

البنك  
السعودي  
الفرنسي  
Banque  
Saudi  
Fransi



INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS  
FOR THE NINE MONTHS PERIOD ENDED  
September 30, 2017

Adel Mallat:  


Patrice Couvègnes  
5-11-17

  
ع. الكندي

البنك السعودي الفرنسي  
Banque Saudi Fransi |   
PATRICE COUVEGNES  
MANAGING DIRECTOR



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

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

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

**Introduction**

We have reviewed the accompanying interim consolidated statement of financial position of Banque Saudi Fransi and its subsidiaries (the "Bank") as of September 30, 2017, the related interim consolidated statements of income, comprehensive income for the three-month and nine-month periods then ended, the related interim consolidated statement of changes in equity and cash flows for the nine-month period then ended and other explanatory notes (the "interim condensed consolidated financial statements"). The Bank's management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard No. 34 "Interim Financial Reporting" and Saudi Arabian Monetary Authority ("SAMA") guidance on 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' as 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 as 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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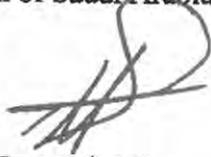
### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 and SAMA guidance on the accounting of 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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November 02, 2017

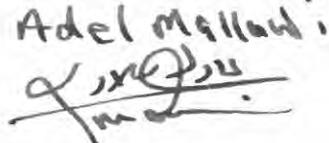


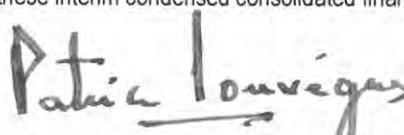
**BANQUE SAUDI FRANSI**  
**INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
As at

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SAR '000	Notes	Sep 30, 2017 (Unaudited)	Dec 31, 2016 (Audited)	Sep 30, 2016 (Unaudited)
<b>ASSETS</b>				
Cash and balances with SAMA		15,303,420	20,344,108	9,250,431
Due from banks and other financial institutions		26,433,690	25,338,632	23,134,195
Investments, net	3	26,115,481	24,074,379	24,935,918
Positive fair value derivative	7	2,214,951	1,741,695	1,841,573
Loans and advances, net	4	128,948,477	129,457,869	133,936,898
Investment in associates	5	118,709	113,220	111,625
Property and equipment, net		728,579	716,656	703,175
Other assets		1,840,419	1,642,150	1,823,420
<b>Total assets</b>		<b>201,703,726</b>	<b>203,428,709</b>	<b>195,737,235</b>
<b>LIABILITIES AND EQUITY</b>				
<b>Liabilities</b>				
Due to banks and other financial institutions		5,147,367	4,288,532	7,541,059
Customers' deposits	6	155,472,013	158,458,472	147,277,417
Negative fair value derivative	7	1,302,874	1,678,105	2,873,994
Debt securities and sukuk		3,904,292	6,726,112	6,744,166
Other liabilities		4,322,711	2,578,485	2,836,604
<b>Total liabilities</b>		<b>170,149,257</b>	<b>173,729,706</b>	<b>167,273,240</b>
<b>Equity</b>				
Share capital	12	12,053,572	12,053,572	12,053,572
Statutory reserve		12,053,572	11,805,933	11,459,872
General reserve		982,857	982,857	982,857
Other reserves		6,557	(863,584)	(1,771,784)
Retained earnings		6,587,745	5,139,428	5,759,475
Proposed dividend		-	647,995	-
Treasury shares	13	(129,834)	(67,198)	(19,997)
<b>Total equity</b>		<b>31,554,469</b>	<b>29,699,003</b>	<b>28,463,995</b>
<b>Total liabilities and equity</b>		<b>201,703,726</b>	<b>203,428,709</b>	<b>195,737,235</b>

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

Adel Mallouk  


Patrice Couvignes  


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

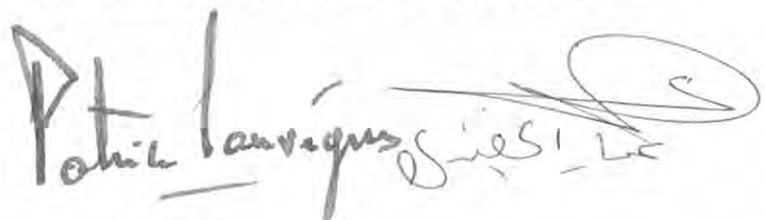




SAR '000	For the three months ended		For the nine months ended	
	Sep 30, 2017	Sep 30, 2016	Sep 30, 2017	Sep 30, 2016
Special commission income	1,714,532	1,571,385	5,012,705	4,371,426
Special commission expense	507,399	463,839	1,526,672	1,132,265
<b>Net special commission income</b>	<b>1,207,133</b>	<b>1,107,546</b>	<b>3,486,033</b>	<b>3,239,161</b>
Fee and commission income, net	249,120	313,019	843,331	1,039,822
Exchange income, net	89,435	95,535	267,825	300,216
Trading income, net	50,836	42,072	253,183	164,304
Dividend income	3,382	7,704	7,850	15,990
Gains on non-trading investments, net	9,528	2,147	28,665	4,535
Other operating income	20,134	19,613	69,639	81,410
<b>Total operating income</b>	<b>1,629,568</b>	<b>1,587,636</b>	<b>4,956,526</b>	<b>4,845,438</b>
Salaries and employee related expenses	316,170	293,248	953,663	896,576
Rent and premises related expenses	46,453	43,619	132,764	125,150
Depreciation and amortization	39,953	34,990	113,262	103,484
Other general and administrative expenses	167,167	152,281	493,965	473,170
Impairment charge for credit losses, net	55,679	54,531	143,290	132,848
Impairment charge / (reversal) for investments, net	-	(167)	3,500	(20,980)
Other operating expenses	5,566	572	12,457	4,160
<b>Total operating expenses</b>	<b>630,988</b>	<b>579,074</b>	<b>1,852,901</b>	<b>1,714,408</b>
<b>Net operating income</b>	<b>998,580</b>	<b>1,008,562</b>	<b>3,103,625</b>	<b>3,131,030</b>
Share in earnings of associates, net - note 5	1,957	1,675	5,492	5,195
<b>Net income for the period</b>	<b>1,000,537</b>	<b>1,010,237</b>	<b>3,109,117</b>	<b>3,136,225</b>
Basic and diluted earnings per share for the period (SAR) - note 12	0.83	0.84	2.59	2.60

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

Adel Mallaw  

SAR '000	For the three months ended		For the nine months ended	
	Sep 30, 2017	Sep 30, 2016	Sep 30, 2017	Sep 30, 2016
<b>Net income for the period</b>	1,000,537	1,010,237	3,109,117	3,136,225
<b>Other comprehensive income (loss):</b>				
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	4,859	(59,268)	43,440	(134,406)
Fair value gains transferred to interim condensed consolidated statement of income upon disposal	(9,528)	(2,147)	(28,665)	(4,535)
<u>Cash flow hedge</u>				
Net change in the fair value	229,683	(416,393)	986,610	(471,182)
Fair value gains transferred to interim condensed consolidated statement of income upon disposal	(79,845)	41,477	(131,244)	(66,862)
<b>Total comprehensive income for the period</b>	<b>1,145,706</b>	<b>573,906</b>	<b>3,979,258</b>	<b>2,459,240</b>

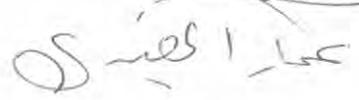
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Adel Mallawi  




البنك السعودي الفرنسي  
 Banque Saudi Fransi  
**PATRICE COUVEGNES**  
 MANAGING DIRECTOR





BANQUE SAUDI FRANSI  
INTERIM 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			
<b>For the nine months period ended September 30, 2017</b>									
Balance at the beginning of the period	12,053,572	11,805,933	982,857	5,139,428	31,343	(894,927)	647,995	(67,198)	29,699,003
Total comprehensive income for the period									
Net income for the period	-	-	-	3,109,117	-	-	-	-	3,109,117
Net change in the fair value	-	-	-	-	43,440	986,610	-	-	1,030,050
Net amount transferred to interim condensed consolidated statement of income	-	-	-	-	(28,665)	(131,244)	-	-	(159,909)
Transferred to statutory reserves	-	247,639	-	(247,639)	-	-	-	-	-
Zakat liability	-	-	-	(75,005)	-	-	(32,791)	-	(107,796)
Tax liability	-	-	-	(197,525)	-	-	(84,838)	-	(282,363)
Net change in Treasury shares	-	-	-	-	-	-	-	(62,636)	(62,636)
Interim gross dividend	-	-	-	(1,140,631)	-	-	-	-	(1,140,631)
Final Dividend paid (2016)	-	-	-	-	-	-	(530,366)	-	(530,366)
<b>Balance at the end of the period</b>	<b>12,053,572</b>	<b>12,053,572</b>	<b>982,857</b>	<b>6,587,745</b>	<b>46,118</b>	<b>(39,561)</b>	<b>-</b>	<b>(129,834)</b>	<b>31,554,469</b>
<b>For the nine months period ended September 30, 2016</b>									
Balance at the beginning of the period	12,053,572	10,928,375	982,857	3,886,042	67,669	(1,162,468)	727,754	-	27,483,801
Total comprehensive income for the period									
Net income for the period	-	-	-	3,136,225	-	-	-	-	3,136,225
Net change in the fair value	-	-	-	-	(134,406)	(471,182)	-	-	(605,588)
Net amount transferred to interim condensed consolidated statement of income	-	-	-	-	(4,535)	(66,862)	-	-	(71,397)
Transferred to statutory reserves	-	531,497	-	(531,497)	-	-	-	-	-
Treasury shares purchased	-	-	-	-	-	-	-	(19,997)	(19,997)
Interim gross dividend	-	-	-	(731,295)	-	-	-	-	(731,295)
Final dividend paid (2015)	-	-	-	-	-	-	(727,754)	-	(727,754)
<b>Balance at the end of the period</b>	<b>12,053,572</b>	<b>11,459,872</b>	<b>982,857</b>	<b>5,759,475</b>	<b>(71,272)</b>	<b>(1,700,512)</b>	<b>-</b>	<b>(19,997)</b>	<b>28,463,995</b>

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

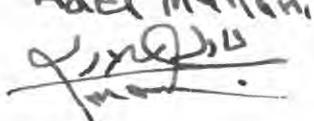
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**BANQUE SAUDI FRANSI**  
**INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS**  
**Unaudited**

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SAR '000	Note	For the nine months ended	
		Sep 30, 2017	Sep 30, 2016
<b>OPERATING ACTIVITIES</b>			
Net income for the period		3,109,117	3,136,225
Adjustments to reconcile net income to net cash from operating activities:			
Accretion of discounts on non trading investments, net		2,816	10,594
Gains on non trading investments, net		(28,665)	(4,535)
Depreciation and amortization		113,262	103,484
Gains disposal of property and equipment, net		(83)	(92)
Impairment charge for credit losses, net		143,290	132,848
Share in earnings of associates, net		(5,492)	(5,195)
Change in fair value of financial instruments		(1,858)	(8,769)
<b>Operating income before changes in operating assets and liabilities</b>		<b>3,332,387</b>	<b>3,364,560</b>
<b>Net (increase) / decrease in operating assets:</b>			
Statutory deposit with SAMA		(470,499)	584,993
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		(1,656,250)	(4,524,500)
Investments held as FVIS, trading		(99,883)	27,656
Loans and advances		365,454	(10,299,042)
Other assets		186,158	460,994
<b>Net increase / (decrease) in operating liabilities:</b>			
Due to banks and other financial institutions		858,835	5,983,869
Customers' deposits		(2,986,459)	5,425,317
Other liabilities		1,096,074	(376,189)
<b>Net cash from operating activities</b>		<b>625,817</b>	<b>647,658</b>
<b>INVESTING ACTIVITIES</b>			
Proceeds from sales and maturities of non trading investments		3,287,753	8,863,036
Purchase of non trading investments		(5,188,346)	(5,553,385)
Dividends received from associates		-	293
Purchase of property and equipment		(125,317)	(115,600)
Proceeds from sale of property and equipment		215	162
<b>Net cash (used in) / from investing activities</b>		<b>(2,025,695)</b>	<b>3,194,506</b>
<b>FINANCING ACTIVITIES</b>			
Dividends paid		(1,788,626)	(1,459,049)
Purchase of Treasury shares		(71,375)	(19,997)
Debt securities and sukuks		(2,812,500)	-
<b>Net cash used in financing activities</b>		<b>(4,672,501)</b>	<b>(1,479,046)</b>
<b>(Decrease)/ increase in cash and cash equivalents</b>			
Cash and cash equivalents at the beginning of the period		24,674,790	16,667,485
<b>Cash and cash equivalents at the end of the period</b>	9	<b>18,602,411</b>	<b>19,030,603</b>
Special commission received during the period		4,705,572	3,883,363
Special commission paid during the period		1,427,768	914,426
<b>Supplemental non-cash information</b>			
Net changes in fair value and transferred to interim condensed consolidated statement of income		870,141	(676,985)

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

Adel Mahadi  


Patrice Couvègnes  
  
 5 - PATRICE COUVEGNES  
 MANAGING DIRECTOR

  
 سريال

## 1. General

Banque Saudi Fransi (the Bank) is a Saudi Joint Stock Company established by Royal Decree No. M/23 dated Jumada Al Thani 17, 1397H (corresponding to June 4, 1977). The Bank formally commenced its activities on Muharram 1, 1398H (corresponding to December 11, 1977), by taking over the branches of the Banque de l'Indochine et de Suez in the Kingdom of Saudi Arabia. The Bank operates under Commercial Registration Number 1010073368 dated Safar 4, 1410H (corresponding to September 5, 1989), through its 86 branches (September 30, 2016: 84 branches) in the Kingdom of Saudi Arabia, employing 3,134 people (September 30, 2016: 3,186).

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

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.

## 2. Basis of preparation (continued)

Amendments to IFRS 2 'Share based payments', on clarifying how to account for certain types of share-based payment transactions (effective 1 January 2018): Applicable for annual periods beginning on or after January 1, 2018

IFRS 9 'Financial Instruments': Applicable for annual periods beginning on or after January 1, 2018

IFRS 15, 'Revenue from contracts with customers': Applicable for annual periods beginning on or after January 1, 2018

Amendment to IFRS 15, 'Revenue from contracts with customers': Applicable for annual periods beginning on or after January 1, 2018

Amendment to IFRS 4, 'Insurance contracts' regarding the implementation of IFRS 9, 'Financial instruments': Applicable for annual periods beginning on or after January 1, 2018

Amendment to IAS 40, 'Investment property' relating to transfers of investment property: Applicable for annual periods beginning on or after January 1, 2018

IFRIC 22, 'Foreign currency transactions and advance consideration': Applicable for annual periods beginning on or after January 1, 2018

### Basis of consolidation

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

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

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

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

### 3. Investments, net

Investments are classified as follows:

SAR '000	Sep 30, 2017 (Unaudited)	Dec 31, 2016 (Audited)	Sep 30, 2016 (Unaudited)
Held as FVIS	277,439	177,556	182,969
Available for sale	9,349,913	7,576,637	8,431,116
Held to maturity	-	75,821	76,742
Other investments held at amortised cost	16,488,129	16,244,365	16,245,091
<b>Total</b>	<b>26,115,481</b>	<b>24,074,379</b>	<b>24,935,918</b>

Investments held as FVIS represent investments held for trading.

### 4. Loans and advances, net

SAR'000	Sep 30, 2017 (Unaudited)	Dec 31, 2016 (Audited)	Sep 30, 2016 (Unaudited)
Performing loans and advances:			
Consumer loans	11,590,971	10,987,324	10,789,571
Commercial loans and overdrafts	117,541,145	119,253,027	123,907,046
Credit cards	544,370	515,372	551,182
<b>Total Performing loans and advances</b>	<b>129,676,486</b>	<b>130,755,723</b>	<b>135,247,799</b>
Non-performing loans and advances ,net	2,357,329	1,706,897	1,093,655
Gross loans and advances	132,033,815	132,462,620	136,341,454
Allowance for impairment	(3,085,338)	(3,004,751)	(2,404,556)
<b>Loans and advances, net</b>	<b>128,948,477</b>	<b>129,457,869</b>	<b>133,936,898</b>

### 5. Investment in associates

SAR '000	Sep 30, 2017 (Unaudited)	Dec 31, 2016 (Audited)	Sep 30, 2016 (Unaudited)
Cost	106,427	106,430	151,645
Share of earnings	114,282	108,790	61,980
Impairment provision	(102,000)	(102,000)	(102,000)
<b>Total</b>	<b>118,709</b>	<b>113,220</b>	<b>111,625</b>

## 6. Customers' deposits

SAR'000	Sep 30, 2017 (Unaudited)	Dec 31, 2016 (Audited)	Sep 30, 2016 (Unaudited)
Demand	83,031,134	88,525,872	83,029,848
Saving	514,806	618,883	492,814
Time	67,581,381	65,672,408	59,485,803
Other	4,344,692	3,641,309	4,268,952
<b>Total</b>	<b>155,472,013</b>	<b>158,458,472</b>	<b>147,277,417</b>

## 7. Derivatives

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

SAR '000	Sep 30, 2017 (Unaudited)			Dec 31, 2016 (Audited)			Sep 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
<b>Held for trading</b>									
Special commission rate swaps	1,230,850	1,033,261	180,267,790	968,787	774,571	159,744,832	1,319,379	1,239,781	162,073,073
Special commission rate futures and options	52,818	52,818	73,668,262	11,574	25,098	70,206,099	5,728	5,728	72,017,590
Forward rate agreements	-	248	1,500,000	-	-	-	-	-	-
Forward foreign exchange contracts	239,829	98,396	51,714,378	334,087	261,526	52,424,564	305,688	258,785	54,910,612
Currency options	12,179	12,179	5,755,393	93,133	93,133	20,166,633	105,366	105,366	28,174,381
Others	11,349	11,349	735,404	42,358	42,358	1,316,557	26,380	26,380	1,588,888
<b>Held as fair value hedges</b>									
Special commission rate swaps	-	1,879	264,000	786	4,719	3,076,500	10,875	6,393	3,076,500
<b>Held as cash flow hedges</b>									
Special commission rate swaps	667,926	92,744	73,210,106	290,970	476,700	74,607,678	68,157	1,231,561	74,265,952
<b>Total</b>	<b>2,214,951</b>	<b>1,302,874</b>	<b>387,115,333</b>	<b>1,741,695</b>	<b>1,678,105</b>	<b>381,542,863</b>	<b>1,841,573</b>	<b>2,873,994</b>	<b>396,106,996</b>

## 8. Credit related commitments and contingencies

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

SAR '000	Sep 30, 2017 (Unaudited)	Dec 31, 2016 (Audited)	Sep 30, 2016 (Unaudited)
Letters of credit	8,372,606	7,511,482	7,615,546
Letters of guarantee	45,622,478	47,874,186	49,107,057
Acceptances	2,546,455	2,691,122	2,696,548
Irrevocable commitments to extend credit	2,732,831	4,340,502	5,648,457
<b>Total</b>	<b>59,274,370</b>	<b>62,417,292</b>	<b>65,067,608</b>

## 9. Cash and cash equivalents

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

SAR '000	Sep 30, 2017 (Unaudited)	Dec 31, 2016 (Audited)	Sep 30, 2016 (Unaudited)
Cash and balances with SAMA excluding statutory deposit	6,286,971	11,798,158	1,095,908
Due from banks and other financial institutions maturing within three months from the date of acquisition	12,315,440	12,876,632	17,934,695
<b>Total</b>	<b>18,602,411</b>	<b>24,674,790</b>	<b>19,030,603</b>

## 10. Operating Segment

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.

**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.

## 10. Operating Segment (Continued)

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

(Unaudited) SAR '000"	Retail banking	Corporate banking	Treasury	Investment banking and brokerage	Total
<b>Sep 30, 2017 (unaudited)</b>					
Total assets	17,919,516	114,276,436	68,199,712	1,308,062	201,703,726
Total liabilities	79,524,162	78,609,774	10,787,658	1,227,663	170,149,257
Total operating income	1,179,113	2,272,731	1,314,491	190,191	4,956,526
Total operating expenses	970,856	516,058	240,000	125,987	1,852,901
Share in earnings of associates, net	-	-	5,492	-	5,492
Net income for the period	208,257	1,756,673	1,079,983	64,204	3,109,117
Inter-segment revenue	654,033	108,243	(762,276)	-	-
Impairment charges for credit losses, net	78,222	65,068	-	-	143,290
Impairment charges for Investments, net	-	-	3,500	-	3,500
<b>December 31, 2016 (Audited)</b>					
Total assets	16,500,468	116,504,685	69,346,485	1,077,071	203,428,709
Total liabilities	82,875,331	72,637,713	17,272,000	944,662	173,729,706
<b>Sep 30, 2016 (unaudited)</b>					
Total assets	17,040,224	121,578,057	55,947,440	1,171,514	195,737,235
Total liabilities	79,693,244	68,379,922	18,118,257	1,081,817	167,273,240
Total operating income	1,134,971	2,353,651	1,150,619	206,197	4,845,438
Total operating expenses	875,733	519,548	185,839	133,288	1,714,408
Share in earnings of associates, net	-	-	5,195	-	5,195
Net income for the period	259,238	1,834,103	969,975	72,909	3,136,225
Inter-segment revenue	631,396	65,731	(697,127)	-	-
Impairment charges for credit losses, net	54,690	78,158	-	-	132,848
Impairment charges for Investments, net	-	-	(20,980)	-	(20,980)

## 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. 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.

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

The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including foreign exchange spot and forward rates and commission rate curves. Other investments in level 2 are valued based on market observable date including broker rates etc.

SAR' 000	Level 1	Level 2	Level 3	Total
<b><u>Sep 30, 2017 (Unaudited)</u></b>				
<b>Financial assets</b>				
Derivative financial instruments positive fair value	-	2,214,951	-	2,214,951
Financial investments designated at FVIS (trading)	271,297	6,142	-	277,439
Financial investments available for sale	1,781,915	4,643,688	2,924,310	9,349,913
<b>Total</b>	<b>2,053,212</b>	<b>6,864,781</b>	<b>2,924,310</b>	<b>11,842,303</b>
<b>Financial Liabilities</b>				
Derivative financial instruments negative fair value	-	1,302,874	-	1,302,874
<b>Total</b>	<b>-</b>	<b>1,302,874</b>	<b>-</b>	<b>1,302,874</b>
<b><u>December 31, 2016 (Audited)</u></b>				
<b>Financial assets</b>				
Derivative financial instruments positive fair value	-	1,741,695	-	1,741,695
Financial investments designated at FVIS (trading)	171,550	6,006	-	177,556
Financial investments available for sale	1,629,634	2,764,884	3,182,119	7,576,637
<b>Total</b>	<b>1,801,184</b>	<b>4,512,585</b>	<b>3,182,119</b>	<b>9,495,888</b>
<b>Financial Liabilities</b>				
Derivative financial instruments negative fair value	-	1,678,105	-	1,678,105
<b>Total</b>	<b>-</b>	<b>1,678,105</b>	<b>-</b>	<b>1,678,105</b>
<b><u>Sep 30, 2016 (Unaudited)</u></b>				
<b>Financial assets</b>				
Derivative financial instruments positive fair value	-	1,841,573	-	1,841,573
Financial investments designated at FVIS (trading)	176,923	6,046	-	182,969
Financial investments available for sale	2,348,491	2,406,592	3,676,033	8,431,116
<b>Total</b>	<b>2,525,414</b>	<b>4,254,211</b>	<b>3,676,033</b>	<b>10,455,658</b>
<b>Financial Liabilities</b>				
Derivative financial instruments negative fair value	-	2,873,994	-	2,873,994
<b>Total</b>	<b>-</b>	<b>2,873,994</b>	<b>-</b>	<b>2,873,994</b>

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

The fair values of investments held at amortized cost are SAR 16,436 million (December 31, 2016: 16,110 million and September 30, 2016 : 16,176 million) against carrying value of SAR 16,488 million (December 31, 2016: 16,244 million and September 30, 2016: 16,245 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 2,866 million (December 31, 2016: SAR 3,146 million and September 30, 2016: 3,639 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 130,439 million (December 31, 2016: SAR 131,720 million and September 30, 2016: SAR 136,008 million). The carrying values of those loans and advances are SAR 129,091 million (December 31, 2016: SAR 129,458 million and September 30, 2016 SAR 133,937 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 September 30, 2016: 1,205 million shares of SAR 10 each).

Basic and diluted earnings per share for the periods ended September 30, 2017 and 2016 are calculated on a weighted average basis by dividing the net income for the period by 1,201 million shares after excluding treasury shares consists of 6 million shares as of September 30, 2017 (31 December 2016: 3.1 million shares and September 30, 2016: 0.93 millions 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 Incentive (LTI) plan which will grant the appreciation award of the Bank share performance to eligible employees as per LTI plan. The eligible employees will benefit from the appreciation in value of the Bank shares over the vesting period. The LTI plan has been commenced on grant date.

The Bank settles the appreciation value of the share performance in equity. The significant features of this plan are as follows:

### 13. Treasury Shares (Continued)

Nature of Plan	Long Term Incentive Plan
Number of outstanding plans	1
Grant date	02 July 2017
Number of shares granted for appreciation calculation on the grant date	6,000,000
Grant price -SAR	23.096
Vesting period	2017 to 2019
Value of shares granted-SAR	191,016,000
Vesting conditions	Employees remain in service and meets required service criteria
Method of settlement	Appreciation in Equity
Valuation model	Black-Sholes
Fair value per share on grant date-SAR	31.836

The share performance will be granted under a service condition along with market condition associated with them. The total amount of expense recognized in these consolidated financial statements in respect of the above share appreciation equity based payment plans for the period is SAR 8.7 million (2016: SAR nil million).

### 14. Interim dividends

The Board of Directors recommended on 09 July 2017 an interim net dividend of SAR 1.05 per share (2016: SAR 0.55 per share) of SAR 1,141 million (2016: SAR 551 million).

### 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	Sep 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	(75,005)	(32,791)	(107,796)
Tax for the period	(197,525)	(84,838)	(282,363)
<b>Total</b>	<b>(272,530)</b>	<b>(117,629)</b>	<b>(390,159)</b>

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	Sep 30, 2017 (Unaudited)	Dec 31, 2016 (Audited)	Sep 30, 2016 (Unaudited)
Credit Risk RWA	181,375,277	176,255,171	182,717,826
Operational Risk RWA	12,079,400	11,660,390	11,466,275
Market Risk RWA	3,363,086	3,901,349	3,837,400
<b>Total RWA</b>	<b>196,817,763</b>	<b>191,816,910</b>	<b>198,021,501</b>
Tier I Capital	31,586,117	30,235,959	29,484,302
Tier II Capital	3,795,190	3,869,475	4,095,704
<b>Total Tier I &amp; II Capital</b>	<b>35,381,307</b>	<b>34,105,434</b>	<b>33,580,006</b>
Capital Adequacy Ratio %			
Tier I ratio	16.05%	15.76%	14.89%
Tier I + Tier II ratio	17.98%	17.78%	16.96%