-	-	(2,388)	(108,339)	-	-	(110,727)
Final Dividend paid -2015	-	-	-	-	-	-	(727,754)	-	(727,754)
Balance at the end of the period	12,053,572	10,928,375	982,857	6,012,030	(9,857)	(1,325,596)	-	-	28,641,381

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BANQUE SAUDI FRANSI
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
Unaudited

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Unaudited		For the six months ended	
SAR '000	Note	June 30, 2017	June 30, 2016
<u>OPERATING ACTIVITIES</u>			
Net income for the period		2,108,580	2,125,988
Adjustments to reconcile net income to net cash used in operating activities:			
Accretion of discounts on non trading investments, net		841	5,988
Gains on non trading investments, net		(19,137)	(2,388)
Depreciation and amortization		73,309	68,494
(Gains) / loss on disposal of property and equipment, net		(144)	27
Impairment charge for credit losses, net		87,611	78,317
Share in earnings of associates, net		(3,535)	(3,520)
Impairment charge for investments, net		3,500	-
Change in fair value of financial instruments		444	1,142
Operating income before changes in operating assets and liabilities		2,251,469	2,274,048
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA		(502,589)	398,899
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		(3,934,000)	(7,562,000)
Investments held as FVIS, trading		(150,692)	(70,541)
Loans and advances		(13,758)	(5,943,537)
Other assets		(31,035)	546,562
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		(2,366,023)	11,953,368
Customers' deposits		5,445,783	(3,042,260)
Other liabilities		(465,716)	119,663
Net cash from /(used in) operating activities		233,439	(1,325,798)
<u>INVESTING ACTIVITIES</u>			
Proceeds from sales and maturities of non trading investments		2,695,545	8,734,826
Purchase of non trading investments		(3,877,531)	(4,216,311)
Dividends received from associates		-	293
Purchase of property and equipment		(85,613)	(73,213)
Proceeds from sale of property and equipment		192	43
Net cash (used in)/ from investing activities		(1,267,407)	4,445,638
<u>FINANCING ACTIVITIES</u>			
Dividends paid		(647,995)	(727,754)
Purchase of Treasury shares		(71,375)	-
Debt securities and sukuks		(2,812,500)	-
Net cash used in financing activities		(3,531,870)	(727,754)
(Decrease)/ increase in cash and cash equivalents		(4,565,838)	2,392,086
Cash and cash equivalents at the beginning of the period		24,674,790	16,667,485
Cash and cash equivalents at the end of the period	9	20,108,952	19,059,571
Special commission received during the period		3,097,737	2,568,946
Special commission paid during the period		918,617	618,973
<u>Supplemental non-cash information</u>			
Net changes in fair value and transferred to interim condensed consolidated statement of income		724,972	(240,654)

The accompanying notes 1 to 16 form an integral part of these interim condensed consolidated financial statements.


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1. General

Banque Saudi Fransi (the Bank) is a Saudi Joint Stock Company established by Royal Decree No. M/23 dated Jumada Al Thani 17, 1397H (corresponding to June 4, 1977). The Bank formally commenced its activities on Muharram 1, 1398H (corresponding to December 11, 1977), by taking over the branches of the Banque de l'Indochine et de Suez in the Kingdom of Saudi Arabia. The Bank operates under Commercial Registration Number 1010073368 dated Safar 4, 1410H (corresponding to September 5, 1989), through its 85 branches (June 30, 2016: 84 branches) in the Kingdom of Saudi Arabia, employing 3,180 people (June 30, 2016: 3,180).

The objective of the Bank is to provide a full range of banking services, including Islamic products, which are approved and supervised by an independent Shariah Board. The Bank's Head Office is located at King Saud Road, P.O. Box 56006, Riyadh 11554, Kingdom of Saudi Arabia.

The Bank owns a subsidiary, Saudi Fransi Capital (100% share in equity) engaged in brokerage, asset management and corporate finance business. The Bank owns Saudi Fransi Insurance Agency (SAFIA), Saudi Fransi Financing & Leasing and Sofinco Saudi Fransi having 100% share in equity. The Bank owns 100% (95% direct ownership and 5 % indirect ownership through its subsidiary) share in Sakan Real Estate Financing. These subsidiaries are incorporated in the Kingdom of Saudi Arabia. The Bank also owns BSF Sukuk Limited having 100% share in equity, incorporated in the Cayman Islands.

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

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

2. Basis of preparation

The interim condensed consolidated financial statements of the Bank as at and for the quarter ended 30 June 2017 have been prepared using the IAS 34 – Interim Financial Reporting and SAMA guidance for the accounting of zakat and tax. The Bank also prepares its interim condensed consolidated financial statements to comply with the Banking Control Law and the Regulations for Companies in the Kingdom of Saudi Arabia.

The impact of SAMA Circular no. 381000074519 dated 11 April 2017 and subsequent amendments through certain clarifications relating to the accounting for zakat and tax are as follows:

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

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

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

2. Basis of preparation (continued)

The interim condensed consolidated financial statements do not include all information and disclosures required for the annual consolidated financial statements, and should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2016. In preparing these interim condensed consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual consolidated financial statements as at and for the year ended December 31, 2016.

The accounting policies, estimates and assumptions used in the preparation of these interim condensed consolidated financial statements are consistent with those of the annual consolidated financial statements for the year ended December 31, 2016 as described in the annual consolidated financial statements for the year ended December 31, 2016, except for:

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

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

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

The adoption of amendments to the existing standards as mentioned below which has had no significant financial impact on the financial statements of the Bank.

Amendments to existing standards

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

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

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

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

Basis of consolidation

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

2. Basis of preparation (continued)

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

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

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

3. Investments, net

Investments are classified as follows:

SAR '000	June 30, 2017 (Unaudited)	Dec 31, 2016 (Audited)	June 30, 2016 (Unaudited)
Held as FVIS	331,169	177,556	281,166
Available for sale	9,119,114	7,576,637	7,987,637
Held to maturity	-	75,821	75,774
Other investments held at amortised cost	15,991,017	16,244,365	15,544,548
Total	25,441,300	24,074,379	23,889,125

Investments held as FVIS represent investments held for trading.

4. Loans and advances, net

SAR'000	June 30, 2017 (Unaudited)	Dec 31, 2016 (Audited)	June 30, 2016 (Unaudited)
Consumer loans	11,536,103	10,987,324	10,645,251
Commercial loans and overdrafts	118,456,299	119,253,027	119,762,026
Credit cards	502,356	515,372	505,205
Performing loans and advances	130,494,758	130,755,723	130,912,482
Non-performing loans and advances ,net	1,938,857	1,706,897	1,104,568
Gross loans and advances	132,433,615	132,462,620	132,017,050
Allowance for impairment	(3,051,050)	(3,004,751)	(2,380,425)
Loans and advances, net	129,382,565	129,457,869	129,636,625

5. Investment in associates

SAR '000	June 30, 2017 (Unaudited)	Dec 31, 2016 (Audited)	June 30, 2016 (Unaudited)
Cost	106,427	106,430	151,645
Share of earnings	112,325	108,790	60,305
Impairment provision	(102,000)	(102,000)	(102,000)
Total	116,752	113,220	109,950

6. Customers' deposits

SAR'000	June 30, 2017 (Unaudited)	Dec 31, 2016 (Audited)	June 30, 2016 (Unaudited)
Demand	90,205,806	88,525,872	86,324,056
Saving	485,808	618,883	502,260
Time	68,544,655	65,672,408	47,933,003
Other	4,667,986	3,641,309	4,050,521
Total	163,904,255	158,458,472	138,809,840

7. Derivatives

The table below sets out the positive and negative fair values of derivative financial instruments held, together with their notional amounts. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the end of period, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Bank's exposure to credit risk (which is generally limited to the positive fair value of the derivatives) nor to market risk.

SAR '000	June 30, 2017 (Unaudited)			Dec 31, 2016 (Audited)			June 30, 2016 (Unaudited)		
	Positive fair value	Negative fair value	Notional amount	Positive fair value	Negative fair value	Notional amount	Positive fair value	Negative fair value	Notional amount
Held for trading									
Special commission rate swaps	1,155,332	945,657	167,414,422	968,787	774,571	159,744,832	1,366,330	1,366,037	163,892,288
Special commission rate futures and options	48,189	48,189	71,308,852	11,574	25,098	70,206,099	8,039	8,039	75,574,144
Forward rate agreements	296	-	1,500,000	-	-	-	-	-	-
Forward foreign exchange contracts	237,941	132,053	48,731,812	334,087	261,526	52,424,564	325,087	309,247	57,840,023
Currency options	19,309	19,309	9,347,122	93,133	93,133	20,166,633	212,406	212,406	36,506,980
Others	21,221	21,221	746,467	42,358	42,358	1,316,557	31,923	31,923	1,704,343
Held as fair value hedges									
Special commission rate swaps	-	3,376	264,000	786	4,719	3,076,500	10,882	9,849	3,076,500
Held as cash flow hedges									
Special commission rate swaps	440,639	178,635	69,018,630	290,970	476,700	74,607,678	114,378	1,015,735	79,182,976
Total	1,922,927	1,348,440	368,331,305	1,741,695	1,678,105	381,542,863	2,069,045	2,953,236	417,777,254

8. Credit related commitments and contingencies

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

SAR '000	June 30, 2017 (Unaudited)	Dec 31, 2016 (Audited)	June 30, 2016 (Unaudited)
Letters of credit	7,998,856	7,511,482	9,029,599
Letters of guarantee	46,284,841	47,874,186	49,783,440
Acceptances	2,537,213	2,691,122	3,166,781
Irrevocable commitments to extend credit	3,530,234	4,340,502	4,207,328
Total	60,351,144	62,417,292	66,187,148

9. Cash and cash equivalents

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

SAR '000	June 30, 2017 (Unaudited)	Dec 31, 2016 (Audited)	June 30, 2016 (Unaudited)
Cash and balances with SAMA excluding statutory deposit	9,286,484	11,798,158	2,111,519
Due from banks and other financial institutions maturing within three months from the date of acquisition	10,822,468	12,876,632	16,948,052
Total	20,108,952	24,674,790	19,059,571

10. Segment information

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

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

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since 31 December 2016.

The Bank is organised into the following main operating segments:

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

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

10. Segment information (Continued)

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

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

The Bank's total assets and liabilities as at June 30, 2017 and 2016, together with total operating income, total operating expenses and net income for the six months then ended, by operating segments, are as follows:

(Unaudited) SAR '000"	Retail banking	Corporate banking	Treasury	Investment banking and brokerage	Total
June 30, 2017 (unaudited)					
Total assets	17,706,913	115,133,284	71,273,136	1,230,912	205,344,245
Total liabilities	82,110,630	80,866,290	9,608,784	1,129,189	173,714,893
Total operating income	775,439	1,553,209	874,482	123,828	3,326,958
Total operating expenses	629,594	354,849	152,736	84,734	1,221,913
Share in earnings of associates, net	-	-	3,535	-	3,535
Net income for the period	145,845	1,198,360	725,281	39,094	2,108,580
Inter-segment revenue	433,367	63,605	(496,972)	-	-
Impairment charges for credit losses, net	50,770	36,841	-	-	87,611
Impairment charges for Investments, net	-	-	3,500	-	3,500
December 31, 2016 (Audited)					
Total assets	16,500,468	116,504,685	69,346,485	1,077,071	203,428,709
Total liabilities	82,875,331	72,637,713	17,272,000	944,662	173,729,706
June 30, 2016 (unaudited)					
Total assets	17,187,171	116,629,179	58,898,989	1,196,845	193,912,184
Total liabilities	79,106,783	60,148,693	24,917,742	1,097,585	165,270,803
Total operating income	765,221	1,566,517	776,818	149,246	3,257,802
Total operating expenses	579,099	343,436	118,858	93,941	1,135,334
Share in earnings of associates, net	-	-	3,520	-	3,520
Net income for the period	186,122	1,223,081	661,480	55,305	2,125,988
Inter-segment revenue	431,560	62,953	(494,513)	-	-
Impairment charges for credit losses, net	29,102	49,215	-	-	78,317
Impairment reversal for Investments, net	-	-	(20,813)	-	(20,813)

11. Fair values of financial assets and liabilities

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

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

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

Valuation models

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

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

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

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

Valuation Framework

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

Determination of fair value and fair value hierarchy

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

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

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

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

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

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

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

SAR' 000	Level 1	Level 2	Level 3	Total
<u>June 30, 2017 (Unaudited)</u>				
Financial assets				
Derivative financial instruments positive fair value	-	1,922,927	-	1,922,927
Financial investments designated at FVIS (trading)	325,100	6,069	-	331,169
Financial investments available for sale	1,483,539	4,738,646	2,896,929	9,119,114
Total	1,808,639	6,667,642	2,896,929	11,373,210
Financial Liabilities				
Derivative financial instruments negative fair value	-	1,348,440	-	1,348,440
Total	-	1,348,440	-	1,348,440
<u>December 31, 2016 (Audited)</u>				
Financial assets				
Derivative financial instruments positive fair value	-	1,741,695	-	1,741,695
Financial investments designated at FVIS (trading)	171,550	6,006	-	177,556
Financial investments available for sale	1,629,634	2,764,884	3,182,119	7,576,637
Total	1,801,184	4,512,585	3,182,119	9,495,888
Financial Liabilities				
Derivative financial instruments negative fair value	-	1,678,105	-	1,678,105
Total	-	1,678,105	-	1,678,105
<u>June 30, 2016 (Unaudited)</u>				
Financial assets				
Derivative financial instruments positive fair value	-	2,069,045	-	2,069,045
Financial investments designated at FVIS (trading)	281,166	-	-	281,166
Financial investments available for sale	2,494,265	2,373,807	3,119,565	7,987,637
Total	2,775,431	4,442,852	3,119,565	10,337,848
Financial Liabilities				
Derivative financial instruments negative fair value	-	2,953,236	-	2,953,236
Total	-	2,953,236	-	2,953,236

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

The fair values of investments held at amortized cost are SAR 15,912 million (December 31, 2016: 16,110 million and June 30, 2016 : 15,637 million) against carrying value of SAR 15,991 million (December 31, 2016: 16,244 million and June 30, 2016: 15,545 million). The fair values of commission bearing customers' deposits, debt securities, due from and due to banks and other financial institutions which are carried at amortized cost, are not significantly different from the carrying values included in the interim condensed consolidated financial statements, since the current market commission rates for similar financial instruments are not significantly different from the contracted rates, and due to the short duration of due from and due to banks and other financial institutions. An active market for these instruments is not available and the Bank intends to realize the carrying value of these financial instruments through settlement with the counter party at the time of their respective maturities.

The estimated fair values of the held to maturity investments and other investments held at amortized cost, are based on quoted market prices when available or pricing models when used in the case of certain fixed rate bonds. Consequently, differences can arise between carrying values and fair value estimates. The fair values of derivatives are based on the quoted market prices when available or by using the appropriate valuation technique. Financial investments available for sale comprise Mudarabah SAR 2,845 million (December 31, 2016: SAR 3,146 million and June 30, 2016: 3,083 million) which is classified as level 3. These Mudarabah investments are valued based on discounted cash flow methods, which incorporate assumptions regarding an appropriate 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 131,417 million (December 31, 2016: SAR 131,720 million and June 30, 2016: SAR 131,464 million). The carrying values of those loans and advances are SAR 129,383 million (December 31, 2016: SAR 129,458 million and June 30, 2016 SAR 129,637 million).

12. Share capital and Earnings per share

The authorised, issued and fully paid share capital of the Bank consists of 1,205 million shares of SAR 10 each (December 31, 2016: 1,205 million shares of SAR 10 each and June 30, 2016: 1,205 million shares of SAR 10 each).

Basic and diluted earnings per share for the periods ended June 30, 2017 and 2016 are calculated on a weighted average basis by dividing the net income for the period by 1,205 million shares after excluding treasury shares consists of 6 million shares as of June 30, 2017 (31 December 2016: 3.1 shares and June 30, 2016: Nil shares).

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

13. Treasury Shares

During quarter three 2016, the Bank initiated a plan to acquire treasury shares as authorised by the Board under its Long Term Incentives (LTI) plan which will grant appreciation award of the Bank share performance to its eligible employees as per LTI scheme. The eligible employees will benefit from the appreciation in value of the Bank Shares over the Vesting Period. The Long Term Incentives plan scheme has not been commenced as of 30 June 2017.

14. Interim dividends

The Board of Directors recommended on 09 July 2017 an interim net dividend of SAR 1.05 per share (June 30,2016: SAR 0.55 per share) of SAR 1,141 million (June 30,2016: 551 million) for the six months period ended June 30, 2017.

15. Comparative figures

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

SAR' 000	June 30, 2017 (Unaudited)		
	Interim consolidated statement of changes in equity		Interim consolidated statement of financial position
	Retained earnings	Proposed dividend	Other Liabilities
Zakat for the period	(47,789)	(32,791)	(80,580)
Tax for the period	(136,044)	(84,838)	(220,882)
Total	(183,833)	(117,629)	(301,462)

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

16. Capital Adequacy

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

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

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

SAR' 000	June 30, 2017 (Unaudited)	Dec 31, 2016 (Audited)	June 30, 2016 (Unaudited)
Credit Risk RWA	184,311,515	176,255,171	179,846,701
Operational Risk RWA	11,977,600	11,660,390	11,230,063
Market Risk RWA	4,248,309	3,901,349	3,907,264
Total RWA	200,537,424	191,816,910	194,984,028
Tier I Capital	31,780,871	30,235,959	29,436,739
Tier II Capital	3,795,925	3,869,475	4,044,161
Total Tier I & II Capital	35,576,796	34,105,434	33,480,900
Capital Adequacy Ratio %			
Tier I ratio	15.85%	15.76%	15.10%
Tier I + Tier II ratio	17.74%	17.78%	17.17%