# Arab National Bank
## Annual Report 2016

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## Independent Auditors' Report on the Audit of the Consolidated Financial Statements
## To the Shareholders of Arab National Bank (A Saudi Joint Stock Company)

### Opinion

We have audited the consolidated financial statements of Arab National Bank (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and 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 Group as at December 31, 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 Bye-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 Group 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 judgement, were of most significance in our audit of the consolidated financial statements of the current period. 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 matter below, our description of how our audit addressed the matter is provided in that context.

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**Independent Auditors' Report on the Audit of the Consolidated Financial Statements**
**To the Shareholders of Arab National Bank (A Saudi Joint Stock Company) (continued)**

**Key Audit Matters (continued)**

| The key audit matter | How the matter was addressed in our audit |
|---|---|
| ***Loan impairment***<br><br>At December 31, 2016, the gross loans and advances were Saudi Riyals 118,229 million against which impairment provision of Saudi Riyals 2,718 million was maintained. This includes impairment against specific loans and collective impairment recorded on a portfolio basis through the use of a model.<br><br>We considered this as a key audit matter as the management makes complex and subjective judgements and makes assumptions to determine the impairment and the timing of recognition of such impairment.<br><br>In particular the determination of impairment against loans and advances includes:<br><br>• The identification of impairment events and methods and judgments used to calculate the impairment against specific corporate loans and advances;<br><br>• 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;<br><br>• An assessment of the Group's exposure to certain industries affected by economic conditions.<br><br>*Refer to the significant accounting policies note 3(l) to the consolidated financial statements, note 2(d) which contains the disclosure of significant accounting estimates relating to impairment against loans and advances, note 7 which contains the disclosure of impairment against loans and advances and note 31 which explains the impairment assessment methodology used by the Group.* | 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. This included testing of:<br><br>• Entity level controls over the modelling process including model review, monitoring and approval of assumption by management;<br><br>• Controls over the identification of impaired loans and advances, model output to the general ledger, and the calculation of the impairment allowance.<br><br>For specific impairment, we performed the following procedures<br><br>• We tested a sample of loans and advances (including loans those were not identified by management as potentially impaired) to form our own assessment as to whether impairment events have occurred and to assess whether impairment was identified and recorded in a timely manner;<br><br>• We considered the assumptions underlying the impairment identification including forecasted future cash flows, discount rates and estimated recovery from any underlying collateral etc;<br><br>• We also selected a sample of loans for industries adversely affected by the current economic conditions to evaluate management's assessment for impairment of such loans.<br><br>For collective impairment, among other procedures, we tested:<br><br>• the completeness and accuracy of the underlying loans and advances information used in the impairment models;<br><br>• the key assumptions used by management for impaired loans; and<br><br>• the calculations within the models on a sample basis. |

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**Independent Auditors' Report on the Audit of the Consolidated Financial Statements**
**To the Shareholders of Arab National Bank (A Saudi Joint Stock Company) (continued)**

**Key Audit Matters (continued)**

| The key audit matter | How the matter was addressed in our audit |
|---|---|
| ***Valuation of investments held as available for sale which are not traded in an active market*** | |
| Available for sale investments comprise a portfolio of debt, mutual funds and equity investments. These instruments are measured at fair value with the corresponding fair value changes recognised in other comprehensive income. The fair value of certain financial instruments 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. | 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.<br><br>We performed an assessment of the methodology and the appropriateness of the valuation models and inputs used to value available for sale investments. |
| Estimation uncertainty exists for those instruments not traded in an active market and where the internal modelling techniques use significant observable valuation inputs (i.e. level 2 investments). | 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 the key inputs used in the valuation such as the expected cash flows, risk free rates and credit spreads by benchmarking them with observable external data. |
| In the Group's accounting policies, the management has described the key sources of estimation involved in determining the valuation of level 2 financial instruments and in particular when the fair value is established using a valuation techniques due to the instrument's complexity. | |
| The valuation of the Group's available for sale investments in level 2 category is considered a key audit matter given the degree of complexity involved in valuing these financial instruments and significance of the judgment and estimates made by the management. | |
| *Refer to note 3(j) of the consolidated financial statements for the accounting policy, note 35 which explains the investment valuation methodology used by the Group and note 2(d) which explains critical judgments and estimates.* | |

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**Independent Auditors' Report on the Audit of the Consolidated Financial Statements**
**To the Shareholders of Arab National Bank (A Saudi Joint Stock Company) (continued)**

**Key Audit Matters (continued)**

| The key audit matter | How the matter was addressed in our audit |
|---|---|
| ***Impairment of non-trading investments*** | |
| As at December 31, 2016, the Group had non-trading investments of Saudi Riyals 9,457 million. These non-trading investments comprise equities, corporate bonds and sukuk which are subject to the risk of impairment in value due to either adverse market situation and / or liquidity constraints faced by the issuers.<br><br>For assessing the impairment of equities the management monitors 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 cost of the equity instrument. 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 cost.<br><br>For debt instruments such as corporate bonds/sukuk management considers them to be impaired when there is evidence of a deterioration in the financial health of the investee, industry or sector performance, changes in technology and operational and financing cash flows.<br><br>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.<br><br>*Refer to note 3(l) of the consolidated financial statements for the accounting policy relating to the impairment of non-trading investments, note 2(d) for the critical accounting estimates and judgements, and notes 31 and 33 for the disclosures of credit and market risks respectively.* | 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 listed equities and/or any defaults on corporate bonds/sukuk.<br><br>For equity investments, we considered the management criteria for determining significant or prolonged decline in the value of investments and on a sample basis;<br><br>• Evaluated the basis for determining the costs and fair value of investments;<br><br>• Tested the cost and valuation of investments; and<br><br>• Considered the price fluctuation / movement during the holding period to determine if the investment meets the significant or prolonged criteria.<br><br>For corporate bonds/sukuk, on a sample basis, we assessed the creditworthiness of counterparties based on available market information and assessed cash flows from the instrument, as provided by the management, to consider any defaults based on the terms and conditions of the issuance of these bonds/sukuk. |

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**Independent Auditors' Report on the Audit of the Consolidated Financial Statements**
**To the Shareholders of Arab National Bank (A Saudi Joint Stock Company) (continued)**

**Key Audit Matters (continued)**

| The key audit matter | How the matter was addressed in our audit |
|---|---|
| ***Fee from banking services***<br><br>The Group charges administrative fee upfront to the customers on loans and advances. Due to a large volume of transactions with mostly individually insignificant fee amounts, management uses certain assumptions and thresholds in relation to the recognition of such fees which are recorded within fee and commission income, net.<br><br>All such fees are an integral part of generating an involvement with the resulting financial instrument and therefore all such fees should be considered for making an adjustment to the effective yield and such adjustment should be recognised within special commission income.<br><br>We considered this as a key audit matter since the use of assumptions and judgements could result in material over/under statement of fees and commission income, net and special commission income.<br><br>*Refer to the significant accounting policies note 3(h) to the consolidated financial statements.* | • We assessed the design and implementation, and tested the operating effectiveness of the key controls over the consistent application of the assumptions and thresholds.<br><br>• We considered the assumptions used and thresholds established by the Group to record the fee charged upfront on loan financing.<br><br>• We obtained the management's assessment of the impact of the use of thresholds and assumptions and:<br><br>o traced the historical and current year data used by the management in their assessment to the underlying accounting records on a sample basis;<br><br>o assessed the management's estimation of the impact of the use of thresholds and assumptions on the recognition of fees and commission income and special commission income. |

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**Independent Auditors' Report on the Audit of the Consolidated Financial Statements**
**To the Shareholders of Arab National Bank (A Saudi Joint Stock Company) (continued)**

**Key Audit Matters (continued)**

| The key audit matter | How the matter was addressed in our audit |
|---|---|
| ***Valuation of derivatives*** | |
| The Group has entered into commission rate swaps (CRS), foreign exchange forward and commodity contracts, commission rate futures and options and certain structured derivative contracts which 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 including adjustments to counterparty's own credit risk.<br><br>The majority of these derivatives are held for trading purposes; however, certain CRS are also categorized as fair value hedge in the consolidated financial statements. Valuation of derivatives could have a material impact on the consolidated financial statements.<br><br>We considered this as a key audit matter as there is complexity and subjectivity involved in determining the valuation, where complex modelling techniques are being used.<br><br>*Refer to note 3(e) of the consolidated financial statements for the accounting policy relating to valuation of derivative and note 12 which explains the derivative positions and explains the valuation methodology used by the Group.* | 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 automated controls covering the fair valuation process for derivatives.<br><br>We selected a sample of derivatives and:<br><br>• Tested the accuracy of the particulars of derivatives by comparing the terms and conditions with relevant agreements and deal confirmations;<br><br>• Checked the accuracy and appropriateness of the key inputs to the valuation model; and<br><br>• Involved our valuation specialists to perform an independent valuation of the derivatives and compared the result with management's valuation. |

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**Independent Auditors' Report on the Audit of the Consolidated Financial Statements**
**To the Shareholders of Arab National Bank (A Saudi Joint Stock Company) (continued)**

**Other Information included in the Bank's 2016 Annual Report**

Management is responsible for the other information in its 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. 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 Commercial Banks issued by the SAMA, IFRSs, the applicable requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's Bye-laws, 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 Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

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**Independent Auditors' Report on the Audit of the Consolidated Financial Statements To the Shareholders of Arab National Bank (A Saudi Joint Stock Company) (continued)**

**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 control 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 Group'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 Group'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 Group to cease to continue as a going concern.

- 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.

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## Independent Auditors' Report on the Audit of the Consolidated Financial Statements To the Shareholders of Arab National Bank (A Saudi Joint Stock Company) (continued)

### Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group 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.

**Ernst & Young**

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25 Jumad Awal 1438 H
(22 February 2017)

# Consolidated Statement of Financial Position

## As at December 31, 2016 and 2015

| Assets | Notes | 2016 SAR '000 | 2015 SAR '000 |
|---|---|---|---|
| Cash and balances with SAMA | 4 | **19,503,973** | 10,428,291 |
| Due from banks and other financial institutions | 5 | **4,030,850** | 5,575,099 |
| Positive fair value derivatives | 12 | **459,770** | 290,158 |
| Investments, net | 6 | **25,548,399** | 33,294,299 |
| Loans and advances, net | 7 | **115,511,521** | 115,655,825 |
| Investments in associates | 8 | **616,395** | 531,617 |
| Other real estate | | **136,634** | 159,893 |
| Investment property, net | 9 | **1,651,363** | 1,675,866 |
| Property and equipment, net | 10 | **1,839,222** | 1,945,420 |
| Other assets | 11 | **710,595** | 864,805 |
| **Total assets** | | **170,008,722** | 170,421,273 |
| **Liabilities and equity** | | | |
| **Liabilities** | | | |
| Due to banks and other financial institutions | 13 | **3,858,871** | 5,673,113 |
| Negative fair value derivatives | 12 | **439,789** | 338,949 |
| Customers' deposits | 14 | **135,907,457** | 135,761,194 |
| Other liabilities | 15 | **3,859,862** | 4,004,894 |
| Debt securities and sukuk | 16 | **2,018,190** | 2,011,270 |
| **Total liabilities** | | **146,084,169** | 147,789,420 |
| **Equity attributable to equity holders of the Bank** | | | |
| Share capital | 17 | **10,000,000** | 10,000,000 |
| Statutory reserve | 18 | **9,446,000** | 8,732,000 |
| Other reserves | | **166,514** | 102,051 |
| Retained earnings | | **3,172,847** | 2,509,946 |
| Proposed dividends | 27 | **450,000** | 550,000 |
| **Total Equity attributable to equity holders of the Bank** | | **23,235,361** | 21,893,997 |
| Non-controlling interest | | **689,192** | 737,856 |
| Total equity | | **23,924,553** | 22,631,853 |
| **Total liabilities and equity** | | **170,008,722** | 170,421,273 |

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

# Consolidated Statement of Income

## For the years ended December 31, 2016 and 2015

| | Notes | 2016 SAR '000 | 2015 SAR '000 |
|---|---|---|---|
| Special commission income | 20 | **5,738,172** | 4,438,779 |
| Special commission expense | 20 | **1,592,687** | 593,942 |
| Net special commission income | | **4,145,485** | 3,844,837 |
| Fees and commission income, net | 21 | **1,037,127** | 1,285,924 |
| Exchange income, net | | **475,145** | 513,272 |
| Unrealized loss on investments held as FVIS, net | | **(5,943)** | (4,679) |
| Trading income/(loss), net | 22 | **9,197** | (4,363) |
| Dividend income | 23 | **48,900** | 46,277 |
| Gains on non-trading investments, net | 24 | **45,484** | 24,278 |
| Other operating income, net | 25 | **98,742** | 75,580 |
| **Total operating income** | | **5,854,137** | 5,781,126 |
| Salaries and employee related expenses | 29 | **1,284,243** | 1,375,471 |
| Rent and premises related expenses | | **171,625** | 165,963 |
| Depreciation and amortization | 10 | **233,378** | 199,323 |
| Other general and administrative expenses | | **571,511** | 502,434 |
| Impairment charges for credit losses, net | 7 | **726,136** | 575,504 |
| Impairment charges for investments, net | 6 | **37,645** | 43,455 |
| **Total operating expenses** | | **3,024,538** | 2,862,150 |
| Net operating income | | **2,829,599** | 2,918,976 |
| Share in earnings of associates, net | 8 | **32,278** | 37,500 |
| **Net income for the year** | | **2,861,877** | 2,956,476 |
| **Attributable to:** | | | |
| Equity holders of the Bank | | **2,853,901** | 2,964,417 |
| Non-controlling interest | | **7,976** | (7,941) |
| **Net income for the year** | | **2,861,877** | 2,956,476 |
| Basic and diluted earnings (in SAR per share) | 26 | **2,86** | 2,96 |

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

# Consolidated Statement of Comprehensive Income

For the years ended December 31, 2016 and 2015

| | 2016 SAR '000 | 2015 SAR '000 |
|---|---|---|
| **Net income for the year** | **2,861,877** | 2,956,476 |
| **Other comprehensive income:** | | |
| **Items that are or may be reclassified to the consolidated statement of income in subsequent periods** | | |
| **Available for sale financial assets:** | | |
| – Net changes in fair value | **72,302** | (197,389) |
| – Net amounts transferred to consolidated statement of income | **(7,839)** | 19,589 |
| **Cash flows hedges:** | | |
| – Net amounts transferred to consolidated income statement | **-** | 1,019 |
| **Total other comprehensive income (loss)** | **64,463** | (176,781) |
| **Total comprehensive income for the year** | **2,926,340** | 2,779,695 |
| **Attributable to:** | | |
| Equity holders of the Bank | **2,918,364** | 2,787,636 |
| Non-controlling interest | **7,976** | (7,941) |
| **Total comprehensive income for the year** | **2,926,340** | 2,779,695 |

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

# Consolidated Statement of Changes in Equity

## For the years ended December 31, 2016 and 2015

### Attributable to equity holders of the Bank

| 2016 | Notes | Share capital SAR ,000 | Statutory reserve SAR ,000 | Other reserves: Available for sale financial assets SAR ,000 | Other reserves: Cash flow hedges SAR ,000 | Retained earnings SAR ,000 | Proposed dividends SAR ,000 | Total SAR ,000 | Non-controlling interest SAR ,000 | Total equity SAR ,000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at beginning of the year** | | 10,000,000 | 8,732,000 | 102,051 | - | 2,509,946 | 550,000 | 21,893,997 | 737,856 | 22,631,853 |
| **Changes in equity for the year** | | | | | | | | | | |
| Net changes in fair value of available for sale investments | | | | 72,302 | - | - | - | 72,302 | - | 72,302 |
| Net transfers to consolidated income statement | | | | (7,839) | - | - | - | (7,839) | - | (7,839) |
| Net income for the year | | | | - | - | 2,853,901 | - | 2,853,901 | 7,976 | 2,861,877 |
| **Total comprehensive income for the year** | | | | 64,463 | - | 2,853,901 | - | 2,918,364 | 7,976 | 2,926,340 |
| | | | | | | | | | | |
| Transfer to statutory reserve | 18 | - | 714,000 | - | - | (714,000) | - | - | - | - |
| 2015 final dividends paid | 27 | - | - | - | - | - | (550,000) | (550,000) | - | (550,000) |
| Gross dividends – Interim and proposed | 27 | - | - | - | - | (1,477,000) | 450,000 | (1,027,000) | - | (1,027,000) |
| Distributions from a subsidiary | | - | - | - | - | - | - | - | (56,640) | (56,640) |
| **Balance at the end of the year** | | 10,000,000 | 9,446,000 | 166,514 | - | 3,172,847 | 450,000 | 23,235,361 | 689,192 | 23,924,553 |

### Attributable to equity holders of the Bank

| 2015 | Notes | Share capital SAR ,000 | Statutory reserve SAR ,000 | Other reserves: Available for sale financial assets reserves SAR ,000 | Other reserves: Cash flow hedges reserves SAR ,000 | Retained earnings SAR ,000 | Proposed dividends SAR ,000 | Total SAR ,000 | Non-controlling interest SAR ,000 | Total equity SAR ,000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at beginning of the year** | | 10,000,000 | 7,990,000 | 279,851 | (1,019) | 1,782,481 | 550,000 | 20,601,313 | 38,446 | 20,639,759 |
| Changes in equity for the year | | | | | | | | | | |
| Net changes in fair value of available for sale investments | | | | (197,389) | - | - | - | (197,389) | - | (197,389) |
| Net transfers to consolidated income statement | | | | 19,589 | 1,019 | - | - | 20,608 | - | 20,608 |
| Net income for the year | | | | - | | 2,964,417 | - | 2,964,417 | (7,941) | 2,956,476 |
| **Total comprehensive income for the year** | | | | (177,800) | 1,019 | 2,964,417 | - | 2,787,636 | (7,941) | 2,779,695 |
| | | | | | | | | | | |
| Transfer to statutory reserve | 18 | - | 742,000 | - | - | (742,000) | - | - | - | - |
| 2014 final dividends paid | 27 | - | - | - | - | - | (550,000 | (550,000) | - | (550,000) |
| Gross dividends – Interim and proposed | 27 | - | - | - | - | (1,494,952) | 550,000 | (944,952) | - | (944,952) |
| Non-controlling interest arising on consolidation | 1 | - | - | - | - | - | | | 707,351 | 707,351 |
| **Balance at the end of the year** | | 10,000,000 | 8,732,000 | 102,051 | - | 2,509,946 | 550,000 | 21,893,997 | 737,856 | 22,631,853 |

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

# Consolidated Statement of Cash Flow

## For the years ended December 31, 2016 and 2015

| | NOTES | 2016 | 2015 |
|---|---|---|---|
| **Operating Activities** | | **SAR '000** | SAR '000 |
| **Net income for the year** | | **2,861,877** | 2,956,476 |
| **Adjustments to reconcile net income for the year to net cash from (used in)/operating activities:** | | | |
| Accretion of discounts of non-trading investments, net | | **(8,997)** | (84,501) |
| Gains on non-trading investments, net | 24 | **(45,484)** | (24,278) |
| Unrealized losses on revaluation of FVIS investments, net | | **5,943** | 4,679 |
| Dividend income | 23 | **(48,900)** | (46,277) |
| Depreciation of investment property | 9 | **24,793** | 24,807 |
| Depreciation and amortization of property and equipment | 10 | **233,378** | 199,323 |
| Losses on disposal of property and equipment, net | 25 | **160** | 1,695 |
| Share in earnings of associates, net | 8 | **(32,278)** | (37,500) |
| Impairment charges for credit losses, net | 7 | **726,136** | 575,504 |
| Impairment charges for investments, net | 6 | **37,645** | 43,455 |
| | | **3,754,273** | 3,613,383 |
| **Net (increase)/decrease in operating assets:** | | | |
| Statutory deposit with SAMA | | **135,372** | (883,706) |
| Investments held at FVIS (including trading investments) | 4 | **1,313,888** | (1,310,701) |
| Positive fair value derivatives | 6 | **(169,612)** | (133,489) |
| Loans and advances | | **(613,996)** | (12,101,665) |
| Other assets | | **154,209** | 95,468 |
| Other real estate | | **23,259** | - |
| **Net increase/(decrease) in operating liabilities:** | | | |
| Due to banks and other financial institutions | | **(1,814,242)** | (3,343,625) |
| Negative fair value derivatives | | **100,840** | 98,635 |
| Customers' deposits | | **146,263** | 6,021,627 |
| Other liabilities | | **(683,453)** | 49,276 |
| **Net cash from (used in)/operating activities** | | **2,346,801** | (7,894,797) |
| **Investing Activities** | | | |
| Proceeds from sale of and matured non-trading investments | | **21,162,037** | 19,060,668 |
| Purchase of non-trading investments | | **(14,669,137)** | (17,211,838) |
| Investment in associate | 8 | **(52,500)** | - |
| Purchase of investment property | 9 | **(290)** | (1,700,673) |
| Purchase of property and equipment | 10 | **(134,454)** | (401,382) |
| Proceeds from sale of property and equipment | | **7,114** | 880 |
| Dividend received | | **48,900** | 46,277 |
| **Net cash from (used in)/investing activities** | | **6,361,670** | (206,068) |
| **Financing Activities** | | | |
| Redemption of debt securities | 16 | **-** | (1,687,500) |
| Proceeds from issuance of sukuk | | **6,920** | 2,006,729 |
| Dividends paid, net of zakat | | **(991,946)** | (994,068) |
| Non-controlling interest from distributions from a subsidiary | | **(56,640)** | - |
| Non-controlling interest arising on consolidation | | **-** | 707,351 |
| **Net cash (used in)/from financing activities** | | **(1,041,666)** | 32,512 |
| **Increase/(decrease) in cash and cash equivalents** | | **7,666,805** | (8,068,353) |
| Cash and cash equivalents at the beginning of the year | | **8,680,518** | 16,748,871 |
| **Cash and cash equivalents at the end of the year** | 28 | **16,347,323** | 8,680,518 |
| Special commission received during the year | | **5,531,184** | 4,394,801 |
| Special commission paid during the year | | **(1,432,076)** | (550,272) |
| **Supplemental non-cash information** | | | |
| Net changes in fair value of available for sale financial assets | | **72,302** | (197,389) |

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

# Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015 (Saudi Riyals in Thousands)

## 1- General

Arab National Bank (a Saudi Joint Stock Company, the "Bank") was formed pursuant to Royal Decree No. M/38 dated Rajab 18,1399H (corresponding to June 13, 1979). The Bank commenced business on February 2, 1980 by taking over the operations of Arab Bank Limited in the Kingdom of Saudi Arabia. The Bank operates under Commercial Registration No. 1010027912 dated Rabi Awal 1, 1400H (corresponding to January 19, 1980) through its 151 branches (2015: 153 branches) in the Kingdom of Saudi Arabia (the Kingdom) and one branch in the United Kingdom. The address of the Bank's head office is as follows:
Arab National Bank
P.O. Box 56921
Riyadh 11564
Kingdom of Saudi Arabia
The objective of the Bank is to provide a full range of banking services. The Bank also provides to its customers non-commission based banking products which are approved and supervised by an independent Shari'ah Board established by the Bank.
The consolidated financial statements comprise the financial statements of the Bank and the following subsidiaries (collectively referred to as "the Group"):

### Arab National Investment Company (ANB Invest)

In accordance with the Capital Market Authority (CMA) directives, the Bank established ANB Invest, a wholly owned subsidiary (directly and indirectly) a Saudi closed joint stock company, registered in the Kingdom under Commercial Registration No. 1010239908 issued on Shawwal 26, 1428H (corresponding to November 7, 2007), to takeover and manage the Bank›s investment services and asset management activities related to dealing, managing, arranging, advising and custody of securities regulated by CMA. The subsidiary commenced its operations effective Muharram 3, 1429H (corresponding to January 12, 2008). Accordingly, the Bank started consolidating the financial statements of the above mentioned subsidiary effective January 12, 2008. On Muharram 19, 1436H (corresponding to November 12, 2014) the subsidiary changed its legal structure from a limited liability company to a closed joint stock company. The objective of the subsidiary was amended and approved by CMA Board of Commissioners on Muharram 28, 1437H (corresponding to November 10, 2015) through a resolution number S/1/6/14832/15 to include dealing as a principal activity. The objective of the subsidiary was further amended on Sha'ban 26, 1437H (corresponding to June 2, 2016) to provide loans to the subsidiary's customers to trade in financial papers as per the Saudi Arabian Monetary Authority's circular No. 371000014867 dated 5/2/1437H, and the CMA's circular No. S/6/16287/15 dated 10/3/1437H.

### Arabian Heavy Equipment Leasing Company (AHEL)

A 87.5% owned subsidiary incorporated in the Kingdom, as a Saudi closed joint stock company, under Commercial Registration No. 1010267489 issued in Riyadh dated Jumada I 15, 1430H (corresponding to May 10, 2009). The company is engaged in the leasing of heavy equipment and operates in compliance with Shari'ah principles. The Bank started consolidating the subsidiary's financial statements effective May 10, 2009, the date the subsidiary started its operations. On May 6, 2014 the Bank increased its ownership percentage in this subsidiary from 62.5% to 87.5%.

### Arab Insurance Agency

A Saudi limited liability company established during 2013 as a wholly owned subsidiary, registered in the Kingdom under Commercial Registration No. 1010396423 issued in Riyadh dated Muharram 28, 1435H (corresponding to December 1, 2013). The subsidiary obtained its license from the Saudi Arabian Monetary Authority (SAMA) to start its activities on Jumada I 5, 1435H (corresponding to March 6, 2014).

### Al-Manzil Al-Mubarak Real Estate Financing Ltd.

A wholly owned Saudi limited liability company, registered in the Kingdom under Commercial Registration No. 1010199647 issued in Riyadh dated Jumada I 18, 1425H (corresponding to July 6, 2004). The subsidiary is engaged in the purchase, sale and lease of land and real estate for investment purposes.

### ANBI Business Gate Fund (the Fund)

The Bank owns indirectly 25.47% of the Fund, which is a closed-ended private placement real estate investment fund launched on August 25, 2014 for a period of 5 years starting from date of closure of first offering on January 11, 2015. CMA has been informed of the offering of the Fund through letter number 8/14//411 dated Shawwal 9, 1435H (corresponding to August 5, 2014). The Fund's purpose is to acquire real estate assets, an income generating real estate property located in the city of Riyadh, out of which the Fund will receive rental and hotel operating income over the Fund term. The Group has significant aggregate economic interest in the Fund and manages the Fund through an agreement between Arab National Investment Company (the "Fund Manager") and the Fund Investors (the "Unitholders"). As a result, management has concluded that the Group has effective control of the Fund and started consolidating the Fund's financial statements effective December 31, 2015, the date of effective control.

## 2- Basis of preparation

### a) Statement of compliance

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

### b) Basis of measurement and presentation

The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of trading securities, financial instruments held at Fair Value through Income Statement (FVIS), including derivatives and available for sale investments. In addition, financial assets or liabilities that are hedged in a fair value hedging relationship and that are otherwise carried at cost are adjusted to record changes in fair value attributable to the risks that are being hedged.

### c) Functional and presentation currency

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

# Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2016 and 2015 (Saudi Riyals in Thousands)

**d) Critical accounting judgements, estimates and assumptions**

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. Such judgements, 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 current circumstances. Significant areas where management has used estimates, assumptions or exercised judgement are as follows:

**(i) Impairment for credit losses on loans and advances**

The Bank reviews its loan portfolios to assess specific and collective impairment on a quarterly basis. In determining whether an impairment loss should be recorded, management applies judgement 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.

In addition to specific allowances against individually significant loans and advances, the Bank also makes a collective impairment allowance against exposures that, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted.

The collective impairment allowance is determined after taking into account:

• historical loss experience in portfolios of similar credit risk characteristics (for example industry sector, loan grade or product);

• the estimated period between impairment occurring and the loss being identified and evidenced by the establishment of an appropriate allowance against the individual loan; and

• Management's judgement as to whether current economic and credit conditions are such that the actual level of inherent losses at the consolidated statement of financial position date is likely to be greater or less than that suggested by historical experience.

The period between a loss occurring and its identification is estimated by management for each identified portfolio based on economic and market conditions, customer behavior, portfolio management information, credit management techniques and collection and recovery experience in the market. As it is assessed empirically on a periodic basis, the estimated period may vary over time as these factors change.

**(ii) Fair value Measurement**

The Group measures financial instruments, (such as derivatives), and non-financial assets (such as investment property) at fair value at each statement of financial position date. Fair values of financial instruments measured at amortized cost are disclosed in Note 6.

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

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

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or liability is measured using assumptions that market participants acting in their economic best interest would use when pricing the asset or liability.

The fair value measurement of a non-financial asset takes into account a market participant›s ability to generate economic benefits by using the asset to its fullest or by selling it to another market participant that would use the asset to its fullest.

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 and calibrated before they are used to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data. Areas such as credit risk (both own and counterparty), volatilities and correlations, however, require management to make estimates. The judgements include considerations of liquidity and model inputs such as volatility of longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities. Changes in assumptions about these factors could affect the fair value of financial instruments.

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

Management exercises judgement when considering impairment of AFS equity and debt investments. This includes determination of a significant or prolonged decline in the fair value below its cost. In making this judgement, management evaluates among other factors, the normal volatility in share/debt price. In addition, they consider impairment to be appropriate when there is evidence of a deterioration in the financial health of the investee, industry or sector performance, changes in technology and operational and financing cash flows.

Due to current volatility in the market, 30% or more is used as a reasonable measure for significant decline below cost, irrespective of the duration of the decline, and is recognized in the consolidated income statement under impairment charges for investments. Prolonged decline represents decline below cost that persists for 1 year or longer irrespective of the amount and is, thus, recognized in the consolidated income statement under impairment charge for investments.

Management reviews its debt securities classified as available for sale at each reporting date to assess whether they are impaired. This requires similar judgement as applied to individual assessment of loans and advances.

# Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015 (Saudi Riyals in Thousands)

**(iv) Classification of held to maturity (HTM) investments**
The Bank follows the guidance of International Accounting Standard (IAS) 39 when classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as HTM. In making this judgement, management evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than in certain specific circumstances ( for example, selling close to maturity or an insignificant amount) it will be required to reclassify the entire class as AFS.

**(v) Determination of control over investees**
The control indicators set out 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.

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 interest 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, except for ANBI Business Gate Fund, the Group has concluded that it acts as an agent for the investors in all cases and therefore has not consolidated these funds.

**e) Going concern**
Management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

**f) Provisions for liabilities and charges**
The Bank receives legal claims against it in the normal course of business. Management has used judgement when providing for the likelihood of any claim succeeding. The time needed to conclude legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depend on due process being followed as required by law.

## 3. Summary of significant accounting policies

**a) Changes in accounting policies**
The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2015, except for the adoption of the following amendments to existing standards mentioned below which have had no significant financial impact on the consolidated financial statements of the Group:

- 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.

- 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.

- 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
• 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.
The amendments further clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI.

- 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.

- 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.

# Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2016 and 2015 (Saudi Riyals in Thousands)

## 3. Summary of significant accounting policies (continued)

• 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 interim condensed 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.

**b) Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries (collectively referred to as the Group). The financial statements of the subsidiaries are prepared for the same reporting year as that of the Bank, using consistent accounting policies. Adjustments have been made to the financial statements of the subsidiaries where necessary to align them with the Bank's financial statements.

Subsidiaries are investees controlled by the Group. 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.

Specifically, the Group controls an investee if and only if it 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; and
- 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 over the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

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; and
• Reclassifies the parent's share of components previously recognised in other comprehensive income to the profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

Non-controlling interests represent the portion of net income or loss and net assets not owned, directly or indirectly, by the Group and are presented separately in the consolidated income statement and separately from equity holders of the Bank within equity in the consolidated statement of financial position. Any losses related to the non-controlling interest in a subsidiary are allocated to non-controlling interest even if doing so causes non-controlling interest to have a deficit balance.

Acquisitions of non-controlling interests are accounted for using the purchase method of accounting, whereby, the difference between the cost of acquisition and the fair value of the share of the net assets acquired is recognized as goodwill.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Non-controlling interest is subsequently adjusted for the Group's share of changes in the equity of the consolidated subsidiary after the date of acquisition.

All intra-group assets and liabilities, equity, income and expenses relating to transactions between members of the Group are eliminated in full on consolidation.

**c) Investments in associates**

Associates are enterprises in which the Bank generally holds 20% to 50% of the voting power and/or over which it exercises significant influence. Investments in associates are initially recorded at cost and subsequently accounted for under the equity method of accounting and are carried in the consolidated statement of financial position at the lower of the equity accounted or recoverable amount.

When the Bank's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables (if applicable), the Bank does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains and losses on transactions between the Bank and its associates are eliminated to the extent of the Bank's interest in the associates.

# Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015 (Saudi Riyals in Thousands)

After application of the equity method of accounting, the Group determines whether it is necessary to recognize an additional impairment loss on its investment in the associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in share of earnings of associates in the consolidated income statement.

**d) Settlement date accounting**

All regular-way purchases and sales of financial assets are recognized and derecognized on settlement date. Regular-way purchases or sales are purchases or sales of financial assets that require delivery of assets within the timeframe generally established by regulation or market convention. For financial instruments held at fair value, the Bank accounts for any change in fair values between the trade date and the settlement date.

A contract that requires or permits net settlement of the change in the value of the contract is not a regular way contract. Instead, such a contract is accounted for as a derivative in the period between the trade date and the settlement date.

**e) Derivative 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 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 fair values depends on classifying derivatives into the following categories:

**i) Derivatives held for trading**

Changes in the fair value of derivatives held for trading are taken directly to the consolidated income statement and disclosed under trading income, net. Derivatives held for trading also include derivatives which do not qualify for hedge accounting and 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 FVIS. Embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognized in the consolidated income statement.

**iii) Hedge accounting**

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 and (b) cash flow hedges which hedge exposure to variability in cash flows that are 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 Group will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

In relation to fair value hedges that meet the criteria for hedge accounting, any gain or loss from fair valuing the hedging instruments to fair value is recognized immediately in the consolidated income statement. An equal and opposite adjustment is made against the carrying amount of the hedged item and recognized in the consolidated income statement. For hedged items measured at amortized 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 difference between the carrying value of the hedged item on termination and its face value is amortized over the remaining term of the original hedge using the effective commission rate method. If the hedged item is derecognized, the unamortized fair value adjustment is recognized immediately in the consolidated income statement.

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 initially in other reserves through the consolidated statement of comprehensive income. The ineffective portion, if any, is recognized in the consolidated income statement. For cash flow hedges affecting future transactions, the gains or losses recognized in other reserves, are transferred to the consolidated income statement in the same period in which the hedged transaction affects the consolidated income statement. However, if the Bank expects that all or a portion of a loss recognized in other reserve will not be recovered in one or more future periods, it reclassifies the amount that is not to be recovered into the consolidated income statement.

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

Hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting, the forecasted transaction is no longer expected to occur or the Bank revokes the designation. At that time, any cumulative gain or loss on the hedging instrument that was previously recognized in other reserves is retained in equity until the forecasted transaction occurs. Where it is not expected that the forecasted transaction will occur and that it will affect the consolidated income statement, the net cumulative gain or loss recognized in other reserves is transferred to the consolidated income statement.

# Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2016 and 2015 (Saudi Riyals in Thousands)

## 3. Summary of significant accounting policies (continued)

### f) Foreign currencies

The Group's consolidated financial statements are presented in Saudi Arabian Riyals, which is also the parent company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are translated into Saudi Arabian Riyals at the exchange rates prevailing at the transaction dates. Monetary assets and liabilities at year end, denominated in foreign currencies, are translated into Saudi Arabian Riyals at the exchange rates prevailing at the consolidated statement of financial position date. Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated income statement. Exchange differences on monetary items that qualify as hedging instruments in a cash flow hedge are reported initially in other comprehensive income to the extent that the hedge is effective. The exchange component of gains or losses on non-monetary items is recognized either in the consolidated income statement or other comprehensive income, in accordance with the treatment of the related gain or loss.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates prevailing on transaction date. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates prevailing on the date when the fair value was determined.

The monetary assets and liabilities of overseas branch are translated at the rate of exchange prevailing on the consolidated statement of financial position date. The statement of income of the overseas branch is translated at the average exchange rates for the year.

### 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 when 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 income statement unless required or permitted by an accounting standard or interpretation and as specifically disclosed in these accounting policies.

### h) Revenue and expenses recognition

#### Special commission income and expenses

Special commission income and expense for all commission bearing financial instruments, except for those classified as held for trading or designated at FVIS, and the fees that are considered an integral part of the effective yield of a financial instrument, are recognized in the consolidated income statement on the effective yield basis and include premiums amortized and discounts accreted during the year. The effective commission rate is the rate that exactly discounts estimated future cash payments and receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial assets or liability.

The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective commission rate. Future credit losses are, however, not included. Commitment fees for loans that are likely to be drawn down are deferred and, together with the related direct cost, are recognized as an adjustment to the effective commission rate on the loan.

The carrying amount of the financial asset or financial liability is adjusted if the Group 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.

Once 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 recognized using the original effective commission rate applied to the new carrying amount.

#### Exchange income / (loss)

Exchange income/loss is recognized when earned/incurred.

#### Fee and commission income

Fee and commission income are recognized on an accrual basis when the service has been provided. 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 rateably over the period that the service is being provided.

#### Dividend income

Dividend income is recognized when the right to receive income is established.

#### Net trading income / (loss)

Revenue arising from trading activities includes all realized and unrealized gains and losses from changes in fair value and related special commission income or expense, foreign exchange differences and dividends from financial assets and financial liabilities held for trading. This also includes the ineffectiveness recorded in hedging transactions.

#### Rental income

Rental income is recognized in the consolidated income statement on a straight-line basis over the term of the lease. Rent received for future periods are recognised as unearned revenue.

### i) Sale and repurchase agreements

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

# Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015 (Saudi Riyals in Thousands)

Customers" deposits, as appropriate. The difference between the sale and repurchase price is treated as special commission expense and 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 repo) 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 the purchase and resale price is treated as special commission income and accrued over the life of the reverse repo agreement on an effective yield basis.

**j) Investments**

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics.

All investment securities are initially recognized at fair value plus, in the case of financial assets other than those carried at FVIS, any directly attributable incremental costs of acquisition. Premiums are amortized and discounts accreted on effective yield basis and recognised in special commission income.

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

For securities where there is no quoted market price, a reasonable estimate of 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 fair value cannot be derived from an active market, it is determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible. Where this is not feasible, a degree of judgement is required in establishing fair values.

Following initial recognition, subsequent transfers between the various classes of investments are not ordinarily permissible. The subsequent measurement of period-end reporting values of each class of investment are determined on the basis set out in the following paragraphs:

**(i) Held at Fair Value Through Income Statement (FVIS)**

Investments in this category include those investments held for trading or those designated as FVIS on initial recognition. Investments classified as trading are acquired for the purpose of selling or repurchasing in short term and are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recognized in Trading income, net. An investment may be designated as FVIS if it satisfies the criteria laid down by IAS 39 except for equity instruments that do not have a quoted price in an active market and whose fair values cannot be reliably measured.

After initial recognition, investments held at FVIS are measured at fair value. Changes in fair value are recorded in the consolidated income statement in the year in which it arises. Special commission income and dividend income received on financial assets held as FVIS are reflected in the consolidated income statement as either Trading income or Income from FVIS financial instruments in line with the underlying assets.

**(ii) Available for sale (AFS)**

AFS investments are those equity and debt securities intended to be held for an unspecified period of time and which may be sold in response to a need for liquidity or changes in commission rates, exchange rates or equity prices.

AFS investments are non-derivative financial instruments that are designated as AFS or not classified as another category of financial assets.

Investments which are classified as AFS are subsequently measured at fair value. Where the fair value has not been hedged, gains or losses arising from a change in fair value is recognized through the statement of comprehensive income in Other reserves in Equity. On derecognition, any cumulative gain or loss previously recognized in shareholders" equity is transferred to the consolidated income statement.

Special commission income is recognized in the consolidated income statement on an effective yield basis. Dividend income is recognized in consolidated income statement when the Group becomes entitled to the dividend. Foreign exchange gains or losses on AFS debt security investments are recognized in the consolidated income statement.

**(iii) Held to maturity (HTM)**

Investments having fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity, other than those that meet the definition of "Other investments held at amortized cost", are classified as HTM. These investments are initially recognised at fair value including direct and incremental transaction costs and subsequently measured at amortized cost, less provision for any impairment. Amortized cost is calculated using the effective yield method taking into account any discount or premium on acquisition and any fees that are an integral part thereof. Gains or losses on such investments are recognized in the consolidated income statement when the investment is derecognized 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 (OI)**

Investment securities with fixed or determinable payments that are not quoted in an active market and other than those that the Bank intends to sell immediately or in the near term or those designated as AFS are classified as "other investments held at amortized cost". Such investments where fair values have not been hedged are stated at amortized cost using the effective yield basis, less provision for any impairment. Gains or losses are recognized in the consolidated income statement when the investment is derecognized or impaired.

# Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2016 and 2015 (Saudi Riyals in Thousands)

**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 recognized when cash is advanced to borrowers. They are derecognized when borrowers repay their obligations, 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, including acquisition charges, except for loans held as FVIS.

Loans and advances originated or acquired by the Bank that are not quoted in an active market and for which fair value has not been hedged are classified as loan and advances held at amortized cost and are stated at cost less any amount written off and allowance for impairment.

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 charges for credit losses are deducted from loans and advances.

**l) Impairment of financial assets**

A financial asset is classified as impaired when there is objective evidence of impairment as a result of one or more events that occurred after initial recognition and where 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 consolidated statement of financial position date to determine whether there is objective evidence that a financial asset or group of financial assets is impaired at the statement of financial position date. If such evidence exists, the estimated recoverable amount of that asset is determined based on the net present value of future anticipated cash flows and an impairment loss is recognized for changes in the asset's carrying amounts. The present value of the estimated future cash flows is discounted at the financial asset's original effective commission rate. If an asset has a variable special commission rate, the discount rate for measuring any impairment loss is the special commission rate existing on the measurement date.

When a financial asset is uncollectible, it is written off either directly by a charge to the consolidated income statement or against the related allowance for impairment account. 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.

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, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in impairment charges for credit losses in the consolidated income statement.

Once a financial asset has been written down to its estimated recoverable amount, special commission income is thereafter recognized based on the original effective commission rate that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

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 that indicate that payment will most likely continue.

These loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective yield rate.

In addition to specific impairment charges for credit losses, an allowance for collective impairment is made on a portfolio basis for credit losses where there is objective evidence that unidentified losses exist at the reporting date. This allowance is estimated based on various factors, including credit ratings allocated to a borrower or group of borrowers, current economic conditions, the experience the Bank had in dealing with a borrower or group of borrowers and available historical default information.

**(i) Impairment of financial assets held at amortized cost**

Specific impairment charges for credit losses due to impairment of a loan or any other financial asset held at amortized cost is recognized if there is objective evidence that the Bank will not be able to collect all amounts due. The amount of the specific provision is the difference between the carrying amount and the estimated recoverable amount. The estimated recoverable amount is the present value of expected cash flows, including amounts estimated to be recoverable from guarantees and collateral, discounted based on the original effective yield rate.

The carrying amount of financial assets at amortized cost is adjusted either directly or through the use of an allowance account and the amount of the adjustment is included in the consolidated income statement.

**(ii) Impairment of available for sale financial assets**

In the case of debt instruments classified as AFS, the Bank assesses individually whether there is 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 income statement.

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

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

**m) Other real estate**

The Bank, in the ordinary course of business, acquires certain real estate against settlement of loans and advances. Such real estate is considered as assets held for sale and are initially stated at the lower of net realisable

# Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015 (Saudi Riyals in Thousands)

value of due loans and advances and the current fair value of the related properties, less any costs to sell (if material). No depreciation is charged on such real estate.

Subsequent to initial recognition, write downs to fair value, less costs to sell, is charged to the consolidated income statement. Similarly, subsequent gains in fair value less costs to sell are recognized as income to the extent that it does not exceed the cumulative write down. Gains or losses on disposal are recognised in the consolidated income statement.

**n) Property and equipment**

method over the estimated useful lives of assets as follows:

| | |
|---|---|
| Buildings | 33 years |
| Leasehold improvements | over lease period |
| Furniture, equipment and vehicles | 3 to 10 years |

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at each consolidated statement of financial position date.
Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the consolidated income statement.

All assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

**o) Investment property**

Properties held for rental or capital appreciation purposes are classified as investment properties. Investment properties are measured at cost less accumulated depreciation and impairment losses. Depreciation is charged on a straight-line basis over the estimated useful lives. The estimated useful live of buildings is (30-33) years.

No depreciation is charged on land and capital work-in-progress.

The useful live and depreciation method is reviewed periodically to ensure that the method and period of depreciation are consistent with the expected inflow of economic benefits from these assets.
The Group determines at each reporting date whether there is objective evidence that investment properties are impaired. Whenever the carrying amount of an investment property exceeds its recoverable amount, an impairment loss is recognized in the consolidated income statement.

**p) Financial liabilities**

Money market deposits, customers' deposits, and sukuk are initially recognized at cost, being the fair value of the consideration received less transaction costs.

Subsequently all special commission bearing financial liabilities, other than those 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 accreted to maturity on an effective yield basis and recognised as special commission expense.

Financial liabilities in an effective fair value hedge relationship are adjusted for fair value changes of the risk being hedged. The resultant gain or loss is recognized in the consolidated income statement. Gains or losses on financial liabilities carried at amortized cost are recognized in the consolidated income statement when derecognized.

**q) Provisions**

Provisions other than impairment charges for credit losses are recognized when a reliable estimate can be made of a present legal or constructive obligation as a result of past events that is more likely than not to lead to an outflow of resources to settle the obligation.

**r) Accounting for leases**

**i) Where the Bank is a lessee**

Leases entered into by the Bank are all operating leases. Payments made under operating leases are charged to the consolidated income statement on a straight-line basis over the period of the lease.

Penalties paid to a lessor when an operating lease is terminated before the lease period has expired, is recognized as an expense in the period in which termination takes place.

**ii) Where the Bank is a lessor**

When assets are sold under a finance lease, including Shari'ah compliant leases, the present value of the lease payments is recognized as a receivable and 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 effective yield basis, 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 90 days.

# Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2016 and 2015 (Saudi Riyals in Thousands)

**t) Financial guarantees**

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for the loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt arrangement. Financial guarantees are initially recognized in the consolidated financial statements at fair value in Other Liabilities, being the premium received. Subsequent to 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 obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated income statement in 'impairment charges for credit losses'. The premium received is recognized in the consolidated income statement in 'Fees and commission income, net' on a straight line basis over the life of the guarantee.

**u) End-of-service benefits**

The Group operates a defined contribution pension plan. The contribution payable to a defined contribution plan is in proportion to the services rendered to the Group by the employees and is recorded as an expense under personnel expenses. Unpaid contributions are recorded as a liability. The Group does not operate a defined benefit plan.

**v) Derecognition of financial instruments**

A financial asset (or a part of a financial asset, or group of similar financial assets) is derecognized when the contractual rights to the cash flows from the financial asset expire or the asset is transferred and the transfer qualifies for derecognition.

In instances where the Bank is assessed to have transferred a financial asset, the asset is derecognized 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 derecognized only if the Bank has not retained control of the financial asset. The Bank recognizes separately as assets or liabilities any rights and obligations created or retained in the process.

A financial liability or part thereof can only be derecognized when it is extinguished, that is when the obligation specified in the contract is either discharged, cancelled or expires.

**w) Zakat and income tax**

Zakat and income tax are the liabilities of Saudi and foreign shareholders, respectively. Zakat is calculated on the Saudi shareholders' share of equity or net income using the basis defined under the Zakat regulations.

Income tax is calculated on the foreign shareholders' share of net income for the year.

Zakat and income tax are not charged to the Bank's consolidated income statement as they are payable by the shareholders.

Accordingly, Zakat and income tax are deducted from the shareholders equity and deposited on their behalf with General Authority of Zakat and Tax (GAZT). Income tax is the liability of the foreign shareholders and is settled by them accordingly.

**x) Shari'ah compliant banking products**

In addition to conventional banking, the Bank offers its customers certain non-interest based banking products, which are approved by its Shari'ah Board.

All non-interest based banking products are accounted for in accordance with IFRS and conform to the accounting policies described in these consolidated financial statements.

**y) Investment management services**

The Bank offers investment services to its customers, through its subsidiary, which include management of certain investment funds. The Bank's share of these funds is included in the available-for-sale investments and fees earned are disclosed under related party transactions.

# Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015 (Saudi Riyals in Thousands)

## 4- Cash and balances with SAMA

| | 2016 | 2015 |
|---|---|---|
| Cash in hand | **2,836,913** | 3,105,277 |
| Statutory deposit | **7,187,500** | 7,322,872 |
| Reverse repo with SAMA | **9,468,408** | - |
| Current account | **11,152** | 142 |
| **Total** | **19,503,973** | 10,428,291 |

In accordance with the Banking Control Law and regulations issued by SAMA, the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its demand, savings, time and other deposits, calculated at the end of each month. The statutory deposit with SAMA isnot available to finance the Bank's day-to-day operations and is therefore not part of cash and cash equivalents (note 28). The Bank holds balances with SAMA which has investment grade credit rating.

## 5. Due from banks and other financial institutions

| | 2016 | 2015 |
|---|---|---|
| Current accounts | **1,034,668** | 1,866,317 |
| Money market placements | **2,996,182** | 3,708,782 |
| **Total** | **4,030,850** | 5,575,099 |

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:

| | 2016 | 2015 |
|---|---|---|
| Investment grade (credit rating AAA to BBB) | **3,654,323** | 5,169,040 |
| Non-investment grade (credit rating BB to Below BB) | **350,705** | 360,551 |
| Unrated | **25,822** | 45,508 |
| **Total** | **4,030,850** | 5,575,099 |

# Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2016 and 2015 (Saudi Riyals in Thousands)

## 6- Investments, net

**a) Investments are classified as follows:**

**i) Trading securities**

| | DOMESTIC | | INTERNATIONAL | | TOTAL | |
|---|---|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 |
| Fixed rate securities | **-** | - | - | 1,312,480 | **-** | 1,312,480 |

**ii) Designated as fair value through income statement**

| | DOMESTIC | | INTERNATIONAL | | TOTAL | |
|---|---|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 |
| Mutual funds and others | **-** | - | **726** | 8,077 | **726** | 8,077 |

**iii) Available for sale**

| | DOMESTIC | | INTERNATIONAL | | TOTAL | |
|---|---|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 |
| Fixed rate securities | **305,040** | 319,122 | **6,793,141** | 8,408,468 | **7,098,181** | 8,727,590 |
| Floating rate securities | **914,371** | 1,001,661 | **-** | - | **914,371** | 1,001,661 |
| Equities | **1,180,962** | 1,074,728 | **-** | 389 | **1,180,962** | 1,075,117 |
| Other | **127,924** | 224,338 | **135,606** | 197,784 | **263,530** | 422,122 |
| **Available for sale** | **2,528,297** | 2,619,849 | **6,928,747** | 8,606,641 | **9,457,044** | 11,226,490 |

**iv) Other investments held at amortized cost**

| | DOMESTIC | | INTERNATIONAL | | TOTAL | |
|---|---|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 |
| Fixed rate securities | **2,578,919** | 17,168,141 | **543,359** | 474,533 | **3,122,278** | 17,642,674 |
| Floating rate securities | **12,968,351** | 3,104,578 | **-** | - | **12,968,351** | 3,104,578 |
| **Other investments held at amortized cost** | **15,547,270** | 20,272,719 | **543,359** | 474,533 | **16,090,629** | 20,747,252 |
| | | | | | | |
| **Total investments, net** | **18,075,567** | 22,892,568 | **7,472,832** | 10,401,731 | **25,548,399** | 33,294,299 |

# Notes to the Consolidated Financial Statements

## For the years ended December 31, 2016 and 2015 (Saudi Riyals in Thousands)

**b) The analysis of the investment products is as follows:**

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | QUOTED | UNQUOTED | TOTAL | QUOTED | QUOTED | TOTAL |
| Fixed rate securities | 7,305,054 | 2,915,405 | 10,220,459 | 10,164,023 | 17,518,722 | 27,682,745 |
| Floating rate securities | - | 13,882,722 | 13,882,722 | - | 4,106,238 | 4,106,238 |
| Equities | 1,180,962 | - | 1,180,962 | 1,073,728 | 1,389 | 1,075,117 |
| Others | - | 264,256 | 264,256 | - | 430,199 | 430,199 |
| **Investments, net** | 8,486,016 | 17,062,383 | 25,548,399 | 11,237,751 | 22,056,548 | 33,294,299 |

Unquoted fixed rate securities and floating rate notes are mainly Sukuk, treasury bills and Saudi Government Bonds; and others mainly include investments in mutual funds.

**c) The analysis of unrecognized gains and losses and fair values of other investments held at amortized cost is as follows:**

| | 2016 | | | | 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | Carrying value | Gross unrealized gains | Gross unrealized losses | Fair value | Carrying value | Gross unrealized gains | Gross unrealized losses | Fair value |
| Fixed rate securities | 3,122,278 | 13,352 | (141,448) | 2,994,182 | 17,642,673 | 45,648 | (17,975) | 17,670,346 |
| Floating rate securities | 12,968,351 | 2,210 | (62,411) | 12,908,150 | 3,104,579 | 3,050 | (119,101) | 2,988,528 |
| **Total** | 16,090,629 | 15,562 | (203,859) | 15,902,332 | 20,747,252 | 48,698 | (137,076) | 20,658,874 |

**d) The analysis of investments by counter-party is as follows:**

| | 2016 | 2015 |
|---|---|---|
| Government and quasi government | 20,528,928 | 28,153,234 |
| Banks and other financial institutions | 3,145,574 | 2,188,851 |
| Corporate | 1,600,200 | 1,208,996 |
| Other | 273,697 | 1,743,218 |
| **Total** | 25,548,399 | 33,294,299 |

Investments include SAR 1,052million (2015: SAR 2,424million)(note 19d) that have been pledged under repurchase agreements with other banks and customers. The market value of these investments is SAR 1,052million (2015: SAR2,423million).

# Notes to the Consolidated Financial Statements (continued)
For the years ended December 31, 2016 and 2015 (Saudi Riyals in Thousands)

## 6- Investments, net (continued)

**e) Movement in the allowance for impairment of investments**

| | 2016 | 2015 |
|---|---|---|
| Balance at beginning of the year | **43,868** | 413 |
| Provided during the year | **37,645** | 43,868 |
| Amounts recovered during the year | **-** | (413) |
| Balance at end of the year | **81,513** | 43,868 |

**2016**

| | FIXED RATE | FLOATING RATE | EQUITIES | OTHER | TOTAL |
|---|---|---|---|---|---|
| Balance at beginning of the year | **-** | **-** | **41,934** | **1,934** | **43,868** |
| Provided during the year | **-** | **-** | **37,645** | **-** | **37,645** |
| Amounts recovered during the year | **-** | **-** | **-** | **-** | **-** |
| Balance at end of the year | **-** | **-** | **79,579** | **1,934** | **81,513** |

**2015**

| | FIXED RATE | FLOATING RATE | EQUITIES | OTHER | TOTAL |
|---|---|---|---|---|---|
| Balance at beginning of the year | 413 | - | - | - | 413 |
| Provided during the year | - | - | 41,934 | 1,934 | 43,868 |
| Amounts recovered during the year | (413) | | - | - | (413) |
| | | - | | | |
| Balance at end of the year | - | | 41,934 | 1,934 | 43,868 |

# Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015 (Saudi Riyals in Thousands)

## 7- Loans and advances, net

**a) Loans and advances (held at amortized cost) comprise the following:**

| 2016 | Overdrafts | Credit cards | Consumer loans | Commercial loans and overdrafts | Total |
|---|---|---|---|---|---|
| Performing loans and advances, gross | **4,338,115** | **504,504** | **25,410,888** | **86,969,119** | **117,222,626** |
| Non-performing loans and advances, net | **39,246** | **11,765** | **114,731** | **840,944** | **1,006,686** |
| TOTAL LOANS AND ADVANCES | 4,377,361 | 516,269 | 25,525,619 | 87,810,063 | 118,229,312 |
| Impairment charges for credit losses, net | **(30,397)** | **(5,737)** | **(89,636)** | **(2,592,021)** | **(2,717,791)** |
| LOANS AND ADVANCES, NET | 4,346,964 | 510,532 | 25,435,983 | 85,218,042 | 115,511,521 |

| 2015 | Overdrafts | Credit cards | Consumer loans | Commercial loans and overdrafts | Total |
|---|---|---|---|---|---|
| Performing loans and advances, gross | 4,921,437 | 415,931 | 26,957,177 | 84,893,871 | 117,188,416 |
| Non-performing loans and advances, net | - | 6,220 | 89,343 | 1,134,020 | 1,229,583 |
| TOTAL LOANS AND ADVANCES | 4,921,437 | 422,151 | 27,046,520 | 86,027,891 | 118,417,999 |
| Impairment charges for credit losses, net | - | (2,222) | (89,904) | (2,670,048) | (2,762,174) |
| LOANS AND ADVANCES, NET | 4,921,437 | 419,929 | 26,956,616 | 83,357,843 | 115,655,825 |

For details of impaired loansand advances, refer to note 31 (f).

Loan and advances include Shari'ah compliant banking products: Murabaha andTawarruq agreements and Ijarah, which are stated at amortized cost, of SAR73.0billion (2015: SAR 73.5billion).

# Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2016 and 2015 (Saudi Riyals in Thousands)

## 7- Loans and advances, net (continued)

**b) Movement in impairment charges for credit losses are as follows:**

| 2016 | Overdrafts | Credit cards | Consumer loans | Commercial loans and overdrafts | Total |
|---|---|---|---|---|---|
| Balance at the beginning of the year | - | 2,222 | 89,904 | 2,670,048 | 2,762,174 |
| Provided during the year | 30,397 | 21,570 | 361,790 | 340,849 | 754,606 |
| Bad debts written off | - | (18,055) | (362,058) | (418,876) | (798,989) |
| BALANCE AT THE END OF THE YEAR | 30,397 | 5,737 | 89,636 | 2,592,021 | 2,717,791 |

| 2015 | Overdrafts | Credit cards | Consumer loans | Commercial loans and overdrafts | Total |
|---|---|---|---|---|---|
| Balance at the beginning of the year | - | 2,676 | 95,724 | 2,287,554 | 2,385,954 |
| Provided during the year | - | 11,343 | 253,975 | 385,872 | 651,190 |
| Bad debits written off | - | (11,797) | (259,795) | (3,378) | (274,970) |
| BALANCE AT THE END OF THE YEAR | - | 2,222 | 89,904 | 2,670,048 | 2,762,174 |

Impairment charge for credit losses, net for the year ended December 31, 2016 amounted to SAR 726,136 thousands (2015: SAR 575,504 thousand), including bad debts directly written-off to consolidated income statement amountingto SAR 72,268 thousands (2015: SAR 5,717 thousand), and net of recoveries amounting to SAR 100,738 thousands (2015: SAR 81,403 thousand).

**c) Collateral:**

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

# Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015 (Saudi Riyals in Thousands)

**d) Economic sector concentration risk for loans and advances and impairment charges for credit losses are as follows:**

| 2016 | Performing gross | Non performing, net | Impairment charges for credit losses | Loans and advances, net |
|---|---|---|---|---|
| 1. Government and quasi government | - | - | - | - |
| 2. Banks and other financial institutions | 1,774,996 | - | - | 1,774,996 |
| 3. Agriculture and fishing | 1,502,534 | - | - | 1,502,534 |
| 4. Manufacturing | 14,458,869 | 27,553 | (199,619) | 14,286,803 |
| 5. Mining and quarrying | 329,331 | - | (1,400) | 327,931 |
| 6. Electricity, water, gas and health services | 4,626,084 | - | - | 4,626,084 |
| 7. Building and construction | 8,896,840 | 88,289 | (480,562) | 8,504,567 |
| 8. Commerce | 17,549,161 | 655,668 | (657,922) | 17,546,907 |
| 9. Transportation and communication | 5,480,011 | 88,625 | (90,069) | 5,478,567 |
| 10. Services | 3,347,360 | 14,186 | (55,259) | 3,306,287 |
| 11. Consumer loans and credit cards | 25,915,392 | 126,496 | (65,713) | 25,976,175 |
| 12. Other | 33,342,048 | 5,869 | (285,796) | 33,062,121 |
| | 117,222,626 | 1,006,686 | (1,836,340) | 116,392,972 |
| Allowance for collective impairment | - | - | (881,451) | (881,451) |
| **Total** | 117,222,626 | 1,006,686 | (2,717,791) | 115,511,521 |

| 2015 | Performing gross | Non performing, net | Impairment charges for credit losses | Loans and advances, net |
|---|---|---|---|---|
| 1. Government and quasi government | - | - | - | - |
| 2. Banks and other financial institutions | 1,618,926 | - | - | 1,618,926 |
| 3. Agriculture and fishing | 1,199,435 | - | - | 1,199,435 |
| 4. Manufacturing | 14,068,698 | 4,928 | (166,432) | 13,907,194 |
| 5. Mining and quarrying | 649,434 | - | - | 649,434 |
| 6. Electricity, water, gas and health services | 4,298,453 | - | - | 4,298,453 |
| 7. Building and construction | 9,282,042 | 419,827 | (671,681) | 9,030,188 |
| 8. Commerce | 18,104,012 | 580,241 | (601,148) | 18,083,105 |
| 9. Transportation and communication | 5,420,815 | 98,781 | (100,155) | 5,419,441 |
| 10. Services | 2,784,577 | 18,705 | (44,182) | 2,759,100 |
| 11. Consumer loans and credit cards | 27,373,108 | 95,563 | (62,466) | 27,406,205 |
| 12. Other | 32,388,916 | 11,538 | (275,872) | 32,124,582 |
| | 117,188,416 | 1,229,583 | (1,921,936) | 116,496,063 |
| Allowance for collective impairment | - | - | (840,238) | (840,238) |
| **Total** | 117,188,416 | 1,229,583 | (2,762,174) | 115,655,825 |

# Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2016 and 2015 (Saudi Riyals in Thousands)

## 8- Investments in associates

| | 2016 | 2015 |
|---|---|---|
| Balance at beginning of the year | **531,617** | 494,117 |
| Share in earnings, net | **32,278** | 37,500 |
| Share in associate's capital increase | **52,500** | - |
| Balance at end of the year | **616,395** | 531,617 |

**Saudi Home Loans Company**

The Bank participated in the setting up of Saudi Home Loans Company (the associate). The associate'sauthorized capital is SAR 2 billion and its issued capital is SAR 800 million. The bank initially paid an amount of SAR 320 million,representing 40% of the issued share capital of the associate. The associate is a specialized Islamic home and real estate finance company with all its products and services being fully Shariah compliant.The associate was launched at the end of the fourth quarter of 2007 and is accounted for under the equity method.

**Metlife – AIG – ANB Cooperative Insurance Company**

The Bank participated in the setting up of Metlife – AIG – ANB Cooperative Insurance Company (the associate) in the Kingdom. The Bank's share is 30% of the associate's total equity capital of SAR 175 million. The associate was launched during the fourth quarter of 2013 and is accounted for under the equity method. SAMA has provided the associate with final approval to conduct insurance business in the Kingdom on February 25, 2014. The Bank initially paid SAR 52.5 million representing 30% of the issued share capital of the associate. The associate's shares are listed on the Saudi Arabian Stock Exchange; and, the quoted value of the Bank'sinvestment in its associate is SAR 258.6million (2015: SAR 294.7 million).

On April 27, 2015, the associate's board of directors has recommended increasing the associate's capital from SAR 175 million to SAR 350 million through a rights issue. In this connection, the associate submitted its business plan along with related documents to SAMA on June 7, 2015 for approval and SAMA has approved the capital increase on August 31, 2015. The associate has submitted the requireddocuments to the Capital Market Authority on November 15, 2015 and hasobtained its approval on January 19, 2016. The Bank owns 10.5 million shares (30%) at a nominal value of SAR 10 per share as of December 31, 2016.

**The Bank's share of associates' financial statements:**

| | Saudi Home Loans Company | | Metlife – AIG – ANB Cooperative Insurance Company | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Total assets | **1,639,474** | 1,508,908 | **211,991** | 159,011 |
| Total liabilities | **1,099,744** | 1,009,325 | **140,866** | 132,438 |
| Total equity | **539,730** | 499,583 | **71,125** | 26,573 |
| Total income | **67,836** | 73,699 | **6,916** | 1,498 |
| Total expenses | **(27,723)** | (25,462) | **(13,590)** | (11,132) |

## 9- Investment Property, net

Investment properties consist of land, commercial offices being rented out and a hotel under construction. It is located in the Kingdom and was acquired by the Group's subsidiary, the ANBI Business Gate Fund. The following is the movement in investment property:

# Notes to the Consolidated Financial Statements

## For the years ended December 31, 2016 and 2015 (Saudi Riyals in Thousands)

| Cost | Land | Commercial Building | Hotel under construction | Total 2016 | Total 2015 |
|---|---|---|---|---|---|
| Balance at beginning of the year | 550,000 | 744,133 | 406,540 | 1,700,673 | - |
| **Additions** | - | - | 290 | 290 | 1,700,673 |
| **As at December 31 , 2016** | 550,000 | 744,133 | 406,830 | 1,700,963 | 1,700,673 |

| Accumulated depreciation | Land | Commercial Building | Hotel under construction | Total 2016 | Total 2015 |
|---|---|---|---|---|---|
| Balance at beginning of the year | - | 24,807 | - | 24,807 | - |
| **Charge for the year** | - | 24,793 | - | 24,793 | 24,807 |
| **As at December 31 , 2016** | - | 49,600 | - | 49,600 | 24,807 |

| Net book value | Land | Commercial Building | Hotel under construction | Total 2016 | Total 2015 |
|---|---|---|---|---|---|
| **As at December 31, 2016** | 550,000 | 694,533 | 406,830 | 1,651,363 | |
| As at December 31, 2015 | 550,000 | 719,326 | 406,540 | | 1,675,866 |

The fair value of investment properties was determined by management based on a valuation performed by twoindependent and professionally qualified valuers registered with the Royal Institute of Chartered Surveyors using the Income Capitalisation Method and discounted cash flows (DCF). Management assessed this valuation as Level 3 in the hierarchy for determining and disclosing fair value as defined in note 35. The fair value of investment properties is SAR 1,758 million as of December 31, 2016 (2015: SAR 1,813 million) (which is the lower of the two independent valuations), compared with a carrying value of SAR 1,651 million as of December 31, 2016 (2015: SAR 1,676 million).

### 10- Property and equipment, net

| Cost | Land and buildings | Leasehold improvements | Equipment, furniture and vehicles | Computer and Software | Work-in-progress | Total 2016 | Total 2015 |
|---|---|---|---|---|---|---|---|
| Balance at beginning of the year | 1,429,029 | 529,095 | 740,587 | 1,177,933 | 107,647 | 3,984,291 | 3,620,140 |
| Additions | 174 | 7,433 | 64,857 | 20,586 | 41,404 | 134,454 | 401,382 |
| Disposals | (1,500) | (7,544) | (7,944) | (10,905) | (3,436) | (31,329) | (37,231) |
| Transfers | (19,084) | 67,126 | 1,625 | 34,348 | (84,015) | - | - |
| Balance at end of the year | 1,408,619 | 596,110 | 799,125 | 1,221,962 | 61,600 | 4,087,416 | 3,984,291 |
| **Accumulated depreciation** | | | | | | | |
| Balance at beginning of the year | 359,437 | 365,690 | 324,723 | 989,021 | - | 2,038,871 | 1,874,204 |
| Charge for the year | 38,629 | 43,169 | 80,503 | 71,077 | - | 233,378 | 199,323 |
| Disposals | (958) | (6,904) | (5,395) | (10,798) | - | (24,055) | (34,656) |
| Transfers | (18,993) | 18,993 | - | - | - | - | - |
| Balance at end of the year | 378,115 | 420,948 | 399,831 | 1,049,300 | - | 2,248,194 | 2,038,871 |
| Net book value | | | | | | | |
| **As at December 31, 2016** | 1,030,504 | 175,162 | 399,294 | 172,662 | 61,600 | 1,839,222 | |
| As at December 31, 2015 | 1,069,592 | 163,405 | 415,864 | 188,912 | 107,647 | | 1,945,420 |

# Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2016 and 2015 (Saudi Riyals in Thousands)

## 11- Other assets

| | 2016 | 2015 |
|---|---|---|
| Accrued special commission receivable - derivatives | **24,235** | 21,883 |
| - Prepaid expenses | **175,319** | 270,186 |
| - Other | **511,041** | 572,736 |
| **Total** | **710,595** | 864,805 |

## 12- Derivative financial instruments

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 swaps, fixed commission payments and principal are exchanged in different currencies. For cross-currency commission rate swaps, principal, fixed and floating commission payments 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 on adate in the future. Forwards are customized contracts transacted in the overthecounter market.

Foreign currency and commission rate futures are transacted in standardized amounts on regulated exchanges withchanges in fair values settled daily.

**c) Forward rate agreements**

Forward rate agreements are individually negotiated commission rate contracts that call for thecash settlement,on a specified future date or series of dates,ofthe difference between thecontracted commission rate and the market rate calculated on a notional principal.

**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,on afixed 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 and banks in order to, inter alia, 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, price differentials between markets or products.

**Held for hedging purposes**

The Bank has adopted a comprehensive system for the measurement and 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 acceptable levels as determined by the Board of Directors (the Board) within the guidelines issued by SAMA.

The Board of Directors has established 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 setlimits. The Board has established the level of commission rate risk by setting limits on commission rate gaps for stipulated periods. Asset and liability commission rate gaps are reviewed on a periodic basis and hedging strategies are used to reduce commission rate gap to within the set limits.

# Notes to the Consolidated Financial Statements

## For the years ended December 31, 2016 and 2015 (Saudi Riyals in Thousands)

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

The Bank uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks. In addition, the Bank uses commission rate swaps and commission rate futures to hedge against commission rate risk arising from specifically identified fixed commissionrate 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 either fair value or cash flow hedges.

The tables below show the notional amounts and the positive and negative fair values of derivative financial instruments 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 market risk.

| | | | | Notional amounts by term to maturity | | | | |
|---|---|---|---|---|---|---|---|---|
| **2016**<br>**Held for trading:** | **Positive fair value** | **Negative fair value** | **Notional amount total** | **Within 3 months** | **3-12 months** | **1-5 years** | **Over 5 years** | **Monthly average** |
| Commission rate and cross currency swap | **126,909** | **119,737** | **8,593,057** | **-** | **44,759** | **6,648,290** | **1,900,008** | **11,013,870** |
| Commission rate futures and options | **138,665** | **133,890** | **10,174,085** | **3,952,240** | **-** | **3,137,660** | **3,084,185** | **2,027,875** |
| Forward foreign exchange and commodity contracts | **131,360** | **97,055** | **10,346,134** | **7,910,116** | **1,806,520** | **629,498** | **-** | **11,729,466** |
| Currency and commodity options | **36,558** | **35,030** | **7,704,165** | **1,944,412** | **4,513,297** | **1,246,456** | **-** | **12,839,632** |
| **Held as fair value hedges:** | | | | | | | | |
| Commission rate swaps | **26,278** | **54,077** | **8,689,459** | **1,196,360** | **394,789** | **6,248,280** | **850,030** | **11,606,066** |
| **Total** | **459,770** | **439,789** | **45,506,900** | **15,003,128** | **6,759,365** | **17,910,184** | **5,834,223** | **49,216,909** |

| | | | | Notional amounts by term to maturity | | | | |
|---|---|---|---|---|---|---|---|---|
| 2015<br>Held for trading: | Positive fair value | Negative fair value | Notional amount total | Within 3 months | 3-12 months | 1-5 years | Over 5 years | Monthly average |
| Commission rate swaps | 29,825 | 18,952 | 7,483,969 | - | 23,826 | 6,785,143 | 675,000 | 9,734,475 |
| Commission rate futures and options | 8,169 | 6,879 | 2,261,124 | - | 11,124 | 2,250,000 | - | 1,039,777 |
| Forward foreign exchange and commodity contracts | 96,476 | 67,783 | 6,484,658 | 3,558,391 | 1,649,838 | 1,276,429 | - | 8,735,692 |
| Currency and commodity options | 145,528 | 136,047 | 16,643,582 | 2,562,516 | 7,955,998 | 6,125,068 | - | 19,765,746 |
| Held as fair value hedges: | | | | | | | | |
| Commission rate swaps | 10,160 | 109,288 | 13,132,446 | 937,500 | 1,918,826 | 9,713,620 | 562,500 | 13,776,445 |
| Total | 290,158 | 338,949 | 46,005,779 | 7,058,407 | 11,559,612 | 26,150,260 | 1,237,500 | 53,052,135 |

# Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2016 and 2015 (Saudi Riyals in Thousands)

## 12- Derivative financial instruments (continued)

**Held for hedging purposes (continued)**

Derivatives have been disclosed at gross amounts as at the consolidated statement of financial position date and have not been netted off by cash margins placed and received against derivatives, which are detailed as follows:

| | 2016 | 2015 |
|---|---|---|
| **Held for trading:** | | |
| Commission rate swaps | **(32,453)** | 6,258 |
| Forward foreign exchange contracts | **(1,562)** | 227 |
| Currency options | **5,644** | 20,211 |
| **Held as fair value hedges:** | | |
| Commission rate swaps | **40,661** | 43,273 |
| Total | **12,290** | 69,969 |

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

| Description of hedged items | Fair value | Hedge inception value | Risk | Hedging instrument | Positive fair value | Negative fair value |
|---|---|---|---|---|---|---|
| **2016** | | | | | | |
| Fixed commission rate investments | **3,992,328** | **3,957,555** | **Fair value** | **Commission rate swap** | **140,935** | **165,559** |
| Fixed commission rate loans | **4,733,504** | **4,731,904** | **Fair value** | **Commission rate swap** | **24,009** | **22,409** |
| Fixed commission rate deposits | **-** | **-** | **Fair value** | **Commission rate swap** | **-** | **-** |
| 2015 | | | | | | |
| Fixed commission rate investments | 6,179,210 | 6,114,168 | Fair value | Commission rate swap | 8,169 | 70,814 |
| Fixed commission rate loans | 5,172,144 | 5,143,278 | Fair value | Commission rate swap | 10,160 | 39,026 |
| Fixed commission rate deposits | 1,881,326 | 1,875,000 | Fair value | Commission rate swap | - | 6,326 |

**Cash flow hedges**

The Bank is exposed to variability in future commission rate cash flows on non-trading assets and liabilities which bear commission at a variable 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. For the years ended  December 31, 2016 and 2015 the Bank had no outstanding cash flow hedges.

The discontinuation of hedge accounting resulted in reclassification of the associated cumulative gains of SAR 57.7 thousands from equity to the consolidated income statement(2015: nil).

Approximately 62% (2015: 39%) of the positive fair value of the Bank's derivatives are entered into with financial institutions and less than 27% (2015: 13%) of the positive fair value contracts are with any single counter-partyat the consolidated statement of financial position date. Derivative activities are mainly carried out by the Bank's treasury segment.

# Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015 (Saudi Riyals in Thousands)

## 13- Due to banks and other financial institutions

| | 2016 | 2015 |
|---|---|---|
| Current accounts | **297,249** | 185,339 |
| Money market deposits | **3,561,622** | 5,487,774 |
| Total | **3,858,871** | 5,673,113 |

## 14- Customers' deposits

| | 2016 | 2015 |
|---|---|---|
| Demand | **65,092,740** | 66,264,114 |
| Time | **65,003,835** | 63,902,499 |
| Saving | **93,124** | 107,820 |
| Other | **5,717,758** | 5,486,761 |
| Total | **135,907,457** | 135,761,194 |

Time deposits include deposits against sale of securities of SAR 596 million (2015: SAR 1,012 million) (note 19d) with agreements to repurchase the same at fixed future dates. Other customers' deposits include SAR 4,543 million (2015: SAR4,016 million) of margins held against irrevocable commitments.

The above include foreign currency deposits as follows:

| | 2016 | 2015 |
|---|---|---|
| Time | **5,517,032** | 21,213,494 |
| Demand | **2,557,214** | 2,055,750 |
| Saving | **2,828** | 2,458 |
| Other | **177,779** | 149,296 |
| Total | **8,254,853** | 23,420,998 |

# Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2016 and 2015 (Saudi Riyals in Thousands)

## 15- Other liabilities

| | 2016 | 2015 |
|---|---|---|
| Accrued special commission payable-derivatives | **20,550** | 127,259 |
| Trustee for sale of real estate – current deposit | **164,745** | 351,860 |
| Provision for end of service benefits | **493,353** | 503,166 |
| Accrued expenses | **575,616** | 556,523 |
| Zakat and others | **1,289,007** | 959,595 |
| Others | **1,316,591** | 1,506,491 |
| Total | **3,859,862** | 4,004,894 |

## 16- Debt securities and Sukuk

| | 2016 | 2015 |
|---|---|---|
| Euro Medium Term floating rate Notes (A) | **-** | - |
| Unsecured Tier II Capital - Sukuk (B) | **2,018,190** | 2,011,270 |
| Total | **2,018,190** | 2,011,270 |

(A) During the year ended December 31, 2006, the Bank issued USD 500 million; 10 year subordinated floating rate notes (the notes) under its USD 850 million EMTN program. The notes initially carried a special commission rate of Libor plus 83 bps. The notes were non-convertible, unsecured and listed on the London stock exchange. These notes were callable after 5 years from their date of issuance.Effective October 31,2011 and based on the step-up condition, the commission rate had been adjusted to Libor plus 133 bps.

During the year ended December 31, 2009, USD 50 million was purchased from the secondary market and retired. On October 31, 2015the Bank exercised its call option to early redeem 100% of the principal amount of outstanding notes, together with the accrued interest till the option redemption date.

(B) On October 7, 2015 the Bank issued SAR 2 billion, 10 year subordinated and unsecured Tier II Capital (Sukuk), callable in 5 years. These Sukuk carry a special commission rate of SIBOR plus 140 bps.

# Notes to the Consolidated Financial Statements

For the years ended December 31, 2015 and 2014 (Saudi Riyals in Thousands)

## 17- Share capital

As at December 31, 2016, the authorized, issued and fully paid share capital of the Bank consists of 1,000 million shares of SAR 10each (2015: 1,000 million shares of SAR 10 each). The ownership of the Bank's share capital is as follows:

| | 2016 | 2015 |
|---|---|---|
| Saudi shareholders | **60 %** | 60 % |
| Arab Bank PLC – Jordan | **40 %** | 40 % |

## 18- Statutory reserve

In accordance with the 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 share capital of the Bank. Accordingly, SAR 714million has been transferred from the net income for the year ended December 31, 2016(2015: SAR 742million). The statutory reserve is not available for distribution.

## 19- Commitments and contingencies

### a) Legal proceedings

As at December 31, 2016 and 2015 there were legal proceedings of a routine nature outstanding against the Bank. No material provision has been made as professional legal advice indicates that it is unlikely that a significant loss will arise.

### b) Capital commitments

As at December 31, 2016 the Bank had capital commitments of SAR 47 million (2015: SAR 55 million) in respect of building and equipment purchases.

### c) Credit related commitments and contingencies

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

Guarantees and standby letters of credit, which represent irrevocable 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.

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.

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.

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 the 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.

# Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2016 and 2015 (Saudi Riyals in Thousands)

## 19. Commitments and contingencies (continued)

**c) Credit related commitments and contingencies (continued)**

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

| 2016 | Within 3 months | 3-12 months | 1-5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| Letters of credit | **2,353,329** | **886,942** | **736,625** | **-** | **3,976,896** |
| Letters of guarantee | **5,055,802** | **14,630,023** | **5,229,766** | **198,807** | **25,114,398** |
| Acceptances | **925,168** | **693,955** | **379** | **-** | **1,619,502** |
| Irrevocable commitments to extend credit | **105,937** | **250,660** | **892,952** | **1,760,623** | **3,010,172** |
| Other | **-** | **-** | **-** | **101,726** | **101,726** |
| Total | **8,440,236** | **16,461,580** | **6,859,722** | **2,061,156** | **33,822,694** |

| 2015 | Within 3 months | 3-12 months | 1-5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| Letters of credit | 2,619,215 | 1,457,401 | 705,059 | - | 4,781,675 |
| Letters of guarantee | 7,251,635 | 9,490,259 | 8,643,530 | 1,270,998 | 26,656,422 |
| Acceptances | 1,169,589 | 997,569 | 1,756 | - | 2,168,914 |
| Irrevocable commitments to extend credit | - | 755,737 | 729,079 | 942,852 | 2,427,668 |
| Other | - | - | - | 111,731 | 111,731 |
| Total | 11,040,439 | 12,700,966 | 10,079,424 | 2,325,581 | 36,146,410 |

The unutilized portion of non-firm commitments as at December 31, 2016, which can be revoked unilaterally at any time by the Bank, amounts to SAR 18,591 million (2015: SAR 21,517 million).

**ii)The analysis of commitments and contingencies by counter-party is as follows:**

| | 2016 | 2015 |
|---|---|---|
| Corporate | **28,172,439** | 30,150,276 |
| Banks and other financial institutions | **4,803,805** | 5,417,295 |
| Other | **846,450** | 578,839 |
| Total | **33,822,694** | 36,146,410 |

# Notes to the Consolidated Financial Statements
## For the years ended December 31, 2016 and 2015 (Saudi Riyals in Thousands)

### d) Assets pledged
Securities pledged under repurchase agreements with other banks include government and non-government banks. Assets pledged as collateral with other financial institutions for security are as follows:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Assets | Related liabilities | Assets | Related liabilities |
| Other investments held at amortized cost | **950,000** | **562,500** | 2,424,417 | 1,011,973 |
| Available for sale | **101,728** | **33,545** | - | - |
| Total(notes 6 d and 14) | **1,051,728** | **596,045** | 2,424,417 | 1,011,973 |

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

| | 2016 | 2015 |
|---|---|---|
| Less than 1 year | **106,323** | 105,909 |
| 1 to 5 years | **240,256** | 252,568 |
| Over 5 years | **132,226** | 147,271 |
| Total | **478,805** | 505,748 |

## 20. Net special commission income

| Special commission income<br>Investments | 2016 | 2015 |
|---|---|---|
| Available for sale | **112,352** | 62,356 |
| Other investments held at amortized cost | **309,547** | 203,567 |
| | **421,899** | 265,923 |
| Due from banks and other financial institutions | **64,440** | 12,862 |
| Loans and advances | **5,251,833** | 4,159,994 |
| Total | **5,738,172** | 4,438,779 |

# Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2016 and 2015 (Saudi Riyals in Thousands)

## 20- Net special commission income (continued)

| Special commission expense | 2016 | 2015 |
|---|---|---|
| Due to banks and other financial institutions | **76,861** | 25,812 |
| Customers' deposits | **1,451,327** | 532,875 |
| Debt securities and sukuk | **64,499** | 35,255 |
| **Total** | **1,592,687** | 593,942 |
| **Net special commission income** | **4,145,485** | 3,844,837 |

## 21. Fees and commission income, net

| Feeand commission income | 2016 | 2015 |
|---|---|---|
| Share trading and fund management | **75,450** | 100,776 |
| Trade finance | **276,420** | 304,081 |
| Credit cards | **208,618** | 211,564 |
| Credit facilities | **862,305** | 951,651 |
| Other banking services | **361,841** | 369,334 |
| Total | **1,784,634** | 1,937,406 |

| Fee and commission expense | 2016 | 2015 |
|---|---|---|
| Credit cards | **134,958** | 122,301 |
| Custody and brokerage fees | **572** | 1,098 |
| Credit facilities | **455,162** | 346,245 |
| Other banking services | **156,815** | 181,838 |
| Total | **747,507** | 651,482 |
| **Fees and commission income, net** | **1,037,127** | 1,285,924 |

# Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015 (Saudi Riyals in Thousands)

## 22. Tradingincome/(loss), net

| | 2016 | 2015 |
|---|---|---|
| Debt securities | **(2,104)** | (13,796) |
| Derivatives | **11,301** | 9,433 |
| Total | **9,197** | (4,363) |

## 23. Dividend income

| | 2016 | 2015 |
|---|---|---|
| AFS investments | **48,900** | 46,277 |

## 24. Gains from non-trading investments, net

| | 2016 | 2015 |
|---|---|---|
| Realized gains on AFS investments | **45,484** | 24,278 |

## 25. Other operating income, net

| | 2016 | 2015 |
|---|---|---|
| Rental income, net | **82,636** | 62,133 |
| Losses on disposal of property and equipment, net | **(160)** | (1,695) |
| Others | **16,266** | 15,142 |
| Total | **98,742** | 75,580 |

## 26. Basic and diluted earnings per share

Basic and diluted earnings per share for the years ended December 31, 2016 and 2015 are calculated by dividing the net incomefor the year attributable to equity holders of the Bank by 1,000 million shares.The diluted earnings per share are the same as the basic earnings per share.

# Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2016 and 2015 (Saudi Riyals in Thousands)

## 27. Gross dividends, Zakat and Income Tax

| Gross dividends are comprised of the following: | 2016 | 2015 |
|---|---|---|
| Interim dividends paid (a) | **450,000** | 450,000 |
| Proposed dividends(b) | **450,000** | 550,000 |
| Zakat and others (c) | **577,000** | 494,952 |
| Total | **1,477,000** | 1,494,952 |

**(a)** The Board has approved an interim dividend of SAR 450 million for distribution to the shareholders from the net income for the year ended December 31, 2016 (2015: 450 million). This interim dividend resulted in a payment to the shareholders of SAR 0.45 per share, net of Zakat and income tax (2015: 0.45 per share, net).

**(b)** On December 20, 2016 the Board recommended to pay cash dividends of SAR 450 million (2015: SAR 550 million).These dividends are subject to final approval by the general assembly.

**(c) Zakat and Others**

The dividends are paid to Saudi and non-Saudi shareholders after deduction of Zakat and income tax respectively as follows:

**Zakat**

Zakat for the year attributable to Saudi Shareholders amounted to approximately SAR 345 million (2015: SAR 296 million).

**Income Tax**

Income tax payable by the non-Saudi Shareholder on the current year's share of net income is SAR 232 million (2015: SAR 246 million).

**Status of Zakat and Income Tax Assessments**

The Group 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 2008 in which the GAZT raised additional demands aggregating to SAR 334 million for the years 2005 to 2008. The Group has formally contested these assessments and submitted their appeal to the Preliminary Objection Committee (POC). On June 1, 2016, the POC issued a ruling reducing the assessments amount from SAR 334 million to SAR 116million. The Group is still awaiting the revised assessment from the GAZT. An appeal to the Higher Appeal Committee (HAC) against the POC resolution has been submitted on July 27, 2016; the hearing date is not scheduled until now. Management is confident of a favourable outcome on the aforementioned appeals and have therefore not made any provisions in respect of the above.

The assessments for the years 2009 to 2015 are yet to be raised by the GAZT. However, management believes that the outcome of the assessments will not have a material impact on the consolidated financial statements of the Group.

## 28. Cash and cash equivalents

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

| | 2016 | 2015 |
|---|---|---|
| Cash and balances with SAMA excluding statutory deposit (note 4) | **12,316,473** | 3,105,419 |
| Due from banks and other financial institutions maturing within ninety days of acquisition | **4,030,850** | 5,575,099 |
| **Total** | **16,347,323** | 8,680,518 |

# Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015 (Saudi Riyals in Thousands)

## 29. Compensation practices

The Bank has implemented a "Risk-Based Compensation policy" in compliance with the rules issued by SAMA, which are consistent with the principles and standards of the Financial Stability Board (FSB). The policy was approved by the Board and gives highest consideration to the alignment of compensation with risk and provides a competitive and balanced package of fixed and variable compensation. The policy ensures that compensation takes into account the likelihood and timelines of earnings and its impact on the Bank›s capital. It also focuses on promoting effective risk management, achieving financial stability and dealing with risks posed by the bank›s compensation practices. The bank takes into account all types of existing and potential material risks and ensure a balance between general industry practices and bank-specific factors such as business model, financial condition, operating performance, market perception, business prospects and appropriate managerial judgment, etc.

The Board, while determining and approving the bonus pool ofthe Bank, considers performance in absolute and relative terms, consistency of earnings, long term performance, historical bonus pool, market conditions, etc. Similarly, while allocating the Bank-wide bonus pool to business units, due consideration is given to the type of business transacted, level of risk assumed, relative importance of earnings, distinctive business drivers, historical bonus pool, current performance and the business unit's consistency of performance.

The Board has ultimate responsibility for promoting effective governance and sound compensation practices. In order to assist it in overseeing the Compensation policies design and its operation, the Board has appointed a Nomination and Compensation Committee.The Nomination and Compensation Committee comprises three non-executives members of the Board and is chaired by an independent member of the Board. The Committee has full authority on behalf of the Board to review and where considered appropriate propose changes to the Bank›s compensation policy and practices and recommend the same to the Board, for its approval and to ensure adequacy and effectiveness of the policy in meeting its intended objectives. The Committee also reviews the level and composition of remuneration of key executives of the Bank and recommendsarisk-adjusted bonus pool to the Board, for approval.

The governance process ensures that the Compensation Policy is consistently applied and operates as intended. The Bank has established an oversight mechanism to regularly evaluate the design characteristics of compensation practices and their implementation.

**2016**

| Categories of employees | Number of employees | Fixed compensation | Variable cost paid cash in 2016 |
|---|---|---|---|
| 1. Senior executive requiring SAMA no objections | 19 | 38,233 | 28,565 |
| 2. Employees engaged in risk taking activities | 189 | 92,298 | 31,528 |
| 3. Employees engaged in control functions | 422 | 117,234 | 13,128 |
| 4. Other employees | 3,773 | 676,652 | 73,348 |
| **Total** | **4,403** | **924,417** | **146,569** |
| Variable compensation accrued in 2016 | | 115,000 | |
| Other employment related costs* | | 244,826 | |
| Total salaries and employment related expenses | | 1,284,243 | |

# Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2016 and 2015 (Saudi Riyals in Thousands)

## 29. Compensation practices (continued)

**2015**

| Categories of employees | Number of employees | Fixed compensation | Variable cost paid cash in 2015 |
|---|---|---|---|
| 1. Senior executive requiring SAMA no objections | 19 | 38,831 | 28,182 |
| 2. Employees engaged in risk taking activities | 186 | 91,166 | 32,034 |
| 3. Employees engaged in control functions | 438 | 115,100 | 18,629 |
| 4. Other employees | 4,203 | 685,634 | 122,073 |
| Total | 4,846 | 930,731 | 200,918 |
| Variable compensation accrued in 2015 | | 122,000 | |
| Other employment related costs* | | 322,740 | |
| Total salaries and employment related expenses | | 1,375,471 | |

*Other employment related costs include end of service benefits, GOSI, business travel, training and development, and other employees' benefits.

## 30. Operating segments

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Groupthat are regularly reviewed by the chief executive officer in order to allocate resources to the segments and to assess its performance.
For management purposes, the Group is organized into the following major operating segments:

**Retail banking**
Deposit, credit and investment products for individuals.

**Corporate banking**
Loans and advances, deposits and other credit products for corporate and institutional customers, small to medium sized businesses and the Bank's London Branch.

**Treasury**
Manages the Bank's trading and investment portfolios and the Bank's funding, liquidity, currency and commission rate risks.

**Investment and brokerage services**
Investment management services, asset management activities related to dealing, managing, arranging and advising and custody of securities.

**Other**
Includes income on capital and unallocated costs and assets and liabilities of Head Office and other supporting departments.

Transactions between operating segments are reported as recorded in the Group's transfer pricing system. The Group has amended the transfer pricing methodology, effective from January 1, 2016, to enhance the business segment reporting. These changes have not been applied retrospectively due to practicality considerations; hence, the basis for determining intersegment operating income/(expense) for the current year are not consistent with the basis used for December 31, 2015. Segment assets and liabilities comprise mainly operating assets and liabilities.

# Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015 (Saudi Riyals in Thousands)

### 30. Operating segments (continued)

The Group's primary business is conducted in the Kingdom with one international branch in London. However, the total assets, liabilities, commitments and results of operations of this branch are not material to the Group's overall consolidated financial statements.

**a)** The Group's total assets and liabilities as at December 31, 2016 and 2015 and its total operating income, expenses and net income for the years then ended, by operating segments, are as follows:

| 2016 | Retail banking | Corporate banking | Treasury | Investment and brokerage services | Other | Total |
|---|---|---|---|---|---|---|
| Total assets | 38,646,384 | 81,688,890 | 45,777,443 | 1,720,057 | 2,175,948 | 170,008,722 |
| Investments in associates | - | - | - | - | 616,395 | 616,395 |
| Total liabilities | 70,312,127 | 69,597,993 | 5,524,959 | 135,825 | 513,265 | 146,084,169 |
| Operating income / (loss) from external customers | 2,028,481 | 3,799,425 | (288,908) | 172,545 | 142,594 | 5,854,137 |
| Intersegment operating income/(expense) | 303,023 | (1,790,974) | 1,321,625 | - | 166,326 | - |
| Total operating income | 2,331,504 | 2,008,451 | 1,032,717 | 172,545 | 308,920 | 5,854,137 |
| Of which: | | | | | | |
| Net Special commission income | 1,962,616 | 1,508,848 | 484,077 | 12,827 | 177,117 | 4,145,485 |
| Fees and commission income, net | 308,366 | 549,722 | 9,185 | 75,354 | 94,500 | 1,037,127 |
| Impairment charges for credit losses, net | 364,350 | 361,786 | - | - | - | 726,136 |
| Impairment charges for investments, net | - | - | 37,645 | - | - | 37,645 |
| Depreciation and amortization | 86,663 | 2,433 | 2,390 | 2,427 | 139,465 | 233,378 |
| Total operating expenses | 1,832,069 | 871,700 | 141,327 | 95,921 | 83,521 | 3,024,538 |
| Share in earnings of associates, net | - | - | - | - | 32,278 | 32,278 |
| Net income attributed to non-controlling interest | - | - | - | - | (7,976) | (7,976) |
| Net income attributed to equity holders of the Bank | 499,435 | 1,136,751 | 891,390 | 76,624 | 249,701 | 2,853,901 |

# Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2016 and 2015 (Saudi Riyals in Thousands)

## 30 – Operating segments (continued)

| 2015 | Retail banking | Corporate banking | Treasury | Investment and brokerage services | Other | Total |
|---|---|---|---|---|---|---|
| Total assets | 39,172,737 | 81,990,562 | 44,489,280 | 1,703,519 | 3,065,175 | 170,421,273 |
| Investments in associates | - | - | - | - | 531,617 | 531,617 |
| Total liabilities | 66,465,039 | 72,640,878 | 8,024,993 | 171,055 | 487,455 | 147,789,420 |
| Operating income from external customers | 2,266,234 | 2,938,150 | 265,856 | 140,888 | 169,998 | 5,781,126 |
| Intersegment operating income/(expense) | 24,061 | (703,079) | 587,360 | - | 91,658 | - |
| Total operating income | 2,290,295 | 2,235,071 | 853,216 | 140,888 | 261,656 | 5,781,126 |
| Of which: | | | | | | |
| Net Special commission income | 1,726,005 | 1,729,244 | 316,209 | (22,169) | 95,548 | 3,844,837 |
| Fees and commission income, net | 509,314 | 558,199 | 12,648 | 94,800 | 110,963 | 1,285,924 |
| Impairment charges for credit losses, net | 204,092 | 371,412 | - | - | - | 575,504 |
| Impairment charges for investments, net | - | - | 43,455 | - | - | 43,455 |
| Depreciation and amortization | 122,313 | 2,151 | 3,508 | 4,002 | 67,349 | 199,323 |
| Total operating expenses | 1,679,439 | 882,388 | 133,557 | 83,842 | 82,924 | 2,862,150 |
| Share in earnings of associates, net | - | - | - | - | 37,500 | 37,500 |
| Net income attributed to non-controlling interest | - | - | - | - | 7,941 | 7,941 |
| Net income attributed to equity holders of the Bank | 610,856 | 1,352,683 | 719,659 | 57,046 | 224,173 | 2,964,417 |

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

| 2016 | Retail banking | Corporate banking | Treasury | Investment and brokerage services | Other | Total |
|---|---|---|---|---|---|---|
| Consolidated statement of financial position assets | **35,004,491** | **81,504,301** | **45,309,172** | **35,601** | **520,658** | **162,374,223** |
| Commitment and contingencies | **2,622,891** | **13,686,159** | **-** | **50,863** | **168,115** | **16,528,028** |
| Derivatives | **-** | **399** | **873,751** | **-** | **-** | **874,150** |

| 2015 | Retail banking | Corporate banking | Treasury | Investment and brokerage services | Other | Total |
|---|---|---|---|---|---|---|
| Consolidated statement of financial position assets | 35,113,739 | 81,497,057 | 43,986,751 | 23,814 | 1,191,884 | 161,813,245 |
| Commitment and contingencies | 2,847,412 | 14,501,103 | - | 373,116 | 1,528 | 17,723,159 |
| Derivatives | - | 187 | 692,953 | - | - | 693,140 |

Credit exposure comprises the carrying value of consolidated statement of financial position assets, excluding cash, property and equipment, other real estate, and other assets. The credit equivalent value of commitments, contingencies and derivatives are included in credit exposure(note 32a).

# Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015 (Saudi Riyals in Thousands)

## 31- Credit risk
The Bank manages exposure to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally in lending and investment activities. There is also credit risk in off consolidated statement of financial position financial instruments, such as loan commitments.

The bank manages credit risk by monitoring credit exposures, limiting transactions with specific counter-parties and continually assessing the creditworthiness of counter-parties. The Bank's risk management policies are designed to identify and to set appropriate risk limits and to monitor risks and adherence to limits. In addition to monitoring credit limits, the Bank manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counter-parties in appropriate circumstances, and limiting the duration of exposure. In certain cases, the Bank may also close out transactions or assign them to other counter-parties to mitigate credit risk. Credit risk of derivatives represents the potential cost to replace the derivative contracts if counter-parties fail to fulfill their obligation. To control the level of credit risk taken, the Bank assesses counter-parties using the same techniques as for its lending activities.

Concentration risk arises when a number of counter-parties 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.

Concentration risk indicates 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 individuals or groups of customers in specific locations or industry. It also takes security when appropriate. The Bank seeks additional collateral from a counterparty as soon as impairment indicators are noticed on the relevant individual loan.

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 procedures to reflect changes in markets, products and emerging best practices.

Debt securities included in the investment portfolio are mainly sovereign risk. Analysis of investments by counter-party is provided in note 6d. Information on credit risk relating to derivative instruments is provided in note 32and for commitments and contingencies in note 19. Information on the Banks maximum credit exposure by operating segment is given in note 30and the maximum credit risk exposure and itsrelative risk weighting is provided in note 38.

The Bank classifies its exposure into thirteen risk categories. Of these, ten categories are for performing and three for non-performing loans and advances. Each borrower is rated on an internally developed objective risk rating model that evaluates risk based on financial as well as qualitative factors such as management strength, industry characteristics, account conduct and company type. An independent credit review unit reviews the assigned ratings periodically. Exposures falling below a certain classification threshold are considered to be impaired and appropriate specific provisions are made against them by comparing the present value of expected future cash flows for each such exposure with its carrying amount based on the criteria prescribed by IAS 39. Collective impairment is also measured and recognized on a portfolio basis for groups of similar credits that are not individually identified as impaired.

# Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2016 and 2015 (Saudi Riyals in Thousands)

## 31. Credit risk (continued)

### a) Credit risk exposures of on consolidated statement of financial position financial assets:

| Loans and advances, net:<br>Consumer loans | 2016 | 2015 |
|---|---|---|
| Credit cards | **510,532** | 419,929 |
| Term loans | **25,435,983** | 26,956,616 |
| Total | **25,946,515** | 27,376,545 |
| **Corporate loans** | | |
| Syndicated loans | **16,632,692** | 16,813,020 |
| Overdrafts | **4,377,361** | 4,943,528 |
| Term loans | **68,525,288** | 66,395,625 |
| Other | **29,665** | 127,107 |
| Total | **89,565,006** | 88,279,280 |
| **Investments, net:** | | |
| Fixed-rate securities | **10,220,459** | 27,682,745 |
| Floating-rate notes | **13,882,722** | 4,106,238 |
| Other | **1,445,218** | 1,505,316 |
| Total | **25,548,399** | 33,294,299 |
| Gross Total | **141,059,920** | 148,950,124 |

### b) Credit risk exposures ofcredit related commitments and contingencies:

| | 2016 | 2015 |
|---|---|---|
| Loan commitments and other credit related contingencies | **3,010,172** | 2,427,668 |
| Financial guarantees | **30,812,522** | 33,718,742 |
| Total | **33,822,694** | 36,146,410 |

# Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015 (Saudi Riyals in Thousands)

## c) Credit quality of loans and advances

| Description | 2016 | 2015 |
|---|---|---|
| Neither past due nor impaired | **111,837,364** | 113,628,989 |
| Past due but not impaired | **2,690,289** | 1,548,152 |
| Impaired (any loan with specific provision) | **3,701,659** | 3,240,858 |
| Total loans and advances | **118,229,312** | 118,417,999 |
| Impairment charges for credit losses, net | **(2,717,791)** | (2,762,174) |
| Loans and advances, net | **115,511,521** | 115,655,825 |

## d) Loans and advances that are neither past due nor impaired

| **2016** | **Overdrafts** | **Credit cards** | **Consumer loans** | **Commercial loans and others** | **Total** |
|---|---|---|---|---|---|
| **Grades:** | | | | | |
| **Low risk (1-4)** | **255,639** | **459,562** | **21,220,438** | **21,161,564** | **43,097,203** |
| **Acceptable risk (5-8)** | **3,910,163** | **-** | **2,806,228** | **61,017,136** | **67,733,527** |
| **Watch list (9-10)** | **48,229** | **-** | **-** | **958,405** | **1,006,634** |
| **Total** | **4,214,031** | **459,562** | **24,026,666** | **83,137,105** | **111,837,364** |

| 2015 | Overdrafts | Credit cards | Consumer loans | Commercial loans and others | Total |
|---|---|---|---|---|---|
| Grades: | | | | | |
| Low risk (1-4) | 407,865 | 374,087 | 22,099,892 | 25,734,073 | 48,615,917 |
| Acceptable risk (5-8) | 4,337,944 | - | 3,361,385 | 56,037,252 | 63,736,581 |
| Watch list (9-10) | 51,785 | - | - | 1,224,706 | 1,276,491 |
| Total | 4,797,594 | 374,087 | 25,461,277 | 82,996,031 | 113,628,989 |

Grade 1-4: having financial conditions,risk factors and ability to repay that are superior to excellent.For retail, it includes loans with salary assignment orreal estate collateral.

Grade 5-8: having financial conditions, risk factors and ability to repay that are acceptable to good, in addition to other retail loans not included in the above category.

Grade 9-10:A credit that is currently protected but has potential weaknesses that deserve management's close attention.

# Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2016 and 2015 (Saudi Riyals in Thousands)

## 31- Credit risk (continued)

### e) Loans and advances past due but not impaired

| 2016 | Overdrafts | Credit cards | Consumer loans | Commercial loans and others | Total |
|---|---|---|---|---|---|
| Past due up to 30 days | - | 33,147 | 1,092,106 | 350,141 | 1,475,394 |
| Past due (31-60) days | - | - | - | 169,122 | 169,122 |
| Past due (61-90) days | - | - | - | 337,885 | 337,885 |
| Past due (91-180) days | - | - | - | 707,888 | 707,888 |
| Total | - | 33,147 | 1,092,106 | 1,565,036 | 2,690,289 |

| 2015 | Overdrafts | Credit cards | Consumer loans | Commercial loans and others | Total |
|---|---|---|---|---|---|
| Past due up to 30 days | - | 34,469 | 1,218,023 | 232,704 | 1,485,196 |
| Past due (31-60) days | - | - | - | 21,437 | 21,437 |
| Past due (61-90) days | - | - | - | 15,660 | 15,660 |
| Past due (91-180) days | - | - | - | 25,859 | 25,859 |
| Total | - | 34,469 | 1,218,023 | 295,660 | 1,548,152 |

### f) Impaired loans and advances

| | 2016 | 2015 |
|---|---|---|
| Commercial loans and overdrafts | 3,271,252 | 2,860,044 |
| Consumer loans and credit cards | 430,407 | 380,814 |
| Total | 3,701,659 | 3,240,858 |

Special commission income on impaired loans and advances amounted to SAR 132,093thousands for the year ended December 31, 2016 (2015: SAR 58,551).

Impaired Loans and advances are categorized as follows :

| | 2016 | 2015 |
|---|---|---|
| Performing loans and advances | 2,694,973 | 2,011,275 |
| Non-performing loans and advances, net | 1,006,686 | 1,229,583 |
| Total | 3,701,659 | 3,240,858 |

# Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015 (Saudi Riyals in Thousands)

### g) Credit risk exposure of investments

| 2016 | Investment grade | Non-investment grade | Unrated | Total |
|---|---|---|---|---|
| Trading securities | - | - | - | - |
| Held as FVIS | - | - | 726 | 726 |
| Available for sale | 8,410,823 | - | 1,046,221 | 9,457,044 |
| Other investments held at amortised cost | 14,485,371 | 33,906 | 1,571,352 | 16,090,629 |
| Total | 22,896,194 | 33,906 | 2,618,299 | 25,548,399 |

| 2015 | Investment grade | Non-investment grade | Unrated | Total |
|---|---|---|---|---|
| Trading securities | 1,312,480 | - | - | 1,312,480 |
| Held as FVIS | - | - | 8,077 | 8,077 |
| Available for sale | 10,058,844 | 74,930 | 1,092,716 | 11,226,490 |
| Other investments held at amortised cost | 19,940,846 | 33,857 | 772,549 | 20,747,252 |
| Total | 31,312,170 | 108,787 | 1,873,342 | 33,294,299 |

Investment Grade comprises investments having credit rating equivalent to Standard and Poor's rating of AAA to BBB. The unrated investments comprise mainly mutual funds and investment in equities.

### h) Collateral

The bank obtained assets by taking possession of collateral held as security, or calling upon other credit enhancements as follows:

| | 2016 | 2015 |
|---|---|---|
| **Nature of collateral held as security** | | |
| Listed securities | 19,338,266 | 19,372,008 |
| Properties | 23,342,303 | 19,499,177 |
| Others | 11,469,168 | 11,160,672 |
| Total | 54,149,737 | 50,031,857 |

# Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2016 and 2015 (Saudi Riyals in Thousands)

## 32. Concentration risk of financial assets with credit risk exposure and financial liabilitiesa) Geographical concentration

**a) Geographical concentration**

**The bank's main credit exposure by geographical region is as follows:**

| 2016 Assets | Saudi Arabia | Other GCC and Middle East | Europe | North America | Latin America | South East Asia | Other Countries | Total |
|---|---|---|---|---|---|---|---|---|
| Cash and balances with SAMA | | | | | | | | |
| Cash in hand | 2,834,972 | - | 1,941 | - | - | - | - | 2,836,913 |
| Balances with SAMA | 16,667,060 | - | - | - | - | - | - | 16,667,060 |
| Due from banks and other financial institutions | | | | | | | | |
| Current accounts | 21,414 | 192,421 | 190,180 | 470,438 | - | 134,250 | 25,965 | 1,034,668 |
| Money market placements | 2,336,000 | 507,400 | 152,782 | - | - | - | - | 2,996,182 |
| Investments, net | | | | | | | | |
| Held as FVIS | - | - | 726 | - | - | - | - | 726 |
| Available for sale | 2,895,436 | 1,026,915 | 113,596 | 5,421,097 | - | - | - | 9,457,044 |
| Other investments held at amortised cost | 15,771,936 | 318,693 | - | - | - | - | - | 16,090,629 |
| Positive fair value of derivatives | | | | | | | | |
| Held for trading | 105,890 | 17,512 | 310,090 | - | - | - | - | 433,492 |
| Held as fair value hedges | 729 | - | 25,549 | - | - | - | - | 26,278 |
| Loans and advances, net | | | | | | | | |
| Overdraft | 4,279,836 | - | 66,702 | - | - | - | 426 | 4,346,964 |
| Credit cards | 510,532 | - | - | - | - | - | - | 510,532 |
| Consumer loans | 25,435,843 | - | 140 | - | - | - | - | 25,435,983 |
| Commercial loans and others | 82,837,741 | 627,303 | 1,619,310 | - | - | - | 133,688 | 85,218,042 |
| Other assets | 710,595 | - | - | - | - | - | - | 710,595 |
| Total | 154,407,984 | 2,690,244 | 2,481,016 | 5,891,535 | - | 134,250 | 160,079 | 165,765,108 |
| **Liabilities** | | | | | | | | |
| Due to banks and other financial institutions | | | | | | | | |
| Current accounts | 4,988 | 287,296 | 4,129 | 493 | - | 323 | 20 | 297,249 |
| Money market deposit | 2,627,067 | 846,589 | 87,966 | - | - | - | - | 3,561,622 |
| Customers' deposits | | | | | | | | |
| Demand | 64,962,241 | 64,209 | 25,705 | - | - | 186 | 40,399 | 65,092,740 |
| Saving | 93,124 | - | - | - | - | - | - | 93,124 |
| Time | 64,821,584 | 8,579 | 95,043 | 453 | - | - | 78,176 | 65,003,835 |
| Other | 5,717,758 | - | - | - | - | - | - | 5,717,758 |
| Negative fair value of derivatives | | | | | | | | |
| Held for trading | 113,518 | 12,791 | 259,403 | - | - | - | - | 385,712 |
| Held as fair value hedges | 2,013 | 25,433 | 26,631 | - | - | - | - | 54,077 |
| Other liabilities | | | | | | | | |
| Accrued expenses and account payable | 3,853,438 | 14 | 3,472 | 2,774 | - | - | 164 | 3,859,862 |
| Debt securities and sukuk | 2,018,190 | - | - | - | - | - | - | 2,018,190 |
| Total | 144,213,921 | 1,244,911 | 502,349 | 3,720 | - | 509 | 118,759 | 146,084,169 |

# Notes to the Consolidated Financial Statements

## For the years ended December 31, 2016 and 2015 (Saudi Riyals in Thousands)

| 2016 Commitments and contingencies | Saudi Arabia | Other GCC and Middle East | Europe | North America | Latin America | South East Asia | Other Countries | Total |
|---|---|---|---|---|---|---|---|---|
| Letters of credit | 1,679,866 | 458,108 | 986,373 | 146,125 | 3,199 | 703,225 | - | 3,976,896 |
| Letters of guarantee | 19,674,201 | 1,071,897 | 2,262,174 | 204,691 | - | 1,894,599 | 6,836 | 25,114,398 |
| Acceptances | 243,449 | 115,680 | 365,816 | 131,272 | 1,605 | 760,678 | 1,002 | 1,619,502 |
| Irrevocable commitments to extended credit | 3,010,172 | - | - | - | - | - | - | 3,010,172 |
| Others | 101,726 | - | - | - | - | - | - | 101,726 |

| 2016 Maximum credit exposure (stated at credit equivalent amounts) | Saudi Arabia | Other GCC and Middle East | Europe | North America | Latin America | South East Asia | Other Countries | Total |
|---|---|---|---|---|---|---|---|---|
| Derivatives | | | | | | | | |
| Held for trading | 427,452 | 44,817 | 287,049 | 43,994 | - | - | 574 | 803,886 |
| Held as fair value hedges | - | - | 20,647 | 49,617 | - | - | - | 70,264 |
| Commitments and contingencies | | | | | | | | |
| Letters of credit | 335,973 | 91,622 | 197,275 | 29,225 | 640 | 140,645 | - | 795,380 |
| Letters of guarantee | 9,837,100 | 535,949 | 1,131,087 | 102,346 | - | 947,300 | 3,418 | 12,557,200 |
| Acceptances | 243,448 | 115,680 | 365,816 | 131,272 | 1,605 | 760,678 | 1,002 | 1,619,501 |
| Irrevocable commitments to extended credit | 1,505,085 | - | - | - | - | - | - | 1,505,085 |
| Others | 50,862 | - | - | - | - | - | - | 50,862 |

# Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2016 and 2015 (Saudi Riyals in Thousands)

## 32. Concentration risk of financial assets with credit risk exposure and financial liabilities (continued)

a) Geographical concentration (continued)

| 2015 Assets | Saudi Arabia | Other GCC and Middle East | Europe | North America | Latin America | South East Asia | Other Countries | Total |
|---|---|---|---|---|---|---|---|---|
| Cash and balances with SAMA | | | | | | | | |
| Cash in hand | 3,103,167 | - | 2,110 | - | - | - | - | 3,105,277 |
| Balances with SAMA | 7,323,014 | - | - | - | - | - | - | 7,323,014 |
| Due from banks and other financial institutions | | | | | | | | |
| Current accounts | 11,841 | 304,398 | 344,536 | 1,019,210 | - | 186,082 | 326 | 1,866,393 |
| Money market placements | 1,687,500 | 843,750 | 802,453 | 375,003 | - | - | - | 3,708,706 |
| Investments, net | | | | | | | | |
| Trading securities | - | - | - | 1,312,480 | - | - | - | 1,312,480 |
| Held as FVIS | - | - | 8,077 | - | - | - | - | 8,077 |
| Available for sale | 2,857,733 | 1,090,413 | 721,812 | 6,449,940 | - | 106,592 | - | 11,226,490 |
| Other investments held at amortised cost | 20,428,826 | 318,426 | - | - | - | - | - | 20,747,252 |
| Positive fair value of derivatives | | | | | | | | |
| Held for trading | 199,550 | 7,290 | 73,076 | 48 | - | - | 34 | 279,998 |
| Held as fair value hedges | 537 | - | 14 | 9,609 | - | - | - | 10,160 |
| Loans and advances, net | | | | | | | | |
| Overdrafts | 4,864,232 | - | 56,474 | - | - | - | 731 | 4,921,437 |
| Credit cards | 419,929 | - | - | - | - | - | - | 419,929 |
| Consumer loans | 26,913,454 | - | 206 | - | - | - | 42,956 | 26,956,616 |
| Commercial loans and others | 79,778,413 | 3,433,149 | 146,281 | - | - | - | - | 83,357,843 |
| Other assets | 864,805 | - | - | - | - | - | - | 864,805 |
| Total | 148,453,001 | 5,997,426 | 2,155,039 | 9,166,290 | - | 292,674 | 44,047 | 166,108,477 |
| **Liabilities** | | | | | | | | |
| Due to banks and other financial institutions | | | | | | | | |
| Current accounts | 2,998 | 170,629 | 6,687 | 514 | - | 4,469 | 42 | 185,339 |
| Money market deposit | 3,978,890 | 1,508,884 | - | - | - | - | - | 5,487,774 |
| Customers' deposits | | | | | | | | |
| Demand | 66,040,091 | 84,659 | 128,472 | - | - | 342 | 10,550 | 66,264,114 |
| Saving | 107,820 | - | - | - | - | - | - | 107,820 |
| Time | 63,484,325 | 9,069 | 408,483 | 513 | - | - | 109 | 63,902,499 |
| Other | 5,486,761 | - | - | - | - | - | - | 5,486,761 |
| Negative fair value of derivatives | | | | | | | | |
| Held for trading | 82,763 | 30,254 | 113,703 | 2,938 | - | - | 3 | 229,661 |
| Held as fair value hedges | 1,875 | - | 33,898 | 73,515 | - | - | - | 109,288 |
| Other liabilities | | | | | | | | |
| Accrued expenses and account payable | 3,995,067 | - | - | 9,827 | - | - | - | 4,004,894 |
| Debt securities and sukuk | 2,011,270 | - | - | - | - | - | - | 2,011,270 |
| Total | 145,191,860 | 1,803,495 | 691,243 | 87,307 | - | 4,811 | 10,704 | 147,789,420 |

# Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015 (Saudi Riyals in Thousands)

| 2015 Commitments and contingencies | Saudi Arabia | Other GCC and Middle East | Europe | North America | Latin America | South East Asia | Other Countries | Total |
|---|---|---|---|---|---|---|---|---|
| Letters of credit | 1,948,033 | 383,263 | 971,557 | 454,509 | 6,498 | 1,017,815 | - | 4,781,675 |
| Letters of guarantee | 21,062,384 | 858,022 | 2,400,902 | 211,220 | - | 2,115,801 | 8,093 | 26,656,422 |
| Acceptances | 698,993 | 138,697 | 311,136 | 234,754 | 5,993 | 779,341 | - | 2,168,914 |
| Irrevocable commitments to extended credit | 2,427,668 | - | - | - | - | - | - | 2,427,668 |
| Others | 111,731 | - | - | - | - | - | - | 111,731 |

| 2015 Maximum credit exposure (stated at credit equivalent amounts) | Saudi Arabia | Other GCC and Middle East | Europe | North America | Latin America | South East Asia | Other Countries | Total |
|---|---|---|---|---|---|---|---|---|
| Derivatives | | | | | | | | |
| Held for trading | 462,400 | 13,744 | 135,938 | 13,904 | - | - | 934 | 626,920 |
| Held as fair value hedges | - | - | 8,139 | 58,081 | - | - | - | 66,220 |
| Commitments and contingencies | | | | | | | | |
| Letters of credit | 389,607 | 76,653 | 194,311 | 90,902 | 1,300 | 203,563 | - | 956,336 |
| Letters of guarantee | 10,531,192 | 429,011 | 1,200,451 | 105,610 | - | 1,057,901 | 4,047 | 13,328,212 |
| Acceptances | 698,992 | 138,697 | 311,136 | 234,754 | 5,993 | 779,341 | - | 2,168,913 |
| Irrevocable commitments to extended credit | - | - | - | - | - | - | 896,583 | 896,583 |
| Others | 373,115 | - | - | - | - | - | - | 373,115 |

Credit equivalent amounts reflect the amounts that result from translating the Bank's off consolidated statement of financial position 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 commitments being exercised.

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

| 2016 | Non-Performing Loans net | | | | Impairment Allowance for Credit Losses | | | |
|---|---|---|---|---|---|---|---|---|
| | Overdraft | Credit Cards | Consumer loans | Commercial loans and others | Overdraft | Credit Cards | Consumer loans | Commercial loans and others |
| Saudi Arabia | 39,246 | 11,765 | 114,731 | 840,944 | 30,397 | 5,737 | 89,636 | 2,592,021 |

| 2015 | Non-Performing Loans net | | | | Impairment Allowance for Credit Losses | | | |
|---|---|---|---|---|---|---|---|---|
| | Overdraft | Credit cards | Consumer loans | Commercial loans and others | Overdraft | Credit cards | Consumer loans | Commercial loans and others |
| Saudi Arabia | - | 6,220 | 89,343 | 1,134,020 | - | 2,222 | 89,904 | 2,670,048 |

# Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2016 and 2015 (Saudi Riyals in Thousands)

## 33- Market risk

Market Risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as commission rates, foreign exchange rates, and equity prices. The Bank classifies exposures to market risk into either trading or banking-book.

### a) Market risk - Trading book

The Board has set limits for the acceptable level of risk in managing the trading book. In order to manage market risk in the trading book, the Bank periodically applies a VaR (value at risk) methodology to assess the market risk positions held and to estimate the potential economic loss based on a set of parameters and assumptions regarding 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 risk 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 thereof has limitations due to it being 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 should occur, on average, not more than once every hundred days.

The VaR represents the market risk in a portfolio at the close of a business day. It does not account for any losses that may occur beyond the defined confidence interval. Actual trading results can,however,differ from the VaR calculations.VaR does not provide a meaningful indication of profits and losses in stressed market conditions.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

I. A 1-day holding period assumes that it is possible to hedge or dispose of positions within a one day horizon. This is considered to be a realistic assumption in most cases but may not be true in situations where there is severe market liquidity for a prolonged period.

II. A 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a one percent probability that losses could exceed VaR.

III. VaR is calculated on an end of day basis and does not reflect exposures that may arise on positions during the trading day.

IV. VaR is dependent upon the Bank›s position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

The limitations of VaR are recognized by supplementing theVaR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio. In addition, the Bank carries out stress testing on its trading book to simulate conditions outside normal confidence intervals. The potential losses occurring under stress test conditions are reported regularly to the Bank's Asset and Liabilities Committee (ALCO) for review.

# Notes to the Consolidated Financial Statements

## For the years ended December 31, 2016 and 2015 (Saudi Riyals in Thousands)

The Bank's calculated VaR for the years ended December 31, 2016 and 2015 is as follows. All the figures are in SARmillion:

| | 2016 | | | | 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Yearend** | **Average** | **High** | **Low** | Yearend | Average | High | Low |
| Special commission rate risk | **0.1591** | **0.4779** | **4.0411** | **0.1404** | 0.2559 | 0.9537 | 11.2663 | 0.1725 |
| Foreign exchange risk | **1.1778** | **0.8333** | **3.6196** | **0.1073** | 1.5496 | 0.9713 | 3.0902 | 0.4035 |
| Diversification effect * | **(0.1450)** | **(0.2593)** | **n/m** | **n/m** | (0.2437) | (0.4356) | n/m | n/m |
| Total VaR (one day measure) | **1.1920** | **1.0519** | **4.1613** | **0.2651** | 1.5618 | 1.4894 | 11.2509 | 0.4508 |

* Total VaR is less than the sum of the VaR of the different market risk types due to risk offsets resulting from a portfolio diversification effect.
n/m– It is not meaningful to compute a diversification effect because the high and low may occur on different days for different risk types.

### b) Market risk: non-trading or banking book

Market risk on non-trading or banking positions mainly arises from commission rate and foreign currency exposures and equity price changes.

**i) Commission rate risk**

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

The following table shows the sensitivity of the Group's consolidated income statement and equity to a reasonable possible change in commission rates, with other variables held constant. Income sensitivity arises from the impactof assumed changes in commission rates on special commission income for one year, based on floating rate non-trading financial assets and liabilities held as at December 31, 2016,after taking into account the effect of hedging. Equity sensitivity is calculated by revaluing fixed rate available for sale financial assets,including the effect of any associated hedges as at December 31, 2016 and 2015, for the effect of assumed changes in commission rates. The sensitivity of equity is analyzed by maturity of the asset or swap. Banking book exposures are monitored and analyzed in their respective currencies and relevant sensitivities are disclosed in SARmillion.

# Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2015 and 2014 (Saudi Riyals in Thousands)

## 33- Market risk (continued)

### b) Market risk: non-trading or banking book (continued)

i) Commission rate risk(continued)

**2016**

| Currency | Increase in basis points | Sensitivity of special commission income | Sensitivity of equity 6 months or less | 1 year or less | 1-5 years or less | Over 5 years | Total |
|---|---|---|---|---|---|---|---|
| SAR | +10 | 35.96 | (0.04) | (0.05) | (0.10) | (0.16) | (0.35) |
| USD | +10 | 3.00 | (0.18) | (0.27) | (5.06) | 0.01 | (5.50) |
| Others | +10 | 0.68 | - | - | (0.02) | - | (0.02) |

| Currency | Decrease in basis points | Sensitivity of special commission income | Sensitivity of equity 6 months or less | 1 year or less | 1-5 years or less | Over 5 years | Total |
|---|---|---|---|---|---|---|---|
| SAR | - 10 | (35.96) | 0.04 | 0.05 | 0.10 | 0.16 | 0.35 |
| USD | - 10 | (3.00) | 0.18 | 0.27 | 5.06 | (0.01) | 5.50 |
| Others | - 10 | (0.68) | - | - | 0.02 | - | 0.02 |

2015

| Currency | Increase in basis points | Sensitivity of special commission income | Sensitivity of equity 6 months or less | 1 year or less | 1-5 years or less | Over 5 years | Total |
|---|---|---|---|---|---|---|---|
| SAR | +10 | 38.82 | - | (0.02) | (0.51) | (0.16) | (0.69) |
| USD | +10 | (7.05) | (0.05) | (0.68) | (6.00) | - | (6.73) |
| Others | +10 | 0.15 | - | (0.04) | (0.04) | - | (0.08) |

| Currency | Decrease in basis points | Sensitivity of special commission income | Sensitivity of equity 6 months or less | 1 year or less | 1-5 years or less | Over 5 years | Total |
|---|---|---|---|---|---|---|---|
| SAR | - 10 | (38.82) | - | 0.02 | 0.51 | 0.16 | 0.69 |
| USD | - 10 | 7.05 | 0.05 | 0.68 | 6.00 | - | 6.73 |
| Others | - 10 | (0.15) | - | 0.04 | 0.04 | - | 0.08 |

# Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015 (Saudi Riyals in Thousands)

**Commission rate sensitivity of assets, liabilities and off consolidated statement of financial position item**

The Bank manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market commission rates on its financial position and cash flows . The table below summarizes the Group's exposure to commission rate risk. Included in the table are the Group's assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates. The Group is exposed to commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and derivatives, credit related commitment and contingencies that mature or re-price in a given period. The Group manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

| 2016<br>Assets | Within 3 months | 3-12 months | 1-5 years | Over 5 years | Non commission bearing | Total |
|---|---|---|---|---|---|---|
| Cash and balances with SAMA | 9,468,408 | - | - | - | 10,035,565 | 19,503,973 |
| Due from banks and other financial institutions | 2,996,182 | - | - | - | 1,034,668 | 4,030,850 |
| Positive fair value derivatives | 459,770 | - | - | - | - | 459,770 |
| Investments, net | | | | | | |
| Held as FVIS | - | - | - | - | 726 | 726 |
| Available for sale | 870,777 | 1,610,560 | 5,517,034 | 17,910 | 1,440,763 | 9,457,044 |
| Other investments held at amortised cost | 12,359,356 | 699,025 | 1,085,985 | 1,933,094 | 13,169 | 16,090,629 |
| Loans and advances, net | | | | | | |
| Overdrafts | 4,346,964 | - | - | - | - | 4,346,964 |
| Credit cards | 510,532 | - | - | - | - | 510,532 |
| Consumer loans | 1,892,820 | 5,145,850 | 17,148,343 | 1,248,970 | - | 25,435,983 |
| Commercial loans | 51,741,222 | 26,929,039 | 6,090,114 | 457,667 | - | 85,218,042 |
| Investments in associates | - | - | - | - | 616,395 | 616,395 |
| Other real estate | - | - | - | - | 136,634 | 136,634 |
| Investment property, net | - | - | - | - | 1,651,363 | 1,651,363 |
| Property and equipment, net | - | - | - | - | 1,839,222 | 1,839,222 |
| Other assets | - | - | - | - | 710,595 | 710,595 |
| Total assets | 84,646,031 | 34,384,474 | 29,841,476 | 3,657,641 | 17,479,100 | 170,008,722 |
| **Liabilities and equity** | | | | | | |
| Due to banks and other financial institutions | 3,336,278 | 225,344 | - | - | 297,249 | 3,858,871 |
| Negative fair value derivatives | 439,789 | - | - | - | - | 439,789 |
| Customers' deposits | 51,735,971 | 16,315,764 | 163,499 | - | 67,692,223 | 135,907,457 |
| Other liabilities | - | - | - | - | 3,859,862 | 3,859,862 |
| Debt securities and sukuk | - | 2,018,190 | - | - | - | 2,018,190 |
| Equity | - | - | - | - | 23,924,553 | 23,924,553 |
| Total liabilities and equity | 55,512,038 | 18,559,298 | 163,499 | - | 95,773,887 | 170,008,722 |

| 2016 | Within 3 months | 3-12 months | 1-5 years | Over 5 years | Non commission bearing |
|---|---|---|---|---|---|
| **On consolidated statement of financial position gap** | 29,133,993 | 15,825,176 | 29,677,977 | 3,657,641 | (78,294,787) |
| **Off consolidated statement of financial position gap** | 3,930,669 | 3,038,622 | (6,091,068) | (878,223) | - |
| **Total commission rate sensitivity gap** | 33,064,662 | 18,863,798 | 23,586,909 | 2,779,418 | (78,294,787) |
| **Cumulative commission rate sensitivity gap** | 33,064,662 | 51,928,460 | 75,515,369 | 78,294,787 | - |

# Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2016 and 2015 (Saudi Riyals in Thousands)

## 33- Market risk (continued)

## b) Market risk: non-trading or banking book (continued)

i) Commission rate risk (continued)

Commission rate sensitivity of assets, liabilities and off consolidated statement of financial position items (continued)

| 2015<br>Assets | Within 3 months | 3-12 months | 1-5 years | Over 5 years | Non commission bearing | Total |
|---|---|---|---|---|---|---|
| Cash and balances with SAMA | - | - | - | - | 10,428,291 | 10,428,291 |
| Due from banks and other financial institutions | 3,708,782 | - | - | - | 1,866,317 | 5,575,099 |
| Positive fair value derivatives | 290,158 | - | - | - | - | 290,158 |
| Investments, net | | | | | | |
| Trading securities | - | - | - | - | 1,312,480 | 1,312,480 |
| Held as FVIS | - | - | - | - | 8,077 | 8,077 |
| Available for sale | 1,341,212 | 725,131 | 7,663,758 | - | 1,496,389 | 11,226,490 |
| Other investments held at amortised cost | 16,032,742 | 1,653,517 | 1,004,457 | 2,040,453 | 16,083 | 20,747,252 |
| Loans and advances, net | | | | | | |
| Overdrafts | 4,921,437 | - | - | - | - | 4,921,437 |
| Credit cards | 419,929 | - | - | - | - | 419,929 |
| Consumer loans | 2,008,168 | 5,586,061 | 18,274,440 | 1,087,947 | - | 26,956,616 |
| Commercial loans | 52,012,852 | 25,082,091 | 6,156,734 | 106,166 | - | 83,357,843 |
| Investments in associates | - | - | - | - | 531,617 | 531,617 |
| Other real estate | - | - | - | - | 159,893 | 159,893 |
| Investment property, net | - | - | - | - | 1,675,866 | 1,675,866 |
| Property and equipment, net | - | - | - | - | 1,945,420 | 1,945,420 |
| Other assets | - | - | - | - | 864,805 | 864,805 |
| Total assets | 80,735,280 | 33,046,800 | 33,099,389 | 3,234,566 | 20,305,238 | 170,421,273 |
| Liabilities and equity | | | | | | |
| Due to banks and other financial institutions | 5,487,774 | - | - | - | 185,339 | 5,673,113 |
| Negative fair value derivatives | 338,949 | - | - | - | - | 338,949 |
| Customers' deposits | 51,698,112 | 14,776,447 | 48,300 | - | 69,238,335 | 135,761,194 |
| Other liabilities | - | - | - | - | 4,004,894 | 4,004,894 |
| Debt securities and sukuk | - | 2,011,270 | - | - | - | 2,011,270 |
| Equity | - | - | - | - | 22,631,853 | 22,631,853 |
| Total liabilities and equity | 57,524,835 | 16,787,717 | 48,300 | - | 96,060,421 | 170,421,273 |

| 2015 | Within 3 months | 3-12 months | 1-5 years | Over 5 years | Non commission bearing |
|---|---|---|---|---|---|
| On consolidated statement of financial position gap | 23,210,445 | 16,259,083 | 33,051,089 | 3,234,566 | (75,755,183) |
| Off consolidated statement of financial position gap | 3,042,324 | 7,200,401 | (9,680,261) | (562,464) | - |
| Total commission rate sensitivity gap | 26,252,769 | 23,459,484 | 23,370,828 | 2,672,102 | (75,755,183) |
| Cumulative commission rate sensitivity gap | 26,252,769 | 49,712,253 | 73,083,081 | 75,755,183 | - |

# Notes to the Consolidated Financial Statements

## For the years ended December 31, 2016 and 2015 (Saudi Riyals in Thousands)

The offconsolidated statement of financial position gap represents the net notional amounts of derivative financial instruments, which are used to manage commission rate risk.

The effective 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 changes in the value of financial instruments due to changes in foreign exchange rates. Foreign currency risk exposures that arise in the banking book are transferred to the trading book and are managed as part of the trading portfolio. The Board sets various types of currency risk limits that are monitored daily, including position, stop-loss and VaR limits.

The table below shows the currencies to which the Bank has a significant exposure as at December 31, 2016 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 income statement (due to changes in fair values of currency sensitive non-trading monetary assets and liabilities) and equity (due to changes in fair values of currency swaps used as cash flow hedges).A positive effect shows a potential increase in the consolidated income statement or equity whereas, a negative effect shows a potential net reduction in the consolidated income statement or equity.

| | 2016 | | 2015 | |
|---|---|---|---|---|
| Currency risk exposures | Changes in currency rate in% | Effect on net income | Changes in currency rate in % | Effect on net income |
| US Dollar | +5 | 21.076 | +5 | (66.995) |
| | -5 | (21.076) | -5 | 66.995 |
| Euro | +3 | (0.184) | +3 | (0.006) |
| | -3 | 0.184 | -3 | 0.006 |
| Pound Sterling | +3 | (0.121) | +3 | 0.002 |
| | -3 | 0.121 | -3 | (0.002) |

**iii) Currency position**

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

| | 2016 Long (short) | 2015 Long (short) |
|---|---|---|
| US Dollar | 421,513 | (1,339,910) |
| Euro | (6,132) | (200) |
| Pound Sterling | (4,026) | 76 |

# Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2016 and 2015 (Saudi Riyals in Thousands)

## 33- Market risk (continued)

## b) Market risk: non-trading or banking book (continued)

**iv) Equity price risk**

Equity price risk refers to the risk of a decrease in the fair values of equities in the 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 available for sale equity investments due to reasonable possible change in equity indices, with all other variables held constantis as follows:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| Market indices | Change in index % | Effect in SAR'000 | Change in index % | Effect in SAR'000 |
| Tadawul | + 5 | 63,328 | + 5 | 58,816 |
| | - 5 | (63,328) | - 5 | (58,816) |

## 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 dry up suddenly. To mitigate this risk, management has diversified funding sources, manages assets with liquidity in mind and maintains a healthy balance of cash, cash equivalents and readily marketable securities.

In accordance with the Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to7%(2015: 7%) of total demand deposits and4% (2015: 4%) of saving and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of no less than 20% of its deposit liabilities, in the form of cash, Saudi Government Development Bonds or assets that can be converted into cash within 30 days.

The Bank has the ability to raise additional funds through repo facilities with SAMA against Saudi Government Development Bonds up to 75% of the nominal value of bonds held.

**i) Analysis of undiscounted financial liabilities by remaining contractual maturities**

The table below summarizes the maturity profile of the Bank›s financial liabilities 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 consolidated statement of financial position date to the contractual maturity date and do not take into account the effective expected maturities. The Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not affect the expected cash flows indicated by the Bank›s deposit retention history.

| 2016<br>Financial liabilities | Within 3 months | 3-12 months | 1-5 years | Above 5 years | No fixed maturity | Total |
|---|---|---|---|---|---|---|
| Due to banks and other financial institutions | 3,314,738 | 252,965 | - | - | 297,249 | 3,864,952 |
| Customers' deposits | 47,286,692 | 21,668,726 | 167,273 | - | 67,694,875 | 136,817,566 |
| Derivative financial instruments | | | | | | |
| Contractual amounts payable | 40,235 | 262,050 | 860,541 | 125,088 | - | 1,287,914 |
| Contractual amounts receivable | (30,288) | (232,065) | (860,234) | (136,867) | - | (1,259,454) |
| Debt securities and Sukuk | 11,270 | 64,164 | 345,743 | 2,428,193 | - | 2,849,370 |
| Total financial liabilities | 50,622,647 | 22,015,840 | 513,323 | 2,416,414 | 67,992,124 | 143,560,348 |

# Notes to the Consolidated Financial Statements

## For the years ended December 31, 2016 and 2015 (Saudi Riyals in Thousands)

| 2015<br>Financial liabilities | Within 3 months | 3-12 months | 1-5 years | Above 5 years | No fixed maturity | Total |
|---|---|---|---|---|---|---|
| Due to banks and other financial institutions | 5,238,348 | 250,561 | - | - | 185,339 | 5,674,248 |
| Customers' deposits | 51,173,284 | 15,885,271 | 104,756 | - | 69,257,035 | 136,420,346 |
| Derivative financial instruments | | | | | | |
| Contractual amounts payable | 48,762 | 286,942 | 667,241 | 45,419 | - | 1,048,364 |
| Contractual amounts receivable | (23,850) | (225,792) | (635,378) | (44,821) | - | (929,841) |
| Debt securities and Sukuk | 11,270 | 36,561 | 191,194 | 2,239,287 | - | 2,478,312 |
| Total financial liabilities | 56,447,814 | 16,233,543 | 327,813 | 2,239,885 | 69,442,374 | 144,691,429 |

**ii) Maturity profile of Bank's assets, liabilities and equity**

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled. See note (i) above for the Bank›s contractual undiscounted financial liabilities.

Management monitors the maturity profile to ensure that adequate liquidity is maintained. 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 the Bank, operating subsidiaries and the foreign branch. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

| 2016<br>Assets | Within 3 months | 3-12 months | 1-5 years | Over 5 years | No fixed maturity | Total |
|---|---|---|---|---|---|---|
| Cash and balances with SAMA | 9,468,408 | - | - | - | 10,035,565 | 19,503,973 |
| Due from banks and other financial institutions | 2,996,182 | - | - | - | 1,034,668 | 4,030,850 |
| Positive fair value derivatives | 71,952 | 69,572 | 78,081 | 240,165 | - | 459,770 |
| Investments, net | | | | | | |
| Held as FVIS | - | - | - | - | 726 | 726 |
| Available for sale | 667,601 | 1,065,532 | 5,822,760 | 460,388 | 1,440,763 | 9,457,044 |
| Other investments held at amortised cost | 35,673 | 1,225,972 | 1,817,953 | 12,997,862 | 13,169 | 16,090,629 |
| Loans and advances, net | | | | | | |
| Overdrafts | 4,346,964 | - | - | - | - | 4,346,964 |
| Credit cards | 510,532 | - | - | - | - | 510,532 |
| Consumer loans | 1,892,820 | 5,145,850 | 17,148,343 | 1,248,970 | - | 25,435,983 |
| Commercial loans and others | 39,927,506 | 18,897,080 | 18,521,556 | 7,871,900 | - | 85,218,042 |
| Investments in associates | - | - | - | - | 616,395 | 616,395 |
| Other real estate | - | - | - | - | 136,634 | 136,634 |
| Investment property, net | - | - | - | - | 1,651,363 | 1,651,363 |
| Property and equipment, net | - | - | - | - | 1,839,222 | 1,839,222 |
| Other assets | - | - | - | - | 710,595 | 710,595 |
| Total assets | 59,917,638 | 26,404,006 | 43,388,693 | 22,819,285 | 17,479,100 | 170,008,722 |

# Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2016 and 2015 (Saudi Riyals in Thousands)

## 34- Liquidity risk (continued)

**ii) Maturity profile of Bank's assets, liabilities and equity (continued)**

**2016**

| Liabilities and equity | Within 3 months | 3-12 months | 1-5 years | Above 5 years | No fixed maturity | Total |
|---|---|---|---|---|---|---|
| Due from banks and other financial institutions | 3,336,278 | 225,344 | - | - | 297,249 | 3,858,871 |
| Negative fair value derivatives | 62,249 | 53,866 | 83,353 | 240,321 | - | 439,789 |
| Customers' deposits | 51,735,971 | 16,315,764 | 163,499 | - | 67,692,223 | 135,907,457 |
| Other liabilities | - | - | - | - | 3,859,862 | 3,859,862 |
| Debt securities and sukuk | - | 18,190 | - | 2,000,000 | - | 2,018,190 |
| Equity | - | - | - | - | 23,924,553 | 23,924,553 |
| Total liabilities and equity | 55,134,498 | 16,613,164 | 246,852 | 2,240,321 | 95,773,887 | 170,008,722 |

**2015**

| Assets | Within 3 months | 3-12 months | 1-5 years | Over 5 years | No fixed maturity | Total |
|---|---|---|---|---|---|---|
| Cash and balances with SAMA | - | - | - | - | 10,428,291 | 10,428,291 |
| Due from banks and other financial institutions | 3,709,782 | - | - | - | 1,865,317 | 5,575,099 |
| Positive fair value derivatives | 160,117 | 22,147 | 102,951 | 4,943 | - | 290,158 |
| Investments, net | | | | | | |
| Trading securities | - | - | - | - | 1,312,480 | 1,312,480 |
| Held as FVIS | - | - | - | - | 8,077 | 8,077 |
| Available for sale | 234,786 | 936,491 | 8,138,686 | 420,138 | 1,496,389 | 11,226,490 |
| Other investments held at amortised cost | 13,461,297 | 1,232,299 | 2,590,262 | 3,447,310 | 16,084 | 20,747,252 |
| Loans and advances, net | | | | | | |
| Overdrafts | 4,921,437 | - | - | - | - | 4,921,437 |
| Credit cards | 419,929 | - | - | - | - | 419,929 |
| Consumer loans | 2,008,168 | 5,586,061 | 18,274,440 | 1,087,947 | - | 26,956,616 |
| Commercial loans and others | 40,481,200 | 18,188,736 | 18,436,203 | 6,251,704 | - | 83,357,843 |
| Investments in associates | - | - | - | - | 531,617 | 531,617 |
| Other real estate | - | - | - | - | 159,893 | 159,893 |
| Investment property, net | - | - | - | - | 1,675,866 | 1,675,866 |
| Property and equipment, net | - | - | - | - | 1,945,420 | 1,945,420 |
| Other assets | - | - | - | - | 864,805 | 864,805 |
| Total assets | 65,396,716 | 25,965,734 | 47,542,542 | 11,212,042 | 20,304,239 | 170,421,273 |

# Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015 (Saudi Riyals in Thousands)

| 2015<br>Liabilities and equity | Within 3 months | 3-12 months | 1-5 years | Above 5 years | No fixed maturity | Total |
|---|---|---|---|---|---|---|
| Due to banks and other financial institutions | 5,487,774 | - | - | - | 185,339 | 5,673,113 |
| Negative fair value derivatives | 127,620 | 32,698 | 151,114 | 27,517 | - | 338,949 |
| Customers' deposits | 51,698,112 | 14,629,708 | 195,039 | - | 69,238,335 | 135,761,194 |
| Other liabilities | - | - | - | - | 4,004,894 | 4,004,894 |
| Debt securities and sukuk | - | - | - | 2,011,270 | - | 2,011,270 |
| Equity | - | - | - | - | 22,631,853 | 22,631,853 |
| Total liabilities and equity | 57,313,506 | 14,662,406 | 346,153 | 2,038,787 | 96,060,421 | 170,421,273 |

## 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:

i) In the accessible principal market for the asset or liability; or
ii) In the absence of a principal market, in the most advantageous accessible market for the asset or liability.

The fair values of on-balance sheet financial instruments are not significantly different from their carrying amounts included in the consolidated financial statements.

### 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 repacking);
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.

### a. Carrying amounts and fair value

The following table shows the carrying amount and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy for financial instruments measured at fair value. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

# Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2016 and 2015 (Saudi Riyals in Thousands)

## 35. Fair values of financial assets and liabilities

**a. Carrying amounts and faira value (continued)**

**Financial assets**

| DECEMBER 31, 2016 | | FAIR VALUE | | | |
|---|---|---|---|---|---|
| **Financial assets measured at fair value** | **Carrying value** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Trading investments | - | - | - | - | - |
| Designated as FVIS investments | **726** | - | **726** | - | **726** |
| Available for sale investments | **9,457,044** | **7,974,102** | **1,458,727** | **24,215** | **9,457,044** |
| Positive fair value derivatives | **459,770** | - | **459,770** | - | **459,770** |
| **Financial assets not measured at fair value** | | | | | |
| Due from banks and other financial institutions | **4,030,850** | - | - | - | **4,030,850** |
| Other investments held at amortised cost | **16,090,629** | **523,474** | **15,378,858** | - | **15,902,332** |
| Loans and advances | **115,511,521** | - | **116,570,946** | - | **116,570,946** |

| DECEMBER 31, 2015 | | FAIR VALUE | | | |
|---|---|---|---|---|---|
| Financial assets measured at fair value | Carrying value | Level 1 | Level 2 | Level 3 | Total |
| Trading investments | 1,312,480 | 1,312,480 | - | - | 1,312,480 |
| Designated as FVIS investments | 8,077 | - | 8,077 | - | 8,077 |
| Available for sale investments | 11,226,490 | 9,486,872 | 1,653,824 | 85,794 | 11,226,490 |
| Positive fair value derivatives | 290,158 | - | 290,158 | - | 290,158 |
| Financial assets not measured at fair value | | | | | |
| Due from banks and other financial institutions | 5,575,099 | - | - | - | 5,575,099 |
| Other investments held at amortised cost | 20,747,252 | 578,687 | 20,080,187 | - | 20,658,874 |
| Loans and advances | 115,655,825 | - | 117,035,320 | - | 117,035,320 |

**Financial Liabilities**

| DECEMBER 31, 2016 | | FAIR VALUE | | | |
|---|---|---|---|---|---|
| **Financial liabilities measured at fair value** | **Carrying value** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Negative fair value derivatives | **439,789** | - | **439,789** | - | **439,789** |
| **Financial liabilities not measured at fair value** | | | | | |
| Due to banks and other financial institutions | **3,858,871** | - | - | - | **3,858,871** |
| Customers' Deposits | **135,907,457** | - | - | - | **135,907,457** |
| **Sukuk** | **2,018,190** | - | **1,906,366** | - | **1,906,366** |

| DECEMBER 31, 2015 | | FAIR VALUE | | | |
|---|---|---|---|---|---|
| Financial liabilities measured at fair value | Carrying value | Level 1 | Level 2 | Level 3 | Total |
| Negative fair value derivatives | 338,949 | - | 338,949 | - | 338,949 |
| Financial liabilities not measured at fair value | | | | | |
| Due to banks and other financial institutions | 5,673,113 | - | - | - | 5,673,113 |
| Customers' Deposits | 135,761,194 | - | - | - | 135,761,194 |
| Sukuk | 2,011,270 | - | 1,806,566 | - | 1,806,566 |

# Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015 (Saudi Riyals in Thousands)

## b. Measurement of fair values

### i. Valuation technique and significant unobservable inputs
The following table shows the valuation techniques used in measuring level 2 and Level 3 fair values at 31 December 2016 and 2015, as well as the significant unobservable inputs used.

| Type | Valuation technique | Significant unobservable inputs | Inter-relationship between significant unobservable inputs and fair value measurement |
|---|---|---|---|
| Financial assets designated at FVIS | Fair value is determined based on the funds' most recent reported carrying value of net assets attributable to unitholders | None | Not applicable |
| Available for sale investments classified as Level 2 include plain vanilla bonds for which market quotes are not available. | Fair valued using simple discounted cash flow techniques that use observable market data inputs for yield curves and credit spreads. | None | Not applicable |
| Available for sale investments classified as Level 3 include Private Equity Funds | Fair value is determined based on the funds' most recent reported carrying value of net assets attributable to unitholders. | None | Not applicable |
| Forward exchange contracts and interest rate swaps | The fair values are based on market quotes. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments. | None | Not applicable |
| Corporate debt securities | The fair values are based on either quoted market prices wherever available or relevant and observable market in-puts like CDS spread, zero rate curves etc. | 10bps are added to the CDS spread to account for any potential model discrepancy or any stressed market conditions | Higher the spread, lower the valuation will be and vice-versa |

### ii. Transfer between levels of the fair value hierarchy
There have been no transfers between levels of the fair value hierarchy during the years ended December 31, 2016 and 2015.

# Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2016 and 2015 (Saudi Riyals in Thousands)

## 35. Fair values of financial assets and liabilities (continued)

**b. Measurement of fair values (continued)**

**iii. Level 3 fair values**

**Reconciliation of Level 3 fair values**

**Financial investments designated as available for sale:**

The following table shows a reconciliation from the opening balances to the closing balances for Level 3 fair values.

| | 2016 | 2015 |
|---|---|---|
| Balance at the beginning of the year | **85,794** | 89,593 |
| Total (loses)/gains in other comprehensive income | **(6,693)** | 10,850 |
| Settlements | **(54,886)** | (14,649) |
| **Balance at the end of the year** | **24,215** | 85,794 |

## 36. Related party transactions

In the ordinary course of its activities, the Bank transacts business with related parties. In the opinion of management and the Board, the related party transactions are performed on an arm's length basis. Related party transactions are governed by limits set by the Banking Control Law and regulations issued by SAMA.

**a) The balances as at December31 resulting from transactions with related parties included in the consolidated financial statements are as follows:**

| Non-Saudi Major Shareholder and their Affiliates: | 2016 | 2015 |
|---|---|---|
| Due from banks and other financial institutions | **46,399** | 220,977 |
| Due to banks and other financial institutions | **586,370** | 364,500 |
| Commitments, contingencies and others | **2,873,693** | 3,180,000 |
| **Directors, key management personnel, other major shareholders and their affiliates:** | | |
| Loans and advances | **6,339,241** | 5,965,966 |
| Customers' deposits | **11,663,653** | 12,348,027 |
| Commitments, contingencies and others | **1,472,272** | 1,753,057 |
| Purchase of equipment | **681** | 689 |
| **Bank's mutual funds:** | | |
| Investments | **194,701** | 296,721 |
| Customers' deposits | **537,564** | 562,012 |
| **Associates:** | | |
| Loans and advances | **2,426,038** | 2,389,413 |
| Customers' deposits | **94,682** | 49,843 |
| Commitments and contingencies | **45,639** | 47,032 |
| Local sukuk | **10,000** | 10,000 |

Other major shareholders represent shareholdings (excluding the non-Saudi shareholder) of more than 5% of the Bank's issued share capital.

# Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015 (Saudi Riyals in Thousands)

**b) Income and expense transactions with related parties included in the consolidated financial statements are as follows:**

| | 2016 | 2015 |
|---|---|---|
| Special commission income | **332,808** | 219,712 |
| Special commission expense | **(164,081)** | (74,270) |
| Fees and commission income | **62,305** | 87,332 |
| Equipment rental income | **-** | 10,120 |
| Directors' remuneration | **(5,866)** | (4,949) |
| Miscellaneous expenses | **(8,383)** | (9,866) |
| Insurance contracts | **(3,109)** | (56,524) |

**c) The total amount of compensation paid to key management personnel during the year is as follows:**

| | 2016 | 2015 |
|---|---|---|
| Short-term employee benefits (Salaries and allowances) | **52,958** | 57,052 |
| Post-employment benefits (End of service indemnity and social security) | **6,307** | 6,713 |

Key management personnel are those persons, including anexecutive director, having direct or indirect authority and responsibility for planning, directing and controlling the activities of the Bank.

## 37. Non-controlling interests in subsidiaries

The following table summarises the information relating to the Bank's subsidiary that has material non-controlling interests (NCI).

| | 2016 | 2015 |
|---|---|---|
| Summarised statement of financial position | | |
| Investment property | **1,651,363** | 1,675,866 |
| Other assets | **23,580** | 29,402 |
| Liabilities | **801,423** | 765,836 |
| **Net assets** | **873,520** | 939,432 |
| **Carrying amount of NCI** | **651,034** | 700,159 |
| **Summarised statement of income** | | |
| Total operating income | **108,631** | 101,888 |
| Net income/(loss) | **10,087** | (10,568) |
| Summarised cash flow statement | | |
| Net cash (used in)/from operating activities | **(40,589)** | 138,368 |
| Net cash used in investing activities | **(684)** | (992,673) |
| Net cash from financing activities | **40,500** | 864,000 |
| Net (decrease)/increase in cash and cash equivalents | **(773)** | 9,695 |

# Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2016 and 2015 (Saudi Riyals in Thousands)

## 38. Capital Adequacy

The Group's objectives when managing capital are to comply with the capital requirements set by SAMA, to safeguard the Group's ability to continue as a going concern and to maintain a strong capital base. During the year, the Group has fully complied with regulatory capital requirements.

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

SAMA has issued the framework and guidance regarding implementation of the capital reforms under Basel III – which are effective starting January 1, 2013. Accordingly, the Group's Pillar I consolidated Risk Weighted Assets (RWA), total capital and related ratios are as follows:

| | 2016 | 2015 |
|---|---|---|
| Credit Risk RWA | **142,002,565** | 142,486,825 |
| Operational Risk RWA | **12,892,057** | 12,021,912 |
| Market Risk RWA | **933,982** | 1,971,389 |
| **Total Pillar I RWA** | **155,828,604** | 156,480,126 |
| Tier I Capital | **22,785,361** | 21,343,997 |
| Tier II Capital | **2,881,451** | 2,840,238 |
| **Total Tier I and II Capital** | **25,666,812** | 24,184,235 |
| **Capital Adequacy Ratio %** | | |
| Tier I ratio | **14.62%** | 13.64% |
| Tier I + Tier II ratio | **16.47%** | 15.46% |

The increasein regulatory capital for the year is mainly due to the contribution of current-year profit.

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group›s capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision as adopted by SAMA in supervising the Bank.

## 39. Investment management services

The Group offers investment services to its customers, which include management of investment funds with assets totaling SAR 5,821 million (2015: SAR 3,570 million).

The financial statements of these funds are not consolidated with these consolidated financial statements, except for consolidating the financial statements of ANBI Business Gate Fund, effective December 31, 2015; as the Group either do not consider these material or it is not significantly exposed to variability of return and hence do not qualify to be considered as a subsidiary. However, the Group's share of these non-consolidated funds is included in 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 Group and accordingly are not included in the consolidated financial statements.

# Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015 (Saudi Riyals in Thousands)

## 40. Prospective changes in the International Financial Reporting Framework

The Group has chosen not to early adopt the following new standards which have been issued 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 January 1, 2017.

| Standard or amendment | Summary of requirements | 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 IAS 12 | Recognition of Deferred Tax Assets for Unrealised Losses | 1 January 2017 |
| Amendments to IFRS 2 | Classification and Measurement of Share-based Payment Transactions | 1 January 2018 |
| IFRS 16 | Leases | 1 January 2019 |

IFRS 9 Financial Instruments will be effective from 1 January 2018 and will replace IAS 39 by building models using internal and external experts. The Group will recognize loss allowances based on Expected Credit Loss (ECL) considering forward-looking information. Setting framework with detailed policies and controls including roles and responsibilities will be implemented. The Group is in the process of evaluating how the new ECL model will impact its ongoing regulatory capital structure planning and further details will be provided once the assessment is complete.

# Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2016 and 2015 (Saudi Riyals in Thousands)

## 41. Comparative figures

During the current year, (1) accrued special commission income and accrued special commission expense relating to prior periods have been reclassified to their respective financial assets and liabilities in the consolidated statement of financial position to conform to the current year's presentation; (2)recoveries on credit losses relating to prior year have been reclassified from other operating income (net) to impairment charges for credit losses (net) in the consolidated income statement to conform to the current year's presentation.

The impact of these reclassifications on the consolidated financial statements is disclosed below.

DECEMBER 31, 2015

| Assets | As originally reported | Reclassification | Amounts reported after reclassification |
|---|---|---|---|
| Due from banks and other financial institutions | 5,575,020 | 79 | 5,575,099 |
| Investments, net | 33,239,175 | 55,124 | 33,294,299 |
| Loans and advances, net | 115,144,322 | 511,503 | 115,655,825 |
| Other assets | 1,431,511 | (566,706) | 864,805 |
| | 155,390,028 | - | 155,390,028 |
| Liabilities | | | |
| Due to banks and other financial institutions | 5,672,883 | 230 | 5,673,113 |
| Customers' deposits | 135,686,539 | 74,655 | 135,761,194 |
| Other liabilities | 4,091,049 | (86,155) | 4,004,894 |
| Debt securities and sukuk | 2,000,000 | 11,270 | 2,011,270 |
| | 147,450,471 | - | 147,450,471 |

The impact of these reclassifications on the consolidated financial statements is disclosed below.

DECEMBER 31, 2015

| Assets | As originally reported | Reclassification | Amounts reported after reclassification |
|---|---|---|---|
| Other operating income, net | 156,983 | (81,403) | 75,580 |
| Impairment charges for credit losses, net | (656,907) | 81,403 | (575,504) |
| | (499,924) | - | (499,924) |

## 42. Board of directors' approval

The consolidated financial statements were approved by the Board on 24 JumadaI 1438 (corresponding to 21 February 2017).

# Basel III Pillar 3 Qualitative and Quantitative Disclosures

December 31, 2016

# Basel III Pillar 3 Qualitative Disclosures

December 31, 2016

Under the directives of Saudi Arabian Monetary Agency (SAMA), banks operating in the Kingdom of Saudi Arabia, implementated Basel Capital Adequacy framework. In this regard, SAMA's aim is to encourage market discipline through disclosures, which will provide the reader more valuable information about the banks' risks and exposures. In this context, below are the necessary disclosures required under the revised Pillar-III disclosure framework implemented with effect from 1st January 2017.

These disclosures are available on the Bank's website www.anb.com.sa . Please note that these disclosures are not subject to audit by the external auditors of the Bank.

## B.1 – Table OVA: Bank Risk Management Approach

**Business model determination and risk profile**

ANB's (The Bank's) Risk Management strategy is intrinsically interlinked with the Bank's business strategy, i.e. Bank's risk appetite and its business strategy co-exist to achieve and enhance shareholder/stakeholder value.

The Bank has a conservative approach towards conducting business and assuming risks, with significant importance attached to its brand and reputation. The Bank's philosophy is to proactively manage risks to ensure that risk-taking activities are commensurate with its size and complexity of operations. The Bank's approach towards risk management is governed by the following guidelines:

- Risks are identified, measured, monitored, controlled and managed within a robust risk management framework.
- Risks are managed proactively, based on collective oversight, experience and conservative judgment, well-supported by systems, controls and processes.

The Bank's Board (The Board) determines the business strategy, which primarily revolves around the following broad categories of business segments:

**Corporate Banking** manages the Loans, deposits and other credit products for corporate and institutional customers, small to medium sized businesses.

**Treasury Banking** manages the Bank's trading and investment portfolio and its funding, liquidity, currency and commission rate risks with focus on filling the business gaps within the Bank to enhance Corporate/Consumer cross-sell opportunities, and managing Bank's liquidity requirements through prudent policies.

**Retail Banking** focuses on deposit, credit and investment products for individuals.

**Investment and brokerage services** focuses on Investment management services and asset management activities related to dealing, managing, arranging, advising and custody of securities regulated by CMA.

The formulation of Bank's strategy is a thorough process, developed on the basis of inputs provided by each business unit, which are consolidated to provide a macro-level picture of the whole Bank. The results are then further reviewed, in light of the projected macro-economic environment in general and banking prospects, in particular. The impact of strategy on the Bank's capital adequacy is considered and adjustments are made to ensure that Bank's strategy is in line with the projected risk appetite and capital adequacy. The iterative process continues till business strategy is aligned with the risk strategy.

The Board is responsible for creating environment and organizational structure to ensure effective implementation of the strategy within the risk management framework. The Board or relevant Board Committee reviews and approves risk management policies to manage all material risks faced by the Bank. Risk Management Group (RMG) is mandated with the task to communicate approved policies relating to risk identification, measurement, monitoring and control to all functional/business units in the Bank to ensure that risks undertaken are consistent with stakeholder expectations, Bank's strategic plan and regulatory requirements.

Based on the current business model, major risks faced by the Bank are Credit, Market and Liquidity and Operational, all of which have well-defined limits, controls and reporting mechanism in place.

**Risk Governance Structure**

The Bank's approach to risk management is based on well-established governance processes and relies on both individual responsibility and collective oversight, supported by comprehensive reporting, thus ensuring the achievement of strategic objectives with prudence and foresight. Risk management activities occur simultaneously at the following levels.

**Strategic level** involves risk management functions performed by the Board and its committees and senior management. It includes provision of all resources, i.e. human resources, systems, and support required for effective risk management on bank-wide basis.

**Macro Level** involves risk management within a business area or across business lines. Generally the risk management activities performed by middle management or units devoted to risk management fall into this category.

**Micro Level** involves real-time management where risks are actually created. These are the risk management activities performed by individuals who take risk on behalf of the Bank such as front office and loan origination functions.

The Bank's risk governance is built upon the premise that each business line is responsible for monitoring the risks inherent in its business activities, which is augmented by the oversight provided by the Board and its relevant committees.

# Basel III Pillar 3 Qualitative Disclosures

December 31, 2016

A summary of roles and responsibilities of Board/its committees and other entities within the Bank is as follows:

**Board** is responsible for providing oversight on the effective management of the Bank's overall risk. While recognizing the risks to which the Bank is exposed, they provide the required human resources, environment, practices and systems to address such risks.

**Risk Committee (RiskCom)** is responsible to assist the Board in overseeing the risk management processes and ensuring that there are adequate internal control systems in place. RiskCom is also responsible for developing a risk strategy for the Bank to spell out the overall risk appetite, providing guidance/clarifications to RMG and senior management from time to time, and discharging other related responsibilities as may be assigned to it by the Board.

**Executive Committee (ExCom)** has been vested by the Board with powers to manage the Bank efficiently, and mainly responsible for implementing the Bank's strategy successfully. Excom approves risk management policies ensuring that they are communicated down the line by senior management.

It also ensures implementation of risk management framework and maintaining adequate infrastructure to support the framework. Excom is also responsible for managing risks within the risk appetite set by the Board and ensuring the effectiveness of internal controls.

**Risk Management Group (RMG)** is responsible for effective implementation of the risk management framework across the Bank, including the following main activities:

- Formulation of individual risk policies in line with Risk Management Policy, risk appetite and regulatory guidelines
- Review of Credit, Market, Liquidity, Operational and other risks (Business Continuity, Fraud, E-Banking etc.) across the Bank and implementation of Basel/SAMA requirements for capital adequacy.
- Risk strategy review and recommendation;

RMG plays a pivotal role in monitoring the risks associated with all major activities of the Bank. Its role, as a risk manager, is to set parameters for risk activities and, as a strategic partner, to advise Business and Support units, on the best ways to identify risks.

**Business/Support Units** are accountable for managing risks associated with their respective activities within established tolerances. The purpose of this is to ensure that those who make business decisions understand the risks they are taking and incorporate this understanding in decision-making process in order to achieve acceptable risk-adjusted returns.

**Compliance** with the help of Business and Support functions, ensures Bank's compliance with the rules and regulations that govern banking business and implement Bank's Code of Ethical Behavior. Compliance is also responsible for implementing Anti-Money Laundering (AML) and Combat Terrorism Financing (CTF) rules.

The Compliance function assists in identifying, assessing, monitoring and reporting on compliance risk in Bank's operations and personnel conduct.

The function contributes, in an independent manner, to the overall risk management of the Bank by protecting the integrity and reputation of the Bank and the staff, and in strengthening the accountability and transparency.

**Internal Audit (IA)** independently monitors the effectiveness of risk management policies, procedures and internal controls through periodic testing of the design and operation of the processes related to the identification, measurement, management, monitoring and reporting of risks. The findings of audit reviews are reported to the respective Business/Support Heads, relevant Committees and/or Audit Committee.

The purpose of independent review is to ensure that those who take or accept risk on behalf of the Bank are not the only ones who measure, monitor and evaluate the risks. IA covers all perceived risks in the Bank including Contingency, Fraud, E-Banking, Information Security risks, etc.

# Basel III Pillar 3 Qualitative Disclosures
## December 31, 2016

The Bank's Risk Governance structure follows 3 lines of defense model as shown below:

**Board of Directors**

- Strategy Committee
- Executive Committee
- Risk Committee
- Nomination and Compensation Committee
- Audit Committee

**Managing Director**

| 1st Line of defense | 2nd Line of defense | 3rd Line of defense |
|---|---|---|
| Business Units | Management Committees | Internal Audit |
| Supports functions | Risk Management Compliance | |

# Basel III Pillar 3 Qualitative Disclosures

December 31, 2016

## Channels to communicate and enforce the risk culture

The Bank's risk appetite and tolerance limits and policies relating to risk identification, measurement, monitoring and control are clearly communicated to all functional/business groups in the Bank to ensure that risks undertaken are consistent with shareholder's expectations, Bank's strategic plan and regulatory requirements. The purpose of effective communication is to ensure that the risk culture is understood throughout the Bank as intended.

RMG is responsible for inculcating risk culture and communication across the organization. The approach, inter-alia, include development and dissemination of information through various documents/channels:

**Policies** define the Bank's overall risk appetite and are developed based on best practices, requirements of regulatory authorities and inputs from business, senior management as well as ExCom/RiskCom/Board. Policies also provide guidance to businesses and risk management units by setting the boundaries on the types of risks the Bank is prepared and willing to take.

**Guidelines** are the directives provided to implement policies. Generally, they describe the risk exposures and conditions under which the Bank is prepared to do business. The guidelines may change from time to time, due to market or other circumstances. Risk taking outside of these guidelines requires exceptional approval by appropriate authorities.

**Processes and Standards** are the activities associated with identifying, evaluating, documenting, reporting and controlling risk. Standards define the breadth and quality of information required to make a decision, and the expectations in terms of quality of analysis and presentation.

Various Reporting tools are used to aggregate measures of risk across products and businesses for the purposes of ensuring compliance with policies, guidelines and standards, thus providing a mechanism for communicating the quantum and sensitivities of the various risks in the portfolio. This information is used by the senior management as well as ExCom/RiskCom/Board to understand the Bank's risk profile and performance of the portfolio against pre-defined goals.

The Bank ensures through its annual training and communication plans that risk management processes are understood and effectively practiced across the Bank. In addition to scheduled trainings, special training sessions, as per Business unit and Support functions' requests, are also conducted. Furthermore, interactive eLearning module which has been rolled-out across the Bank is also used for communicating risk-related issues.

## Scope and main features of risk measurement systems

The Bank has developed various methodologies to measure and monitor major risks inherent in its operations. Risks are evaluated both quantitatively and qualitatively, as appropriate, on a recurring basis. The implications, advantages and shortcomings of any particular measurement approach are properly documented. Appropriate additional analysis is done to address potential shortcomings. Since all risks might not be readily quantifiable, where quantification is not an effective option, qualitative measures are developed. This enables understanding the nature and quantum of risk exposures and to make prudent decisions on the basis of such information.

Credit Risk tracks trends and identifies weaknesses in the quality of corporate, commercial, retail and private banking portfolio by employing Obligor and Facility risk rating system to assess the quality of obligor and riskiness of facilities. Rating system is established with the objective to place the responsibility on business units to regularly evaluate credit risk on exposures and identify problems within their portfolios as well as establishing early warning signals for detecting deterioration in credit quality

The Bank classifies its exposures into 13 risk categories, of which 10 are for performing obligors and 3 are for nonperforming obligors. Rating is assigned to a borrower through a system-based methodology, which takes into account financial and non-financial information, translating into a grade and Probability of Default (PD) for the relationship. Facility Risk Rating (FRR), which assesses the riskiness of facilities, is used for deriving the Loss Given Default (LGD) for a relationship, thus assigning separate rating for obligor and facility characteristics.

Market Risk identifies the risk through series of market factors in foreign exchange, interest rates, commodity prices, equity prices and their volatilities. To measure the market risk, Bank uses fully integrated system to capture all live contracts. The system identifies all market factors from the traded contracts. Market Risk Department (MRD) is responsible for the design and implementation of the Bank›s market risk measurement system, which produces daily risk management reports that are closely evaluated based on the relationship between risk exposure and trading limits.

The Bank has established Risk and Control Self-Assessment (RCSA) framework to identify operational risks arising from products, procedures and activities and evaluate the effectiveness of controls over those risks. These risks and controls are self-assessed and monitored by the business support units on a regular basis. The consolidated assessment results are benchmarked against pre-defined risk appetite/acceptable levels and appropriate actions initiated to strengthen the control environment. An independent review and challenge process is in place, which assists in ensuring completeness, accuracy and consistency across the Bank.

# Basel III Pillar 3 Qualitative Disclosures

December 31, 2016

The Bank's Loss Data Management process allows collection and analysis of loss events (actual, potential and near-miss) and identifies new risks or control weaknesses that caused the operational loss, escalating these to appropriate levels of management for strengthening the operational risk framework. The mechanism aims at minimizing any financial consequences of the events and addressing the root causes for refining the control mechanism to reduce recurrence of similar losses in future.

## Process of risk information reporting provided to the Board and Senior Management

Management reports are generated for monitoring and control purposes on periodical basis - monthly, quarterly, semi-annually and annually, as appropriate.

A summary off the Bank's credit portfolio and key risks inherent is these portfolios is provided to Bank's Risk Committee and Audit Committee for their overview.

Daily reports on Trading and Liquidity risks, showing exposures versus limits are provided to the senior management including CRO, CFO and Group Treasurer. Any breach of internal limits need ratification from the approving authority, and implementation of the remedial actions is monitored by MRD. ALCO/MRPC is responsible for deciding the form and content of the reports required to carry out its functions.

Detailed market risk reviews are submitted to the Board and Excom, Risk Committee and Audit Committee, on a quarterly or semi-annual basis, as appropriate. The reviews highlight major changes in the Bank's market and liquidity risk profiles as well as compositions of the investments portfolio.

Periodic Operational risk updates on the overall operational risk environment of the Bank and key operational loss events are provided to Operational Risk Committee (ORC). Risk review reports submitted to Board/Audit Committee on a quarterly basis and Risk synopsis to Risk Committee on a half-yearly basis, summarizes operational loss events and progress on key operational risk initiatives.

## Qualitative information on stress testing

A stress-testing framework that is commensurate with the Bank's size, location and nature of activities is in place. Sensitivity and Scenario-based approaches to stress testing are used to assess Bank's vulnerability and possible impact of negative economic events on its capital. The stress-testing framework is forward-looking and subject to change based on experience and evolving techniques. At least three stress-testing scenarios are applied to arrive at the stressed capital ratios, with a view to ensure that the Bank remains adequately capitalized under stressed conditions during economic down-turns. Adequate stress-testing procedures are in place for Credit, Market (trading book), Interest Rate (Banking book), Liquidity and Operational Risks. All the other risks covered under Internal Capital Adequacy Assessment Plan (ICAAP) have built-in mechanism to account for the forward-looking stressed conditions. Stress testing is carried out on semi-annual basis. However, in the event of imminent adverse changes in the overall economy, stress testing may be conducted more frequently.

## Strategies and processes to manage, hedge and mitigate risks

The Bank's Credit Policy provides detailed guidelines to manage credit risk effectively; it is reviewed and updated from time to time based on experience, emerging issues, best market practices and directives from regulatory authorities. The Credit Policy is designed to provide objectives and credit risk management strategies, with a view to strengthen and enhance Bank's ability to measure and mitigate credit risks on pre-emptive basis to minimize credit losses.

The Bank believes that collateral security is an effective means of mitigating risk and improving credit quality. Although generally desirable to enhance credit quality, Bank does not entirely rely on collateral to make lending decisions since collateral is only considered as a secondary source of repayment. Accordingly, wherever possible, tangible security is obtained based on the Bank's risk assessment.

The Bank has implemented a interest rate hedging policy in compliance with the International Accounting Standards. Interest rate derivatives, mainly interest rate swaps and futures are used to hedge specific exposures with an aim to keep the interest rate risks within limits. The Bank also uses currency swaps to hedge specific positions in foreign currencies, when necessary. Effectiveness of all hedges is regularly monitored throughout their term.

The existing control environment is the foundation on which the Bank functions; it provides discipline and structure that influences the quality of internal control. New/updated products, policies, procedures and systems are periodically reviewed to control and/or mitigate material operational risks, risk limits and control strategies to adjust the operational risk profile in accordance with the overall risk appetite and profile of the Bank. As a risk transfer mechanism, the Bank has also taken necessary insurance covers.

# Basel III Pillar 3 Qualitative Disclosures

December 31, 2016

## B.2 - OV1: Overview of RWA - December 2016

**(Figures in SAR '000)**

| | | a | b | c |
|---|---|---|---|---|
| | | RWA | | Minimum capital requirements |
| | | 31-Dec-16 | 30-Sep-16 | 31-Dec-16 |
| 1 | **Credit risk (excluding counterparty credit risk) (CCR)** | 140,121,707 | 143,869,819 | 11,209,737 |
| 2 | Of which standardised approach (SA) | 140,121,707 | 143,869,819 | 11,209,737 |
| 3 | Of which internal rating-based (IRB) approach | | | - |
| 4 | **Counterparty credit risk** | 1,880,858 | 751,607 | 150,469 |
| 5 | Of which standardised approach for counterparty credit risk (SA-CCR) | 1,880,858 | 751,607 | 150,469 |
| 6 | Of which internal model method (IMM) | | | - |
| 7 | Equity positions in banking book under market-based approach | - | | - |
| 8 | Equity investments in funds – look-through approach | | | - |
| 9 | Equity investments in funds – mandate-based approach | | | - |
| 10 | Equity investments in funds – fall-back approach | | | - |
| 11 | Settlement risk | | | - |
| 12 | Securitisation exposures in banking book | - | - | - |
| 13 | Of which IRB ratings-based approach (RBA) | | | - |
| 14 | Of which IRB Supervisory Formula Approach (SFA) | | | - |
| 15 | Of which SA/simplified supervisory formula approach (SSFA) | | | - |
| 16 | **Market risk** | 933,982 | 772,969 | 74,719 |
| 17 | Of which standardised approach (SA) | 933,982 | 772,969 | 74,719 |
| 18 | Of which internal model approaches (IMM) | - | | - |
| 19 | **Operational risk** | 12,892,057 | 12,881,909 | 1,031,365 |
| 20 | Of which Basic Indicator Approach | | | - |
| 21 | Of which Alternate Standardised Approach | 12,892,057 | 12,881,909 | 1,031,365 |
| 22 | Of which Advanced Measurement Approach | | | - |
| 23 | Amounts below the thresholds for deduction (subject to %250 risk weight) | | | - |
| 24 | Floor adjustment | | | - |
| 25 | **Total (1+4+7+8+9+10+11+12+16+19+23+24)** | **155,828,604** | **158,276,304** | **12,466,288** |

Explanation of signficant drivers behind differences in reporting periods T and T-1
RWA for counterparty credit risk have increased due to business turnover related to Bank›s customer derivatives dealings.

# Basel III Pillar 3 Qualitative Disclosures

December 31, 2016

### B.3 – LI1: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories – December 2016

**(Figures in SAR '000)**

| | a | b | c | d | e | f | g |
|---|---|---|---|---|---|---|---|
| | | | Carrying values of items: | | | | |
| Assets | Carrying values as reported in published financial statements | Carrying values under scope of regulatory consolidation | Subject to credit risk framework | Subject to counterparty credit risk framework | Subject to the securitisation framework | Subject to the securitisation framework | Not subject to capital requirements or subject to deduction from capital |
| Cash and balances with SAMA | 19,503,973 | 19,503,973 | 19,503,973 | | | | |
| Due from banks and other financial institutions | 4,030,850 | 4,030,850 | 4,030,850 | | | | |
| Positive fair value derivatives | 459,770 | 459,770 | | 459,770 | | | |
| Investments, net | 25,548,399 | 25,548,399 | 25,548,399 | | | | |
| Loans and advances, net | 115,511,521 | 115,511,521 | 118,634,865 | | | | |
| Investments in associates | 616,395 | 616,395 | 616,395 | | | | |
| Other real estate | 136,634 | 136,634 | 136,634 | | | | |
| Investment property, net | 1,651,363 | 1,651,363 | 1,651,363 | | | | |
| Property and equipment, net | 1,839,222 | 1,839,222 | 1,839,222 | | | | |
| Other assets | 710,595 | 710,595 | 710,595 | | | | |
| **Total assets** | **170,008,722** | **170,008,722** | **172,672,296** | **459,770** | **–** | **–** | **–** |
| Liabilities | | | | | | | |
| Due to banks and other financial institutions | 3,858,871 | | | | | | 3,858,871 |
| Negative fair value derivatives | 439,789 | | | | | | 439,789 |
| Customers' deposits | 135,907,457 | | | | | | 135,907,457 |
| Other liabilities | 3,859,862 | | | | | | 3,859,862 |
| Debt securities and sukuk | 2,018,190 | | | | | | 2,018,190 |
| **Total liabilities** | **146,084,169** | **–** | **–** | **–** | **–** | **–** | **146,084,169** |

# Basel III Pillar 3 Qualitative Disclosures

December 31, 2016

## B.4 – LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements – December 2016

**(Figures in SAR '000)**

| | | a | b | c | d | e |
|---|---|---|---|---|---|---|
| | | | Items subject to: | | | |
| | | Total | Credit risk framework | Securitisation framework | Counterparty credit risk framework | Market risk framework |
| 1 | Asset carrying value amount under scope of regulatory consolidation (as per template LI1) | 170,008,722 | 172,672,296 | - | 459,770 | - |
| 2 | Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1) | - | - | - | - | - |
| 3 | Total net amount under regulatory scope of consolidation | 170,008,722 | 172,672,296 | - | 459,770 | - |
| 4 | Off-balance sheet amounts | 52,414,416 | 20,935,981 | | | |
| 5 | Differences in valuations | | | | | |
| 6 | Differences due to different netting rules, other than those already included in row 2 | | | | | |
| 7 | Differences due to consideration of provisions | | | | | |
| 8 | Differences due to prudential filters | | | | | |
| 9 | Derivatives | 45,506,900 | | | 874,150 | 36,817,441 |
| **10** | **Exposure amounts considered for regulatory purposes** | **267,930,038** | **193,608,277** | **-** | **1,333,920** | **36,817,441** |

# Basel III Pillar 3 Qualitative Disclosures

December 31, 2016

## B.6 – Table CRA: General qualitative information about credit risk

**Business model translation into the components of the Bank's credit risk profile**

The Bank's credit risk exposures mainly arises from lending activities like loans and advances as well as exposures arising from off-balance sheet instruments like commitments, guarantees, letters of credit etc. Moreover, investments in the banking book also exposes the Bank to credit risk. The Bank's credit risk mainly arises from the following lending activities, being the major components of Bank's overall strategy :-

**Corporate Market** serviced by the Corporate Banking Group with focus on corporations in KSA, Project Finance and Syndication deals.

**Commercial/SME Market** serviced by Commercial Banking Department with focus on small to medium merchants and businesses engaged in commerce, manufacturing, services and construction projects.

**Consumer Market** serviced by Retail Banking Group provide personal loans, auto-lease and credit card facilities to employees of government entities and eligible corporations, whereas high Net-Worth individuals serviced by Private banking and Treasury Group, provide conventional facilities as well as margin trading and FX-trading facilities.

**Criteria and approach used for defining credit risk management policy and setting credit risk limits**

Credit Risk policies and procedures are established to provide control on credit risk portfolios through periodic assessment of the credit worthiness of obligors, quantifying maximum permissible exposure to specific obligor and continuous monitoring of individual exposures and portfolios. The Credit Risk policy of the Bank is designed to provide objectives and credit risk management strategies, which include:

- Strengthening and enhancing Bank›s ability to measure and mitigate credit risks on pre-emptive basis to minimize credit losses.
- Strengthening and enhancing Bank›s systems and procedures for early problem recognition.
- Strengthening and enhancing credit portfolio management process.
- Compliance with local regulatory requirement and industry's best practices for credit risk management.

The Bank's Credit Risk policy addresses all functions and activities related to the credit lending process, ranging from defining the minimum required information for assessing obligor credit worthiness to developing the clear risk-based approval authority mechanism.

The limits/benchmarks for credit risk are spread across various dimensions which include Industry Exposure Limits, Country Risk Exposure Limits and Counterparty Exposure Limits. Quantitative limits are set at different levels ranging from obligor to portfolio.

**Structure and organization of the credit risk management and control function**

The Credit Risk Department, part of Risk Management Group, is responsible for Policy formulation and Portfolio management for all type of credit risks undertaken by the Bank.

The Bank has adopted centralized credit approval process and follows the philosophy of joint approval authority, which is directly linked to the borrower's Probability of Default (PD) and its facility characteristics measured by Loss Given Default (LGD) estimates. Based on afore-mentioned factors, there are three main layers of approval authorities. The highest credit authority is vested in the Executive committee, a Board level committee. The second level of credit approval authority is vested in the Senior Credit Committee and third layer consists of four levels of approval authorities, which draws its members from the business units and the Credit Review Department.

Credit Review Department and Credit Administration and Control (CAC) are part of the credit management process; Credit Review Department is engaged in the day-to-day activities of the approval process, whereas CAC is part of the administrative, activation, control, monitoring, documentation and follow-up process.

**Relationships between the credit risk management, risk control, compliance and internal audit**

The Bank follows the philosophy of 3 lines of defense, wherein functional units are responsible for risks arising from their activities and act as first line of defense. The second line of defense comprises of relevant Management Committees, RMG and Compliance Functions. Credit Risk being part of RMG responsible for monitoring and controlling the credit risk inherent in all the activities undertaken across the Bank.

The Compliance function assists in identifying, assessing, monitoring and reporting on compliance risk in matters relating to credit risks faced by the Bank. The function contributes, in an independent manner, to credit risk management pertaining to regulatory compliance.

# Basel III Pillar 3 Qualitative Disclosures

December 31, 2016

Internal Audit (IA) being the third line of defense, independently monitors the effectiveness of credit risk management policies, procedures and internal controls through periodic testing of the design and operation of the processes.

**Scope of the reporting on credit risk exposure and on the credit risk management function to the executive management and to the board of directors**

Management reports are generated for monitoring and control purposes on periodical basis - monthly, quarterly, semi-annually and annually, as appropriate. These reports are comprehensive, have wide scope and address several issues including:

- Portfolio quality, Industry concentration and large exposures;
- Product concentration, credit monitoring and concentration of shares held by the Bank as collateral;
- Past due follow-up, customer-provisioning details and provision movement report.

Credit Risk Department also submits for review, periodic reports to Board, Risk Committee and Audit Committee, covering its observation on key credit risks faced by the Bank.

## B.7 - CR1: Credit quality of assets - December 2016

**(Figures in SAR '000)**

| | | a | b | c | d |
|---|---|---|---|---|---|
| | | Gross carrying values of | | | |
| | | Defaulted exposures | Non-defaulted exposures | Allowances/ impairments | Net values (a+b-c) |
| 1 | Loans | 1,225,906 | 117,408,959 | 1,836,340 | 116,798,525 |
| 2 | Debt Securities | | 24,103,178 | | 24,103,178 |
| 3 | Off-balance sheet exposures | | | | - |
| **4** | **Total** | **1,225,906** | **141,512,137** | **1,836,340** | **140,901,703** |

TThe following criteria are used to determine obligor default. The obligor:

- Has an obligation which is 90 (or more) days past due.
- Has an obligation for which the bank has stopped accruing interest.
- Has an obligation that is classified as non-performing by the bank.

## B.8 - CR2: Changes in stock of defaulted loans and debt securities - December 2016

**(Figures in SAR '000)**

| | | a |
|---|---|---|
| 1 | **Defaulted loans and debt securities at end of the previous reporting period** | **1,268,059** |
| 2 | Loans and debt securities that have defaulted since the last reporting period | 145,666 |
| 3 | Returned to non-defaulted status | - |
| 4 | Amounts written off | (320,921) |
| 5 | Other changes | (133,102) |
| 6 | **Defaulted loans and debt securities at end of the reporting period (1+2-3-4±5)** | **1,225,906** |

# Basel III Pillar 3 Qualitative Disclosures

December 31, 2016

## B.9 - Table CRB: Additional disclosure related to the credit quality of assets

**Scope and definitions of "past due" and "impaired" exposures**

**Definition of Past Due**

Exposures that are not settled on their due date are classified as "Past Due" and reflected as such on the Bank's books the following day. The appearance of a loan as past due, does not imply that there is a problematic credit, as the business units often successfully prompt the customers to settle such amounts within a few days.

**Definition of Impaired Assets**

In determining whether an individually assessed exposure has become impaired, Bank makes judgments as to whether there is any observable data indicating decrease in the estimated future cash flows. This evidence may include an indication that there has been an adverse change in the payment status of borrowers. Management uses estimates based on historical loss experience for loans with similar credit risk characteristics, when estimating the cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

**Extent of past-due exposures (more than 90 days) that are not considered to be impaired**

Generally, individually assessed customers with 90+ DPDs are considered impaired. The only exception is, when relevant credit authorities approve certain selected customers to continue as performing despite the 90+ DPDs – such approvals are invariably supported by adequate justification provided by the concerned business units, which may include possibility of collection from receivable and/or availability of high quality collateral, good past-track, etc.

**Description of methods used for determining impairments**

The Bank reviews its portfolios to assess specific and collective impairment on a quarterly basis. In determining whether an impairment loss should be recorded, management applies judgement 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. In addition to specific allowances against individually significant loans and advances, the Bank also makes a collective impairment allowance against exposures that, although not specifically identified as requiring a specific allowance, have relatively greater risk of default than when originally granted. The collective impairment allowance is determined after taking into account:

- Historical loss experience in portfolios of similar credit risk characteristics (for example industry sector, borrower grade or product);
- The estimated period between impairment occurring and the loss being identified and evidenced by the establishment of an appropriate allowance against the individual loan; and
- Management's judgement as to whether current economic and credit conditions are such that the actual level of inherent losses at the consolidated statement of financial position date is likely to be greater or less than that suggested by historical experience.

The period between a loss occurring and its identification is estimated by management for each identified portfolio based on economic and market conditions, customer behavior, portfolio management information, credit management techniques and collection and recovery experience in the market.

**Bank's definition of a restructured exposure**

The Bank treats those exposures as restructured where any principal/interest (including penalty) is written-off prior to creation of a new loan, or any loan is granted at pricing lower than the cost (SIBOR/LIBOR) or problem customers (with Risk Rating 10 or worse) whose exposures are restructured and agreement signed. The revised amount of debt agreed with the customer is classified as a 'Restructured Loan' which the borrower agrees to settle through phased repayment over a period of time.

**Quantitative Disclosures**

The Quantitative Disclosures are provided separately in the following sections

# Basel III Pillar 3 Qualitative Disclosures

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## B.9 - CRB : Breakdown of exposures by Geographical Areas - December 2016

**(Figures in SAR '000)**

| Asset classes/ Geographical Area | Saudi Arabia | Other GCC and Middle East | Europe | North America | South East Asia | Other Countries | Total credit exposures amount (post CCF and post-CRM) |
|---|---|---|---|---|---|---|---|
| Sovereigns and their central banks | 29,391,650 | | 23,162 | 5,391,858 | | | 34,806,670 |
| Non-central government public sector entities (PSEs) | | | | | | | - |
| Multilateral development banks (MDBs) | | | | | | | - |
| Banks | 4,643,650 | 2,745,388 | 722,064 | 473,638 | 157,032 | 95,934 | 8,837,706 |
| Securities firms | | 563,962 | | | | | 563,962 |
| Corporates | 108,038,354 | 165,886 | 482,644 | | 19 | 238,773 | 108,925,676 |
| Regulatory retail portfolios | 24,198,906 | | | | | | 24,198,906 |
| Secured by residential property | 1,516,292 | | | | | | 1,516,292 |
| Secured by commercial real estate | | | | | | | - |
| Equity | 1,182,337 | | | | | | 1,182,337 |
| Past-due loans | 259,878 | | | | | | 259,878 |
| Higher-risk categories | 901,921 | 49,986 | | | 34,305 | | 986,212 |
| Other assets | 6,554,721 | | | | | | 6,554,721 |
| **Total** | **176,687,709** | **3,525,222** | **1,227,870** | **5,865,496** | **191,356** | **334,707** | **187,832,360** |

## B.9 - CRB : Breakdown of exposures by Industry - December 2016

**(Figures in SAR '000)**

| Asset classes/ Industry Sector | Government and quasi government | Banks and other financial institutions | Agriculture and fishing | Manufacturing | Mining and quarrying | Electricity, water, gas and health services | Building and construction | Commerce | Transportation and communication | Services | Consumer loans and credit cards | Others | Total credit exposures amount (post CCF and post-CRM) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Sovereigns and their central banks** | 34,806,670 | | | | | | | | | | | | 34,806,670 |
| **Non-central government public sector entities (PSEs)** | | | | | | | | | | | | | - |
| **Multilateral development banks (MDBs)** | | | | | | | | | | | | | - |
| **Banks** | | 8,837,706 | | | | | | | | | | | 8,837,706 |
| **Securities firms** | | 563,962 | | | | | | | | | | | 563,962 |
| **Corporates** | | 10,408,815 | 1,706,763 | 16,349,185 | 462,346 | 8,393,691 | 15,075,919 | 15,482,866 | 5,579,522 | 4,265,085 | | 31,201,484 | 108,925,676 |
| **Regulatory retail portfolios** | | | | | | | | | | | 24,198,906 | | 24,198,906 |
| **Secured by residential property** | | | | | | | | | | | | 1,516,292 | 1,516,292 |
| **Secured by commercial real estate** | | | | | | | | | | | | | - |
| **Equity** | | 624,962 | 27,237 | 195,398 | 4,169 | 97,808 | | | 168,754 | 64,009 | | | 1,182,337 |
| **Past-due loans** | | | | 4,113 | | | 2,752 | 203,911 | 1,096 | 980 | 46,955 | 71 | 259,878 |
| **Higher-risk categories** | | 700,685 | | 1,995 | | | 113,721 | 3,750 | | 18,790 | | 147,271 | 986,212 |
| **Other assets** | | | | | | | | | | | | 6,554,721 | 6,554,721 |
| **Total** | **34,806,670** | **21,136,130** | **1,734,000** | **16,550,691** | **466,515** | **8,491,499** | **15,192,392** | **15,690,527** | **5,749,372** | **4,348,864** | **24,245,861** | **39,419,839** | **187,832,360** |

## B.9 - CRB : Breakdown of exposures by Residual Maturity - December 2016
**(Figures in SAR '000)**

| Asset classes/ Residual Maturity | Less than 8 days | 8-30 days | 30-90 days | 90-180 days | 180-360 days | 1-3 years | 3-5 years | Over 5 years | No Fixed Maturity | Total credit exposures amount (post CCF and post-CRM) |
|---|---|---|---|---|---|---|---|---|---|---|
| Sovereigns and their central banks | 9,487,159 | 123,310 | 4,231 | 145,348 | 578,352 | 4,877,531 | 674,286 | 11,717,799 | 7,198,654 | 34,806,670 |
| Non-central government public sector entities (PSEs) | | | | | | | | | | - |
| Multilateral development banks (MDBs) | | | | | | | | | | - |
| Banks | 818,742 | 30,633 | 312,990 | 227,025 | 308,243 | 1,906,060 | 715,663 | 526,769 | 3,991,581 | 8,837,706 |
| Securities firms | | | 149,650 | 75,395 | | 225,638 | 113,279 | | | 563,962 |
| Corporates | 1,597,873 | 7,270,154 | 14,849,127 | 20,724,888 | 19,381,552 | 17,599,572 | 13,011,328 | 11,743,884 | 2,747,298 | 108,925,676 |
| Regulatory retail portfolios | 561 | 4,512 | 33,359 | 164,529 | 480,516 | 5,948,900 | 16,493,904 | 1,072,625 | | 24,198,906 |
| Secured by residential property | 6 | 6 | 238 | 695 | 1,925 | 31,738 | 115,235 | 1,366,449 | | 1,516,292 |
| Secured by commercial real estate | | | | | | | | | | - |
| Equity | | | | | | | | | 1,182,337 | 1,182,337 |
| Past-due loans | | | | | | | | | 259,878 | 259,878 |
| Higher-risk categories | | | | 68,339 | 74,169 | 111,893 | | | 731,811 | 986,212 |
| Other assets | 5,186 | 10,243 | 17,852 | 29,940 | 64,098 | 25,963 | 45,818 | | 6,355,621 | 6,554,721 |
| **Total** | **11,909,527** | **7,438,858** | **15,367,447** | **21,436,159** | **20,888,855** | **30,727,295** | **31,169,513** | **26,427,526** | **22,467,180** | **187,832,360** |

## B.9 - CRB : Impaired Loans, Past Due Loans And Allowances - December 2016
**(Figures in SAR '000)**

| | Impaired loans * | Defaulted ** | Aging of Past Due Loans (days) | | | | Specific allowances | | | General allowances |
|---|---|---|---|---|---|---|---|---|---|---|
| Industry sector | | | Less than 90 | 90-180 days | 180-360 days | Over 360 | Charges during the Year To Date | Charge-offs during the Year To Date | Balance at the end of the Year To Date | |
| Government and quasi government | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Banks and Other Financial Institutions | 0 | 0 | 4,223 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Agriculture and fishing | 0 | 0 | 932 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Manufacturing | 759,097 | 27,553 | 131,197 | 651 | 22,645 | 4,256 | 33,187 | 0 | 199,619 | 0 |
| Mining and quarrying | 14,188 | 0 | 5,468 | 0 | 0 | 0 | 1,400 | 0 | 1,400 | 0 |
| Electricity, water, gas and health services | 0 | 0 | 1,905 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Building and construction | 1,222,998 | 88,289 | 382,275 | 1,293 | 1,519 | 85,476 | 215,764 | 412,634 | 480,562 | 0 |
| Commerce | 671,896 | 655,668 | 53,110 | 0 | 194,078 | 461,589 | 63,016 | 6,242 | 657,922 | 0 |
| Transportation and communication | 88,630 | 88,625 | 25,077 | 0 | 14,945 | 73,681 | -3,650 | 0 | 90,069 | 0 |
| Services | 138,060 | 14,186 | 167,754 | 0 | 21 | 14,165 | 11,077 | 0 | 55,259 | 0 |
| Consumer loans and credit cards | 430,407 | 126,496 | 1,436,063 | 125,976 | 520 | 0 | 383,361 | 380,114 | 65,713 | 0 |
| Others | 376,385 | 5,869 | 122,665 | 1,576 | 1,817 | 2,477 | 9,239 | 0 | 285,797 | **0** |
| **Total** | **3,701,659** | **1,006,686** | **2,330,669** | **129,496** | **235,546** | **641,644** | **713,393** | **798,989** | **1,836,340** | **881,451** |

# Basel III Pillar 3 Qualitative Disclosures

December 31, 2016

## B.9 - CRB : Impaired Loans, Past Due Loans And Allowances - December 2016

**(Figures in SAR '000)**

| Geographic area | Impaired loans | Aging of Past Due Loans (days) Less than 90 | 90-180 days | 180-360 days | Over 360 | Specific allowances | General allowances |
|---|---|---|---|---|---|---|---|
| Saudi Arabia | 3,325,402 | 2,330,669 | 129,496 | 235,546 | 641,644 | 1,566,340 | 881,451 |
| Other GCC and Middle East | 376,257 | 0 | 0 | 0 | 0 | 270,000 | 0 |
| Europe | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| North America | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| South East Asia | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Others countries | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total** | **3,701,659** | **2,330,669** | **129,496** | **235,546** | **641,644** | **1,836,340** | **881,451** |

## B.9 - CRB : Reconciliation Of Changes In The Allowances For Loan Impairment - December 2016

**(Figures in SAR '000)**

| Particulars | Specific allowances | General allowances |
|---|---|---|
| **Balance, beginning of the year** | 1,921,937 | 840,237 |
| Charge-offs taken against the allowances during the period | 713,392 | 41,214 |
| Amounts set aside (or reversed) during the period | (798,989) | - |
| Other adjustments: | | |
| - exchange rate differences | | |
| - business combinations | | |
| - acquisitions and disposals of subsidiaries | | |
| - etc. | | |
| Transfers between allowances | - | - |
| **Balance, end of the year** | **1,836,340** | **881,451** |

* Impaired loans defined as any loan with specific provision
** Defaulted loans defined as non-performing loans

# Basel III Pillar 3 Qualitative Disclosures

December 31, 2016

## B.10 - Table CRC: Qualitative disclosure requirements related to credit risk mitigation techniques

**Features of policies and processes for, and an indication of the Extent to which the Bank makes use of, on- and off-balance sheet netting.**

The Bank reduces its exposures for capital adequacy calculations only, in cases where deposits/cash is in the form of collateral with a specific charge or lien in favor of the Bank.

**Core features of policies and processes for collateral evaluation and management**

The Bank believes that collateral security is an effective means of reducing risk and improving credit quality. Although collateral is generally desirable to enhance credit quality, Bank does not entirely rely on collateral to make lending decisions since collateral is only considered as a secondary source of repayment. The Bank›s policy is to consider a credit exposure secured, if it is fully supported by tangible collateral/ security and in accordance with minimum requirement in terms of coverage ratios.

**Information about market or credit risk concentrations under the credit risk mitigation instruments**

For capital adequacy purposes, Bank only uses cash and bank guarantees as credit risk mitigants, thus presenting minimal market or concentration risk for mitigants used. As part of its regular monitoring, Bank also review it's holding vis-à-vis total market capitalization of the companies, whose shares are held as collateral.

## B.11 - CR3: Credit risk mitigation techniques – Overview - December 2016

**(Figures in SAR 000's)**

| | | (a) Exposures unsecured: carrying amount | (b) Exposures secured by collateral | (c) Exposures secured by collateral, of which: secured amount | (d) Exposures secured by financial guarantees | (e) Exposures secured by financial guarantees, of which: secured amount | (f) Exposures secured by credit derivatives | (g) Exposures secured by credit derivatives, of which: secured amount |
|---|---|---|---|---|---|---|---|---|
| 1 | Loans | 101,160,234 | 15,638,291 | 3,583,139 | 89,569 | 85,071 | | |
| 2 | Debt securities | 24,103,178 | | | | | | |
| 3 | **Total** | **125,263,412** | **15,638,291** | **3,583,139** | **89,569** | **85,071** | **-** | **-** |
| 4 | Of which defaulted | 1,123,371 | 102,534 | 6,666 | - | - | | |

## B.12 - Table CRD: Qualitative disclosures on banks' use of external credit ratings under the standardised approach for credit risk

**Names of the external credit assessment institutions (ECAIs) used by the Bank**

As per the guidelines provided by SAMA, Bank is using i) Moody's, ii) Standard and Poor's, and iii) Fitch for assigning Risk Weight and calculating Risk Weighted Assets (RWAs) under the Standardized Approach. Obligors, which are not rated by any of these three ECAIs are considered as "un-rated". Only the solicited ratings from the eligible ECAIs are being used for capital adequacy calculations.

**Asset classes for which ECAIs are used**

External Credit ratings of ECAIs are used for the asset classes comprising of Sovereign, Banks and Securities Firms, Corporate, and Off-Balance items, wherever applicable.

**Description of the process used to transfer the issuer to issue credit ratings**

Under Standardized approach for Credit Risk, Bank uses issue-specific rating if such a rating is available for the issue in which the bank has invested. In circumstances where only issuer assessment is available, Bank consider high quality issuer assessment only for the senior claims on that issuer; other unassessed claims of the highly assessed issuer are treated as unrated. Applicable Basel guidelines for Issuer versus Issues assessment are complied with at all times.

**Alignment of the alphanumerical scale of each agency used with risk buckets**

For determining risk weighted exposure under Standardized approach, alignment of ECAIs scales to risk buckets is applied as per mapping guidelines provided by SAMA.

# Basel III Pillar 3 Qualitative Disclosures

December 31, 2016

## B.13 – CR4: Standardised approach – credit risk exposure and Credit Risk Mitigation (CRM) effects – December 2016

**(Figures in SAR 000's)**

| | | a | b | c | d | e | f |
|---|---|---|---|---|---|---|---|
| | | Exposures before CCF and CRM | | Exposures post-CCF and CRM | | RWA and RWA density | |
| | Asset classes | On-balance sheet amount | Off-balance sheet amount | On-balance sheet amount | Off-balance sheet amount | RWA | RWA density |
| 1 | Sovereigns and their central banks | 34,806,670 | | 34,806,670 | | - | 0.00% |
| 2 | Non-central government public sector entities | | | | | | |
| 3 | Multilateral development banks | | | | | | |
| 4 | Banks | 6,245,611 | 4,366,093 | 6,245,611 | 2,592,095 | 5,714,910 | 64.67% |
| 5 | Securities firms | 563,962 | | 563,962 | | | |
| 6 | Corporates | 95,430,428 | 47,176,294 | 91,858,646 | 17,067,030 | 107,858,223 | 99.02% |
| 7 | Regulatory retail portfolios | 24,198,906 | | 24,198,906 | | 18,149,180 | 75.00% |
| 8 | Secured by residential property | 1,516,292 | | 1,516,292 | | 1,516,292 | 100.00% |
| 9 | Secured by commercial real estate | | | | | | |
| 10 | Equity | 1,182,337 | | 1,182,337 | | 1,182,337 | 100.00% |
| 11 | Past-due loans | 260,062 | | 259,878 | | 259,879 | 100.00% |
| 12 | Higher-risk categories | 909,372 | 77,227 | 909,203 | 77,009 | 2,095,713 | 212.50% |
| 13 | Other assets | 6,182,086 | 794,802 | 6,182,086 | 372,635 | 3,345,173 | 51.03% |
| 14 | **Total** | **171,295,726** | **52,414,416** | **167,723,591** | **20,108,769** | **140,121,707** | **74.60%** |

## B.14 – CR5: Standardised approach – exposures by asset classes and risk weights – December 2016

**(Figures in SAR 000's)**

| Asset classes/ Risk weight | a<br>0% | b<br>10% | c<br>20% | d<br>35% | e<br>50% | f<br>75% | g<br>100% | h<br>150% | i<br>Others | j<br>Total credit exposures amount (post CCF and post-CRM) |
|---|---|---|---|---|---|---|---|---|---|---|
| Sovereigns and their central banks | 34,806,670 | | | | | | | | | 34,806,670 |
| Non-central government public sector entities (PSEs) | | | | | | | | | | - |
| Multilateral development banks (MDBs) | | | | | | | | | | - |
| Banks | | | 1,099,505 | | 4,972,001 | | 2,766,200 | | | 8,837,706 |
| Securities firms | | | 130,573 | | 433,389 | | | | | 563,962 |
| Corporates | | | 75,344 | | 2,024,743 | | 106,825,589 | | | 108,925,676 |
| Regulatory retail portfolios | | | | | | 24,198,906 | | | | 24,198,906 |
| Secured by residential property | | | | | | | 1,516,292 | | | 1,516,292 |
| Secured by commercial real estate | | | | | | | | | | - |
| Equity | | | | | | | 1,182,337 | | | 1,182,337 |
| Past-due loans | | | | | | | 259,878 | | | 259,878 |
| Higher-risk categories | | | | | | | | 369,818 | 616,394 | 986,212 |
| Other assets | | | | | | | 6,554,721 | | | 6,554,721 |
| **Total** | **34,806,670** | **-** | **1,305,422** | **-** | **7,430,133** | **24,198,906** | **119,105,017** | **369,818** | **616,394** | **187,832,360** |

# Basel III Pillar 3 Qualitative Disclosures
December 31, 2016

## B.21 - Table CCRA: Qualitative disclosure related to counterparty credit risk

**Risk management objectives and policies related to counterparty credit risk**
The primary objective of counterparty credit risk management function is to effectively identify, measure and manage all derivatives related counterparty exposures through regular review of counterparty limits and daily monitoring of exposures vis-a-vis limits.

**Method used to assign the operating limits defined in terms of internal capital**
Credit Risk Limits are established on a Credit Equivalent basis; taking into consideration the product type, tenor and notional amounts. The Bank has limited exposure towards the central counterparties as it emanates only from its trade in interest rate futures and options. All other derivative exposures are bilateral in nature.

**Policies relating to guarantees and other risk mitigants and assessments**
The Bank has signed Credit Support Annexure with all the major derivative financial counterparties to mitigate counterparty credit risk.

**Policies with respect to wrong-way risk exposures**
Wrong-way risk occurs when exposure to a counterparty is adversely correlated with the credit quality of that counterparty. The Bank considers its exposure to such risk limited, which is mitigated through common collateral management practice.

**Impact in terms of the amount of collateral that the bank would be required to provide given a credit rating downgrade**
The Bank is only providing variation margin in bilateral trades with financial counterparties. The impact of any increase in variation margin due to potential credit rating downgrade at present is considered minimal.

## B.22 - CCR1: Analysis of counterparty credit risk (CCR)(1) exposure by Approach - December 2016
**(Figures in SAR 000's)**

| | | a | b | c | d | e | f |
|---|---|---|---|---|---|---|---|
| | | Replacment cost | Potential future Exposure | EEPE | Alpha used for computing regulatory EAD | EAD post-CRM | RWA |
| 1 | SA-CCR (For derivatives)** | 456,900 | 417,250 | | N/A | 874,150 | 567,393 |
| 2 | Internal Model method (for derivatives and SFTs) | | | | | | |
| 3 | Simple Approach for credit Risk mitigation (for SFTs) | | | | | | |
| 4 | Comprehensive Approach for credit Risk mitigation | | | | | | |
| 5 | ( for SFTs) | | | | | | |
| 6 | VaR for SFTs | | | | | | |
| | **Total** | | | | | | **567,393** |

** Since SA_CCR methodology is applicable from 1st January 2017, year-end 2016 figures reported above based on Current Exposure Method

# Basel III Pillar 3 Qualitative Disclosures

December 31, 2016

## B.23 - CCR2: Credit valuation adjustment (CVA) capital charge - December 2016

**(Figures in SAR 000's)**

| | | a<br>EAD post-CRM | b<br>RWA |
|---|---|---|---|
| | Total portfolios subject to the Advanced CVA capital charge | | |
| 1 | (i) VaR component (including the 3xmultiplier) | | |
| 2 | (ii) Stressed VaR component (including the 3xmultiplier) | | |
| 3 | All portfolios subject to the Standardised CVA capital charge | 781,566 | 1,313,464 |
| **4** | **Total subject to the CVA capital charge** | **781,566** | **1,313,464** |

## B.24 – CCR3: Standardized Approach – CCR exposures by regulatory portfolio and risk weights – December 2016

**(Figures in SAR 000's)**

| Regulatory portfolio / Risk weight | a<br>0% | b<br>10% | c<br>20% | d<br>50% | e<br>75% | f<br>100% | g<br>150% | h<br>Other | i<br>Total credit exposures |
|---|---|---|---|---|---|---|---|---|---|
| Sovereigns and their central banks | | | | | | | | | - |
| Non- central government public sector entities (PSEs) | | | | | | | | | - |
| Multilateral development banks ( MDBs) | | | | | | | | | - |
| Banks | | | 79,112 | 486,135 | | 295 | 1 | | 565,543 |
| Securities firms | | | | | | | | | - |
| Corporates | | | | 800 | | 307,807 | | | 308,607 |
| Regulatory retail portfolios | | | | | | | | | - |
| Other Assets | | | | | | | | | - |
| **Total** | **-** | **-** | **79,112** | **486,935** | **-** | **308,102** | **1** | **-** | **874,150** |

# Basel III Pillar 3 Qualitative Disclosures

December 31, 2016

## B.35 - Table MRA: Qualitative disclosure requirements related to market risk

**Risk management objectives and policies for market risk**

The primary objective of Bank's market risk management function is to provide a coherent policy and operating framework for a strong Bank-wide management of market risk and liquidity risk.

**Bank's Strategies and processes**

The Board approves market risk appetite, in terms of limits, for all types of market risks including foreign currency risk, interest rate risk and equity risk. These limits are based on notional amount, sensitivity, stop-loss and/or VaR (Value at Risk). The Board has also approved Market Risk Policy that provides guidance to identify, measure and monitor the Bank's exposure to market risk.

The Bank's Trading portfolio mainly consists of FX, interest rate trading positions and fixed income securities. The Bank maintains a prudent risk profile in derivatives trading which mainly consists of plain vanilla contracts with limited open positions across all market risk factors. The Bank's trading book has typically remained small with only a limited exposure in the proprietary trading positions. Trading deals are predominantly performed to off-set the risks arising as a result of deals done with corporate customers. The Board approves the trading limits keeping in view the overall business strategy of the Treasury Group. All traded products are covered by individual product programs, which lay down product description, business strategy, target customers, risk management, back office and accounting processes.

Liquidity management policy and limits ensure that liquidity is maintained at sufficient levels to support operations and meet payment demands even under stressed conditions that might arise with a sudden change in the market environment. The Bank recognizes the importance of managing liquidity under stress condition and has adopted a comprehensive stress testing framework and liquidity contingency funding plan.

The Bank considers Stress testing and contingency funding plan as important techniques in developing a complete picture of the Bank's liquidity risk profile. Stress testing uses quantitative methods, but is also subjected qualitative inputs. The purpose of stress testing is to ascertain incremental funding that may be required under the defined scenarios and whether the bank will be able to withstand the stress. The liquidity stress testing methodology and scenarios are developed in line with the regulatory guidelines incorporating conservative liquidity assumptions. Liquidity Stress Testing is carried out under multiple scenarios encompassing bank specific and systemic shocks, which are considered relevant to the business environment and balance sheet structure. In order to withstand the stress, Bank has a comprehensive Contingency Funding Plan (CFP), which addresses vulnerabilities identified in stress tests. CFP establishes lines of responsibility, including invocation and escalation procedures. CFP details the pre-emptive measures to deal with stress scenarios and identifies funding sources depending on severity of stress.

The Bank at all times maintains a sizable inventory of High Quality Liquid Assets (HQLA) that may be used during stress conditions. The Bank maintains segregation of HQLAs based on geographical location in order to comply with regulatory requirements on the transfer of liquid assets.

The Bank has implemented a interest rate hedging policy in compliance with the International Accounting Standards. Interest rate derivatives, mainly interest rate swaps and futures are used to hedge specific exposures with the aim to keep the interest rate risks within limits. The Bank also uses currency swap to hedge specific positions in foreign currencies, when necessary. Effectiveness of all hedges is regularly monitored throughout their term.

**Structure and organisation of the market risk management function**

Market risk and Liquidity risk are overseen by two management committees – Asset Liability Committee (ALCO) and Market Risk Policy Committee (MRPC). ALCO deals with Bank-wide market risk issues while MRPC deals with Treasury specific issues. ALCO meets on a regular basis to discuss the risk exposures vis-à-vis the prevailing market conditions and sets guidelines to manage these risks within the risk appetite set by the Board. MRPC acts as a sub-committee of ALCO with authority to monitor and control Treasury-related activities. MRPC has the authority to restrict utilization of the ALCO-approved limits. Market Risk Department, which is independent of the business function, monitors all limits and provides periodic market risk reports to ALCO and MRPC members.

Treasury Middle Office is an independent unit reporting to MRD and is responsible for ensuring that all Treasury related internal controls are functioning effectively and all non-adherences are brought to management's attention on a timely basis.

**Scope and nature of risk reporting and/or measurement systems.**

Daily Report is provided to Senior Management that covers the trading activity and liquidity ratios. Stress testing for interest rate risk, foreign exchange risk and liquidity risk is conducted on a regular basis and results are presented to ALCO for review. Market Risk Department submits the following reports to ALCO, MRPC and Board on regular basis

- VaR analysis
- Interest rate gap Analysis
- Liquidity Risk Ratios
- Interest rate stress testing

Detailed market risk reviews are submitted to the Board, Excom, Risk Committee and Audit Committee, on a quarterly or semi-annual basis, as appropriate. The reviews highlight major changes in the Bank's market and liquidity risk profiles as well as compositions of the investments portfolio.

# Basel III Pillar 3 Qualitative Disclosures

December 31, 2016

### B.37 – MR1: Market risk under standardized approach – December 2016

**(Figures in SAR 000's)**

| | | RWA |
|---|---|---|
| | Outright products | 922,946 |
| 1 | Interest rate risk (general and specific) | 208,987 |
| 2 | Enquity risk | |
| 3 | Foreign exchange risk | 630,695 |
| 4 | Commodity risk | 83,264 |
| | Options | 11,036 |
| 5 | Simplified approach | 11,036 |
| 6 | Delta-plus method | |
| 7 | Sceniaro approach | |
| 8 | Securization | |
| | **Total** | **933,982** |

### B.41 – Operational risk

**Qualitative disclosure for Bank's operational risk capital approach**

The Bank calculates Operational Risk capital charge under Alternative Standardized Approach (ASA), which uses Gross Income and Loans/ Advances as proxy indicator for estimating capital charge (i.e. loans/ advances are used for Basel business lines 'Retail Banking' and 'Commercial Banking' whereas gross income is used for remaining Basel business lines).

### B.42 – Interest rate risk in the banking book (IRRBB)

**Qualitative disclosure requirement on IRRBB**

The effect of interest rate exposure on reported net income is imperative as interest rate risk represents one of the Bank's significant market risks. Interest rate risk arises not only from trading activities but also from the Bank's traditional banking activities, which include extension of loans and credit facilities, taking deposits and issuing debt. Structural interest rate risk can occur due to a variety of factors, including:

- Differences in the timing among the maturity or re-pricing of assets, liabilities and off-balance sheet instruments.
- Differences in the amounts of assets, liabilities and off-balance sheet instruments that are re-priced at the same time.
- Differences in the amounts by which short-term and long-term market interest rates change (for example, changes in the slope of the yield curve).
- The impact of changes in the maturity of various assets, liabilities or off-balance sheet instruments as interest rates change.

The Bank manages interest rate exposure related to its assets and liabilities on a consolidated basis through investment securities and related derivatives. The interest sensitive elements include asset and liability balances and contractual rates of interest, contractual principal payment schedules, interest rate reset dates and maturities, and rate indices used for re-pricing.

The Bank evaluates its structural interest rate risk exposure through earnings-at-risk, which measures the extent to which changes in interest rates will affect the Bank's core net interest income over the following 12 months, utilizing multiple scenarios and assumptions. These scenarios and assumptions highlight exposures to changes in interest rates, pricing sensitivities on assets and liabilities, and other factors which are updated periodically.

The Board approves the acceptable level of interest rate risk in the banking book by setting a limit on interest rate gaps by maturity buckets together with other limits. Treasury Group is responsible for day-to-day management of interest rate risk under the guidance provided by ALCO. Treasury Group monitors the changes in financial markets leading to interest rate movements. Based on future outlook, Treasury takes appropriate interest rate exposures or hedges the existing exposures, if needed. Interest rate derivatives (mainly interest rate swaps) are used to hedge interest rate exposure of the Bank. Interest rate limits are independently monitored by Market Risk Department of Risk Management Group and reported to ALCO.

# Basel III Pillar 3 Qualitative Disclosures
December 31, 2016

### B.42 – Interest rate risk in the banking book (IRRBB)
The Bank use Earnings at Risk (EaR) to measure IRRBB for major currencies, following are EaR results based on 200 bps change in interest rates.

**INTERST RATE RISK IN THE BANKING BOOK (IRRBB) – December 2016**

| 200 bp Interst Rate Shocks | (Figures in SAR 000's) Change in NII |
|---|---|
| **Rate Shocks** | |
| **Upward rate shocks:** | |
| SAR | 719,134 |
| USD | 59,906 |
| OTHERS | 13,531 |
| | |
| **Downward rate shocks :** | |
| SAR | (719,134) |
| USD | (59,906) |
| OTHERS | (13,531) |

### TABLE 2: CAPITAL STRUCTURE – DECEMBER 2016
**Balance sheet – Step 1 (Table 2(b))**
All figures are in SAR'000

| Assets | Balance sheet in Published financial statements (c) | Adjustment of banking associates / other entities(*) (d) | Under regulatory scope of consolidation (e) |
|---|---|---|---|
| Cash and balances at central banks | 19,503,973 | | 19,503,973 |
| Due from banks and other financial institutions | 4,030,850 | | 4,030,850 |
| Investments, net | 25,548,399 | | 25,548,399 |
| Loans and advances, net | 115,511,521 | | 115,511,521 |
| Debt securities | 0 | | 0 |
| Trading assets | 0 | | 0 |
| Investment in associates | 616,395 | | 616,395 |
| Derivatives | 459,770 | | 459,770 |
| Investment property | 1,651,363 | | 1,651,363 |
| Other real estate | 136,634 | | 136,634 |
| Property and equipment, net | 1,839,222 | | 1,839,222 |
| Other assets | 710,595 | | 710,595 |
| **Total assets** | 170,008,722 | 0 | 170,008,722 |

# Basel III Pillar 3 Qualitative Disclosures

December 31, 2016

| Liabilities | Balance sheet in Published financial statements (c) | Adjustment of banking associates / other entities (d) | Under regulatory scope of consolidation Reference (e) |
|---|---|---|---|
| Due to Banks and other financial institutions | 3,858,871 | | 3,858,871 |
| Items in the course of collection due to other banks | 0 | | 0 |
| Customer deposits | 135,907,457 | | 135,907,457 |
| Trading liabilities | 0 | | 0 |
| Local sukuk issued | 2,018,190 | | 2,018,190 |
| Derivatives | 739,789 | | 739,789 |
| Retirement benefit liabilities | 0 | | 0 |
| Taxation liabilities | 0 | | 0 |
| Accruals and deferred income | 0 | | 0 |
| Other liabilities | 3,859,862 | | 3,859,862 |
| **Subtotal** | 146,084,169 | 0 | 146,084,169 |

| | | | |
|---|---|---|---|
| Paid up share capital | 10,000,000 | | 10,000,000 |
| Statutory reserves | 9,446,000 | | 9,446,000 |
| Other reserves | 166,514 | | 166,514 |
| Retained earnings | 3,172,847 | 0 | 3,172,847 |
| Minority Interest | 689,192 | | 689,192 |
| Proposed dividends | 450,000 | | 450,000 |
| **Total liabilities and equity** | 170,008,722 | 0 | 170,008,722 |

# Basel III Pillar 3 Qualitative Disclosures
December 31, 2016

## TABLE 2: CAPITAL STRUCTURE – DECEMBER 2016
**Balance sheet – Step 2 (Table 2(c))**
All figures are in SAR '000

| Assets | Balance sheet in Published financial statements (c) | Adjustment of banking associates / other entities (d) | Under regulatory scope of consolidation Reference (e) | Reference |
|---|---|---|---|---|
| Cash and balances at central banks | 19,503,973 | | 19,503,973 | |
| Due from banks and other financial institutions | 4,030,850 | | 4,030,850 | |
| Investments, net | 25,548,399 | | 25,548,399 | |
| Loans and advances, net | 115,511,521 | | 115,511,521 | |
| of which Collective provisions | 881,451 | | 881,451 | A |
| Debt securities | 0 | | 0 | |
| Equity shares | 0 | | 0 | |
| Investment in associates | 616,395 | | 616,395 | |
| Derivatives | 459,770 | | 459,770 | |
| Investment property | 1,651,363 | | 1,651,363 | |
| Other real estate | 136,634 | | 136,634 | |
| Property and equipment, net | 1,839,222 | | 1,839,222 | |
| Other assets | 710,595 | | 710,595 | |
| | | | | |
| **Total assets** | 170,008,722 | 0 | 170,008,722 | |

# Basel III Pillar 3 Qualitative Disclosures

December 31, 2016

## TABLE 2: CAPITAL STRUCTURE – DECEMBER 2016

**Balance sheet – Step 2 (Table 2(c))**

All figures are in SAR '000

| Liabilities | Balance sheet in Published financial statements (c) | Adjustment of banking associates / other entities (d) | Under regulatory scope of consolidation Reference (e) | Reference |
|---|---|---|---|---|
| Due to Banks and other financial institutions | 3,858,871 | | 3,858,871 | |
| Items in the course of collection due to other banks | 0 | | 0 | |
| Customers' deposits | 135,907,457 | | 135,907,457 | |
| Trading liabilities | 0 | | 0 | |
| Local sukuk issued | 2,018,190 | | 2,018,190 | |
| of which Tier 2 capital instruments | 2,000,000 | | 2,000,000 | B |
| Derivatives | 439,789 | | 439,789 | |
| Retirement benefit liabilities | 0 | | 0 | |
| Taxation liabilities | 0 | | 0 | |
| Accruals and deferred income | 0 | | 0 | |
| Borrowings | 0 | | 0 | |
| Other liabilities | 3,859,862 | | 3,859,862 | |
| **Total assets** | **146,084,169** | **0** | **146,084,169** | |

| | | | | |
|---|---|---|---|---|
| Paid up share capital | 10,000,000 | | 10,000,000 | |
| of which amount eligible for CET1 | 10,000,000 | | 10,000,000 | H |
| of which amount eligible for AT1 | 0 | | 0 | |
| Statutory reserves | 9,446,000 | | 9,446,000 | G |
| Other reserves | 166,514 | | 166,514 | C |
| Retained earnings | 3,172,847 | | 3,172,847 | J |
| SAMA supervisory provision adjustment | 0 | | 0 | |
| Minority Interest | 689,192 | | 689,192 | |
| Proposed dividends | 450,000 | | 450,000 | |
| **Total liabilities and equity** | **170,008,722** | **0** | **170,008,722** | |

# Basel III Pillar 3 Qualitative Disclosures

December 31, 2016

## TABLE 2: CAPITAL STRUCTURE - DECEMBER 2016

**Common template (transition) - Step 3 (Table 2(d)) i**
**(From January 2013 to 2018 identical to post 2018) With amount subject to Pre- Basel III Treatment**
All figures are in SAR '000

| | | Components[1] of regulatory capital reported by the bank | Amounts[1] subject to Pre - Basel III treatment | Source based on reference numbers / letters of the balance sheet under the regulatory scope of consolidation from step 2 |
|---|---|---|---|---|
| | **Common Equity Tier 1 capital: Instruments and reserves** | | | |
| 1 | Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus | 10,000,000 | | H |
| 2 | Retained earnings | 12,618,847 | | G+J |
| 3 | Accumulated other comprehensive income (and other reserves) | 166,514 | | C |
| 4 | Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies) | | | |
| 5 | Common share capital isued by subsidiaries and held by third parties (amount allowed in group CET1) | | | |
| 6 | Common Equity Tier 1 capital before regulatory adjustments | | | |
| | **Common Equity Tier 1 capital: Regulatory adjustments** | 22,785,361 | | |
| 7 | Prudential valuation adjustments | | | |
| 8 | Goodwill (net of related tax liability) | | | |
| 9 | Other intangibles other than mortgage-servicing rights (net of related tax liability) | | | |
| 10 | Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability) | | | |
| 11 | Cash-flow hedge reserve | | | |
| 12 | Shortfall of provisions to expected losses | | | |
| 13 | Securitisation gain on sale (as set out in paragraph 562 of Basel II framework) | | | |
| 14 | Gains and losses due to changes in own credit risk on fair valued liabilities | | | |
| 15 | Defined-benefit pension fund net assets | | | |
| 16 | Investments in own shares (if not already netted off paid-in capital on reported balance sheet) | | | |
| 17 | Reciprocal cross-holdings in common equity | | | |
| 18 | Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than %10 of the issued share capital (amount above %10 threshold) | | | |
| 19 | Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above %10 threshold) | | | |
| 20 | Mortgage servicing rights (amount above %10 threshold) | | | |
| 21 | Deferred tax assets arising from temporary differences (amount above %10 threshold, net of related tax liability) | | | |
| 22 | Amount exceeding the %15 threshold | | | |
| 23 | of which: significant investments in the common stock of financials | | | |
| 24 | of which: mortgage servicing rights | | | |
| 25 | of which: deferred tax assets arising from temporary differences | | | |
| 26 | National specific regulatory adjustments | | | |
| | REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III OF TREATMENT | | | |
| | OF WHICH: [INSERT NAME OF ADJUSTMENT] | | | |
| | OF WHICH:... | | | |

# Basel III Pillar 3 Qualitative Disclosures

December 31, 2016

| | | Components[1] of regulatory capital reported by the bank | Amounts[1] subject to Pre – Basel III treatment | Source based on reference numbers / letters of the balance sheet under the regulatory scope of consolidation from step 2 |
|---|---|---|---|---|
| | **Common Equity Tier 1 capital: Instruments and reserves (continued)** | | | |
| 27 | Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions | | | |
| 28 | **Total regulatory adjustments to Common equity Tier 1** | | | |
| 29 | **Common Equity Tier 1 capital (CET1)** | 22,785,361 | | |
| | Additional Tier 1 capital: instruments | | | |
| 30 | Directly issued qualifying Additional Tier 1 instruments plus related stock surplus | | | |
| 31 | of which: classified as equity under applicable accounting standards | | | |
| 32 | of which: classified as liabilities under applicable accounting standards | | | |
| 33 | Directly issued capital instruments subject to phase out from Additional Tier 1 | | | |
| 34 | Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1) | | | |
| 35 | of which: instruments issued by subsidiaries subject to phase out | | | |
| 36 | **Additional Tier 1 capital before regulatory adjustments** | | | |
| | **Additional Tier 1 capital: regulatory adjustments** | | | |
| 37 | Investments in own Additional Tier 1 instruments | | | |
| 38 | Reciprocal cross-holdings in Additional Tier 1 instruments | | | |
| 39 | Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than %10 of the issued common share capital of the entity (amount above %10 threshold) | | | |
| 40 | Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions) | | | |
| 41 | National specific regulatory adjustments | | | |
| | REGULATORY ADJUSTMENTS APPLIED TO ADDITIONAL TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT | | | |
| | OF WHICH: [INSERT NAME OF ADJUSTMENT] | | | |
| | OF WHICH: ... | | | |
| 42 | Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions | | | |
| 43 | Total regulatory adjustments to Additional Tier 1 capital | | | |
| 44 | Additional Tier 1 capital (AT1) | | | |
| 45 | Tier 1 capital (T1 = CET1 + AT1) | 22,785,361 | | |

Note: Items which are not applicable are to be left blank.

# Basel III Pillar 3 Qualitative Disclosures

December 31, 2016

### TABLE 2: CAPITAL STRUCTURE - DECEMBER 2015

**Common template (transition) - Step 3 (Table 2(d)) ii**
**(From January 2013 to 2018 identical to post 2018) With amount subject to Pre- Basel III Treatment**
All figures are in SAR'000

| | | Components[1] of regulatory capital reported by the bank | Amounts[1] subject to Pre - Basel III treatment | Source based on reference numbers / letters of the balance sheet under the regulatory scope of consolidation from step 2 |
|---|---|---|---|---|
| | **Tier 2 capital: instruments and provisions** | | | |
| 46 | Directly issued qualifying Tier 2 instruments plus related stock surplus | 2,000,000 | | B |
| 47 | Directly issued capital instruments subject to phase out from Tier 2 | | | |
| 48 | Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2) | | | |
| 49 | of which: instruments issued by subsidiaries subject to phase out | | | |
| 50 | Provisions | 881,451 | | A |
| 51 | **Tier 2 capital before regulatory adjustments** | 2,881,451 | | |
| | **Tier 2 capital: regulatory adjustments** | | | |
| 52 | Investments in own Tier 2 instruments | | | |
| 53 | Reciprocal cross-holdings in Tier 2 instruments | | | |
| 54 | Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than %10 of the issued common share capital of the entity (amount above the %10 threshold) | | | |
| 55 | Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions) | 0 | | |
| 56 | National specific regulatory adjustments | | | |
| | REGULATORY ADJUSTMENTS APPLIED TO TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT | | | |
| | OF WHICH: [INSERT NAME OF ADJUSTMENT] | | | |
| | OF WHICH: ... | | | |
| 57 | Total regulatory adjustments to Tier 2 capital | | | |
| 58 | Tier 2 capital (T2) | 2,881,451 | | |
| 59 | Total capital (TC = T1 + T2) | 25,666,812 | | |
| | RISK WEIGHTED ASSETS IN REPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT | | | |
| | OF WHICH: [INSERT NAME OF ADJUSTMENT] | | | |
| | OF WHICH: ... | | | |
| 60 | Total risk weighted assets | 155,828,604 | | |
| | **Capital ratios** | | | |
| 61 | Common Equity Tier 1 (as a percentage of risk weighted assets) | 14.62% | | |
| 62 | Tier 1 (as a percentage of risk weighted assets) | 14.62% | | |
| 63 | Total capital (as a percentage of risk weighted assets) | 16.47% | | |
| 64 | Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer requirement expressed as a percentage of risk weighted assets) | 5.125% | | |

# Basel III Pillar 3 Qualitative Disclosures

## December 31, 2016

| | | Components[1] of regulatory capital reported by the bank | Amounts[1] subject to Pre - Basel III treatment | Source based on reference numbers / letters of the balance sheet under the regulatory scope of consolidation from step 2 |
|---|---|---|---|---|
| | **Tier 2 capital: instruments and provisions (continued)** | | | |
| 65 | of which: capital conservation buffer requirement | 0.625% | | |
| 66 | of which: bank specific countercyclical buffer requirement | | | |
| 67 | of which: G-SIB buffer requirement | | | |
| 68 | Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets) | 9.50% | | |
| | **National minima (if different from Basel 3)** | | | |
| 69 | National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum) | | | |
| 70 | National Tier 1 minimum ratio (if different from Basel 3 minimum) | | | |
| 71 | National total capital minimum ratio (if different from Basel 3 minimum) | | | |
| | **Amounts below the thresholds for deduction (before risk weighting)** | | | |
| 72 | Non-significant investments in the capital of other financials | | | |
| 73 | Significant investments in the common stock of financials | | | |
| 74 | Mortgage servicing rights (net of related tax liability) | | | |
| 75 | Deferred tax assets arising from temporary differences (net of related tax liability) | | | |
| | **Applicable caps on the inclusion of provisions in Tier 2** | | | |
| 76 | Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap) | 881,451 | | |
| 77 | Cap on inclusion of provisions in Tier 2 under standardised approach | 1,775,032 | | |
| 78 | Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap) | | | |
| 79 | Cap for inclusion of provisions in Tier 2 under internal ratings-based approach | | | |
| | **Capital instruments subject to phase-out arrangements (only applicable between Jan 1, 2018 and Jan 1, 2022 )** | | | |
| 80 | Current cap on CET1 instruments subject to phase out arrangements | | | |
| 81 | Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities) | | | |
| 82 | Current cap on AT1 instruments subject to phase out arrangements | | | |
| 83 | Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities) | | | |
| 84 | Current cap on T2 instruments subject to phase out arrangements | | | |
| 85 | Amount excluded from T2 due to cap (excess over cap after redemptions and maturities) | | | |

Note: Items which are not applicable are to be left blank.

# Basel III Pillar 3 Qualitative Disclosures

December 31, 2016

### TABLE 2: CAPITAL STRUCTURE – DECEMBER 2016

**Main features template of regulatory capital instruments – (Table 2 (e))**

| | | |
|---|---|---|
| 1 | issuer | Arab National Bank |
| 2 | Unique identifier (eg CUSPIN, ISIN or Bloomberg identifier for private placement) | SA13TFKOGSJ4 |
| 3 | Governing low (s) of the instrument | Law of Kingdom of Saudi Arabia |
| | Regulatory treatment | |
| 4 | Transitional Basel III rules | NA |
| 5 | Post-transitional Basel III rules | Tier 2 |
| 6 | Eligible at solo/Mgroup/group and solo | Solo and Group |
| 7 | Instrument type | Unsecured Subordinated Sukuk |
| 8 | Amount recognized in regulatory capital (Currency in mil, as of most recent reporting date) | SAR 2 billion |
| 9 | Par value of instrument | SAR 2 billion |
| 10 | Accounting classification | Liability- Held at Amortised Cost |
| 11 | Ongina date of issuance | 7-Oct-15 |
| 12 | Perpetual or dated | Dated |
| 13 | Orignal maturity date | 7-Oct-25 |
| 14 | Issuer call subject to prior supervisoy approval | Yes |
| 15 | Option call date, contingent call dates and redemption amount | First Call date 7 oct 2020, and callable on each subsequent periodic distribution date at PAR in whole (but in part), with a notice period not less than 15 days nor more than 30 days |
| 16 | Subsequent call dates if applicable | Semi-annually |
| | Coupons / dividends | |
| 17 | Fixed or Floating dividend/coupon | Floating |
| 18 | Coupon rate and any related index | 6m SIBOR 140bps |
| 19 | Existence of a dividend stopper | No |
| 20 | Fully discretionary, partially discretionary or mandatory | Mandatory |
| 21 | Existence of step up or other incentive to redeem | No |
| 22 | Non cumulative or cumulative | Non-cumulative |

# Basel III Pillar 3 Qualitative Disclosures

December 31, 2016

## TABLE 2: CAPITAL STRUCTURE - DECEMBER 2016

**Main features template of regulatory capital instruments - (Table 2 (e))**

| | | |
|---|---|---|
| 23 | Convertible or non-convertible | Non-convertible |
| 24 | If convertible, conversion trigger (s) | N/A |
| 25 | If convertible, fully or partially | N/A |
| 26 | If convertible, conversion rate | N/A |
| 27 | If convertible, mandatory or optional conversion | N/A |
| 28 | If convertible, s instrument type convertible into | N/A |
| 29 | If convertible, s issuer of instrument it converts into | N/A |
| 30 | Write-down feature | At the point of Non-viability |
| 31 | If write-down, write-down trigger (s) | Determined by the Banking Regulator |
| 32 | If write-down, full or partial | Determined by the Banking Regulator |
| 33 | If write-down, permanent or temporary | Determined by the Banking Regulator |
| 34 | If temporary writedown , description of the write-up mechanism | Determined by the Banking Regulator |
| 35 | Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument) | Subordinated in right and priority of payment, to the prior payment in full of all deposit liabilities and all other unsubordinated liabilities of the Issuer except all other present and future unsecured and subordinated obligations of the Issuer which by their terms rank equally in right and priority of payment with the Instrument |
| 36 | Non-compliant transitioned features | No |
| 37 | If yes, specify non-compliant features | N/A |

# Branches

## Central Region Branches:

| Branch Name | City | Phone No. | FAX No. |
|---|---|---|---|
| • Sitteen | Riyadh | 011 2279036 | 011 2396079 |
| • Dhabab | Riyadh | 011 4040365 | 011 4043959 |
| • Olaya | Riyadh | 011 4659331 | 011 4659440 |
| • Industrial Area | Riyadh | 011 4465708 | 011 4460781 |
| • Haeer Road | Riyadh | 011 2137742 | 011 2134370 |
| • Rawdah | Riyadh | 011 2086024 | 011 2089562 |
| • Shemeisi | Riyadh | 011 4354074 | 011 4353946 |
| • Al-Kharj | Al-Kharj | 011 5478500 | 011 5478535 |
| • Hawtat Bani Tamim | Hawtat Bani Tamim | 011 5550780 | 011 5550784 |
| • Al-Majma'a | Al-Majma'a | 016 4323584 | 016 4323848 |
| Akariah | Riyadh | 011 4191000 | 011 4191803 |
| • Rabwa | Riyadh | 011 4910546 | 011 4910573 |
| • Shaqra | Shaqra | 011 6220909 | 011 6221758 |
| • Pensions Fund Authority | Riyadh | 011 4025100 | 011 4124559 |
| • Shifa | Riyadh | 011 4226900 | 011 4237631 |
| • Swaidi | Riyadh | 011 4258766 | 011 4259417 |
| • Al-Malaz | Riyadh | 011 4765400 | 011 4769294 |
| • Dahrat Al-Badia | Riyadh | 011 2678676 | 011 2675860 |
| • Second Industrial City | Riyadh | 011 2652088 | 011 2652023 |
| • Khashm Al-A'an | Riyadh | 011 2521102 | 011 2521106 |
| • Raed Quarter | Riyadh | 011 4880587 | 011 4880901 |
| • Naseem | Riyadh | 011 2328230 | 011 2330291 |
| • Quwaiyayah | Quwaiyayah | 011 6521206 | 011 6521164 |
| • Mursalat | Riyadh | 011 4555455 | 011 4569177 |
| • Takhassusi | Riyadh | 011 4820489 | 011 4822090 |
| • Land Forces | Riyadh | 011 4787154 | 011 4787154 |
| • Eshpielya | Riyadh | 011 2534298 | 011 2534283 |
| • King Faisal Quarter | Riyadh | 011 2387118 | 011 2387185 |
| • Hafr Al-Batin | Hafr Al-Batin | 013 7230566 | 013 7230765 |
| • Rayan Quarter | Riyadh | 011 4929371 | 011 4928409 |
| • Ta'awon | Riyadh | 011 4547783 | 011 4508959 |
| • Aziziah Quarter | Riyadh | 011 4956994 | 011 2134972 |
| • Almugharzat | Riyadh | 011 4940833 | 011 4940824 |
| • Ghornatah | Riyadh | 011 2490036 | 011 2493514 |
| • Hawtat Sudair | Hawtat Sudair | 016 4430117 | 016 4450623 |
| • Aloraija'a | Riyadh | 011 2478758 | 011 2478791 |
| • Hay AlNafel, Riyadh | Riyadh | 011 2756168 | 011 2108499 |
| • Hay AlFalah, Riyadh | Riyadh | 011 2109495 | 011 2109331 |
| • Alnadwah | Riyadh | 011 4536040 | 011 2291489 |
| • Business Gate | Riyadh | 011 4009621 | 011 4443145 |
| King Khaled Military City | Hafr Al Batin | 013 7311715 | 013 7311715 |

• Islamic Branches

# Branches

### North Region Branches:

| Branch Name | City | Phone No. | FAX No. |
|---|---|---|---|
| • Buraida | Buraida | 016 3834059 | 016 3834029 |
| • Unaiza | Unaiza | 016 3264129 | 016 3265612 |
| • Al-Zelfi | Al-Zelfi | 016 4222244 | 016 4222240 |
| • Dawadm | Dawadmi | 011 6430641 | 011 6430142 |
| • Al-Rass | Al-Rass | 016 3513445 | 016 3381693 |
| • Hail | Hail | 016 5435446 | 016 5315684 |
| • Ar'ar | Ar'ar | 014 6640412 | 014 6627004 |
| • Al-Jouf | Al-Jouf | 014 6268507 | 014 6268454 |
| • Qurayat | Qurayat | 014 6419471 | 014 6416473 |
| • Afif | Afif | 011 7223013 | 011 7223021 |
| • Shraf | Hail | 016 5333748 | 016 5351785 |
| • Tabuk | Tabuk | 014 4221218 | 014 4234643 |
| • Tayma | Tayma | 014 4630632 | 014 4630080 |
| • King Khaled | Buraida | 016 3693696 | 016 3693661 |
| • ALBekairia | ALBekairia | 016 3352970 | 016 3352972 |
| • King Saud Road | Tabuk | 014 4219331 | 014 4236298 |
| • Rafha | Rafha | 014 6769164 | 014 6769166 |
| • Al Mithnab | Buraida | 016 3432277 | 016 3431825 |

### Western Region Branches:

| Branch Name | City | Phone No. | FAX No. |
|---|---|---|---|
| • Al Shawqiah | Makkah | 012 5655330 | 012 5650476 |
| • King Abdul Aziz Medical City | Jeddah | 012 6240000 | 012 6247377 |
| Sari | Jeddah | 012 6912376 | 012 6916587 |
| • Alrehab | Jeddah | 012 6753693 | 012 6756951 |
| Makkah Road | Jeddah | 012 6873509 | 012 6886966 |
| • Al Madinah Al Munawarah | Al Madinah Al Munawarah | 014 8237144 | 014 8281653 |
| • Yanbu | Yanbu | 014 3226190 | 014 3225940 |
| • Taif | Taif | 012 7384122 | 012 7381690 |
| • Wajh | Wajh | 014 4424648 | 014 4424638 |
| • Aziziyah | Makkah | 012 5570838 | 012 5570821 |
| • Rabigh | Rabigh | 012 4220196 | 012 4220816 |
| • Al-Ula | Al-Ula | 014 8841265 | 014 8842357 |
| • Hay Al-Salamah | Jeddah | 012 2751515 | 012 6399743 |
| • Prince Majid Street | Jeddah | 012 6170473 | 012 6744533 |
| • Makaronah | Jeddah | 012 6700600 | 012 6724183 |
| • Ma'abdah | Makkah | 012 5735623 | 012 5704466 |
| • Mahjar | Jeddah | 012 6373776 | 012 6373783 |
| • Misyal | Makkah | 012 5413936 | 012 5381161 |
| • Alandalus | Jeddah | 012 6033939 | 012 2637040 |
| • Shohada | Makkah | 012 5450594 | 012 5442008 |
| • Qurban | Al Madinah Al Munawarah | 014 8279900 | 014 8288899 |
| • Shohada | Taif | 012 7429386 | 012 7431397 |
| • Al-Safa | Jeddah | 012 6798171 | 012 6781237 |
| • Alrawdah | Jeddah | 012 2619233 | 012 2619240 |
| • Tahliyah Street | Jeddah | 012 6644551 | 012 6631628 |
| • Alrabea | Jeddah | 012 6775956 | 012 2717735 |
| • Diyafah | Makkah | 012 5605712 | 012 5605721 |

• Islamic Branches

# Branches

### Western Region Branches (continued):

| Branch Name | City | Phone No. | FAX No. |
|---|---|---|---|
| • Albawadi | Jeddah | 012 6823010 | 012 6827514 |
| • King Road | Jeddah | 012 6912095 | 012 6910527 |
| • Alanpariah | Al Madinah Al Munawarah | 014 8266557 | 014 8212881 |
| • Hay Albsateen | Jeddah | 012 6993477 | 012 6994309 |
| • Shehar | Taif | 012 7405905 | 012 7450992 |
| • Yanbu Industrial City | Al Madinah Al Munawarah | 014 3935169 | 014 3933679 |
| • Al Hawia | Taif | 012 7250503 | 012 7250536 |
| • Sharaya | Makkah | 012 5612248 | 012 5614163 |
| • Rusaifa | Makkah | 012 5971154 | 012 5971154 |

### Eastern Region Branches:

| | | | |
|---|---|---|---|
| • King Abdulaziz Hospital | Ehsa'a | 013 5362669 | 013 5325334 |
| • Dammam | Dammam | 013 8333577 | 013 8347309 |
| • Khobar | Khobar | 013 8948660 | 013 8942752 |
| • Qatif | Qatif | 013 8548464 | 013 8547462 |
| • Hofuf | Hofuf | 013 5882445 | 013 5881667 |
| • Jubail | Jubail | 013 3628622 | 013 3628633 |
| • Khazzan Street | Dammam | 013 8275281 | 013 8272911 |
| • Mubarraz | Mubarraz | 013 5313334 | 013 5313016 |
| • Ibqaiq | Ibqaiq | 013 5662612 | 013 5663856 |
| • Al-Omran | Ehsa'a | 013 5963632 | 013 5960144 |
| • Ras Tannourah | Ras Tannourah | 013 6680472 | 013 6682843 |
| • Thuqbah | Thuqbah | 013 8952304 | 013 8982980 |
| • Sanayah | Jubail | 013 3475933 | 013 3475932 |
| • Khafji | Khafji | 013 7667446 | 013 7667559 |
| King Abdul Aziz Street | Khobar | 013 8396000 | 013 8396062 |
| • Old Industrial Area | Dammam | 013 8471752 | 013 8471732 |
| • Saihat | Saihat | 013 8506046 | 013 8503121 |
| • First Street | Dammam | 013 8309666 | 013 8098739 |
| • 42 Street | Dammam | 013 8487700 | 013 8487711 |
| • Mazroueya | Hofuf | 013 5825980 | 013 5823583 |
| • Rawda | Hofuf | 013 5806263 | 013 5803046 |
| • Qarah | Hofuf | 013 5962656 | 013 5962276 |
| Second Industrial City | Dammam | 013 8122225 | 013 8121277 |
| • Mukhattat 71 | Dammam | 013 8222799 | 013 8186116 |
| • Al-Rashid Centre | Khobar | 013 8986015 | 013 8652304 |
| Al-Najah Street | Ehsa'a | 013 5873177 | 013 5876317 |
| • AL-Raka | Khobar | 013 8598786 | 013 8591295 |
| • AL-Muraikbat | Dammam | 013 8412505 | 013 8420238 |
| • Altaraf | Ehsa'a | 013 5370955 | 013 5370956 |
| • Mohammadiyah | Dammam | 013 8178100 | 013 8178090 |
| • Safwa | Safwa | 013 6644773 | 013 6646909 |
| • Nahria | Nahria | 013 3732543 | 013 3730917 |
| • Al Hazm | Khobar | 013 8412084 | 013 8418270 |

• Islamic Branches

# Branches

## Southern Region Branches:

| Branch Name | City | Phone No. | FAX No. |
|---|---|---|---|
| • Aldarb | Jizan | 017 3466766 | 017 3465659 |
| • Wadi Al-Dawaser | Wadi Al-Dawaser | 017 7840312 | 017 7840430 |
| • Abha | Abha | 017 2317930 | 017 2318074 |
| • Najran | Najran | 017 5222880 | 017 5220868 |
| • Khamis Mushait | Khamis Mushait | 017 2214342 | 017 2214167 |
| • Al-Baha | Al-Baha | 017 7253938 | 017 7254147 |
| • Baljurashi | Baljurashi | 017 7223656 | 017 7230018 |
| • Jizan | Jizan | 017 3220520 | 017 3223751 |
| • Bisha | Bisha | 017 6221222 | 017 6222373 |
| • Dhahran Al-Janoob | Dhahran Al-Janoob | 017 2550320 | 017 2550516 |
| • Sabya | Sabya | 017 3265817 | 017 3262942 |
| • Al-Qunfudah | Al-Qunfudah | 017 7321045 | 017 7320932 |
| • Al-Namas | Al-Namas | 017 2821029 | 017 2810327 |
| • Mahayl Aseer | Mahayl Aseer | 017 2852036 | 017 2851493 |
| • Commercial Market | Khamis Mushait | 017 2231514 | 017 2208784 |
| • Samtah | Samtah | 017 3321666 | 017 3323909 |
| • Al Arisa | Najran | 017 5292112 | 017 5442588 |
| • Military City | Khamis Mushait | 017 2503834 | 017 2500592 |
| • Almansak | Abha | 017 2313088 | 017 2312971 |
| • Mekhwaa | Al Baha | 017 7283972 | 017 7283978 |
| • Abu Arish | Jizan | 017 3241403 | 017 3242804 |
| • Shrurah | Najran | 017 5322800 | 017 5320373 |

## Ladies Branches/Sections:

### Central Region Branches:

| Branch Name | City | Phone No. | FAX No. |
|---|---|---|---|
| Ladies, Akariah | Riyadh | 011 4600065 | 011 4600213 |
| • Ladies,Tahlia | Riyadh | 011 2931989 | 011 4659365 |
| • Ladies, Albadiah | Riyadh | 011 2679548 | 011 2679560 |
| • Ladies, Mursalat | Riyadh | 011 4555455 | 011 4555455 |
| • Ladies, Rabwah | Riyadh | 011 2832329 | 011 2087285 |
| • Ladies, Takhassusi | Riyadh | 011 4830248 | 011 4831654 |
| • Ladies, Raed Quarter | Riyadh | 011 4880587 | 011 4810314 |
| • Ladies, Ryan | Riyadh | 011 4929371 | 011 4928513 |
| • Ladies, Rawdah | Riyadh | 011 2086024 | 011 4921389 |
| • Ladies, Ta'awon | Riyadh | 011 4547783 | 011 4539038 |
| • Ladies, Ishbiliah | Riyadh | 011 2534298 | 011 2537603 |
| • Ladies, Alshaifa | Riyadh | 011 4238120 | 011 2840657 |
| • Al Kharj | Al Kharj | 011 5478500 | 011 5478578 |
| • Al Nafal | Riyadh | 011 4709785 | 011 4940067 |

### North Region Branches:

| | | | |
|---|---|---|---|
| • Ladies, Buraidah | Buraidah | 016 3834035 | 016 3834059 |
| • Ladies, Hail | Hail | 016 5351894 | 016 5351894 |
| • Ladies, Unaiza | Unaiza | 016 3266293 | 016 3261637 |
| • Tabuk | Tabuk | 014 4221218 | 014 4230681 |
| • Al Jouf | Al Jouf | 014 6260674 | 014 6260674/137 |

• Islamic Branches

# Branches

### Ladies Branches/Sections (continued):

### Western Region Branches:

| Branch Name | City | Phone No. | FAX No. |
|---|---|---|---|
| • Ladies, Sari, | Jeddah | 012 6912376 | 012 6916043 |
| • Ladies, Hay Al-Salamah | Jeddah | 012 2751515 | 012 6399618 |
| • Ladies, Al Andalus | Jeddah | 012 6034046 | 012 6034050 |
| • Ladies, Al Madinah Al Munawarah | Al Madinah Al Munawarah | 014 8222761 | 014 8271629 |
| • Ladies, AL Shawqiah | Makkah Al Mukaramah | 012 5655330 | 012 5650481 |
| • Ladies, Alanbariah | Al Madinah Al Munawarah | 014 8266557 | 014 8663071 |
| • Ladies, King Road | Jeddah | 012 6912095 | 012 2575376 |
| • Ladies, Shehar | Taif | 012 7405905 | 012 7422592 |
| • Ladies, Prince Sultan | Jeddah | 012 6990433 | 012 2155890 |
| • Ladies, Tahliya | Jeddah | 012 6604236 | 012 6604236 |
| • Ladies, Alrusaifah Quarter , Makkah | Makkah Al Mukaramah | 012 5307050 | 012 5307346 |
| • Ladies, Alrehab Quarter | Jeddah | 012 6753693 | 012 2875005 |
| • Ladies, Aziziyah | Makkah Al Mukaramah | 012 5576292 | 012 5576286 |
| • Ladies, Sharaya | Makkah Al Mukaramah | 012 5612248 | 012 5663047 |

### Eastern Region Branches:

| Branch Name | City | Phone No. | FAX No. |
|---|---|---|---|
| • Ladies, Mazroueya | Hofuf | 013 5823198 | 013 5823641 |
| • Ladies, Korneesh | AlDammam | 013 8309666 | 013 8094718 |
| • Ladies, Shara-42 | Dammam | 013 8416390 | 013 8416390 |
| • Ladies, Qatif | Qatif | 013 8547198 | 013 8546074 |
| • Ladies, Mubarraz | Mubarraz | 013 5313334 | 013 5311570 |
| • Ladies, King Abdulaziz Street | AlKhobar | 013 8396082 | 013 8396108 |
| • Ladies, Hofuf | Hofuf | 013 5833782 | 013 5833782 |
| • Mokhtat 71 | Dammam | 013 8226570 | 013 8226798 |
| • Ladies, Al-Muraikbat | Dammam | 013 8413438 | 013 8420238 |
| • Ladies, Safwa | Safwa | 013 6646448 | 013 6646507 |
| • Ladies, Saihat | Saihat | 013 8506046 | 013 8506203 |
| • Ladies, Al omran | Al-Omran | 013 5952780 | 013 5952779 |
| • Ladies, Al Huzam | Al Khobar | 013 8412084 | 013 8354138 |
| • Ladies, Jubail | Jubail | 013 3628617 | 013 3628617 |

### Southern Region Branches:

| Branch Name | City | Phone No. | FAX No. |
|---|---|---|---|
| • Ladies, Baha | Baha | 017 7241919 | 017 7241721 |
| • Ladies, Abha | Abha | 017 2311585 | 017 2311969 |
| • Ladies, Jizan | Jizan | 017 3405278 | 013 3222808 |

### Overseas Branches:

| Branch Name | City | Phone No. | FAX No. |
|---|---|---|---|
| 35 Curzon Street, London | London | +44 0 20 72974600 | +44 0 20 72974900 |

• Islamic Branches

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