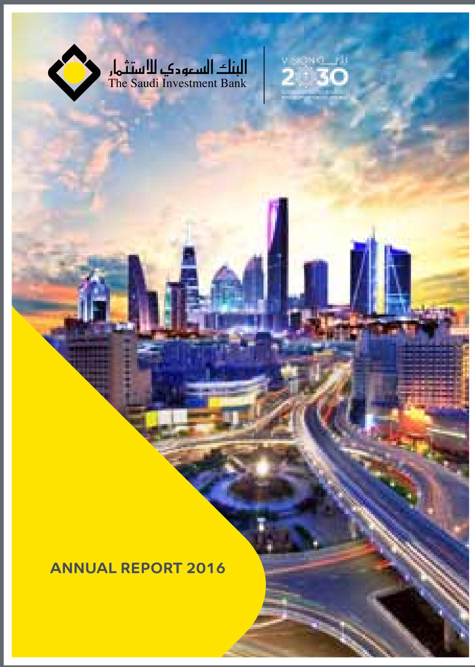
البنك السعودي للاستثمار
The Saudi Investment Bank

VISION رؤية
2030
المملكة العربية السعودية
KINGDOM OF SAUDI ARABIA

ANNUAL REPORT 2016

بسم الله الرحمن الرحيم



The Theme

The Saudi Investment Bank (SAIB) is actively contributing to the realization of Saudi Arabia's Vision 2030. The Vision's three main themes, A Vibrant Society, A Thriving Economy, and An Ambitious Nation are each embedded within the Bank's strategy.

In the Kingdom of Saudi Arabia, there is a growing interest in sustainable practices as the country seeks to enhance the long-term prosperity of its economy and compete on a global playing field. Vision 2030 is a new set of initiatives by the Saudi government to pursue a bright future for the Kingdom.

Using a formalized framework, anchored to Islamic principles of good governance and management, the Bank is actively working to maximize its sustainability and its contribution to Saudi Arabia's Vision 2030.

Specific initiatives at SAIB, aligned with the Vision 2030 themes, include:

A VIBRANT SOCIETY

- Providing affordable home loans
- Investing in sustainable community activities

A THRIVING ECONOMY

- Employing young Saudi graduates
- Defining targets to increase the female workforce
- Focused on growing the SME business segment
- Financing environmentally-friendly low carbon activities
- Implementing a building management system to improve the resource efficiency of the Bank's buildings

AN AMBITIOUS NATION

- Growing and supporting volunteerism amongst SAIB's employees
- Embracing transparency through good Corporate Governance practices
- Using social media to engage all stakeholders


البنك السعودي للاستثمار
The Saudi

The Saudi Investment Bank

The Saudi Investment Bank is a Saudi Arabian Joint stock company established by Royal Decree no. M/31 dated June 23, 1976 with its headquarters in Riyadh. The Bank began operations in March 1977, and currently has a network of 48 branches located throughout the Kingdom. The Bank's shareholders' include:

Saudi Shareholders

• General Organization for Social Insurance	17.26%
• Public Pension Agency	17.32%
• Saudi Oger Ltd	8.58%
• Other Saudi Shareholders	46.84%
	90.00%

Non-Saudi Shareholders

• J.P. Morgan International Finance Limited	7.49%
• Mizuho Corporate Bank Limited	2.51%
	10.00%

The Saudi Investment Bank operates through its three regional offices and its retail branch network in Saudi Arabia, providing conventional and shariah compliant banking services and products to individuals, small and medium size enterprises, corporates, and public sector entities, including:

- Current and deposit accounts
- Remittances
- Letters of credit
- Trade finance
- Bridging finance
- SIDF co-finance
- Personal banking
- Advisory services
- Short and medium – term lending
- Hedging Solutions (FX, commodities and rates)
- Treasury services
- Cash management
- Letters of guarantee
- Loan syndications
- Fiduciary placements
- E – Banking Services
- Foreign exchange
- Money market
- Local and international shareholding

The Saudi Investment Bank, through its wholly-owned subsidiary, is also a leading participant in providing brokerage services in the Saudi and international markets, as well as offering a wide range of asset management products. Through its Associate companies, the Saudi Investment Bank is also leader in providing insurance, leasing, mortgage, and credit card related products and services in Saudi Arabia.

King Salman bin Abdulaziz Al Saud
Custodian of The Two Holy Mosques

Prince Mohammed bin Nayef bin Abdulaziz Al-Saud
Crown Prince

Prince Mohammad bin Salman bin Abdulaziz Al-Saud
Deputy Crown Prince

Our Locations

Central Region

Head Office & Main Branch
Tel: 011 477 8433 Fax: 011 479 3285

Treasury
Woroud Branch الأصالة
Takhassussi Branch الأصالة
Suwaidi Branch الأصالة
Malaz Branch الأصالة
Shifa Branch الأصالة
Rawabi Branch الأصالة
Badiah Branch الأصالة
Rawdah Branch الأصالة
Nuzha Branch الأصالة
Rayyan Branch الأصالة
Ghurnatah Branch الأصالة
Ghadeer Branch الأصالة
King Fahad Branch الأصالة
Khurais Road Branch الأصالة
Naseem Branch الأصالة
Al-Rahmaniah Branch الأصالة
Al-Wadi Branch الأصالة
Al-Kharj Branch الأصالة
Al-Aqeeq Branch الأصالة
Al-Qaseem Region
Buraidah Branch الأصالة
Onizah Branch الأصالة
Hail Branch الأصالة

Western Region

Al-Jamea District Branch – Jeddah الأصالة
Malik Road Branch - Jeddah الأصالة
Pr. Majeed St. Branch – Jeddah الأصالة
Al-Safa Branch – Jeddah الأصالة
Al-Bawadi Branch – Jeddah الأصالة
Pr.Sultan Branch – Jeddah الأصالة
Makkah Branch الأصالة
Aziziyah Branch - Makkah الأصالة
Taif Branch الأصالة
Madina Branch - Medina الأصالة
Khamis Branch - Khamis الأصالة
Abha Branch - Abha الأصالة
Najran Branch - Najran الأصالة
Jazan Branch - Jazan الأصالة
Tabuk Branch - Tabuk الأصالة

Eastern Region

Qurtoba Branch - Al-Khobar الأصالة
Dammam Branch الأصالة
Al-Rayan Branch - Dammam الأصالة
Uhud Branch - Dammam الأصالة
Qatif Branch الأصالة
Jubail Branch
Al-Ahsa Branch الأصالة
Hofuf Branch الأصالة

Ladies Sections
Main Branch (Ladies) Section الأصالة
Malaz (Ladies) Section الأصالة
Al-Rahmaniah (Ladies) Section الأصالة
Al-Wadi (Ladies) Section الأصالة
Onizah Branch (Ladies) Section الأصالة
Taif (Ladies) Section الأصالة
Al-Safa - Jeddah (Ladies) Section الأصالة
Aziziyah - Makkah (Ladies) Section الأصالة
Madina Branch - Medina (Ladies) Section الأصالة
Khamis Branch - Khamis (Ladies) Section الأصالة
Qurtoba - Dammam (Ladies) Section الأصالة

----

800 124 8000
saib.com.sa

Board of Directors

Mr. Abdallah S. Jum'ah
Chairman of the Board

Former President and CEO of Saudi Aramco. Has been a Board Member of many companies including Halliburton. Bachelors Degree in Political Science from the American University of Beirut.

Mr. Abdulaziz A. Al-Khamis
Vice Chairman of the Board

Director General Financial Investments, Public Pension Agency. Held numerous positions with the Saudi Arabian Monetary Agency prior to assuming his current position in July 2006. Currently a board member of several companies. Bachelor in Economics degree from Northeastern University, Boston, Massachusetts.

Mr. Abdul Rahman Al-Rawaf
Board Member

Manager of the Investment Portfolios Department at the General Organization for Social Insurance. Has been a board member of many banks and other companies. Bachelors Degree in Business Administration from Arkansas State University and MBA from the University of Southern California.

Dr. Abdulraouf M. Mannaa
Board Member

Former Managing Director of SAVOLA Group. Former CEO of several major companies (such as SAVOLA Group, EMAAR Economic City). Bachelors Degree in Mechanical Engineering from King Fahad University of Petroleum and Minerals, Masters Degree from the University of California at Berkley, and a PhD from the University of Washington at Seattle.

Dr. Abdulaziz Alnowaiser
Board Member

Board member of several public companies and governing authorities, and he also worked as an Assistant Professor of Physics at King Saud University. He holds a BS degree in Mathematics and Physics from the University of California, and an MS and PhD in Physics from Duke University.

Mr. Mishari I. Al-Mishari
Board Member

Former CEO and Board Member of Bank Al-Jazira. Has extensive banking experience and currently a Board Member of many companies. Bachelors Degree in Business Administration from the University of Oregon.

Dr. Fouad Al-Saleh
Board Member

Occupied numerous positions in the government until his retirement as a Colonel in the Ministry of Defense. He is currently a partner in numerous construction related companies. He holds a BS in Mechanical Engineering from St. Martin College, and an MS and PhD in Construction Engineering from the University of Washington.

Mr. Muhammad Al-Ali
Board Member

Former Senior Vice President of Finance of Saudi Aramco. He also served on several company's executive committee's. MBA from the university of Denver and BS degree in Accounting from the University of Texas-Arlington.

Mr. Saleh Al-Athel
Board Member

Progressed through various executive positions within the Saudi Industrial Development Fund until he reached the position of the Assistant Director General. He is a Board member of several companies. He holds a BA in Philosophy and Sociology from Damascus University, and a Higher Diploma in Management from Hartford University.

Chairman's Statement

I am pleased to report on The Saudi Investment Bank's performance for 2016.

The year 2016 can be characterized as one of change in Saudi Arabia. The country has begun a fundamental shift in its fiscal and monetary policies to overcome the high dependence on oil prices. The government introduced a series of reforms over the past year, and announced plans for a bold and ambitious transformation of the Saudi Arabian economy in Vision 2030 and the National Transformation Program (NTP). Key priorities include economic diversification, private sector job creation for Saudi nationals, and a balanced budget by 2020.

Another major achievement during the year was the Kingdom's first ever international sovereign bond issue. The bonds were issued in October and successfully raised $ 17.5 billion.

Looking forward to 2017, the government's budget for the fiscal year is in line with the National Transformation Program's balanced budget target. This year's budget deficit will be partially financed by an additional international bond issue.

The Bank is committed to Vision 2030 and the National Transformation Program initiatives. A major objective of the NTP is private sector job creation. As part of the Bank's commitment to supporting this objective, the percentage of national staff to total staff as of December 31, 2016 increased to 83.5%. In addition, the Bank has increased its female staff to 17.7% of the total workforce. The new Vision 2030 and NTP programs present tremendous opportunities to the Bank, and we are fully committed to supporting these initiatives.

SAIB is acknowledged as a leader in Saudi Arabia for sustainability initiatives. In recognition of the Bank's strong commitment to Quality, SAIB was awarded the 2016 "King Abdulaziz Quality Award" and the Gold award for the 2016 "King Khalid Award for Responsible Competitiveness". This is the third consecutive year SAIB has won this award. These awards would not have been possible without the dedicated efforts of the Bank's men and women, and I would like to congratulate them in recognition of these prestigious achievements.

On behalf of the Board of Directors, I would like to express my gratitude to the Bank's employees and management for their commitment and professionalism, and to our shareholders for their support and confidence. I also wish to express the Board's appreciation to the Ministry of Finance, the Saudi Arabian Monetary Authority, and the Capital Market Authority. Their continued support has provided the foundation for the Bank's success.

Abdallah S. Jum'ah
Chairman

BOARD OF DIRECTORS' REPORT

The Board of Directors of the Saudi Investment Bank ("Bank") is pleased to present its annual report of the Bank's activities as of and for the year ended December 31, 2016.

OVERVIEW

The Bank is a Saudi Arabian joint stock company formed pursuant to a Royal Decree M/31 issued in 1976, with its Head Office in Riyadh. The Bank operates forty-eight branches including twelve ladies sections located throughout the Kingdom of Saudi Arabia. The Bank's website address is **www.saib.com.sa.**

The Bank's major shareholders include:

• Public Pension Agency	17.32%
• General Organization for Social Insurance	17.26%
• Saudi Oger Ltd.	8.58%
• JP Morgan Finance Ltd.	7.49%

The Bank offers a wide range of conventional and Shariah-compliant products and services for corporate clients, individuals, and commercial businesses comprising small and medium size enterprises through the Bank's head office and a network of retail branches located throughout the Kingdom. The Bank also provides tailor-made financial products and services to corporate, government, and public sector entities through its three regional offices located in Riyadh, Jeddah, and Al-Khobar. The Bank, through its wholly–owned subsidiary Alistithmar for Financial Securities and Brokerage Co., also provides brokerage services in the Saudi and international markets, as well as offering asset management products and services.

The Bank is subject to all laws and regulations of the Kingdom of Saudi Arabia and is regulated by the Saudi Arabian Monetary Authority ("SAMA"). The Bank also follows regulations issued by the Ministry of Commerce and Investment and the Capital Market Authority ("CMA").

Significant highlights for the year included continued progress in several core business and financial ratios, increasing the customer base, as well as improved service quality, expansion of our personal financing programs and ATM network, and further automation and expansion of the retail banking business. As part of our ongoing retail activities, the Bank continued to enhance the ALASALAH Islamic Banking brand. Under this brand, the Bank operates forty-four Shariah compliant branches within the Kingdom. Finally, the Bank continued its extensive credit rating review process with Standard & Poor's and Fitch Ratings. The Bank currently has investment grade ratings of ('BBB'/ 'A-2') and ('A-'/ 'F2'), with Standard & Poor's and Fitch, respectively.

During 2016, the Bank received various international awards including Best Social Media Service and Best Customer Loyalty Program from the Banker Middle East Magazine, Best Bank for Social Media Channels and Best Loyalty Programs from Global Banking & Finance Review Magazine, Digital Excellence Award from the Ministry of Communications and Information Technology, King Abdulaziz Quality Award from the Saudi Standards, Metrology and Quality Organization, King Khaled Award for Responsible Competitiveness from the King Khalid Foundation, Most Sustainable Bank Award and Best Retail Bank KSA from the Islamic Business & Finance Awards Magazine, Bank of the Year from the Arabian Business Magazine, and the sixth position in the S&P/Hawkama in Middle East and North Africa Region for Environment, Social Service, and Governance

OPERATING RESULTS

The Bank's net income for the year ended December 31, 2016 was SAR 1,053 million, a decrease of SAR 276 million, or 20.8%, compared to the 2015 net income of SAR 1,329 million.

Total operating income was SAR 2,406 million in 2016, compared to SAR 2,511 million in 2015, a decrease of SAR 105 million, or 4.2%. This was mainly due to the decrease in net special commission income, fee income, dividend income, and gains on investments; partially offset by an increase in exchange income.

Net special commission income, which includes special commission income from placements, investments, and loans, less special commission expense from deposits and other borrowings, reached SAR 1,672 million in 2016 compared to SAR 1,731 million in 2015, a decrease of SAR 59 million, or 3.4%. This decrease was primarily due to the increase in commission rates in the local market which had an adverse effect on the Bank's cost of funds.

Fees from banking services totaled SAR 416 million in 2016, compared with SAR 450 million in 2015, a decrease of SAR 34 million, or 7.6%. The decrease was mainly due to the decrease in trade finance fees, local brokerage, investment management fees, and treasury related fees.

Exchange income reached SAR 146 million in 2016, compared to SAR 108 million in 2015, an increase of SAR 38 million, or 35.2%.

Gains on investments and dividend income were SAR 173 million in 2016 compared to SAR 222 million in 2015, a decrease of SAR 49 million, or 22.1%.

Operating expenses before impairment charges for credit losses and non-trading investments were SAR 1,051 million in 2016 compared to SAR 1,034 million in 2015, an increase of 1.6%. Salaries and employee related expenses in 2016 were lower compared to 2015 by 4.5%. However, rent and premises related expenses increased by 28.9%, depreciation and amortization increased by 10.5%, while other general and administrative expenses increased by 2.1%. The level of operating expenses in 2016 resulted in a net efficiency ratio of 39.43% compared to 39.22% in 2015. The net efficiency ratio, defined as normal operating expenses before impairment charges, divided by total income excluding non-recurring income, is a key indicator of how resources are controlled and managed.

Impairment charges on investments were SAR 207 million in 2016 compared to SAR 187 million in 2015, while the provision for credit losses was SAR 246 million in 2016 compared to SAR 118 million in 2015. The increase in the impairment charges on investments was due to lower valuations of equity securities which are traded in the local market. The 2016 increase in impairment charge for credit losses reflect the Bank's continued conservative policy of maintaining loss reserves at levels consistent with the size of the loan portfolio and able to absorb likely loss scenarios, while improving the Bank's financial position.

The Bank's return on average assets was 1.12% in 2016 compared to 1.42% in 2015. The Bank's return on average shareholders equity was 8.40% in 2016 compared to 11.12% in 2015.

The consolidated net income of the Bank's reportable operating segments for the years ended December 31, 2016 and 2015 is summarized as follows:

	SAR'000	
	2016	**2015**
Retail Banking	**234,055**	338,920
Corporate Banking	**722,863**	673,854
Treasury and Investments	**270,073**	501,522
Asset Management and Brokerage	**9,649**	28,486
Business Partners	**92,731**	142,996
Others*	**(276,413)**	(357,121)
Net income	**1,052,958**	1,328,657

*Others include net results related to the special credit and other support units of the Bank.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Total assets were SAR 94.4 billion as of December 31, 2016 increased by less than 1% from the level as of December 31, 2015 which was SAR 93.6 billion.

Investments increased by SAR 2.5 billion, or 13.2%, to SAR 21.5 billion as of December 31, 2016. Investments classified as investment grade represent 82.4% of the Bank's investment portfolio as of December 31, 2016.

Net loans and advances remained flat at SAR 60.2 billion as of December 31, 2016 compared to the 2015 level of SAR 60.3 billion. The Bank's non-performing loans and advances reached SAR 1,070 million as of December 31, 2016 compared to SAR 448 million as of December 31, 2015. The percentage of non-performing loans and advances to total loans and advances increased to 1.75% as of December 31, 2016 compared to 0.73% in 2015. The allowance for credit losses as of December 31, 2016 totaling SAR 995 million represents 93% of non-performing loans, compared to 187% in 2015. The estimated fair value of collateral held by the Bank as security for non-performing loans and advances as of December 31, 2016 is approximately SAR 1.3 billion.

Customer deposits decreased by SAR 4.9 billion, or 6.9%, to SAR 65.6 billion as of December 31, 2016. Demand deposits increased by SAR 3.1 billion, or 14.7%, while special commission bearing deposits decreased by SAR 7.9 billion, or 16.4%.

On May 30, 2011, the Bank entered into a five-year medium term loan facility agreement for an amount of SAR 1 billion for general corporate purposes with a local bank. The facility was due and repaid on May 30, 2016. On June 24, 2012, the Bank entered into a five-year medium term loan facility agreement also for an amount of SAR 1 billion for general corporate purposes with a local bank. The facility has been fully utilized and is repayable on September 5, 2017. On June 19, 2016, the Bank entered into another five year medium term loan facility agreement for an amount of SAR 1 billion for general corporate purposes with a local bank. The facility has been fully utilized and is repayable on June 19, 2021. The term loans bear commission at market based variable rates. The Bank has an option to effect early repayment of the term loans, subject to the terms and conditions of the related facility agreements. The facility agreements above include covenants which require maintenance of certain financial ratios and other requirements, with which the Bank is in compliance.

On June 5, 2014, the Bank concluded the issuance of a SAR 2 billion subordinated debt issue through a private placement to local investors of a Shariah compliant Tier II Sukuk in the Kingdom of Saudi Arabia. The Sukuk has a tenor of ten years with the Bank retaining the right to call the Sukuk at the end of the first five year period, subject to certain regulatory approvals. The Sukuk carries a half yearly profit equal to six month SIBOR plus 1.45%.

TOTAL EQUITY AND CAPITAL ADEQUACY

As of December 31, 2016, the total equity of the Bank increased to SAR 13.5 billion compared to SAR 12.0 billion as of December 31, 2015. The total number of shares outstanding as at December 31, 2016 is 700 million shares. The ratio of total equity to total assets as of December 31, 2016 was 14.35%, compared to the 2015 level which was 12.86%. The Bank's leverage ratio was 6.97 times on December 31, 2015 compared to 7.77 times as of December 31, 2015.

The Bank completed the issuance of a Shari'a compliant Tier I Sukuk in 2016. The issuance was approved by the Bank's regulatory authorities and shareholders. On November 21, 2016, the Bank issued SAR 500 million under the issuance to local investors. The Tier I Sukuk securities are perpetual with no fixed redemption dates and represent an undivided ownership interest in the Sukuk assets, constituting an unsecured conditional and subordinated obligation of the Bank classified under equity. The Bank has the exclusive right to redeem or call the Tier I Sukuk debt securities in a specific period of time, subject to the terms and conditions stipulated in the issuance documents. The applicable profit rate on the Tier I Sukuk debt is payable semi-annually in arrears on each periodic distribution date, except upon the occurrence of a non-pay payment event or non-payment election by the Bank, whereby the Bank may at its sole discretion (subject to certain terms and conditions) elect not to make any distributions. Such a non-payment event or non-payment election are not considered to be an event of default and the amounts not paid thereof shall not be cumulative or compound with any future distributions.

In 2016, the Board of Directors proposed a cash dividend of SAR 350 million equal to SAR 0.50 per share, net of Zakat to be withheld from the Saudi shareholders totaling SAR 70 million. The Board of Directors has also proposed a bonus share issue of 50 million shares with a par value of SAR 10 per share, or one bonus share for each fourteen shares outstanding. The proposed cash dividend and bonus share issue will be presented for approval in an extraordinary general assembly meeting expected to convene in 2017.

Capital adequacy and regulatory capital are closely monitored by the Bank's management. SAMA also requires the Bank to hold a minimum level of regulatory capital and maintain a ratio of total regulatory capital to risk-weighted assets at or above the minimum requirement of 8.625%.

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

As of December 31, 2016, the Bank's Tier I plus Tier II capital adequacy ratio increased to 19.13% compared to 16.94% as of December 31, 2015.

FIVE-YEAR FINANCIAL HIGHLIGHTS

(SAR in millions)

	2016	2015	2014	2013	2012
Total income (1)	2,557	2,667	2,610	2,178	1,868
Total expense (2)	1,051	1,033	943	762	632
Operating profit	1,506	1,634	1,667	1,416	1,236
Impairment charges	453	305	231	129	324
Net income	1,053	1,329	1,436	1,287	912
Loans and advances, net	60,249	60,269	57,473	47,567	34,051
Investments, net	21,448	18,983	22,397	17,696	10,912
Investments in associates	1,000	939	846	1,071	966
Total assets	94,362	93,578	93,626	80,495	59,067
Term loan	2,032	2,011	2,000	2,000	2,000
Subordinated debt	2,002	2,000	2,000	-	-
Customer deposits	65,640	70,518	70,733	57,044	40,414
Total shareholders equity	13,043	12,036	11,852	10,253	9,379
Tier I Sukuk	500	-	-	-	-
Total equity	13,543	12,036	11,852	10,253	9,379
Return on average equity %	8.40	11.13	13.00	13.11	10.17
Return on average assets %	1.12	1.42	1.65	1.84	1.64
Capital adequacy %	19.13	16.94	17.08	15.12	17.62
Equity to total assets %	14.35	12.86	12.66	12.74	15.88

1) Total income includes total operating income plus share in earnings of associates.

2) Total expense includes total operating expenses before impairment charges.

GEOGRAPHICAL DISTRIBUTION OF REVENUES

The Bank's total operating income is entirely generated from its operations in the Kingdom of Saudi Arabia and is summarized below in SAR '000.

	Central Region	Western Region	Eastern Region	Total
2016	**1,712,466**	**424,035**	**269,365**	**2,405,866**
2015	1,839,660	423,576	247,821	2,511,057

RISK MANAGEMENT

The complexity of today's financial services sector in a globalized economy requires the identification, measurement, aggregation, and effective management of risks, including an efficient allocation of capital to support the balance sheet and derive an optimal risk and return ratio. The Bank endeavors to:

a) Ensure that all risks are identified, measured and managed proactively to avoid loss, and

b) Enhance returns and provide financial comfort and stability to our many customers.

In addition, the Bank's stakeholders including regulators and rating agencies also expect the Bank to have a clear and well documented risk management framework in place that addresses all the various dimensions of the Bank's business.

The Bank has a comprehensive set of policies dealing with all aspects of risk management. The Board Approved Risk Management Policy Guide is the overarching policy document prepared in conformity with SAMA guidelines which covers in depth the risks the Bank is exposed to in the pursuit of its business objectives. It also describes the risk governance structures and risk management policies in place for the management, monitoring, and control of the risks through the Board Approved Risk Appetite Framework, Credit Policy Guide, and Treasury Policy Guide.

The Bank manages its risks in a structured, systematic, and transparent manner through a broad-based Risk Appetite Framework (RAF) approved by the Board of Directors that incorporates comprehensive risk management into the Bank's organizational structure, risk measurement, and monitoring processes. The Bank's RAF is carefully aligned with the Bank's strategy, business planning, capital planning, and policies and documents approved by the Bank's Board of Directors. The Bank's RAF is in compliance with the Financial Stability Board's "Principles for an effective Risk Appetite Framework" dated November 18, 2013, as adopted by SAMA.

The Bank's RAF includes the following key characteristics:

- The nature of risks to be assumed as a result of the Bank's strategy;
- The maximum level of risk at which the Bank can operate (Risk Capacity) and the maximum level of risk it should take (Risk Appetite);
- The maximum level of other quantifiable risks that should be taken (Other Risk Limits);
- The desired balance of risks versus returns by Business Line (Business Unit Risk Appetite measurements); and
- The desired risk culture, compensation programs, information technology risk and security, and the overall compliance environment of the Bank for a successful implementation of the RAF (Qualitative Reporting).

As a part of risk governance, the Bank has a Board Risk Committee at the Board level and various committees at the management level, including the Credit Committee, Asset Liability Committee, Operational Risk Management Committee, Stress Testing Committee, Enterprise Risk Management Committee, Information Security Steering Committee and the Business Continuity Planning Committee.

In addition to the above, the Bank's Internal Audit function reports to the Audit Committee of the Board of Directors and provides an independent validation of business and support units' compliance with risk policies and procedures and the adequacy and effectiveness of the risk management framework on a Bank-wide basis.

The following provides a description of the Bank's significant risks including how the Bank manages these risks.

Credit Risk

Credit Risk arises from the potential that a borrower or counterparty will fail to perform on its financial obligations to the Bank. The exposure to credit risk arises primarily from loans and advances to customers, and the investment portfolio. Credit risk is also present in off-balance sheet financial instruments such as Letters of Credit, Guarantees, Derivatives and commitments to extend credit.

The Bank has a comprehensive framework of managing credit risk which includes an independent Credit Risk Review function and credit risk monitoring process. The Bank assesses the probability of default of counterparties using internal rating tools. This is supplemented by external ratings of major rating agencies, where available.

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.

a) 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 of Directors has established commission rate gap limits for stipulated time periods. The Bank also routinely monitors its positions and uses hedging strategies to ensure maintenance of positions within established gap limits.

b) Currency risk

Currency risk is the risk of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are independently monitored.

c) Equity price risk

Equity price risk is the risk of a decrease in fair values of equities in the Bank's investment portfolio as a result of possible changes in levels of equity indices and the value of individual shares. The Board of Directors sets limits on the level of exposure to each industry, and overall portfolio limit, which are independently monitored.

Liquidity Risk

Liquidity risk is the risk that the Bank will be unable to meet its net funding requirements when needed and at an acceptable cost. Liquidity risk can be caused by market disruptions or credit rating downgrades for the Bank, which may cause certain sources of funding to dry up unexpectedly.

The Bank's management carefully monitors the maturity profile of its assets and liabilities to ensure that adequate liquidity is maintained on a daily basis. In addition, the Liquidity Coverage Ratio and Net Stable Funding Ratio and Loans to Deposit Ratio are each monitored regularly and independently to ensure compliance with SAMA guidelines. The Bank also conducts regular liquidity stress testing under a variety of scenarios which cover both normal and more severely stressed market conditions. All liquidity policies and procedures are subject to review and approval by the Bank's Asset and Liability Committee.

Operational Risk

Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

The Bank's Operational Risk Management Framework provides a Bank-wide definition of operational risk and lays down the processes under which the operational risks are to be identified, assessed, monitored, and controlled. The key components of this framework are comprehensively documented in the Bank's operational risk policies, procedures, and controls. The continuous assessment of operational risks and their controls in all business and support units of the Bank are monitored through Risk and Control Self-Assessment (RCSA) exercises, close monitoring of agreed action plans as a result of the RCSA exercises, and establishing an Operational Risk Appetite Matrix for the Bank as a whole. This includes monitoring the operational risk losses actually incurred on an ongoing basis and taking corrective actions to eliminate or minimize such losses in the future. The Bank has also developed a set of Key Risk Indicators (KRIs) covering all the business and support units to facilitate pro-active monitoring and management of operational risks.

BUSINESS CONTINUITY PLAN

The Bank recognizes the importance of planning for Business Continuity and continued to make progress in this area in 2016. An effective Business Continuity Plan ("BCP") facilitates the Bank in mitigating a serious disruptive crisis in a controlled, timely, and structured manner.

It also helps the Bank to effectively manage any disruption in its operations and to recover as quickly and effectively as possible from an unforeseen disaster or emergency that may interrupt normal business operations in full or in part.

During 2016, the Bank further strengthened the testing of its BCP and procedures. Detailed tests were completed on two separate occasions and several other tests were completed during the year. The tests were successful and provide confidence that the Bank will be able to handle such a crisis, should it occur. The Bank will continue testing its process for business continuity at least twice a year.

In its effort to provide uninterrupted service to its customers, the Bank will continue to implement hot backup for critical systems in 2017. The Bank is in the process of building a new Disaster Recovery Center and expects this to be completed in 2017.

The Bank also continued its emphasis on training of staff on Business Continuity.

In recognition of its BCP efforts, the Bank has received the ISO 22301 certification in 2012 for its Business Continuity Management Process including its Retail Banking, Corporate and Treasury processes. The certificate was renewed in January 2016.

INFORMATION TECHNOLOGY TRANSFORMATION STRATEGY

There are several factors that drove the Information Technology Group (ITG) throughout the year 2016 which are summarized below.

- Full commitment to the Bank's five year strategy (2015-2019), focus on flexible infrastructure and innovative business solutions to meet increasing business demands, rising cost of capital, more stringent local and international regulatory requirements, and the Board of Directors mandate to support long term sustainability and effective governance.
- Automation of new products such as Murabaha Home Finance, enabling straight through processing of Shares Financing, introducing a new Remittance platform FlexxTransfer (already piloted in five countries) to serve the Bank and Prepaid cardholders customers.
- Card initiatives technology spectrum included contactless cards, shopping cards, Household prepaid, and EasyPay cards on employers' premises for mass production and activation.
- Fully integrated tellers unified CRM front-end was completed, new prepaid customers and tri-lingual IVR (Arabic, English and Urdu) delivery channels targeting blue collar, students and household are operational.
- Technology-led process improvements initiative facilitated market and credit limits, trading unified front end and foreign exchange transactions and deals tracking across all systems.
- State of the art infrastructure projects such as upgrading flash storage, upgrading the mainframe IBM iSeries, which enabled speeding up end the of day and housekeeping activities by two fold. ITG also completed infrastructure works of the third disaster recovery site in Al-Kharj. New hardware devices Teller Cash Registry (TCR) and Interactive Teller Machines (ITMs) are in the pilot stage.
- Established a new enterprise wide governance office, rigid enforcement of Product/ Service Approval Memos, and introducing a new data governance organization enabling new control processes and powered by tools such as the comprehensive governance matrix, central applications and standard operating procedures (SOAPs) repositories.

The King Abdulaziz Quality Award is an embodied recognition from an external authority to the Bank's commitment to technology, operational and quality excellence.

BUSINESS SEGMENTS

The Bank is managed on a line-of-business basis. Transactions between business segments are conducted on normal commercial terms and conditions through the use of funds transfer pricing and cost allocation methodologies. A detailed summary of the business segment results for 2016 and 2015 is presented in Note 28 to the consolidated financial statements.

The Bank has three significant business segments, each of which is described below.

a) Retail Banking

Retail Banking offers a wide range of conventional and Shariah-compliant retail services for individuals, government and public sector entities, and commercial businesses comprising small and medium size enterprises through the Head Office and a network of branches throughout Saudi Arabia. Services include current accounts, savings, and time deposit accounts. The Bank also offers a full range of Shariah-compliant products through its Shariah-compliant branches, including Islamic Murabaha. The Bank also has a large network of ATMs covering all regions of Saudi Arabia.

b) Corporate Banking

Corporate Banking focuses on providing tailor-made financial products and efficient customer services to corporate and financial entities. It operates from three regional headquarters based in Riyadh, Jeddah and Al-Khobar which offer innovative financial solutions to its customers. The services and products offered include project finance, working capital finance, trade finance and services, import and export documentary credit, standby letters of credit, letters of guarantee, bill discounting, documentary and clean collections, and other trade related products, including conventional and Shariah-compliant products. It also provides innovative financial solutions using advanced technological systems.

c) Treasury and Investments

Treasury and Investments is responsible for foreign exchange trading, funding and liquidity management, as well as the Bank's investment securities portfolio and derivative products. It also manages the Bank's asset-liability structure and interest rate and market risks, and provides guidance for balance sheet volume and pricing parameters.

BRANCH NETWORK

As of December 31, 2016, the number of branches operating under the Bank was forty-eight, twelve of which contain a ladies section. The Bank also added seven new ATMs in 2016 and currently operates a network of 443 throughout Saudi Arabia. The Bank also introduced 2,480 new POS terminals in 2016 bringing the total POS terminals to 8,792.

ALASALAH ISLAMIC BANKING

The Bank provides Shariah-compliant products and services under the ALASALAH Islamic Banking brand. These products have been given special attention to ensure their compliance with Shariah Principles and their suitability to the local market in recognition of the increasing demand for Shariah-compliant products and services, and the significance of Islamic Banking as a strategic direction for banks operating in the Kingdom. The Bank now operates forty-four Shariah-compliant branches. The Bank successfully increased its Shariah-compliant loans during the year ended December 31, 2016 to SAR 37.1 billion, an increase of SAR 4.5 billion or 13.8% over the 2015 amount of SAR 32.6 billion. The Bank's Shariah compliant deposits during the year ended December 31, 2016 reached SAR 46.5 billion, or 71% of total deposits.

STRATEGIC PARTNERSHIPS

The Bank has three subsidiaries registered in Saudi Arabia as follows:

- Alistithmar for Financial Securities and Brokerage Company, which offers brokerage and other services in the Kingdom of Saudi Arabia. The total capital of the Company is SAR 250 million with 25 million shares outstanding. The Bank own 100% of the Company, and the Company does not have any debt instruments issued. The Company was established in July 2007 as a limited liability company, and in 2015 the Company was converted into a closed joint stock company. The Company provides brokerage services as well as investment management services in the form of mutual funds in consultation with professional investment advisors. Assets under management totaled SAR 5,135 million as of December 31, 2016, of which SAR 1,396 million is considered Shariah approved.

- The Saudi Investment Real Estate Company. The Bank owns 100% of the SAR 500 thousand in capital, and the Company does not have any debt instruments issued. The main activity of this Company is to hold assets given to the Bank as collateral.

- Saudi Investment First Company Ltd. The Bank owns 100% of the SAR 25 thousand in capital, and the Company does not have any debt instruments issued. The main activity of this Company is to hold shares in American Express Saudi Arabia.

In addition to the above, the Bank has investments in three associate companies in Saudi Arabia as follows:

- American Express Saudi Arabia - (“AMEX”), is a Saudi Arabian closed joint stock company. The total capital is SAR 100 million with 10 million shares outstanding and the Bank holds a 50% interest, or 5 million shares. The principal activities of AMEX are to issue credit cards and offer other American Express products in Saudi Arabia.

- Saudi Orix Leasing Company (“Orix”). Orix is a Saudi Arabian closed joint stock company in Saudi Arabia. The total capital is SAR 550 million. Orix has 55 million outstanding shares and the bank holds 20.90 million shares representing 38% of the outstanding shares. The primary business activities of Orix include lease financing services in Saudi Arabia.

- Amlak International for Finance and Real Estate Development Co. (“Amlak”). Amlak is a Saudi Arabian closed joint stock company in Saudi Arabia. The total capital is SAR 900 million. Amlak has 90 million outstanding shares and the Bank holds 29 million shares representing 32% of the outstanding shares. Amlak offers real estate finance products and services.

All the above companies are incorporated and doing business in Saudi Arabia.

CREDIT RATING

Credit ratings are an integral component for participation in the international financial markets. As the global economy becomes more integrated, credit ratings are necessary not only to ensure funding and obtain access to capital markets, but also to demonstrate a commitment to meeting a high level of internationally recognized credit and risk management standards. During the year, the Bank continued its program of rating reviews with Standard & Poor’s Ratings Services (S&P) and Fitch Ratings.

S&P lowered the Bank’s long-term and short-term counterparty credit ratings to ‘BBB’ / ‘A-2’ with a Stable Outlook. S&P defines these ratings as follows:

- **Long-Term Issuer Credit Ratings**:

  An obligor rated ‘BBB’ has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to weakened capacity of the obligor to meet its financial commitments.

- **Short-Term Issuer Credit Ratings (less than 12 months)**:

  An obligor rated ‘A-2’ has satisfactory capacity to meet its financial commitments. However, it is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in the highest rating category.

Fitch affirmed the Bank’s ‘A-’ / ‘F2’ long-term and short-term ratings, but lowered the Outlook to Negative. Fitch defines these ratings as follows:

- **Long-Term Issuer Default Ratings**:

  'A-' rating denotes a low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.

- **Short-Term Issuer Default Ratings (less than 12 months)**:

  'F2' ratings indicate good credit quality with a satisfactory capacity for timely payment of financial commitments, but the margin of safety is not as great as in the case of the higher ratings.

The Bank's ratings are the result of our financial performance, asset quality and capitalization levels, supported by a stable strategy and adequate liquidity profile. Our ratings take into consideration the fact that the Bank operates in one of the strongest banking sectors and best regulated markets both in the Middle East and among all emerging markets. The ratings also reflect Saudi Arabia's sovereign credit ratings from S&P and Fitch, in addition to the country's economic fundamentals.

The credit ratings from S&P and Fitch are considered "Investment Grade Ratings" in the international markets.

QUALITY ASSURANCE MANAGEMENT

Through the Implementation of the Consumer Protection Principal (CPP) launched by SAMA, and In order to maintain best banking standards, Quality Assurance has established a variety procedures and programs as follows.

- An E-training course for all Bank employees to introduce them to CPP.
- A webpage on the Bank's website to educate customers about CPP.
- The Customer Care Unit being awarded an international standards certificate – Quality Management System ISO 9001:2008 for complaint management.
- The resolution of 100% of all customer complaints in accordance with SAMA standards.
- Full scale awareness program to support Consumer Protection Principal.

To contribute in brand enhancement and publicity as part of the Bank's 5 year's strategy, quality assurance:

- Surveyed more than 100,000 customers to measure their degree of satisfaction with the Bank's products and the efficiency of the Banking channels, and published the results of this survey monthly on the Bank's website.
- Implemented a Mystery Shopper project to measure and improve the quality of all channels and services.

As a result of all the above initiatives, the Bank achieved the following:

- The King Abdulaziz Quality Award 2016 in its third round was received from the Saudi Standards, Metrology and Quality Organization.
- The Bank was rated as the best Saudi bank in the Service Quality Index (3.25 out of 5.0 scale) by Fantilla.

PROFIT DISTRIBUTION

The net income of the Bank will be distributed as directed by the Board of Directors in accordance with the provisions of the Banking Control Law, as follows:

a) Withholding the necessary amounts for payment of the Zakat owed by the Saudi shareholders and any income tax owed by the non-Saudi shareholders according to the applicable laws of the Kingdom. The Bank will pay the required amounts to the authorities and deduct the Zakat owed by the Saudi shareholders and any unreimbursed income tax of the non-Saudi shareholders from amounts due to these shareholders, respectively.

b) Allocating not less than 25 percent of the remaining net income, after the deduction of the Zakat and income tax as mentioned in paragraph (a) above, to the Statutory Reserve until this Reserve is equal to at least the Paid-Up Capital.

c) The remainder, after all allocations mentioned in paragraphs (a) and (b) above are made, shall be used in any manner recommended by the Board of Directors and approved by the General Assembly.

In 2016, the Board of Directors proposed a cash dividend of SAR 350 million equal to SAR 0.50 per share, net of Zakat to be withheld from the Saudi shareholders totaling SAR 70 million. The Board of Directors has also proposed a bonus share issue of 50 million shares with a par value of SAR 10 per share, or one bonus share for each fourteen shares outstanding. The proposed cash dividend and bonus share issue will be presented for approval in an extraordinary general assembly meeting expected to convene in 2017.

In 2015, the Board of Directors proposed a cash dividend of SAR 487.5 million equal to 0.75 per share, net of Zakat to be withheld from the Saudi shareholders totaling SAR 47 million. The Board of Directors also proposed a bonus share issue of 50 million shares with a par value of SAR 10 per share, or one bonus share for each thirteen shares outstanding. The proposed dividend and bonus share issue were approved by the Bank's shareholders in an extraordinary general assembly meeting held on April 4, 2016. The net dividends and bonus shares were distributed to the shareholders thereafter.

REGULATORY PAYMENTS

Zakat attributable to the Saudi shareholders paid by the Bank is deducted from their share of cash dividends. Any unreimbursed income tax payable by the non-Saudi shareholders on their share of profits is also deducted from cash dividends.

The Bank paid SAR 26.4 million in Zakat on behalf of Saudi shareholders, and SAR 10.7 million of income tax on behalf of its non-Saudi shareholders during the year ended December 31, 2016. The Bank also paid SAR 4.56 million in withholding tax on payments to non-residents made during the year ended December 31, 2016.

The Bank has received assessments for additional Zakat, income tax, and withholding tax totaling approximately SAR 277 million relating to the Bank's 2003 through 2009 Zakat, Income tax, and withholding tax filings. The Bank has filed an appeal for these assessments.

The Bank has also received partial assessments for additional Zakat totalling approximately SAR 383 million relating to the Bank's 2010, 2011 and 2013 Zakat filings. The assessments are primarily due to the disallowance of certain long-term investments from the Zakat base of the Bank. The Bank, in consultation with its Zakat advisors, has filed an appeal with the Department of Zakat and Income Tax, and is awaiting a response. At the current time, a reasonable estimation of the ultimate additional Zakat liability, if any, cannot be reliably determined.

The Bank paid SAR 46.5 million to the General Organization for Social Insurance for its employees, including the employee share of SAR 20.6 million during the year ended December 31, 2016. The Bank also paid approximately SAR 0.4 million for visa and other related governmental fees, and SAR 1.7 million in municipality and related fees during the year ended December 31, 2016.

REGULATORY PENALTIES AND FINES

During 2016, the Bank paid SAR 47.2 million in penalties and fines to the following regulatory agencies:

Saudi Arabian Monetary Authority 47.2 million

SAUDIZATION AND TRAINING

As a result of the Bank's continuing commitment to increase Saudization, the percentage of Saudi nationals to total staff as of December 31, 2016 remained strong at 83.5%, compared to the end of the year 2015 where Saudization percentage was 82%. In addition, the Bank has kept the female staff percentage at 17.7% of the total workforce of the Bank.

During the year ended December 31, 2016, the Bank provided a total of 45 separate training courses resulting in 4,978 training days being delivered to the Bank's staff members.

2014 was the official opening of the SAIB Academy. With a capacity for 120 trainees, the Academy contains more than five training halls and is equipped with the latest training equipment, and a specialized training center for Bank systems and live services experience. In 2016 two new branches for SAIB Academy were officially opened, as one in Jeddah and the other in Dammam, which facilitate providing training to the staff who are located in these regions.

During the year, the Bank increased the usage of all E-Channels, such as "E-Learning – Training video tutorials – and summarization of Books" by delivering more than 9,000 different programs in different fields. The benefit of E-Learning is to help all staff in the Bank to improve their knowledge and competencies in a range of general skills. All portals are available 24/7 and accessible from anywhere by using any device, in both Arabic and English.

During 2016, SAIB has accommodated 65 students as Co-op trainees in different departments, with a number of them being offered jobs after completing the program.

EMPLOYEE BENEFITS

Benefits payable to employees either at the end of their services or during the term of their employment are accrued in accordance with guidelines set by the Saudi Arabian Labor Regulations and as per the Bank's accounting policies. The amount of provision made during the year ended December 31, 2016 in respect of employees' end of service benefits was SAR 4.8 million. The balance of the accrued benefits outstanding is approximately SAR 77.8 million as of December 31, 2016.

The Bank also offers to its eligible employees ("Employees") equity shares in the Bank under an Employee Stock Grant Plan ("Plan"). Under the terms of the Plan, employees are granted shares which vest over a four-year period. The cost of the plan is measured by the value of the shares on the date purchased by the Bank and recognized over the period in which the service condition is fulfilled using an appropriate valuation model, and ending on the vesting date. Employee stock option shares are recorded by the Bank at cost and presented as a deduction from the Bank's equity as adjusted for any transaction costs, dividends and gains or losses on sales of such shares. During 2016, the Bank vested 2,018,012 shares for a total cost of approximately SAR 36.4 million. The balance of the Plan as of December 31, 2016 is approximately SAR 35.8 million. For further information on this Plan, refer to Note 37 in the consolidated financial statements.

In addition, the Bank grants to its eligible employees other types of security and savings plans that are based on mutual contributions by the Bank and the employees. These contributions are paid to the participating employees at the respective maturity date of each plan. The balance of the accrued benefits outstanding for the Bank's security plan and the Bank's savings plan is approximately SAR 20.0 million as of December 31, 2016. The amount of provision made during the year ended December 31, 2016 for these plans was approximately SAR 35.0 million.

RELATED PARTY CONTRACTS

In the ordinary course of its activities, the Group transacts business with related parties. Related parties, balances, and transactions are governed by the Banking Control Law and other regulations issued by SAMA. During 2014, SAMA issued an update to its Principles of Corporate Governance for Banks operating in Saudi Arabia which specifies the definitions of related parties, the need to process the related transactions fairly and without preference, addresses the potential conflicts of interests involved in such transactions, and mandates transaction disclosure requirements pertaining to the related parties.

The Bank's Related Party Identification and Disclosure of Transactions Policy complies with the Guidelines issued by SAMA, and has been approved by the Bank's Board of Directors. These Guidelines include the following definitions of Related Parties:

- Management of the Bank and/or members of their immediate family;
- Principal shareholders of the Bank and/or members of their immediate family;
- Affiliates of the Bank and entities for which the investment is accounted for by the equity method of accounting;
- Trusts for the benefit of the Bank's employees such as pension or other benefit plans that are managed by the Bank; and
- Any other parties whose management and operating policies can be directly or indirectly significantly influenced by the Bank.

Management of the Bank includes those persons who are responsible for achieving the objectives of the Bank and who have the authority to establish policies and make decisions by which those objectives are pursued. Management therefore includes the members of the Bank's Board of Directors, and members of the Bank management that require a no objection approval from SAMA.

Immediate family members includes parents, spouses, and offspring and whom either a principal shareholder or a member of management might control or influence or by whom they might be controlled or influenced because of the family relationship.

Principal shareholders include those owners of record of more than five percent of the Bank's voting ownership and/or voting interest of the Bank.

a) The balances as of December 31, 2016, resulting from such transactions included in the consolidated financial statements are as follows:

	2016 SAR'000
Management of the Bank and/or members of their immediate family:	
Loans and advances	**91,470**
Customer deposits	**316,326**
Principal shareholders of the Bank and/or members of their immediate family:	
Due from banks and other financial institutions	**33,429**
Loans and advances	**596,477**
Customer deposits	**10,924,783**
Term loan	-
Subordinated debt	**700,000**
Commitments and contingencies	**2,789,005**
Affiliates of the Bank and entities for which the investment is accounted for by the Equity method of accounting:	
Loans and advances	**1,022,467**
Customer deposits	**49,378**
Commitments and contingencies	**616,984**
Trusts for the benefit of the Bank's employees such as pension or other benefits plans that are managed by the Bank:	
Customer deposits and other liabilities	**129,507**

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

	2016 SAR'000
Management of the Bank and/or members of their immediate family:	
Special commission income	3,643
Special commission expense	36
Fee income from banking services	11
Principal shareholders of the Bank and/or members of their immediate family:	
Special commission income	11,983
Special commission expense	24,907
Fee income from banking services	4,219
Affiliates of the Bank and entities for which the investment is accounted for by the Equity method of accounting:	
Special commission income	3,830
Fee income from banking services	5,223
Trusts for the benefit of the Bank's employees such as pension or other benefit plans that are managed by the Bank:	
Special commission expense	324

COMPOSITION OF THE BOARD OF DIRECTORS

The General Assembly dated January 25, 2016, elected the Bank's board members for the next term starting February 14, 2016 for a three-year term, the Board is comprised of the following members:

Name	Position	Classification	Membership in other listed Companies
Mr. Abdallah S. Jum'ah	Chairman	Non-Executive	Zamil Industrial Investment – Hasana Investment Co.
Mr. Abdulaziz Al-Khamis	Vice Chairman	Non-Executive	National Petrochemical (till April 2016)– Saudi International Petrochemical (till December 2016)
Dr. Fouad Al Saleh	Board Member	Non-Executive	-
Dr. Abdulraouf Mannaa	Board Member	Non-Executive	Knowledge Economic City - Hasana Investment Co.
Dr. Abdulaziz Alnowaiser	Board Member	Independent	-
Mr. Abdulrahman Al-Rawwaf	Board Member	Non-Executive	-
Mr. Mishari Al-Mishari	Board Member	Non-Executive	Saudi Re for Cooperative Reinsurance – Hana Food Industries Co.
Mr. Muhammed Al- Ali	Board Member	Independent	-
Mr. Saleh Al- Athel	Board Member	Independent	Saudi Telecom Company

The Board of Directors has the following committees:

- The Executive Committee is comprised of five Board members. This committee supervises the credit and financial policies of the Bank.
- The Audit Committee is comprised of five members: two Board members and three non-Board members. The Audit Committee's activities include supervising the Bank's Internal Audit function, recommending the appointment of the external auditors, and related activities.
- The Nomination and Remuneration Committee is comprised of four Board members. This committee is responsible for recommending to the Board of Directors appointments to membership of the Board in accordance with the approved policies and standards, reviewing on an annual basis the requirements for the suitable skills for membership of the Board of Directors, and reviewing the structure of the Board of Directors and recommending changes thereto. It is also responsible to recommend to the Board the approval of the Bank's compensation policy and amendments thereto, and other activities related to the Bank's compensation policies and guidelines.
- The Risk Committee is comprised of five Board members. This committee supervises the risk management activities of the Bank including market, credit, and operational risks.
- The Compliance Committee is comprised of seven members, three Board members and four members from the Bank's management. This committee is responsible for monitoring the risks of non-compliance, ensures that the Bank has in place adequate policies and procedures to manage any non-compliance risk, and establishes the general framework for the compliance department.
- The Shariah Committee is comprised of three members and is responsible for providing Shariah opinions on submitted applications and related contracts and forms. The Committee is also responsible for ensuring the Bank's compliance with Shariah principles and decisions through the Shariah control function. In addition, the Committee answers Shariah related enquiries for the Bank and its customers.

The composition of the six Board Committees is presented below:

Executive Committee	Audit Committee	Nomination and Remuneration Committee	Risk Committee	Compliance Committee	Shariah Committee
Mr. Abdulaziz Al-Khamis, (Chairman)	Mr. Muhammad Al Ali (Chairman)	Dr. Abdulaziz Al Nowaiser (Chairman)	Mr. Mishari Al-Mishari (Chairman)	Mr. Muhammad Al Ali (Chairman)	Dr. Muhammad Ali Elgari (Chairman)
Mr. Abdulrahman Al-Rawwaf	Dr. Fouad Al-Saleh	Dr. Abdulraouf Mannaa	Mr. Abdulrahman Al-Rawwaf	Dr. Abdulraouf Mannaa	Dr. Fahad Nafl Alsigheir
Dr. Fouad Al-Saleh	Mr.Abdullah Al-Anizi (non-board)	Mr. Mishari Al-Mishari	Mr. Muhammad Al Ali	Mr. Saleh Al- Athel	Dr. AbdulAziz Ahmad Almezeini
Mr. Mishari Al-Mishari	Mr. Mnahi Al-Muraki (non-board)	Mr. Saleh Al- Athel	Dr. Abdulraouf Mannaa	Sampath Velamoor	-
Dr. Abdulaziz Alnowaiser	Mr. Saleh Al-Khulaifi (non-board)	Mr. Abdulrahman Al-Rawwaf	Dr. Abdulaziz Alnowaiser	Majed El-Rubaiaan	-
-	-	-	-	Hassan Khalaf Al-Faori	-
-	-	-	-	Saud Al Shamri	-

DIRECTORS' ATTENDANCE

Five Board of Directors meetings were held during 2016 as follows:

Date of Meeting	Members Attended
February 15, 2016	Abdullah Bin Jum›ah, Abdulaziz Alkhamis, Abdulrahman Al Rawaf, Dr/Abdulraouf Mannaa, Dr/Fouad Al Saleh, Dr/Abdulaziz Al Nowaiser, Mishari Al-Mishari, Saleh Al Athel, Muhammad Al Ali.
March 24, 2016	Abdullah Bin Jum›ah, Abdulaziz Alkhamis, Abdulrahman Al Rawaf, Dr/Abdulaziz Al Nowaiser, Mishari Al-Mishari, Saleh Al Athel, Muhammad Al Ali.
May 31, 2016	Abdullah Bin Jum›ah, Abdulaziz Alkhamis, Abdulrahman Al Rawaf, Dr/Abdulraouf Mannaa, Dr/Fouad Al Saleh, Dr/Abdulaziz Al Nowaiser, Mishari Al-Mishari, Saleh Al Athel, Muhammad Al Ali.
October 4, 2016	Abdullah Bin Jum›ah, Abdulaziz Alkhamis, Abdulrahman Al Rawaf, Dr/Fouad Al Saleh, Dr/Abdulaziz Al Nowaiser, Mishari Al-Mishari, Saleh Al Athel, Muhammad Al Ali.
December 12, 2016	Abdullah Bin Jum›ah, Abdulaziz Alkhamis, Abdulrahman Al Rawaf, Dr/Abdulraouf Mannaa, Dr/Fouad Al Saleh, Dr/Abdulaziz Al Nowaiser, Mishari Al-Mishari, Saleh Al Athel, Muhammad Al Ali.

Fourteen Executive Committee meetings were held during 2016 as follows:

Date of Meeting	Members Attended
January 19, 2016	Abdulaziz Alkhamis, Abdulrahman Al Rawaf, Dr/Fouad Al Saleh, Dr/Abdulaziz Al Nowaiser, Mishari Al-Mishari.
February 14, 2016	Abdulaziz Alkhamis, Abdulrahman Al Rawaf, Dr/Fouad Al Saleh, Dr/Abdulaziz Al Nowaiser, Mishari Al-Mishari.
March 22, 2016	Abdulaziz Alkhamis, Abdulrahman Al Rawaf, Dr/Fouad Al Saleh, Dr/Abdulaziz Al Nowaiser, Mishari Al-Mishari.
April 19, 2016	Abdulaziz Alkhamis, Abdulrahman Al Rawaf, Dr/Fouad Al Saleh, Dr/Abdulaziz Al Nowaiser, Mishari Al-Mishari.
May 10, 2016	Abdulaziz Alkhamis, Abdulrahman Al Rawaf, Dr/Fouad Al Saleh, Dr/Abdulaziz Al Nowaiser, Mishari Al-Mishari.
May 15, 2016	Abdulaziz Alkhamis, Abdulrahman Al Rawaf, Dr/Abdulaziz Al Nowaiser, Mishari Al-Mishari.
June 13, 2016	Abdulaziz Alkhamis, Abdulrahman Al Rawaf, Dr/Fouad Al Saleh, Dr/Abdulaziz Al Nowaiser, Mishari Al-Mishari.
June 30, 2016	Abdulaziz Alkhamis, Abdulrahman Al Rawaf, Dr/Fouad Al Saleh, Dr/Abdulaziz Al Nowaiser, Mishari Al-Mishari.
July 26, 2016	Abdulaziz Alkhamis, Abdulrahman Al Rawaf, Dr/Fouad Al Saleh, Dr/Abdulaziz Al Nowaiser, Mishari Al-Mishari.
September 27, 2016	Abdulaziz Alkhamis, Abdulrahman Al Rawaf, Dr/Fouad Al Saleh, Dr/Abdulaziz Al Nowaiser, Mishari Al-Mishari.
October 4, 2016	Abdulaziz Alkhamis, Abdulrahman Al Rawaf, Dr/Fouad Al Saleh, Dr/Abdulaziz Al Nowaiser, Mishari Al-Mishari.
October 25, 2016	Abdulaziz Alkhamis, Abdulrahman Al Rawaf, Dr/Fouad Al Saleh, Dr/Abdulaziz Al Nowaiser, Mishari Al-Mishari.
November 29, 2016	Abdulaziz Alkhamis, Abdulrahman Al Rawaf, Dr/Fouad Al Saleh, Dr/Abdulaziz Al Nowaiser, Mishari Al-Mishari.
December 20, 2016	Abdulaziz Alkhamis, Abdulrahman Al Rawaf, Dr/Fouad Al Saleh, Dr/Abdulaziz Al Nowaiser, Mishari Al-Mishari.

Five Nomination and Remuneration Committee meetings were held during 2016 as follows:

Date of Meeting	Members Attended
January 3, 2016	Abdulrahman Al Rawaf, Mishari Al-Mishari, Dr/Fouad Al Saleh, Saleh Al Athel.
January 13, 2016	Abdulrahman Al Rawaf, Mishari Al-Mishari, Dr/Fouad Al Saleh, Saleh Al Athel.
March 1, 2016	Dr/Abdulraouf Mannaa, Abdulrahman Al Rawaf, Mishari Al-Mishari, Saleh Al Athel.
May 15, 2016	Dr/Abdulaziz Al Nowaiser, Dr/Abdulraouf Mannaa Abdulrahman Al Rawaf, Saleh Al Athel, Mishari Al-Mishari.
November 27, 2016	Dr/Abdulaziz Al Nowaiser, Dr/Abdulraouf Mannaa, Abdulrahman Al Rawaf, Saleh Al Athel, Mishari Al-Mishari.

Five Audit Committee meetings were held during 2016 as follows:

Date of Meeting	Members Attended
February 9, 2016	Muhammad Al Ali, Saleh Al Khulaifi, Abdullah Al Anizi, Monahy Al Moreikhy.
March 22, 2016	Muhammad Al Ali, Dr/Fouad Al Saleh, Saleh Al Khulaifi, Abdullah Al Anizi, Monahy Al Moreikhy.
May 30, 2016	Muhammad Al Ali, Dr/Fouad Al Saleh, Abdullah Al Anizi, Monahy Al Moreikhy.
October 10, 2016	Muhammad Al Ali, Dr/Fouad Al Saleh, Saleh Al Khulaifi, Abdullah Al Anizi Monahy Al Moreikhy.
December 11, 2016	Muhammad Al Ali, Dr/Fouad Al Saleh, Saleh Al Khulaifi, Abdullah Al Anizi, Monahy Al Moreikhy.

Six Risk Committee meetings were held during 2016 as follows:

Date of Meeting	Members Attended
February 28, 2016	Abdulaziz Al Khamis, Abdulrahman Al Rawaf, Dr/Abdulraouf Mannaa, Dr/Abdulaziz Al Nowaiser, Mishari Al-Mishari.
May 9, 2016	Mishari Al-Mishari, Abdulrahman Al Rawaf, Dr/Abdulaziz Al Nowaiser, Dr/Abdulraouf Mannaa.
June 14, 2016	Mishari Al-Mishari, Abdulrahman Al Rawaf, Dr/Abdulaziz Al Nowaiser, Dr/Abdulraouf Mannaa, Muhammad Al Ali.
September 26, 2016	Mishari Al-Mishari, Abdulrahman Al Rawaf, Dr/Abdulaziz Al Nowaiser, Dr/Abdulraouf Mannaa, Muhammad Al Ali.
November 28, 2016	Mishari Al-Mishari, Abdulrahman Al Rawaf, Dr/Abdulaziz Al Nowaiser, Dr/Abdulraouf Mannaa, Muhammad Al Ali.
December 12, 2016	Mishari Al-Mishari, Abdulrahman Al Rawaf, Dr/Abdulaziz Al Nowaiser, Dr/Abdulraouf Mannaa, Muhammad Al Ali.

Four Compliance Committee meetings were held during 2016 as follows:

Date of Meeting	Members Attended
March 22, 2016	Muhammad Al Ali, Dr/Fouad Al Saleh, Saleh Al Athel, Sampath Velamoor, Saud Al Shammri, Shankar Chattanathan, Hassan AlFaori.
May 30, 2016	Muhammad Al Ali, Dr/Fouad Al Saleh, Saleh Al Athel, Sampath Velamoor, Saud Al Shammri, Majed El Rubaiaan, Hassan Al Faori.
October 3, 2016	Muhammad Al Ali, Dr/Fouad Al Saleh, Saleh Al Athel, Sampath Velamoor, Saud Al Shammri, Majed El Rubaiaan, Hassan Al Faori.
December 11, 2016	Muhammad Al Ali, Dr/Fouad Al Saleh, Saleh Al Athel, Sampath Velamoor, Saud Al Shammri, Majed El Rubaiaan, Hassan Al Faori.

Six Shariah Committee meetings were held during 2016 as follows:

Date of Meeting	Members Attended
February 11, 2016	Dr/Mohamed Elgari, Dr/Fahd Alsigheir, Dr/Abdulaziz Almezeini.
March 31, 2016	Dr/Mohamed Elgari, Dr/Fahd Alsigheir, Dr/Abdulaziz Almezeini.
May 18, 2016	Dr/Mohamed Elgari, Dr/Fahd Alsigheir, Dr/Abdulaziz Almezeini.
October 20, 2016	Dr/Mohamed Elgari, Dr/Fahd Alsigheir, Dr/Abdulaziz Almezeini.
December 15, 2016	Dr/Mohamed Elgari, Dr/Fahd Alsigheir, Dr/Abdulaziz Almezeini.
December 29, 2016	Dr/Mohamed Elgari, Dr/Fahd Alsigheir, Dr/Abdulaziz Almezeini.

CHANGES IN THE BANK'S OWNERSHIP (BOARD OF DIRECTORS AND SENIOR EXECUTIVES)

The Board of Directors is composed of natural persons represented on the Board in their personal capacities. Below is the list of the overall ownership of Bank's shares and debt instruments by the Board of Directors and senior executives and their immediate relatives who have an interest in such ownership.

Directors

No.	Name	Beginning of the Year		End of the Year		Net Change	Percentage of Change %
		Shares	Debt Instruments	Shares	Debt Instruments		
1	Abdallah S. Jum'ah	244,332	-	263,126	-	18,794	8%
2	Abdulrahman Al-Rawwaf	1,444	-	1,555	-	111	8%
3	Dr. Albulraouf Mannaa	1,180	-	1,270	-	90	8%
4	Saleh Al-Athel	219,864	-	236,776	-	16,912	8%
5	Mishari Al-Mishari	2,888	-	3,110	-	222	8%
6	Dr. Fouad Al-Saleh	216,666	-	233,332	-	16,666	8%
7	Abdulaziz Al-Khamis	1,444	-	1,555	-	111	8%
8	Dr. Abdulaziz Alnowaiser	1,180	-	1,270	-	90	8%
9	Muhammad Al-Ali	2,166	-	2,332	-	166	8%

Senior Executives

No.	Name	Beginning of the Year		End of the Year		Net Change	Percentage of Change %
		Shares	Debt Instruments	Shares	Debt Instruments		
1	Musaed Al-Mineefi	1,644,613	-	1,838,455	-	193,842	12%
2	Ramzi Al-Nassar	160,000	-	200,000	-	40,000	25%
3	David Johnson	139,043	-	182,338	-	43,295	31%

- **DIRECTORS' AND SENIOR EXECUTIVES' REMUNERATION (in SAR'000)**

	Six Senior Executives who Received the Highest Remunera tion including the CEO and CFO	Independent and Non-Executive Board Members	Executive Board Members
Remuneration	14,155	3,975	-
Allowances	5,898	1,732	-
Any Other Remuneration payable monthly or yearly	14,249	-	-

BOARD OF DIRECTORS' DECLARATION

The Board of Directors hereby declares that to the best of its knowledge and belief and in all material respects:

- Proper books of account have been maintained;
- The system of internal control is sound in design and has been effectively implemented; and
- There are no significant doubts concerning the Bank's ability to continue as a going concern.

AUDITORS

The Extraordinary General Assembly meeting held on April 4, 2016 appointed Price water house Coopers and KPMG Alfozan and Partners as the Bank's auditors for the financial year 2016.

CORPORATE GOVERNANCE IN THE KINGDOM OF SAUDI ARABIA

The Bank substantially complies with the Principles of Corporate Governance for Banks Operating in Saudi Arabia issued by SAMA in March 2014.

The Bank also complies with the Corporate Governance guidelines included in the Rules Governing the Companies in the Kingdom of Saudi Arabia issued by the Capital Market Authority on 21/10/1427H corresponding to 12/11/2006G, and all the subsequent amendments, except for the following:

Rule No.	Rule Requirements	Reason for non-application
Article 6 (d)	Investors who are judicial persons and who act on behalf of others - e.g. investment funds- shall disclose in their annual reports their voting policies, actual voting, and ways of dealing with any material conflict of interests that may affect the practice of the fundamental rights in relation to their investments.	The Bank has no authority over those shareholders with corporate capacity obliging them to disclose their voting and investment policies. Also those investments are not material relative to the Bank›s total equity.

Other corporate governance initiatives include the following:

- The Board conducted a self-evaluation exercise to determine the training needs.
- The Board has approved a revised Corporate Governance Framework which now includes the establishment of a new Corporate Governance Sub-committee reporting to the Nomination & Remuneration Committee.
- The Bank introduced guidelines based on the highest international and Governance standards while taking in respect local regulations. International expertise where imbedded in these guidelines to provide for continuous update of rules and regulations.
- The Bank’s website was updated to include the newly revised corporate governance framework in addition to all board committees’ charters.
- The Bank received the sixth position in the S&P/Hawkama in Middle East and North Africa Region for Environment, Social Service, and Governance.

ACCOUNTING STANDARDS

The Bank follows the Accounting Standards for Banks promulgated by SAMA and International Financial Reporting Standards (IFRS). The Bank also prepares its consolidated financial statements in compliance with the Banking Control Law, the relevant Regulations for Companies in the Kingdom of Saudi Arabia, and the Bank’s Articles of Association.

BANK’S CODE OF CONDUCT AND ETHICAL STANDARDS

The Bank’s ethical standards and Code of Conduct represent a standard and a Guide for high ethical principles and professional business dealings practices. Through its Code of Conduct, the Bank is committed to instil and maintain a culture of professionalism where the utmost ethical standards prevail. The Bank’s Code of Conduct is based on fundamental principles of Integrity, confidentiality, and professionalism. It applies to all Directors, employees, consultants, affiliates, and any other person that may represent the Bank. The Bank operates under the governing authority of its Board of Directors, which oversees the implementation and effectiveness of the Bank’s ethical standards and Code of Conduct.

ANNUAL REVIEW OF THE EFFECTIVENESS OF INTERNAL CONTROL

Management is responsible for establishing and maintaining an adequate and effective internal control system across the Bank. An Internal control system includes the policies, procedures, and processes, which are designed under supervision of the Board of Directors to achieve the strategic objectives of the Bank.

The scope of the Internal Control Unit, independent from line management of the Bank, includes the assessment of the adequacy and effectiveness of the internal control system across the Bank. All significant and material findings related to internal controls are reported to the Audit Committee of the Bank. The Audit Committee actively monitors the adequacy and effectiveness of the internal control system to ensure that identified risks are mitigated to safeguard the interests of the Bank.

Concerted and integrated efforts are made by all functions of the Bank to strengthen the control environment at a grass root level through a continuous process of reviewing and streamlining procedures to prevent and rectify any control deficiencies. Each function, under the supervision of senior management, is entrusted with the responsibility to oversee the rectification of control deficiencies identified by internal and external auditors, and various control units across the Bank.

The Management of the Bank has adopted the Internal Controls Integrated Framework as recommended by the Saudi Arabian Monetary Agency through its Guidelines on Internal Controls.

The Internal Control System of the Bank has been designed to provide reasonable assurance to the Board, on management of risks and to achieve the Bank's strategic objectives. Internal control systems, no matter how well designed, have inherent limitations, and may not prevent or detect all control deficiencies. Moreover, the projection of current evaluations of the effectiveness to future periods is subject to a limitation that controls may become inadequate due to changes in conditions or compliance with policies or procedures.

Based on the results through ongoing testing and assessment of controls by the Internal Control Unit of the Bank carried out during the year, Management considers that the Bank's existing internal control system is adequate and operating effectively. For further enhancing of controls, Management continuously evaluates the internal control system of the Bank.

Based on the above, the Board has duly endorsed Management's evaluation of the Bank's internal control system.

COMMUNITY SERVICE AND SUSTAINABILITY

The Bank devotes great attention to its social responsibility through sustainable initiatives that positively reflect on the Bank's reputation. The social contributions made ensure the enhancement of these initiatives that directly reflect on stimulating economic stability. The Bank also exerts its best in targeting the final beneficiary by reaching and helping that beneficiary for the promotion of society through continuous and increasing sense of social commitment.

The Bank has also involved customers directly in the Bank's social initiatives through the WooW Alkhair program that witnessed a tremendous growth over more than 15 approved charities, which experienced a distinguished interaction with clients whom the Bank shared the social work, and which created a qualitative integration between the Bank and its customers.

The Bank's success as a business depends largely on the ability to maintain good relationships with its stakeholders. The Bank strives to build lasting, trusting relationships through an open and constructive dialogue and by considering stakeholders' views when the Bank makes decisions. The Bank also seeks to provide timely, reliable and fact-based information about itself, the financial sector, and the economy in general so that the Bank's stakeholders can have an informed basis for their views and decisions.

The Bank's sustainability framework is defined by five key pillars that guide its operations across the business. These pillars include: Takleef, Nummow, Rea'ya, Hifth and Awn. The Bank has also defined areas that need to be improved within these five pillars.

Over the last few years the Bank has made great progress as a leader in the financial sector in the Kingdom of Saudi Arabia. Today, we provide greater access to finance, with dedicated branches and more customers than ever before. From an environmental perspective, we have also successfully reduced water and electricity costs per full-time employee in the Bank. Furthermore, we have invested in paper saving mechanisms and endeavored to reduce our fuel consumption to help preserve limited natural resources. We were delighted to be awarded for the third year in a row the 2016 King Khalid Award for Responsible Competitiveness, one of the most important programs to measure our performance in the social responsibility and environmental protection.

In 2016 the Bank and its customers invested SAR 4,013,387 in the community through programs, sponsoring events and donating to charitable causes. For more information, please refer to the fifth annual sustainability report for 2016.

CONCLUSION

It is a pleasure, once again, for the Board of Directors to express its gratitude to the Government of the Custodian of the Two Holy Mosques, and in particular to the Ministry of Finance, as well as to the Saudi Arabian Monetary Authority, the Ministry of Commerce and Investment, and the Capital Market Authority, for their continued and constructive support. The Board of Directors would also like to thank its shareholders for their cooperation. The Board of Directors acknowledges with appreciation the confidence of the Bank's clients and shareholders, and finally the dedication and loyalty of the Bank's officers and staff.

TEN-YEAR FINANCIAL HIGHLIGHTS

(SAR in Millions)	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Summary of Statement of Income (SAR Millions).										
Total income (1)	2,557	2,667	2,610	2,178	1,868	1,709	1,844	1,633	1,938	1,635
Total expense (2)	1,051	1,033	943	762	632	628	570	556	428	484
Operating profit	1,506	1,634	1,667	1,416	1,236	1,081	1,274	1,077	2,510	1,151
Impairment Charges	453	305	231	129	324	373	845	555	997	329
Net income	1,053	1,329	1,436	1,287	912	708	429	522	513	822
Summary of Balance Sheet (SAR Millions).										
Loans and advances, net	60,249	60,269	57,473	47,567	34,051	27,114	31,002	29,785	29,556	23,129
Investments, net	21,448	18,983	22,397	17,696	10,912	8,893	8,060	10,737	12,731	15,811
Investments in associates	1,000	939	846	1,071	966	895	865	817	719	562
Total assets	94,362	93,578	93,626	80,495	59,067	51,946	51,491	50,148	53,596	46,542
Customers' deposits	65,640	70,518	70,733	57,044	40,414	36,770	37,215	38,247	40,702	32,768
Total equity	13,543	12,036	11,852	10,253	9,379	8,557	8,141	7,428	6,609	6,770
RATIOS (%)										
Return on average equity %	8.40	11.13	13.00	13.11	10.17	8.48	5.51	7.43	7.67	12.88
Return on average assets %	1.12	1.42	1.65	1.84	1.64	1.37	0.84	1.01	1.03	1.88
Capital adequacy %	19.13	16.94	17.08	15.12	17.62	19.12	17.29	14.48	13.71	21.91
Equity to total assets %	14.35	12.86	12.66	12.74	15.88	16.48	15.81	14.81	12.33	14.55

FINANCIAL STATEMENTS & AUDITORS' REPORT

December 31, 2016 and 2015

THE SAUDI INVESTMENT BANK
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As of December 31, 2016 and 2015

	Notes	2016 SAR'000	2015 SAR'000
ASSETS			
Cash and balances with SAMA	4	**5,684,338**	4,086,987
Due from banks and other financial institutions	5	**2,302,293**	6,410,263
Investments, net	6	**21,447,894**	18,982,971
Loans and advances, net	7	**60,249,052**	60,268,806
Investments in associates	8	**1,000,337**	939,022
Property, equipment, and intangibles, net	9	**987,600**	1,021,564
Positive fair values of derivatives	11	**1,914,717**	1,287,143
Other real estate		**418,724**	152,836
Other assets	10	**356,543**	428,744
Total assets		**94,361,498**	93,578,336
LIABILITIES AND EQUITY			
Liabilities			
Due to banks and other financial institutions	12	**8,996,716**	5,329,148
Customer deposits	13	**65,640,325**	70,518,482
Term loans	14	**2,032,187**	2,011,221
Subordinated debt	15	**2,002,373**	1,999,800
Negative fair values of derivatives	11	**1,424,927**	1,000,672
Other liabilities	16	**721,782**	682,551
Total liabilities		**80,818,310**	81,541,874
Equity			
Share capital	17	**7,000,000**	6,500,000
Statutory reserve	18	**4,210,000**	3,946,000
Other reserves	6(f)	**509,651**	11,768
Retained earnings		**966,421**	1,100,949
Proposed dividends	26	**420,000**	534,500
Shares held for employee options, net	37	**(62,884)**	(56,755)
Shareholders' equity		**13,043,188**	12,036,462
Tier 1 Sukuk	38	**500,000**	-
Total equity		**13,543,188**	12,036,462
Total liabilities and equity		**94,361,498**	93,578,336

The accompanying notes 1 to 41 form an integral part of these consolidated financial statements.

THE SAUDI INVESTMENT BANK
CONSOLIDATED INCOME STATEMENT
For the years ended December 31, 2016 and 2015

	Notes	2016 SAR'000	2015 SAR'000
Special commission income	20	3,200,609	2,441,420
Special commission expense	20	1,528,553	710,231
Net special commission income		1,672,056	1,731,189
Fee income from banking services, net	21	415,504	450,075
Exchange income, net		145,650	108,265
Dividend income	22	27,543	35,920
Gains on investments, net	23	145,112	186,200
Other operating income (loss), net		1	(592)
Total operating income		2,405,866	2,511,057
Salaries and employee-related expenses	24	591,801	619,474
Rent and premises-related expenses		140,320	108,853
Depreciation and amortization	9	89,001	80,581
Other general and administrative expenses		229,420	224,687
Impairment charge for credit losses	7(b)	246,000	118,000
Impairment charge for investments	6(e)	207,000	187,000
Total operating expenses		1,503,542	1,338,595
Operating income		902,324	1,172,462
Share in earnings of associates	8(b)	150,634	156,195
Net income		1,052,958	1,328,657
Basic and diluted earnings per share (expressed in SAR per share)	25	1.50	1.90

The accompanying notes 1 to 41 form an integral part of these consolidated financial statements.

THE SAUDI INVESTMENT BANK
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the years ended December 31, 2016 and 2015

	Notes	2016 SAR'000	2015 SAR'000
Net income		**1,052,958**	1,328,657
Other comprehensive income - items that can be recycled back to the consolidated income statement in subsequent periods:			
Available for sale investments:			
- Net change in fair value		**552,136**	(494,823)
- Fair value gains transferred to consolidated income statement on disposal		**(57,851)**	(102,176)
Share of other comprehensive income of associates	8 (b)	**3,598**	(124)
Total other comprehensive income (loss)		**497,883**	(597,123)
Total comprehensive income		**1,550,841**	731,534

The accompanying notes 1 to 41 form an integral part of these consolidated financial statements.

THE SAUDI INVESTMENT BANK
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the years ended December 31, 2016 and 2015

		2016 (SAR'000)								
	Notes	Share capital	Statutory reserve	Other reserves	Retained earnings	Proposed dividends	Employee stock option shares	Shareholders' equity	Tier 1 Sukuk	Total equity
Balances at the beginning of the year		6,500,000	3,946,000	11,768	1,100,949	534,500	(56,755)	12,036,462	-	12,036,462
Net income		-	-	-	1,052,958	-	-	1,052,958	-	1,052,958
Total other comprehensive income		-	-	497,883	-	-	-	497,883	-	497,883
Total comprehensive income		-	-	497,883	1,052,958	-	-	1,550,841	-	1,550,841
Dividends paid	26	-	-	-	-	(534,500)	-	(534,500)	-	(534,500)
Bonus shares issued	26	500,000	-	-	(500,000)	-	-	-	-	-
Proposed dividends	26	-	-	-	(420,000)	420,000	-	-	-	-
Employee stock option shares acquired, net of vesting	37	-	-	-	-	-	(6,129)	(6,129)	-	(6,129)
Tier 1 Sukuk proceeds		-	-	-	-	-	-	-	500,000	500,000
Tier 1 Sukuk costs		-	-	-	(3,486)	-	-	(3,486)	-	(3,486)
Transfer to statutory reserve	18	-	264,000	-	(264,000)	-	-	-	-	-
Balances at the end of the year		7,000,000	4,210,000	509,651	966,421	420,000	(62,884)	13,043,188	500,000	13,543,188

The accompanying notes 1 to 41 form an integral part of these consolidated financial statements.

THE SAUDI INVESTMENT BANK
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the years ended December 31, 2016 and 2015

		2015 (SAR'000)								
	Notes	Share capital	Statutory reserve	Other reserves	Retained earnings	Proposed dividends	Employee stock option shares	Shareholders' equity	Tier 1 Sukuk	Total equity
Balances at the beginning of the year		6,000,000	3,613,000	608,891	1,139,792	522,000	(31,551)	11,852,132	-	11,852,132
Net income		-	-	-	1,328,657	-	-	1,328,657	-	1,328,657
Total other comprehensive income		-	-	(597,123)	-	-	-	(597,123)	-	(597,123)
Total comprehensive income		-	-	(597,123)	1,328,657	-	-	731,534	-	731,534
Dividends paid	26	-	-	-	-	(522,000)	-	(522,000)	-	(522,000)
Bonus shares issued	26	500,000	-	-	(500,000)	-	-	-	-	-
Proposed dividends	26	-	-	-	(534,500)	534,500	-	-	-	-
Employee stock option shares acquired, net of vesting	37	-	-	-	-	-	(25,204)	(25,204)	-	(25,204)
Transfer to statutory reserve	18	-	333,000	-	(333,000)	-	-	-	-	-
Balances at the end of the year		6,500,000	3,946,000	11,768	1,100,949	534,500	(56,755)	12,036,462	-	12,036,462

The accompanying notes 1 to 41 form an integral part of these consolidated financial statements.

THE SAUDI INVESTMENT BANK
CONSOLIDATED STATEMENT OF CASH FLOWS
For the years ended December 31, 2016 and 2015

	Notes	2016 SAR'000	2015 SAR'000
OPERATING ACTIVITIES			
Net income		**1,052,958**	1,328,657
Adjustments to reconcile net income to net cash used in operating activities			
Net accretion of discounts and net amortization of premiums on investments, net		**57,787**	30,966
Net change in accrual special commission income		**(348,200)**	(142,468)
Net change in accrual special commission expense		**212,457**	14,784
Net change in deferred loan fees		**10,586**	(29,657)
Gains on investments, net	23	**(145,112)**	(186,200)
Gains on sales of property and equipment		**-**	(151)
Depreciation and amortization	9	**89,001**	80,581
Impairment charge for credit losses, net	7(b)	**246,000**	118,000
Impairment charge for investments, net	6(e)	**207,000**	187,000
Share in earnings of associates	8(b)	**(150,634)**	(156,195)
Employee share option expense		**33,996**	42,000
		1,265,839	1,287,317
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA		**(191,035)**	(55,661)
Due from banks and other financial institutions maturing after ninety days from acquisition date		**(20,671)**	(4,945)
Loans and advances, net		**78,545**	(2,670,465)
Positive fair values of derivatives		**(604,047)**	(448,711)
Other assets		**(183,793)**	258,621
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		**3,630,290**	319,400
Customer deposits		**(4,999,852)**	(804,259)
Negative fair values of derivatives		**394,310**	353,948
Other liabilities		**47,418**	(85,156)
Net cash used in operating activities		**(582,996)**	(1,849,911)
INVESTING ACTIVITIES			
Proceeds from sales and maturities of investments		**2,230,748**	19,163,865
Purchases of investments		**(4,310,757)**	(16,238,008)
Dividends received from associates	8(b)	**92,917**	63,400
Acquisitions of property, equipment, and intangibles	9	**(55,038)**	(192,618)
Proceeds from sales of property and equipment		**1**	246
Net cash (used in) from investing activities		**(2,042,129)**	2,796,885
FINANCING ACTIVITIES			
Repayment of term loan		**(1,000,000)**	-
Proceeds from issuance of term loan		**1,000,000**	-
Proceeds from issuance of Tier 1 Sukuk, net		**496,514**	-
Purchases of shares for employee options		**(58,206)**	-
Dividends paid	26	**(534,500)**	(522,000)
Net cash used in financing activities		**(96,192)**	(522,000)
Net (decrease) increase in cash and cash equivalents		**(2,721,317)**	424,974

The accompanying notes 1 to 41 form an integral part of these consolidated financial statements.

Continued.

THE SAUDI INVESTMENT BANK
CONSOLIDATED STATEMENT OF CASH FLOWS - continued
For the years ended December 31, 2016 and 2015

	Notes	2016 SAR'000	2015 SAR'000
Cash and cash equivalents			
Cash and cash equivalents at the beginning of the year		**7,103,969**	6,678,995
Net (decrease) increase in cash and cash equivalents		**(2,721,317)**	424,974
Cash and cash equivalents at the end of the year	27	**4,382,652**	7,103,969
Supplemental special commission information			
Special commission received		**2,852,409**	2,298,952
Special commission paid		**1,312,983**	697,094
Supplemental non-cash information			
Total other comprehensive income		**497,883**	(597,123)
Other real estate		**265,888**	-
Vesting of employee option shares, net		**7,048**	(25,204)
Proposed dividends	26	**420,000**	534,500
Bonus shares issued	26	**500,000**	500,000

The accompanying notes 1 to 41 form an integral part of these consolidated financial statements.

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

1. General

The Saudi Investment Bank (the Bank), a Saudi Joint Stock Company, was formed pursuant to Royal Decree No. M/31 dated 25 Jumada II 1396H, corresponding to June 23, 1976 in the Kingdom of Saudi Arabia. The Bank operates under Commercial Registration No. 1010011570 dated 25 Rabie Awwal 1397H, corresponding to March 16, 1977 through its 48 branches (2015: 48 branches) in the Kingdom of Saudi Arabia. The address of the Bank's Head Office is as follows:

The Saudi Investment Bank
Head Office
P. O. Box 3533
Riyadh 11481, Kingdom of Saudi Arabia

These consolidated financial statements include the financial statements of the Bank and the financial statements of the following subsidiaries (collectively referred to as the "Group" in these consolidated financial statements):

a) "Alistithmar for Financial Securities and Brokerage Company" (Alistithmar Capital), converted during 2015 from a limited liability company to a closed joint stock company, and is registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010235995 issued on 8 Rajab 1428H (corresponding to July 22, 2007), and is 100% owned by the Bank;

b) "Saudi Investment Real Estate Company", a limited liability company, registered in the Kingdom of Saudi Arabia under commercial registration No.1010268297 issued on 29 Jumada Awal 1430H (corresponding to May 25, 2009) and is owned 100% by the Bank. The Company has not commenced any significant operations; and

c) "Saudi Investment First Company", a limited liability company, registered in the Kingdom of Saudi Arabia under commercial registration No. 1010427836 issued on 16 Muharram 1436H (corresponding to November 9, 2014) and is owned 100% by the Bank. The Company has not commenced any significant operations.

The Bank offers a full range of commercial and retail banking services. The principal activities of Alistithmar Capital include dealing in securities as principal and agent, underwriting, management of investment funds and private investment portfolios on behalf of customers, and arrangement, advisory, and custody services relating to financial securities. The Group also offers Shariah compliant (non-interest based) banking products and services, which are approved and supervised by an independent Shariah Board. References to the "Bank" hereafter in these consolidated financial statements refer to disclosures that are relevant only to the Saudi Investment Bank, and not collectively to the "Group".

2. Basis of preparation

a) Statement of compliance

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

b) Basis of measurement

These consolidated financial statements are prepared under the historical cost basis except for the following items in the consolidated statement of financial position:

a) Assets and liabilities held for trading are measured at fair value;
b) Financial instruments designated as fair value through the consolidated income statement are measured at fair value;
c) Available for sale investments are measured at fair value;

2. Basis of preparation – continued

d) Derivatives are measured at fair value

e) Recognized financial assets and financial liabilities designated as hedged items in qualifying fair value hedge relationships are adjusted for changes in fair value attributable to the risk being hedged; and

f) Cash settled share based payments are measured at fair value.

During the years ended December 31, 2016 and 2015, the Group had no assets or liabilities which were held as trading, except for certain derivative financial instruments.

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 indicated, financial information presented in SAR has been rounded off to the nearest thousand.

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 Group'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 circumstances.

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

Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

(i) Impairment for losses on loans and advances

The Group reviews its loan portfolios to assess specific and collective impairment at each reporting date. In determining whether an impairment loss should be recorded, the Group makes judgements as to whether there is any observable data indicating an impairment trigger and followed by 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 future 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. The assessment considers risk concentrations and economic data, (including levels of unemployment, real estate price indices, country risk, and the performance of different individual groups.

(ii) Fair value measurement

The Group measures financial instruments, such as derivatives, at fair value at each consolidated statement of financial position date, except as disclosed in note 33.

2. Basis of preparation – continued

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 to by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset consider a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, while maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within a fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1. Quoted prices in active markets for the identical instrument that an entity can access at the measurement date (i.e., without modification or proxy);

Level 2. Quoted prices in active markets for similar assets and liabilities or other valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3. Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each financial reporting period.

The Group determines the policies and procedures for both recurring fair value measurement, such as unquoted available for sale financial assets, and for any non-recurring measurement, such as assets held for distribution in discontinued operations.

External valuers are involved from time to time for the valuation of certain assets. Involvement of external valuers is decided upon annually. Selection criteria include market knowledge, reputation, independence, and whether professional standards are maintained.

At each financial reporting date, the Group analyzes the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group’s accounting policies. For this analysis, the Group verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Group also compares the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Group has determined the classes of assets and liabilities on the basis of the nature, characteristics, and the related risks of the asset or liability, and the level of the fair value hierarchy as explained above.

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

2. Basis of preparation – continued

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

The Group exercises its judgement in considering any impairment on the available-for-sale equity and debt investments at each reporting date.

For equity investments, this includes a determination of a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgement. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. In assessing whether it is prolonged, the decline in fair value is evaluated against the period in which the fair value of the asset has been below its original cost at initial recognition. In making this judgement, the Group evaluates among other factors, the normal volatility in share/debt price. In addition, the Group considers impairment to be appropriate when there is objective evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

The Bank reviews its debt securities classified as available for sale at each reporting data to assess whether they may be impaired. This requires similar judgement as applied to the individual assessments of loans and advances.

(iv) Classification of held to maturity investments

The Group classifies non-derivative financial assets with fixed or determinable payments and fixed maturities as held to maturity. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity.

If the Group fails to retain these investments to maturity other than in specific circumstances, including selling close to maturity or for an insignificant amount, the Group reclassifies the entire class as available for sale. As of December 31, 2016 and 2015, the Bank has no held to maturity investments.

(v) Determination of control over investees

The control indicators set out in note 3 (b) are subject to management's judgement. The Group also acts as Fund Manager to several investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the Fund (comprising any carried interests and expected management fees) and the investors' rights to remove the Fund Manager. As a result, the Group has concluded that it acts as an agent for the investors in all cases, and therefore has not consolidated the financial statements of these funds.

e) Going concern

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group 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 on the Group's ability to continue as a going concern. Therefore, the consolidated financial statements are prepared on the going concern basis.

f) Provisions for liabilities and charges

The Group receives legal claims against it in the normal course of business. Management has made judgements as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depends on the due process being followed as per law.

3. Summary of significant accounting policies

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

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

3. Summary of significant accounting policies – continued

a) Change in accounting policies

The accounting policies adopted are consistent with those of the annual consolidated financial statements for the year ended December 31, 2015, as described in the annual consolidated financial statements for the year ended December 31, 2015, except for the adoption of the following new standards, new amendments, or new improvements to existing standards mentioned below:

New standards (Applicable from periods beginning on or after January 1, 2016):

- IFRS 14 — "Regulatory Deferral Accounts", which clarifies policies for regulatory deferral accounts for first time adoption of IFRS.

New amendments to exiting standards (Applicable from periods beginning on or after January 1, 2016):

- Amendments to IFRS 11 — "Joint Arrangements", which requires 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
- Amendments to IAS 16 and IAS 38 — "Property, Plant and Equipment" and "Intangible Assets", which provides clarification of acceptable methods of depreciation and amortization.
- Amendments to IAS 27 — "Separate Financial Statements", which 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.
- Amendment to IFRS 10, IFRS 12 and IAS 28 — "Consolidated Financial Statements", "Disclosure of Interests in Other Entities" and "Investments in Associates", which clarifies the exemption from presenting consolidated financial statements and applies to a parent entity, where and when an investment entity measures its subsidiaries at fair value, and also the sale or contribution of assets between an investor and its associate or joint venture.
- Amendments to IAS 1 — "Presentation of Financial Statements", initiates disclosure initiatives for financial statements, flexibility to relevant notes and presenting share of other comprehensive income of associates and joint ventures.

New improvements to existing standards (Applicable from periods beginning on or after January 1, 2016):

- Improvements to IFRS 5 — "Non-current Assets Held for Sale and Discontinued Operations", which clarifies that changing from one disposal method to the other would not be considered a new plan of disposal, but rather is a continuation of the original plan.
- Improvements to IFRS 7 — "Financial Instruments: Disclosures" which clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset.
- Improvements to IAS 19 — "Employee Benefits", which clarifies that the currency 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.

The adoption of the above standards, amendments, or improvements to existing standards have had no significant impact on the consolidated financial statements of the Group in the current year or prior years and is also expected to have an insignificant effect in future years.

3. Summary of significant accounting policies – continued

b) Basis of consolidation

These consolidated financial statements are comprised of the financial statements of the Bank and its subsidiaries as identified in Note 1. The financial statements of the subsidiaries are prepared for the same reporting year as that of the Bank, using consistent accounting policies. Changes are made to the accounting policies of the subsidiaries when necessary to align with the accounting policies of the Group.

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

A structured entity is an entity designed so that its activities are not governed by way of voting rights. In assessing whether the Group has power over such investees in which it has an interest, the Group considers factors such as purpose and design of the investee, its practical ability to direct the relevant activities of the investee, the nature of its relationship with the investee, and the size of its exposure to the variability of returns of the investee. The financial statements of any such structured entities are consolidated from the date the Group gains control and until the date when the Group ceases to control the investee.

The Group re-assesses whether or not it controls an investee if the facts and circumstances indicate that there are changes to one or more of the three elements of control.

These consolidated financial statements have been prepared using uniform accounting policies and valuation methods for like transactions and other events in similar circumstances.

The Group manages assets held in investment entities on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the Group controls the entity.

Intra-group balances and any material income and expenses arising from intra-group transactions, are eliminated in preparing these consolidated financial statements.

c) Investments in associates

Investments in associates are initially recognised at cost and subsequently accounted for under the equity method of accounting. Associates are enterprises in which the Bank has significant influence (but not control) over financial and operating matters and which is neither a subsidiary nor a joint venture.

Investments in associates are carried in the consolidated statement of financial position at cost, plus post-acquisition changes in the Group's share of the net assets of the associates, less any impairment in the value of individual investments. Share in earnings of associates includes the changes in the Group's share of the net assets of the associates. The Group's share of its associates post-acquisition income or losses is recognized in the consolidated income statement and its share of post-acquisition movements in other comprehensive income is recognized in other reserves included in shareholders' equity. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

3. Summary of significant accounting policies – continued

The consolidated income statement reflects the Group's share of the results of operations of the associates. When there has been a change recognized directly in the equity of the associates, the Group recognizes its share of any changes and discloses this, when applicable, in the consolidated statement of changes in shareholders' equity. Unrealized gains on transactions are eliminated to the extent of the Group's interest in the investees. Unrealized losses are also eliminated unless the transaction provides evidence of impairment in the asset transferred.

The Group's share of earnings in an associate is shown on the face of the consolidated income statement, which represents the net earnings attributable to equity holders of an associate and therefore income after tax and zakat and non-controlling interests in the subsidiaries of the associate. The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its 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 the share in 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 the settlement date, i.e. the date the asset is delivered to the counterparty. When settlement date accounting is applied, the Bank accounts for any change in fair value between the trade date and the settlement date in the same way as it accounts for the acquired asset. Regular-way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

e) Derivative financial instruments and hedge accounting

Derivative financial instruments, including foreign exchange contracts, commission rate futures, forward rate agreements, currency and commission rate swaps, and currency and commission rate options (both written and purchased) are initially recognized at fair value on the date on which the derivatives contract is entered into and are subsequently re-measured at fair value in the consolidated statement of financial position with transactions costs recognized in the consolidated income statement. 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 methods, and pricing models as appropriate.

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

(i) Derivatives held for trading

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

(ii) Embedded derivatives

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

3. Summary of significant accounting policies – continued

(iii) Hedge accounting

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

For the purpose of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability, (or assets or liabilities in the case of portfolio hedging), or an unrecognised firm commitment or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the reported net gain or loss; and (b) cash flow hedges which hedge exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised 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 are documented including the identification of the hedging instrument, the related hedged item, the nature of the 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 on-going basis.

At each hedge effectiveness assessment / reporting date, each hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting. A formal assessment is undertaken by comparing the hedging instrument's effectiveness in offsetting the changes in fair value or cash flows attributable to the hedged risk in the hedged item, at inception and at each quarter end on an ongoing basis. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated were offset by the hedging instrument in a range of 80% to 125% and were expected to achieve such offset in future periods. Hedge ineffectiveness if significant is recognized in the consolidated income statement in net trading income. For situations where the hedged item is a forecast transaction, the Group also assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the consolidated statement of income.

iii (a) Fair Value Hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognized asset or liability or a firm commitment that could affect the consolidated income statement, any gain or loss from re-measuring the hedging instruments to fair value is recognised immediately in the consolidated income statement together with the change in the fair value of the hedged item attributable to the hedged risk in special commission income.

For hedged items measured at amortised cost, where the fair value hedge of a commission bearing financial instrument ceases to meet the criteria for hedge accounting or is sold, exercised or terminated, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the effective interest rate method. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated income statement.

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

3. Summary of significant accounting policies – continued

iii (b) Cash flow hedges

When a derivative is designated and qualified as the hedging instrument in a hedge of a variability of cash flows attributable to a particular risk associated with a recognized asset or a liability or a highly probable forecasted transaction that could affect the consolidated income statement, the portion of the gain or loss on the hedging instrument that is determined to be an effective portion is recognised directly in other comprehensive income and the ineffective portion, if any, is recognised in the consolidated income statement. For cash flow hedges affecting future transactions, the gains or losses recognised 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 comprehensive income will not be recovered in one or more future periods, it reclassifies into the consolidated income statement as a reclassification adjustment the amount that is not to be recognized.

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

When the hedging instrument is expired or sold, terminated or exercised, or no longer qualifies for hedge accounting, or the transaction is no longer expected to occur or the Group revokes the designation, then hedge accounting is discontinued prospectively. At that point of time, any cumulative gain or loss on the cash flow hedging instrument that was recognised in other comprehensive income from the period when the hedge was effective is transferred from shareholders' equity to the consolidated income statement when the forecasted transaction occurs. Where the hedged transaction is no longer expected to occur and affects the statement of income, the net cumulative gain or loss recognised in other comprehensive income is transferred immediately to the consolidated income statement.

f) Foreign currencies

Transactions in foreign currencies are translated into Saudi Arabian Riyals at the exchange rates prevailing at 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.

The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year adjusted for effective interest rates and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year. All differences arising on non-trading activities are taken to other non operating income in the consolidated income statement, with the exception of differences of foreign currency borrowings that provide an effective hedge against a net investment in a foreign entity. Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement except for differences arising on the retranslation of available for sale equity instruments or when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges to the extent hedges are effective. Translation gains or losses on non-monetary items carried at fair value are included as part of the fair value adjustment on investment securities available for sale, unless the non-monetary items have an effective hedging strategy.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

3. Summary of significant accounting policies – continued

g) Offsetting financial instruments

Financial assets and liabilities are offset and are 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 any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

h) Revenue / expense recognition

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

Special commission income and expense for all special commission earning/bearing financial instruments, are recognised in the consolidated income statement on the effective yield basis. The effective yield is the rate that discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective special commission rate, the Group estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The carrying amount of a 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 special commission rate and the change in carrying amount is recorded as special commission income or expense.

If the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, special commission income continues to be recognized on the effective yield basis, based on the asset's carrying value net of impairment provisions.

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

Exchange income/loss is recognized when earned / incurred and in accordance with the principles included in Note 3 (f).

Fees that are considered as integral to the effective commission rate are included in the measurement of the relevant assets.

Fee from banking services that are not an integral component of the effective yield calculation on a financial asset or liability are generally recognized on an accrual basis when the related service is 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, custody services and other similar services that are provided over an extended period of time, are recognized over the period when the service is being provided.

Performance linked fees or fee components are recognized when the performance criteria is fulfilled.

3. Summary of significant accounting policies – continued

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred, together with the investment costs, and recognized as on adjustment to the effective yield rate on the loan. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognized on a straight-line basis over the commitment period.

Other fees and commission expense relate mainly to transaction and service fees, and are recognized as expenses as the services are received or the transaction is completed.

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

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

Where a transaction price differs from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognizes the difference between the transaction price and fair value (a Day1 profit or loss) in the consolidated statement of income. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated income statement when the inputs become observable, or when the instrument is derecognized.

i) Repurchase agreements and reverse repurchase agreements

Available for sale investments sold with a simultaneous commitment to repurchase at a specified future date (repurchase agreements) continue to be recognized in the consolidated statement of financial position as the Group retains substantially all of the risks and rewards of ownership, and are measured in accordance with related accounting policies for investments held as available for sale. The transactions are treated as a collateralized borrowing and the counter party liability for amounts received under these agreements is included in Due to banks and other financial institutions or Customer deposits, as appropriate. The difference between the sale and repurchase price is treated as special commission expense and accrued over the life of the repurchase agreement on an effective yield basis.

Underlying assets purchased with a corresponding commitment to resell at a specified future date (reverse repurchase agreements) are not recognised in the consolidated statement of financial position, as the Group does not obtain control over the underlying assets. Amounts paid under these agreements are included in “Cash and balances with SAMA”. The difference between the purchase and resale price is treated as special commission income and accrued over the life of the reverse repurchase agreement on an effective yield basis.

j) Investments

All investment securities are initially recorded at fair value, including any incremental direct transaction cost. Premiums are amortized and discounts are accreted using the effective yield basis and are taken to special commission income.

For securities traded in estabilished financial markets, fair value is determined by reference to exchange quoted market bid prices at the close of business on the consolidated statement of financial position date. Fair value of managed assets and investments in mutual funds are determined by reference to declared net asset values which approximates the fair value.

3. Summary of significant accounting policies – continued

For securities where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the expected cash flows of the security. Where the fair values cannot be derived from active markets or reference prices, they are 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, but 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 permissible only if certain conditions are met. The subsequent period-end reporting values for each class of investment are determined on the basis as set out in the following paragraphs.

(i) Available for sale

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

Investments which are classified as available for sale are initially recognized at fair value including direct and incremental transaction costs and subsequently measured at fair value, except for unquoted equity securities where fair value cannot be reliably measured which are carried at cost. For an available for sale investment where the fair value has not been hedged, any gain or loss arising from a change in its fair value is recognized in other comprehensive income. On derecognition or impairment, any cumulative gain or loss previously recognized in other comprehensive income is reclassified in the consolidated income statement.

Special commission income is recognized in the consolidated income statement on an effective yield basis. Dividend income is recognized in the consolidated income statement when the right to receive payment is established. Foreign exchange gains or losses on available for sale debt security investments are recognized in the consolidated income statement.

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

(ii) Held to maturity

Investments having fixed or determinable payments and a fixed maturity and for which the Group has a positive intention and ability to hold to maturity are classified as held to maturity. Held to maturity investments are initially recognized at fair value including direct and incremental transaction costs and are subsequently measured at amortized cost, less provision for impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition using an effective yield basis. Any gain or loss on such investments is recognized in the consolidated income statement when the investment is derecognized or impaired.

Investments classified as held to maturity cannot ordinarily be sold or reclassified without impacting the Group’s ability to use this classification and cannot be designated as a hedged item with respect to commission rate or prepayment risk, reflecting the longer-term nature of these investments. However, sales or reclassifications would not impact the Group’s ability to use this classification in any of the following circumstances:

- Sales or reclassifications that are so close to maturity that the changes in the market rate of the commission would not have a significant effect on the fair value;
- Sales or reclassifications after the Group has collected substantially all of the assets original principal; and
- Sales or reclassifications attributable to non-recurring isolated events beyond the Group’s control that could not have been reasonably anticipated.

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

3. Summary of significant accounting policies – continued

k) Loans and advances

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

All loans and advances are initially measured at fair value, including acquisition charges associated with the loans and advances.

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

l) Impairment of financial assets

An assessment is made at each reporting date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired at the reporting date. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future estimated cash flows, is recognised for changes in its carrying amount.

The Group considers evidence of impairment for loans and advances and held to maturity investments at both a specific and collective level. When a financial asset is uncollectible, it is written off against the related provision for impairment either directly by a charge to the consolidated income statement or through a provision 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.

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

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

Loans and advances whose terms have been renegotiated are no longer considered to be past due and are treated as new loans. Restructuring policies and practices are based on indicators or criteria which indicate that payment will most likely continue. The loans and advances continue to be subject to an individual or collective impairment assessment, calculated using the loan’s original effective yield rate.

Loans and advances are generally renegotiated either as part of an ongoing customer relationship, and possibly in response to an adverse change in the circumstances of the borrower. In the latter case, renegotiation can result in an extension of the due date of payment or repayment plans under which the Group offers a revised rate of commission. This may result in the asset continuing to be overdue and individually impaired as the renegotiated payments of commission and principal may not recover the original carrying amount of the loan. In other cases, renegotiation may lead to a new agreement, and accordingly the agreement is treated as a new loan.

3. Summary of significant accounting policies – continued

(i) Impairment of financial assets held at amortized cost

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

A specific provision for credit losses due to impairment of a loan or any other financial asset held at amortized cost is established if there is objective evidence that the Group 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.

In addition to specific provisions for credit losses, provisions for collective impairment are made on a portfolio basis. The collective impairment provisions are estimated based on various factors including credit ratings allocated to a borrower or group of borrowers, the experience the Group has had in dealing with a borrower or group of borrowers and available historical default information. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions.

For financial assets at amortised cost, the carrying amount of the asset 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

For debt instruments classified as available for sale, the Group 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 and recognized in the consolidated income statement.

For equity investments held as available for sale, a significant or prolonged decline in fair value below its cost represents objective evidence of impairment. Determining the amount of a significant or prolonged decline in fair value requires judgement. 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 other comprehensive income. On de-recognition, any cumulative gain or loss previously recognized in equity is included in the consolidated income statement.

m) Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s or cash-generating unit’s (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining an asset’s fair value less costs to sell, an appropriate valuation model is used. These model calculations are corroborated by valuation multiples, or other available fair value indicators.

3. Summary of significant accounting policies – continued

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indications exist, the Group estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversals are recognised in the consolidated income statement.

Impairment losses relating to goodwill are not reversed in future periods.

n) Other real estate

The Group, in the ordinary course of business, acquires certain real estate against settlement of loans and advances. Such real estate is considered as held for sale and is initially stated at the lower of net realizable value of the 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. Rental income from other real estate is recognized in the consolidated income statement.

Subsequent to initial recognition, any subsequent write down to fair value, less costs to sell, are charged to the consolidated income statement. Any subsequent gain in the fair value less costs to sell of these assets to the extent this does not exceed the cumulative write down is recognized together with any gain/ loss on disposal in the consolidated income statement.

o) Property, equipment, and intangibles

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

Buildings	20 to 30 years
Leasehold improvements	Over the lease period or 5 years, whichever is shorter
Intangibles	8 years
Furniture, equipment and vehicles	4 to 5 years

The assets' residual values, useful lives, and depreciation or amortization methods are reviewed and adjusted if appropriate, at each reporting date. Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the consolidated income statement.

Other expenditures are capitalised only when it is probable that the future economic benefit of the expenditure will flow to the Group. Ongoing repairs and maintenance costs are expensed when incurred.

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

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

3. Summary of significant accounting policies – continued

p) Financial liabilities

All money market deposits, customer deposits, term loans, subordinated debt, and other debt securities in issue are initially recognized at fair value less transaction costs.

Subsequently all 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 on an effective yield basis to maturity and taken to special commission expense.

Financial liabilities in an effective fair value hedge relationship are adjusted for fair value changes to the extent of the risk being hedged. The resulting gain or loss is recognized in the consolidated income statement. For financial liabilities carried at amortized cost, any gain or loss is recognized in the consolidated income statement when de-recognized.

q) Financial guarantees

A financial guarantee contract generally requires the issuer of the contract to make specific payments to the contract holder for a loss incurred by the holder if a debtor fails to pay under the terms of a debt instrument.

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the consolidated financial statements at fair value in other liabilities, being the value of the premium received. Subsequent to initial recognition, the Group’s liability under each guarantee is measured at the higher of the amortized premium and the best estimate of the expenditure required to settle any financial obligations arising as a result of such guarantees. Any increase in the liability relating to a financial guarantee is recognized in the consolidated income statement in impairment charges for credit losses, net. The premium received is recognized in the consolidated income statement in "Fee income from banking services, net” on a straight line basis over the life of the guarantee.

r) Provisions

Provisions are recognized for on and off balance sheet items when a reliable estimate can be made by the Group for a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation.

s) Accounting for leases

Leases entered into by the Group as a lessee, are classified as operating leases because the leases do not transfer all risks and rewards of ownership. Payments made under operating leases are charged to the consolidated income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

The Group also evaluates any non-lease arrangements such as outsourcing and similar contracts to determine if they contain a lease which is then accounted for separately.

t) 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 and balances with SAMA excluding statutory deposits, and due from banks and other financial institutions with a maturity of ninety days or less from the date of acquisition which are also subject to insignificant risk of changes in their fair value.

3. Summary of significant accounting policies – continued

u) De-recognition of financial instruments

A financial asset (or a part of a financial asset, or a part of a group of similar financial assets) is de-recognized, when the contractual rights to receive the cash flows from the financial asset expires or the asset is transferred and the transfer qualifies for de-recognition.

In instances where the Group is assessed to have transferred a financial asset, the asset is de-recognized if the Group has transferred substantially all the risks and rewards of ownership. Where the Group has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognized only if the Group has not retained control of the financial asset. The Group recognizes separately as assets or liabilities any rights and obligations created or retained in the process.

A financial liability (or part of a financial liability) can only be derecognized when it is extinguished, that is when the obligation specified in the contract is either discharged, cancelled or expired.

v) Zakat and income taxes

Zakat and income taxes are considered as liabilities of the Saudi and foreign shareholders, respectively. Zakat is computed on the Saudi shareholders' share of equity or net income using the basis defined under the Zakat regulations. Income taxes are computed on the foreign shareholders share of adjusted net income for the year under the income tax regulations.

Zakat and income tax are not charged to the consolidated income statement and are deducted from dividends paid to the shareholders, or reimbursed by the shareholders.

w) Employees' incentive plans

The Bank offers to its eligible employees ("Employees") equity shares in the Bank under an Employee Stock Grant Plan ("the Plan"). This Plan has been approved by SAMA. Under the terms of the Plan, employees are granted shares which vest over a four-year period. The cost of the Plan is measured by the value of the shares on the date purchased and recognized over the period in which the service condition is fulfilled using an appropriate valuation model, and ending on the vesting date. Employee share option schemes are recorded by the Bank at fair value at grant date. The shares acquired for the share option schemes are recorded at cost and are presented as a deduction from shareholders' equity as adjusted for any transaction costs, dividends, and gains or losses on sales of such shares.

The Group also offers to its employees an Employee Contributory Share Option Plan. The Plan entitles eligible employees to acquire shares in the Bank based on a pre-determined subscription price at the beginning of the Plan period. Over a two year period, employees contribute to the purchase of the shares through monthly payroll deductions. At the end of the subscription period, according to the plan, employees are granted the subscribed shares. Should the share price at the end of the subscription period fall below the subscription price, the employees are reimbursed for the difference between the share price and the subscription price.

In addition, the Group grants to its eligible employees other types of security and savings plans that are based on mutual contributions by the Group and the employees. These contributions are paid to the participating employees at the respective maturity date of each plan.

x) Other employees' benefits

Short-term employees' benefits are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short term cash bonus or profit sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

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

3. Summary of significant accounting policies – continued

The liability for the Group's employee's end of service benefits is determined based on an actuarial valuation conducted by an independent actuary, taking into account the provisions of the Saudi Arabian Labor and workmans law. The liability for other long-term employees' benefit plans are also based on an actuarial valuation conducted by an independent actuary taking into account the respective terms of the individual benefit plans.

y) Asset management services

The Group offers asset management services to its customers, which include management of certain investment funds in consultation with professional investment advisors. The Group's share of these funds is included in available for sale investments and fees earned are included in fee income from banking services, net.

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.

z) Non-interest based banking products

In addition to conventional banking, the Group offers to its customers certain non-interest based banking products, which are approved by its Shariah Board.

High level definitions of non-interest based products include:

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

ii. Istisna'a – an agreement between the Group and a customer whereby the Group sells to the customer a developed asset according to agreed upon specifications, for an agreed upon price.

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

All non-special interest based banking products are accounted for in conformity with the accounting policies described in these consolidated financial statements.

4. Cash and balances with SAMA

Cash and balances with SAMA are summarized as follows:

	2016 SAR'000	2015 SAR'000
Cash on hand	**881,498**	707,518
Reverse repurchase agreements with SAMA	**1,220,000**	-
Other balances with SAMA	**7,077**	(5,259)
Subtotal (note 27)	**2,108,575**	702,259
Statutory deposit with SAMA	**3,575,763**	3,384,728
Total	**5,684,338**	4,086,987

In accordance with the Banking Control Law and regulations issued by The Saudi Arabian Monetary Authority (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 deposits with SAMA are not available to finance the Bank's day to day operations and therefore do not form a part of cash and cash equivalents.

5. Due from banks and other financial institutions

Due from banks and other financial institutions are summarized as follows:

	2016 SAR'000	2015 SAR'000
Current accounts	**401,900**	155,733
Money market placements	**1,900,393**	6,254,530
Total	**2,302,293**	6,410,263

The credit quality of due from banks and other financial institutions is managed using data from reputable external credit ratings agencies and are considered to be investment grade.

6. Investments, net

a) Available for sale investment securities are classified as follows:

	2016 (SAR'000)			2015 (SAR'000)		
	Domestic	**International**	**Total**	Domestic	International	Total
Fixed rate securities	**7,202,134**	**7,984,702**	**15,186,836**	5,790,914	7,072,110	12,863,024
Floating rate securities	**1,851,318**	**3,228,178**	**5,079,496**	2,028,361	2,655,796	4,684,157
Total commission earning investments	**9,053,452**	**11,212,880**	**20,266,332**	7,819,275	9,727,906	17,547,181
Equities and others	**945,860**	**71,887**	**1,017,747**	1,221,275	85,334	1,306,609
Mutual funds	**167,815**	**-**	**167,815**	243,181	-	243,181
Total available for sale	**10,167,127**	**11,284,767**	**21,451,894**	9,283,731	9,813,240	19,096,971
Allowance for impairment	**-**	**(4,000)**	**(4,000)**	(110,000)	(4,000)	(114,000)
Available for sale, net	**10,167,127**	**11,280,767**	**21,447,894**	9,173,731	9,809,240	18,982,971

Investments include SAR 4.4 billion (2015: SAR 4.0 billion), which have been pledged under repurchase agreements with other financial institutions. The market value of these investments is SAR 4.4 billion (2015: SAR 4.1 billion). See Note 19 (d).

The net cost of the available for sale investment securities before allowance for impairment as of December 31, 2016 is SAR 20.9 billion (2015: SAR 19.1 billion).

b) The composition of available for sale investments is as follows:

	2016 (SAR'000)			2015 (SAR'000)		
	Quoted	**Unquoted**	**Total**	Quoted	Unquoted	Total
Fixed rate securities	**9,518,103**	**5,668,733**	**15,186,836**	8,451,545	4,411,479	12,863,024
Floating rate securities	**2,770,765**	**2,308,731**	**5,079,496**	2,198,475	2,485,682	4,684,157
Total commission earning investments	**12,288,868**	**7,977,464**	**20,266,332**	10,650,020	6,897,161	17,547,181
Equities and others	**942,110**	**75,637**	**1,017,747**	1,217,525	89,084	1,306,609
Mutual funds	**167,815**	**-**	**167,815**	243,181	-	243,181
Total available for sale	**13,398,793**	**8,053,101**	**21,451,894**	12,110,726	6,986,245	19,096,971
Allowance for impairment	**-**	**(4,000)**	**(4,000)**	(110,000)	(4,000)	(114,000)
Available for sale, net	**13,398,793**	**8,049,101**	**21,447,894**	12,000,726	6,982,245	18,982,971

6. Investments, net – continued

The unquoted securities above are principally comprised of Saudi Government Development Bonds, and certain Saudi corporate securities. Equities reported under available for sale investments include unquoted shares of SAR 12.4 million (2015: SAR 12.4 million) that are carried at cost, as their fair value cannot be reliably measured. Mutual funds are considered as quoted in the table above as daily net asset values are published on the Saudi Stock Exchange (Tadawul).

c) Available for sale investments, net are classified by counterparty as follows:

	2016 SAR'000	2015 SAR'000
Government and quasi-government	**10,169,143**	7,207,220
Corporate	**3,116,054**	3,495,730
Banks and other financial institutions	**8,162,697**	8,280,021
Available for sale investments, net	**21,447,894**	18,982,971

d) The credit risk exposure of available for sale investments, net is as follows:

	2016 SAR'000	2015 SAR'000
Investment grade	**17,682,772**	15,492,947
Non-investment grade	**1,012,726**	322,195
Unrated	**1,566,835**	1,804,737
Total investments subject to credit risk exposure	**20,262,333**	17,619,879
Equities and mutual funds not subject to credit risk exposure	**1,185,561**	1,363,092
Available for sale investments, net	**21,447,894**	18,982,971

Investment grade securities generally have a minimum external rating from approved rating agencies including Standard and Poors (BBB-), Moodys (Baa3), or Fitch (BBB-). Unrated investment securities primarily include Saudi corporate securities and other private equity fund investments.

e) The movement of the allowance for impairment on available for sale investments is as follows:

	2016 SAR'000	2015 SAR'000
Balance at the beginning of the year	**114,000**	30,000
Impaired during the year	**207,000**	187,000
Reversals for realized losses during the year	**(317,000)**	(103,000)
Balance at the end of the year	**4,000**	114,000

f) Other reserves classified in shareholders' equity are comprised of the following:

	2016 SAR'000	2015 SAR'000
Unrealized gains on revaluation of available for sale investments, net	**508,059**	14,017
Share of other comprehensive income of Associates	**1,592**	(2,249)
Other reserves	**509,651**	11,768

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

7. Loans and advances, net

a) Loans and advances, net held at amortized cost are comprised of the following:

	2016 (SAR'000)				
	Overdraft	**Consumer**	**Commercial**	**Others**	**Total**
Performing loans and advances	**3,240,106**	**16,566,115**	**40,067,704**	**300,358**	**60,174,283**
Non performing loans and advances	**854,976**	**214,637**	**-**	**-**	**1,069,613**
Total loans and advances	**4,095,082**	**16,780,752**	**40,067,704**	**300,358**	**61,243,896**
Allowance for credit losses	**(241,255)**	**(380,298)**	**(373,080)**	**(211)**	**(994,844)**
Loans and advances, net	**3,853,827**	**16,400,454**	**39,694,624**	**300,147**	**60,249,052**

	2015 (SAR'000)				
	Overdraft	Consumer	Commercial	Others	Total
Performing loans and advances	5,254,353	13,472,436	41,658,066	275,073	60,659,928
Non performing loans and advances	304,853	142,741	-	-	447,594
Total loans and advances	5,559,206	13,615,177	41,658,066	275,073	61,107,522
Allowance for credit losses	(262,948)	(276,923)	(298,564)	(281)	(838,716)
Loans and advances, net	5,296,258	13,338,254	41,359,502	274,792	60,268,806

Loans and advances above include non-interest based banking products including Murabaha agreements, Istisna'a and Ijarah which are stated at an amortized cost of SAR 37.1 billion (2015: SAR 32.6 billion).

The Group in the ordinary course of lending activities holds collateral as security to mitigate credit risk on its loans and advances. The collateral includes customer deposits, financial guarantees, securities, real estate, and other assets. The collateral is managed against relevant exposures at their net realizable values. The estimated fair value of collateral held by the Group as security for total loans and advances is approximately SAR 44.2 billion (2015: SAR 50.3 billion).

The estimated fair value of collateral held by the Group as security for non-performing loans and advances as of December 31, 2016 is approximately SAR 1.3 billion (2015: SAR 73.9 million).

b) The movement in the allowance for credit losses is as follows:

	Overdraft, commercial, and others		
	Specific	Collective	Total
December 31, 2014 balances	186,824	387,196	574,020
Provided during the year	98,375	(96,823)	1,552
Bad debts written off during the year	(45,106)	31,322	(13,784)
Recoveries during the year	-	5	5
December 31, 2015 balances	**240,093**	**321,700**	**561,793**
Provided during the year	**4,894**	**68,591**	**73,485**
Bad debts written off during the year	**(14,294)**	**(7,000)**	**(21,294)**
Recoveries during the year	**-**	**562**	**562**
December 31, 2016 balances	**230,693**	**383,853**	**614,546**

7. Loans and advances, net – continued

	Consumer		
	Specific	Collective	Total
December 31, 2014 balances	132,526	116,046	248,572
Provided during the year	98,312	18,136	116,448
Bad debts written off during the year	(144,131)	-	(144,131)
Recoveries during the year	56,034	-	56,034
December 31, 2015 balances	**142,741**	**134,182**	**276,923**
Provided during the year	**141,036**	**31,479**	**172,515**
Bad debts written off during the year	**(156,565)**	**-**	**(156,565)**
Recoveries during the year	**87,425**	**-**	**87,425**
December 31, 2016 balances	**214,637**	**165,661**	**380,298**

c) The credit quality of loans and advances is summarized as follows:

(i) Neither past due nor impaired loans and advances, are as follows:

	2016 SAR'000	2015 SAR'000
Excellent	**1,552,946**	340,227
Strong	**16,166,513**	19,326,250
Average	**14,654,462**	16,149,598
Acceptable	**8,668,615**	9,504,309
Marginal	**1,777,846**	669,416
Watch	**170,386**	32,840
Unrated	**16,474,099**	13,355,901
Total	**59,464,867**	59,378,541

The loans and advances that are neither past due nor impaired are described as follows:

Excellent - leader in a stable industry. Better than peers' financials and cash flows. Has access to financial markets under normal market conditions.

Strong - strong market and financial position with a history of successful performance but certain exceptions exist. Financial fundamentals are still better than industry benchmarks. The entity would have access to financial markets under normal conditions.

Average - moderate degree of stability with industry or company specific risk factors. Financial fundamentals are sound and within industry benchmarks. Access to financial markets is limited and the entity is susceptible to cyclical changes.

Acceptable - minor weaknesses in industry or company specific risk factors. Some financial fundamentals are inferior to industry benchmarks. Alternative financing could be available but this might be limited to private and institutional sources only.

Marginal - unfavorable industry or company specific risk factors exist. Operating performance and financials are marginal. Alternative sources of finance are unlikely. No new business can be contemplated with this category.

7. Loans and advances, net – continued

Watch - unfavorable industry or company specific risk factors exist. Risk of non-payment is high. Financial fundamentals are well below industry benchmarks and alternative sources of finance are extremely limited.

Unrated – unrated loans and advances primarily consist of consumer loans with no past due balances.

(ii) Past due but not impaired loans and advances, are as follows:

	2016 (SAR'000)		
	Overdraft and commercial	**Consumer**	**Total**
From 1 day to 30 days	**95,695**	**58,590**	**154,285**
From 31 days to 90 days	**79,299**	**33,426**	**112,725**
From 91 days to 180 days	**60,193**	-	**60,193**
More than 180 days	**382,213**	-	**382,213**
Total	**617,400**	**92,016**	**709,416**

	2015 (SAR'000)		
	Overdraft and commercial	Consumer	Total
From 1 day to 30 days	1,737	54,579	56,316
From 31 days to 90 days	11,197	62,646	73,843
From 91 days to 180 days	1,048	-	1,048
More than 180 days	1,150,180	-	1,150,180
Total	1,164,162	117,225	1,281,387

The above table for 2015 does not include certain past due but not impaired loans which were in an advanced stage of negotiation for renewal or restructuring. Such loans totaled SAR 1.4 billion and were either regularized or settled during 2016.

The estimated fair value of collateral held by the Group for past due but not impaired overdraft and commercial facilities included above is SAR 4.4 billion (2015: SAR 2.7 billion).

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

7. Loans and advances, net – continued

(iii) The economic sector risk concentrations for loans and advances and allowance for credit losses are as follows:

	2016 (SAR'000)			
	Performing	**Non performing**	**Allowance for credit losses**	**Loans and advances, net**
Government and quasi-government	**306,337**	**-**	**(1,423)**	**304,914**
Banks and other financial services	**4,832,040**	**27,065**	**(60,413)**	**4,798,692**
Agriculture and fishing	**31,647**	**-**	**(227)**	**31,420**
Manufacturing	**5,942,565**	**1,727**	**(56,146)**	**5,888,146**
Mining and quarrying	**926,717**	**-**	**(6,729)**	**919,988**
Building and construction	**5,462,599**	**559,191**	**(57,187)**	**5,964,603**
Commerce	**11,205,053**	**202,015**	**(252,583)**	**11,154,485**
Transportation and communication	**1,458,815**	**45,112**	**(47,351)**	**1,456,576**
Services	**1,874,675**	**12,742**	**(32,607)**	**1,854,810**
Consumer loans	**16,566,115**	**214,637**	**(380,298)**	**16,400,454**
Other	**11,567,720**	**7,124**	**(99,880)**	**11,474,964**
Total	**60,174,283**	**1,069,613**	**(994,844)**	**60,249,052**

	2015 (SAR'000)			
	Performing	Non performing	Allowance for credit losses	Loans and advances, net
Government and quasi-government	328,943	-	(1,122)	327,821
Banks and other financial services	8,128,175	-	(83,437)	8,044,738
Agriculture and fishing	17,789	-	(111)	17,678
Manufacturing	6,310,479	3,210	(48,033)	6,265,656
Mining and quarrying	439,292	-	(2,725)	436,567
Building and construction	4,926,881	695	(37,068)	4,890,508
Commerce	13,778,599	209,514	(240,788)	13,747,325
Transportation and communication	1,811,070	43,783	(48,732)	1,806,121
Services	1,666,860	14,372	(29,631)	1,651,601
Consumer loans	13,472,436	142,741	(276,923)	13,338,254
Other	9,779,404	33,279	(70,146)	9,742,537
Total	60,659,928	447,594	(838,716)	60,268,806

8. Investments in associates

Investments in associates represent the Bank's share of investments in entities where the Bank has significant influence. These investments are accounted for using the equity method of accounting.

(a) Investments in associates include the Bank's ownership interest in associated companies in the Kingdom of Saudi Arabia, as follows:

	2016	2015
American Express Saudi Arabia ("AMEX")	**50%**	50%
Saudi Orix Leasing Company ("ORIX")	**38%**	38%
Amlak International for Finance and Real Estate Development Co. ("AMLAK")	**32%**	32%

AMEX is a Saudi Arabian closed joint stock company in Saudi Arabia with total capital of SAR 100 million. The principal activities of AMEX are to issue credit cards and offer other American Express products in Saudi Arabia.

ORIX is a Saudi Arabian closed joint stock company in Saudi Arabia with total capital of SAR 550 million. The primary business activities of ORIX include lease financing services in Saudi Arabia.

AMLAK is a Saudi Arabian closed joint stock company in Saudi Arabia with total capital of SAR 900 million. AMLAK offers real estate finance products and services in Saudi Arabia.

All of the Group's associates are incorporated in and operate exclusively within in Saudi Arabia.

The Bank also has a 20% interest in Naeem Investment Company which has no operations.

(b) The movement of investments in associates is summarized as follows:

	2016 SAR'000	2015 SAR'000
Balance at beginning of the year	**939,022**	846,351
Share of earnings	**150,634**	156,195
Dividends	**(92,917)**	(63,400)
Share of other comprehensive income	**3,598**	(124)
Balance at end of the year	**1,000,337**	939,022

(c) The Bank's share of the associates' financial statements is summarized below:

	2016 (SAR'000)		
	AMEX	**ORIX**	**AMLAK**
Total assets	**419,856**	**606,181**	**1,061,172**
Total liabilities	**223,125**	**285,853**	**695,217**
Total equity	**196,731**	**320,328**	**365,955**
Total income	**210,397**	**72,817**	**61,894**
Total expenses	**119,764**	**52,578**	**26,750**

	2015 (SAR'000)		
	AMEX	ORIX	AMLAK
Total assets	416,533	774,893	976,215
Total liabilities	239,637	464,512	624,284
Total equity	176,896	310,381	351,931
Total income	201,794	94,724	58,423
Total expenses	113,453	55,114	25,559

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

8. Investments in associates – continued

One of the associate companies above has a potential additional Zakat liability as of December 31, 2016. If the method of the Zakat assessment by the General Authority for Zakat and Tax is upheld through all levels of the appeal process, the Group has agreed with the associate company that it is unconditionally liable for its share amounting to approximately SAR 63.6 million as of December 31, 2016.

9. Property, equipment, and intangibles, net

Property, equipment, and intangibles net is summarized as follows:

	2016 and 2015 (SAR'000)					
	Land and buildings	**Leasehold improve-ments**	**Furniture, equipment and vehicles**	**Intangibles**	**Total 2016**	Total 2015
Cost						
Balance at the beginning of the year	**991,128**	**116,918**	**404,400**	**202,694**	**1,715,140**	1,522,846
Additions	**-**	**13,588**	**15,505**	**25,945**	**55,038**	192,618
Disposals	**-**	**-**	**(34)**	**-**	**(34)**	(324)
Balance at the end of the year	**991,128**	**130,506**	**419,871**	**228,639**	**1,770,144**	1,715,140
Accumulated depreciation and amortization						
Balance at the beginning of the year	**231,637**	**70,329**	**303,021**	**88,589**	**693,576**	613,224
Charge for the year	**32,158**	**15,231**	**24,409**	**17,203**	**89,001**	80,581
Disposals	**-**	**-**	**(33)**	**-**	**(33)**	(229)
Balance at the end of the year	**263,795**	**85,560**	**327,397**	**105,792**	**782,544**	693,576
Net book value						
As of December 31, 2016	**727,333**	**44,946**	**92,474**	**122,847**	**987,600**	
As of December 31, 2015	759,491	46,589	101,379	114,105		1,021,564

Intangibles include information technology related assets.

10. Other assets

Other assets are summarized as follows:

	2016 SAR'000	2015 SAR'000
Zakat and income tax due from shareholders	**112,710**	105,837
Customer receivables	**12,912**	131,701
Property, equipment, and intangibles costs pending completion	**102,273**	64,829
Prepaid expenses	**104,287**	105,897
All other assets	**24,361**	20,480
Total	**356,543**	428,744

11. Derivatives

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

a) Swaps

Swaps are commitments to exchange one set of cash flows for another. For special commission rate swaps, counterparties generally exchange fixed and floating rate commission payments in a single currency without exchanging notional amounts. For cross-currency special commission rate swaps, notional amounts, and fixed and floating special commission payments are exchanged in different currencies. The notional amounts can also vary based upon the agreed terms in the case of variable notional swaps.

b) Forwards and futures

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

c) Forward rate agreements

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

d) Options

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

The derivative financial instruments utilized are either held for trading or held for hedging purposes as described below:

a) 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, inter alia, to enable them to transfer, modify or reduce current and future risks. Positioning involves managing market risk positions with the expectation of profiting from favorable movements in prices, rates or indices. Arbitrage involves identifying, with the expectation of profiting from price differentials, between markets or products.

b) Held for hedging purposes

The Bank has adopted a comprehensive system for the measurement and management of risk. The risk management process involves managing the Bank’s exposure to fluctuations in currency and special commission rate risks to acceptable levels as determined by the Board of Directors and 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 routinely monitored and hedging strategies are used to ensure positions are maintained within the established limits. The Board of Directors has established the level of special commission rate risk by setting limits on special commission rate gaps for stipulated periods. Asset and liability special commission rate gaps are reviewed on a periodic basis and hedging strategies are periodically used to reduce special commission rate gap within the established limits.

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

11. Derivatives - continued

As part of its asset and liability management, the Bank uses derivatives for hedging purposes in order to optimize its own exposure to currency and special commission rate risks. This is generally achieved by hedging specific transactions.

The Bank uses forward foreign exchange contracts to also apply various hedging strategies against specifically identified currency risks. In addition, the Bank uses special commission rate swaps to hedge against the special commission rate risk arising from specifically identified fixed special commission-rate exposures.

The tables below summarize the positive and negative fair values of derivative financial instruments, together with the notional amounts, analyzed by the term to maturity and monthly average. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the year-end, do not necessarily reflect the amounts of future cash flows involved. The notional amounts are not indicative of the Bank's exposure to credit risk which is generally limited to the positive fair values of derivatives, nor market risk.

The Bank has a put option arising from an existing master agreement entered into by the Bank relating to an associated company, the estimated value of which is included in the table below. The terms of the agreement give the Bank a put option and gives the counter party a call option, that is exercisable from 2013 onwards for the remaining term of the agreement. The Bank has valued only the put option, as the call option is deemed to be out of the money. The put option, once exercised, grants the Bank the right to receive a payment in exchange for its shares one year after the exercize, based on pre-determined formulas included in the agreement.

Derivative financial instruments are summarized as follows:

				Notional amounts by term to maturity				
	2016 (SAR'000)							
	Positive fair value	**Negative fair value**	**Notional amount**	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Monthly average**
Held for trading:								
Forward foreign exchange contracts	**82,847**	**53,125**	**9,464,413**	**3,802,674**	**4,028,717**	**1,633,022**	**-**	**6,548,332**
Foreign exchange options	**25,256**	**25,256**	**1,648,630**	**161,570**	**752,380**	**734,680**	**-**	**1,951,432**
Commission rates swaps	**805,345**	**813,420**	**6,788,527**	**-**	**70,000**	**5,998,527**	**720,000**	**5,540,097**
Held as fair value hedges:								
Commission rate swaps	**614,848**	**533,126**	**4,521,160**	**393,960**	**-**	**600,320**	**3,526,880**	**3,689,705**
Associated company put option	**386,421**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**1,914,717**	**1,424,927**	**22,422,730**	**4,358,204**	**4,851,097**	**8,966,549**	**4,246,880**	**17,729,566**

				Notional amounts by term to maturity				
	2015 (SAR'000)							
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading:								
Forward foreign exchange contracts	24,056	22,715	4,459,736	1,227,983	1,889,239	1,342,514	-	8,429,793
Foreign exchange options	57,608	57,608	1,814,557	303,806	857,221	653,126	404	1,834,719
Commission rates swaps	651,492	644,203	5,277,502	250,000	160,000	1,877,720	2,989,782	4,885,841
Held as fair value hedges:								
Commission rate swaps	254,827	276,146	2,721,360	-	319,056	487,968	1,914,336	2,513,208
Associated company put option	299,160	-	-	-	-	-	-	-
Total	1,287,143	1,000,672	14,273,155	1,781,789	3,225,516	4,361,328	4,904,522	17,663,561

11. Derivatives - continued

The table below is a summary of the Bank's fair value hedges and hedged portfolios as of December 31, 2016 and 2015, which includes the description of the hedged items and related fair values, the nature of the risk being hedged, and the hedging instruments and related fair values.

December 31, 2016 (SAR'000)

	Hedged items			**Hedging instruments**		
	Current fair value	**Inception fair value**	**Hedged risk**	**Instrument used**	**Positive fair value**	**Negative fair value**
Fixed commission rate investments	**4,565,447**	**4,063,916**	**Fair value risk**	**Commission rate swaps**	**614,848**	**533,126**

December 31, 2015 (SAR'000)

	Hedged items			Hedging instruments		
	Current fair value	Inception fair value	Hedged risk	Instrument used	Positive fair value	Negative fair value
Fixed commission rate investments	2,801,929	2,821,298	Fair value risk	Commission rate swaps	254,579	276,146

The net gains during the year on hedging instruments for fair value hedges were SAR 91.2 million (2015: gains of SAR 7.7 million). The net losses on hedged items attributable to hedged risk were SAR 90.8 million (2015: losses of SAR 286.5 million). The net positive fair value of all derivatives is approximately SAR 489.8 million (2015: SAR net negative 12.9 million). Approximately 71% (2015: 59%) of the positive fair value of the Bank's derivatives are entered into with financial institutions, and less than 19% (2015: 35%) of the positive fair value contracts are with any single counterparty at the consolidated statement of financial position date. Derivative activities are mainly carried out under the Bank's treasury segment.

The Bank, as part of its derivative management activities, has entered into a master agreement in accordance with the International Swaps and Derivative Association (ISDA) directives. Under this agreement, the terms and conditions for derivative products purchased or sold by the Group are unified. As part of the master agreement, a credit support annex (CSA) has also been signed. The CSA allows the Group to receive improved pricing by way of exchange of mark to market amounts in cash as collateral whether in favor of the Group or the counter party. As of December 31, 2016, the net cash collateral amounts held by the Bank totals SAR 46.7 million, (2015: net cash collateral held with counterparties totals SAR 39.3 million).

12. Due to banks and other financial institutions

Due to banks and other financial institutions is summarized as follows:

	2016 SAR'000	2015 SAR'000
Current accounts	**4,712**	7,600
Repurchase agreements (note 19d)	**4,151,531**	3,819,090
Money market deposits	**4,840,473**	1,502,458
Total	**8,996,716**	5,329,148

13. Customer deposits

Customer deposits are summarized as follows:

	2016 SAR'000	2015 SAR'000
Time deposits	**36,677,689**	47,105,052
Savings deposits	**4,073,660**	1,620,632
Total special commission bearing deposits	**40,751,349**	48,725,684
Demand deposits	**23,955,017**	20,876,355
Other deposits	**933,959**	916,443
Customer deposits	**65,640,325**	70,518,482

Time deposits include deposits against sale of securities of SAR Nil million (2015: SAR 3.9 million) with agreements to repurchase the same at fixed future dates. Other customer deposits include SAR 535 million (2015: SAR 516 million) of margins held for irrevocable commitments.

Customer deposits above include Sharia-Compliant deposits totaling SAR 46.5 billion (2015: SAR 52.5 billion).

The above amounts include foreign currency deposits (equivalent to Saudi Arabian Riyals) as follows:

	2016 SAR'000	2015 SAR'000
Demand	**1,772,546**	642,531
Savings	**1,390,880**	178,700
Time	**1,045,305**	8,248,118
Other	**68,159**	65,830
Total	**4,276,890**	9,135,179

14. Term loans

On May 30, 2011, the Bank entered into a five-year medium term loan facility agreement for an amount of SAR 1.0 billion for general corporate purposes. The facility was due and repaid on May 30, 2016. On June 24, 2012, the Bank entered into another five-year medium term loan facility agreement also for an amount of SAR 1.0 billion for general corporate purposes. The facility has been fully utilized and is repayable on September 5, 2017. On June 19, 2016, the Bank entered into another five year medium term loan facility agreement for an amount of SAR 1.0 billion for general corporate purposes. The facility has been fully utilized and is repayable on June 19, 2021.

The term loans bear commission at market based variable rates. The Bank has an option to effect early repayment of the terms loans subject to the terms and conditions of the related facility agreements. The facility agreements above include covenants which require maintenance of certain financial ratios and other requirements, with which the Bank is in compliance. The Bank also has not had any defaults of principal or commission on the term loans.

15. Subordinated debt

On June 5, 2014 the Bank concluded the issuance of a SAR 2.0 billion subordinated debt issue through a private placement of a Shariah compliant Tier II Sukuk in the Kingdom of Saudi Arabia.

The Sukuk carries a half yearly profit equal to six month SIBOR plus 1.45%. The Sukuk has a tenor of ten years with the Bank retaining the right to call the Sukuk at the end of the first five year period, subject to certain regulatory approvals. The Bank has not had any defaults of principal or commission on the subordinated debt.

16. Other liabilities

Other liabilities are summarized as follows:

	2016 SAR'000	2015 SAR'000
End of service and other employee - related benefits	**279,335**	313,046
Accrued expenses and other reserves	**167,833**	127,102
Deferred fee income	**7,339**	13,942
Customer related liabilities	**251,167**	207,969
All other liabilities	**16,108**	20,492
Total	**721,782**	682,551

17. Share capital

As of December 31, 2016, the authorized, issued and fully paid share capital of the Bank consists of 700 million shares of SAR 10 each (2015: 650 million shares of SAR 10 each). The ownership of the Bank's share capital is as follows:

	2016		2015	
	SAR'000	**%**	SAR'000	%
Saudi shareholders	**6,300,000**	**90.0**	5,850,000	90.0
Foreign shareholders:				
J.P. Morgan International Finance Limited	**525,000**	**7.5**	487,500	7.5
Mizuho Corporate Bank Limited	**175,000**	**2.5**	162,500	2.5
	7,000,000	**100.0**	6,500,000	100.0

During 2016, 50 million bonus shares were issued by the Bank increasing the issued number of shares outstanding from 650 million to 700 million shares. During 2015, 50 million shares were issued by the Bank increasing the issued number of shares outstanding from 600 million shares to 650 million shares (see note 26).

18. Statutory reserve

In accordance with Saudi Arabian Banking Control Law and the Articles of Association of the Bank, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid up capital of the Bank. Accordingly, SAR 264 million has been transferred from 2016 net income (2015: SAR 333 million). The statutory reserve is not available for distribution.

19. Commitments and contingencies

a) Legal proceedings

As of December 31, 2016, there were certain legal proceedings outstanding against the Group. No provision has been made in cases where professional legal advice indicates that it is not probable that any significant loss will arise. However, provisions are made for legal cases where management foresees the probability of an adverse outcome based on professional advice. As of December 31, 2016, the Bank's allowance for such cases totaled SAR 25.9 million. (2015: SAR 4.9 million).

b) Capital commitments

As of December 31, 2016, the Group had capital commitments of SAR 41.1 million (2015: SAR 18.4 million).

c) Credit related commitments and contingencies

The Group enters into certain credit related facilities to ensure that funds are available to a customer as required.

Guarantee and standby letters of credit, which represent irrevocable assurances that the Group 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 Group does not generally expect the third party to draw funds under the agreement.

Documentary letters of credit which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group 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 Group to pay bills of exchange drawn on customers. The Group 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 Group 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.

For issued financial guarantee contracts and loan commitments, the maximum amount is allocated to the earliest period in which the guarantee could be called, as the Bank has the right to recall financial guarantee contracts and loan commitments prior to their maturity.

i) The contractual maturity structure for the Group's credit related commitments and contingencies are as follows:

	2016 (SAR'000)				
	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	725,269	860,694	296,786	-	1,882,749
Letters of guarantee	1,805,418	5,359,695	1,228,370	18,972	8,412,455
Acceptances	452,592	203,499	-	-	656,091
Irrevocable commitments to extend credit	-	150,000	47,351	115,854	313,205
Total	2,983,279	6,573,888	1,572,507	134,826	11,264,500

19. Commitments and contingencies - continued

	2015 (SAR'000)				
	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	931,185	979,922	359,682	-	2,270,789
Letters of guarantee	1,638,781	4,449,074	2,377,142	91,587	8,556,584
Acceptances	353,902	151,020	-	-	504,922
Irrevocable commitments to extend credit	-	-	177,495	210,618	388,113
Total	2,923,868	5,580,016	2,914,319	302,205	11,720,408

The outstanding unused portion of commitments as of December 31, 2016 which can be revoked unilaterally at any time by the Bank, amounts to SAR 27,760 million (2015: SAR 30,194 million).

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

	2016 SAR'000	2015 SAR'000
Government and quasi-Government	**6,035,415**	6,343,560
Corporate	**4,729,420**	4,816,034
Banks and other financial institutions	**277,564**	275,677
Other	**222,101**	285,137
Total	**11,264,500**	11,720,408

d) Assets pledged

Securities pledged under repurchase agreements with other banks include corporate, bank, and non-government bonds. The fair values of assets pledged as collateral with other financial institutions as security and the related balances of the repurchase agreements are as follows:

	2016 (SAR'000)		2015 (SAR'000)	
	Assets	**Repurchase Agreements**	Assets	Repurchase Agreements
Available for sale investments	**4,419,351**	**4,151,531**	4,057,491	3,819,090

The pledged assets presented in the above table are those financial assets that may be repledged or resold by counter parties to whom they have been transferred. These transactions are conducted under terms that are usual and customary to standard securities borrowing and lending activities, as well as requirements determined by exchanges on which the Bank acts as an intermediary.

e) Operating lease commitments

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

	2016 SAR'000	2015 SAR'000
Less than 1 year	**30,230**	29,850
1 to 5 years	**60,985**	74,737
Over 5 years	**45,962**	54,005
Total	**137,177**	158,592

f) Zakat and Tax

Notes 8 and 26 provide information regarding the current status of the Group's Tax and Zakat positions.

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

20. Special commission income and expense

Special commission income and expense is summarized as follows:

	2016 SAR'000	2015 SAR'000
Special commission income:		
Investments available for sale	**536,030**	450,879
Loans and advances	**2,453,602**	1,860,727
Due from banks and other financial institutions	**210,977**	129,814
Total	**3,200,609**	2,441,420
Special commission expense:		
Customer deposits	**1,094,748**	447,765
Due to banks and other financial institutions	**313,561**	178,724
Term loans	**52,668**	34,768
Subordinated debt	**67,576**	48,974
Total	**1,528,553**	710,231

21. Fee income from banking services, net

Fee income from banking services, net is summarized as follows:

	2016 SAR'000	2015 SAR'000
Fee income:		
- Share trading and fund management	**130,035**	132,212
- Trade finance	**91,715**	103,341
- Corporate and retail finance	**180,260**	162,673
- Other banking services	**91,984**	111,818
Total fee income	**493,994**	510,044
Fee expense:		
- Custodial services	**65,161**	44,078
- Other banking services	**13,329**	15,891
Total fee expense	**78,490**	59,969
Fee income from banking services, net	**415,504**	450,075

22. Dividend income

Dividend income is summarized as follows:

	2016 SAR'000	2015 SAR'000
Dividend income from available for sale equity investments	**27,543**	35,920

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

23. Gains on investments, net

Gains on investments, net are summarized as follows:

	2016 SAR'000	2015 SAR'000
Gains on available for sale investments, net	**57,851**	102,176
Associated company put option gains	**87,261**	84,024
Total gains on investments, net	**145,112**	186,200

24. Compensation and related governance and practices

As required by SAMA, the following table summarizes the Group's employee categories defined in accordance with SAMA's rules on compensation practices. It includes the total amounts of fixed and variable compensation paid to employees, and the forms of such payments, and also includes the variable compensation accrued, and other employee benefits and related expenses incurred during the years ended December 31, 2016 and 2015.

		2016 (SAR'000)			
Category	**Number of Employees**	**Fixed Compensation Paid**	**Variable Compensation Paid — Cash**	**Shares**	**Total**
Senior executives requiring SAMA no objection	**20**	**36,237**	**18,067**	**6,990**	**25,057**
Employees engaged in risk taking activities	**132**	**58,114**	**14,831**	**4,813**	**19,644**
Employees engaged in control functions	**232**	**54,746**	**9,301**	**5,305**	**14,606**
Other employees	**1,219**	**230,346**	**32,081**	**13,809**	**45,890**
Outsourced employees	**58**	**8,697**	**1,665**	**194**	**1,859**
Totals	**1,661**	**388,140**	**75,945**	**31,111**	**107,056**
Variable compensation accrued		**106,989**			
Other employee benefits and related expenses		**96,672**			
Total salaries and employee related expenses		**591,801**			

		2015 (SAR'000)			
Category	Number of Employees	Fixed Compensation Paid	Variable Compensation Paid — Cash	Shares	Total
Senior executives requiring SAMA no objection	19	34,483	18,447	5,039	23,486
Employees engaged in risk taking activities	145	67,037	19,532	4,432	23,964
Employees engaged in control functions	248	54,019	13,454	3,880	17,334
Other employees	1,266	222,678	59,418	10,032	69,450
Outsourced employees	69	10,971	3,357	104	3,461
Totals	1,747	389,188	114,208	23,487	137,695
Variable compensation accrued		132,454			
Other employee benefits and related expenses		97,832			
Total salaries and employee related expenses		619,474			

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

24. Compensation and related governance and practices - continued

Included in the 2015 variable cash compensation above are payments for a bonus which was paid to the Group's employees in connection with a Royal Decree issued by King Salman Bin Abdulaziz Al-Saud, the custodian of the two Holy Mosques.

The Board of Directors of the Bank has established a Nomination and Remuneration Committee (the Committee) which consists of four board members. The Committee is primarily responsible for recommending appointments to membership of the Board of Directors and key executives of the Bank in compliance with the Bank's Corporate Governance Guidelines, completing annual reviews for the requirements of suitable skills and independence for membership of the Bank's Board of Directors, reviewing the structure of the Board of Directors, establishing policies for the compensation and remuneration of members of the Board of Director's, and overseeing the Bank's employee compensation system's design.

The Committee is also responsible to recommend to the Board of Directors the approval of the Bank's Compensation Policy and any amendments thereto, to ensure that the Bank's remuneration policies are in compliance with SAMA guidelines and the Financial Stability Board's (FSB) Principles on compensation, to periodically review the Bank's remuneration and compensation policy, to evaluate practices by which compensation is paid, and to determine the performance bonuses for the Bank's employees based on the risk adjusted profit of the Bank.

The Bank's Remuneration and Compensation Policy is designed to attract, retain and motivate high performing and high potential employees. Employees participate in various variable pay arrangements. Discretionary variable pay as well as fixed pay reviews are dependent on the achievement of objectives, which is monitored/measured via a robust performance management system. The grant of the variable component of the reward, both cash and shares, is strictly dependent on the achievement of set targets and level of achievements. Higher achievements will warrant a better performance rating and higher variable compensation. The Balanced Scorecard concept is used and objectives have typically been categorized into four segments including financial, customer, process, and people.

Financial and non-financial metrics are then used to measure performance against the objectives, which include profitability, expense control, customer satisfaction, employee development/engagement, workforce diversity, sustainable business practices, lending guidelines, internal controls, compliance with regulations, and business systems and processes. Effective risk management is also emphasized to maintain a strong and secure operating platform. A Risk Appetite Framework Policy has been established and compliance thereto is key to all remuneration decisions including variable pay arrangements.

In addition to the above, the Bank's employees are encouraged to participate in employee share savings and incentive schemes. Variable remuneration is linked to long-term value creation and risk. It is also based on individual, business segment, and Bank performance criteria. Accordingly, high performing and potential employees in management grades are covered under a Key Employee Stock Option Grant Plan, where a part of the variable compensation is deferred in line with long term risk realization. The vesting is subject to clawback mechanisms.

The Bank's subsidiaries have adopted a similar approach to remuneration and compensation practices as described above, including policies within a framework of prudent risk management.

The total amount of compensation paid to key management for the year ended December 31, 2016 was SAR 61.3 million (2015: SAR 58.0 million). The post employment benefits accrued or paid to key management for the year ended December 31, 2016 was SAR 3.9 million (2015: SAR 3.6 million).

The total end of service payments made for all employees who left their employment with the Group during the year ended December 31, 2016 totalled SAR 17.6 million (2015: SAR 14.5 million). These payments were made to 149 beneficiaries (2015: 143). The highest payment to a single individual in 2016 was SAR 0.9 million (2015: SAR 1.1 million).

25. Basic and diluted earnings per share

Basic and diluted earnings per share for the year ended December 31, 2016 and 2015 are calculated by dividing the net income for the year by 700 million shares, after giving effect to the bonus shares issued in 2016 (see note 26). As a result, basic and diluted earnings per share for the year ended December 31, 2015 have been retroactively adjusted to reflect the issuance of the bonus shares.

26. Dividends, zakat and income tax

In 2016, the Board of Directors proposed a cash dividend of SAR 350 million equal to SAR 0.50 per share, net of Zakat to be withheld from the Saudi shareholders totalling SAR 70 million. The Board of Directors has also proposed a bonus share issue of 500 million shares with a par value of SAR 10 per share, or one bonus share for each fourteen shares outstanding. The proposed cash dividend and bonus share issue will be presented for approval in an extraordinary general assembly meeting expected to convene in 2017.

In 2015, the Board of Directors proposed a cash dividend of SAR 487.5 million equal to SAR 0.75 per share, net of Zakat to be withheld from the Saudi shareholders totalling SAR 47.0 million. The Board of Directors also proposed a bonus share issue of 50 million shares with a par value of SAR 10 per share, or one bonus share for each thirteen shares outstanding. The proposed cash dividend and bonus share issue were approved by the Bank's shareholders in an extraordinary general assembly meeting held on 26 Jumada II, 1437 (corresponding to April 4, 2016). The net dividends were paid and the bonus shares issued to the Bank's shareholders thereafter.

In 2014, the Board of Directors proposed a cash dividend of SAR 480 million equal to SAR 0.80 per share, net of Zakat to be withheld from the Saudi shareholders totalling SAR 42 million. The Board of Directors also proposed a bonus share issue of 50 million shares with a par value of SAR 10 per share, or one bonus share for each twelve shares outstanding. The proposed cash dividend and bonus share issue were approved by the Bank's shareholders in an extraordinary general assembly meeting held on 17 Jumada I 1436 (corresponding to March 8, 2015). The net dividends were paid and the bonus shares were issued to the Banks shareholders thereafter.

Any future cash dividends to the Saudi and non-Saudi shareholders will be paid after deducting zakat and any unreimbursed income tax, as follows:

a) Saudi shareholders:

Zakat attributable to the Saudi shareholders for the years from 2013 to 2015 amounts to approximately SAR 104.0 million. Estimated Zakat attributable to Saudi shareholders for 2016 is approximately SAR 32.1 million. The total Zakat attributable to Saudi shareholders through 2016 totaling approximately SAR 136.1 million will be deducted from their share of future dividends. The cumulative Zakat from 2013 through 2016 amounts to approximately SAR 0.19 per share (2015: the cumulative zakat from 2012 through 2015 amounted to approximately SAR 0.17 per share).

b) Foreign shareholders:

Estimated Income Tax attributable to the non-Saudi shareholders for 2016 is approximately SAR 21.6 million. (2015: SAR 24.2 million). There is no unreimbursed income tax for the years prior to 2016.

The Bank has filed the required Tax and Zakat returns with the Government Authority for Zakat and Tax which are due on April 30 each year, through the year ended December 31, 2015.

The Bank has received final assessments for additional Zakat, Income tax, and withholding tax totalling approximately SAR 277 million relating to the Bank's 2003 to 2009 Zakat, Income tax, and withholding tax filings. Also refer to note 9 to these consolidated financial statements for pending Zakat assessments related to an associate company. The Bank has also received partial assessments for additional Zakat totalling approximately SAR 383 million relating to its 2010, 2011 and 2013 Zakat filings.

These final and partial assessments include approximately SAR 573 million in Zakat assessments which are primarily due to the disallowance of deductions for certain long-term investments from the Zakat base of the Bank.

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

26. Dividends, zakat and income tax - continued

The Bank, in consultation with its professional Tax and Zakat advisors, has filed appeals for the above final and partial assessments with the General Authority for Zakat and Tax, and while management is confident of a favorable outcome on the basis of the appeals filed, it is awaiting responses and final decisions from the appeal and other available processes. Accordingly, no provisions for these amounts have been made in the Bank's consolidated financial statements as of December 31, 2016.

Further assessments, if any, for the years 2012, 2014, and 2015 are yet to be raised by the General Authority for Zakat and Tax. However, if the deductions for certain long-term investments from the Zakat base of the Bank are disallowed for these years, in line with the assessments already made, it would result in a significant additional Zakat exposure. This remains an industry wide issue and disclosure of such amounts might affect the Bank's position in this matter.

27. Cash and cash equivalents

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

	2016	2015
	SAR'000	SAR'000
Cash and balances with SAMA excluding statutory deposit (note 4)	**2,108,575**	702,259
Due from banks and other financial institutions maturing within ninety days from the date of acquisition	**2,274,077**	6,401,710
Total	**4,382,652**	7,103,969

28. Operating segments

Operating segments are identified based on internal reports about components of the Group that are regularly reviewed by the Bank's Board of Directors in its function as the Chief Operating Decision Maker to allocate resources to the segments and to assess their performance.

Performance is measured based on segment profit as management believes that this indicator is the most relevant in evaluating the results of certain segments relative to other entities that operate within these sectors.

Transactions between the operating segments are on normal commercial terms and conditions as approved by management.

The revenue from external parties reported to the Board is measured in a manner consistent with that in the consolidated income statement. Segment assets and liabilities are comprised of operating assets and liabilities. The Group's primary business is conducted in the Kingdom of Saudi Arabia.

The basis of operating segments as of and for the year ended December 31, 2016 has been changed compared to the basis of segmentation used as of an for the year ended December 31, 2015, in order to align to changes in the Board Risk Committee and Board of Directors' reporting. The comparative amounts as of and for the year ended December 31, 2015 have therefore been adjusted to conform to the current period presentation.

The Group's reportable segments are as follows:

Retail banking: Loans, deposits, and other credit products for individuals and small to medium-sized businesses.

Corporate banking: Loans, deposits and other credit products for corporate and institutional customers.

Treasury and Investments: Money market, investments and other treasury services.

Business partners: Investments in associates and related activities.

Asset management and brokerage: Dealing, managing, advising and custody of securities services.

Other: Support functions, special credit, and other management and control units.

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

28. Operating segments - continued

Commission is charged to operating segments based on funds transfer price (FTP) rates. The net FTP contribution included in the segment information below includes the segmental net special commission income after FTP asset charges and liability credits (FTP net transfers). All other segment income is from external customers.

a) The segment information provided to the Board of Directors which includes the reportable segments for the Group's total assets and liabilities of December 31, 2016 and 2015, its total operating income, total operating expenses, and net income for the years then ended, are as follows:

	2016 (SAR'000)						
	Retail Banking	Corporate Banking	Treasury and Investments	Business Partners	Asset Management and Brokerage	Other	Total
Total assets	28,418,146	36,012,877	26,788,160	1,000,337	340,633	1,801,345	94,361,498
Total liabilities	47,560,355	17,994,538	14,457,595	97	(16,390)	822,115	80,818,310
Net special commission income	271,741	1,171,520	315,746	-	18,428	(105,379)	1,672,056
FTP net transfers	519,550	(418,956)	-	(98,580)	-	(2,014)	-
Net FTP contribution	791,291	752,564	315,746	(98,580)	18,428	(107,393)	1,672,056
Fee income from banking services, net	130,625	225,170	28,024	-	67,180	(35,495)	415,504
Other operating income (loss)	80,789	84,462	228,607	43,631	2,437	(121,620)	318,306
Total operating income (loss)	1,002,705	1,062,196	572,377	(54,949)	88,045	(264,508)	2,405,866
Direct operating expenses	381,785	70,905	23,080	2,954	78,396	-	557,120
Indirect operating expenses	240,815	168,478	72,224	-	-	11,905	493,422
Impairment charges	146,050	99,950	207,000	-	-	-	453,000
Total operating expenses	768,650	339,333	302,304	2,954	78,396	11,905	1,503,542
Income (loss) from operating activities	234,055	722,863	270,073	(57,903)	9,649	(276,413)	902,324
Share in earnings of associates	-	-	-	150,634	-	-	150,634
Net income	234,055	722,863	270,073	92,731	9,649	(276,413)	1,052,958
Property, equipment, and intangibles additions	18,204	696	1	-	487	35,650	55,038
Depreciation and amortization	47,024	1,371	194	-	4,664	35,748	89,001

	2015 (SAR'000)						
	Retail Banking	Corporate Banking	Treasury and Investments	Business Partners	Asset Management and Brokerage	Other	Total
Total assets	26,218,149	38,261,793	26,287,127	939,022	396,777	1,475,468	93,578,336
Total liabilities	54,395,563	14,704,564	10,415,446	97	44,105	1,982,099	81,541,874
Net special commission income	448,555	941,150	319,094	-	25,190	(2,800)	1,731,189
FTP net transfers	282,896	(290,261)	148,026	(56,495)	-	(84,166)	-
Net FTP contribution	731,451	650,889	467,120	(56,495)	25,190	(86,966)	1,731,189
Fee income from banking services, net	113,621	246,934	54,209	-	90,116	(54,805)	450,075
Other operating income (loss)	63,241	61,504	240,807	46,074	5,554	(87,387)	329,793
Total operating income (loss)	908,313	959,327	762,136	(10,421)	120,860	(229,158)	2,511,057
Direct operating expenses	395,449	73,279	26,298	2,778	92,374	-	590,178
Indirect operating expenses	157,780	110,358	47,316	-	-	127,963	443,417
Impairment charges	16,164	101,836	187,000	-	-	-	305,000
Total operating expenses	569,393	285,473	260,614	2,778	92,374	127,963	1,338,595
Income loss from operating activities	338,920	673,854	501,522	(13,199)	28,486	(357,121)	1,172,462
Share in earnings of associates	-	-	-	156,195	-	-	156,195
Net income	338,920	673,854	501,522	142,996	28,486	(357,121)	1,328,657
Property, equipment, and intangibles additions	64,753	178	821	-	4,576	122,290	192,618
Depreciation and amortization	44,204	1,210	126	-	5,655	29,386	80,581

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

28. Operating segments – continued

b) The Group's credit exposure by business segment is as follows:

	2016 (SAR'000)						
	Retail Banking	**Corporate Banking**	**Treasury**	**Business Partners**	**Asset Management and Brokerage**	**Other**	**Totals**
Consolidated statement of financial position assets	**27,200,287**	**36,010,672**	**25,706,420**	**-**	**233,722**	**380,134**	**89,531,235**
Commitments and contingencies	**4,474,555**	**3,381,861**	**198,477**	**-**	**-**	**-**	**8,054,893**
Derivatives	**-**	**-**	**2,364,845**	**-**	**-**	**-**	**2,364,845**
Totals	**31,674,842**	**39,392,533**	**28,269,742**	**-**	**233,722**	**380,134**	**99,950,973**

	2015 (SAR'000)						
	Retail Banking	Corporate Banking	Treasury	Business Partners	Asset Management and Brokerage	Other	Totals
Consolidated statement of financial position assets	24,952,535	38,259,087	24,989,706	-	217,045	470,489	88,888,862
Commitments and contingencies	4,789,800	3,479,996	199,200	-	-	-	8,468,996
Derivatives	-	-	1,482,660	-	-	-	1,482,660
Totals	29,742,335	41,739,083	26,671,566	-	217,045	470,489	98,840,518

Consolidated statement of financial position credit exposure is comprised of the carrying value of consolidated statement of financial position assets excluding cash on hand, property, equipment, and intangibles, investments in associates, investments in equities and mutual funds, other real estate, and other assets. The credit equivalent value of commitments, contingencies and derivatives are also included in the table above.

29. Credit risk

The Group 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 activities that lead to loans and advances, and investment activities. There is also credit risk in off consolidated statement of financial position financial instruments, such as loan commitments. The Group assesses the probability of default of counterparties using internal rating tools. The Group also uses the external ratings of major rating agencies, where available.

The Group has a comprehensive Board approved framework for managing credit risk which includes an independent credit risk review function and credit risk monitoring process. The Group seeks to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Group's risk management policies are designed to identify and to set appropriate risk limits and to monitor the risks and adherence to limits. Actual exposures against limits are routinely monitored. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk. The Group's credit risk for derivatives represents the potential cost to replace the derivative contracts if counterparties fail to fulfill their obligation, and to control the level of credit risk taken. The Group assesses counterparties using the same techniques as for its lending activities.

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

29. Credit risk – continued

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

The Group seeks to manage its credit risk exposure through diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations, businesses, or economic sectors. Economic sector risk concentrations are provided in Note 7(c) iii.

The Group uses a credit classification system as a tool to assist in managing the quality of credit risk within the lending portfolio. It maintains classification grades that differentiate between performing and impaired portfolios and allocates portfolio provisions and specific provisions, respectively. The Group determines each individual borrower's grade based on specific objective and subjective financial and business assessments criteria covering debt service, profitability, liquidity, capital structure, industry, management quality, and company standing. The Group conducts a quality classification exercise over all of its existing borrowers and the results of this exercise are validated by the independent Risk Management Unit established for that purpose. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products, external economic environment, emerging best practices, and regulatory guidance. Information on the credit quality for loans and advances is provided in Notes 7 (c) i and 7 (c) ii.

The Group, in the ordinary course of lending activities, also takes collateral as security to mitigate credit risk on loans and advances. The collateral includes primarily time, demand, and other cash deposits, financial and contract guarantees, local and international equities, real estate, and other fixed assets. The collateral is held mainly against commercial and similar loans and is managed against relevant exposures at their net realizable value. Management monitors the market value of collateral, requests additional collateral in accordance with underlying agreements, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses. The Group also seeks additional collateral from counterparties when impairment indicators are observed. Information on collateral held is included in Note 7 (a) and 7 (c) i.

The economic sector risk concentration for loans and advances is provided in Note 7 (c) iii.

The debt securities included in the investment portfolio are due mainly from corporates, banks, financial institutions, and sovereigns, and an analysis of investments by type of counterparty and credit risk exposure is disclosed in Note 6 (c) and Note 6 (d).

The credit quality of due from banks and other financial institutions is provided in note 5.

The information on credit risk relating to derivative instruments is provided in Note 11 and 30 (a).

The information on credit risk relating to commitments and contingencies is included in Note 19 and 30 (a).

The information on the Group's credit exposure by business segment is provided in Note 28 (b).

The information on total credit risk exposure and their relative risk weights is provided in Note 35.

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

30. Geographical concentration

a) The distribution by geographical region for assets, liabilities, and for commitments, contingencies, and derivatives is as follows:

	2016 (SAR'000)						
	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	South East Asia	Other Countries	Total
ASSETS							
Cash and balances with SAMA	5,684,338	-	-	-	-	-	5,684,338
Due from banks and other financial institutions	1,491,192	437,359	247,166	41,512	-	85,064	2,302,293
Investments, net	10,167,127	7,617,419	1,029,818	2,181,777	-	451,753	21,447,894
Loans and advances, net	60,249,052	-	-	-	-	-	60,249,052
Investments in associates	1,000,337	-	-	-	-	-	1,000,337
Property, equipment and intangibles, net	987,600	-	-	-	-	-	987,600
Positive fair values of derivatives	547,907	284,261	1,082,549	-	-	-	1,914,717
Other real estate	418,724	-	-	-	-	-	418,724
Other assets	356,543	-	-	-	-	-	356,543
Total	80,902,820	8,339,039	2,359,533	2,223,289	-	536,817	94,361,498
LIABILITIES							
Due to Banks and other financial institutions	4,140,098	1,918,954	2,937,197	-	-	467	8,996,716
Customer deposits	65,640,325	-	-	-	-	-	65,640,325
Term loans	2,032,187	-	-	-	-	-	2,032,187
Subordinated debt	2,002,373	-	-	-	-	-	2,002,373
Negative fair values of derivatives	407,751	211,546	805,630	-	-	-	1,424,927
Other liabilities	721,782	-	-	-	-	-	721,782
Total	74,944,516	2,130,500	3,742,827	-	-	467	80,818,310
Credit related Commitments and contingencies	10,114,215	161,232	226,779	478,848	49,053	234,373	11,264,500
Maximum credit exposure (stated at credit equivalent amounts):							
Commitments and contingencies	6,992,018	137,704	196,229	477,128	41,895	209,919	8,054,893
Derivatives	709,369	334,784	1,320,692	-	-	-	2,364,845

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

30. Geographical concentration - continued

	2015 (SAR'000)						
	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	South East Asia	Other Countries	Total
ASSETS							
Cash and balances with SAMA	4,086,987	-	-	-	-	-	4,086,987
Due from banks and other financial institutions	4,132,480	1,519,234	699,537	57,238	-	1,774	6,410,263
Investments, net	9,259,048	6,565,896	1,059,468	2,060,462	-	38,097	18,982,971
Loans and advances, net	60,268,806	-	-	-	-	-	60,268,806
Investments in associates	939,022	-	-	-	-	-	939,022
Property, equipment and intangibles, net	1,021,564	-	-	-	-	-	1,021,564
Positive fair values of derivatives	458,834	69,875	758,434	-	-	-	1,287,143
Other real estate	152,836	-	-	-	-	-	152,836
Other assets	428,744	-	-	-	-	-	428,744
Total	80,748,321	8,155,005	2,517,439	2,117,700	-	39,871	93,578,336
LIABILITIES							
Due to Banks and other financial institutions	758,380	1,626,587	2,943,710	-	-	471	5,329,148
Customer deposits	70,518,482	-	-	-	-	-	70,518,482
Term loans	2,011,221	-	-	-	-	-	2,011,221
Subordinated debt	1,999,800	-	-	-	-	-	1,999,800
Negative fair values of derivatives	356,714	54,323	589,635	-	-	-	1,000,672
Other liabilities	682,551	-	-	-	-	-	682,551
Total	76,327,148	1,680,910	3,533,345	-	-	471	81,541,874
Credit related Commitments and contingencies	10,524,292	211,171	281,922	398,442	65,924	238,657	11,720,408
Maximum credit exposure (stated at credit equivalent amounts);							
Commitments and contingencies	7,379,598	182,946	246,476	393,607	57,026	209,343	8,468,996
Derivatives	443,486	127,291	911,883	-	-	-	1,482,660

Credit equivalent amounts of commitments and contingencies reflect the amounts that result from translating these amounts into the risk equivalent of loans, using credit conversion factors prescribed by SAMA. The credit conversion factor is intended to capture the potential credit risk related to the exercise of that commitment. The credit equivalent amounts of derivatives are also derived using credit conversion factors prescribed by SAMA, which are applied to the notional amounts outstanding.

b) The distribution by geographical concentration of non-performing loans and advances and allowance for credit losses as of December 31, 2016 and 2015 are entirely in the Kingdom of Saudi Arabia.

31. 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 Group classifies exposures to market risk into either a trading or banking book.

a) Market risk-trading book

The Board of Directors has set limits for the acceptable level of risks in managing the trading book. The Group currently has trading book exposures in foreign exchange contracts and commission rate swaps.

b) Market risk-banking book

Market risk on the banking book mainly arises from commission rate risk, liquidity risk, currency risk, and equity price risk.

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

31. Market risk - continued

(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 the financial instruments and obligations. The Board of Directors has established commission rate gap limits for stipulated periods. The Group monitors positions and uses hedging strategies to ensure maintenance of positions within the established gap limits.

The following table depicts the sensitivity to a reasonably possible change in commission rates, with other variables held constant, on the Group's consolidated income statement or shareholders' equity. The reasonably possible change is estimated based on the relevant commission rate movements during the last five years (2012 - 2016) (2015: 2011 - 2015). A positive effect shows a potential net increase in the consolidated income or shareholders' equity, whereas a negative effect shows a potential net reduction in consolidated income or shareholders' equity.

The sensitivity of net special commission income is the effect of the assumed changes in commission rates on the net special commission income for one year, based on the floating rate non-trading financial assets and financial liabilities held as of December 31, 2016 and 2015, including the effect of hedging instruments.

The sensitivity of shareholders' equity is calculated by revaluing the fixed rate available for sale financial assets, including the effect of any associated hedges as of December 31, 2016 and 2015 for the effect of assumed changes in commission rates. The sensitivity of shareholders' equity is analyzed by maturity of the asset or swap. The entire banking book exposures are monitored and analyzed by currency and relevant sensitivities and are disclosed in SAR thousands. For presentation purposes in the tables below, short-term fixed rate deposit liabilities are treated as variable rate deposits.

		2016 SAR'000	**2016 Sensitivity of equity (SAR'000)**				
Commi-ssion rate	**Increase (decrease) in basis**	**Sensitivity of net special commission income**	**6 months or less**	**6 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Saibor	**+33/-129**	**-61,315/+239,686**	**-**	**-**	**-13,916/+54,339**	**-68,996/+269,714**	**-82,912/+324,113**
Libor	**+25/-52**	**-13,804/+28,712**	**-762/+1,584**	**-863/+1,793**	**-29,523/+61,407**	**-67,678/+140,771**	**-98,826/+205,555**
Euribor	**+161/-5**	**+1,728/-54**	**-**	**-**	**-**	**-**	**-**

		2015 SAR'000	2015 Sensitivity of equity (SAR'000)				
Commi-ssion rate	Increase (decrease) in basis	Sensitivity of net special commission income	6 months or less	6 to 12 months	1 to 5 years	Over 5 years	Total
Saibor	+67/-28	-83,111/+34,733	-	-	-35,282/+14,745	-131,473/+54,944	-166,755/+69,689
Libor	+30/-9	-25,422/+7,627	-	-834/+251	-50,120/+15,036	-33,660/+10,099	-84,614/+25,386
Euribor	+164/-11	+276/-18	-	-	-	-	-

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

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

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

31. Market risk - continued

The tables below summarize the Group's exposure to special commission rate risks. Included in the tables are the Group's assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates.

	2016 (SAR'000)					
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total
Assets						
Cash and balances with SAMA	1,220,000	-	-	-	4,464,338	5,684,338
Due from banks and other financial institutions	2,274,077	28,216	-	-	-	2,302,293
Investments, net	5,148,250	1,753,482	5,414,222	7,950,379	1,181,561	21,447,894
Loans and advances, net	31,328,046	17,245,322	11,021,516	654,168	-	60,249,052
Investments in associates	-	-	-	-	1,000,337	1,000,337
Property, equipment, and intangibles, net	-	-	-	-	987,600	987,600
Positive fair values of derivatives	-	-	-	-	1,914,717	1,914,717
Other real estate	-	-	-	-	418,724	418,724
Other assets	-	-	-	-	356,543	356,543
Total	39,970,373	19,027,020	16,435,738	8,604,547	10,323,820	94,361,498
Liabilities and equity						
Due to banks and other financial institutions	6,297,004	2,695,000	-	-	4,712	8,996,716
Customer deposits	24,225,747	16,749,020	-	-	24,665,558	65,640,325
Term loans	32,187	2,000,000	-	-	-	2,032,187
Subordinated debt	2,373	2,000,000	-	-	-	2,002,373
Negative fair values of derivatives	-	-	-	-	1,424,927	1,424,927
Other liabilities	-	-	-	-	721,782	721,782
Total equity	-	-	-	-	13,543,188	13,543,188
Total	30,557,311	23,444,020	-	-	40,360,167	94,361,498
Special commission rate sensitivity-On balance sheet	9,413,062	(4,417,000)	16,435,738	8,604,547	(30,036,347)	-
Special commission rate sensitivity-Off balance sheet	5,405,288	(1,278,088)	(600,320)	(3,526,880)	-	-
Total special commission rate sensitivity gap	14,818,350	(5,695,088)	15,835,418	5,077,667	(30,036,347)	-
Cumulative special commission rate sensitivity gap	14,818,350	9,123,262	24,958,680	30,036,347	-	-

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

31. Market risk - continued

	2015 (SAR'000)					
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total
Assets						
Cash and balances with SAMA	-	-	-	-	4,086,987	4,086,987
Due from banks and other financial institutions	6,401,710	8,553	-	-	-	6,410,263
Investments, net	4,110,178	1,010,046	7,266,286	5,156,671	1,439,790	18,982,971
Loans and advances, net	34,409,776	17,284,014	8,146,839	428,177	-	60,268,806
Investments in associates	-	-	-	-	939,022	939,022
Property, equipment, and intangibles, net	-	-	-	-	1,021,564	1,021,564
Positive fair values of derivatives	-	-	-	-	1,287,143	1,287,143
Other real estate	-	-	-	-	152,836	152,836
Other assets	-	-	-	-	428,744	428,744
Total	44,921,664	18,302,613	15,413,125	5,584,848	9,356,086	93,578,336
Liabilities and shareholders' equity						
Due to banks and other financial institutions	3,889,859	1,431,689	-	-	7.600	5,329,148
Customer deposits	28,780,284	20,461,459	-	-	21,276,739	70,518,482
Term loans	2,011,221	-	-	-	-	2,011,221
Subordinated debt	-	1,999,800	-	-	-	1,999,800
Negative fair values of derivatives	-	-	-	-	1,000,672	1,000,672
Other liabilities	-	-	-	-	682,551	682,551
Total equity	-	-	-	-	12,036,462	12,036,462
Total	34,681,364	23,892,948	-	-	35,004,024	93,578,336
Special commission rate sensitivity - on balance sheet	10,240,300	(5,590,335)	15,413,125	5,584,848	(25,647,938)	-
Special commission rate sensitivity - off balance sheet	3,637,080	(302,056)	(1,420,688)	(1,914,336)	-	-
Total special commission rate sensitivity gap	13,877,380	(5,892,391)	13,992,437	3,670,512	(25,647,938)	-
Cumulative special commission rate sensitivity gap	13,877,380	7,984,989	21,977,426	25,647,938	-	-

The off-balance sheet gap position represents the net notional amounts of derivative financial instruments, which are used to manage special commission rate risk.

(ii) Currency risk

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

The table below shows the currencies to which the Group has a significant exposure as of December 31, 2016 and 2015, on its banking book assets and liabilities and forecasted cash flows. The table depicts the effect of a reasonably possible movement of the currency rates against the SAR based on historical currency rate movements, with other variables held constant, on the consolidated income (due to the change in the fair value of the currency sensitive banking book assets and liabilities). The reasonably possible change is estimated based on the relevant foreign exchange rate movements during the last five years (2012 - 2016) (2015: 2011 - 2015). A positive effect shows a potential net increase in the consolidated income, whereas a negative effect shows a potential net reduction in consolidated income.

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

31. Market risk - continued

Currency Exposures as of December 31, 2016	**Change in Currency rate in %**	**Effect on Net Income (SAR'000)**
USD	**+0.29/-0.09**	**+1,337/-431**
EUR	**+25.89/-6.13**	**+2/-0**
GBP	**+26.69/-10.54**	**+23/-9**

Currency Exposures as of December 31, 2015	Change in Currency rate in %	Effect on Net Income (SAR'000)
USD	+0.27/-0.05	+1,352/-250
EUR	+33.52/-5.58	+224/-37
GBP	+12.32/-4.33	+47/-16

(iii) Currency position

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

	2016 SAR '000 Long/(short)	2015 SAR '000 Long/(short)
US Dollar	**466,961**	500,793
Euro	**(8)**	668
Pound sterling	**86**	378
Japanese yen	**185**	211
U.A.E Dirham	**15,337**	15,096
Others	**3,951**	10,132

(iv) Equity price risk

Equity price risk refers to the risk of a decrease in fair values of equities and mutual funds in the Group's available for sale investment portfolio as a result of reasonably possible changes in levels of equity indices and the value of individual investments.

The following table depicts the effect on the Group's investments in equities and mutual funds from a reasonably possible change in relevant indices, with other variables held constant, and the related effect on the Group's shareholders' equity. The reasonably possible changes in relevant indices are estimated based on the relevant indices movements during the last five years (2012 - 2016) (2015: 2011 - 2015). A positive effect shows a potential increase in consolidated shareholders' equity, whereas a negative effect shows a potential decrease in consolidated shareholders' equity.

	as of December 31, 2016		as of December 31, 2015	
Market Indices	**Change in equity price %**	**Effect in SAR'000**	Change in equity price %	Effect in SAR'000
TADAWUL	**+76.22%/-14.39%**	**+771,274/-145,606**	+31.16%/-37.38%	+425,155/-510,022
Unquoted	**+5.00%/-5.00%**	**+75/-75**	+5.00%/-5.00%	+75/-75

32. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately. To mitigate this risk, management has diversified funding sources, and assets are managed with liquidity in perspective. Management therefore maintains a healthy balance of cash, cash equivalents, and readily marketable securities as of part of its high liquid assets. Management also monitors the asset and liability 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 the Asset Liability Committee. A summary report, including any exceptions and remedial actions taken, is submitted regularly to the Asset Liability Committee. In addition, the Group's liquidity coverage ratio and net stable funding ratio are each monitored regularly to be in line with SAMA guidelines. The Group also conducts regular liquidity stress testing under a variety of scenarios covering both normal and more severely stressed market conditions.

In accordance with the Banking Control Law and the regulations issued by SAMA, the Group maintains a statutory deposit with SAMA equal to 7% (2015: 7%) of total demand deposits and 4% (2015: 4%) of saving and time deposits. In addition to the statutory deposit, the Group also maintains liquid reserves of no less than 20% of its deposit liabilities, in the form of cash and balances with SAMA, Saudi Government Development Bonds, or other assets which can be converted into cash within a period not exceeding 30 days. The Group has the ability to raise additional funds through repo facilities with SAMA against Saudi Government Development Bonds up to 100% of the nominal value of bonds held.

a) Contractual maturity profile of assets and liabilities.

The tables below summarize the contractual maturity profile of the Group's assets, liabilities, and shareholders' equity as of December 31, 2016 and 2015. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the consolidated statement of financial position date to the contractual maturity date, and do not take into account the effective maturities as indicated by the Group's deposit retention history. The amounts disclosed for derivatives, and commitments and contingencies are not indicative of future payment obligations.

	2016 (SAR'000)					
	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity / on demand	Total
Assets						
Cash and balances with SAMA	1,220,000	-	-	-	4,464,338	5,684,338
Due from banks and other financial institutions	1,872,177	28,216	-	-	401,900	2,302,293
Investments, net	1,260,469	1,433,082	9,054,430	8,518,352	1,181,561	21,447,894
Loans and advances, net	23,461,139	17,114,015	16,673,368	3,000,530	-	60,249,052
Investments in associates	-	-	-	-	1,000,337	1,000,337
Property, equipment, and intangibles	-	-	-	-	987,600	987,600
Positive fair values of derivatives	-	1,914,717	-	-	-	1,914,717
Other real estate	-	-	-	-	418,724	418,724
Other assets	-	356,543	-	-	-	356,543
Total	27,813,785	20,846,573	25,727,798	11,518,882	8,454,460	94,361,498
Liabilities and shareholders' equity						
Due to banks and other financial institutions	6,297,004	2,695,000	-	-	4,712	8,996,716
Customer deposits	20,152,087	12,957,005	3,792,015	-	28,739,218	65,640,325
Term loans	32,187	1,000,000	1,000,000	-	-	2,032,187
Subordinated debt	2,373	-	2,000,000	-	-	2,002,373
Negative fair values of derivatives	-	1,424,927	-	-	-	1,424,927
Other liabilities	-	721,782	-	-	-	721,782
Total equity	-	-	-	-	13,543,188	13,543,188
Total	26,483,651	18,798,714	6,792,015	-	42,287,118	94,361,498
Derivatives, commitments and contingencies	7,341,484	11,424,985	10,539,055	4,381,706	-	33,687,230

32. Liquidity risk – continued

	2015 (SAR'000)					
	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity / on demand	Total
Assets						
Cash and balances with SAMA	-	-	-	-	4,086,987	4,086,987
Due from banks and other financial institutions	6,245,977	8,553	-	-	155,733	6,410,263
Investments, net	171,419	955,212	10,236,798	6,179,752	1,439,790	18,982,971
Loans and advances, net	25,800,479	17,387,803	14,655,364	2,425,160	-	60,268,806
Investments in associates	-	-	-	-	939,022	939,022
Property, equipment, and intangibles, net	-	-	-	-	1,021,564	1,021,564
Positive fair values of derivatives	-	1,287,143	-	-	-	1,287,143
Other real estate	-	-	-	-	152,836	152,836
Other assets	-	428,744	-	-	-	428,744
Total	32,217,875	20,067,455	24,892,162	8,604,912	7,795,932	93,578,336
Liabilities and shareholders' equity						
Due to banks and other financial institutions	3,889,859	1,431,689	-	-	7,600	5,329,148
Customer deposits	26,659,652	16,669,444	4,292,015	-	22,897,371	70,518,482
Term loans	-	1,011,221	1,000,000	-	-	2,011,221
Subordinated debt	-	-	1,999,800	-	-	1,999,800
Negative fair values of derivatives	-	1,000,672	-	-	-	1,000,672
Other liabilities	-	682,551	-	-	-	682,551
Total equity	-	-	-	-	12,036,462	12,036,462
Total	30,549,511	20,795,577	7,291,815	-	34,941,433	93,578,336
Derivatives, commitments and contingencies	4,705,657	8,805,532	7,275,647	5,206,727	-	25,993,563

For presentation purposes in the tables above, the Group's demand, savings, and certain other deposits amounting to approximately SAR 28.7 billion as of December 31, 2016 (2015: SAR 22.9 billion) are included under the "No fixed maturity / on demand column".

Assets available to meet all the liabilities and to cover outstanding loan commitments include cash, balances with SAMA, items in the course of collection, loans and advances to banks, and loans and advances to customers. The Group regularly monitors the maturity profile to ensure adequate liquidity is maintained. The cumulative maturities of commitments and contingencies is disclosed in note 19c (i) of these consolidated financial statements.

b) Analysis of financial liabilities by remaining undiscounted maturities

The tables below summarize the estimated maturity profile of the Group's financial liabilities as of December 31, 2016 and 2015 based on contractual undiscounted future repayment obligations. As special commission payments up to the contractual maturities are included in the tables, the totals do not match the amounts included in 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 that the Group could be required to pay and the tables do not reflect the expected cash flows indicated by the Group's deposit retention history.

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

32. Liquidity risk – continued

The undiscounted maturity profile of financial liabilities is as follows:

	2016 (SAR'000)					
	Within 3 months	**3-12 months**	**1-5 years**	**Over 5 years**	**No fixed Maturity / on demand**	**Total**
Due to banks and other financial institutions	**6,313,730**	**2,723,634**	**-**	**-**	**4,712**	**9,042,076**
Customer deposits	**20,233,703**	**13,166,908**	**4,099,168**	**-**	**28,739,218**	**66,238,997**
Term loans	**50,687**	**1,033,917**	**1,166,500**	**-**	**-**	**2,251,104**
Subordinated debt	**21,423**	**57,150**	**2,190,500**	**-**	**-**	**2,269,073**
Negative fair values of derivatives	**-**	**1,424,927**	**-**	**-**	**-**	**1,424,927**
Total	**26,619,543**	**18,406,536**	**7,456,168**	**-**	**28,743,930**	**81,226,177**
Derivatives	**86,773**	**211,503**	**675,606**	**109,223**	**-**	**1,083,105**
Total	**26,706,316**	**18,618,039**	**8,131,774**	**109,223**	**28,743,930**	**82,309,282**

	2015 (SAR'000)					
	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed Maturity / on demand	Total
Due to banks and other financial institutions	3,886,542	1,438,096	-	-	7,600	5,332,238
Customer deposits	26,517,628	16,789,464	4,446,528	-	22,897,371	70,650,991
Term loans	9,300	1,017,050	1,013,950	-	-	2,040,300
Subordinated debt	13,650	40,950	2,195,650	-	-	2,250,250
Negative fair value of derivatives	-	1,000,672	-	-	-	1,000,672
Total	30,427,120	20,286,232	7,656,128	-	22,904,971	81,274,451
Derivatives	57,362	146,804	523,310	84,091	-	811,567
Total	30,484,482	20,433,036	8,179,438	84,091	22,904,971	82,086,018

33. 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. Fair value measurement is based on the presumption that the transaction takes place either in the accessible market for the asset or liability, or in the absence of a principal market, in the most advantageous accessible market for the asset or liability. The Group uses the hierarchy disclosed in note 2 (d) (ii) for determining and disclosing the fair value of financial instruments.

The following table shows an analysis of financial assets and liabilities recorded at fair value as of December 31, 2016 and 2015 by level of the fair value hierarchy.

	2016 (SAR '000)			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets:				
Derivative financial instruments	**-**	**1,528,296**	**386,421**	**1,914,717**
Available for sale financial investments	**13,398,792**	**7,520,053**	**529,049**	**21,447,894**
Total	**13,398,792**	**9,048,349**	**915,470**	**23,362,611**
Financial liabilities:				
Derivative financial instruments	**-**	**1,424,927**	**-**	**1,424,927**
Total	**-**	**1,424,927**	**-**	**1,424,927**

33. Fair values of financial assets and liabilities - continued

	2015 (SAR '000)			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Derivative financial instruments	-	987,983	299,160	1,287,143
Available for sale financial investments	12,000,726	6,439,840	542,405	18,982,971
Total	12,000,726	7,427,823	841,565	20,270,114
Financial liabilities:				
Derivative financial instruments	-	1,000,672	-	1,000,672
Total	-	1,000,672	-	1,000,672

The value obtained from any relevant valuation model may differ with a transaction price of a financial instrument. The difference between the transaction price and the model value is commonly referred to as 'day one profit and loss'. It is either amortized over the life of the transaction, deferred until the instrument's fair value can be determined using market observable data, or realized through disposal. Subsequent changes in fair value are recognized immediately in the consolidated income statement without reversal of deferred day one profits and losses.

The total amount of the changes in fair value recognized in the income statement for the year ended December 31, 2016 which was estimated using valuation models, is a gain of SAR 88.5 million (2015: SAR 94.4 million).

Level 2 available for sale financial investments include debt securities which are comprised of Saudi corporate and bank securities, and Saudi Arabian Government securities. These securities are generally unquoted. In the absence of a quoted price in an active market, these securities are valued using observable inputs such as yield information for similar instruments or last executed transaction prices in securities of the same issuer or based on indicative market quotes. Adjustments are also considered as part of the valuations when necessary to account for the different features of the instruments including difference in tenors. Because the significant inputs for these investments are observable, the Bank categorizes these investments within Level 2.

Level 2 derivative financial instruments include various derivatives contracts including forward foreign exchange contracts, foreign exchange options, and commission rate swaps. These derivatives are valued using widely recognized valuation models. The most frequently applied valuation techniques include the use of forward pricing standard models using present value calculations and well-recognized Black - Scholes option pricing models. These models incorporate various market observable inputs including foreign exchange rates, forward rates, and yield curves, and are therefore included within Level 2.

Level 3 available for sale financial investments include Gulf Cooperation Council Government securities, and also investments in hedge funds, private equity funds, and asset backed securities. These securities are generally not quoted in an active market, and therefore are valued using indicative market quotes from an issuer / counter-party or valued at cost in the absence of any such alternative reliable indicative estimate.

Level 3 derivative financial instruments include the embedded derivative put option arising from an existing master agreement entered into by the Bank relating to its investment in an associated company (see note 11). For purposes of determining the fair value of the put option, the Bank uses a well-recognized and frequently used Binomial Option Pricing Model. This model requires certain inputs which are not observable in the current market place. Certain inputs are specifically stated within the master agreement with the associated company. Other inputs are based on the historical results of the associated company. These other inputs may require management's judgement including estimations about the future results of the associated company, the detrimental effects on the operating results of the associated company which may arise from an exercise of the option, and an estimate of the fair value of the underlying investment. Several of the inputs are also interdependent.

33. Fair values of financial assets and liabilities - continued

Should the significant estimations of inputs vary by plus or minus ten percent, the fair value could increase or decrease by approximately SAR 107.7 million (2015: SAR 120.3 million) due to estimating operating results of the associated company, could increase or decrease by approximately SAR 57.4 million (2015: SAR 59.2 million) due to estimating the detrimental effects on the operating results of the associated company which may arise from an exercize of the option, and could increase or decrease by approximately SAR 27.5 million (2015: SAR 42.3 million) due to estimating the fair value of the underlying investment.

In all respects, the Bank's significant estimates are based on experience and judgement relevant to each input, and in all cases, due care is taken to ensure that the inputs are conservative to ensure that the estimation of fair value is reasonable in the circumstances. However, any amounts which may be realized in the future may differ from the Bank's estimates of fair value.

The following table summarizes the movement of the Level 3 fair values for the year ended December 31, 2016 and 2015:

	2016 SAR'000	2015 SAR'000
Fair values at the beginning of the year	**839,392**	301,956
Net change in fair value	**87,543**	99,568
Investments purchased	**4,522**	455,227
Investments sold	**(15,987)**	(17,359)
Fair values at the end of the year	**915,470**	839,392

The following table summarizes the estimated fair values of financial assets and financial liabilities as of December 31, 2016 and 2015 that are not carried at fair value in the consolidated financial statements, along with the comparative carrying amounts for each.

December 31, 2016	**Carrying values SAR'000**	**Estimated fair values SAR'000**
Financial assets:		
Due from banks and other financial institutions	**2,302,293**	**2,302,293**
Loans and advances, net	**60,249,052**	**62,155,329**
Total	**62,551,345**	**64,457,622**
Financial liabilities:		
Due to banks and other financial institutions	**8,996,716**	**8,996,716**
Customers deposits	**65,640,325**	**64,762,600**
Term loans, net	**2,032,187**	**2,032,187**
Subordinated debt, net	**2,002,373**	**2,002,373**
Total	**78,671,601**	**77,793,876**

33. Fair values of financial assets and liabilities - continued

	Carrying values SAR'000	Estimated fair values SAR'000
December 31, 2015		
Financial assets:		
Due from banks and other financial institutions	6,410,263	6,410,263
Loans and advances, net	60,268,806	61,579,240
Total	66,679,069	67,989,503
Financial liabilities:		
Due to banks and other financial institutions	5,329,148	5,329,148
Customer deposits	70,518,482	69,854,510
Term loans, net	2,011,221	2,011,221
Subordinated debt, net	1,999,800	1,999,800
Total	79,858,651	79,194,679

The estimated fair values of loans and advances, net are calculated using market based discounted cash flow models of individual loan portfolios using the weighted average estimated maturities of each individual loan portfolio. The estimated fair values of customers' deposits are calculated using market based discounted cash flow models of individual deposit classes using the weighted average estimated maturities of each individual deposit class. These fair value estimates are considered as level 3 in the fair value hierarchy.

The fair values of other financial instruments that are not carried in the consolidated financial statements at fair value are not significantly different from the carrying values. The fair values of term loans, subordinated debt, and due from and due to banks which are carried at amortized cost, are not significantly different from the carrying values included in the consolidated financial statements, since the current market special commission rates for similar financial instruments are not significantly different from the contractual rates, and because of the short duration of due from and due to banks.

34. Related party transactions

In the ordinary course of its activities, the Group transacts business with related parties. Related parties, balances, and transactions are governed by the Banking Control Law and other regulations issued by SAMA. During 2014, SAMA issued an update to its Principles of Corporate Governance for Banks operating in Saudi Arabia which specifies the definitions of related parties, the need to process the related transactions fairly and without preference, addresses the potential conflicts of interests involved in such transactions, and mandates transaction disclosure requirements pertaining to the related parties.

The Bank's Related Party Identification and Disclosure of Transactions Policy complies with the Guidelines issued by SAMA, and has been approved by the Bank's Board of Directors. These Guidelines include the following definitions of Related Parties:

- Management of the Bank and/or members of their immediate family;
- Principal shareholders of the Bank and/or members of their immediate family;
- Affiliates of the Bank and entities for which the investment is accounted for by the equity method of accounting;
- Trusts for the benefit of the Bank's employees such as pension or other benefit plans that are managed by the Bank; and
- Any other parties whose management and operating policies can be directly or indirectly significantly influenced by the Bank.

34. Related party transactions - continued

Management of the Bank includes those persons who are responsible for achieving the objectives of the Bank and who have the authority to establish policies and make decisions by which those objectives are pursued. Management therefore includes the members of the Bank's Board of Directors, and members of the Bank management that require a no objection approval from SAMA.

Immediate family members includes parents, spouses, and offspring and whom either a principal shareholder or a member of management might control or influence or by whom they might be controlled or influenced because of the family relationship.

Principal shareholders include those owners of record of more than five percent of the Bank's voting ownership and/or voting interest of the Bank.

a) The balances as of December 31, 2016 and 2015, resulting from such transactions included in the consolidated financial statements are as follows:

	2016 **SAR'000**	2015 SAR'000
Management of the Bank and/or members of their immediate family:		
Loans and advances	**91,470**	92,138
Customer deposits	**316,326**	372,928
Principal shareholders of the Bank and/or members of their immediate family:		
Due from banks and other financial institutions	**33,429**	2,560
Loans and advances	**596,477**	536,467
Customer deposits	**10,924,783**	12,242,900
Term loan	**-**	1,000,000
Subordinated debt	**700,000**	704,000
Commitments and contingencies	**2,789,005**	2,627,139
Affiliates of the Bank and entities for which the investment is accounted for by the Equity method of accounting:		
Loans and advances	**1,022,467**	849,102
Customer deposits	**49,378**	32,172
Commitments and contingencies	**616,984**	849,084
Trusts for the benefit of the Bank's employees such as pension or other benefits plans that are managed by the Bank:		
Customer deposits and other liabilities	**129,507**	280,916

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

34. Related party transactions - continued

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

	2016	2015
	SAR'000	SAR'000
Management of the Bank and/or members of their immediate family:		
Special commission income	**3,643**	3,894
Special commission expense	**36**	41
Fee income from banking services	**11**	5
Principal shareholders of the Bank and/or members of their immediate family:		
Special commission income	**11,983**	30,752
Special commission expense	**24,907**	36,942
Fee income from banking services	**4,219**	3
Affiliates of the Bank and entities for which the investment is accounted for by the Equity method of accounting:		
Special commission income	**3,830**	2,128
Fee income from banking services	**5,223**	3,130
Trusts for the benefit of the Bank's employees such as pension or other benefit plans that are managed by the Bank:		
Special commission expense	**324**	724
Board of Directors and other Board Committee member remuneration	**5,507**	4,368

The total amount of compensation charged or paid to management personnel during the year is included in Note 24.

35. Capital adequacy

The Group's objectives pertaining to 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.

Capital adequacy and the use of regulatory capital are monitored by the Group's management. SAMA requires the Bank to hold a minimum level of regulatory capital and maintain a ratio of total regulatory capital to risk-weighted assets (RWA) at or above the requirement of 8.625%.

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

35. Capital adequacy - continued

The following table summarizes the Group's Pillar I RWA, Tier I and Tier II capital, and Capital Adequacy Ratio percentages:

	2016	2015
	SAR'000	SAR'000
Credit Risk RWA	**79,109,431**	80,748,272
Operational Risk RWA	**4,294,667**	3,924,371
Market Risk RWA	**605,492**	752,949
Total Pillar- I RWA	**84,009,590**	85,425,592
Tier I Capital	**13,524,893**	12,018,167
Tier II Capital	**2,549,514**	2,455,881
Total Tier I & II Capital	**16,074,407**	14,474,048
Capital Adequacy Ratio %		
Tier I Ratio	**16.10%**	14.07%
Tier I + Tier II Ratio	**19.13%**	16.94%

As of December 31, 2016 and 2015, the RWA, Tier I and Tier II capital, and capital adequacy ratios are calculated in accordance with SAMA's framework and guidelines regarding implementation of the capital reforms under Basel III.

36. Asset management and brokerage services

The Group offers investment services to its customers, through a subsidiary, which include management of investment funds in consultation with professional investment advisors, with assets under management totalling approximately SAR 5,135 million (2015: SAR 4,394 million). This includes funds managed under Shariah approved portfolios amounting to approximately SAR 1,396 million (2015: SAR 1,801 million).

37. Employee stock option shares

The Group has an Employee Stock Grant Plan outstanding at the end of the year. Significant features of the Plan are as follows:

Grant dates:
January 1, 2013, 2014 and 2015
Maturity dates: Between 2017 and 2019
Vesting period: 4 years per plan
Vesting conditions: Participating employees to remain in service
Method of settlement: Shares
Cost to participating employees: SAR 3.93 to SAR 4.28 per share.

37. Employee stock option shares - continued

The stock option shares outstanding as of December 31, 2016 and 2015 have a weighted average contractual life of between one and three years. The stock option shares are granted only under a service condition with no market linked condition.

The following table summarizes the movement in the number of stock option shares for the years ended December 31, 2016 and 2015.

	2016	2015
Stock option shares at the beginning of the year	**6,171,183**	6,451,466
Shares granted during the year	**-**	1,761,527
Shares vested during the year	**(2,018,012)**	(1,481,804)
Withdrawals during the year	**(539,506)**	(560,006)
Stock option shares at the end of the year	**3,613,665**	6,171,183

The stock option shares at the beginning of each year have been retroactively adjusted to give effect to the issuance of bonus shares by the Bank in 2016.

In 2016, the Bank vested 50% of the shares granted in January 2012, 25% of the shares granted in January 2013, and 25% of the shares granted in January 2014, equivalent to 2,018,012 shares, for a total estimated cost of SAR 36.4 million.

In 2015, the Bank vested 25% of the shares granted in January 2011, 25% of the shares granted in January 2012, and 25% of the shares granted in January 2013, equivalent to 1,481,804 shares, for a total estimated cost of SAR 30.3 million.

The Group also has an Employee Contributory Share Option Plan outstanding at the end of the year. The following table summarizes the movement in the number of subscribed shares for the years ended December 31, 2016 and 2015.

	2016	2015
Subscribed shares at the beginning of the year	**1,092,145**	1,616,436
Shares subscribed during the year	**3,972,734**	-
Shares granted during the year	**(559,535)**	-
Withdrawals during the year	**(567,944)**	(524,291)
Subscribed shares at the end of the year	**3,937,400**	1,092,145

The subscribed shares at the beginning of each year have been retroactively adjusted to give effect to the issuance of bonus shares by the Bank in 2016.

In connection with the Group's Employee Stock Grant plan and Employee Contributory Share Option Plan, the Group purchases shares for the respective share vesting and subscription requirements. The following table summarizes the movement in the cost of the shares acquired by the Group net of the share based provision movement.

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

37. Employee stock option shares - continued

	Cost of shares (SAR'000)	Share based provisions (SAR'000)	Total (SAR'000)
Balances December 31, 2014	(31,551)	-	(31,551)
Cost of shares acquired	(96,580)	-	(96,580)
Share based provision and vesting / granting movement, net	32,837	38,539	71,376
Balances December 31, 2015	**(95,294)**	**38,539**	**(56,755)**
Cost of shares acquired	**(58,206)**	**-**	**(58,206)**
Share based provision and vesting / granting movement, net	**54,810**	**(2,733)**	**52,077**
Balances December 31, 2016	**(98,690)**	**35,806**	**(62,884)**

38. Tier 1 Sukuk

The Group completed the establishment of a Shari'a compliant Tier 1 Sukuk Program (the Program) in 2016. The Program has been approved by the Group's regulatory authorities and shareholders. On November 21, 2016, the Bank issued SAR 500 million under the Program.

The Tier 1 Sukuk securities are perpetual with no fixed redemption dates and represent an undivided ownership interest in the Sukuk assets, constituting an unsecured conditional and subordinated obligation of the Group classified under equity. However, the Group has the exclusive right to redeem or call the Tier 1 Sukuk debt securities in a specific period of time, subject to the terms and conditions stipulated in the Program.

The applicable profit rate on the Tier 1 Sukuk debt is payable semi-annual in arrears on each periodic distribution date, except upon the occurrence of a non-pay payment event or non-payment election by the Group, whereby the Group may at its sole discretion (subject to certain terms and conditions) elect not to make any distributions. Such a non-payment event or non-payment election are not considered to be an event of default and the amounts not paid thereof shall not be cumulative or compound with any future distributions.

39. Comparative figures

Certain prior year figures have been reclassified to conform to the current year presentation as fallows.

	Prior year reported balances (SAR'000)	Reclassi-fications (SAR'000)	Prior year reclassified balances (SAR'000)
ASSETS			
Cash and balances with SAMA	4,086,987	-	4,086,987
Due from banks and other financial institutions	6,405,783	4,480	6,410,263
Investments, net	18,842,327	140,644	18,982,971
Loans and advances, net	60,024,979	243,827	60,268,806
Investments in associates	939,022	-	939,022
Property, equipment, and intangibles, net	1,021,564	-	1,021,564
Positive fair values of derivatives	1,286,895	248	1,287,143
Other real estate	-	152,836	152,836
Other assets	1,026,162	(597,418)	428,744
Total assets	93,633,719	(55,383)	93,578,336

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

39. Comparative figures - continued

	Prior year reported balances (SAR'000)	Reclassi-fications (SAR'000)	Prior year reclassified balances (SAR'000)
LIABILITIES AND EQUITY			
Liabilities			
Due to banks and other financial institutions	5,321,488	7,660	5,329,148
Customer deposits	70,328,812	189,670	70,518,482
Term loans	2,000,000	11,221	2,011,221
Subordinated debt	2,000,000	(200)	1,999,800
Negative fair values of derivatives	1,000,672	-	1,000,672
Other liabilities	946,285	(263,734)	682,551
Total liabilities	81,597,257	(55,383)	81,541,874
Total equity	12,036,462	-	12,036,462
Total liabilities and equity	93,633,719	(55,383)	93,578,336

The reclassifications include accrued commission receivable and payable which were previously reported in other assets and other liabilities, respectively, and which were reclassified and added to the corresponding commission earning assets or commission bearing liabilities, respectively. Also reclassified from other liabilities was deferred loan fees which was reclassified against loans and advances, net. Other real estate included in other assets was reclassified to a separate financial statement line item. There were no reclassifications made affecting any of the individual components of the Group's total equity.

40. Issued IFRS but not effective

The following standards or amendments to existing standards have been issued but not yet adopted by the Group, as their effective date for adoption is after January 1, 2016. These standards are summarized below:

- Amendments to IASs'- "Disclosure Initiative" applicable from January 1, 2017.
- Amendments to IAS 12 – "Recognition of Deferred Tax Assets for Unrealized Losses" applicable from January 1, 2017.
- IFRS 9 - "Financial Instruments" applicable from January 1, 2018 provides guidance on the classification and measurement of financial assets and financial liabilities, provides requirements for de-recognition of financial instruments, and incorporates revised requirements for hedge accounting that will allow entities to better reflect their risk management activities in their financial statements.
- IFRS 15 - "Revenue from Contracts with Customers" applicable from January 1, 2018 sets out the requirements for recognizing revenue that apply to all contracts with customers (except for contracts that are within the scope of the Standards on leases, insurance contracts, and financial instruments).
- IFRS 16 – "Leases" applicable from January 1, 2019 sets out the new requirements of lease accounting for lessees and lessors.
- Amendments to IAS 7 – "Statement of Cash Flows", which is applicable for annual periods beginning on or after January 1, 2017. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

40. Standards or amendments to existing standards issued but not yet adopted - continued

- Amendments to IFRS 2 – “Share-based Payment”, which is applicable for periods beginning on or after January 1, 2018. The amendments cover the measurement of cash-settled share based payments, the classification of share based payments settled net of tax withholdings, and the accounting for a modification of a share-based payment from cash settled to equity settled.

The Group is currently assessing the implication of these and the timing of adoption.

41. Board of Director’s approval

The consolidated financial statements were authorized for issue by the Board of Directors on 22 Jumada I, 1438H, corresponding to February 19, 2017.

- -

KPMG Al Fozan & Partners
Certified Public Accountants

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

Opinion

We have audited the consolidated financial statements of The Saudi Investment Bank (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated income statement; and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes from 1 to 41.

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 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Accounting Standards for Commercial Banks issued by the Saudi Arabian Monetary Authority ("SAMA") and with International Financial Reporting Standards ("IFRS"); and

- comply with the applicable requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's Articles of Association 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.

KPMG Al Fozan & Partners
Certified Public Accountants

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

Key Audit Matters

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

The key audit matters	How the matters were addressed in our audit
Loan impairment	
At 31 December 2016, the gross loans and advances were Saudi Riyals (SAR) 61.2 billion against which impairment provisions of SAR 995 million were recorded. These include impairment against specific loans and collective impairment recorded on a portfolio basis through the use of models. We considered this as a key audit matter as the Group makes complex and subjective judgments and makes assumptions to determine the impairment against credit losses as at each reporting date. In particular, the determination of impairment provisions against loans and advances includes: ○ The identification of impairment events and methods and judgments used to calculate the impairment against specific loans and advances; ○ The use of assumptions underlying the calculation of collective impairment for portfolios of loans and advances, and the use of models to make those calculations; and ○ An assessment of the Group's exposure to certain industries affected by economic conditions. *Refer to the following notes to the consolidated financial statements: summary of significant accounting policies note 3(k) for loans and advances and note 2(d)(i) which contains the disclosure of significant accounting estimates relating to impairment of loans and advances, note 7(b) which contains the disclosure of impairment against loans and advances and note 3(l)(i) which explains the*	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. We tested a sample of loans and advances, including loans that had not been identified by management as potentially impaired, to form our own assessment as to whether impairment events had occurred and to assess whether impairment had been identified and recorded on a timely basis. Where impairment was individually calculated, we tested the assumptions underlying the impairment identification including forecasted future cash flows, discount rates and estimated recovery from any underlying collateral. For individually assessed loans, we also selected a sample of loans for industries adversely affected by the economic conditions to evaluate management's impairment assessment for such loans. For the collective impairment model, we tested the appropriateness of assumptions and the calculations within the model.

KPMG Al Fozan & Partners
Certified Public Accountants

pwc

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

impairment assessment methodology used by the Group.	
Fee income from banking services, net The Group charges loan-processing fees upfront to the customers and recognizes the same within fee income to the extent of certain thresholds. Such fees are an integral part of generating an involvement with the resulting financial instrument and therefore, should be an adjustment to the effective yield of loan financing. However, due to a large volume of transactions with mostly insignificant fee amounts, adjustments to the effective yield is made by the management based on certain thresholds and assumptions. We considered this as a key audit matter since the use of thresholds and assumptions could result in material over / under-statement of fee income and special commission income. *Refer to the summary of 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 threshold. We evaluated the assumptions used and threshold established by the Group to record the fee income on financing. We obtained management's assessment of the impact of the use of thresholds and assumptions on fee income, and: o traced the historical and current year data used by management to source documents on a sample basis; and o considered management's estimation of the impact of the use of thresholds and assumptions on the recognition of fee income.
Valuation of investments held as available for sale Available for sale investments comprise a portfolio of debt and equity investments. These instruments are measured at fair value with the corresponding fair value change recognized in other comprehensive income. The fair value of certain available for sale investments, which are not traded in an active market, is determined through the application of valuation techniques. These techniques often involve the exercise of judgment by the management and the use of assumptions and estimates. Estimation uncertainty exists for those instruments not traded in an active market and where the internal modelling techniques use: o significant observable valuation inputs (i.e. level 2 instruments); and	We assessed the design and implementation and tested the operating effectiveness of the key controls over management's processes for performing valuations of investments classified as available for sale which are not traded in an active market. We performed an assessment of the methodology and the appropriateness of the valuation models and inputs used to value available for sale investments. We tested the valuation of a sample of these investments and assessed the key inputs used in the valuation such as the expected cash flows, risk free rates and credit spreads by benchmarking them with external data.

KPMG Al Fozan & Partners
Certified Public Accountants

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

○ significant unobservable valuation inputs (i.e. level 3 instruments) Estimation uncertainty is particularly high for level 3 instruments. The valuation of the Group's available for sale investments in level 2 and level 3 categories was considered a key audit matter given the degree of complexity involved in valuing these financial instruments and the significance of the judgments and estimates made by the management. In the Group's accounting policies, the management has described the key sources of estimation involved in determining the fair value of level 2 and level 3 financial instruments and in particular when the fair value is established using a valuation technique due to the complexity of the instruments or due to the lack of availability of market based data. *Refer to the following notes to the consolidated financial statements: summary of significant accounting policies note 3(j)(i), note 33 which explains the investment valuation methodology used by the Group and note 2(d)(ii) which explains critical judgments and estimates for fair value measurement.*	
Impairment of investments held as available for sale As at 31 December 2016, the Group had investments held as available for sale of SAR 21.45 billion. These investments are comprised of equities, corporate and sovereign bonds and Sukuk, which are subject to the risk of impairment in value due to either adverse market situations and / or liquidity or other constraints faced by the issuers. For assessing the impairment of equities, management monitors the volatility of share prices and uses the criteria of significant or prolonged decline in 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	We assessed the design and implementation and tested the operating effectiveness of the key controls over management's processes for identifying a significant or prolonged decline in the fair value of equities and/or any impairment indications for corporate and sovereign bonds / Sukuk. For equity investments, we assessed the appropriateness of the management's criteria for determining a significant or prolonged decline in the value of investments and on a sample basis; ○ Evaluated the basis for determining the costs and fair value of investments;

4

KPMG Al Fozan & Partners
Certified Public Accountants

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

of what is significant and prolonged requires judgment. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the equity instrument at initial recognition. In assessing whether it is prolonged, the decline is evaluated against the period in which the fair value of the equity instrument has been below its original cost at initial recognition. For debt instruments such as corporate and sovereign bonds / Sukuk, the 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. 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. *Refer to the following notes to the financial statements: summary of significant accounting policies note 3(l) for the accounting policy relating to the impairment of financial assets, note 2(d)(iii) for impairment of available-for-sale equity and debt investments, and notes 29 and 31 for the disclosures of credit and market risks respectively.*	o Tested the costs and valuations of investments; and o Considered the price fluctuations / movements during the holding period to determine if the investment meets the significant or prolonged criteria. For corporate and sovereign bonds / Sukuk, on a sample basis, we assessed the creditworthiness of counter parties and cash flows from the instrument to consider any defaults based on the terms and conditions of the issuance of these bonds / Sukuk.
Valuation of derivatives The Group has entered into commission rate swaps, foreign exchange forward contracts and foreign exchange options which are over the counter (OTC) derivatives and hence, the valuation of these derivatives is subjective as it takes into account a number of assumptions. The Group utilizes these derivatives for trading and fair value hedge accounting purposes. An inappropriate valuation of derivatives could have a	We assessed the design and implementation, and tested the operating effectiveness of the key controls over management's processes for valuations of derivatives including the testing of relevant automated controls covering the fair valuation processes for derivatives. We selected a sample of derivatives and:

5

KPMG Al Fozan & Partners
Certified Public Accountants

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

material impact on the consolidated financial statements. We considered this as a key audit matter as there is complexity and subjectivity involved in determining the valuation where modelling techniques are used. *Refer to the following notes to the consolidated financial statements: summary of significant accounting policies note 3(e) which explains derivative financial instruments and hedge accounting, note 11 which discloses the derivative positions and note 33 which explains the fair values of financial assets and liabilities.*	o Tested the accuracy of the particulars of derivatives by comparing the terms and conditions with relevant agreements and deal confirmations; o Checked the accuracy and appropriateness of the key inputs to the valuation models; and o Involved our valuation specialists to perform an independent valuation of the derivatives and compared the results with management's valuation.
Valuation of associated company put option	
The Group's derivatives as at 31 December 2016 includes a put option with a positive fair value of SAR 386 million (2015: SAR 299 million) (note 11). This put option is embedded within the agreement (the Agreement) with the shareholder of an associated company and gives the Group an option to sell its associated company investment to its other shareholder based on a strike price determined in accordance with the Agreement. In accordance with the Group's accounting policy, this put option is segregated from the Agreement and is measured at its fair value. The Group uses an option pricing model to fair value the put option which requires certain inputs which are not observable in the current market place. These inputs include historical results of the associated company and other inputs which require management's judgement including estimations about the future results of the associated company, the detrimental effects on the operating results of the associated company which may arise from an exercise of the option, and an estimate of the fair value of the underlying investment. This is considered as a key audit matter as the valuation of this put option, as mentioned above,	We inspected the agreement to obtain an understanding of the principal terms of the put option. We considered the put option valuation performed by independent consultants engaged by management and discussed the methodology and key assumptions with the independent consultants. We also assessed the above valuation of the put option and used our internal valuation specialists to consider: o the basis for determining the strike price and whether it complies with the terms of the Agreement; o the appropriateness of the assumptions used in the option pricing model; o the unobservable inputs used in the model and the basis for determining these inputs; and o the arithmetical accuracy of the option pricing model.

KPMG Al Fozan & Partners
Certified Public Accountants

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

requires management to exercise judgment in determing the fair value of the put option. *Refer to the following notes to the consolidated financial statements: summary of significant accounting policies note 3(e) which explains the accounting policy for derivative financial instruments and hedge accounting, note 11 which explains the put option positions and note 33 to the consolidated financial statements which explains the valuation methodology used by the Group.*	
Zakat The Bank has received claims from the General Authority of Zakat and Tax (GAZT) for the years from 2003 to 2011 and 2013 raising additional demands aggregating to SAR 573 million. These additional demands arose, as the GAZT considered certain assets as non-deductible for the purpose of the computation of the Zakat base which consequently would increase the Zakat liability. The Bank, in consultation with its professional Zakat and Income Tax advisor, has filed appeals for the above assessments with the GAZT. The appeal proceedings are underway at various levels of the appellate forums available to the Bank and hence the ultimate outcome of the matter cannot be determined at this stage. The treatment of certain items in the Zakat calculation (resulting in additional demands) is uncertain until resolved with the GAZT. Consequently, the management makes judgments about the incidence and quantum of Zakat liabilities which are subject to the future outcome of assessments by the GAZT. The Bank recognizes provisions when a reliable estimate can be made for a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources embodying economic benefits will be required to settle the obligation. The Group currently considers that the outflow of resources is remote and has	We reviewed the correspondence between the Bank and the GAZT and the Bank's Zakat and Income Tax advisor. We held meetings with those charged with governance and executive management of the Group to obtain updates on the Zakat matter and the results of their interactions with the GAZT. We also assessed the appropriateness of the disclosures, in light of the facts and circumstances of the Bank.

7

KPMG Al Fozan & Partners
Certified Public Accountants

pwc

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

accordingly not provided for the additional liability and has disclosed the related contingency in note 26 to the consolidated financial statements. We considered this as a key audit matter as this matter is subjective and the amounts claimed by the GAZT are material. *Refer to the following notes to the consolidated financials: summary of significant accounting policies note 3(v) for the accounting policy relating to Zakat and income taxes and note 26 for the related disclosures for Zakat and Income Tax.*	

Other Information included in the Bank's 2016 Annual Report

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

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Accounting Standards for 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 Articles of Association, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using

KPMG Al Fozan & Partners
Certified Public Accountants

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

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.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls.

- 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.

- 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

KPMG Al Fozan & Partners
Certified Public Accountants

pwc

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

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

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.

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

Abdullah Hamad Al Fozan
Certified Public Accountant
Registration No. 348

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

Khalid A. Mahdhar
Certified Public Accountant
Registration No. 368

25 Jumada'1 1438H
22 February 2017

برايس وترهاوس كوبرز
محاسبون قانونيون
ترخيص رقم ٢٥
PRICEWATERHOUSECOOPERS
CERTIFIED PUBLIC ACCOUNTANTS
LICENSE NO. 25

QUALITATIVE DISCLOSURES UNDER PILLAR III OF BASEL III
FOR THE YEAR ENDED DECEMBER 31, 2016

INTRODUCTION

The complexity of today's financial services sector, business operations, and diversity of geographical locations requires the identification, measurement, aggregation, and effective management of risks including an efficient allocation of capital to derive an optimal risk and return ratio. In addition, the stakeholders of the Bank, including the regulators and rating agencies also expect the Bank to have a clear and well documented framework in place that addresses several dimensions of the Bank's business.

The Saudi Arabian Monetary Authority (SAMA) has issued a required framework regarding the implementation of the capital reforms under Basel III. Risk Weighted Assets (RWA) under Basel III are an aggregate of RWAs under Basel II with additional enhancements/modifications to RWAs under the Basel III framework. Additional qualitative disclosures are also part of the Basel III process, which guides The Saudi Investment Bank's approach to capital assessment and RWA estimation and complement SAMA's supervisory review process.

SCOPE OF APPLICATION

The name of the top corporate entity in the Group to which this disclosure applies is The Saudi Investment Bank (hereinafter called the Bank).

The Bank has the following three 100% owned subsidiaries:

- Alistithmar Capital for Financial Securities and Brokerage Company, a closed joint stock company;
- Saudi Investment Real Estate Company, a limited liability company, yet to commence any significant operations; and
- Saudi Investment First Company, a limited liability company, registered in the Kingdom of Saudi Arabia on November 9, 2014. The company has not commenced any significant operations.

The Bank has investments in the following three associates (where investment is above 20% but not exceeding 50%):

- American Express (Saudi Arabia) (Amex)-(ASAL). ASAL is a closed joint stock company with Amex (Middle East), Bahrain. The principal activities of ASAL include the issuance of credit cards and the offer of other American Express products in Saudi Arabia. The Bank holds a 50% interest.
- Saudi Orix Leasing Company (Orix). Orix is a Saudi Arabian closed joint stock company in Saudi Arabia. The principal activities of Orix include lease-financing services in Saudi Arabia. The Bank holds a 38% interest.
- Amlak International for Finance and Real Estate Development Co. (Amlak). Amlak is a Saudi Arabian closed joint stock company in Saudi Arabia and the Bank holds a 32% interest. The principal activities of Amlak include real estate finance products and services.

The Bank has no other subsidiaries nor operates any other business activities outside of Saudi Arabia. The Bank is subject to all laws and regulations of Saudi Arabia and is regulated by SAMA. The Bank also follows relevant regulations pertaining to the financial services industry issued by the Ministry of Commerce and Investment and the Capital Market Authority (CMA).

CAPITAL STRUCTURE

The authorized, issued and fully paid up share capital of the Bank consists of 700 million ordinary shares of SAR 10 each as of December 31, 2016. The Bank's total shareholders' equity as of December 31, 2016 was SAR 13,043 million (2015: SAR 12,036 million). The Bank's total equity as of December 31, 2016 was SAR 13,543 million which include the SAR 500 million Tier I Sukuk issued in 2016.

Tier I Capital as of December 31, 2016 was SAR 13,525 million (2015: SAR 12,018 million), which is considered the core measure of the Bank's financial strength and includes share capital, reserves, retained earnings, and the Tier I Sukuk, net of goodwill.

Tier II Capital as of December 31, 2016 was SAR 2,550 million (2015: SAR 2,456 million), which consists of the allowed portions of general provisions, and qualifying subordinated debt.

Tier I and Tier II Capital as of December 31, 2016 was SAR 16,074 million (2015: 14,474 million).

Eligible Reserves are created by appropriations of profit and are maintained for future growth and to meet statutory requirements. The eligible reserves are mainly comprised of statutory reserves, and retained earnings.

QUALITATIVE DISCLOSURES UNDER PILLAR III OF BASEL III
FOR THE YEAR ENDED DECEMBER 31, 2016

Capital Adequacy

While managing capital, the Bank's objectives are to comply with the capital requirements set by SAMA to safeguard the Bank's ability to continue as a going concern and to maintain a strong capital base.

Capital adequacy and the use of regulatory capital are routinely monitored by the Bank's management. SAMA requires the Bank to hold a minimum level of regulatory capital and maintain a ratio of total regulatory capital to risk-weighted assets (RWA) at or above the Basel requirement of 8.625%.

The Bank monitors the adequacy of its capital using ratios established by SAMA. These ratios measure capital adequacy by comparing its eligible capital with its balance sheet assets, commitments, and notional amount of derivatives at a weighted amount to reflect their relative risk.

As of December 31, 2016, the Bank's Tier I ratio was 16.10% and the Tier I + II ratio was 19.13% (December 31, 2015 Tier I 14.07% and Tier I + II 16.94%) Both ratios are in compliance with SAMA's minimum requirements.

BANK'S RISK MANAGEMENT APPROACH

The Risk Governance Structure

The Bank has the following risk governance structure:

At the top level, the Board of Directors is responsible for establishing the Bank's Corporate Governance processes and for approving the Bank's Risk Appetite and related risk management framework. It is also responsible for approving and implementing policies to ensure compliance with SAMA guidelines and best industry practices including Basel guidelines. The Board of Directors has approved the Bank's Risk Management Policy as an overarching risk policy guideline under which the Bank has a suite of policies such as the Risk Appetite Framework Policy, Credit Policy Guide, Treasury Policy Guide, Stress Test Policy, ICAAP Policy, Operational Risk and Fraud Risk and other related policies.

The Board of Directors is supported by the Board Risk Committee (BRC), a sub-committee of the Board, responsible for recommending policies for Board approval and for monitoring risks within the Bank.

At the management level, the Bank has various committees including the Enterprise Risk Management Committee (ERMC), Credit Committee (CC) and Asset Liability Committee (ALCO) which are responsible for various areas of risk management. Other committees include the Operational Risk Management Committee (ORMC), Stress Testing Committee (STC), Financial Fraud Control Committee and the Structured Solution Approval Committee (SSAC).

At the departmental level, the Bank has a Risk Management Group headed by the Chief Risk Officer (CRO) who is assisted by the Deputy Chief Risk Officer, Assistant General Manager (Risk Management), Assistant General Manager (Credit Risk Review), Assistant General Manager (Credit Administration) and Head of Collections. The Heads of Corporate Credit Risk, Retail Credit Risk, Market Risk, Operational Risk and Fraud Prevention & Detection Departments report to the Assistant General Manager (Risk Group).

In addition to the above, the Bank's internal audit function reports to the Board's Audit Committee and provides an independent validation of the business and support unit's compliance with risk policies and procedures and the adequacy and effectiveness of the Bank's risk management function.

Risk Culture

The Bank's Risk Culture encompasses the accepted norms of behavior for individuals and groups within the Bank that determine the collective ability to identify and understand, openly discuss, and act on the Bank's current and future risks. The Bank's Risk Appetite Framework (RAF) underlines the importance of the Bank's risk culture, which is grounded in shared values and common understanding, clear communication, and controls how each employee's activities contribute to the Bank's risk profile. The Bank's risk culture affects its risk taking behavior and is an important element of the Risk RAF and Risk Appetite Statement (RAS) by ensuring the Bank's risk taking behavior is translated into measurable metrics. The Bank's RAF specifically includes zero tolerance relating to regulatory non-compliance risk, willful acts of violation of local laws, frauds/money laundering, and other actions which can adversely impact the reputation and business of the Bank.

QUALITATIVE DISCLOSURES UNDER PILLAR III OF BASEL III
FOR THE YEAR ENDED DECEMBER 31, 2016

RISK APPETITE FRAMEWORK

The Bank manages its risks in a structured, systematic, and transparent manner through a broad-based RAF which is approved by the Board of Directors that incorporates comprehensive risk management into the Bank's organizational structure, risk measurement, and monitoring processes. The Bank's RAF is carefully aligned with the Bank's strategy, business planning and budgeting, capital planning, and the policies and documents approved by the Bank's Board of Directors. The Bank's RAF is in compliance with the Financial Stability Board's "Principles for an effective Risk Appetite Framework" dated November 18, 2013, as adopted by the Saudi Arabian Monetary Authority (SAMA).

The Bank's RAF includes the following key characteristics:

- The nature of risks to be assumed as a result of the Bank's strategy;
- The maximum level of risk at which the Bank can operate (Risk Capacity) and the maximum level of risk it should take (Risk Appetite);
- The maximum level of other quantifiable risks that should be taken (Other Risk Limits);
- The desired balance of risk versus returns by Business Line (Business Unit Line Risk Appetite measurements); and
- The desired risk culture, compensation programs, information technology risk and security, and the overall compliance environment of the Bank (Qualitative Reporting).

An annual RAS is developed at the beginning of each year and approved by the Bank's Board of Directors. The RAS establishes the Risk Capacity, Risk Appetite, Other Risk Limits, Business Unit Line Risk Appetite, and Qualitative measurements. These risk measurements are then reported to and monitored by ALCO and the Board Risk Committee (BRC) on a quarterly basis, and reported to the Board of Directors on an annual basis.

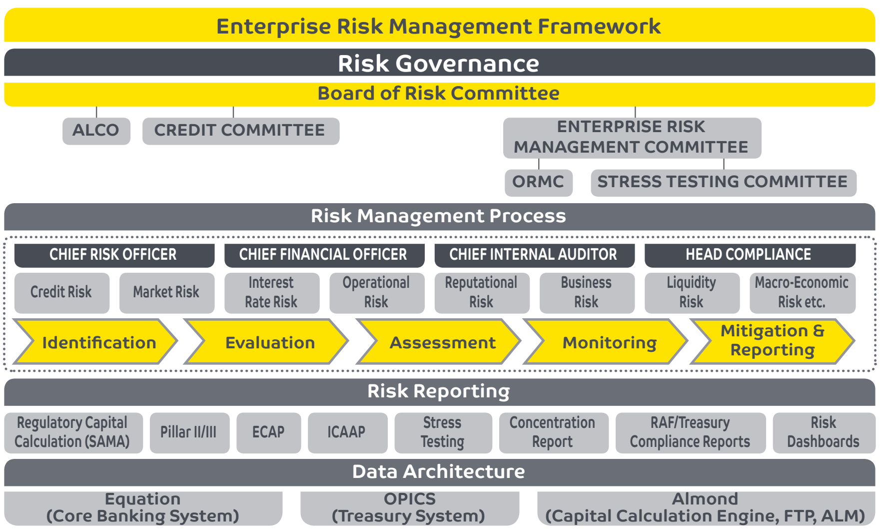
The Board Risk Committee endorses the Bank's RAF and RAS for the Board of Directors approval. Additionally, the Board Risk Committee:

- Ensures that the RAF remains consistent with that of the Bank's short-term and long-term strategy, business and capital plans, as well as the Bank's compensation programs and other Board approved policies;
- Ensures timely monitoring and appropriate action is being taken by management regarding any breaches of Risk Capacity, Risk Appetite, or Other Risk Limits;
- Satisfies itself that there are mechanisms in place to ensure senior management can act in a timely manner to effectively manage, and where necessary mitigate, material adverse risk exposures in particular those that are close to or exceed the approved Risk Capacity, Risk Appetite or Other Risk Limits;

Finally, it ensures that the Bank's risk management is supported by adequate and robust IT and MIS to enable the identification, measurement, assessment and reporting of risk information in a timely and accurate manner.

ENTERPRISE RISK MANAGEMENT FRAMEWORK

The Bank has also implemented a comprehensive Enterprise Risk Management Framework (ERM), whereby all of its risks are identified and monitored against the Bank's strategy. The diagrammatic representation of the ERM Framework follows:



QUALITATIVE DISCLOSURES UNDER PILLAR III OF BASEL III
FOR THE YEAR ENDED DECEMBER 31, 2016

The Bank also has constituted an "Enterprise Risk Management Committee" (ERMC). The ERMC has the following responsibilities:

- Review and oversee the implementation of the Bank's Enterprise Risk Management framework linking all risk elements and highlighting the Bank-wide high level risks that need to be identified, measured, monitored and controlled;
- Provide risk-related input to the Board Executive Committee, Board Risk Committee, Board Audit Committee, Board Nomination and Remuneration Committee, and the Management Compliance Committee when required, to ensure adherence to the Bank's Enterprise Risk Management Framework;
- Review and monitor the Bank's Economic Capital (ECAP) framework and review the Bank's adherence to the Capital adequacy guidelines outlined by SAMA;
- Review the Bank's adherence to the Capital adequacy guidelines outlined in Basel Pillar III, and monitor ICAAP and Stress Testing activities;
- Review risk-related MIS reports and data sources;
- Review documentation of related processes to ensure key resources succession planning;
- Review the latest developments in the area of Enterprise Risk Management to ensure that the Enterprise Risk Framework in the Bank remains updated;
- Review operational risk management policies as prepared by the Management Operational Risk Management (ORM) Sub-Committee and provide comments in advance of submission to the Board Risk Committee, and the Board of Directors; and
- Review fraud risk reports that have been prepared, identifying incidents and resolutions, as prepared by the fraud prevention and detection function through the Management Financial Fraud Control Sub-Committee.

The Committee is chaired by the Chief Risk Officer (CRO) and comprises of senior personnel from different areas of the Bank including Risk Management, Financial control, and Corporate Governance.

CYBER AND INFORMATION SECURITY RISKS

The Bank's Information Security policy proactively addresses the information security challenges presented in the course of the Bank's business. The Bank deploys adequate defense in depth and multiple countermeasures to ensure prevention, detection and correction of vulnerabilities. Along with the technical controls, the Bank has extensive training programs for staff and customers on an ongoing basis to create awareness of information security and cyber risks and the importance of cyber security.

The Bank practices strong security governance and inculcates security culture. The security strategy is also prepared to reflect corporate strategy. Our Security Charter ensures that the vision and mission of the Bank is followed and confidentiality, integrity and availability is kept as an integral part of all business and technical processes.

To provide information assurance and stakeholder comfort, the Bank has obtained certifications of international standards such as ISO 27001 i.e. Information Security Management System; and PCI-DSS (Payment Card Industry Data Security Standard). In addition, the Bank complies with the Saudi Information and Cyber Security regulations, SAMA guidelines, and international best practices.

SCOPE AND PRIMARY FEATURES OF RISK MEASUREMENT SYSTEMS

The Bank uses various industry-standard IT systems to manage and measure its credit, market, operational, liquidity and other risks. It also uses an industry standard tool for credit assessment and rating. In addition, it has several Bank specific models for measurement of risks.

In addition, the Bank has adopted the BCBS Principles of Effective Risk Aggregation and Risk Reporting and initiated major IT systems projects for data aggregation and reporting, including creation of a risk data mart for consistent and accurate risk reporting.

Process of risk information reporting provided to the Board and senior management

The Bank generates MIS and other regulatory reports covering various types of risks on daily, weekly, fortnightly, monthly, quarterly, semi-annual and annual frequencies as required under various policies and procedures. The relevant reports are reviewed by senior management and by relevant management level Committees which are further reviewed and approved by the Board Risk Committee and Board of Directors, according to the Bank's well defined policies.

QUALITATIVE DISCLOSURES UNDER PILLAR III OF BASEL III
FOR THE YEAR ENDED DECEMBER 31, 2016

CAPITAL ADEQAUCY AND STRESS TESTING

Internal Capital Adequacy and Assessment Plan

A comprehensive analysis of capital assessment and adequacy, through the process of an Internal Capital Adequacy Assessment Plan (ICAAP), is carried out by the Bank on an annual basis for which robust models and commonly accepted methodologies are applied for the estimation of the minimum required capital. This process is supported by the use of proprietary capital planning methodologies. The analysis and results thereof are approved by the Board after the required management level committee review and approval.

Stress Testing Framework

The Bank has a comprehensive stress testing framework which follows effective stress testing practices and methodologies to make stress testing an integral part of the Bank's risk management function, as well as to meet SAMA regulatory requirements.

The Bank has also appointed a Stress Testing Committee (STC) headed by the Chief Risk Officer and has implemented a Bank-wide Stress Testing Policy (STP) which has been approved by the Board of Directors. In addition, the STC, in accordance with the STP, has appointed a cross-functional Stress Testing Team (STT) to conduct detailed stress testing with the results submitted to the STC for its review and feedback.

The Bank's Stress Testing framework specifies the frequency and schedule of stress tests and reporting of the stress test results in accordance with SAMA's requirements. Semi-annual stress tests reports are submitted to SAMA after review and approval by the Board of Directors. Top-down and bottom-up risk analyses and various stress tests are also performed to measure the impact of extreme, yet plausible events which enables holistic assessment of vulnerabilities of the Bank's strategy. At the request of SAMA, specific ad-hoc stress tests are also performed in order to measure capital adequacy under severe economic downturn scenarios.

RISK MANAGEMENT

RISK EXPOSURE AND ASSESSMENT

Risk management is an intrinsic process embedded in all the activities of the Bank and is a core competency for its employees. The Bank manages its credit, market, operational, liquidity, information security, and other risks using a structured approach integrated with the Bank's RAS and within documented policies and procedures including the Board approved Credit Policy Guide and Treasury Policy Guide. The Bank's risk management function is independent of the Bank's business units.

Through the Bank's comprehensive risk management function, transactions and outstanding risk exposures are quantified and compared against authorized limits, whereas non-quantifiable risks are monitored against policy guidelines and key risk and control indicators. Any discrepancies, excesses, or deviations are escalated for appropriate action. The Bank's risk management function ensures that:

- The Bank's overall business strategy is consistent with its risk policies approved by The Board;
- Appropriate risk management architecture and systems are developed and implemented; and
- The portfolio of risks and limits including the Board approved Risk Appetite Framework are routinely monitored, including at appropriate Board Committee and management levels.

The risk management function therefore assists the Board and senior management in controlling and actively managing the Bank's overall risk.

Credit Risk Management

The Bank manages exposures 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 when booking loans and advances, and investment activities. There is also credit risk embedded in off-balance sheet accounts, such as loan commitments.

QUALITATIVE DISCLOSURES UNDER PILLAR III OF BASEL III
FOR THE YEAR ENDED DECEMBER 31, 2016

Credit Risk Management Strategy

The approach to credit risk management is based on a foundation, which preserves the independence and integrity of credit risk assessment. The Bank has a comprehensive framework of managing credit risk which includes an independent credit risk review function and credit risk monitoring process.

Management and reporting processes are therefore combined with clear policies, limits, and approval structures which guide the day-to-day initiation and management of the Bank's credit risk exposure. This approach includes credit limits that are established for all customers after a careful assessment of their creditworthiness.

Standing procedures, outlined in the Bank's Credit Policy Guide approved by the Board of Directors, require that all credit proposals must either be reviewed and approved by the Credit Committee, or the Board's Executive Committee.

Whenever necessary, credit facilities are secured by acceptable forms of collateral to mitigate the related credit risks. The Bank seeks additional collateral from counterparties as soon as impairment indicators are noticed for relevant individual loans or advances. The Bank also monitors the market value of collateral, requests additional collateral in accordance with underlying agreements, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

The Board defines the Bank's credit risk management strategy and approves significant credit risk policies to ensure alignment of the Bank's exposure with its overall risk policies.

The Bank controls credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and by continually assessing the creditworthiness of counterparties. The Bank also uses external ratings of the major rating agencies, where available.

The Bank's credit risk management policies are also designed to identify and set appropriate risk limits and to monitor the risks and adherence to those limits. Actual exposures against limits are routinely monitored.

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

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Loan Portfolio Concentration risk is well managed and monitored under the Bank's RAF. Loan Portfolio Concentration risk is managed and monitored under the Bank's Risk Appetite Framework.

Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or business or geographical location. Hence, the Bank seeks to manage its credit risk exposure through diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations, businesses or industries.

The Bank regularly reviews its credit risk management policies and systems to reflect changes in market products and emerging best practices.

The Bank ensures that its credit exposures are always in conformity with SAMA Rules on Large exposures.

Credit Risk Monitoring, Reporting and Measurement System

The Bank's exposures are continuously monitored through a system of triggers and early-warning signals aimed at detecting adverse symptoms that could result in deterioration of credit risk quality. The triggers and early-warning systems are supplemented by facility utilization and collateral valuation monitoring together with a review of upcoming credit facility expiration and market intelligence to enable timely corrective action by management. The results of the monitoring process are reflected in the Bank's internal rating process.

QUALITATIVE DISCLOSURES UNDER PILLAR III OF BASEL III
FOR THE YEAR ENDED DECEMBER 31, 2016

Credit risk is monitored on an ongoing basis with formal monthly and quarterly reporting to the Credit Committee, senior management, and the Board to ensure awareness of shifts in credit quality and portfolio performance along with changing external factors such as economic and business cycles.

Consumer credit risk reporting also includes a daily dashboard for consumer and small business lending, classification, and delinquency monitoring.

Specialized and focused Remedial Management Unit and Special Credit Unit teams handle the management and collection of problem credit facilities and take any legal action if required.

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

Credit facilities are granted based on detailed credit risk assessments which consider the purpose of the facility and source of repayment, prevailing and potential macro-economic factors, industry trends, and the customer's positioning within its industry peer-group.

In compliance with SAMA regulations, lending to individual board members and related parties is fully secured and monitored by the Credit Committee. Such transactions are made on substantially the same terms, including special commission rates as those prevailing at the time for comparable transactions with unrelated parties.

All new proposals and/or material changes to existing credit facilities are reviewed and approved by the Credit Committee and / or by the Executive Committee within the provisions of the Credit Policy Guide approved by the Board.

The credit facility administration process is undertaken by a segregated function to ensure proper execution of all credit approvals and maintenance of documentation, and proactive control over maturities, expiry of limits, collateral valuation, and legal covenants.

Structure and organization of the credit risk management and control function

The Bank's Executive Committee (a committee of the Board of Directors) and the Credit Committee at the management level implement the Board's credit risk strategy by identifying, assessing, monitoring, and controlling credit risk. It is supported by various departments such as Credit Risk Review, Corporate Credit Risk Management, Retail Credit Risk Management, Credit Administration and Collections.

The Executive Committee meets regularly to review loan portfolio quality and standards and to approve credits above predetermined levels.

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

The Board Risk Committee reviews compliance with various risk measures including compliance related to relevant regulatory guidelines.

The Bank's Audit Committee appointed by the Board reviews the audit reports submitted by the Bank's Internal Auditor throughout the year.

Departments within the Risk Management Group are audited by the Internal Audit Department and the reports are submitted to the Audit Committee.

ADDITIONAL DISCLOSURES RELATED TO THE CREDIT QUALITY OF ASSETS

Past-due and impairment

Credit facilities are classified as past due when a payment has not been received on its contractual payment date, or if the facility is in excess of pre-approved limits.

A credit facility is considered impaired if the interest or a principal installment is past due for more than 90 days and the exposure is downgraded to a non-performing category.

QUALITATIVE DISCLOSURES UNDER PILLAR III OF BASEL III
FOR THE YEAR ENDED DECEMBER 31, 2016

Approaches for Specific and General Impairment
Non-performing loans are managed and monitored as irregular facilities and are classified into Sub-standard and Doubtful categories which are then used to guide the provisioning process of general as well as specific impairment provisions.

The extent of past-due exposures not considered to be impaired
In some cases where the exposure is past due 90 days, it may not be treated as impaired based on the management assessment of the nature and extent of collateral security or guarantees available.

DESCRIPTION OF METHODS USED FOR DETERMINING IMPAIRMENTS
Impairment for losses on loans and advances
The Bank reviews its loan portfolios to assess specific and collective impairment at each reporting date. In determining whether an impairment loss should be recorded, the Bank makes judgements as to whether there are any observable data indicating an impairment trigger and followed by 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 future 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. The assessment takes into account risk concentrations and economic data, (including levels of unemployment, real estate price indices, country risk, and the performance of different individual groups).

Impairment of available-for-sale (“AFS”) equity and debt investments
Management also exercises judgement in considering any impairment on AFS equity and debt investments at each reporting date in accordance with the best industry practices.

For equity investments, this includes a determination of a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgement. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. In assessing whether it is prolonged, the decline in fair value is evaluated against the period in which the fair value of the asset has been below its original cost at initial recognition. In making this judgement, the Bank considers, among other factors, the normal volatility in share/debt price. In addition, the Bank considers impairment to be appropriate when there is objective evidence of deterioration in the financial health of the issuer, industry and sector performance, changes in technology, and operational and financing cash flows.

The Bank reviews its AFS debt securities at each reporting data to assess whether they may be impaired. This requires similar judgement as applied to the individual assessments of loans and advances.

An assessment is made at each reporting date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognised for changes in its carrying amount.

Accounting Policies
The Bank considers evidence of impairment for loans and advances and investments at both a specific asset and collective level. When a financial asset is uncollectible, it is written off against the related provision for impairment either directly by a charge to the consolidated income statement or through a provision 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.

QUALITATIVE DISCLOSURES UNDER PILLAR III OF BASEL III
FOR THE YEAR ENDED DECEMBER 31, 2016

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

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

The loans and advances whose terms have been renegotiated are no longer considered to be past due and are treated as new loans. Restructuring policies and practices are based on criteria which indicate that payment will most likely continue. The loans and advances continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective yield rate.

The loans and advances are generally renegotiated either as part of an ongoing customer relationship, and possibly in response to an adverse change in the circumstances of the borrower. In the latter case, renegotiation can result in an extension of the due date of payment or repayment plans under which the Bank offers a revised rate of commission. This may result in the asset continuing to be overdue and individually impaired as the renegotiated payments of commission and principal may not recover the original carrying amount of the loan. In other cases, renegotiation may lead to a new agreement, and accordingly the agreement is treated as a new loan.

(i) Impairment of financial assets held at amortized cost

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

A specific provision for credit losses due to impairment of a loan or any other financial asset held at amortized cost is established 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.

In addition to specific provisions for credit losses, provisions for collective impairment are made on a portfolio basis. The collective impairment provisions are estimated based on various factors including credit ratings allocated to a borrower or group of borrowers, the experience the Bank has had in dealing with a borrower or group of borrowers and available historical default information. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions.

For financial assets at amortised cost, the carrying amount of the asset 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 ("AFS") financial assets

For AFS debt instruments, the Group 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 and recognized in the consolidated income statement.

QUALITATIVE DISCLOSURES UNDER PILLAR III OF BASEL III
FOR THE YEAR ENDED DECEMBER 31, 2016

For AFS equity investments, a significant or prolonged decline in fair value below its cost represents objective evidence of impairment. Determining the amount of a significant or prolonged decline in fair value requires judgement. 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 Other Comprehensive Income. On de-recognition, any cumulative gain or loss previously recognized in equity is included in the consolidated income statement.

(iii) Impairment of non-financial assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining an asset's fair value less costs to sell, an appropriate valuation model is used. These model calculations are corroborated by valuation multiples, or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indications exist, the Bank estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversals are recognised in the consolidated income statement.

Impairment losses relating to goodwill are not reversed in future periods.

(iv) 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 held for sale and is initially stated at the lower of net realizable value of the 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. Rental income from other real estate is recognized in the consolidated income statement.

Subsequent to initial recognition, any subsequent write down to fair value, less costs to sell, are charged to the consolidated income statement. Any subsequent gain in the fair value less costs to sell of these assets to the extent this does not exceed the cumulative write down is recognized together with any gain/ loss on disposal in the consolidated income statement.

THE BANK'S DEFINITION OF A RESTRUCTURED EXPOSURE

A rescheduled/restructured loan arises when the Bank, for economic or legal reasons related to the obligor's financial difficulties, grants borrower a concession that it would not otherwise consider.

A rescheduled loan is a loan for which repayment period has been extended. Rescheduled loans occur when a borrower is unable to repay the loan on time, or simply cannot afford to pay. Rescheduling a loan is an option that benefits the borrower and the lender.

A restructured Loan is a loan for which terms have been altered as agreed by the borrower and the Bank. The intent of any restructuring is to provide the borrower with more favorable terms such as a lower interest or monthly installment. A restructuring is implemented when a borrower informs the lender that he/she/it can no longer pay the loan under the old terms.

QUALITATIVE DISCLOSURES UNDER PILLAR III OF BASEL III
FOR THE YEAR ENDED DECEMBER 31, 2016

The Bank measures a restructured loan by reducing the recorded outstanding to net realizable value as required by the relevant accounting standard, taking into account the cost of all concessions at the date of restructuring. In case of a rescheduled/restructured loan, the Bank aims to reduce the recorded outstanding to net realizable value as required by the relevant accounting standard, taking into account the cost of all concessions at the date of restructuring.

QUALITATIVE DISCLOSURES REQUIREENTS RELATED TO CREDIT RISK MITIGATION TECHNIQUES

Credit Risk Mitigation Strategy

Portfolio diversification is the cornerstone of the Bank's credit risk mitigation strategy, which is implemented through customer, industry, and geographical limit structures.

To ensure diversification at the portfolio level, interrelated companies with the same management or ownership structure are classified and treated as one entity. The Bank limits its credit concentration to various types of counterparties as per the Large Exposure Guidelines issued by SAMA in 2015.

Credit risk mitigants such as collateral and guarantees are effective mitigating factors within the Bank's portfolio and collateral quality is continuously monitored and assessed.

The Bank uses a credit classification system as a tool to assist in managing the quality of credit risk within the lending portfolio. The Bank maintains ten classification grades that differentiate between performing, past due but not impaired and impaired portfolios, and allocates portfolio provisions and specific provisions accordingly.

The Credit Committee conducts quality classification exercises over all of its existing borrowers subject to the guidelines provided in the Credit Policy Guide.

Consumer loan loss provisions are allocated on the basis of portfolio provisioning in compliance with SAMA regulatory requirements.

The adequacy of provisions are regularly reviewed and adjusted according to a portfolio risk analysis undertaken on a monthly basis.

The Bank uses external ratings (where available) from Fitch, S&P and Moody's to supplement internal ratings during the process of determining credit limits. Unrated public issue instruments are risk-weighted at 100% for capital adequacy purposes.

In respect of counter party financial institutions with derivatives exposures, the Bank signs standard ISDA Master Agreements including a Credit support Annex. The Bank also makes use of collateral exchanges on the changes relating to MTM valuations.

Core features of policies and processes for collateral evaluation and management

Collateral management is handled independently by the Credit Administration Department which is responsible for safe custody of the documents and securities offered as collateral.

Based on SAMA guidelines and best practices, the Bank has laid down policies for valuation of collaterals such as shares, bonds and real estate. In respect of listed/quoted shares , the valuation is based on the daily end of day prices. In respect of real estate, an annual valuation is obtained based on the average valuation of at least two approved valuers.

Credit risk concentrations under the credit risk mitigation instruments used.

The Bank reviews and monitors collateral concentration by various types such as maximum permissible exposure to a company's shares pledged as collateral, maximum exposure of shares pledged for an individual company, number of shares of different companies any borrower can pledge based on the level of Bank's exposures to the borrower etc.

QUALITATIVE DISCLOSURES UNDER PILLAR III OF BASEL III
FOR THE YEAR ENDED DECEMBER 31, 2016

The External Credit Assessment Institutions (ECAIs) and Export Credit Agencies (ECAs) used by the Bank

The Bank currently uses the Standardized Approach for the credit risk capital calculation charge under SAMA guidelines. The Bank uses the ratings issued by Standard & Poor's (S&P), Moody's, and Fitch, which are the External Credit Assessment Institutions (ECAIs) approved by SAMA for the Standardized Approach. There has been no change in the ECAI used by the Bank during 2016. The Bank has not yet implemented the internal ratings-based (IRB) Approach.

The Bank does not use any specific agency exclusively for any particular type of exposure. The available ratings of any of the above three approved ECAIs on the obligors classified as Sovereign, Public Sector Entities, Multilateral Development Banks, Banks and Security Firms, and Corporates are used for risk weighting the exposures on them. The Bank's exposure to the obligors therefore reflects the correct issue rating from an acceptable ECAI long-term issuer rating.

Distinction between long-term and short-term claims is made only in respect of claims on banks. Generally, short-term ratings are deemed to be issue specific to be used only for the rated short-term facility. Short-term ratings are not used for any other short-term claims. If there are three or more assessments with different risk weights, the assessments corresponding to the two lowest risk weights are referred to and the higher of those risk weights is applied.

In general, the Bank follows the guidelines issued by SAMA with respect to the use of ECAI ratings. The alignments of the ratings of each ECAI are made as per the standard mapping published by SAMA.

QUALITATIVE DISCLOSURES RELATED TO COUNTER PARTY CREDIT RISK

Counterparty Credit Risk can be described as the risk that a counterparty in a transaction may fail to meet payments prior to final settlement of the cash flows in the transaction. It may include derivative instruments, securities or commodities lending, repo transactions, margin lending, and interbank transactions.

Counterparty risk in the Bank is controlled using a combination of Board approved risk appetite limits and risk control monitoring using an integrated system of limit management at both a product and counterparty level.

For the measurement of exposure, (i.e. Exposure At Default-EAD), the Basel mandated methodology is used, where marked-to-market (MTM) (replacement cost in the case of derivatives and drawn amounts in the case of committed facilities), plus an add-on for potential future exposure (PFE) is used. The capital at risk or unexpected loss, i.e. the loss, which constitutes the economic capital is also calculated and monitored. The exposures are revalued daily at market close, PFE is adjusted and mitigation measures applied (collateral, netting, etc.) and limits compliance is monitored daily.

For collateral management, derivative transactions subject to collateral agreements are marked to market daily and the parameters agreed in the collateral agreement are applied and accordingly margin calls are managed.

Risk management objectives and policies related to counterparty credit risk

The Bank manages and controls credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties.

The Bank's risk management policies are designed to identify and to set appropriate risk limits and to monitor the risks and adherence to limits. Actual exposures against limits are routinely monitored.

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

QUALITATIVE DISCLOSURES UNDER PILLAR III OF BASEL III
FOR THE YEAR ENDED DECEMBER 31, 2016

Policies with respect to wrong-way risk exposures

The Bank has laid down criteria for certain wrong way exposures such as pledges of shares of the borrowing company not being treated as acceptable collateral.

For derivative exposures, a Credit Support Annex (CSA) under the International Swap Dealers Association (ISDA) Master Agreement and exchange of margins on MTM basis with all the counterparties ensure minimal wrong way exposures.

The Bank reviews the impact of credit rating changes in respect of its counterparties from to time and takes suitable measures for any expected shortfall in collateral.

QUALITATIVE DISCLOSURE REQUIREMENTS RELATED TO MARKET RISK

The Bank recognizes market risk as the risk due to potential losses in on-and off-balance sheet positions arising from movements in market prices such as interest rates, foreign exchange rates, equity prices and commodity prices. The measurement, control and monitoring of market risk extends to all operations exposed to capital losses due to change in risk factors (interest rate, exchange rate, equities, credit spread and the associated volatility of these factors).

Overall, the Bank's exposure to market risk is a lower component of the Bank's total risk exposure. The Bank does not maintain any trading activities in equities, bonds and commodities markets and thus is not exposed to volatility of markets directly and is only exposed to structural market risks due to its banking book activities.

Market Risk Management Framework

The Bank has in place a market-risk management framework which governs the Bank's trading and non-trading activities related to market risk. The Bank separates market risk related activities between its banking book and its trading book. The relevant department heads within the Treasury and Investment Group are responsible for managing market risk arising from any trading investment and asset liability management (ALM) activities within the mandated limits of risk policy of the Bank.

The Bank's ALCO is responsible for management and oversight of market risk inherent in the Bank's trading and non-trading activities within the framework of policies and processes laid down by its Treasury Policy Guide (TPG) and RAF.

Structure and organization of the market risk management function

The monitoring and control of market risk is handled by an independent market risk team which is responsible for ensuring market risk exposures are measured in accordance with defined policies and monitored daily against the prescribed control limits. The Bank has established a market risk management policy and specified market risk measurements and limits in Bank's Treasury Policy Guide approved by the Board of Directors. ALCO, the Treasury and Investment Group and the Market Risk Departments are primarily responsible for managing, monitoring and controlling this risk in accordance with approved policies.

Scope and nature of risk reporting and/or measurement systems

For regulatory capital purposes, the Bank calculates its market risk capital requirements according to the Standardized methodology. All activities giving rise to market risk are conducted within a structure of approved credit and position exposure limits.

The Bank performs daily revaluation of its positions exposed to market risk at market close as per the approved methodologies under TPG. The fair value principles are adopted when no market quotes are available. The Bank uses various integrated systems to perform the measurement of its exposure and applies appropriate methodology to measure market risk. It is ensured that measurement and reporting is performed outside the risk taking units with adequate internal control processes in place.

The Bank uses industry standard IT systems for its Treasury operations and recording of transactions. The Bank also has industry standard systems for market risk measuring, monitoring, reviewing and reporting. The Bank is also in the process of installing additional systems for advanced risk measurements as a part of risk data aggregation and reporting project.

QUALITATIVE DISCLOSURES UNDER PILLAR III OF BASEL III
FOR THE YEAR ENDED DECEMBER 31, 2016

Liquidity Risk Management
Liquidity risk in the banking book is routinely monitored through liquidity risk limits based on short-term and long-term maturities, loan-to-deposit ratios, and SAMA liquidity ratios such as the daily liquidity ratio, liquidity coverage ratio and net stable funding ratio. The Bank manages it's liquidity through domestic money markets including swaps and repo markets and through international money markets such as US dollar and GCC markets.

Diversification of funding is an important component of the Bank's liquidity management strategy. The two largest components of customer deposits include time deposits and commodity deposits. The Bank conducts liquidity-risk stress tests whereby the stress scenarios incorporate both internal and external liquidity risk factors. The Bank seeks to maintain a cushion of unencumbered, high quality, liquid assets that can be liquidated or repoed in times of stressed liquidity. The Bank's stress tests in 2016 showed that the Bank has continued to maintain a sufficient amount of liquidity under various stressed scenarios.

Equity Price Risk in the Banking Book
The Bank's equity risk exposures primarily include: available for sale (AFS) exchange traded local equity investments and Investment in associates.

Substantially all of the AFS equities in the banking book are actively quoted on the Saudi stock exchange on a daily basis and are liquid. The Bank follows prudent practices in managing its diversified portfolio of equities and routinely monitors the portfolio for constantly changing market risks.

INTEREST RATE RISK IN BANKNG BOOK (IRRBB)
Interest rate risk in the banking book (IRRBB) is the exposure of the Bank's financial position to adverse movements in interest rates. Changes in interest rates affect earnings by changing its net special commission income and also affect the underlying value of assets, liabilities and off-balance sheet financial instruments. The main sources of interest rate risk are repricing risk, yield curve risk, basis risk, and optionality risk. The Bank has internal methodology in place to estimate loan prepayments and behavior of non-maturity deposits.

The Bank's interest rate risk management process includes implementation of interest rate strategies and policies, gap analysis of rate sensitive assets and liabilities in banking activities, as well as a system of internal controls. In particular, they address the need for effective interest rate risk measurement and monitoring and related control functions within the interest rate risk management process.

The IRRBB is managed through gap management in accordance with ALCO approved risk appetite and pre-defined limits. All interest rate sensitive assets and liabilities are segregated according to their appropriate interest re-pricing maturity dates, currency and gaps, and are managed accordingly.

The Bank also monitors the potential long-term effects of changes in the interest rates on the present value of all future cash flows by using economic value of equity analysis to analyze and measure the risk on capital.

To hedge and minimize interest risk due to interest rate movements, the Bank uses approved hedging products and strategies to periodically rebalance assets and liabilities to bring interest rate sensitive positions within desired tolerance levels.

The Bank monitors IRRBB exposures on a monthly basis for internal monitoring purposes and conducts stress tests at six-monthly intervals on such exposures using various interest rate shock scenarios.

OPERATIONAL RISK MANAGEMENT
Operational Risk is defined in the Basel Accord as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational Risk includes legal risk but excludes strategic and reputational risks. The Bank has put in place a detailed framework of operational risk management with a well-defined operational risk management policy.

QUALITATIVE DISCLOSURES UNDER PILLAR III OF BASEL III
FOR THE YEAR ENDED DECEMBER 31, 2016

Operational Risk Strategies and Processes

The Bank's Operational Risk Management Framework approved by the Board provides a structured approach to identify, assess, monitor, and control operational risk through:

- Conducting Risk and Control Self-Assessment (RCSA) workshops and submitting Risk Profile Reports which rate the Entity's Risk;
- Monitoring of agreed Action Plans that have emerged as a result of RCSA workshops;
- Maintaining operational risk loss event databases for analysis and reporting;
- Implementing and monitoring of Key Risk Indicators;
- Creating awareness about the Risk Management Concepts with focus on Operational Risk among the Bank employees through e-learning;
- Periodically reviewing and updating Operational Risk Policies & Procedures and functionality of the ORM System to improve Operational Risk Management in the Bank;
- Conducting Annual Qualitative and Quantitative risk analysis covering all risk entities within a Business/Support Group;
- Review of tangible and intangible assets of the Bank and Corporate Risk Financing Plan;
- Reviewing operational risks and suggesting mitigants in respect of new products.

An operational risk appetite matrix is also used for monitoring operational risk losses on an ongoing basis.

The key components of this framework are comprehensively documented through policies and procedures such Operational Risk Framework Policy, RCSA Policy, Loss Data Policy, Key Risk Indicators Policy and procedures such as Business Process Mapping procedure, Training and Awareness procedure etc.

Structure and Organization of Operational Risk Management Function

The Operational Risk Management Committee (ORMC) has the overall responsibility of supervising the implementation of the operational risk management framework across the Bank. The ORMC reports to the Enterprise Risk Management Committee of the Bank, which in turn reports to the Board Risk Committee, a committee of the Board of Directors.

The Operational Risk Management Department (ORMD) functions as part of the Risk Management Group. The Bank has adopted a structured and proactive approach for the management of operational risks. The ORMD is subject to regular audit by the Bank's Internal Audit Department.

Scope and Nature of the Operational Risk Management Function

The ORMD collects data related to operational losses from day-to-day operations and feeds the same into the Operational Risk Management System. This covers activities including:

- Feeding the results of RCSA workshops for risk and control assessment;
- Providing follow-up on actions;
- Maintaining an Operational Risk Loss Event Database; and
- Generating various standard reports for monitoring and control.

Any new products of the Bank are also assessed for inherent operational risks. The Bank's insurance contracts are also subject to ORMD review on an annual basis. The outsourcing contracts of the Bank are also reviewed by the ORMD from an operational risk perspective.

The Bank is currently using the Basic Indicator Approach of the Basel III Accord to arrive at the Operational Risk Capital Charge by taking 15% of the average gross income of the Bank for the last three years as defined under Section 650 of the Basel III included in the SAMA Basel III guidelines.

البنك السعودي للاستثمار
The Saudi Investment Bank

رؤية VISION 2030
المملكة العربية السعودية
KINGDOM OF SAUDI ARABIA

التقرير السنوي 2016