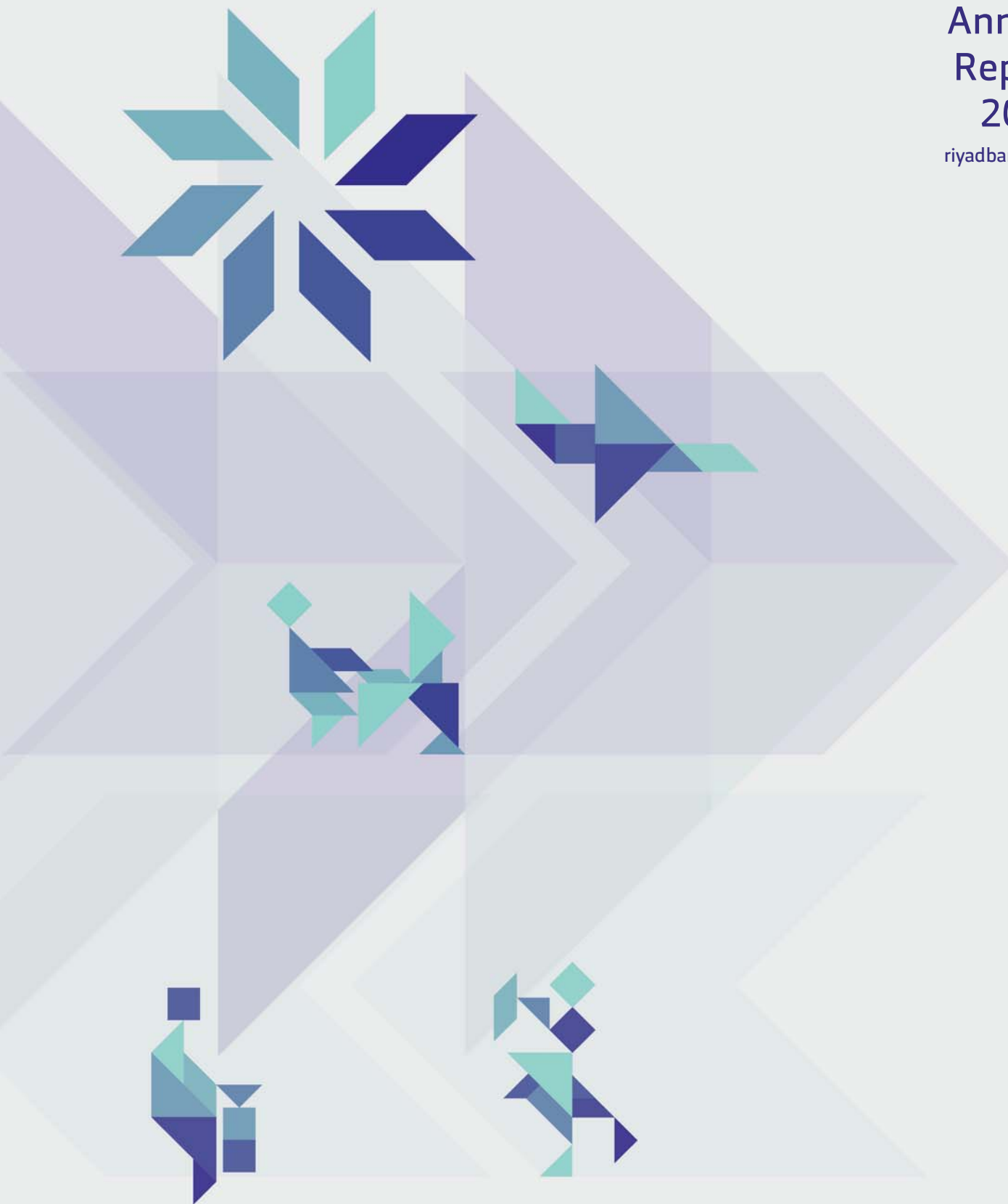


Annual
Report
2016

riyadbank.com



بنك الرياض
riyad bank

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ



Custodian of the Two Holy Mosques
King Salman Bin Abdulaziz Al Saud



HRH Prince Mohammad Bin Nayef Bin Abdulaziz Al Saud
Crown Prince, First Deputy Prime Minister and
Minister of Interior



HRH Mohammad Bin Salman Bin Abdulaziz Al Saud
Second Deputy Prime Minister and Minister of Defence

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“We will be the leading Saudi Bank, first in quality, first in value, first in caring for our customers and responding to their needs, by continuously improving our services, while enhancing our shareholders’ value.”

01

BOARD OF DIRECTORS

Connected banking

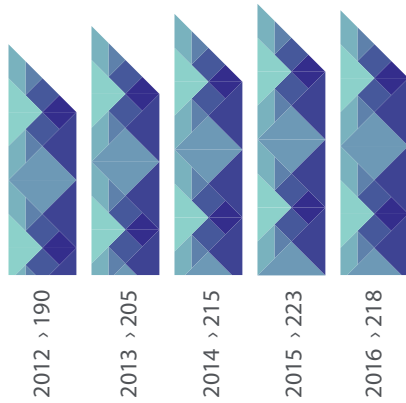
More time for meaningful connections in your life. We've got smarter, faster ways to connect you to the best people and opportunities.



FINANCIAL STATEMENTS HIGHLIGHTS 2016

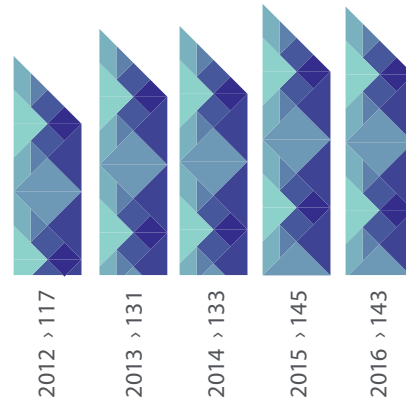
217,619m

Total Assets (SAR millions)



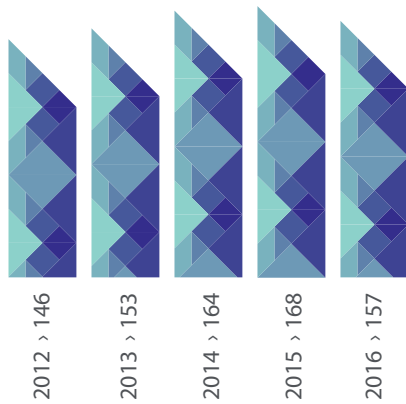
142,909m

Loans & Advances, net (SAR millions)



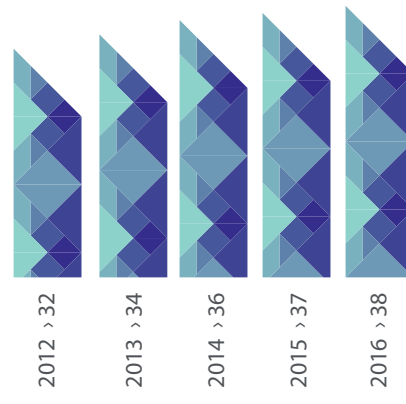
156,683m

Customer Deposits (SAR millions)



37,773m

Shareholder's Equity (SAR millions)



BOARD OF DIRECTORS

(SAR' Millions) Financial Statements Highlights	2016	2015	2014	2013	2012
Total Assets	217,619	223,316	214,589	205,246	190,181
Loans & Advances, net	142,909	145,066	133,820	131,524	117,834
Investments, net	45,157	44,765	47,148	43,733	36,472
Customer Deposits	156,683	167,852	164,809	153,934	146,738
Shareholders' Equity	37,773	36,545	35,537	33,870	31,964
Net Special Commission Income	5,301	5,180	5,123	4,689	4,374
Fee & Commission Income, net	1,503	1,784	2,014	1,812	1,769
Total Operating Income *	7,738	8,006	7,986	7,047	6,747
Operating Expenses excluding provisions	3,009	2,904	2,780	2,551	2,311
Provisions	1,386	1,052	900	605	1,050
Total Operating Expenses	4,395	3,956	3,680	3,156	3,361
Net Income	3,342	4,049	4,352	3,947	3,466
Earnings Per Share (SAR)**	1.11	1.35	1.45	1.32	1.16
Return on Average Assets ***	1.52%	1.85%	2.07%	2.00%	1.78%
Return on Equity	8.85%	11.08%	12.25%	11.65%	10.84%
Number of Branches in KSA	337	334	318	252	252
Number of ATMs	2,667	2,777	2,551	2,518	2,591

* Total Operating Income includes the Share of Income from Associates

** Previous year figures are restated since Bonus Issue is made during 2015.

*** Average is Calculated by adding opening and closing balances and divide it by 2

THE CHAIRMAN'S STATEMENT

2016 was a year of challenges and uncertainties at the local, regional and international levels. Despite these challenges, Riyadh Bank managed to maintain its solid base, systematic disciplines and a stable banking performance in all areas. In order to provide the highest standards of banking services to its customers, Riyadh Bank has adopted a digital banking strategy to create a technology-driven transformation. This will enable the Bank to confront effectively the current challenges, competitiveness, and risks, surrounding the banking industry in general, which all reflect current market conditions. Undoubtedly, the future of the banking sector is directly related to its ability to adapt and transform to keep up with the accelerating progress in digital technology. As such, Riyadh Bank is at the forefront of employing modern technologies in line with its aspirations and vision.

During 2016, Riyadh Bank continued to play a key role in promoting social responsibility through its commitment to numerous sustainable development programs. The Bank's community activities extended to cover a multitude of initiatives in the cultural, health, and educational fields, as well as vocational rehabilitation and training, in addition to environmental protection and awareness. The initiatives went on to include entertainment programs and domestic

tourism, in addition to the Bank's continuous support for philanthropic societies and institutions.

The Bank also reinforced its role in supporting SMEs and in particular emerging enterprises by sponsoring many related events and by pursuing its participation in the Productive Families Project, which is aimed at supporting women, people with special needs and the unemployed.

On another note, it is necessary to emphasize that we are fully committed to the "2030 Vision", which was approved by the Custodian of the Two Holy Mosques. This Vision aspires to establish a new era of development and sustainable growth to shape the future and continue the nation's role among the leading countries worldwide. In this regard, we would like to confirm that we will spare no effort to contribute to achieving the goals and fulfilling the requirements of such a Vision.

I would like to express my gratitude to our valued customers for the confidence they placed in us, and I look forward to reaching new heights that match their expectations and those of the Bank's shareholders alike. I am confident that the Bank, with its prudent management and loyal staff members, will make every effort to achieve its objectives, at the center of which lies enriching our customers' experience of banking with us.

My gratitude and appreciation go to Mr. Rashed Abdulaziz Al-Rashed, the former Chairman of the Board of Directors, who over many decades had wisely and skillfully led this prestigious institution and enhanced its professional banking standards. He exerted every effort for the Bank to continue its journey of giving back to society throughout the past six decades.

I would also like to thank the former Board of Directors: Dr. Khaled Hamza Nahas, Mr. Abdulrahman Hassan Sharbatly, Dr. Abdulaziz Saleh Al-Jarbou, Mr. Abdullah Ibrahim Al-Ayadhi, Dr. Fares Abdullah Abaalkhail, Eng. Waleed Abdulrahman Al-Eisa, and also the former CEO of Riyadh Bank, Mr. Talal Ibrahim Al-Qudaibi, for their sincere efforts and outstanding achievements and successes.

Last but not least, I would like to welcome my colleagues, the new members of the Board of Directors, who recently joined the Riyadh Bank team, wishing us all the best of luck in achieving further successes and in facing all the challenges to fulfill the interest of our customers, as well as our shareholders.

Abdullah Mohammed Al-Issa

Chairman of the Board

“Throughout its journey, Riyadh Bank has excelled in answering challenges, while continuing to grow and supporting the national economy and growth by embracing innovation as an adopted approach in banking.”



3,342

Net Income
(SAR millions)



337

**Number of
Branches in KSA**



2,667

Number of ATMs

BOARD OF DIRECTORS

BOARD OF DIRECTORS

Executive Committee

Abdul-Rahman Amin Jawa (Chairman)
Talal Ibrahim Al-Qudaibi
Mohammed Abdulaziz Al-Afalet
Mutaz Qusai Al-Azzawi
Nader Ibrahim Al-Wehibi

Audit Committee

Jamal Abdul-Karim Al-Rammah (Chairman)
Mohammed Omair Al-Otaibi
AbdulRaouf Sulaiman Banaja
Abdul Aziz Abdullah Al-Duailej
Abdullah Abdullatif Al-Saif

The Nomination & Compensation Committee

Mohammed Talal Al-Nahas (Chairman)
Talal Ibrahim Al-Qudaibi
Jamal Abdul-Karim Al-Rammah
Nader Ibrahim Al-Wehibi



1



2



3



4



5

1. Abdullah Mohammed Al-Issa
Chairman of the Board

2. Ibrahim Hassan Sharbatly
Board Member

3. Jamal Abdul-Karim Al-Rammah
Board Member

4. Talal Ibrahim Al-Qudaibi
Board Member

5. Abdul-Rahman Amin Jawa
Board Member

BOARD OF DIRECTORS

Strategic Planning Group

Abdullah Mohammed Al-Issa (Chairman)
Ibrahim Hassan Sharbatly
Tala Ibrahim Al-Qudaibi
Abdul-Rahman Amin Jawa
Mohammed Talal Al-Nahas



6

Risk Committee

Mohammed Abdulaziz Al-Afaleq (Chairman)
Mohammed Omair Al-Otaibi
Mutaz Qusai Al-Azzawi



9



7



8



10

6. Mohammed Talal Al-Nahas
Board Member

7. Mohammed Abdulaziz Al-Afaleq
Board Member

8. Mohammed Omair Al-Otaibi
Board Member

9. Mutaz Qusai Al-Azzawi
Board Member

10. Nader Ibrahim Al-Wehibi
Board Member

EXECUTIVE MANAGEMENT



Abdulmajeed A. Al-Mubarak
Chief Executive Officer



Thalib A. Al-Shamrani
Senior Executive Vice
President, Chief Risk Officer



Adel A. Al-Sheikh
Senior Executive Vice
President, Business Support



Abdulaziz S. Al-Malki
Executive Vice President,
Treasury & Investments



Ahmed Y. Al-Tayeb
Executive Vice President,
Risk Management



Ossama A. Bukhari
Executive Vice President,
Corporate Banking



Adnan S. Al-Joyan
Executive Vice President,
Human Resources



Riyadh O. Al-Zahrani
Executive Vice President,
Retail Banking

BOARD OF DIRECTORS



Mohamad A. Al-Rabeah
Executive Vice President,
Marketing



Hani A. Abu Al Naja
Executive Vice President,
Branches



Aiedh M. Al-Zahrani
Executive Vice President,
Business Technology



Mohammed Qureshah
Executive Vice President,
Finance



Abdulaziz Al-Asker
Executive Vice President,
Credit



Enji Al-Ghazzawi
Executive Vice President,
Operations



Mohammed Abo Al-Naja
Executive Vice President,
Corporate Services



Nader S. Al Koraya
Executive Vice President,
Treasury

REPORT OF THE BOARD OF DIRECTORS

for year ending 31st December 2016

The Board of Directors is pleased to submit its annual report on the performance of Riyadh Bank and its subsidiaries for the year 2016. Accordingly, the Annual Report reflects on the Bank's strategies, activities, achievements and financial results, shedding light on the work of the Board of Directors and the various committees as well as other supplementary information in order to meet the requirements of the user of the report.

Primary Activities:

Riyadh Bank's primary activities span the banking and investment sectors both within the Kingdom and abroad. Over the years, the Bank has worked to provide a broad range of banking and commercial services for companies and individuals as well as financing for commercial and industrial activities, enterprises and infrastructure projects through its large network of offices - 337 branches within the Kingdom, a London branch, a Houston agency in the United States and a representative office in Singapore. Through its wholly-owned subsidiary, Riyadh Capital, the Bank also offers a variety of asset management services for retail customers including brokerage services in capital markets in addition to a wide range of investment services and funds.

The Income Statement presents the year's results from the Bank's main activities as outlined in Notes 20-21 of the Annual Report while the Bank's business results and divisions are explained in Note 27, which is attached to the financial statement. The assessment of potential risks and vulnerability is an integral element of the Bank's operations and to support the management of potential risks, a number of committees specialize in market, credit, operational, strategic and compliance risk monitoring. These committees complement the Bank's existing Risk Committee, which

operates under the Board of Directors. Further information about possible risks, including those what may be encountered by the Bank in the future, is detailed in Notes 28-29-30-31 of the Annual Report.

Main Achievements:

Riyadh Bank made significant progress during 2016. The Bank had accomplished a number of key strategic objectives, which have supported both the Bank's growth and an expansion of its portfolio of products and services. The Bank's endeavors crystallized through the teams' relentless efforts to meet customer expectations while strengthening its leadership of the Kingdom's banking sector in a number of ways. The Bank's foremost achievements can be examined through a review of the different banking divisions as follows:

Retail Banking Services:

In early 2016, Retail Banking Division refined its business strategy by implementing a new customer-centric operating model in order to help drive future growth. The strategy defined the key segments upon which the Bank will focus on growing over the next 3 years. The division's organization structure was also realigned to reflect and better support the focus on these strategic

segments as well as analyzing customer data to closely follow the progress of these segments and provide support.

2016 also witnessed a number of new products launches and solution offerings such as personal and real estate finance bundle solution; agreements were signed with two large corporates providing special mortgage offers to their employees as well as the Education Finance to assist customers to spread out their payments of tuitions fees over the course of 12 months.

As a continuance of the redesigning of the Bank's auto leasing business undertaken in 2015, in 2016 the following achievements were also recognized: 25 new distributors / exhibition agreements were signed; a new highly competitive insurance agreement was negotiated and signed; customer facing processes were redesigned to further enhance the pre and after sales customer experience.

The Bank's branch network was expanded to 337 branches, 118 of which are full service "Islamic branches", with the opening of 4 new branches in 2016.

BOARD OF DIRECTORS

The ATM network expanded to 2667 machines across the Kingdom. In 2016, the focus was on optimizing the overall ATM network. The key achievements being was the introduction of 12 Foreign Currency Exchange ATM's.

Ladies Banking:

The Bank's strategy aims at expanding the network of ladies branches throughout the Kingdom. In view of the large and rapid growth of the Bank's customer base realized by the ladies' branches, the Bank opened 79 branches for Ladies Banking distributed across the Kingdom.

The ladies branches focus on offering services that cater to the female customer base and work on developing products and programs to match their expectations, which resulted in a significant increase in the number of female customers by 10% compared to the previous year.

Private and Golden Banking Services:

Private Banking has 4 dedicated centres to service this important segment, and all four centres have a dedicated section for Ladies Banking. As part of its strategy, Riyadh Bank sponsored a family business forum in Riyadh in order to help develop deeper relationships with its existing customer base of family run businesses.

2016 also witnessed an increased focus on Golden Banking with the launch of a new strategy, operating model, and refreshed value propositions. Enhancements were based on inputs gathered through extensive customer insight testing and surveys. A substantial number of Golden Banking centres are being progressively rolled out across the branch network which will continue into 2017.

Digital Banking:

The Bank established an independent department for Digital Banking to achieve a considerable transformation in this field. One of the most notable goals and priorities of this department is to focus

on the digital innovation and disruption, following a smart development methodology by enabling a pool of developed, experienced and specialized talents, following best practices. This is in addition to managing the digital customer experience and ensure the omni-experience across all digital channels in which customers receive a consistent experience.

In order for Digital Banking to achieve its goals, the Bank developed a Digital Banking Strategy and corresponding organization with the assistance of an experienced consultant; the digital strategy was formulated and published, and the transformation approach was identified and agreed to be in phases.

In 2016, activities were focused on building the foundations and fixing the basics, most important completed activities include: revamp the Phone Banking channel "Riyad Phone" and introduce unique features such as personalized menu, release the new advanced version of Riyadh Mobile app., Where the user experience was improved and new functionality has introduced such as (beneficiary management, virtual card request and Hassad redemption). The Bank also released a new soft token application, where the customers can use it to authenticate their online transactions on Riyadh Online instead of the SMS code, which eliminate the need to have an active SIM. Similarly, the auto dialer feature was introduced to activate the beneficiary, where the customers will receive an automated call from the bank to activate the beneficiary without the need to visit branch or ATM. The Bank also launched the smart watch app. to view their account balance and credit cards, view last transactions, find the nearest ATM or branch and call the contact center. In addition, customers were granted the ability to open additional accounts (current or saving) from Riyadh Online to be used to manage their finances, make transfers and many other uses.

Corporate Banking:

Corporate Banking continues to follow a clear vision of being "a reliable and strategic partner for our customers through its relationship banking philosophy". For our major corporate customers we provide a bespoke relationship manager approach to cultivate a mutually beneficial working arrangement.

Amongst other Corporate Banking businesses, Corporate Finance Department serves as the bank's center of expertise for syndicated, structured and project finance operations and works closely with the bank's offices in London, Houston and Singapore, to provide products and services to the Saudi corporate community and to a wider network of global corporations with investment and trading connections in the Kingdom.

Financial Institutions Department acts as a focal point for managing all aspects of Riyadh Bank's relationships with Correspondent Banks and non-banking Financial Institutions, by providing them with investment and insurance services, and financing solutions in addition to a broad range of tailored products and services designed to meet their banking needs.

In order to exceed our customers banking expectations, Corporate Banking Services continued focusing on enhancing the corporate customer experience by launching a comprehensive service enhancement project including our three Trade Finance operations centers in Riyadh, Dammam and Jeddah.

The Bank was chosen to be the financing Agent for the Ma'aden Phosphate Company loan, and also acted Security Agent for deals with Bahri and Aqariyah companies and helped funding "YASREF", a joint venture between Saudi Aramco and Sinopec, which is considered the first Saudi industrial financing incorporating substantial participation by major Chinese banks. The Bank has also participated in financing a major storage

BOARD OF DIRECTORS

facility for a joint venture between SABIC and Vopak for the provision of a liquid product storage and handling service at the King Fahd Industrial Port in Jubail. Riyadh Bank also acted for ALUMINIUM BAHRAIN B.S.C. as a Lead Arranger and Investment Agent in a major transaction in Bahrain.

In addition, the Bank has financed the construction cost for The National Shipping Company of Saudi Arabia (Bahri) to engage Hyundai Samho Heavy Industries to build five Very Large Crude Carriers (VLCC) with an option to build an additional five VLCCs.

Growing the number of SME businesses' in the Kingdom is both a national initiative and one of Riyadh Bank's strategic initiatives, and Corporate Banking initiated new packages of services to help SMEs both start and grow their businesses, including our active participation in the Wage Management System project mandated by the General Organization for Social Insurance.

In respect of financing SMEs, Riyadh Bank maintained its position among the top contributors to the KAFALAH program for financing small and medium sized enterprises. In this respect, the Bank's share was 23.8% of the total amount offered through the program, covering 2260 enterprises, constituting 25.3% of the total number of enterprises.

Aligning with the Bank's overall strategy "to be the leading digital bank", Corporate Banking launched a revamped online banking "Riyad Online-Corporate" for its corporate customers, and the liquidity collection solutions package has been improved by introducing Cash Deposit Machines, and SADAD Accounts for online payments.

In respect of the Point of Sales (POS) business, the Bank maintained its market share achieving a significant increase in the number of transactions it processes up by 75%, and successfully pioneered

new services such as Atheer contactless service from mada.

For government banking, several digital projects have been launched successfully with the Saudi Industrial Development Fund, to provide Letters of Credit supporting SIDF clients with a fully automated reconciliation solution which will also serve the KAFALAH program. Riyadh Bank continues to provide new banking solutions to the government offices including electronic banking package Riyad Online-Corporate, SADAD accounts, and ATM machines, as well as increasing the number of bank offices located at the General Authority for Zakat and Income.

Treasury and Investment Division:

Given the current challenges faced by local market during 2016 due to low oil prices, the Treasury and Investment division played a pivotal role in managing the Bank's liquidity and funding requirements for the various banking activities efficiently at an optimal level and at a competitive cost. Treasury continued to play a central role in managing the interest rate and foreign exchange risk exposure within the limits approved by the Bank.

In 2016 and in line with the Bank's overall cross-selling strategy, Treasury continued to focus on identifying and capturing cross-selling opportunities in coordination with the Bank's other departments and studying the diverse customer needs for treasury products and presenting suitable financial products and solutions at competitive rates.

To support the cross-selling strategy, Treasury provided new financial hedging products and solutions for customers to mitigate interest rate and foreign exchange risks inherent in customer business. As a result, during the year, the Division's cross-selling initiative saw major success: posting a strong growth rate of 50% over the past two years.

Islamic Banking:

In 2016, Riyadh Bank continued developing banking solutions and products that are compliant with Shari'ah and approved by the Bank's Shari'ah Committee. The Bank's Islamic products and solutions cover everyday transactions, financing and investment solutions for its retail and corporate customers.

Because developing this area is one of the Bank's priorities, the Bank spared no effort in improving the human resources involved in the provision of Islamic Banking services and raising the efficiency of their performance. At the same time, the periodic assessment of the performance of the Islamic Banking branches continued proactively through the department conducting over 60 follow-up visits.

Additionally, Islamic Banking conducted 9 consultation meetings organized with the Bank's Shari'ah Committee through which a number of financial and investment products and solutions were developed like approval for products and contracts for the "Murabaha" financing and "Ijara" (rent) formats. Islamic Banking also worked on integrating the investment solutions based on "Murabaha" and "Mudabah" provided by Riyadh Capital, including Saudi Arabian Oil Company "ARAMCO" Sukuk, as well as The Saudi International Petrochemical Company "sipchem".

Overseas Branches :

Through an overseas banking network represented by our branch office in London, the Houston agency, and the Singapore Representative Office, Riyadh Bank provides banking solutions to its customers abroad, serving the corporate customer base, and allowing the Bank to provide its customers with tailored services to meet their various needs.

The Bank provides advice on investments and business in the Kingdom of Saudi Arabia. This leads to enhanced trade in the Kingdom and customers' investment interests abroad.

BOARD OF DIRECTORS

The London Branch plays an active role in providing tailored banking services to the bank's customers in the Kingdom and their affiliated companies in order to support their European investments in industry and other sectors, while Riyadh Bank is the only window for Saudi banks in the Americas.

Riyadh Bank is also present in the Far East, where our Singapore Representative Office helps Riyadh Bank customers take advantage of investment opportunities in Asia, and to develop relationships with correspondents and Asian corporations who have business activities in Saudi Arabia.

Business Technology:

2016 witnessed the successful completion of the new state-of-the-art data center and relocation program. The data center was built according to the best international standards in this field to fine-tune and further improve Business Technology operational efficiency and performance.

Business Technology also continues the efforts to strengthen its technical capabilities and develop its current operational efficiency to mature the recovery capability to ensure that in case of any disastrous interruption, the Bank's critical systems are available in record time within the least cost and high efficiency.

Business Technology had some significant accomplishments through the successful implementation of key projects meeting customer requirements and adding value to businesses by enriching customer experience, mitigating costs, simplifying main application structures to make it more efficient to support business functions.

Credit Risk:

Financial institutions face a multitude of challenges, the foremost of which is credit criteria and management expertise, in addition to insufficient assessment of risk indicators and consideration of

changing economic conditions which could lead to deterioration of the credit standing of customers.

The inability or failure of borrowers to meet their contractual commitment is one of the most notable credit risk indicators that appear. Riyadh Bank manages these risks by conducting in-depth and thorough analysis of the borrower's ability to honor his obligations which would include repayment sources, the nature of underlying collateral and other factors and conditions impacting the borrower's activities, as well as making sure that the activities are in no violation to the rules and regulations that are aligned with the Bank's financial policies.

The Credit Risk Management framework, within which the Bank operates, consists of principles, structures, tools and activities required for managing credit risk at all levels. This framework supports the Bank's efforts in enhancing asset quality while observing the rules and regulations set by the Saudi Arabian Monetary Agency (SAMA), all within clearly designed and regularly monitored risk parameters.

The Bank uses an advanced internationally recognized credit rating system to assess the viability of Corporate credit applications and produce their credit ratings, in addition to another credit system for Retail customers.

The Bank is in compliance with all Basel requirements in respect to capital adequacy calculation to cover credit risk according to the Standardized Approach in accordance with SAMA regulations.

The Bank made further progress in 2015 towards the implementation of Internal Rating Based (IRB) standards following the success in developing credit rating models as per Basel requirements. The Bank established a system for validating these models.

In 2016, the Bank went through another round of independent periodical tests to validate the outcomes of these credit rating models and its quantitative and

qualitative components in line with SAMA expectations.

At the same year, the Bank established the infrastructure to use and operate these models in taking credit related decisions depending on a precise measurement of credit risks and the expected return from these risks. At the same time, the Bank completed the review of approved risk policies to further assure that credit rating systems meet IRB standards.

Plan is in place to leverage in-house rating model for customer Probability of Default (PD) for calculation of 12-month and lifetime expected credit losses to assist the Bank in migration from the IAS39 accounting standard to IFRS09 for recognizing, measuring and reporting financial instruments. Moreover, business rules for Expected Credit Loss calculation (ECL), credit staging criteria, modification of assets, and governance structure are defined to be in effect by the start of 2018.

At the same time, the Retail Risk department has taken final steps in implementing the Advanced Internal Ratings-Based (AIRB) standard that is compatible with the Basel requirement as mandated by SAMA.

The department has also undertaken assessment of its existing Retail credit risk systems and tools to better measure risk adjusted return. This assessment will enrich the customer's experience by adopting a digital strategy which provides customers with fast and easy access to digital banking services.

Market and Liquidity Risks:

The Market and Liquidity Risk Management department assumes the responsibility of measuring and monitoring market risks, and asset/liability risks resulting from the fluctuation in fair values or future cash flows of financial instruments due to changes in market prices within the Board's approved risk framework and limits. The department prepares and submits periodic reports to the relevant stakeholders at the Bank.

BOARD OF DIRECTORS

The primary market risk measure used within Riyadh Bank is the Value-at-Risk (VaR) methodology, which incorporates the volatility of relevant market prices and the correlation of their movement. In addition, the Bank implemented a number of standards and other advanced methodologies to enhance its analytical capabilities in managing market risk including stress testing and sensitivity analysis. The Bank also continued to implement its strategy in compliance with Basel's Internal Model (IMA) Approach to measure and manage market risk.

Information Security Risks:

Financial crimes present a significant risk to the banking and financial Institutions and their employees, and has the potential to endanger the Bank's capability to provide its services, and shake the trust it has earned with regulatory bodies, customers, business partners. It can also cause damage to its local and international reputation.

Considering all of that, the Bank was keen in 2016 to attract the best systems in the field of financial fraud prevention. The division has developed procedures to manage programming and automate business impact analysis, business continuity of risks assessment and continue the divisions' tests of business continuity.

Operational Risks:

Operational Risks play a vital role within financial institutions, especially after the rapid growth of banking services and its reliance on information technology and communications that covers day to day life nowadays.

Operational Risks can be defined as the deficiency resulting from inadequate or failed processes, people or systems. Therefore, Operational Risks Management department ensures the application of SAMA instructions regarding risks resulting from deficiencies in operations, systems, infrastructure or human errors.

During 2016, the department worked on activating a range of precautions to raise the efficiency of the Operational Risks Management department.

As such, the capital adequacy ratios were continually monitored to prevent any operational risks. The Bank works in accordance with the standardized approach under the Basel II requirements, and will gradually preparing itself to meet the New Approach requirements for operational risk as per the Value-at-Risk (VaR) methodology.

BASEL III Pillar 3 Disclosures:

Under the Revised Basel III Pillar 3, certain quantitative and qualitative disclosures are required, and these disclosures are available on the Bank's website: www.riyadbank.com as required by the SAMA. Such disclosures are not subject to review or audit by the external auditors.

Stress Testing:

The Bank continued to implement and improvise it's Overarching Stress Testing Framework, covering all material risks relating to banking activities under the oversight of the Board of Directors with continuous review of the policies, frameworks and rules of governance related to it. Under this framework, risk owners also review the stress methodologies along with underlying assumptions to maintain efficacy of the stress models deployed.

Internal Control Department:

During 2016, the Bank continued to emphasize its commitment to the best standards for internal control and the full compliance with the requirements of SAMA. Riyadh Bank has been incessantly improving the elements of governance and internal control in order to integrate the risk management systems into internal control and raise general awareness as part of its affective corporate governance.

The Internal Control department is responsible for collecting the information from different areas, both internal and external, classifying them and analyzing

their importance. The Internal Control department follows up on the necessary plans to reinforce the internal control system. It further defines the criteria upon which the annual attestations, presented by the executive management and control units about the soundness and efficiency of the internal control system. The department prepares internal control reports to the Audit Committee and Executive Management and also to the Operational Risk Management and Compliance (ORMCC).

Marketing and Communications:

2016 has witnessed the launch of more than 200 marketing campaigns and offers, using various media vehicles to promote diverse products and services. The Marketing division focused on optimizing its digital marketing capabilities in line with the Bank's strategic objective of becoming the leading digital bank in 2019. This required close coordination and planning between the Marketing division and the Digital Banking department with regard to formulating a clear and concise digital content strategy and the compliance of all digital touch points with the Bank's brand guidelines.

Throughout 2016, the Bank managed to maintain one of the top positions on the list of "most influential banks in social media in Saudi Arabia" according to Klout Score.

Customer Experience:

The Customer Experience team was created to ensure that the design of the Customer Experience is underpinned by deep meaningful customer insight; that our products, services and processes are designed in innovative ways around customer needs and that our products and services are tested with customers prior to launch.

In 2016, key achievements included the implementation of an Enterprise Feedback Management system to automate the capture, analysis and reporting of

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customer feedback. Riyad Bank now invites customers to complete surveys via automated text messages which contain a link to an on-line survey. This greatly extends the reach of our customer insight program and enables the customer insight team to conduct deep-dive research in short periods of time.

The Bank continued to embed Net Promoter Score as a key measure of customer experience and used this methodology to prioritize and drive customer experience improvement activities. Following the successful implementation of the Enterprise Feedback Management system, the Bank is now able to track customer loyalty and satisfaction at a branch level. Consequently, the remuneration of branch staff is now linked to customer satisfaction levels.

The Bank has also carried out programs at the branches and delivered a wide range of enhancements to key customer-facing processes executed by the Business Process Management team. This included: account opening, personal loans, auto leasing and corporate loans. The Business Process Management team have also implemented an enterprise-wide application to ensure that all processes are documented in a consistent way; that clear owners are identified and that internal controls are documented and managed within the system.

The Bank's Customer Research and Innovation Centre – the first of its kind in Saudi Arabia – conducted a wide range qualitative research sessions with real-life customers to validate value propositions for Retail Banking across all segments (Mass, Silver and Golden Service). The customer testing function also conducted digital usability testing with customers to ensure a high quality digital experience across both Retail and Corporate channels.

Compliance:

Riyad Bank endeavors to maintain a sound compliance culture and a business

strategy whereby the bank's values and standards of professional conduct are maintained at every business level and within all its activities. These standards include local and international regulatory obligations, as well as the best practiced business standards and Riyad Bank's own internal regulations and codes of ethics and standards.

The department has further endeavored to enhance processes and systems from within through automated and electronic solutions to meet the ever-increasing regulatory requirements while streamlining intrabank coordination towards meeting the Bank's strategy.

Riyad Bank's Compliance department has always been committed to the betterment of the Bank's Compliance Control Environment, as well as the implementation of an effective compliance program which includes monitoring, advice, regulatory, and most recently, anti-money laundering services.

The Compliance department aims at meeting the new requirements for initiatives such as Saudi Payment Network "MADA" operating standards, the latest Account Opening & Operating Regulations 4th Edition, the Company Law issued by Ministry of Commerce and Investment, and the expected issuance of CMA's Corporate Governance Law, in addition to any updates to the SAMA Anti-Money Laundering and Counter Terrorism Financing, as well as the upcoming Bankruptcy Law.

To this effect, the department has performed gap and requirements analyses for updated regulations in addition to risk assessments to capture the effect of these new amendments to the Bank and its controls.

On the international front, the Bank continued its commitment to meet recommendations of FATF, and abide by the OFAC enforcements in order to combat money laundering and financing terrorism, as well as the financing

of proliferation of weapons of mass destruction.

The Compliance department was also actively engaged in monitoring and ensuring the full implementation of FATCA reporting requirements and complied by meeting the requirements of 2016 in that respect. Lastly, the department is continuing to work towards the monitoring of full Basel implementation as required by domestic and foreign regulators.

The Compliance department has been committed to following its ongoing strategy striving to the highest standards and methodologies when it comes to monitoring compliance risk in the Bank, a risk based monitoring plan was further developed and executed for 2016, and the plan was approved and monitored by the Board Audit Committee.

Credit Rating:

Riyad Bank is maintaining its distinct credit ratings with world rating agencies. With the Kingdom of Saudi Arabia witnessing a declining trend in its ratings from (+AA-/A-1) to (A+/A-1), the Bank had its ratings consequently modified by Standard and Poor's Financial Services from (A) to (+BBB) for long-term commitments and from (A-1) to (A-2) for short-term commitments. The overall outlook was however revised from negative to stable in line with the sovereign rating. Fitch Ratings modified its ratings for Riyad Bank from (A +) to (A) for long-term commitments, whereas affirmed its previous rating (F1) for short-term commitments with negative outlook. Another rating agency, Capital Intelligence, affirmed its ratings for the Bank as (AA) for long-term commitments and (A1+) for short-term commitments, which is the highest rating there is. The last two ratings anticipate a stable future perspective for the Bank which in turn reflects the strength and durability of Riyad Bank's financial position.

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Funding Resources Other Than Deposits:

On 6th of November 2013, the Bank completed its primary sukuk offering of SAR 4 billion with a tenure of seven years and a call option at the end of the sukuk's fifth year. The sukuk's yield is three month SAIBOR +0.68%. This was followed on 24th of February 2015 by another private secondary sukuk offering of SAR 4 billion with a tenure of ten years and a call option at the end of the sukuk's fifth year. The secondary sukuk yield is priced at +115 basis points over SAIBOR. These sukuk issuances are designed to support the diversification of the Bank's funding sources and maturities as well as the growth of its finance portfolio.

Strategy and Objectives:

While the Saudi economy went through fast-paced changes in 2016, the Bank confidently faced these challenges by offering exceptional services and the strategic prioritization that has been put in place.

As part of its strategic priority, the Bank continued the protection of its revenue by strengthening the borrowing portfolio and mitigating negative affects resulting from declining deposits and the management of money costs.

The Bank maintained its position as a leader for main customer sectors, and continued to be a key player in funding small and medium-sized enterprises (SMEs) through "Kafalah" program. The Bank also maintains its position of "the best trade finance bank in the Kingdom".

In 2016, efforts we concentrated to improve quality of services at all branches which in turn reflected in a noticeable improvement in service quality levels. As a result of this, customers choose Riyad Bank as "the trusted bank for financing" cementing the Bank's leadership position in consumer loans.

The Bank focused efforts on digital banking services, and customers expressed positive feedback about the offers on the internet for Asset and Wealth management and Corporate Banking.

In Retail Banking, the Bank made major enhancements on its mobile applications, as well as redesigning the phone banking services; the foreign currency exchange machine was added to the ATM network; more features were added to online banking such as applying for an additional account, money withdrawal, and credit card payment; smart watch application. 2017 will continue to focus on the digital banking services.

Looking ahead, the Bank will explore selected and valuable opportunities in key sectors such as providing better offers for private banking customers and SMEs, and focus on main banking products such as home financing, auto leasing and transfers.

The Bank will spare no effort to continue with improving the quality of service in all areas for both Retail or Corporate Banking to increase market share for each and offer enhanced services. The Bank always strives to maintain its good reputation and set cost control limits with a solid asset and capital base.

Community Service:

In line with Riyad Bank's key role in promoting corporate social responsibility (CSR) through its commitment to sustainable development programs, 2016 saw the development of initiatives that revolved around comprehensive growth and sustainable development which address empowering society to improve the lives and conditions of individuals through developmental programs adopted by the Bank to support philanthropic societies and government entities as well as participating in economic, cultural, scientific, health and environmental activities and events as follows:

The Bank spearheaded several initiatives and events targeting social development

and cohesion. Some of the most notable examples are: the Saudi Food Bank "Eta'am", the 10th edition of Al-Shabab Club summer camp, the 3rd edition of Al-Baha Summer camp as well as the 1st edition of Tabuk Summer camp, in collaboration with Disabled Children's Association in Al-Baha and King Khalid Philanthropic Society. This benefited the Disabled Child Association (DCA) and the Charitable Society for Orphans Care in the Eastern Province "Bena".

Riyad Bank continued its contribution to support productive families. This included the "Nabta" Productive Families Project and for the second year in a row to empower local females to become productive members of society. Riyad Bank continued to sponsor the "Wafaa" program, an initiative specially tailored for the families of deceased Bank staff members to provide them with the means to a decent life.

The Bank has continued to participate in conferences and economic activities which directly contribute to the development of the society in general and serve the economic interests and the developmental plans of the Kingdom in different areas through a multitude of activities such as: loans and facilities for productive businesses, participating in a number of social forums, most important of which is the 1st social responsibility forum organized by the Ministry of Education under the patronage of His Royal Highness Prince Mohammad bin Nasser bin Abdulaziz Al-Saud, Governor of Jazan, under the tile "we are all one country". Another forum was organized by the Deanship of Community Services and Continuing Education at King Abdulaziz University in Jeddah under the slogan of "reality and hope" in a discussion about the role of university and the private sector. The Bank also served as a sponsor to many economic conferences, forums and meetings including Jeddah Economic Forum where the Bank was honored by His Royal Highness Prince Khaled Al-Faisal, advisor to King Salman and Governor of Makkah Region.

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The Bank also sponsored and participated in numerous educational, scientific and health related initiatives. The Bank focused most of its CSR initiatives on special needs and disability which included: continued sponsorship of the 4th Autism Forum organized by the Autism Center of Prince Sultan Medical Military City; the 5th edition of the agricultural training program for mentally disabled students in cooperation with Al-Ahsa Disabled Association; support for Roa'ya association for the blind and visually impaired and supporting their website; Zahra Breast Cancer Association campaign (for the 9th consecutive year) to spread awareness of the importance of early examination; sponsoring awareness-raising videos in collaboration with Family Protection Charity; Sanad Children's Cancer Support Association; Bunyan Charity Organization; Saudi Charity for Liver Patients "Kabadak"; AlNahda Philanthropic Society for Women; Saudi Cancer Society; Charitable Society of Autism Families; Zahra Breast Cancer Association; Saut: The Voice of Down Syndrome Society; "Yadawi" Project for Women with Special Needs; Al-Kawther Society for Social Care in Aseer; Down Syndrome Charitable Association "DSCA"; and "Mawada" Charitable Association to limit divorce and its effects.

In recognition of its role and impact, Riyadh Bank was the main sponsor of many educational, developmental, cultural, touristic, economic and cultural events and forums including the border guards campaign; Al-Janadriyah, the Saudi National Festival for Heritage and Culture; the 7th Scientific Conference held in Princess Noura bint Abdulrahman University; Global Village in Princess Noura bint Abdulrahman University; the 3rd Translation Contest between Saudi universities; the 3rd Scientific Forum of The National Research Center for Giftedness and Creativity; the 1st Interactive Training Forum for the educational community in Riyadh; the closing ceremony of the General Directorate of education in the Eastern

Province; the Summer Festival of King Khalid Military City; ceremony honoring families of military personnel stationed in the southern border at the General Directorate of Education in Hail. On the cultural front, the Bank celebrated the 9th edition of the Book of the Year Award in partnership with the Riyadh Literary Club. The award recipient was "King Abdullah bin Abdulaziz International Center for The Arabic Language".

Subsidiaries and Associates

1. Riyadh Capital:

Riyad Capital is a Saudi limited liability company wholly owned by Riyadh Bank with a paid up capital of SAR 200 million, and is licensed by the Saudi Capital Market Authority for Dealing as Principal, Agent and Underwriter; Arranging; Advising and Custody Services. Riyadh Capital's business is managed from its headquarters in Riyadh.

Riyad Capital, continuously innovates and develops investment products that meet the needs of its diverse customer base, through its Assets Management Department which worked during 2016 on expanding its products by launching a new high risk investment fund "Riyad Technology Fund" with the value of SAR 450 million, representing the 38th fund in the Riyadh Capital roster of investment funds.

"Riyad REIT" was also listed at Tadawul as the 1st real estate investment fund traded in the Kingdom.

This reinforces Riyadh Capital's leadership position in the assets market in general, as well as managing privately owned investments and high risk funds and real estate investments in particular.

Regarding Corporate Investment Banking, Riyadh Capital has been keen on attracting experienced manpower to provide specialized financial advisory that span all the investment banking activities such

as the management of sukuk issuing and corporate shares in addition to advisory in the field of mergers and acquisitions and structured finance operations.

One of the most prominent achievements of 2016 was the issuing of Gulf International Bank's bonds with the value of SAR 2 billion, in addition to issuing the Saudi International Petrochemical Company's "sipchem" Sukuk with the value of SAR 1 billion.

Riyad Capital was engaged as the financial advisor, underwriter and the IPO leading manager for Al Andalus Property Company with the value of SAR 378 million, and Al-Yamamah Steel with the value of SAR 548.8 million.

Retail Investment department deployed many activities to cement Riyadh Capital's position in the market, most notably the launch of the new Riyadh Capital Online platform that enables customers to perform investment transactions online.

2. Ajil Financial Services Company:

Ajil Financial Services Company is a Saudi closed joint stock company subject to the regulations of the Saudi Arabian Monetary Agency. Ajil, with its headquarters situated in Jeddah, has a paid up capital that is estimated by SAR 500 million comprising 50 million shares with a nominal value of SAR 10 per share. Riyadh Bank contribution in Ajil paid up capital reaches 35% besides Mitsubishi and a number of local businesses. Ajil ranks among the top pioneering companies in providing financial solutions, leasing advantages and many other innovative services for the multi economic sectors in the Kingdom.

3. Ithraa Al-Riyad Real Estate Company:

Ithraa Al-Riyad Real Estate Company, which is registered in the Kingdom of Saudi Arabia, is a limited liability company wholly owned to Riyadh Bank. Ithraa Al-Riyad Real Estate Company, with its headquarters located in Riyadh, has a paid

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up capital of SAR 10 million comprising a million shares with a nominal value of SAR 10 per share. The company is responsible for providing services for real estate owners and others. It also has the right to buy and sell real estate and similar assets in pursuit of the financing purposes for which it was established.

4. Al-Alamiya Cooperative Insurance Company:

Al-Alamiya Cooperative Insurance Company, a joint stock company, was founded by Riyadh Bank. It has shares traded on the Saudi Stock Market (Tadawul), with a paid up capital of SAR 400 million comprising 40 million shares with a nominal value of SAR 10 per share, in partnership with Royal Sun Alliance

Insurance (Middle East) in Bahrain. The Company is regulated by SAMA. It operates in the Kingdom of Saudi Arabia with its headquarters located in Riyadh. Riyadh Bank owns 30% of its capital, directly and indirectly, directly owning 19.92%. The Bank owns 21.42% of shares in Royal Sun Alliance Insurance (Middle East). 30% of Al-Alamiya Cooperative Insurance Company equity was offered to the Saudi public via an IPO. The Company is engaged in the commercial insurance and reinsurance business in the Kingdom, including general insurance, medical insurance, protection insurance and engineering insurance.

5. Riyadh Company for Insurance Agency:

Riyadh Company for Insurance Agency is a

limited liability company wholly owned by Riyadh Bank with a paid up capital of SAR 500,000. Riyadh Company for Insurance Agency is registered in the Kingdom of Saudi Arabia with its headquarters located in Riyadh. The agency focuses on marketing and selling the insurance products of Al-Alamiya Cooperative Insurance to Riyadh Bank and its Corporate and Retail customers in the Kingdom. Riyadh Company for Insurance Agency has entered into an insurance agreement with Al-Alamiya Cooperative Insurance as well as another agreement to distribute insurance products with Riyadh Bank, and has obtained the approval of SAMA and operates in accordance to its rules and regulations.

SUMMARY - RESULTS OF THE BANK'S OPERATIONS FOR THE PAST FIVE YEARS

(SAR' Millions)

Description	2016	2015	2014	2013	2012
Assets					
Cash and balances with banks and SAMA	25,829	29,839	29,231	25,367	29,462
Loans and advances, net	142,909	145,066	133,490	131,191	117,471
Investments, net	45,157	44,765	46,963	43,538	36,254
Property, equipment, other real estate and investment in associates	2,107	2,153	2,098	2,542	2,606
Other assets	1,617	1,493	2,807	2,608	4,388
Total assets	217,619	223,316	214,589	205,246	190,181
Liabilities					
Balances with banks	8,837	4,500	3,790	7,578	6,163
Customer deposits	156,683	167,852	164,079	153,200	146,215
Other liabilities	14,326	14,419	11,183	10,598	5,839
Shareholders' equity	37,773	36,545	35,537	33,870	31,964

(SAR' Millions)

Description	2016	2015	2014	2013	2012
Total operating income including share in earnings of associates	7,737	8,005	8,059	7,130	6,866
Total operating expenses	4,395	3,956	3,706	3,183	3,400
Net income	3,342	4,049	4,352	3,947	3,466
Earnings per share (SAR)	1.11	1.35	1.45	1.32	1.16

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Financial Results:

The Bank achieved a net profit of SAR 3,342 million for the year ended 31st December 2016, a decrease of 17.5% compared to the previous year of SAR 4,049. The Bank continued its focus on core banking activities which has further strengthened its financial position. As of 31st December 2016, investments increased to SAR 45,157 million compared to last year's result of SAR 44,765 million - an increase of 0.9%. Investments, however, witnessed a decrease by 1.5% to SAR 142,909 million compared to SAR 145,066 million in the previous year. Customer deposits in 31/12/2016 stood at SAR 156,683 million compared to SAR 167,852 million in the previous year, a decrease of 6.7%.

Total assets in 31/12/2016 reached a total of SAR 217,619 million compared to SAR 223,316 million in the previous year, a decrease of 2.6%.

The Bank attained a total operating income achieving SAR 7,702 million for the year 2016 compared to SAR 7,966 million in the previous year.

The diversity of the Bank's financing and investment products led to the growth in net special commissions which reached SAR 5,301 million for the year ended 31st December 2016 compared to SAR 5,180 million for the previous year, an increase of 2.3%. In 2016, earnings per share reached SAR 1.11.

The decrease in the Bank's net profit during the year ended 31st December 2016 is attributed to the decline in net income because of the increase in total operating expenses by 11.1%. This is mainly due to the rise in the provision for credit losses, other operating expenses, provision for investments which were offset by a decline in other general and administrative expenses. Operating income decreased by 3.3% given the reduction in fee and commission income, and earnings of non trade investments which were offset by an increase in other operating income, foreign exchange income and trading earnings.

Geographical Analysis of the Bank's Total Income:

Total income for the year ended 31st December 2016 was SAR 10,449 million from domestic operations and SAR 936 million from international operations. The following table illustrates the geographical analysis of the total revenues:

(SAR' Millions)

Year	Domestic Operations				International Operations	Total **
	Western Province	Central Province*	Eastern Province			
2016	1,782	7,217	1,450		936	11,385

*The amount allocated for the Central Province includes income from investments related to the Treasury and Investment Division, which totaled SAR 3,858 million. This income is not related to any specific geographic sector domestically. It also includes revenues related to other regions.

**The above mentioned total income is shown in gross amounts. In calculating the net amount, each income item is handled according to its category in the financial statements.

Geographical Analysis of the Total Income of the Bank's International Operations:

(SAR' Millions)

Year	International Operations					Total
	GCC & Middle East	Europe	North & Latin America	South East Asia	Other Regions	
2016	158	258	465	32	23	936

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Appropriation of Earnings:

The Bank abides by all relevant, applicable rules and regulations and observes the following policies in distributing dividends to its shareholders:

- A transfer of 25% of the net profit to statutory reserve. Such transfers may be discontinued when the total statutory reserve is equal to the paid-up capital.
- Upon the recommendation of the Board of Directors and approval of the Annual General Assembly, dividends are distributed among shareholders, each in proportion to their shareholdings.
- The Bank's strategic direction determines the distribution of the interim and annual dividends. The dividends proposed for the second half of the year are included in the shareholders' equity, and will remain there until the Annual General Assembly approves the Board of Directors' recommendation.

The Board of Directors recommended the appropriation of earnings as follows:

	(SAR' Millions)
Retained earnings from 2015	2,847,174
Net income of the year 2016	3,342,487
Total	6,189,661
Appropriation as follows:	
Zakat as per the Sharia'	800,000
Cash dividends, distributed to shareholders for the first half of 2016	1,050,000
Cash dividends, proposed for distribution to shareholders for the second half of 2016	900,000
Transfer to statutory reserve	835,622
Retained earnings at the end of the year 2016	2,604,039

On 2nd of August 2016, the Bank distributed an amount of 35 Halalas per share as an interim half-year dividend. The proposed dividend for the second half of 2016, amounting to 30 Halalas per share, will be distributed upon the approval of the General Assembly. This will bring the total dividends for 2016 to SAR 1,950 million after deducting Zakat, at a rate of 65 Halalas per share.

Board of Directors:

The Bank is governed by a Board of Directors which is composed of ten members who are elected by the General Assembly every three years and may be re-elected for a similar term at the end of their term. The Board of Directors currently includes 4 independent members and 6 non-executive members, as defined in Article II of the Corporate Governance Guidelines issued by the Capital Market Authority (CMA). The current Board of Directors was elected in the end of October 2016 and held nine meetings in 2016, with 100% quorum in person or by proxy, with an attendance rate of 86%.

BOARD OF DIRECTORS

The following table depicts the Board of Directors meetings during 2016:

A. Board of Directors meetings up until 30/10/2016**

Riyad Bank's Board Members**	Meeting 1	Meeting 2	Meeting 3	Meeting 4	Meeting 5	Meeting 6	Meeting 7	Meeting 8	Meeting 9
Date	648 2016.02.01	649 2016.03.06	650 2016.04.05	651 2016.05.02	652 2016.05.30	653 2016.09.19	654 2016.10.24	655 2016.11.07	656 2016.12.26
Rashed Abdulaziz Al-Rashed	✓	✓	✓	✓	✓	✓	✓		
Dr. Khaled Hamza Nahas	✓	✓	✓	✓	✓	✓	✓		
Abdulahman Hassan Sharbatly	by proxy	by proxy	by proxy	by proxy	by proxy	by proxy	✓		
Dr. Abdulaziz Saleh Al-Jarbou	✓	✓	✓	✓	✓	✓	✓		
Abdullah Ibrahim Al-Ayadhi	✓	by proxy	✓	✓	✓	✓	✓		
Abdullah Mohammed Al-Issa	✓	✓	✓	✓	✓	✓	✓		
Dr. Faris Abdullah Abaalkhail	by proxy	✓	by proxy	by proxy	by proxy	by proxy	by proxy		
Nader Ibrahim Al-Wehibi	✓	✓	✓	✓	✓	✓	✓		
Mohammed Abdulaziz Al-Afaleq	✓	✓	✓	✓	✓	✓	✓		
Waleed Abdulrahman Al-Eisa	✓	✓	✓	✓	✓	✓	✓		

B. Board of Directors meetings effective from 31/10/2016**

Abdullah Mohammed Al-Issa								✓	✓
Ibrahim Hassan Sharbatly*								✓	✓
Jamal Abdul-Karim Al-Rammah								✓	✓
Talal Ibrahim Al-Qudaibi								✓	✓
Abdul-Rahman Amin Jawa*								✓	✓
Mohammed Talal Al-Nahas*								✓	✓
Mohammed Abdulaziz Al-Afaleq								✓	✓
Mohammad Omair Al-Otaibi*								✓	✓
Mutaz Qusai Al-Azzawi								✓	✓
Nader Ibrahim Al-Wehibi*								✓	✓

* Members representing Al Al Nahda Contracting & Trading , Public Investment Fund (PIF), General Organization for Social Insurance (GOSI) and Public Pension Agency (PPA) respectively.

** All members of the Board of Directors are elected, including the corporate representatives.

The Board of Directors carries out its responsibilities through several committees which comprise Riyad Bank Board members, except for the Audit Committee, which, in addition to two members from the Board of Directors, includes three external, independent, non-Board members.

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The following are the key responsibilities of the Board's Committees:

1. The Executive Committee:

The Executive Committee is responsible for the credit, banking, financial and administrative functions in the Bank, as determined by the Board of Directors. The Committee held nineteen meetings in 2016, with 97% attendance from all members.

2. The Audit Committee:

The Audit Committee is responsible for the operations related to financial reporting and compliance operations, specifically legal and regulatory compliance. The Audit Committee is also tasked with monitoring the effectiveness and efficiency of the Bank's Internal Control system and risk management processes. Finally, the Audit Committee also recommends the selection of external auditors. The Committee held five meetings in 2016, with an attendance rate of 100%. The Bank's Audit Committee consists of five members, three of whom are external, non-Board members – Dr. Ibrahim Al Ali Al-Khudair, Dr. Abdullah Hasan Al-Abdulqader and Eng. Abdullah Abdullatif Al-Saif. Two external members were appointed by the General Assembly on 26/12/2016 – Mr. AbdulRaouf Sulaiman Banaja and Mr. AbdulAziz Abdullah Al-Duailej.

3. Risk Committee:

The Risk Committee assists the Board of Directors in overseeing the Bank's risk strategy. The Risk Committee continually

reviews the Bank's approved risk levels and prepares recommendations to the Board of Directors on the suitability of these risk levels. The Risk Committee also monitors executive management compliance with these risk levels. The Risk Committee consists of three members. The Risk Committee held four meetings in 2016, with an attendance rate of 100%.

4. The Nomination and Compensation Committee:

The Nomination and Compensation Committee is responsible for the development, approval and application of the Bank's compensation system on behalf of the Board of Directors. The Nomination and Compensation Committee tasks consist of regularly reviewing and assessing the Bank's compensation policy to ensure its suitability and effectiveness for the Bank. The Committee is responsible for submitting policy recommendations to the Board of Directors which accordingly updates or amends them. The Committee also evaluates the Bank's compensation payments structure and regularly makes recommendations to the Board of Directors on issues including salary levels and structures, compensation and benefits for the Bank's senior executives. The Committee ensures Riyad Bank's compliance with SAMA regulations regarding compensation policies in the banking sector. Finally, the Committee oversees all recommendations and nominations to the Board of Directors as per approved policies and standards, to ensure regulatory compliance with the Board membership rules established

by the Banking Control regulations, the Capital Market Authority (CMA), and Saudi Corporate Law. The Committee, consisting of six members, held five meetings during 2016, with 100% attendance.

The Strategic Planning Group:

The Strategic Planning Group is responsible for the preparation of the Bank's strategy. The Group also monitors and evaluates all actions taken to accomplish these objectives. The Group regularly reviews all major projects initiated by the Bank, and benchmarks the Bank's financial and operational performance against the Bank's strategic objectives. The Committee held three meetings in 2016, with 100% attendance.

The following table lists the names of Riyad Bank's Board of Directors, committees and committee members, along with the attendance rate of members at the Board of Director's meetings, as well as permanent and temporary committees, both in person or by proxy. In total, there were 265 meetings, with 99% attendance. The table also shows other joint stock companies in which Riyad Bank board members participate in their boards of directors.

BOARD OF DIRECTORS

The responsibilities of the committees of the Board of Directors are listed below:

Riyad Bank Board of Directors members up until 30/10/2016

Name	Committee Membership	Attendance %	Names of joint stock companies (listed and unlisted) where Board Members hold membership in their Boards
Rashed Abdulaziz Al-Rashed	Chairman of The Executive Committee Chairman of The Strategic Planning Group Member of the Nomination & Compensation Committee	100%	Abdulaziz Al-Rashed Al-Humaid Company
Dr. Khaled Hamza Nahas	-	100%	National Water Company Hasana Investment Company Saudi Basic Industries Corporation (SABIC)
Abdulrahman Hassan Sharbatly	-	100%	Al Sagr Cooperative Insurance Company
Dr. Abdulaziz Saleh Al-Jarbou	Member of the Strategic Planning Group	100%	Saudi Paper Manufacturing Company (WARAQ) Amiantit Company Gulf Chemicals and Industrial Oils Company United Lube Oil Company
Abdullah Ibrahim Al-Ayadhi	Chairman of the Nomination & Compensation Committee Member of the Executive Committee	100%	Saudi Technology Development and Investment Company National Water Company
Abdullah Mohammed Al-Issa	Chairman of the Audit Committee Member of the Strategic Planning Group	100%	Saudi Basic Industries Corporation (SABIC) Etihad Etisalat Saudi Hotels & Resorts Company Maden - Saudi Arabian Mining Company
Dr. Faris Abdullah Abaalkhail	Member of the Executive Committee Member of the Strategic Planning Group Member of the Nomination & Compensation Committee	100%	Fawaz Abdulaziz Alhokair & Company
Mohammed Abdulaziz Al-Afaleq	Chairman of the Risk Committee Member of the Executive Committee Member of the Nomination & Compensation Committee	100%	Hussein and Afaleq group
Nader Ibrahim Al-Wehibi	Member of the Audit Committee, Member of this Risk Committee Member of the Strategic Planning Group Member of the Nomination & Compensation Committee	100%	Jarir Marketing Company
Waleed Abdulrahman Al-Eisa	Member of the Executive Committee Member of the Risk Committee Member of the Nomination & Compensation Committee	100%	Taawuniya Insurance Company

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Riyad Bank Board's Committee Members (Non-Board Members) up until 30/10/2016

Name	Committee Membership	Attendance %	Names of joint stock companies (listed and unlisted) where Board Members hold membership in their Boards
Dr. Ibrahim Al Ali Al-Khudair	Member of the Audit Committee (Non-Board Member)	100%	None
Dr. Abdullah Hasan Al- Abdulqader	Member of the Audit Committee (Non-Board Member)	100%	Saudi Telecom Company Saudi Technology Development and Investment Company Saudi Arabian Investment Company (Sanabil Investment) Gulf International Bank (Bahrain)
Eng. Abdullah Abdullatif Al-Saif	Member of the Audit Committee (Non-Board Member)	100%	Qassim Cement Company Herfy Food Services Company Specialized Laboratory Company Hassana Investment Company

The committees were reformed after the Board of Directors were elected for a new term that started form 31/10/2016 for three years. The following table lists the names of all Riyad Bank Board members, their responsibilities, and their committee memberships for the current Board of Directors term:

Riyad Bank Board of Directors members up until 30/10/2016

Name	Committee Membership	Attendance %	Names of joint stock companies (listed and unlisted) where Board Members hold membership in their Boards
Abdullah Mohammed Al-Issa (Independent)	Chairman of the Board Committee Member of the Strategic Planning Group	100%	Saudi Basic Industries Corporation (SABIC) Etihad Etisalat Saudi Hotels & Resorts Company Maaden - Saudi Arabian Mining Company
Ibrahim Hassan Sharbatly (Non- executive)	Member of the Strategic Planning Group	100%	Golden Coast Company (Egypt) Smile Communications (Africa)
Jamal Abdul-Karim Al-Rammah (Independent)	Chairman of the Audit Committee Member of the Nominations & Compensations Committee	100%	-
Talal Ibrahim Al-Qudaibi (Non- executive)	Member of the Executive Committee Member of the Nominations & Compensations Committee Member of the Strategic Planning Group	100%	-
Abdul-Rahman Amin Jawa (Non- executive)	Chairman of the Executive Committee Member of the Strategic Planning Group	100%	Hardware store company (SACO)
Mohammed Talal Al-Nahas (Non- executive)	Chairman of the Nominations & Compensations Committee Member of the Strategic Planning Group	100%	ACWA Power Chemical manufacturing company (SABIC) Al Ra'idah Investment Company ASMA Capital (Bahrain)
Mohammed Abdulaziz Al-Afaleq (Independent)	Chairman of the Risk Committee Member of the Executive Committee	100%	Hussein and Afaleq group

BOARD OF DIRECTORS

Riyad Bank Board of Directors members up until 30/10/2016

Name	Committee Membership	Attendance %	Names of joint stock companies (listed and unlisted) where Board Members hold membership in their Boards
Mohammad Omair Al-Otaibi (Non- executive)	Member of the Audit Committee Member of the Risk Committee	100%	Abo Moati Company National Gas and Industrialization Company (GASCO)
Mutaz Qusai Al-Azzawi (Independent)	Member of the Executive Committee Member of the Risk Committee	100%	The Savola Group Arabian Cement Co. Herfy Food Services Savola Foods
Nader Ibrahim Al-Wehibi (Non- executive)	Member of the Executive Committee Member of the Nominations & Compensations Committee	100%	Jarir Marketing Company

Riyad Bank board's Committee Members (Non-Board Members) effective from 31/10/2016

Name	Committee Membership	Attendance %	Names of joint stock companies (listed and unlisted) where Board Members hold membership in their Boards
AbdulRaouf Sulaiman Banaja	Member of the Audit Committee (Non-Board Member)	Do not apply	United Matbouli Group
Abdul Aziz Abdullah Al-Duailej	Member of the Audit Committee (Non-Board Member)	Do not apply	Saudi Printing and Packaging company Saudi Advanced Industries Rafal Real Estate Development Co Deutsche Gulf Finance
Eng. Abdullah Abdullatif Al-Saif	Member of the Audit Committee (Non-Board Member)	Do not apply	Qassim Cement Company Herfy Food Services Company Specialized Laboratory Company Hassana Investment Company

*The Audit committee started its new term based on the general assembly elections dating 26/10/2016 and got effective on 12/01/2017.

Remuneration of Directors and Senior Executives during the year 2016:

Description	(SAR' Millions)	
	Members of the Board	Senior Executives *
Salaries	-	10,860,000
Allowances	845,000	1,517,999
Annual and Periodic Remuneration **	5,000,000	5,037,000
Incentive Plans	-	1,985,498
Compensation and Other Benefits	44,310	481,262
End of Service Benefits	-	2,393,428

* Represents remuneration for the six senior executives from the Bank's executive management, including the CEO and CFO.

** The annual remuneration for a board member reaches SAR 500 thousand.

BOARD OF DIRECTORS

Changes in major share holdings:

The following tables detail share holdings and any change thereof during 2016, for the Bank's Board of Directors, Senior Executives, their spouses and minor children in the shares or credit instruments of the Company and its subsidiaries, in accordance with the provisions of Article 43 of the CMA Listing Rules:

Name	Major Shareholders						
	Beginning of the year			End of Year			
	Number of Shares	Credit Instruments	Ownership*	Number of Shares	Credit Instruments	Net Change	Ownership*
Public Investment Fund (PIF)	652,608,000	-	21.7536%	652,608,000	-	-	21.7536%
General Organization for Social Insurance (GOSI)	501,757,200	-	16.7252%	501,757,200	-	-	16.7252%
Public Pension Agency (PPA)	275,424,674	-	9.1808%	277,040,918	-	1,616,244	9.2347%
Al-Nahla Trading and Construction Company	268,778,637	-	8.9593%	250,778,637	-	(18,000,000)	8.3593%
Aseela Investment Co. (MASC Holding Company previously)	240,000,000	-	8.0000%	240,000,000	-	-	8.0000%

* To the nearest four decimal points

Chairman, Board Members and Senior Executives including their Spouses and Minor Children**

Name	Beginning of the year			End of Year			
	Number of Shares	Credit Instruments	Ownership*	Number of Shares	Credit Instruments	Net Change	Ownership*
Abdullah Mohammed Al-Issa	1,262,000	-	0.0421%	1,262,000	-	-	0.0421%
Ibrahim Hassan Sharbatly	1,344,390	-	0.0448%	1,344,390	-	-	0.0448%
Jamal Abdul-Karim Al-Rammah	142	-	0.0000%	1,142	-	1000	0.0000%
Talal Ibrahim Al-Qudaibi	66,864	-	0.0022%	113,383	-	46,519	0.0038%
Abdul-Rahman Amin Jawa	13,440	-	0.0004%	13,440	-	-	0.0004%
Mohammed Talal Al-Nahas	-	-	-	-	-	-	-
Mohammed Abdulaziz Al-Afaleq	80,000	-	0.0027%	81,000	-	1,000	0.0027%
Mohammad Omair Al-Otaibi	1,000	-	0.0000%	1,000	-	-	0.0000%
Mutaz Qusai Al-Azzawi	1,347,000	-	0.0449%	1,347,000	-	-	0.0449%
Nader Ibrahim Al-Wehibi	-	-	-	-	-	-	-

* To the nearest four decimal points.

**There is no interest to be declared for Senior Executives, their Spouses and their Minor Children.

BOARD OF DIRECTORS

Accrued Regulatory Payments:

There are no accrued regulatory payment(s) due by the Bank for the year 2016, except for those illustrated below:

Description	(SAR' Millions) 2016
Zakat – Department of Zakat and Income Tax	103,536
Taxes payable by the Bank on behalf of non-resident bodies (in accordance with the terms and conditions of the contract)	8,151
Taxes payable by the Bank's overseas branches to official bodies outside the Kingdom	5,081

Penalties, Sanctions and Preventative Provisions:

No regulatory restrictions were imposed on the Bank by the CMA or any other supervisory, regulatory or judicial authority. Total penalties and fines paid by the Bank in conducting its operational activities amounted to SAR 5,987 thousand, which were mainly related to the Bank's ATM operations and other operational fines.

Applicable Accounting Standards:

The consolidated financial statements are prepared in accordance with the Accounting Standards for Financial Institutions promulgated by the Saudi Arabian Monetary Agency (SAMA) and International Financial Reporting Standards (IFRS). The Bank also prepares its consolidated financial statements in compliance with the Banking Control Law, the provisions of Regulations for Companies in the Kingdom of Saudi Arabia. In line with its role and responsibility towards safeguarding and protecting the Bank's assets and its customers' deposits, the Board of Directors confirms that:

- The Bank is not a party in any contract that is or was of substantial interest to either the Chairman, the members of the Board of Directors, the Chief Executive Officer, Chief Financial Officer, or any person with a direct relationship with any of them. The following statement explains the transactions of related parties in 31st of December 2016 during the Bank's ordinary course of business.

a) The Board of Directors members, key management personnel, other major shareholders and their affiliated companies:

	(SAR' Millions)
Loans and advances	3,689,358
Customer deposits	21,028,373
Derivatives assets (at fair value)	779
Commitments and contingencies (irrevocable)	2,445,228
Executive end of service benefits	57,289

Key management personnel are referred to individuals, including an executive or non-executive director, who have authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly. Other major shareholders represent persons with share holdings of 5% or more of the Bank's issued share capital.

BOARD OF DIRECTORS

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

	(SAR' Millions)
Special commission income	121,722
Special commission expense	695,709
Fees from banking services, net	108,663
Directors and committees remuneration and expenses	6,240
Executive remuneration and salaries	67,520
Executive end of service	2,646
Other expenses	23,744

- The internal control system is properly developed and is effectively implemented;
- All accounting records are properly prepared and maintained;
- There is no doubt as to the Bank's ability to continue its activities.

In regards to the Internal Control the Board commends the good work of the Internal Control Department and the Bank's Internal Control system. The Bank's Internal Control staff pursues financial best practices. The Bank has a well-established and organized process, both for the design of financially-based internal controls as well as their effective implementation. The essential elements of the Bank's Internal Controls system include: well-defined roles and responsibilities for the Board of Directors and Executive Management; delegated financial and administrative authorities based on seniority, and proper segregation of duties and responsibilities. Risks are qualitatively and quantitatively analyzed and are controlled by the Bank's Internal Committees, including the committees for market risk, credit, operational, strategic and compliance risks. These Management committees report directly to the Audit and Risk committees under the Board of Directors. The Board of Directors through the Audit Committee has full access to all internal audit reports, internal control reviews, as well as risk management and other relevant reports. These are reviewed on an annual basis to provide an ongoing assessment of the effectiveness of the Bank's Internal Control system. In addition, the Internal Audit Department is required to regularly follow up on

prior recommendations and file update reports for the Bank's Audit Committee on previous recommendations relating to changes in the Bank's Internal Controls system. The Audit Committee sees no significant gaps or poor performance during 2016 which would have affected the quality or accuracy of the financial statements contained within this report. While both the Audit Committee and the Board of Directors endeavor to ensure a reasonable level of assurance and accuracy in terms of the Bank's internal controls, they also note that no internal control system, no matter how well designed and implemented, can provide an absolute level of assurance.

Corporate Governance Regulations:

The Bank applies the provisions contained in the Corporate Governance Regulations of the Kingdom of Saudi Arabia, issued by the Capital Market Authority (CMA). Riyadh Bank looks to comply with all governance regulations and will continue to keep abreast of developments in this important area. The Bank is in the process of finalizing all related policies and procedures.

Human Resources:

During 2016, the Human Resources Division has continued to demonstrate the commitment of Riyadh Bank staff by

enhancing the department's capabilities to attract, develop, reward, retain and engage employees to meet the Bank's strategic goals.

After finalizing the organizational development initiatives over the past few years, the Bank now has in place the structures that enables business success. Human Resources continued its progress towards achieving current workforce through enhancing planning, sourcing and selection processes to ensure achieving the objectives of the Bank's business divisions.

The Bank continued to maintain one of the highest Saudization rates in the banking industry. The current overall percentage is 93.5% with an aim to continually increase this percentage in the future. The Bank is also proud to have 100% Saudi female staff as the percentage of female Saudi employees has reached 25% of the total of Riyadh Bank staff, again with an aim towards continuing to increase this percentage going forward.

Riyadh Bank's commitment to the development of its managers and staff is a key driver of the Human Resources Division's efforts. In 2016, Human Resources has successfully launched several new initiatives to further this aim. The Leadership Development Program

BOARD OF DIRECTORS

seeks to identify staff with the potential to become future leaders within our organization and provide them with developmental activities to insure their readiness. The High-Potential Program seeks to identify high performing mid-level staff and provide them with learning opportunities to insure a robust talent pipeline in the future. Finally, the launch of the online portal "Riyad Academy" that provides learning and development opportunities to our entire staff members and allows them to develop needed skills and abilities to build their careers within the Bank.

To support Riyad Bank's commitment to developing a performance culture, the career path framework was enhanced to include both behavioral and technical competencies. Improving the efficiency and effectiveness of the performance management process within this framework is another key driver of the Human Resources division. This year, the division succeeded in validating and enhancing the key performance indicators (KPIs) for business areas. The division also enhanced line manager's capabilities to define specific, measurable, achievable, relevant and time-bound goals through courses and workshops.

The Human Resources division continued to leverage technology to deliver its services to the Bank. In addition to the online learning portal mentioned earlier, the division has successfully automated several HR employee services and will continue to migrate additional services in the coming year. The division has also established a dynamic link between the Performance Management and Learning Management Systems to facilitate the automated transition of performance data into learning and development plans, as well as introducing many enhancements to the "iRecruitment" platform.

The balances of the staff incentive program and movements in 2016 are shown below: (SAR' Millions)

(SAR' Millions)

Description	Investment Saving		Total
	Staff's Share	Bank's Share	
Balance at the beginning of the year	38,175	14,204	52,379
Provided during the year 2016	9,087	3,397	12,484
Charged during the year 2016	(9,855)	(3,308)	(13,163)
Balance at the end of the year	37,407	14,293	51,700

External Auditors:

The Annual General Assembly of the Bank's Shareholders held on 6th April 2016 approved the appointment of KPMG (Al Fozan & Partners) and Price water house Coopers ME as joint external auditors for the financial year ending 31st December 2016. The General Assembly will decide in its upcoming meeting whether to reappoint the current auditors or replace them; the General Assembly will also approve their fees for reviewing the Bank's financial statements for the financial year ending 31st December 2017, after reviewing recommendations made by the Audit Committee and the Board of Directors.

Acknowledgements:

We would like to take this opportunity to extend our profound thanks and gratitude to the Custodian of the Two Holy Mosques, His Royal Highness King Salman bin Abdulaziz Al Saud and His Royal Highness Prince Mohammed Bin Naif Bin Abdulaziz Deputy Prime Minister and Minister of Interior and His Royal Highness Mohammed bin Salman bin Abdulaziz, Second Deputy Prime Minister, Deputy Crown Prince and Minister of Defense as well as the government. Much is owed to the Ministry of Finance, the Saudi Arabian Monetary Agency (SAMA) and the Capital Market Authority (CMA) for their continued assistance and support to the banking and financial institutions sector. Our appreciation also goes to our shareholders, customers and correspondents for their valued support and confidence which motivates us to consistently exert more effort and commitment. Finally, we extend our thanks and appreciation to the Bank's staff for their dedication, loyalty and outstanding performance that were, and are, directed to achieve Riyad Bank's goals and objectives.

The Board of Directors

Riyadh, February 12, 2017
Jumada Al-Awwal 15, 1438H

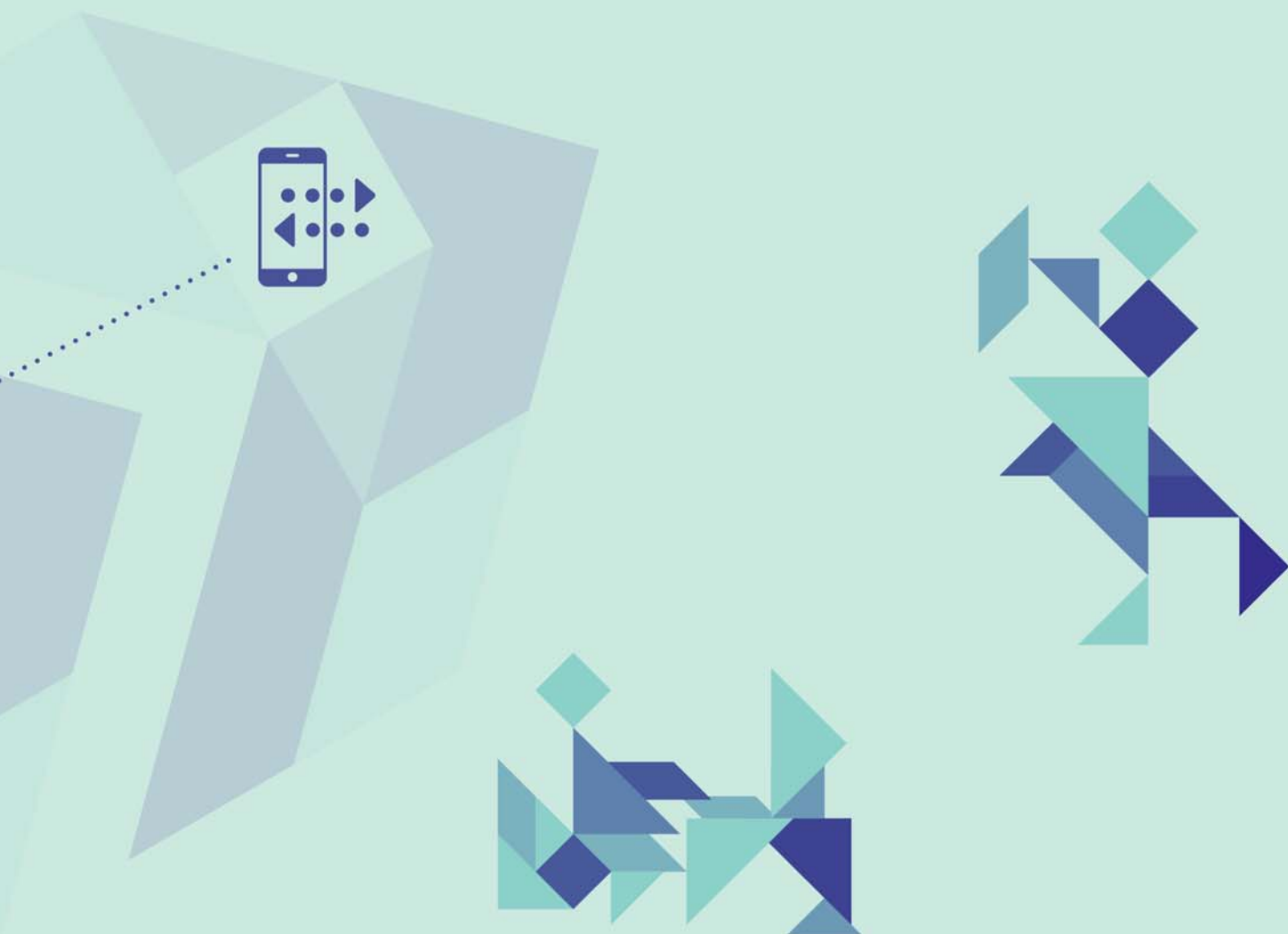
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SUMMARY OF ACCOMPLISHMENTS 2016



Re-imagined banking experience

Our success depends on our ability to harness the digital revolution and completely re-imagine the banking experience.



SUMMARY OF ACCOMPLISHMENTS 2016

Retail Banking Services

In early 2016, Retail Banking Division refined its business strategy, implemented a new customer-centric operating model in order to help drive future growth. The strategy defined the key segments which will be the Bank's focus of growth over the next 3 years. The division's organization structure was also realigned to reflect and better support the focus on these strategic segments.

In addition, Customer Relationship Management "CRM" capabilities were further strengthened in 2016 including a CRM/Marketing initiative that is now nearing completion; customer segments were redefined to support the growth of these strategic segments. The CRM team was expanded to include a richer capability both in customer analytics and segment performance monitoring. An important pillar of the strategy is service quality and therefore key customer account opening and account services processes were enhanced throughout 2016 to further improve customer experience.

A further achievement in 2016 was the successful conversion of the Bank's "Call Center" to a "Contact Center". This was a major transformation program incorporating 28 separate initiatives designed to significantly enhance our customer experience as well as driving operational efficiency. Key Initiatives included development of work load balancing tools; empowerment of call agents to improve first time resolution rates; establishment of customer retention unit and customer onboarding program in order to monitor service quality and build customer loyalty.

An indication of the 2016 achievements in terms of customer experience is that our Net Promoter Score (NPS) made consistent improvements in each of the four quarters of 2016.

Riyad Bank has achieved a number of major achievements for Retail in 2016. The year witnessed a number of new products' launches and solution offerings such as Consumer and Mortgage finance

bundle solution; agreements were signed with two large corporates providing special mortgage offers to their employees as well as the Education Finance to assist customers to spread out their payments of tuitions fees over the course of 12 months whilst at the same time providing timely payment of tuition fees to the education institutions in the Kingdom.

Regarding Auto leasing, in continuation of the redesigning of the Bank's auto finance business undertaken in 2015, 25 new agreements were signed with major auto agents, distributors and auto-lease exhibitions; a new highly competitive insurance agreement was negotiated and signed; related processes were redesigned to further enhance the pre and after sales customer experience; credit policy was revised to better align with our customers' needs.

The Bank's branch network was expanded to 337 branches, 118 of which are full service "Islamic branches", with the opening of 4 new branches in 2016.

2667

ATMs and 12 Foreign
Currency ATMs



SUMMARY OF ACCOMPLISHMENTS 2016



10%
Increase in number of ladies branches

Dedicated centers for Private Banking to service this important segment



The ATM network expanded to 2667 machines across the Kingdom. In 2016, the focus was on optimizing our overall ATM network. The key achievements being, the introduction of 12 Foreign Currency ATM's.

Private and Golden Banking Services

Private Banking has 4 dedicated centers to service this important segment, and all four centers have a dedicated section for Ladies Banking. As part of its strategy, Riyadh Bank sponsored a family business forum in Riyadh in order to help develop deeper relationships with its existing customer base of family run businesses.

2016 also witnessed an increased focus on Golden Banking with the launch of a new strategy, operating model, and refreshed value

propositions. Enhancements were based on inputs gathered through extensive customer insight testing and surveys. A substantial number of Golden Banking centers are being progressively rolled out across the branch network which will continue into 2017.



Ladies Banking

In view of the large and rapid growth of the Bank's customer base realized by the ladies' branches, the Bank opened 79 branches for ladies banking distributed across the Kingdom, increasing the profitability to 21%.

The ladies branches focus on offering services that cater to the female customer base and work on developing products and programs to match their expectations, which resulted in a significant increase in the number of female customers by 10% compared to the previous year.

The Bank focuses on developing high quality products and services for ladies banking to enrich customer experience where social media played an important role.

Shari'ah compliant products: Murabaha, Ijara, and Tawuruq

SUMMARY OF ACCOMPLISHMENTS 2016

Islamic Banking

Riyad Bank continued last year in developing banking solutions and products that are compliant with Shari'ah and approved by the Bank's Shari'ah committee, such as "Murabaha", "Ijara", and "Tawurruq". The Bank's Islamic products and solutions cover everyday transactions, financing and investment solutions for its retail and corporate customers.

The Bank spared no effort in improving the human resources involved in the provision of Islamic Banking services and raising the efficiency of their performance to present Islamic Banking products. The Islamic Banking department held workshops and training courses in collaboration with the Talent Management department in Human Resources for staff in central, eastern and western provinces.

In order to improve the human resources working in Islamic Banking, the Bank focused on introducing these staff members to Islamic Banking products and services, as well as getting them familiar with the best professional practices and processes used to present these products and meet customer needs with high quality services. This is besides the periodic assessment of the performance of the Bank's Islamic Banking branches through constant follow-up visits.

Additionally, Islamic Banking conducted 9 consultation meetings organized with the Bank's Shari'ah Committee through which a number of financial and investment products and solutions were developed like approval for products and contracts for the "Murabaha" financing and "Ijara" (rent) formats.

As for the products and contracts related to "Mudarabah" based investments, the Bank has adopted Education Finance, Banking "Tawurruq", local shares "Tawurruq" and Investment Accounts product.

A number of credit facility agreements were approved this year including: "Istisna'a" for residential real estate with developers, and local commodity purchase and sale with suppliers. This is in addition to Murabaha credit facilities with "ARAMCO Yanbu Company" and the Murabaha investment in goods structured by Treasury.

Islamic Banking also worked on integrating the investment solutions based on "Murabaha" and "Mudarabah" provided by Riyad Capital, including Saudi Arabian Oil Company 'ARAMCO' Sukuk, as well as The Saudi International Petrochemical Company 'sipchem'.

The Islamic Banking department obtained a number of Shari'a Committee's statements "Fatwa" aimed at supporting different divisions of the Bank to perform their work smoothly. Most prominent of which is the Zakat Based Fatwa and the rescheduling payment tenures as per the regulations for consumer finance issued by SAMA.

To keep abreast of banking developments and social media channels, the department has developed regulations and issued processes related to all Shari'a compliant services and products in collaboration with the Bank's different departments.

Digital Banking

Digital Banking is considered a noteworthy achievement for Riyad Bank in 2016, with the transition from Remote Banking Department under Retail to Digital Banking Department on the enterprise level as one of the most significant achievements.

The new department carried out a set of objectives including consolidating and unifying the efforts in the digital banking arena under one accountable department tasked to serve all business lines in the Bank (Retail and Corporate Banking

etc.) in developing and innovating digital channels and products. The department also focused on the digital innovation and disruption, following a smart development methodology by enabling a pool of developed, experienced and specialized talents, following best practices in addition to managing the digital customer experience and ensure the omni-experience across all digital channels, in which customers receive a consistent experience whenever they apply for a product or a service regardless of the digital channel itself.

The above initiative required the development of a Digital Banking Strategy and corresponding organization with the assistance of an experienced consultant; the digital strategy was formulated and the transformation approach was identified and agreed to be in phases.

Digital Banking is currently managing the Phase A implementation plan, the first step on the path to implement the overall Bank Digital strategy.

Planned activities are focused in 2016 on building the foundations and fixing the basics as Phase A. The Phase A project plan addresses activities related to Digital Offerings, Digital Delivery, Digital Marketing, Digital Organization (including Digital Unit setup, organization, resources, function and funding), Change Management & Communication, Agile Shift, Digital IT Platform and Digital Disruption.

Most important completed activities include: setup the Digital Banking department in the organization and appoint digital representatives from all departments across the Bank; formulate and publish the Digital Strategy across the Bank; revamp the Phone Banking channel 'Riyad Phone' and introduce unique features such as personalized menu; release the new advanced version of Riyad Mobile app., where the user experience

SUMMARY OF ACCOMPLISHMENTS 2016

was improved and new functionalities have been introduced such as (beneficiary management, virtual card request and Hassad redemption).

The Bank has released a new soft token application, where the customers can use it to authenticate their online transactions instead of the SMS code, which eliminate the need to have an active SIM. Similarly, the auto dialer feature was introduced to activate the beneficiary, where the customers will receive an automated call from the Bank to activate the beneficiary without the need to visit branch or ATM. The ATM FX was launched, which allow withdrawals of four foreign currencies (US Dollar, Euro, British Sterling, UAE Dirhams).

Riyad Bank app. for smart watches was another achievement where customers can use it to view their accounts and credit cards, view last transactions, find the nearest ATM or branch. In addition, customers were granted the ability to open additional accounts (current or saving) from Riyad Online with one of the following currencies: Saudi Riyal, Euro, Sterling Pound, or US Dollar to be used to manage their finances, make transfers and many other uses.

The plan for 2017 is to carry on with the Digital Transformation journey and to complete the phase of "building the foundation and fixing the basics".

Corporate Banking

Corporate Banking continues to follow a clear vision of being "a reliable and strategic partner for our customers through its relationship banking philosophy". For major corporate customers, the Bank provides professional relationship managers that devote their time and effort to cultivate a mutually beneficial working arrangement.

Amongst other Corporate Banking businesses, Corporate Finance Department serves as the Bank's center of expertise for syndicated, structured and project finance operations and works closely with the Bank's offices in London, Houston and Singapore, to provide products and services to the Saudi corporate community and to a wider network of global corporations with investment and trading connections in the Kingdom.

Financial Institutions Department acts as a focal point for managing all aspects of Riyad Bank's relationships with Correspondent Banks and non-banking Financial Institutions, by providing them with investment and insurance services, and financing solutions in addition to a broad range of tailored products and services designed to meet their banking needs.

Corporate Banking Services continued focusing on enhancing the corporate customer experience by launching a comprehensive service enhancement project including three Trade Finance Operations centers in Riyadh, Dammam and Jeddah.

Amongst the most prominent achievements of Corporate Banking for 2016 was the following: Corporate Finance Department serves as the Bank's center of expertise for syndicated, structured and project finance operations. The Bank was chosen to be the financing Agent for the of a Ma'aden Phosphate Company loan, and also acted Security Agent for deals with Bahri and Aqariyah companies and helped funding "YASREF", a joint venture between Saudi Aramco and Sinopec, which is considered the first Saudi industrial financing incorporating substantial participation by major Chinese banks. The Bank has also

participated in financing a major storage facility for a joint venture between SABIC and Vopak for the provision of a liquid product storage and handling service at the King Fahd Industrial Port in Jubail. Riyad Bank also acted for ALUMINIUM BAHRAIN B.S.C. as a Lead Arranger and Investment Agent in a major transaction in Bahrain.

In addition, the Bank has financed the construction cost for The National Shipping Company of Saudi Arabia (Bahri) to engage Hyundai Samho Heavy Industries to build five Very Large Crude Carriers (VLCC) with an option to build an additional five VLCCs.

Growing the number of SME businesses' in the Kingdom is both a national initiative and one of Riyad Bank's strategic initiatives, and Corporate Banking initiated new packages of services to help SMEs both start and grow their businesses, including our active participation in the Wage Management System project mandated by the General Organization for Social Insurance.

In respect of financing SMEs, Riyad Bank maintained its position among the top contributors to the KAFALAH program for financing small and medium sized enterprises. In this respect, the Bank's share was 23.6% of the total amount offered through the program, covering 2133 enterprises, constituting 25% of the total number of enterprises. Aligning with the Bank's overall strategy "to be the leading digital bank", Corporate Banking launched a revamped online banking "Riyad Online-Corporate" for its corporate customers, and the cash collection solutions package has been improved by introducing Cash Deposit Machines, and SADAD Account for online payments.

SUMMARY OF ACCOMPLISHMENTS 2016



Corporate Finance
 Department serves as the Bank's center of expertise for syndicated, structured and project finance operations

In respect of the Point of Sales (POS) business, the Bank maintained its market share achieving a significant increase in the number of transactions it processes up by 75%, and successfully pioneered new services such as Ather contactless service from mada.

For government banking, several digital projects have been launched successfully with the Saudi Industrial Development Fund (SIDF), to provide Letters of Credit supporting SIDF clients with a fully automated reconciliation solution which will also serve the KAFALAH program. Riyadh Bank continues to provide new banking solutions to the government offices including electronic banking package Riyadh Online-Corporate, SADAD Account, and ATM machines, as well as increasing the number of bank offices located at the General Authority for Zakat and Income.

Riyadh Bank also provides technical and vocational training as well as being a joint working partner with General Organization for Social Insurance "GOSI" to automatically implement electronic transfers to beneficiaries to improve the quality of service for these beneficiaries.

Last but not least, Riyadh Bank contributed significantly in the overall Hajj season success, with strategic partnerships for external and internal collections using the Hajj payment gateway.

Treasury and Investment Division

Given the current challenges faced by the local market during 2016 due to low oil prices, the Treasury and Investment division played a pivotal role in managing the Bank's liquidity and funding requirements for the various banking activities efficiently at an optimal level and at a competitive cost. Treasury continued to play a central role

in managing the interest rate and foreign exchange risk exposure within the limits approved by the Bank.

In 2016 and in line with the Bank's overall cross-selling strategy, Treasury continued to focus on identifying and capturing cross-selling opportunities in coordination with the Bank's other business divisions and studying the diverse customer needs for treasury products and presenting suitable financial products and solutions at competitive rates.

To support the cross-selling strategy, Treasury provided new financial hedging products and solutions for customers to mitigate interest rate and foreign exchange risks inherent in customer business. As a result, during the year, the cross-selling initiative achieved major success: posting a strong growth rate of 50% over the past two years.



The Treasury and Investment division played a pivotal role in managing the Bank's liquidity and funding requirements for the various banking activities at a competitive cost

Business Technology

2016 witnessed the successful completion of the new state-of-the-art data center and relocation program. The data center was built according to the best international standards in this field to fine-tune and further improve Business Technology operational efficiency and performance in accordance with the Uptime Institute's Tier Standard - the internationally accredited institute- for data center certification as follows:

SUMMARY OF ACCOMPLISHMENTS 2016

- Tier 1 – Data Center Design
- Tier 2 - Constructed Facility as Per Design
- Tier 3 (final) - Data Center Management and Operation

Riyad Bank has obtained Tier 1 and 2 certifications and is currently undergoing an operational sustainability improvement according to the best international standards in data center management and operation to achieve the Uptime Operational certification which is the 3rd and final tier of certification.

Business Technology also continues the efforts to strengthen its technical capabilities and develop its current operational efficiency to mature the recovery capability to ensure that in case of any disastrous interruption, the Bank's critical systems are available in record time within the least cost and high efficiency. This requires undertaking a series of planned Business Continuity tests through consecutive bundled testing waves over this year.

During 2016, Business Technology had some significant accomplishments through the successful implementation of key projects meeting customer requirements and adding value to businesses by enriching customer experience, mitigating costs, simplifying main application structures to make

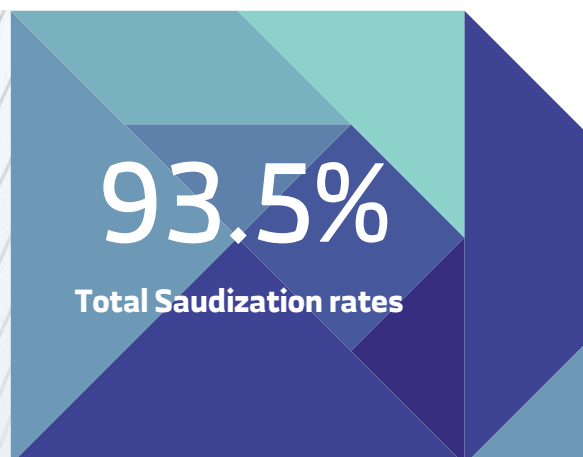


it more efficient to support business functions.

Also, processing of all consumer finance products for Retail Banking that was successfully shifted to a new system "Calypso" instead of the old system "Midas", this initiative will lead to optimizing the operational delivery and cost. In addition to the successful relocation of Treasury Back Office, a successful migration of 80% of non-structured Treasury products from the legacy to the new System, enhancing HR System functionalities through a successful launch of two systems: a Performance Management System for branches and Learning Management for employees. Business Technology has also completed the implementation of an Identity Management Solution for automation of access management process according to approved Bank standards.

Business Technology Governance

Business Technology Governance achievements were crowned in 2015 with achieving Business Continuity maturity. It also brought another remarkable achievement in the area of Enterprise Architecture and BT Governance. At the beginning of the year 2016, Business Technology Governance presented a strategic vision along with an implementation plan to achieve such vision. The vision was not just to improve the Business Technology Governance Department function, but to ensure value is delivered from Business Technology by practicing Enterprise Architecture across Technology, Application and Business domains and Governing the key Business Technology process that includes Incident Management Process, Change Management process, Configuration Management and BT Risk Management process.



SUMMARY OF ACCOMPLISHMENTS 2016

Some of the key outcomes achieved as a result of the strategic vision are the following: management policies that govern the key Business Technology Process. These policies drive assessment standards to demonstrate value added Business Technology service and improve governance through defined responsibilities. Likewise, enhanced Enterprise Architecture practices will ensure optimized cost management for applications and increased transparency to accelerate Business Technology's ability to innovate as well as achieving more reliable results when analyzing optimization potential. The comprehensive, relationally structured information base of Enterprise Architecture is suitable as a foundation for any BT initiative. Business Technology Governance has also developed the Configuration Management process and automation of the Business Impact Analysis, Business Continuity Risk Assessment, execution of the planned departmental testing by the Business Continuity Session. In addition, User Acceptance Testing "UAT" managed to automate regression testing of key business functions for the application besides achieving testing of the project and enhancements required by the various business units.

Human Resources

During 2016, the Human Resources Division has continued its efforts to

strengthen the commitment of Riyad Bank staff towards the Bank and its customers. This has been done by developing their capabilities, rewarding and retaining employees as well as engaging them in achieving the Bank's strategic goals.

After finalizing the organizational development initiatives over the past few years, the Bank now has in place the structures that enables business success. Consequently, Human Resources Division has achieved good results, while focusing on continuous development to attract talent that is capable of achieving the objectives of the Bank's business divisions.

The Bank continued to maintain one of the highest Saudization rates in the banking industry. The current overall percentage is 93.5% with an aim to continually increase this percentage in the future. The Bank is also proud to have 100% Saudi female staff as the percentage of female Saudi employees has reached 25% of the total of Riyad Bank staff, again with an aim towards continuing to increase this percentage going forward.

Riyad Bank's commitment to the development of its managers and staff is a key driver of the Human Resources Division's efforts. In 2016, Human Resources has successfully launched several new initiatives to further this aim.

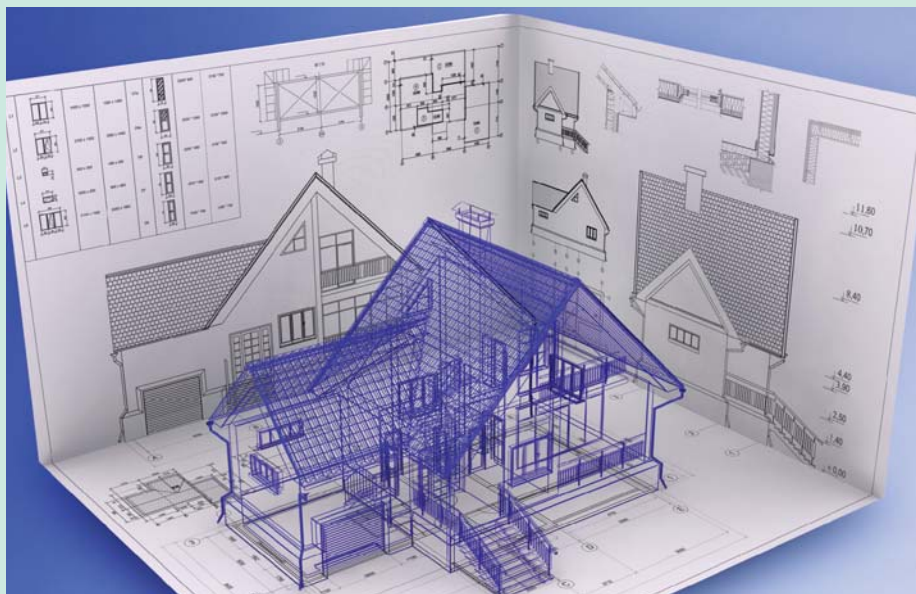
The Leadership Development Program seeks to identify staff with the potential to become future leaders within our organization and provide them with developmental activities to insure their readiness. The High-Potential Program seeks to identify high performing mid-level staff and provide them with learning opportunities to insure a robust talent pipeline in the future. Finally, the launch of the online portal "Riyad Academy" that provides remote learning and development opportunities to all staff members to develop the skills and abilities needed within their field of work.

To support Riyad Bank's commitment to developing a performance culture, the career path framework was enhanced to include both behavioral and technical competencies. Improving the efficiency and effectiveness of the performance management process within this framework is another key driver of the Human Resources division. This year, the division succeeded in validating and enhancing the key performance indicators (KPIs) for business areas. The division also enhanced line manager's capabilities to define specific, measureable, achievable, relevant and time-bound goals through courses and workshops.

The Human Resources division continued to leverage technology to deliver its services to the Bank. In addition to the online learning portal mentioned earlier,



SUMMARY OF ACCOMPLISHMENTS 2016



200
Marketing campaigns

the division has successfully automated several HR employee services and will continue to migrate additional services in the coming year. The division has also established a dynamic link between the Performance Management and Learning Management Systems to facilitate the automated transition of performance data into learning and development plans, as well as introducing many enhancements to the iRecruitment platform.

Marketing and Communications

The year 2016 has witnessed the launching of more than 200 marketing campaigns and programs such as the consumer finance campaign, designed to cater to customers' specific needs as well as Riyadh Foreign Exchange ATM campaign, Riyadh Capital campaign and Riyadh token campaign. The Bank has also adopted a strategy of "direct marketing", targeting different types of the Bank's current customers with different profiles and potentials.

The mix of smart and mobile multimedia communication strategy and tactics, tailor made to the specifics of the product and target audience, helped the Bank generate positive word of mouth and yielded notable results on awareness, customer response and engagement,

with some campaigns registering an increase of 34% in incoming calls related to the product advertised.

The out-of-the-box approach adopted in creating value propositions and offerings supported by creative executions and a clever combination of traditional media with digital and social media helped in optimizing the reach levels among the target audience, and ensured the Bank was on the list of most effective brands in the Saudi banking industry.

The Marketing division focused on optimizing its digital marketing capabilities in line with the Bank's strategic objective of becoming the leading digital bank in 2019. This required close, solid coordination and planning between the Marketing division and the Digital Banking department with regard to formulating a clear and concise digital content strategy and the compliance of all digital touch points with the Bank's brand guidelines.

The fast changing market needs and the evolving media scene had serious influences on the technographic structure in the Kingdom and suggested a shift in communication tactics to cater for the changing consumption habits of conventional, digital and social media.

This necessitated the empowerment of the division with necessary tools and resources to face the challenges of the day and the future.

Thus, there were remarkable improvements in the Bank's presence on various social media platforms in 2016, with continuous growth in fans and followers on channels like Facebook, Twitter and Instagram as a result of the activities that generated impressive response and engagement levels from the social media space.

Throughout 2016, the Bank managed to maintain one of the top positions on the list of "most influential banks in social media in Saudi Arabia" according to Klout Score.

One of the most notable achievements in this field was the increasing level of visibility and accessibility of the Bank's public website on Google, which resulted in an increase in mostly organic traffic to the website with a 4.5% growth in number of visitors compared to 2015, and consequently an increase in leads generated through the website.

Another achievement for the division was the successful launch of the first phase

SUMMARY OF ACCOMPLISHMENTS 2016



The Customer Experience team was created to ensure that the design of the Customer Experience is underpinned by deep meaningful customer insight

of the LED Posters at Branches Program across 15 branches throughout the Kingdom, adding yet another effective digital communication channel to the list of touch points with customers and branch visitors.

Convinced that Internal Communications is an essential element in the success of the Bank, the Marketing division worked on improving the quality of broadcasts and announcements, look and feel as well as content, and ensured that the internal newsletter "Jusoor" was published on weekly basis, allowing an open, two-way communication stream amongst the staff themselves, and between the staff members and the management through the editorial team.

The division continued to support the Bank's public image and its products and

services in local and regional media. In 2016, press releases and media programs focused on Retail and Corporate Banking products and services, while community service programs received visible coverage.

Press releases were more than 900 throughout the year. This comes as a result of the good relationship that exists between the Bank and Saudi media outlets from daily newspapers and news websites. This reflects the deep respect media outlets have for an organization such as Riyadh Bank.

Customer Experience

The Customer Experience team was created to ensure that the design of the Customer Experience is underpinned by deep meaningful customer insight; that our products, services and processes are designed in innovative ways around customer needs and that our products and services are tested with customers prior to launch.

The key achievements in 2016 included:

- Implemented an Enterprise Feedback Management system to automate the capture, analysis and reporting of customer feedback. Riyadh Bank now

invites customers to complete surveys via automated text messages which contain a link to an on-line survey. This greatly extends the reach of our customer insight program and enables the customer insight team to conduct deep-dive research in short periods of time.

- The Customer Experience Team continued to embed Net Promoter Score as a key measure of customer experience and used this methodology to prioritize and drive customer experience improvement activities. Following the successful implementation of the Enterprise Feedback Management system, the Bank is now able to track customer loyalty and satisfaction at a branch level. Consequently, the incentives of branch staff is now linked to customer satisfaction levels.
- The Customer Experience Team also implemented a Branch Mystery Shopping Program to ensure service standards are delivered at the front-line.
- The Business Process Management team delivered a wide range of enhancements to key customer-facing processes. This included: account

SUMMARY OF ACCOMPLISHMENTS 2016

opening, consumer finance, auto leasing and corporate loans. The Business Process Management team have also implemented an enterprise-wide application to ensure that all processes are documented in a consistent way; that clear owners are identified and that internal controls are documented and embedded within the system.

- The Bank's Customer Research and Innovation Centre – the first of its kind in Saudi Arabia – conducted a wide range qualitative research sessions with real-life customers to validate value propositions for Retail Banking across all segments (Mass, Sliver and Golden Service). The customer testing function also conducted digital usability testing with customers to ensure a high quality digital experience across both Retail and Corporate channels.

Community Service

In line with Riyadh Bank's key role in promoting corporate social responsibility (CSR) through its commitment to sustainable development programs, 2016 saw the development of initiatives that revolved around comprehensive growth and sustainable development which address empowering society to improve the lives and conditions of individuals through developmental programs.

The Bank has a long history of expertise in the field of community service throughout the years, which contributed to improving the quality of programs and initiatives adopted and sponsored by the Bank, along with applying ongoing assessment within a comprehensive and organized plan.

Thus, Riyadh Bank has earned its position as a leader in the field of community service and participated in 2016 in a multitude of conference and forums related to community service and social responsibility.

The Bank has participated in the 1st social responsibility forum organized by the Ministry of Education under the patronage of His Royal Highness Prince Mohammad bin Nasser bin Abdulaziz Al-Saud, Governor of Jazan, under the title "We are all one country". The Bank also presented a working paper at the Corporate Social Responsibility Forum in Yanbu about the responsibility towards special needs under the patronage of His Royal Highness Prince Faisal bin Salman Governor of Al Madinah AlMonawarah region.

Another forum was organized by the Deanship of Community Services and Continuing Education at King Abdulaziz University in Jeddah under the slogan of "Reality and Hope" in a discussion about the role of university and the private sector.

In addition to its participation in many events, the Bank has sponsored a number of economic and financial forums and conferences including the Jeddah Economic Forum under the title "public and private collaborations: effective collaborations for better future", where the Bank was honored by His Royal Highness Prince Khaled Al-Faisal, Adviser to King Salman and Governor of Makkah Region. Riyadh Bank has also sponsored The Entrepreneurs Forum and Exhibition in Jeddah, which was held by Jeddah Chamber of Commerce and Industry and the 4th Annual Saudi Trade Finance Summit in addition to the 5th Business and Management Forum.

As part of its constant support to small and medium-sized enterprises, Riyadh Bank held a "consultation hours" initiative at Al-Yamamah University to guide entrepreneurs and small enterprise owners.

The Bank has continued its effective contributions in career days organized by Saudi universities including King Saud

University; the University of Business and Technology; Al-Faisal University; Effat University; King Fahad University of Petroleum and Minerals, Dar Al-Hikmah and Prince Sultan University. Such participations have resulted in the employment of a huge number of graduates.

In the field of health awareness, Riyadh Bank sponsored the 4th Autism Forum organized by the Autism Center of Prince Sultan Medical Military City in conjunction with the World Autism Awareness Day. The Bank also participated in an awareness-raising event for correct sitting posture at desks as well as sponsoring the 5th edition of the agricultural training program for mentally disabled students in cooperation with Al-Ahsa Disabled Association.

The Bank spearheaded several initiatives and events targeting social development and cohesion. Some of the most notable examples are: the Saudi Food Bank "Eta'am", the 10th edition of Al-Shabab Club summer camp, the 3rd edition of Al-Baha Summer camp as well as the 1st edition of Tabuk Summer camp, in collaboration with Disabled Children's Association in Al-Baha and King Khalid Philanthropic Society.

The Bank also sponsored these initiatives: Roa'ya association for the blind and visually impaired in Al-Madinah by supporting their website; Zahra Breast Cancer Association campaign (for the 9th consecutive year) to spread awareness of the importance of early examination; sponsoring awareness-raising videos in collaboration with Family Protection Charity.

Riyadh Bank's customers and employees reflected the highest level of giving and support through online donations to charitable organizations, which has become part of the Bank's constant humanitarian initiatives all year round.

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The following charities have benefited from such donations: the Charitable Society for Orphans Care in the Eastern Province "Bena", Disabled Children's Association, Sanad Children's Cancer Support Association, Bunyan Charity Organization, Saudi Charity for Liver Patients "Kabidak", Charitable Society of Autism Families, Zahra Breast Cancer Association, Saut: The Voice of Down Syndrome Society, "Yadawi" Project for women with special needs, Al-Kawther Society for Social Care, Down Syndrome Charitable Association "DSCA", and "Mawada" Charitable Association to limit divorce and its effects.

As a continuation of the "Charity Transportation Program", the Bank donated 10 golf cars to the Geriatric's Society in order to transport the elderly and disabled people inside the Holy Mosque of Makkah. The Bank also delivered two buses to "Ekhaa Charity" in Riyadh; and two more buses to these three charities: Saut: The Voice of Down Syndrome Society, Patients' Friends Committee in Jeddah, and the Home HealthCare Program of King Faisal Specialist Hospital and Research Centre in Riyadh.

"Ertiq" which is the Computer Rehabilitation Charitable Organization

in the Eastern Province, and "Ehsas" for cooperative transportation have received three buses each. While Al-Wafa women association in Riyadh, the Charitable Association of Maternity and Childhood in Eastern Province, "Yadawi" Project for Women with Special Needs part of the Arts and Heritage Society in Riyadh, and King Abdulaziz charitable association in Tabuk have received one bus respectively.

The Bank distributed medical equipment and supplies to the less fortunate patients through its partnership with the Patients' Friends Committees in Riyadh, Al-Madinah and Abha as well as directly donating this equipment to needy patients.

Convinced of the importance of empowering the youth, the Bank enhanced its role in the field of emerging enterprises and entrepreneurship through its sponsorship and participation in many related events such as: Startup Weekend Jazan; Startup Weekend AL-Taif; The Technology Incubators Project; TEDEX Conference- Al-Faisal University.

Riyad Bank continued its contribution to support productive families. This included the 'Nabta' Productive Families Project and for the second year in a row

to empower local females to become productive members of society. This resulted in the training of 100 females from beneficiary families from Al-Jouf charity organization by giving them course in fully equipped labs to teach them skills such as the use of computers, sewing, embroidery, cooking, baking, and cosmetics.

In recognition of its role and impact, Riyad Bank was the main sponsor of many educational, developmental, cultural, touristic, economic and cultural events and forums including the border guards campaign; Al-Janadriyah, the Saudi National Festival for Heritage and Culture; the 7th Scientific Conference held in Princess Noura bint Abdulrahman University; Global Village in Princess Noura bint Abdulrahman University; the 3rd Translation Contest between Saudi universities; the 3rd Scientific Forum of The National Research Center for Giftedness and Creativity; the 1st Interactive Training Forum for the educational community in Riyadh; the closing ceremony of the General Directorate of education in the Eastern Province; the Summer Festival of King Khalid Military City; ceremony honoring families of military personnel stationed in the southern border at the General



SUMMARY OF ACCOMPLISHMENTS 2016

Directorate of Education in Hail; as well as the Nofa Golf Tournament championship.

Riyad Bank continued to sponsor the 'Wafaa' program, an initiative specially tailored for the families of deceased Bank staff members to provide them with the means to a decent life. The Bank continued to provide electronic prepaid cards for these families to make use of the credited accounts that are provided to them to facilitate their matters.

On the cultural front, the Bank celebrated the 9th edition of the Book of the Year Award in partnership with the Riyadh Literary Club. The award recipient was "King Abdullah bin Abdulaziz International Center for The Arabic Language".

For the second year in a row, the Bank sponsored the 2nd cultural award for women in the establishment of the Women of Excellence Award in cooperation with Al Qaseem Literary Club. The Award's recipients were Dr. Fawziah Al-Mayman, Fatimah Wares and Dr. Balqees Daghestani.

Ramadan Caravans have made their way for the 8th consecutive year as part of the Bank's community service activities, with the participation of Riyad Bank's employees who volunteered from different business sectors and branches, in accordance with the approach adopted by Bank to promote the concept of "voluntary work" and to translate the values of the holy month of Ramadan to humanitarian work and social solidarity.

To further extend its social involvement and community outreach, Riyad Bank's employees visited inpatient children at various hospitals and children's centers across the Kingdom, sharing joy and happiness with them on the occasion of Eid Al Fitr and handed over toys and presents to lift up their spirits.

Riyad Capital

Riyad Capital is a Saudi limited liability

company wholly owned by Riyad Bank with a paid up capital of SAR 200 million, and is licensed by the Saudi Capital Market Authority for Dealing as Principal, Agent and Underwriter; Arranging; Advising and Custody Services. Riyad Capital's business is managed from its headquarters in Riyadh.

Riyad Capital, continuously innovates and develops investment products that meet the needs of its diverse customer base, through its Assets Management Department which worked during 2016 on expanding its products by launching a new high risk investment fund 'Riyad Technology Fund' with the value of SAR 450 million, representing the 38th fund in the Riyad Capital roster of investment funds. "Riyad REIT" was also listed at Tadawul as the 1st real estate investment fund traded in the Kingdom. This reinforces Riyad Capital's leadership position in the assets management market in general, as well as managing privately owned investments and high risk funds and real estate investments in particular.

Regarding Corporate Investment Banking, Riyad Capital has been keen on attracting experienced manpower to provide specialized financial advisory that span all the investment banking activities such as the management of sukuk issuing and corporate shares in addition to advisory in the field of mergers and acquisitions and structured finance operations.

One of the most prominent achievements of 2016 was the issuing of Gulf International Bank's bonds with the value of SAR 2 billion, in addition to issuing the Saudi International Petrochemical Company's 'sipchem' Sukuk with the value of SAR 1 billion.

Riyad Capital was engaged as the financial advisor, underwriter and the IPO leading manager for Al Andalus Property Company with the value of SAR 378 million, and Al-Yamamah Steel with the value of SAR 548.8 million.

Retail Investment department deployed many activities to cement Riyad Capital's position in the market, most notably the launch of the new Riyad Capital Online platform that enables customers to perform investment transactions online.

Alongside stock trading and asset and treasury management, the Riyad Capital Online platform allows customers to get a full view of the market using advanced analytical tools to keep track and feel the pulse of market movements as well as other unique features.

Riyad Capital Online has also made its platform compatible to all smart devices and tablets making it more responsive to use and view the market.

The department is continuously working to expand the services that are offered to achieve the strategic objectives in customers service and enriching customer experience by providing an efficiently performing banking channel.

In Brokerage, Riyad Capital has launched at the beginning of 2016, a marketing campaign designed to expand the customer base who trade in international stocks. The campaign has exceeded its goals in terms of the expected number of customers and achieved trading commissions by four times.

Asset Management at Riyad Capital in 2016 has continued to promote investment culture among its customers by providing "investment advisory" service, dedicated to affluent customers with utmost privacy and professionalism. Three branches in Riyadh, Al-Khobar and Jeddah have been allocated to assist customers in evaluating their investment options carefully and accurately.

Asset Management continued its program to build and develop the work force to equip them with the professional and technical capabilities to be able to provide better service to major corporate clients.

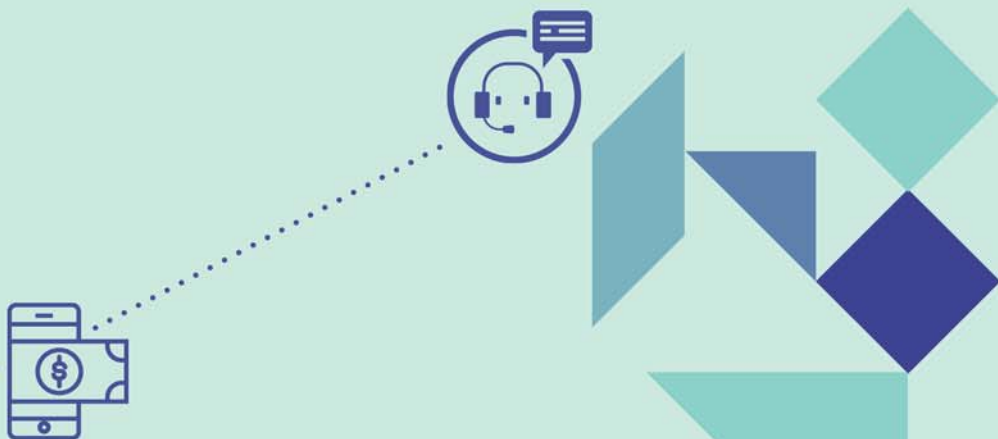
03

ECONOMIC AND FINANCIAL OUTLOOK



Creating customer experience

We are improving customer experience with our multi-channel approach, combining digital capabilities with face-to-face services.



ECONOMIC AND FINANCIAL OUTLOOK

Economic Outlook, Analysis and forecasts

The global economy slowed down during the first half of 2016 due to slow growth in developed economies, weak global trade and decline in capital flows. As the global financial sector weakened, there was an increase in financial risks in emerging markets and a number of developed markets. In the second half of 2016, growth in developed economies rebounded stronger than was expected, largely due to a reduction in inventories and a partial recovery in industrial production. In contrast, growth declined unexpectedly in a number of emerging market economies. Many factors have contributed for these slowdowns, including national-specific factors.

The global economy faced several sharp fluctuations in 2016 as a result of different factors, including oil price swings, the referendum on Britain's membership in the European Union, the outcome of the US elections, and the raising of US interest rates at the end of the year. The result of the referendum on Britain's exit from the European Union was an unexpected shock to world markets and the global economy. The Pound's value fell 10 percent in the days following the vote, and global stock markets fell sharply before a correction. The outcome of the referendum has led to an increase in financial, economic, political and institutional risks regarding the future relationship between the United Kingdom and the European Union. The expected decline in trade and financial flows between the United Kingdom and the rest of the EU over the medium term has contributed to an increased

likelihood of negative macroeconomic consequences, particularly for the United Kingdom. However, the United Kingdom's growth throughout 2016 was better than expected. In the United States economic activity rebounded strongly after a weak first six months; the country is approaching full employment and the economy has responded positively to the results of the presidential election, thanks to the promises made by the then President-Elect to promote growth and to push for tax reform.

In other developed economies, in particularly the Euro Zone, actual GDP has grown slower than expected. These economies are still working below their full economic capacity, despite better than forecast growth for Germany, Spain and the United Kingdom. Domestic demand has proved to be more resilient than expected following Britain's Brexit vote from the European Union. Financial data also indicates that Japan's economy performed better than expected in 2016. In emerging markets and developing economies (EMDEs), the picture is varied. China's growth rate was stronger than expected, thanks to the government's on-going economic stimulus packages. Economic activity was weaker than expected in some Latin American countries who are currently in recession, most notably Argentina and Brazil, as well as Turkey, which faced a sharp contraction in tourism revenues. Economic activity in Russia was slightly better than expected, owing to improved oil prices.

In terms of price indices, overall inflation has risen – most prominently

in developed countries – although core inflation (which excludes energy and food prices) remains unchanged. This increase was due to several factors, the most important of which was the rise in oil prices during the last quarter of 2016 following the decision by the Organization of the Petroleum Exporting Countries (OPEC) to cut production. Other factors include China's growing investments in its infrastructure and real estate, an expected fiscal easing in the United States, and the rise in prices for base metals through 2016. Overall inflation in developed economies has recovered over the past few months as commodity prices have improved, whilst core inflation remains below levels targeted by monetary authorities. In developing economies, inflation has risen most notably in China, where production cuts and rising commodity prices have pushed inflation for manufacturers higher after a four-year period of low inflation. In other emerging market economies, the movement of inflation indices has varied primarily due to differences in exchange rate movements and other country-specific factors.



The global economy faced several sharp fluctuations in 2016 as a result of different factors.

ECONOMIC AND FINANCIAL OUTLOOK

In the financial markets, long-term nominal and real interest rates rose significantly during the last four months of 2016, especially in the UK and the US following the November presidential election. At the end of the year, the nominal yield on 10-year US Treasury notes was up by nearly 60 basis points post the US election period, an increase of a full percentage point since the beginning of July. These changes were largely driven by the expected shift in US fiscal policy and its implications for the country's monetary policy. Coupled with higher demand-led growth, a more expansionary US fiscal policy will both increase inflationary pressures and prompt a faster normalization path for the monetary policy. In the Euro Zone, long-term yields rose more moderately in the second half of the year, hitting about 35 basis points in Germany and about 70 basis points in Italy, reflecting a lower level of risk in the political situation and the banking sector. As expected, the US Federal Reserve raised short-term interest rates in December by 25 basis points to 0.50-0.75 percent. Monetary policy positions in most developed economies remained

broadly unchanged. In emerging market economies, financial conditions varied. Overall, there was more tightness in economic and financial activities, with a rise in long-term interest rates on local currency bonds, particularly in emerging European and Latin American economies. This divergence in financial conditions was reflected in the actions of a number of central banks, most notably in Mexico, Turkey, Brazil, India and Russia, and their decision to significantly raise benchmark interest rates during the second half of the year.

Exchange rates were impacted by approximately 6 percent rise in both the US dollar's nominal and real effective exchange rate during the second half of 2016. The U.S. Dollar Index (DXY), which measures the average exchange rate of the dollar against six major currencies, rose by about 7 percent. Currencies of commodity-exporting developed countries have strengthened due to higher commodity prices, whilst the Euro and Yen have fallen markedly. Several emerging market currencies depreciated substantially in recent months—most

notably the Turkish Lira and the Mexican Peso—while the currencies of several commodity exporters—most notably Russia—appreciated. Preliminary data points to sharp nonresident portfolio outflows from emerging markets in the wake of the U.S. election, following a few months of solid inflows.

In light of these developments, the International Monetary Fund (IMF) estimated the world's economy has grown by 3.1 percent in 2016. The IMF is forecasting accelerated global economic growth during 2017 and 2018, with global growth projected to be 3.4 percent and 3.6 percent respectively.

Advanced economies are projected to grow at a faster pace, up from 1.6 percent in 2016 to 1.9 percent in 2017 and 2.0 percent in 2018. This forecast is particularly uncertain in light of potential changes in the policy stance of the United States under the new administration. This projection assumes a fiscal stimulus that leads growth to rise from 1.6 percent in 2016 to 2.3 percent in 2017 and 2.5 percent in 2018.



ECONOMIC AND FINANCIAL OUTLOOK

The IMF expects economic growth to decline in the Euro zone, from 1.7 percent in 2016 to 1.6 percent in 2017 and 2018. Growth in the German economy is forecast to decline from 1.7 percent in 2016 to 1.5 percent in 2017 and 2018. Likewise, the growth of the Italian economy is forecast to decline from 0.9 percent in 2016 to 0.7 percent in 2017 and 0.8 percent in 2018. The Spanish economy's growth is also expected to slow, from 3.2 percent in 2016 to 2.3 percent and 2.1 percent in the years 2017 and 2018 respectively. The one bright spot is the French economy, which is forecast to repeat its 2016 growth of 1.3 percent in 2017, and achieve stronger growth of 1.6 percent in 2018. The UK economy is expected to slow down from 2 percent in 2016, to 1.5 percent and 1.4 percent in 2017 and 2018 respectively. The International Monetary Fund also forecasts that Japan's economic growth will fall from 0.9 percent in 2016 to 0.8 percent in 2017 and 0.5 percent in 2018.

The key factor underlying the improved global outlook for 2017 and 2018, according to the IMF, is the expected improvement in the growth of emerging markets and developing economies (EMDEs). This projection reflects to an important extent a gradual normalization of conditions in a number of large economies that are currently experiencing macroeconomic strains. EMDE growth is currently estimated at 4.1 percent in 2016, and is projected to reach 4.5 percent for 2017. A further pickup in growth to 4.8 percent is projected for 2018. The Russian economy is expected to rapidly grow in the coming two years, from -0.6 percent in 2016 to 1.1 percent and 1.2 percent in 2017 and 2018 respectively. The Indian economy is due to grow from 6.6 percent in 2016, to 7.2 percent in 2017 and 7.7 percent in 2018 respectively. The Indian economy's growth forecast for the current (2016-17) and next fiscal year have been trimmed by one percentage point and 0.4 percentage point, respectively, primarily due to the temporary negative consumption shock induced by cash shortages and payment disruptions associated with the recent

currency note withdrawal and exchange initiative. Brazil's economy is forecast to grow from -3.5 percent in 2016, to 0.2 percent and 1.5 percent in 2017 and 2018 respectively.

In contrast, the International Monetary Fund expects for there to be a continued economic slowdown in Chinese economic growth, from 6.7 percent in 2016 to 6.5 percent in 2017 and 6 percent in 2018, despite the Chinese Government's continued adoption of pro-growth policies. Continued reliance on policy stimulus measures, with rapid expansion of credit and slow progress in addressing corporate debt problems, especially in tightening the budget constraints of state-owned enterprises, raises the risk of a sharper slowdown or a disruptive adjustment. These risks can be exacerbated by capital outflow pressures, especially in a more unsettled external environment. Forecasts for Mexico's growth rates have also been downgraded by the IMF, from 2.2 percent in 2016 to 1.7 percent in 2017 and 2 percent in 2018, primarily due to deteriorating financial market conditions and US-related uncertainty.

These forecasts are subject to many potential risks. On the downside, recent political developments highlight a fraying consensus about the benefits of cross-border economic integration. A potential widening of global imbalances coupled with sharp exchange rate movements, should those occur in response to major

policy shifts, could further intensify protectionist pressures. Increased restrictions on global trade and migration would hurt productivity and incomes, and take an immediate toll on market sentiment.

In some advanced economies where balance sheets remain impaired, such as Italy, an extended shortfall in private demand and inadequate progress on reforms (including bank balance sheet repair) could lead to permanently lower growth and inflation, with negative implications for debt dynamics. Underlying vulnerabilities remain among some other large emerging market economies. High corporate debt, declining profitability, weak bank balance sheets, and thin policy buffers imply that these economies are still exposed to tighter global financial conditions, capital flow reversals, and the balance sheet implications of sharp depreciations. In many low-income economies, low commodity prices and expansionary policies have eroded fiscal buffers and led in some cases to a precarious economic situation, heightening their vulnerability to further external shocks.

Geopolitical risks and a range of other noneconomic factors continue to weigh on the outlook in various regions—civil war and domestic conflict in parts of the Middle East and Africa, the tragic plight of refugees and migrants in neighboring countries and in Europe, acts of terror worldwide, the protracted effects of a drought in eastern and southern Africa, and the spread of the Zika virus. If these factors intensify, they would deepen the hardship in directly affected countries. Increased geopolitical tensions and terrorism could also take a large toll on global market sentiment and economic confidence.

On the upside, the support to activity from policy stimulus in the United States and/or China could turn out to be larger than what has been incorporated into forecasts, which also would result in a stronger pickup of activity in their trading



The support to activities from policy stimulus in the USA and China could be larger than forecasted.

ECONOMIC AND FINANCIAL OUTLOOK

partners unless the positive spillovers are tempered by protectionist trade policies. Upside risks also include higher investment if confidence in the recovery of global demand strengthens, as some financial market indicators seem to suggest.

In advanced economies where output gaps are still negative and wage pressures muted, the risk of persistent low inflation (or deflation, in some cases) remains. Monetary policy therefore must remain accommodative, relying on unconventional strategies as needed. But accommodative monetary policy alone cannot lift demand sufficiently, and fiscal support—calibrated to the amount of space available and oriented toward policies that protect the vulnerable and lift medium-term growth prospects—therefore remains essential for generating momentum. In cases where fiscal adjustment cannot be postponed, its pace and composition should be calibrated to minimize the drag on output.

With growth weak and policy space limited in many countries, continued multilateral effort is required in several areas to minimize risks to financial stability and sustain global improvements in living standards. On a national level, these efforts will vary based on the stage of the country's economic cycle and the focus of both fiscal and monetary policies and their implication for overall economic policy.

In advanced economies without substantially negative output gaps, any fiscal support should be targeted toward strengthening safety nets (including for aiding the integration of refugees in some cases) and increasing longer-term potential output through high-quality infrastructure investment and supply-friendly and equitable tax reform. In such cases, well anchored inflation expectations should allow for a gradual pace in the normalization of monetary policy. **More broadly, accommodative macroeconomic policies must be accompanied by and support**

structural reforms that can counteract waning potential growth—including efforts to boost labor force participation, encourage investments in skills, improve the matching process in labor markets, liberalize entry into closed professions, increase dynamism and innovation in product and service markets, and promote business investment, including research and development.

Emerging market and developing economies face starkly diverse cyclical positions and structural challenges. In general, enhancing financial resilience can reduce the vulnerability to a tightening global financial conditions, sharp currency movements, and the risk of capital flow reversals. Economies with large and rising nonfinancial debt, unhedged foreign liabilities, or heavy reliance on short-term borrowing to fund longer-term investments must adopt stronger risk management practices and contain balance sheet mismatches.

In low-income countries that have seen their fiscal buffers decrease over the last few years, the priority is to restore those buffers while continuing to spend efficiently on critical capital needs and social outlays, strengthen debt management, improve domestic revenue mobilization, and implement structural reforms—including education—that pave

**Accommodative
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structural reforms that
can counteract waning
potential growth.**

the way for economic diversification and higher productivity.

Oil Markets

Oil prices fell during 2016 as oil markets experienced a number of events that had a significant impact on pricing trends throughout the year, resulting in increasing volatility. During the year 2016 the United States took a decision to resume crude oil exports following a law passed at the end of 2015 to lift the 40-year ban on US oil exports. This decision was taken by US lawmakers after the increase in domestic oil production, primarily due to the use of cheaper, more effective techniques in extracting shale oil, which has led to a domestic production glut, and a record US oil stockpile, an oversupply in global markets and an increase in the supply-demand



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imbalance. The increase in US production has spurred more competition for similar types of light oil, from the Norwegian part of the North Sea, from Libya, Algeria and, most significantly, in West Africa (Nigeria and Angola). The increased availability of light oil has led to a drop in price for Brent North Sea crude, which was priced US\$2.38 cheaper than US crude for the first time since the beginning of 2015.

In 2016, Iran increased its oil exports by raising its oil production from 2.8 million bbl/d in 2015 to 3.1 million bbl in the first quarter of 2016, and to more than 3.7 million bbl/d in the last quarter of 2016. Iraq's oil production rose from 3.9 million bbl/d in 2015 to 4.2 million bbl/d in the first quarter of 2016. By the end of 2016, Iraq's production had reached 4.6 million bbl/d. Combined, this increase in output added to the global oil supply-demand gap, and contributed to a decline in world prices. Spot prices of Brent crude and US crude fell below US\$27 / bbl in the first month of 2016, closing at their lowest level in 15 years.

The continued decline in oil prices throughout 2016 led to the agreement of the Organization of the Petroleum Exporting Countries (OPEC) and non-OPEC producers to coordinate efforts to ensure a return to stability in the oil markets. Meetings between the two sides culminated in a landmark decision to reduce production by both OPEC and non-OPEC producers. The agreement was reached after a two-year strategy of non-intervention in determining production levels. The agreement aims to speed up the oil market stabilization, and increasing oil prices to promote new investments in exploration which has fallen sharply in recent years. The lack of investment in the oil industry has led to warnings of a major drop in oil supplies over the coming years.

During these discussions, OPEC agreed on November 30 to reduce production by 1.2 million bbl/d, to 32.5 million bbl/d. Non-OPEC producers agreed to reduce their oil production by 600,000 bbl/d, half of which would be borne by Russia. Immediately after the announcement of

the agreement oil prices in global spot markets rose by more than 9 percent. The agreement included the establishment of a committee of OPEC and non-OPEC oil ministers who would monitor the compliance of all the agreement's parties to implement their respective oil production cuts. The monitoring committee, which is chaired by Kuwait, is made up of three oil ministers from OPEC, including Venezuela and Algeria, as well as Kuwait, plus their non-OPEC counterparts from Russia and other non-OPEC countries.

The crude oil price trajectory in 2016 underlines the severity of the fluctuations witnessed by the market during the year. At the beginning of 2016, as a consequence of a resumption in US oil exports, the lifting of the ban on Iranian oil exports and an increase in Iraqi oil exports, oil prices fell to their lowest level in 15 years, to below US\$27/bbl. Prices began to recover at the beginning of summer, as shale oil drilling in the United States slowed. Oil prices have remained volatile, partly as a result of the global economic

Development of Oil Prices in 2016

Dollar Per Barrel



Source: The US Energy Information Administration, EIA

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outlook and events such as Brexit. However, spot prices for oil contracts reached US\$55/bbl, their highest level in 2016, at the end of the year following the agreement between OPEC and non-OPEC producers to cut daily production by 1.8 million bbl/d.

West Texas Intermediate (WTI) began 2016 at US\$36.81/bbl, down 32 cents per barrel from its 2015 closing price. US crude prices dropped to their lowest level on January 20, falling to US\$26.68. Since then, its price has risen to reach a high of US\$54.01/bbl in December 28. The price for Brent crude started 2016 at US\$36.28/bbl, down 33 cents per barrel from its 2015 closing price. Brent crude prices also fell to their lowest levels on January 20, at US\$26.01/bbl, mainly due to the lifting of the US crude export ban, which has the same density as North Sea oil. This oil glut significantly contributed to Brent crude's price decline below that of US crude prices. By the end of 2016, WTI and Brent prices averaged US\$43.29/bbl and US\$43.67/bbl, respectively.

Looking ahead, it is expected that OPEC members and non-OPEC producers will adhere to their production cuts, which will ensure that oil prices remain at their current levels of approximately US\$54/bbl. The production cut of 1.8 million bbl/d (1.2 million bbl/d by OPEC members, 600,000 by non-OPEC members) has supported a recovery in oil prices in the region of US\$55/bbl. The recovery in oil prices has led to a rise in the number of oil drilling rigs in the United States, which may adversely impact any future oil price rise. In general, the outlook for oil prices in 2017 depends largely on global demand, which may slow for the largest importers such as China, the EU and Japan. Oil prices will also remain vulnerable to economic and political factors such as economic growth, investment returns, and the risk of escalating conflicts in oil-producing areas.

The GCC Economies

For decades, the policy of subsidizing energy prices has been a main pillar of GCC development strategy aimed at achieving key economic, social and political objectives. These include redistributing the rent to the wider population; protecting the income of households, especially those with lower income; enhancing the economy's competitiveness and attractiveness to domestic and foreign investment; promoting industrialization and diversification; and controlling inflation.

Subsidized energy has helped the GCC achieve key development and social goals. However, the policy has proven to be costly and has had unfavorable economic implications. The provision of energy at artificially low prices represents an inefficient allocation of natural resources, limiting the ability of the GCC countries to maximize the value of their natural resources. The negative effects of low energy prices on the economy are well known; they lead to rapid growth in energy consumption beyond what can be explained by factors such as growth in income and population. Subsidized energy prices increase energy intensity to GDP disproportionately in the economy



as it direct investment decisions towards energy-intensive projects, and thus hindering economic diversification. They also indirectly promote low energy efficiency, and do little to incentivize consumers, manufacturers and businesses to conserve energy. In addition, a policy of subsidizing hydrocarbon energy negatively impacts the energy mix in the economy by encouraging over-dependence on oil and gas and limiting investment in and use of alternative energies, such as renewable energy and nuclear power. Subsidized energy prices can induce significant distributional shifts; low fuel, electricity and water prices reward high-income households and those that tend to consume more. Similarly, the provision of cheap gas to



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manufacturers may increase profits for the owners of shareholders of these organizations, individuals who are often already high income earners.

The continued decline in oil prices has increased fiscal vulnerabilities in GCC countries, forcing Gulf governments to rationalize public spending and implement long-overdue fiscal and economic reforms, including energy subsidies. The United Arab Emirates and Saudi Arabia have taken the lead in raising energy prices and cutting subsidies. In a clear sign of its willingness to implement the fiscal and economic reforms that it has long planned and discussed with international institutions, the Saudi government announced in December 2015 its plans to reform the prices of water, electricity, natural gas and petroleum products over the next five years raising the prices of various fuels with immediate effect. This was preceded by the United Arab Emirates and its decision to liberalize local gasoline and diesel prices in June 2015. Other GCC states – Bahrain, Kuwait and Oman – have followed Saudi Arabia's fiscal reform program, and have begun pushing for higher energy prices. These higher prices are still low in comparison with international and regional standards, but raising them represents a fundamental shift in economic and social policies throughout the GCC. In its 2017 budget, Saudi Arabia further committed to liberalizing the prices of petroleum products and electricity in 2017, water

prices in 2018 and raising gas prices for industrial use by 2019.

The Gulf's governments have committed themselves to using a variety of tools and measures to mitigate the expected impact that the removal of subsidies on energy and water prices will have on both the public as well as industrial competitiveness. Their stated aim is to use more equitable and efficient mechanisms to deliver financial support, such as developing appropriate financial assistance programs to compensate families and establishing specialized funds for the provision of technical advice and soft loans to support industries that will be impacted by higher production costs, primarily through improving production efficiencies by utilizing new equipment and technologies. The long-term success of these energy liberalization programs will be dependent on the ability of the Gulf governments to effectively roll out and leverage these programs in support of national economic activity. The Government of Saudi Arabia has announced a special program detailing all the measures that it will take as part of its Fiscal Balance Program 2020, which aims to achieve a balance budget by 2020. The program includes all the measures the Kingdom intends to take until 2020 to support both the public and the industrial sector through the introduction of the 'Household Allowance' and a private sector stimulus program. In total, SR 70 billion will be allocated to compensating those citizens who are most affected by energy liberalization through the 'Household Allowance' program, whilst SR 200 billion will be used as a stimulus package for the private sector industries which are impacted by energy liberalization.

The impact of the subsidy reduction and the subsequent rise in petrol, electricity and water prices was noticeable during the first months of 2016. However, by the end of the year, inflation rates were expected to have stabilized at 2.6 percent, the same rate as in 2015. The effect of the measures will be clearer in 2017, particularly in Saudi Arabia,

once the full liberalization of oil and electricity prices is complete. In terms of water, prices will be fully liberalized in Saudi Arabia in 2018. In terms of taxes, the GCC countries approved a tax on a selection of goods, including cigarettes, soft drinks and products called excise tax on harmful products. GCC governments are coordinating the introduction of a five percent Value Added Tax (VAT) in 2018. Inflation rates in the GCC are expected to rise to three percent in 2017. There is an expectation that overall demand may be impacted by these policies.

Fiscal reform is only part of a larger package of reforms and structural measures currently being adopted by Gulf governments over the next five years, which are aimed at boosting economic diversification and reducing the Gulf's economies overdependence on oil, both for revenues and commodity exports, as well as to stimulate economic growth. The GCC's current focus is to increase the private sector's contribution to national economies, and to create diversified production base. While the stated aim is to re-energize the region's private sector, there is a specific focus on a number of vertical and horizontal industries that will drive economic diversification. These include mining, logistics, the digital economy, export sectors and small to medium-sized enterprises. The aim of this is to help GCC governments tackle the region's most pressing challenge, to reduce unemployment amongst its youth.

According to estimates, more than two million Gulf nationals are expected to join the GCC workforce by 2020. If employment in the private sector continues to grow at the same level, and if public sector employment remains at the same rate, over half a million entrants to the labor market will face unemployment, adding to the one million in the Gulf who are currently unemployed. Fiscal consolidation programs require a reduction in the pace of employment in the public sector. The private sector is expected to replace the public sector



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as the major driver of job creation. By expanding the private sector and diversifying the economy away from oil, the private sector may be able to absorb the increasing numbers of job seekers. In its current state, the private sector depends heavily on government spending; in order for the Gulf's private sector to be less reliant on government spending, it needs to become more competitive globally. If governments are to be successful in this strategy, they need to create incentives to encourage citizens to take up employment in the non-oil private sector, as well as improve the skills and the abilities of their nationals, making them more suited to working in the private sector, through raising the quality of education and training on offer.

Most of the GCC's governments have chosen to gradually implement their fiscal reforms within five years, a prudent strategy given the availability of financial reserves that will ease the impact of lower oil prices on government budgets. According to the International Monetary Fund (IMF), the adequacy of financial reserves to cover GCC public expenditure extends from less than five years, as in Bahrain, Oman and Saudi Arabia, to more than 20 years, as in Kuwait, Qatar and the United Arab Emirates. Public debt trends and rates also provide an additional indication of the ability of the GCC countries to achieve the desired economic diversification whilst withstand fiscal deficits during this correction period. This is corroborated by the GCC's sovereign credit ratings. Typically, a rise in a country's public debt means a decline in sovereign credit ratings and a lower borrowing capacity. With the exception of Bahrain, every GCC country has a credit rating which is on a par with the world's best performing economies. Public debt rates remain below those of developed economies, at 20 to 40 percentage points of GDP. GCC countries have abundant savings, low debt burdens, sophisticated banking systems, and access to international markets, enabling them to successfully restructure their economies at a lower economic cost.



**According to estimates,
more than 2 million Gulf
nationals are expected to
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by 2020.**

The international demand for US\$31.5 billion worth of sovereign bonds issued recently in the Gulf - US\$17.5 billion, US\$9 billion and US\$5 billion by the governments of Saudi Arabia, Qatar and Abu Dhabi, respectively - was both high and competitive by global standards.

The decline in oil prices has changed both the pattern of growth and the economic outlook for the GCC. The decline in oil revenues has shifted what were budget surpluses across the region into deficits. In 2016, the GCC's public budgets suffered from a deficit of US\$150 billion, or 11 percent of the entire GDP of the region's six member states. Saudi Arabia's budget deficit accounted for nearly 70 percent of the total deficit, or US\$107 billion. The GCC public debt increased from US\$207 billion, or 15 percent of the GCC's GDP, in 2015, to US\$298 billion, or 22 percent of the GCC's GDP, today. The GCC states' current account balance increased from US\$33.6 billion, or 2.4 percent of the GCC's GDP, to US\$51.2 billion, or 3.7 percent of the GCC's GDP, in 2016. The GCC's real GDP growth slowed to 1.9 percent on average during 2016, compared to 3.1 percent in 2015, mainly as a result of lower government spending and a decline in local liquidity. Nominal GDP across the Gulf declined by 1.4 percent, to US\$1,373 billion.

There are a number of other factors that could affect the GCC's growth path besides fiscal reform and economic restructuring. Further oil price volatility or reduction in oil production among oil

producers, a normalization of monetary policy in advanced economies, and the prospects for growth in emerging markets will all have implications for GCC economies. Falling oil production and the possibility of oil prices remaining below US\$60/bbl mean that most GCC countries will continue to face deficits in their government budgets and current account balances, resulting in slow GDP growth and increased public debt. The GCC's economic prospects may seem modest in 2017, with the real GDP is expected to grow by 1.9 percent, at the same rate as in 2016. Fiscal deficits will shrink to about US\$93 billion, or 6 percent of GDP. Public debt will rise to US\$400 billion, or 27 percent of GDP. The Gulf's current account deficit is expected to fall to about US\$29 billion, or 2.1 percent of the GCC's gross domestic product.

These projections are subject to a number of risks that may adversely affect their accuracy, including a lower-than-expected oil price. The implementation of fiscal reform programs may raise costs for the region's industrial sector and reduce the disposable income for the household sector, negatively impacting growth. The economic slowdown may also be exacerbated through banking channels. Governments and oil companies may reduce their deposits in the banking system, which would in turn slow down loans to the private sector. Excessive government borrowing through the issuance of local debt instruments may also reduce the amount of liquidity available to the region's private sector. The pace of fiscal adjustment and the choice of adjustment policies may lead to a larger-than-expected drop in domestic demand, which could pose a threat to growth forecasts. Needless to say, ongoing conflicts in the region can also have an important impact on confidence throughout the region, weakening prospects for growth.

The dollar peg may affect the Gulf's economies. Local interest rates rose throughout 2016 primarily because of internal factors such as liquidity and an

The Gulf's banking sector is well positioned to cope with the impact of low oil prices and the region's structural reforms.

increase in public debt issuance, before it declined back following interventions by monetary authorities, most notably in Saudi Arabia. The dollar's strength on foreign exchange markets may lead to tightening monetary policy for countries whose currency exchange rates are pegged to the dollar. Monetary authorities in a number of Gulf countries recently raised interest rates by a quarter percentage point, in line with the Federal Reserve's decision to raise interest rates by 25 basis points. The one exception was the Central Bank of Oman, which announced that it did not intend to increase interest rates automatically, while keeping monitoring domestic interest rates set by Omani banks. The Central Bank of Oman explained his action by the divergence of the business cycle between the Omani economy and the U.S economy. The market response to the rate rise across the Gulf was muted; interbank lending rates moved slightly higher by a few basis points, and then returned to their previous levels. However, a rise in global interest rates will certainly raise the cost of external borrowing if GCC governments decide to resort to issuing bonds on international markets.

The Gulf's banking sector is well positioned to cope with the impact of low oil prices and the region's structural reforms, owing to high capital adequacy ratios, the low percentage of non-performing loans, and strong liquidity coverage ratios. However, there is an expectation for profits in the banking sector to decline. The slowdown in deposit

growth in a number of GCC countries coupled with the increasing debt issuance by the region's governments could affect the growth of bank credit and liquidity levels. Risks may increase over time as government spending falls and economic activity slows, affecting the banking sector's asset quality, liquidity and profitability.

The GCC financial markets ended in 2016 with the Dubai Financial Market posting the highest increase among the seven bourses, rising 12.1 percent to 3,551 points. The Muscat Securities Market ended the year up by almost seven percent, reaching 5,783 points. The Abu Dhabi Securities Market (ADX) gained 5.55 percent, closing at 4,546 points. The Saudi Stock Exchange – the Tadawul – closed at 7,210 points, up 4.32 percent during the year. The Kuwait Stock Exchange gained 2.37 percent to close at 5,748 points. The Bahrain Bourse closed 0.38 percent higher, at 1,220 points. The Qatar Stock Exchange ended the year relatively unchanged at 10,436 points, up 7 points or 0.07 percent from its 2015 level.

The Saudi Economy

The year 2016 witnessed a general slowdown in the Saudi economy and a rise in the cost of lending and financial services as liquidity declined. According to the latest data issued by the General Authority of Statistics (GASTAT), the Saudi economy grew by 1.4 percent in 2016, with the non-oil private sector growing by 0.11 percent, following growth of 3.4 percent in 2015.

In its pursuit of economic diversification and to lessen the economy's dependence on oil, the government adopted a comprehensive vision that encompassed both fiscal reform and a restructuring of the national economy that would allow the private sector a greater role in the economy and employment. In April, the government announced Saudi Arabia's Vision 2030, which includes a number of executive programs, the National Transformation Program (NTP) and the

Fiscal Balance Program; Balance Budget 2020. One of the NTP's key objectives is to align and restructure ministries, institutions, and government entities to match the Vision 2030 national priorities. The Fiscal Balance Program; Balance Budget 2020 will review relevant regulations and take action to achieve a balanced fiscal budget by 2020. The main objective of this program is to strengthen fiscal management, restructure the Kingdom's fiscal situation and develop a host of mechanisms for reviewing revenues, expenditures and national projects.

Saudi Arabia's Vision 2030

"Saudi Arabia's Vision 2030" was adopted as a roadmap for economic and developmental action in the Kingdom of Saudi Arabia. In its aim to grant the Kingdom a leading position in all fields. Saudi Arabia's Vision 2030 sought to identify the general directions, policies, goals, and objectives of the Kingdom. Accordingly, some ministries, institutions, and government entities have undergone a restructuring process to align them to the requirements of this phase. This would enable them to perform their tasks, and expand their competencies. Ultimately, this will enhance the level and quality of services provided to beneficiaries; and achieve a prosperous future and sustainable development.

"Saudi Arabia's Vision 2030" encompasses—in a number of domains—strategic objectives, targets, outcome-oriented indicators, and commitments that are to be achieved by the public, private, and nonprofit sectors. The Council of Economic and Development Affairs (CEDA) has established an effective and integrated governance model. This model aims to translate the Vision into various implementation programs that will accomplish its goals and directions. Such programs will rely on new operating models customized to the requirements of each program, as well as the common national goals related to the Vision.

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The Council of Ministers has tasked the CEDA with establishing and monitoring the mechanisms and measures necessary for the implementation of "Saudi Arabia's Vision 2030". To this end, the Council established a number of bodies that will enable and support the launching, monitoring, and evaluation of these programs, as well as the release of new programs in the future. These bodies include the National Center for Performance Measurement, the Delivery Unit, and the Project Management Office of the Council of Economic and Development Affairs.

The Vision's governance model promotes efficient planning within government agencies and boosts coordination among them in order to achieve common national goals. It also guarantees speedy completion of projects and initiatives and achieves sustainable action and impact through regular implementation reviews and performance evaluations.

The Vision is built around three themes: a vibrant society, a thriving economy and an ambitious nation. The Vision seeks to diversify the economy away from oil by supporting the private sector and increasing its role in the economy, through a partnership with the non-profit sector

and a more efficient government sector. The Vision also aims to diversify revenues and exports away from the oil and gas sectors, review government subsidies, improve employment opportunities, create new jobs in the Saudi private sector, increase domestic exports, improve the economy's competitiveness and spur the integration of Saudi's national economy into the global economy.

The Vision seeks to promote small and medium-sized enterprises as an important engine for growth and job creation. The Vision aims at facilitating the access of these enterprises to finance resources through the Kingdom's financial institutions, so that SMEs will receive around 20 percent of overall banks' financing in order to achieve the Vision's target of increasing the contribution of SMEs to GDP from 20 percent to 30 percent. The Vision will also promote the Kingdom's mining and retail sectors, to both increase their contribution to the economy and employment, which will contribute to the goal of raising the private sector's contribution to the economy from 40 percent to 65 percent. Other goals include raising the share of Saudi's non-oil exports from only 16 percent of GDP, to 50 percent of the GDP by 2030, raising non-oil revenues

to SR 1.00 trillion. The vision also aims to reduce the Saudi unemployment rate from around 12 percent to 7 percent.

The Vision includes long-term plans to develop investment mechanisms for both the public and private sectors, including investments in strategic areas that will make the Kingdom a global player in these sectors. Long-term plans also include the continued privatization of government assets. The value of assets managed by the Public Investment Fund (PIF) will increase from SR 600 billion to SR 7 trillion, following the privatization of less than 5 percent of Saudi Aramco, which is set to begin in 2018. The Vision also includes plans to localize 50 percent of military defense spending, to promote domestic production. The Vision also aims to raise foreign direct investment levels to 5.7 percent of the Kingdom's GDP, which would be on a par with global levels, to raise the level of savings in the economy to 10 percent from the current 6 percent, and to increase the ownership of homes to 52 percent by 2020.

In terms of economic competitiveness, the Vision raise Saudi's economy to become one of the top fifteen economies in the world, and to support the positioning of Saudi's cities to become among the best cities in the world. The Vision's goals include working towards a top ten country ranking on the Global Competitiveness Index, a top 25 global ranking in the Logistics Performance Index, a top 20 ranking in the Government Effectiveness Index, a top five ranking in the E-Government Survey Index.

The Vision also includes a number of social and health-related goals, including increasing household spending on cultural and entertainment activities inside the Kingdom to 6 percent, increasing the number of clubs and youth centers to 450, increasing the average life expectancy of Saudi nationals from 74 years to 80 years, and improving the quality and international rankings of

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Saudi universities through improved curricula. The Vision also aims to raise the non-profit sector's contribution to GDP to 5 percent and to rally one million volunteers per year, up from the current 11,000.

The National Transformation Program

In order to build the institutional capacity and capabilities needed to achieve the goals of "Saudi Arabia's Vision 2030", the National Transformation Program 2020 was launched across 24 government bodies operating in the economic and development sectors in its first year. It is notable that the program's strategic objectives are linked to interim targets for the year 2020. Furthermore, the first phase of initiative implementation was launched in 2016 and will be followed every year by phases involving more government bodies. The program uses innovative methods to identify challenges, seize opportunities, adopt effective planning tools, activate the role of the private sector, bring about implementation, and evaluate performances. It has also determined the interim targets for some of the Vision's strategic objectives to ensure the establishment of a solid foundation for government action and the continuity

of innovative planning, implementation, and follow-up methods on the national level.

The NTP identifies 178 strategic objectives, 371 indicators, and 346 targets for 24 government bodies. The model's first phase is to identify challenges against achieving the goals of Vision 2030. The second phase includes initiatives being developed at the Ministerial level. The third phase, includes the implementation plan for each initiative. A fourth phase is to publish results of government entities to review performance. The fifth phase includes periodic audits and follow-ups. The total cost for the NTP initiatives is estimated at SR 447 billion, SR 268.4 billion of which will be borne by the public sector and the remaining 40 percent (SR 179 billion) from the private sector. Government funding for these programs will be derived both from funds allocated in previous budgets, as well as new funding which will be announced during the annual government budgets between 2017 and 2020. The Ministry of Housing and the Royal Commission for Jubail and Yanbu (RCJY) are set to receive the largest share of the program's funding, taking up a combined SR 100.8 billion (37.5 percent of total spending).

The objectives and indicators used by the NTP vary according to each participating ministry. One of the key aims for the Ministry of Finance is to achieve a balanced budget by 2020. The Ministry's strategic objectives include strengthening public financial governance by improving transparency of the fiscal budget. This will include improving the Kingdom's open budget index ranking score from a baseline 0/100 to 25/100 by 2020. A second strategic objective for the Ministry is to increase non-oil revenues from SR 163.5 billion in 2015 to SR 530 billion by 2020. A third objective is to raise the efficiency of spending on salaries and wages through improved performance productivity. A fourth key objective for the Ministry of Finance is to achieve

sustainability in public debt by improving the Kingdom's credit rating, from an upper medium grade (A1) to a high grade (Aa2) by 2020.

The Ministry of Economy and Planning (MEP) has been tasked with a number of key actions. Its first strategic objective is to raise revenue through the privatization of certain government services and assets. The MEP's second strategic objective will be to take the lead in increasing the efficiency of government subsidy programs. A third strategic objective will be to diversify GDP, by increasing the private sector's economic contribution to 65 percent. The Ministry has also been tasked with developing and implementing incentive programs to direct the private sector into highly productive, export driven sectors.

The Ministry of Labor and Social Development's key objectives relate to its role in maintaining an effective labor market by formulating labor rules and regulations. The Ministry's first strategic objective is to support the reduction of Saudi national unemployment, from the current rate of 12 percent to 9 percent by 2020. This target is consistent with an annual average Saudi employment of 194,000 between 2016 and 2020. The NTP has a target for new job creation of 491,000 jobs (98,200 per year) in the private sector; the remaining 95,800 jobs will likely be provided through Saudization replacement targets. A key challenge for the Saudi labor market is the participation rate of females, which is amongst the lowest in the world. A crucial objective for the Ministry of Labor and Social Development will be to increase the participation of females in the Saudi labor force from today's 23 percent to 28 percent by 2020. The Ministry will also aim to increase the number of Saudi students enrolled in technical and vocational training from 104,400 today to 950,000 by 2020.

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The Ministry of Housing is the largest recipient of government funding through the NTP, amounting to SR 59.1 billion. The Ministry's main objective is to increase the proportion of Saudi home ownership, from 47 percent in 2015 to 52 percent by 2020. This is an ambitious target given the anticipated rise in demand for residential units over the next five years. A budget of SR 31.5 billion has been allocated for encouraging the participation of real estate developers to increase the supply of housing units and develop government land plots.

The Ministry of Commerce and Investment has been allocated SR 4 billion by the NTP to achieve a number of goals, including guaranteeing fair trade between consumers and sellers, with the aim of improving the Kingdom's score on the consumer confidence index from 106 to 115. Another key objective for the Ministry is to increase the competitiveness of locally produced products and services. Under the NTP, SAGIA's objectives include increasing foreign direct investment (FDI) from the current SR 30 billion, to SR 70 billion by 2020. SAGIA's other objectives include improving the Kingdom's ranking in the Global Competitiveness Index (GCI)

from 25 to 20, and raising the country's ranking in the Ease of Doing Business Index from 82 to 20.

A key objective for the Ministry of Energy, Industry and Mineral Resources is to increase the value of exports of non-oil commodities from SR 185 billion to SR 330 billion by 2020. Much of this will come from the Kingdom's mining sector, which is expected to increase its contribution to GDP from SR 64 billion to SR 97 billion and add 25,000 job opportunities by 2020, to employ a total of 90,000 people.

Whilst crude oil capacity will remain unchanged at 12.5 million bbl/d, the Ministry will focus investments on gas exploration and production, increasing dry gas production capacity from 12 billion cubic feet per day to 17.8 billion cubic feet per day by 2020. Privatization and localization are also key goals for the Ministry; localization will aim to push local content in total expenditure of public and private sectors to 50 percent, up from 36 percent currently, and increase the hiring of Saudi nationals in the private sector from 19 to 24 percent. The Ministry will also seek to promote private

sector investment in the country's less developed regions, up from zero today to SR 28 billion.

The Ministry of Hajj and Umrah has been tasked with a number of responsibilities. The first objective is to provide the opportunity for the largest number of Muslims possible to perform Hajj and Umrah, by raising the number of Umrah pilgrims from abroad to 15 million by 2020, up from 6 million today. The Ministry of Health has been tasked with promoting the private sector's role within the health sector, through raising the private sector's share of total healthcare spending to 35 percent in 2020, up from 25 percent currently. Under the NTP, the Ministry of Transportation will increase the percentage of private sector participation in financing and operating transportation projects in three areas: constructing and operating road projects, developing and operating railways projects, developing and operating ports. The Royal Commission for Jubail and Yanbu (RCJY) received the second largest budget allocated by the NTP, totaling SR 41.6 billion. Its objectives include increasing the RCJY cities' total industrial production by 23 percent to 309 million tons, through further economic diversification by establishing a higher value adding manufacturing base.

Achieve sustainability in public debt by improving the Kingdom's credit rating, from an upper medium grade (A1) to a high grade (Aa2) by 2020.

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Fiscal Balance Program; Balance Budget 2020

As part of "Saudi Arabia's Vision 2030", the Fiscal Balance Program will be a key component in developing effective government, by providing intense scrutiny of government finances, developing mechanisms for reviewing revenues, expenditures and projects, and acting as a spur to increased efficiency. Following the establishment of the Council of Economic and Development Affairs, work began to examine existing capital expenditures, their approval mechanism and their measureable economic impact. Committees and newly introduced departments were tasked with reviewing relevant regulations and taking the necessary action on the expenditures. As a consequence, in 2015 in 2016, non-oil revenues increased by 30 and 20 percent respectively. The Fiscal Balance Program will accelerate the pace of change over the coming years through the introduction of a raft of new measures across a variety of sectors that will both improve government performance and ensure fiscal sustainability. Beyond fiscal balance and government performance, this program contributes to key socioeconomic impacts sought by Vision 2030. This includes targeting the social welfare system on the neediest and supporting them effectively, and also making the country's economy more competitive. Most importantly, by carefully managing the government's finances, space can be created in the budget to enable investment in the long term programs that will ensure a successful delivery of the Vision. Such reform secures confidence in the Kingdom for citizens, residents, local and foreign investors, international financial institutions and markets.

The Fiscal Balance Program is focused on enhancing sustainability of government revenues, by growing non oil revenues, optimizing and rationalizing government capital and operational expenditures, while focusing spending on the most



strategic areas, eliminating misdirected subsidies, and empowering citizens to choose and consume responsibly, as well as sustaining economic growth in the private sector. Confidence will also be boosted by fiscal reform programs and policies such as the debt management program, and budgeting process and policy reform. The Saudi Government has initiated a number of fiscal reforms during 2016, resulting in savings of SR 80 billion in 2016. The key areas targeted by the Fiscal Balance Program are:

1. Optimizing and Rationalizing Government Expenditure

The government has recognized the need to strengthen its capabilities in managing expenditure, in particular with respect to planning and budgeting. As a result, it has established The Bureau of Capital and Operational Spending Rationalization as an independent unit under the Council of Economic and Development Affairs. The Bureau supports government entities to identify opportunities for optimization of efficiency in both capital projects supporting the Kingdom's priorities in Vision 2030 and operational spending (such as operations and maintenance, administrative costs, etc.). It also helps

them in setting their initiatives, detailed plans and implementing them, based on best local and international practices. It supports the implementation of initiatives for spending efficiency, and in developing solutions to overcome obstacles to implementation. The Bureau is also responsible for the development of mechanisms & policies needed to improve spending efficiency and ensure sustainability of implementation.

In 2016 the Government began optimizing and rationalizing government expenditures through the development of over 100 initiatives to improve efficiency and operational spending across many categories. Capital expenditures reforms were initiated at three key Ministries, namely the Ministries of Health, Education, and Municipal and Rural Affairs.

In order to rationalize and promote higher operating expenditure efficiency, the Government has sought to leverage information technology in the provision of government services, and to improve control mechanisms through the modernization of government procurement processes. To control other current expenditures, the Government is monitoring the growth of current expenditure items, especially wages, salaries and allowances, which account for more than 50 per cent of total expenditures. The Government has begun

The Fiscal Balance Program will be a key component in developing effective government, by providing intense scrutiny of government finances, developing mechanisms for reviewing revenues, expenditures and projects, and acting as a spur to increased efficiency.

ECONOMIC AND FINANCIAL OUTLOOK

to restructure government wages through revising the eligibility and feasibility of various allowances.

2. Subsidy Reforms

Government energy and water subsidies represent the largest percentage of subsidies provided in the Kingdom. The Kingdom's energy subsidies cost reached close to SAR 300 billion in 2015, given the oil export price at that time (the value of subsidy is calculated as the difference between the price of the product as an export and the local sale price). They could significantly increase over time because of increasing domestic consumption & changes in global oil prices. The first phase of energy and water price reform was implemented in 2016 with a subsidy cut and a rise in prices at the beginning of the year. Reforms in the price of energy and water will continue during the period 2017-2020. The combined energy and water price reforms are expected to lead to saving of SAR 209 billion per year by 2020.

3. Growing Non-Oil Revenues

2016 witnessed the implementation of the first phase of government revenue enhancement which included the revising upwards of visa fees, and the raising of municipality and rural fees. The Government will also impose a financial levy on expatriates, beginning with a gradual increase in the SR 200 that companies currently pay monthly as an expat levy on each expat employee in excess of 50 percent of total employees in the organization, to SR 800 by 2020. For companies who have Inumber of expat less than 50 percent, there will be a SR 300 monthly expat levy from January 2018, which will rise to SR 700 by 2020. This action is expected to spur the employment of Saudi nationals in the private sector. A fee on dependents of expatriate workers will also be levied from July 2017, starting at SR 200 and rising to SR 400 per month by 2020.

In the area of taxation, the Government is reviewing the current structure of fees and fines and imposing new fees and taxes. The Government will complete the arrangements for the implementation of VAT in the first quarter of 2018, which has been set at 5 percent by the GCC Supreme Council and will be applied on a wide variety of products, with the exception of 100 commodities. The Government will also impose an excise tax on specific products with harmful health effects to dis-incentivize consumption of such products. This is set at 100 percent on tobacco and energy drinks, and 50 percent on soft drinks. These taxes will be applied during the second quarter of 2017. These actions side will generate additional revenues of SR 152 billion by 2020.

On the financing and debt management side, the Government has established a public debt management office within the Ministry of Finance. This unit is tasked with developing a clear public debt strategy, and will be responsible for developing methods to finance the deficit through enhancing the Kingdom's ability to borrow domestically and internationally.

4. Public Debt Strategy

Due to the implementation of measures to reduce spending, expenditure was lower than initially projected, and as result, the 2016 deficit will decrease to an estimated SR 297 billion. Borrowing from local and international markets also helped to finance the deficit. In 2016, total debt from debt instruments issued locally amounted to SR 213.3 billion, while total foreign debt and loans from international sources reached SR 103.1 billion, of which SR 65.6 billion or USD17.5 billion was from the issuance of international bonds. The Government sold dollar-denominated bonds due in five years yielding 135 basis points more than similar-maturity U.S. Treasuries, 10-year notes at a spread of 165 basis

The public debt management office within the Ministry of Finance is tasked with developing a clear public debt strategy, and will be responsible for developing methods to finance the deficit through enhancing the Kingdom's ability to borrow domestically and internationally.

points and 30-year securities at 210 basis points. The Kingdom raised \$5.5 billion in each of the five- and 10-year bonds and \$6.5 billion in 30-year debt. Total public debt at the end of 2016 amounted to SR 316.5 billion, 13.2 percent of GDP at current prices. The public debt service paid during 2016 is expected to reach SR 5.4 billion, while the debt service for the fiscal year 2017 is expected to reach SR 9.3 billion.

While a public debt management office has been established at the Ministry of Finance, a medium-term debt management strategy has been developed that follows a number of principles, but whose key objective is that the national debt will not exceed 30 percent of GDP. The strategy's other goals include achieving a credit ranking of AA2 for the Kingdom, the ability to issue debt as and when needed, subject to local and international market conditions, and the diversification of the type and currency denomination of issued debt both inside and outside the Kingdom.

5. Household Allowance Program

The Government recognizes that structural reforms to subsidies will impact the cost of living, and it has committed itself to protecting the wellbeing of the lower income Saudi families who will be impacted both directly and indirectly by the rise in costs for energy and water, as well as by general inflation respectively. The implementation of VAT will also raise

ECONOMIC AND FINANCIAL OUTLOOK

consumer prices. In recognition of the importance of supporting low-income families throughout the implementation of these reforms, the Government has established the Household Allowance program, a national scheme that will provide monetary support directly to families. It is estimated that the Household Allowance program will cost SR 70 billion.

6. Support for Industry and Private Sector Stimulus

The cost base of energy intensive industries could be materially impacted in 2019 and 2020, as a result of energy pricing reform. It is important that over this time period they are able to transform, so that they become energy efficient and globally competitive; and the Government is developing policies to support these industries throughout this transitional period. The Government has proposed establishing a stimulus package that provides attractive investment capital to support the private sector to grow by raising its efficiency and competitiveness. This support would be directed to sectors that drive economic growth and Saudis employment, focusing on raising the efficiency of industries with high energy intensity, converting industries with high labor intensity to be more capital intensive, and supporting industries with high density consumption of water to maintain its profitability. The Government will support the private sector through a stimulus package of SR 200 billion until 2020, which will be targeted towards key sectors which are linked to Saudi Arabia's Vision 2030, such as mining, logistics, the digital economy, export sectors, and financial markets.

7. The Program's Economic Impact

The expectation is that the Program will achieve a balanced budget by 2020, with total government revenues of SR 1,050 billion and total government expenditure of SR 953 billion, resulting in a saving of

SR 97 billion. Government balances with SAMA will remain high, at SR 542 billion. Public debt will stand at SR 420 billion in 2020, down from a high of SR 470 billion in 2018. The Government expects these measures to raise the inflation rate by 2.18 percentage points. By 2020, non-oil GDP, private consumption and private investment are expected to improve by 1.85 percentage points, 1.83 percentage points and 0.97 percentage points respectively when compared to a scenario where none of these measures are implemented. The 2020 unemployment rate is expected to fall by 0.77 percentage points.

The 2017 Budget

On 22 December 2016 the Saudi Cabinet approved the State Budget for the fiscal year 2017. Its provisions are consistent with the Fiscal Balanced Program; Balanced Budget's goal of achieving a balanced budget by 2020. The 2017 budget was developed according to the Government Finance Statistics system (GFS), a specialized macroeconomic statistical framework designed to support fiscal analysis that is an international best practice. This framework provides the economic and statistical reporting principles used in compiling statistics

that improves transparency, governance, measurement and recognition in financial reporting. This reporting framework also supports better communication on the impact of governmental fiscal and monetary policy.

The budget's estimated annual expenditure is SR 890 billion, compared with SR 840 billion for 2016. The budget forecast revenues of SR 692 billion, compared with SR 514 billion in 2016, resulting in a deficit of SR198 billion. The 2016 deficit was SR 326 billion. Non-tax revenues are expected to reach SR 212 billion, compared to SR 163 billion in 2016. The Government increased its non-oil revenues in 2016 to SR 199 billion. The budget allocated SR 260 billion to the planned capital expenditure in 2017, a major increase on the SR 76 billion spent in 2016. This increase underlines the Government's strong focus and determination to support private sector growth. In addition, SR 42 billion was allocated to the National Transformation Program, of which SR 30 billion will be spent on capital expenditure.

The budget allocated SR 200 billion, or 22.5 percent of the total expenditure, for education and training of the labor force



ECONOMIC AND FINANCIAL OUTLOOK



and SR 120 billion or 13.5 percent for health services and social development. Military expenditures and security spending totaled SR 287 billion, or 32.3 percent. Municipal budgets amounted to about SR 48 billion, accounting for 5.4 percent of total expenditure. Economic resources programs spending will be SR 47 billion, 5.3 percent of the total budget. Infrastructure spending and transportation projects were allocated SR 52.2 billion, or 5.9 percent. Spending on infrastructure, transportation, economic projects and municipalities has increased significantly.

Financial Markets

The Saudi Arabian Monetary Authority

The Saudi Arabian Monetary Authority (SAMA) continued with its strategy of a balanced monetary policy during 2016, in line with local and international economic developments.

(SAMA) continued with its strategy of a balanced monetary policy during 2016, in line with local and international economic developments. SAMA aimed to stabilize prices and provide sufficient liquidity for local banks to fulfill their financing role in supporting various economic sectors to grow at a strong and balanced pace and within inflationary targets. In line with international economic developments, SAMA decided to raise the reverse repo rate by 25 basis points to 0.75 per cent on 15 December 2016, while keeping the repo rate unchanged at 2.0 percent. The move came after the Fed raised its short-term interest rate by 25 basis points to 0.75 percent for only the second time since 2006.

The three-month Saudi interbank offered rate (SAIBOR) ended in 2016 at 2.04 percent, up 49 basis points from 1.55 percent at the end of 2015. The average for the whole year was 2.07 per cent, compared to an average of 0.88 percent during 2015. The 12-month Saudi interbank offered rate ended the year at 2.42 percent, whilst the average for the whole year was 2.33 percent and for 2015 was 1.09 percent. The rate difference in favor of Riyal deposits remained constant

throughout the year. The average margin between the three-month interbank lending rate in Riyal (SAIBOR) and the three-month interbank lending rate in US dollars (LIBOR) rose from about 93 basis points at the end of December 2015 to 103 basis points at the end of December 2016. The average margin increased from 56 basis points in 2015 to 132 basis points in 2016. Data from the General Authority of Statistics (GASTAT) regarding consumer price index indicated that the inflation rate accelerated to 3.5 percent in 2016 from its 2007 base, up from an annual inflation rate of 2.2 percent in 2015.

Concerning liquidity, SAMA's data indicates that broad money supply (M3) rose to SR 1,787.4 billion at the end of December 2016, a rise of 0.75 percent from its level at the end of December 2015. Total deposits increased by 0.76 percent, while demand deposits fell by 0.88 percent.

There was a rise in Saudi bank loans to the private sector; the outstanding balance at the end of December 2016 was SR 1,351.5 billion, an annual growth of 2.16 percent compared to SR1,322.8 billion

ECONOMIC AND FINANCIAL OUTLOOK

in December 2015. The overall loan-to-deposits ratio was 80.7 percent at the end of December 2016, compared to 80.0 percent in December 2015.

The Saudi Stock Exchange (Tadawul) ended the year on a positive note; a rise in banks' shares helped the Tadawul reach its highest levels during the year. The banking sector led the bourse, buoyed in part by a greater level of investments in the Tadawul from institutions and foreign parties. By the end of the year, the Tadawul All Share Index rose to 7,210 points, up 299 points of 4.15 percent from its 6,911 point level at the end of 2015. The Energy & Utilities, Petrochemical Industries and Real Estate sectors were the best performing throughout the year. The Tourism and Hotels, Media and Retail sectors recorded the largest respective declines. In terms of company size, those companies with the smallest capitalization performed the worst, ending the year down at 11.04 percent. Small-cap companies fell 10.84 percent, mid-cap companies were up 2.85 percent, and large cap companies ended the year up 8.34 percent.

The 2016 Macroeconomic Performance & 2017 Forecast

The Saudi economy grew in 2016, despite falling oil prices and a decline in government spending owing to tighter fiscal controls which also affected private sector growth. The GDP at current prices fell by 1.9 percent during 2016, to SR 2,398.5 billion. This fall was primarily due to a 9.8 percent current price decline in the oil sector, which contrasted with a nominal 1.3 percent rise in non-oil

GDP. The growth in nominal non-oil GDP was due to a 1.8 percent increase in the government sector and 1.1 percent expansion in the non-oil private sector.

At constant prices, GDP grew by 1.4 percent in 2016, compared with a 2015 growth rate of 4.11 percent. Figures show that the oil sector grew by 3.37 percent in 2016, after rising 5.27 percent in the previous year. The government sector increased by 0.51 percent and the private sector rose by 0.11 percent in 2016. Mining and mining-related sectors recorded a decline of 2.86 percent, while other manufacturing industries (excluding oil refining) declined by 1.21 percent. The construction sector suffered a decline of 3.08 percent, while wholesale, retail, restaurants and hotels declined by 1.16 percent. The oil refining industry grew by 14.78 percent, the transport, storage and telecommunications industries increased by 3.18 percent, and the finance, insurance and real estate sectors grew by 3.18 percent.

Externally, the value of commodity exports in 2016 decreased by 11.77 percent, falling to SR 673.4 billion. Non-oil exports declined by 10.7 percent, falling to SR 169.5 billion and dropping from 2015's SR 190 billion. In contrast, service exports rose by 7.7 percent to SR 58.5 billion in 2016, pushing the total value of goods and services exports up to SR 731.9 billion. Commodity imports declined by 24.8 percent, to hit SR 492.9 billion. Service imports declined by 20.8 percent, failing to SR 235.3 billion. As a result of these changes, the trade balance in 2016 recorded a surplus of SR 180.5



The Saudi economy grew in 2016, despite falling oil prices and a decline in government spending.

billion, or 7.5 percent of GDP, while the current account remained balanced due to the large drop in imports.

In terms of public finance, 2016 revenues fell to approximately SR 528 billion compared to SR 615.9 billion in 2015. Oil revenues declined by 26.3 percent, to SR 329 billion. Non-oil revenues increased by 17.4 percent to approximately SR 199 billion, up from SR 169.4 billion in 2015. The share of non-oil revenues as a percentage of total revenues increased to 37.6 percent in 2016, up from 27.5 percent in 2015. Public expenditure in 2016 was adjusted by 15.7 percent to remain at SR 825 billion, down from the SR 978.1 billion spent in 2015. The fiscal deficit fell to SR 297 billion, or 12.4 percent of GDP.

The Kingdom will have to continue to ensure that it is meeting the terms of the agreement struck between OPEC and non-OPEC producers and to meet its obligation to cut production by 486,000 bbl/d.

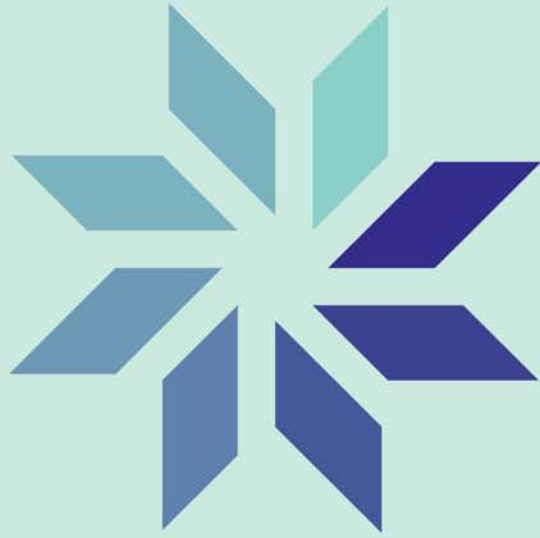
ECONOMIC AND FINANCIAL OUTLOOK

As such, the Kingdom's oil production will remain around 10.1 million bbl/d throughout 2017. Assuming that oil prices remain at approximately US\$51/bbl, the Saudi oil sector is expected to decline by 3 percent in real terms in 2017. The real non-oil sector is expected to grow by up to 1.25 percent. The government sector is expected to grow by 3 percent in 2017, while the private sector is expected to grow by only 0.5 percent in real terms. Therefore, real GDP growth is forecast for 2017 to be insignificant and

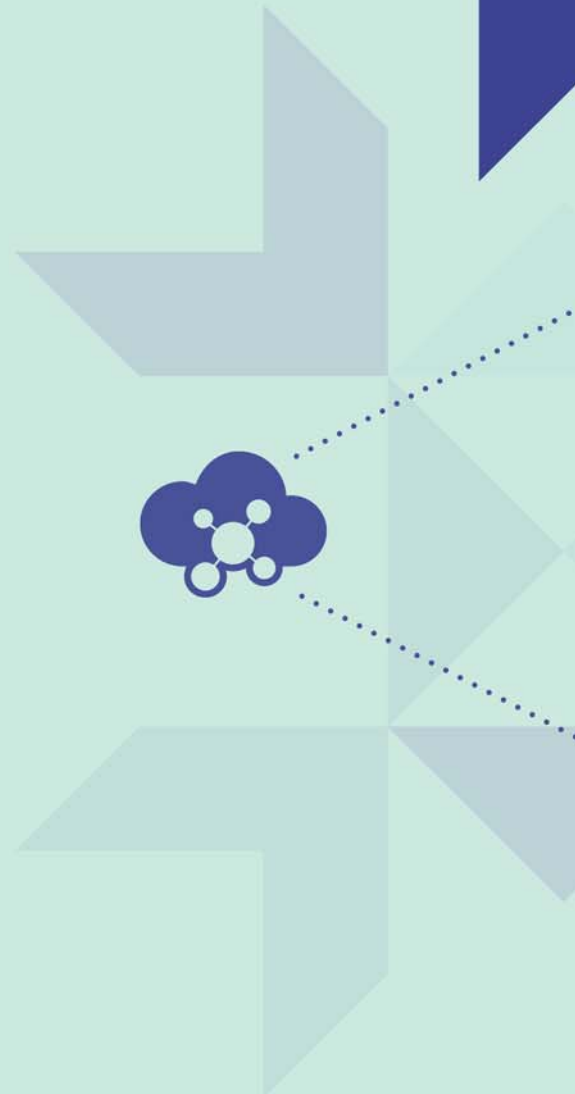
it will remain at approximately SR 2,575 billion. Nominal GDP is expected to fall to SR 2,360 billion in 2017. Inflation, which is calculated as an annual change in the consumer price index as measured against the base year 2007, is forecast to rise to around 4 percent after government liberalization of energy and water prices and the subsequent impact on other goods. The unemployment rate for Saudi nationals is expected to remain steady at 12 percent.

Based on 2017 oil price and production forecasts, the current account on the balance of payments is expected to be a deficit of SR 33 billion, or 1.4 percent of GDP. This is primarily due to a decline in imports and oil production. The public finances may fare better than indicated in the Government budget. The fiscal deficit is expected to remain at around 8 percent of GDP, or SR 170 billion, owing to a greater than expected increase in oil revenues than indicated in the budget.

04



FINANCIAL
STATEMENTS



Enjoy life more & bank less

Riyad Bank will push forward to make banking simpler and more seamlessly integrated into customers' lives, so that they can "Live more, Bank less"



INDEPENDENT AUDITORS' REPORT

For the years ended December 31, 2016 and 2015



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

Opinion

We have audited the consolidated financial statements of Riyadh Bank (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended, and the summary of significant accounting policies and other explanatory notes from 1 to 39.

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

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

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of 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:

INDEPENDENT AUDITORS' REPORT

For the years ended December 31, 2016 and 2015



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

Key Audit Matters (continued)

The key audit matter	How the matter was addressed in our audit
<p>Impairment of loan and advances</p> <p>At 31 December 2016, the gross loans and advances of the Group were Saudi Riyals 145.5 billion against which an impairment allowance of Saudi Riyals 2.6 billion was maintained (comprising impairment against specific loans and collective impairment maintained on a portfolio basis).</p> <p>We considered this as a key audit matter as the Group makes complex and subjective judgments with respect to the estimation of the amount and timing of the future cashflows when determining impairment losses.</p> <p>The Group uses the following methods to assess the required impairment allowance:</p> <ol style="list-style-type: none"> 1. For larger, individually significant loans and advances (mostly corporate customers), impairment is assessed individually on a regular basis. 2. Collective impairment assessment for consumer loans is made on a portfolio basis where loans and advances are homogenous in nature 3. Collective impairment assessment for corporate loans is performed for all loans which are not assessed for impairment individually or which are not considered to be impaired based on historical deterioration in the borrowers' internal grading and external rating. <p>In particular, the determination of impairment against loans and advance includes:</p> <ul style="list-style-type: none"> o The identification of impairment events and judgments used to calculate the impairment against specific corporate loans and advances; o The use of assumptions underlying the calculation of collective impairment for portfolios of loans and advances, and the use of the models to make those calculations; and o An assessment of the Group's exposure to certain economic sectors affected by current economic conditions. <p><i>Refer to the significant accounting policies note 3(l) to the consolidated financial statements for the significant accounting policy relating to impairment of financial assets, note 2(d)(i) which contains the disclosure of significant accounting estimate relating to impairment for credit losses on loans and advances and the impairment assessment methodology used by the Group and note 7(b) which contains the disclosure of impairment against loans and advances .</i></p>	<p>We assessed the design and implementation, and tested the operating effectiveness of the key controls over management's processes for establishing and monitoring both specific and collective impairment. This included testing of:</p> <ul style="list-style-type: none"> • Entity level controls over the modelling process including model review and monitoring and approval of assumptions by senior management and the Group's Credit Division. • Controls over the identification of impaired loans and advances, the data transfer from source systems to the impairment model and model output to the general ledger, and the calculation of the impairment allowance. <p>For collective impairment, we assessed the appropriateness of the qualitative and quantitative changes in the underlying loan portfolio. We also tested, on a sample basis, extraction of data used in the models including grading of corporate loans, movements between various grades of corporate loans and review of "bucketing" into delinquency bandings for the retail portfolio.</p> <p>For loans which are individually assessed for impairment:</p> <ul style="list-style-type: none"> • We tested a sample of loans and advances (including loans those were not identified by management as potentially impaired) to form our own assessment as to whether impairment events have occurred and to assess whether impairment was identified and recorded in a timely manner, where required; • We considered the assumptions underlying the impairment identification including forecasted future cash flows, discount rates and estimated recovery from any underlying collateral etc. We also selected a sample of loans for economic sectors adversely affected by the current economic conditions to evaluate management's impairment assessment for such loans including loans currently being classified as 'special mention', as well as those classified as 'performing'.

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

Key Audit Matters (continued)

<p><i>Fees from banking services</i></p> <p>The Group charges administrative fees upfront to customers on loan financing. Due to the large volume of transactions with mostly individually insignificant fee amounts, management uses certain assumptions and judgments in relation to the recognition of such fees which are recorded within "Fee and Commission Income, net".</p> <p>All such fees are an integral part of generating an involvement with the resulting financial instrument and therefore all such fees should be considered for making an adjustment to the effective yield and such adjustment should be recognised within Special Commission Income.</p> <p>We considered this as a key audit matter since use of management assumptions and judgments could result in material over / understatement of the Group's profitability.</p> <p><i>Refer to the significant accounting policies note 3h (i) and (ii) to the consolidated financial statements.</i></p>	<p>We performed the following procedures:</p> <ul style="list-style-type: none"> • We evaluated the assumptions and judgments used by management for recognizing the administrative fees charged upfront to customers. • We obtained the management's assessment of the impact of the use of assumptions and judgments and: <ul style="list-style-type: none"> ○ on a sample basis, traced the historical and current year data used by management in their assessment to the underlying accounting records; ○ assessed the impact on the recognition of fee and commission income and special commission income.
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INDEPENDENT AUDITORS' REPORT

For the years ended December 31, 2016 and 2015



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

Key Audit Matters (continued)

<i>Valuation of available for sale investments</i>	
<p>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 recognised in other comprehensive income. The fair value of these financial instruments is determined through the application of valuation techniques which often involve the exercise of judgment by management and the use of assumptions and estimates.</p> <p>Estimation uncertainty exists for those instruments not traded in an active market and where the internal modelling techniques use:</p> <ul style="list-style-type: none"> o significant observable valuation inputs (i.e. level 2 investments); and o significant unobservable valuation inputs (i.e. level 3 investments) <p>Estimation uncertainty is particularly high for level 3 investments.</p> <p>In the Group's accounting policies, management has described the key sources of estimation involved in determining the valuation of level 2 and level 3 investments and in particular when the fair value is established using valuation techniques due to the complexity of investments or due to the lack of availability of market based data.</p> <p>The valuation of the Group's available for sale investments in level 2 and 3 categories was considered a key audit matter given the degree of complexity involved in valuing these investments and the significance of the judgments and estimates made by the management.</p> <p><i>Refer to the significant accounting policies note 3(j) to the consolidated financial statements, notes 2(d)(ii) and 32 which explain the investment valuation methodology used by the Group and critical judgments and estimates.</i></p>	<p>We assessed the design and implementation and tested the operating effectiveness of the key controls over management's processes for performing valuation of investments classified as available for sale which are not traded in an active market.</p> <p>We performed an assessment of the methodology and the appropriateness of the valuation techniques and inputs used to value available for sale investments.</p> <p>We tested the valuation of a sample of available for sale investments not traded in an active market. As part of these audit procedures, we assessed key inputs used in the valuation such as the expected cash flows, risk free rates and credit spreads by benchmarking them with external data.</p>

INDEPENDENT AUDITORS' REPORT

For the years ended December 31, 2016 and 2015



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

Key Audit Matters (continued)

<p><i>Impairment of investments</i></p> <p>As at 31 December 2016, the Group had investments amounting to Saudi Riyals 45.2 billion. These investments comprise equities, government and corporate bonds and mutual funds which are subject to the risk of impairment in value due to either adverse market situations and / or liquidity constraints faced by the issuers.</p> <p>For assessing the impairment of equities, management monitors volatility of share prices and uses the criteria of significant or prolonged decline in their fair values below their costs as the basis for determining impairment. A significant or prolonged decline in fair value of an equity instrument below its cost represents objective evidence of impairment. The determination of what is significant or prolonged requires judgment. In assessing whether it is significant, the decline in fair value is evaluated against the cost of the equity instrument. In assessing whether it is prolonged, the decline is evaluated against the time-period for which the fair value of the equity instrument has been below its cost.</p> <p>For other instruments, including debt instruments such as corporate bonds/sukuk, the management considers them to be impaired when there is an evidence of a deterioration in the financial health of the investee, industry or sector performance, changes in technology and operational and financing cash flows.</p> <p>We considered the impairment of investments as a key audit matter since the assessment of impairment requires significant judgment by management and the potential impact of impairment could be material to the consolidated financial statements.</p> <p><i>Refer to note 3(l) (i) and (ii) of the consolidated financial statements for the accounting policy relating to the impairment of investments, note 2(d)(iii) for the critical accounting estimates and judgments, and notes 28 and 30 for the disclosures of credit and market risks respectively.</i></p>	<p>We assessed the design and implementation and tested the operating effectiveness of the key controls over management's processes for identifying significant or prolonged decline in the fair value of equities and/or any defaults on corporate bonds/sukuk.</p> <p>For equity investments, on a sample basis, we:</p> <ul style="list-style-type: none"> • Assessed the appropriateness of management's criteria for determining whether a decline in fair value of an investment below its cost is significant or prolonged; • Evaluated the basis for determining the cost and fair value of investments; • Traced the cost of investments from underlying accounting records and traced the valuation of investments from management's working of the fair valuation of investments (based on either mark to market or mark to model approach); and • Considered the price fluctuation / movement during the holding period to determine if significant or prolonged criteria is met. <p>For corporate bonds/sukuk, on a sample basis, we assessed the creditworthiness of counterparties based on readily available market information and assessed cash flows from the instruments to consider any defaults based on the terms and conditions of these bonds/sukuk.</p>
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INDEPENDENT AUDITORS' REPORT

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

Key Audit Matters (continued)

<p><i>Zakat</i></p> <p>The Group files its zakat returns with the General Authority of Zakat and Tax ("GAZT") on an annual basis. The GAZT has issued assessment orders for the years 2008 and 2009, which resulted in significant additional zakat exposure amounting to Saudi Riyals 896 million. The significant additional zakat exposure resulted mainly from disallowance of certain long-term investments and the addition of long term financing to the zakat base by the GAZT. The interpretation of the GAZT is being challenged by the Group and the appeal proceedings are underway before the Higher Appeal Committee.</p> <p>Assessments for the years 2010 onwards are yet to be raised. However, in line with the assessments finalized by the GAZT for the years 2008 and 2009, if long-term investments are disallowed and long-term financing is added to the zakat base this would result in significant additional zakat exposure. The amount of the potential additional zakat exposure is not disclosed in the consolidated financial statements as management expects that such disclosure might affect the Bank's position in this matter.</p> <p>The management makes judgments about the incidence and quantum of zakat liabilities (which are subject to the future outcome of assessments by the GAZT) and based on such judgments management expects a favourable outcome of the appeal process.</p> <p>We considered this as a key audit matter as it involves significant management judgment and the additional exposure could be material to the consolidated financial statements.</p> <p><i>Refer to note 3(v) for the accounting policy relating to zakat and note 25 for the related disclosures for zakat.</i></p>	<p>In order to assess the status and likely outcome of the matter, we obtained the correspondence between the Group, GAZT and the Group's zakat consultants to determine the amount of additional claims made by the GAZT. We also obtained the related appeal documents to confirm the fact that the matter has been contested before the Higher Appeal Committee and to assess the status of those appeals.</p> <p>We held meetings with those charged with governance and senior management of the Group to obtain an update on the zakat matter and the results of their interactions with the relevant appeal committees.</p> <p>We also used our internal specialists to assess the adequacy of the net exposure disclosed for the years assessed by GAZT and the appropriateness of management's judgments relating to the zakat matter in light of the facts and circumstances of the Group.</p> <p>We also assessed the appropriateness of the disclosures included in the consolidated financial statements of the Group.</p>
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INDEPENDENT AUDITORS' REPORT

For the years ended December 31, 2016 and 2015



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

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, IFRS, the applicable requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's By-laws, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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.

INDEPENDENT AUDITORS' REPORT

For the years ended December 31, 2016 and 2015



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

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

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

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

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

INDEPENDENT AUDITORS' REPORT

For the years ended December 31, 2016 and 2015



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

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

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 year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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16 Jumada I 1438 H
(13 February 2017)



FINANCIAL STATEMENTS 2016

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2016 and 2015

SAR '000	Note	2016	2015
ASSETS			
Cash and balances with SAMA	4	21,262,177	20,569,929
Due from banks and other financial institutions	5	4,567,155	9,269,501
Positive fair value of derivatives	11	189,295	197,539
Investments, net	6	45,157,381	44,765,404
Loans and advances, net	7	142,909,367	145,066,191
Investment in associates	8	548,594	525,131
Other real estate		245,017	258,411
Property and equipment, net	9	1,862,349	1,894,701
Other assets	10	877,666	769,068
Total assets		217,619,001	223,315,875
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks and other financial institutions	12	8,836,713	4,499,693
Negative fair value of derivatives	11	138,638	187,129
Customer deposits	13	156,683,349	167,852,133
Debt securities in issue	14	8,018,373	8,011,313
Other liabilities	15	6,168,867	6,220,495
Total liabilities		179,845,940	186,770,763
Shareholders' equity			
Share capital	16	30,000,000	30,000,000
Statutory reserve	17	2,936,093	2,100,471
Other reserves	18	532,929	297,467
Retained earnings		2,604,039	2,847,174
Proposed dividends	25	1,700,000	1,300,000
Total shareholders' equity		37,773,061	36,545,112
Total liabilities and shareholders' equity		217,619,001	223,315,875

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

FINANCIAL STATEMENTS 2016

CONSOLIDATED INCOME STATEMENT

For the years ended December 31, 2016 and 2015

SAR '000	Note	2016	2015
Special commission income	20	7,312,590	5,883,035
Special commission expense	20	2,011,561	703,258
Net special commission income		5,301,029	5,179,777
Fee and commission income, net	21	1,503,113	1,783,770
Exchange income, net		400,628	348,385
Trading income, net		14,398	33,700
Dividend income		48,882	60,970
Gains on non-trading investments, net		190,515	222,389
Other operating income	22	243,715	336,972
Total operating income, net		7,702,280	7,965,963
Salaries and employee-related expenses	23	1,596,375	1,613,354
Rent and premises-related expenses		328,095	299,585
Depreciation of property and equipment	9	288,790	275,774
Other general and administrative expenses		756,322	645,338
Impairment charge for credit losses, net	7	1,286,397	1,030,735
Impairment charge for investments, net		100,000	21,609
Other operating expenses		39,330	70,010
Total operating expenses, net		4,395,309	3,956,405
Net operating income		3,306,971	4,009,558
Share in earnings of associates, net		35,516	39,919
Net income for the year		3,342,487	4,049,477
Basic and diluted earnings per share (in SAR)	24	1.11	1.35

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

FINANCIAL STATEMENTS 2016

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the years ended December 31, 2016 and 2015

SAR '000	2016	2015
Net income for the year	3,342,487	4,049,477
Other comprehensive income:		
Items that are or maybe reclassified back to consolidated statement of income in subsequent periods		
- Available for sale investments		
Net change in fair value (note 18)	309,784	(582,781)
Net amounts transferred to consolidated statement of income (note 18)	(74,322)	(158,689)
Other comprehensive income for the year	235,462	(741,470)
Total comprehensive income for the year	3,577,949	3,308,007

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

FINANCIAL STATEMENTS 2016

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2016 and 2015

SAR '000	Share capital	Statutory reserve	Other reserves	Retained earnings	Proposed dividends	Total
31 December 2016						
Balance at the beginning of the year	30,000,000	2,100,471	297,467	2,847,174	1,300,000	36,545,112
Net change in fair value of Available for sale investments	-	-	309,784	-	-	309,784
Net amounts relating to Available for sale investments transferred to consolidated statement of income	-	-	(74,322)	-	-	(74,322)
Net income	-	-	-	3,342,487	-	3,342,487
Total comprehensive income	-	-	235,462	3,342,487	-	3,577,949
Final dividends - 2015 (note 25)	-	-	-	-	(1,300,000)	(1,300,000)
Interim dividend - 2016 (note 25)	-	-	-	(1,050,000)	-	(1,050,000)
Transfer to statutory reserve(note 17)	-	835,622	-	(835,622)	-	-
Final proposed dividend - 2016(note 25)	-	-	-	(1,700,000)	1,700,000	-
Balance at the end of the year	30,000,000	2,936,093	532,929	2,604,039	1,700,000	37,773,061
31 December 2015						
Balance at the beginning of the year	30,000,000	1,088,102	1,038,937	2,160,066	1,250,000	35,537,105
Net change in fair value of Available for sale investments	-	-	(582,781)	-	-	(582,781)
Net amounts relating to Available for sale investments transferred to consolidated statement of income	-	-	(158,689)	-	-	(158,689)
Net income	-	-	-	4,049,477	-	4,049,477
Total comprehensive income	-	-	(741,470)	4,049,477	-	3,308,007
Final dividends - 2014 (note 25)	-	-	-	-	(1,250,000)	(1,250,000)
Interim dividend - 2015 (note 25)	-	-	-	(1,050,000)	-	(1,050,000)
Transfer to statutory reserve (note 17)	-	1,012,369	-	(1,012,369)	-	-
Final proposed dividend - 2015(note 25)	-	-	-	(1,300,000)	1,300,000	-
Balance at the end of the year	30,000,000	2,100,471	297,467	2,847,174	1,300,000	36,545,112

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

FINANCIAL STATEMENTS 2016

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended December 31, 2016 and 2015

SAR '000	Note	2016	2015
OPERATING ACTIVITIES			
Net income for the year		3,342,487	4,049,477
Adjustments to reconcile net income for the year to net cash from (used in) operating activities:			
Accretion of discounts and amortisation of premium, net on non-trading investments, net		(32,541)	(80,938)
Gains on non-trading investments, net		(190,515)	(222,389)
Depreciation of property and equipment		288,790	275,774
Share in earnings of associates, net		(35,516)	(39,919)
Impairment charge for investments, net		100,000	21,609
Impairment charge for credit losses, net		1,286,397	1,030,735
		4,759,102	5,034,349
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA	4	636,006	(527,825)
Due from banks and other financial institutions maturing after three months from date of acquisition		(1,585,000)	187,577
Positive fair value of derivatives		8,244	221,573
Loans and advances		870,427	(12,277,215)
Other real estate		13,394	132,391
Other assets		(108,598)	636,653
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		4,337,020	709,148
Negative fair value of derivatives		(48,491)	(183,712)
Customer deposits		(11,168,784)	3,043,508
Other liabilities		(222,516)	(11,492)
Net cash used in operating activities		(2,509,196)	(3,035,045)
INVESTING ACTIVITIES			
Proceeds from sales and maturities of non-trading investments		22,491,578	28,340,798
Purchase of non-trading investments		(22,505,924)	(26,435,062)
Purchase of property and equipment, net		(256,438)	(463,744)
Net cash (used in) from investing activities		(270,784)	1,441,992
FINANCING ACTIVITIES			
Proceeds from issuance of debt securities in issue	14	-	4,002,367
Dividend and Zakat paid		(2,179,112)	(2,141,244)
Net cash (used in) from financing activities		(2,179,112)	1,861,123
Net (decrease) increase in cash and cash equivalents		(4,959,092)	268,070
Cash and cash equivalents at beginning of the year		21,041,852	20,773,782
Cash and cash equivalents at end of the year	26	16,082,760	21,041,852
Special commission received during the year		7,134,963	5,792,142
Special commission paid during the year		1,812,369	729,931
Supplemental non-cash information			
Net changes in fair value and transfers to consolidated statement of income		235,462	(741,470)

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2016 and 2015

1. GENERAL

Riyad Bank (The "Bank") is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia, formed pursuant to the Royal Decree and the Council of Ministers' Resolution No. 91 dated 1 Jumad Al-Awal 1377H (corresponding to November 23, 1957G). The Bank operates under commercial registration No. 1010001054 dated 25 Rabi Al-Thani 1377H (corresponding to November 18, 1957G) through its 337 branches (2015: 334 branches) in the Kingdom of Saudi Arabia, a branch in London-United Kingdom, an agency in Houston-United States, and a representative office in Singapore. The number of the Group's employees stood at 6,337 as at December 31, 2016(2015: 6,167). The Bank's Head Office is located at the following address:

Riyad Bank, King Abdulaziz Road – Al-Murabba District, P.O. Box 22622, Riyadh 11416, Kingdom of Saudi Arabia

The objective of the Bank is to provide a full range of banking and investment services. The Bank also provides to its customers Islamic (non-special commission based) banking products which are approved and supervised by an independent Shariah Board established by the Bank.

The consolidated financial statements comprise the financial statements of Riyad Bank and its wholly owned subsidiaries, incorporated in the Kingdom of Saudi Arabia; a) Riyad Capital (engaged in investment services and asset management activities related to dealing, managing, arranging, advising and custody of securities regulated by the Capital Market Authority), b) Ithra Al-Riyad Real Estate Company (with the objective to hold, manage, sell and purchase real estate assets for owners or third parties for financing activities); and c) Riyad Company for Insurance Agency (which acts as an agent for selling insurance products owned and managed by another principal insurance company), d) Curzon Street Properties Limited and are collectively referred to as "the Group".

2. BASIS OF PREPARATION

a) Statement of compliance

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

b) Basis of measurement and presentation

These consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of derivatives and available for sale investments. In addition, financial assets or liabilities that are hedged in a fair value hedging relationship, and otherwise carried at cost, are carried at fair value to the extent of the risk being hedged.

c) Functional and presentation currency

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

d) Critical accounting judgements, estimates and assumptions

The preparation of these consolidated financial statements in conformity with IFRS requires the management to use certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. Such judgements, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advices and expectations of future events that are believed to be reasonable under the circumstances. Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2016 and 2015

2. BASIS OF PREPARATION (continued)

d) Critical accounting judgements, estimates and assumptions (continued)

i) Impairment for credit losses on loans and advances

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

ii) Fair value measurement

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 takes into account 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 are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the 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 (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2: 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 recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

iii) Impairment of available for sale investments

The Bank exercises judgement in considering impairment on the Available for sale equity investments. This includes determination of a significant or prolonged decline in the fair value below its cost. In making this judgement, the Bank evaluates among other factors, the normal volatility in share price. In addition, the Bank 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2016 and 2015

2. BASIS OF PREPARATION (continued)

d) Critical accounting judgements, estimates and assumptions (continued)

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

iv) Classification of held-to-maturity investments

The Bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity.

v) Determination of control over investees

Investment funds

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

Special Purpose Entities (SPEs)

The Bank is party to certain SPEs, primarily to facilitate Shariah compliant financing arrangements. The exposures to these entities are included in the Bank's loans and advances portfolio.

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 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.

a) Changes in accounting policies

The accounting policies used in the preparation of these annual consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2015 except for the adoption of the following new standards and other amendments to existing standards and a new interpretation mentioned below which has had no or an insignificant financial impact on the annual consolidated financial statements of the Group.

- New standards

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2016 and 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Changes in accounting policies (continued)

- Amendments to existing standards

- i) Amendments to IFRS 10 – “Consolidated Financial Statements”, IFRS 12 – “Disclosure of Interests in Other Entities” and IAS 28 – “Investments in Associates”, applicable for the annual periods beginning on or after 1 January 2016, address three issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures its subsidiaries at fair value. Furthermore, only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.
- ii) Amendments to IFRS 11 – “Joint Arrangements”, applicable for the annual periods beginning on or after 1 January 2016, require an entity acquiring an interest in a joint operation, in which the activity of the joint operation constitutes a business, to apply, to the extent of its share, all of the principles in IFRS 3 – “Business Combinations” and other IFRSs that do not conflict with the requirements of IFRS 11 Joint Arrangements. Furthermore, entities are required to disclose the information required by IFRS 3 and other IFRSs for business combinations. The amendments also apply to an entity on the formation of a joint operation if, and only if, an existing business is contributed by one of the parties to the joint operation on its formation. Furthermore, the amendments clarify that, for the acquisition of an additional interest in a joint operation in which the activity of the joint operation constitutes a business, previously held interests in the joint operation must not be remeasured if the joint operator retains joint control.
- iii) Amendments to IAS 1 – “Presentation of Financial Statements”, applicable for the annual periods beginning on or after 1 January 2016, clarify, existing IAS 1 requirements in relation to;
 - The materiality requirements in IAS 1
 - That specific line items in the statement(s) of profit or loss and other comprehensive income (“OCI”) and the statement of financial position may be disaggregated
 - That entities have flexibility as to the order in which they present the notes to financial statements
 - That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.
 - The amendments further clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI.
- iv) Amendments to IAS 16 – “Property, Plant and Equipment” and IAS 38 – “Intangible Assets”, applicable for the annual periods beginning on or after 1 January 2016, restricts the use of ratio of revenue generated to total revenue expected to be generated to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.
- v) Amendments to IAS 16 – “Property, Plant and Equipment”, applicable for the annual periods beginning on or after 1 January 2016, change the scope of IAS 16 to include biological assets that meet the definition of bearer plants.
- vi) Amendments to IAS 27 – “Separate Financial Statements”, applicable for the annual periods beginning on or after 1 January 2016, allows an entity to use the equity method as described in IAS 28 to account for its investments in subsidiaries, joint ventures and associates in its separate financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2016 and 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Changes in accounting policies (continued)

- Annual improvements to IFRS 2012-2014 cycle

These are applicable for annual periods beginning on or after 1 January 2016. A summary of the amendments is as follows:

- i) IFRS 5 – “Non-current Assets Held for Sale and Discontinued Operations”, amended to clarify that changing from one disposal method to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5.
- ii) IFRS 7 – “Financial Instruments: Disclosures” has been amended to clarify that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. The nature of the fee and the arrangement should be assessed in order to consider whether the disclosures are required under IFRS 7 and the assessment must be done retrospectively. IFRS 7 has been further amended to clarify that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report.
- iii) IAS 19 – “Employee Benefits” – amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

b) Basis of consolidation

These annual consolidated financial statements comprise the financial statements of Riyadh Bank and its subsidiaries drawn up to 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting year as that of the Bank, using consistent accounting policies.

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

Balances between the Bank and its subsidiaries, and any income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

Generally, there is a presumption that a majority of voting rights results in control. However, under individual circumstances, the Bank may still exercise control with less than 50% shareholding or may not be able to exercise control even with ownership over 50% of an entity's shares. When assessing whether it has power over an investee and therefore controls the variability of its returns, the Bank considers all relevant facts and circumstances, including:

- The purpose and design of the investee
- The relevant activities and how decisions about those activities are made and whether the Bank can direct those activities
- Contractual arrangements such as call rights, put rights and liquidation rights
- Whether the Bank is exposed, or has rights, to variable returns from its involvement with the investee, and has the power to affect the variability of such returns

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest (NCI) and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value at the date of loss of control.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2016 and 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Basis of consolidation (continued)

The Bank is party to certain special purpose entities (SPEs), primarily for the purpose of facilitation of certain Shariah compliant financing arrangements. The Bank concluded that these entities cannot be consolidated to its financial statements as it could not establish control over these SPEs.

c) Settlement date accounting

All regular way purchases and sales of financial assets are recognised and derecognised on the settlement date, i.e. the date the asset is delivered to the counter party. The Bank accounts for any change in fair value between the trade and the settlement date in the same way as it accounts for the acquired assets. Regular way purchases or sales are purchases or sales of financial instruments that require delivery of assets within the time frame generally established by regulation or convention in the market place.

d) Investment in associates

An associate is an entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. Investments in associates are accounted for under the equity method of accounting. The equity method is a method of accounting whereby the investment is initially recognised at cost and subsequently adjusted for the post-acquisition change in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee. Distribution received from the investee reduces the carrying amount of the investment.

e) Derivative financial instruments and hedge accounting

Derivative financial instruments, including foreign exchange contracts, special commission rate swaps and currency options (both written and purchased), are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently re-measured at fair value in the consolidated statement of financial position with transaction costs recognised in the consolidated statement of income. All derivatives are carried at their fair value as assets where the fair value is positive and as liabilities where the fair value is negative. Fair values are obtained by reference to quoted market prices, discounted cash flow models and pricing models, as appropriate. The treatment of changes in their fair value depends on their classification into the following categories:

(i) Derivatives held for trading

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

(ii) Hedge accounting

The Group designates certain derivatives as hedging instruments in qualifying hedging relationships.

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 an unrecognised firm commitment or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the reported net gain or loss; and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a 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 the inception of the hedge, the risk management objective and strategy is documented, including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Bank will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2016 and 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Derivative financial instruments and hedge accounting (continued)

- Fair value hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect statement of income, any gain or loss from re-measuring the hedging instruments to fair value is recognised immediately in the consolidated statement of income. The related portion of the hedged item is adjusted against the carrying amount of the hedged item and recognised in the consolidated statement of income. For hedged items measured at amortised cost, where the fair value hedge of a special 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 yield basis. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated statement of income.

- Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of a variability of cash flows attributable to a particular risk associated with a recognised asset or a liability or a highly probable forecasted transaction that could affect statement of income, 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 immediately recognised in the consolidated statement of income. For cash flow hedges affecting future transactions, the gains or losses recognised in other reserves, are transferred to the consolidated statement of income in the same period in which the hedged transaction affects the consolidated statement of income. Where the hedged forecasted 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.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting, or the forecast transaction is no longer expected to occur or the Bank revokes the designation. At that point of time, any cumulative gain or loss on the cash flow hedging instrument that was recognised in other comprehensive income is retained until the forecasted transaction occurs. Where the hedged forecasted transaction is no longer expected to occur, the net cumulative gain or loss recognised in other comprehensive income is transferred to the consolidated statement of income for the period.

f) Foreign currencies

The Group's consolidated financial statements are presented in Saudi Arabian Riyals, which is also the Bank's functional currency. Transactions in foreign currencies are translated into Saudi Arabian Riyals at spot exchange rates prevailing on the transaction dates. Monetary assets and liabilities at the year-end, denominated in foreign currencies, are translated into Saudi Arabian Riyals at the exchange rates prevailing at the reporting date. Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income. Non-monetary items measured at fair value in a foreign currency are translated using the spot exchange rates at the date when the fair value is determined. Translation gains or losses on non-monetary items carried at fair value are included as part of the fair value adjustment either in the consolidated statement of income or in equity, depending on the underlying financial asset.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rates as at the dates of the initial transactions.

The assets and liabilities of overseas branch are translated at the spot exchange rate at the reporting date. The income and expenses of overseas branch are translated at the average exchange rates for the year. All exchange differences, if significant, are recognised in other comprehensive income. These differences are transferred to consolidated statement of income at the time of disposal of foreign operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2016 and 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Offsetting financial instruments

Financial assets and liabilities are offset and reported net in the consolidated statement of financial position when the entity has a legal currently enforceable right to set off the recognised amounts and when the Group intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

h) Revenue recognition

i) Special commission income and expense

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

The carrying amount of the financial asset or financial liability is adjusted if the 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 recognised using the original effective yield applied to the new carrying amount.

The calculation of the effective yield includes all fees and points paid or received, transaction costs, and discounts or premiums that are an integral part of the effective special commission rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of financial asset or liability.

ii) Fee and commission income

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

iii) Others

Dividend income is recognised when the right to receive payment is established. Exchange income/ loss are recognised when earned/ incurred. Results arising from trading activities include gains and losses from changes in fair value and related special commission income or expense for financial assets and financial liabilities held for trading.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2016 and 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Sale and repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the consolidated statement of financial position as the Bank retains substantially all the risks and rewards of ownership and are measured in accordance with related accounting policies for investments held as FVIS, Available for sale, Held to maturity and Other investments held at amortised cost. The counterparty 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 sale and repurchase prices is treated as special commission expense and is accrued over the life of the repo agreement on an effective special commission rate basis. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos), are not recognised in the consolidated statement of financial position, as the Bank does not obtain control over the assets.

Amounts paid under these agreements are included in "Cash and balances with SAMA" or "Due from banks and other financial institutions" as appropriate. The difference between purchase and resale prices is treated as special commission income and accrued over the life of the reverse repo agreement on an effective yield basis.

j) Investments

All investment securities are initially recognised at fair value, including incremental direct transaction cost except for investments held as Fair Value through Income Statement (FVIS) and are subsequently accounted for depending on their classification as either held to maturity, FVIS, Available for sale or other investments held at amortised cost. Premiums are amortised and discounts accreted using the effective yield basis and are taken to special commission income.

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

For securities where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the expected cash flows of the security. Where the fair values cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models if possible. 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 recognition, subsequent transfers between the various classes of investments are not ordinarily permissible except in accordance with amendments in IAS 39 (refer note 6). The subsequent period-end reporting values for each class of investment are determined on the basis as set out in the following paragraphs:

i) Held as FVIS

Investments in this category are classified at initial recognition as either investment held for trading or those upon initial recognition designated as FVIS. Investments classified as trading are acquired principally for the purpose of selling or repurchasing in short term.

After initial recognition, investments at FVIS are measured at fair value and any change in the fair value is recognised in the consolidated statement of income for the period in which it arises. Transaction costs, if any, are not added to the fair value measurement at initial recognition of FVIS investments. Special commission income and dividend income on investment securities held as FVIS are reflected as trading income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2016 and 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Investments (continued)

ii) Available for sale

Available for sale investments are non-derivative financial instruments and include equity and debt securities that are either designated as Available for sale or not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss. Available for sale investments are those equity and debt securities intended to be held for an unspecified period of time, which may be sold in response to need for liquidity or changes in special commission rates, exchange rates or equity prices. Investments, which are classified as "Available for sale", are subsequently measured at fair value. 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 recognised directly in other comprehensive income. On derecognition, any cumulative gain or loss previously recognised in other comprehensive income is included in the consolidated statement of income.

iii) Other investments held at amortised cost

Investment securities with fixed or determinable payments that are not quoted in an active market are classified as "Other investments held at amortised cost". Such investments whose fair values have not been hedged are stated at amortised cost using effective yield basis, less provision for impairment. Any gain or loss is recognised in the consolidated statement of income when the investment is derecognised or impaired.

iv) Held to maturity

Investments having fixed or determinable payments and fixed maturity and that the Bank has the positive intention and ability to hold to maturity, are classified as held to maturity. Held to maturity investments are subsequently measured at amortised cost, less provision for impairment in value. Amortised 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 recognised in the consolidated statement of income when the investment is derecognised or impaired.

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

k) Loans and advances

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

All loans and advances are initially measured at fair value, including directly attributable transaction costs associated with the loans and advances. Loans and advances originated or acquired by the Bank that are not quoted in an active market, are stated at amortised cost. For presentation purposes, allowance for credit losses is deducted from loans and advances.

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 carried at amortised cost 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 amounts.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the group on the terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of active market for a security or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2016 and 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Impairment of financial assets (continued)

It may also include instances where Bank considers that the obligor is unlikely to pay its credit obligations to the Bank, in full, without recourse by the Bank to actions such as realizing the security, if held.

When a financial asset is uncollectible, it is written off against the related provision for impairment either directly by a charge to consolidated statement of income or through impairment allowance 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 recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the consolidated statement of income in impairment charge for credit losses.

Loans whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. Restructuring policies and practices are based on indicators or criteria, which indicate that payments, will most likely continue. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective yield rate. Consumer loans are charged off when they become 180 days past due except in the case of secured consumer loans. With effect from April 1, 2015, the Bank individually assesses consumer mortgage loans for impairment when they become 180 days past due and provision is made.

Loans and advances are generally renegotiated either as part of an ongoing customer relationship or 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 to genuinely distressed borrowers. This results in the asset continuing to be overdue and individually impaired as the renegotiated payments of commission and principal do not recover the original carrying amount of the loan. In other cases, renegotiation lead to a new agreement, this is treated as a new loan. Restructuring policies and practices are based on indicators or criteria which, indicate that payment will most likely continue. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective yield rate.

i) Impairment of financial assets held at amortised cost

In case of financial instruments held at amortised cost or held to maturity, the Bank assesses individually whether there is objective evidence of impairment based on same criteria as explained above.

A specific provision for credit losses due to impairment of a loan or any other financial asset held at amortised 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.

The Bank also considers evidence of impairment at a collective assets level. The collective provision is based on deterioration in the internal grading or external credit ratings, allocated to the borrower or group of borrowers, the current economic climate in which the borrowers operate and the experience and historical default patterns that are embedded in the components of the credit portfolio.

ii) Impairment of Available for sale financial assets

In the case of debt instruments classified as Available for sale, the Bank assesses individually whether there is objective evidence of impairment based on the same criteria as explained above. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2016 and 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Investments (continued)

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

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

m) Other real estate

The Bank, in the ordinary course of business, acquires certain real estate against settlement of due loans and advances. Such real estate properties are considered as assets held for sale and are initially stated at the lower of net realisable value of due loans and advances or the current fair value of the related properties, less any costs to sell, if material. Rental income from other real estate is recognised in the consolidated statement of income. No depreciation is charged on such real estate.

Subsequent to initial recognition, any subsequent write down to fair value, less costs to sell, is charged to the consolidated statement of income. 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 recognised as income together with any gain/ loss on disposal.

n) Property and equipment

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

Buildings	33 years
Improvements and decoration of premises	over the lower of the lease period or 5 years
Furniture, fixtures and equipment	5 to 20 years
Computer hardware	5 years
Software programs and automation projects	3 to 5 years
Motor vehicles	4 years

Subsequent expenditure is capitalized only when it is probable that the future economic benefits of the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. All 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. Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in consolidated statement of income.

o) Financial liabilities

All money market deposits, customer deposits and debt securities in issue are initially recognised at fair value less transaction costs. Subsequently, all special commission-bearing financial liabilities other than those held at FVIS or where fair values have been hedged are measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium. Premiums are amortised 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 resultant gain or loss is recognised in the consolidated statement of income. For financial liabilities carried at amortised cost, any gain or loss is recognised in the consolidated statement of income when derecognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2016 and 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

p) Guarantee contracts

In ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the consolidated financial statements at fair value in other liabilities, being the value of the premium received. Subsequent to the initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligations arising as a result of guarantees. Any increase in the liability relating to the financial guarantee is taken to the consolidated statement of income in 'impairment charge for credit losses'. The premium received is recognised in the consolidated statement of income in 'Fee and commission income, net' on a straight line basis over the life of the guarantee.

q) Provisions

Provisions are recognised when a reliable estimate can be made by the Bank 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.

r) Accounting for leases

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

s) Cash and cash equivalents

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

t) Derecognition of financial instruments

A financial asset (or a part of a financial asset, or a part of a group of similar financial assets) is derecognised, 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 Bank is assessed to have transferred a financial asset, the asset is derecognised if the Bank has transferred substantially all the risks and rewards of ownership. Where the Bank has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognised only if the Bank has not retained control of the financial asset. The Bank recognises separately as assets or liabilities any rights and obligations created or retained in the process.

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

u) End of service benefits

Benefits payable to the employees of the Bank at the end of their services are accrued in accordance with the guidelines set by the Saudi Arabian Labor Regulations and are included in other liabilities in the consolidated statement of financial position.

v) Zakat

Under Saudi Arabian Zakat and Income Tax Laws, Zakat is the liability of shareholders. Zakat is computed on the shareholders' equity or net income using the basis defined under the Zakat regulations. Zakat is not charged to the Group's consolidated statement of income as they are deducted from the dividends paid to the shareholders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2016 and 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

w) Investment management services

The Group offers investment services to its customers, which include management of certain investment funds. Fees earned are disclosed under related party transactions. Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly, are not included in the consolidated financial statements.

x) Non-special commission based banking products

In addition to the conventional banking, the Bank offers its customers certain non-special commission based banking products, which are approved by its Shariah Board. These products include Murabaha, Tawaraq and Ijara. These banking products are accounted for using IFRS and are in conformity with the accounting policies described in these consolidated financial statements.

- i) Murabaha is an agreement whereby the Bank sells to a customer a commodity or an asset, which the Bank has purchased and acquired based on a promise received from the customer to buy. The selling price comprises the cost plus an agreed profit margin.
- ii) Ijarah is an agreement whereby the Bank, acting as a lessor, purchases or constructs an asset for lease according to the customer request (lessee), based on his promise to lease the asset for an agreed rent and specific period that could end by transferring the ownership of the leased asset to the lessee.
- iii) Tawaraq is a form of Murabaha transactions where the Bank purchases a commodity and sells it to the customer. The customer sells the underlying commodity at spot and uses the proceeds for his financing requirements.

y) Short term employee benefits

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

4. CASH AND BALANCES WITH SAMA

SAR '000	2016	2015
Cash in hand	4,307,682	4,062,756
Statutory deposit	8,161,572	8,797,578
Reverse repos with SAMA	8,750,000	7,654,787
Other balances	42,923	54,808
Total	21,262,177	20,569,929

In accordance with the Banking Control Law and regulations issued by SAMA, the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its demand, savings, time and other deposits, calculated at the end of each month. The statutory deposit with SAMA is not available to finance the Bank's day-to-day operations and therefore is not part of cash and cash equivalents (note 26).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2016 and 2015

5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

SAR '000	2016	2015
Current accounts	1,215,027	5,015,689
Money market placements	3,352,128	4,253,812
Total	4,567,155	9,269,501

The credit quality of due from banks and other financial institutions is managed using reputable external credit rating agencies. The table below shows the credit quality by class and is based on Standard & Poor's/ equivalent credit ratings.

SAR '000	2016	2015
Investment grade (credit rating BBB and above)	4,555,982	9,263,719
Non-investment grade (credit rating below BBB)	1,023	689
Unrated	10,150	5,093
Total	4,567,155	9,269,501

6. INVESTMENTS, NET

a) Investment securities are classified as follows:

i) Held as FVIS

On September 1, 2008, the Group reclassified investments held in trading portfolio reported under its investments at fair value through income statement ("FVIS") category to the available for sale category.

The carrying and fair value of these reclassified investments as at December 31, 2016 was SAR 2,792 million (December 31, 2015: SAR 3,169 million).

Had the reclassification not occurred, the consolidated statement of income for the year ended December 31, 2016, would have included fair value gain on such reclassified investments amounting to SAR 209.8 million (December 31, 2015: unrealised fair value gain SAR 3.1 million).

ii) Available for sale

SAR'000	Domestic		International		Total	
	2016	2015	2016	2015	2016	2015
Fixed rate securities	-	-	11,880,019	11,247,256	11,880,019	11,247,256
Floating rate securities	-	-	1,709,394	1,722,333	1,709,394	1,722,333
Mutual funds	381,532	184,347	662,612	1,251,878	1,044,144	1,436,225
Equities	1,228,023	1,166,443	152,407	150,208	1,380,430	1,316,651
Available for sale, net	1,609,555	1,350,790	14,404,432	14,371,675	16,013,987	15,722,465

International investments above includes investment portfolios of SAR 11.2 billion (2015: SAR 11.3 billion) which are externally managed.

FINANCIAL STATEMENTS 2016

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2016 and 2015

6. INVESTMENTS, NET (continued)

a) Investment securities are classified as follows (continued)

iii) Other investments held at amortised cost

SAR'000	Domestic		International		Total	
	2016	2015	2016	2015	2016	2015
Fixed rate securities	17,388,272	22,997,500	1,731,049	1,046,098	19,119,321	24,043,598
Floating rate securities	10,022,575	4,734,465	-	220,000	10,022,575	4,954,465
Other investments held at amortised cost	27,410,847	27,731,965	1,731,049	1,266,098	29,141,896	28,998,063

iv) Held to maturity

SAR'000	Domestic		International		Total	
	2016	2015	2016	2015	2016	2015
Fixed rate securities	1,498	44,876	-	-	1,498	44,876
Floating rate securities	-	-	-	-	-	-
Held to maturity	1,498	44,876	-	-	1,498	44,876
Investments, net	29,021,900	29,127,631	16,135,481	15,637,773	45,157,381	44,765,404

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

SAR 000'	2016			2015		
	Quoted	Unquoted*	Total	Quoted	Unquoted*	Total
Fixed rate securities	15,748,605	15,252,233	31,000,838	14,402,377	20,933,353	35,335,730
Floating rate securities	4,187,905	7,544,064	11,731,969	4,392,519	2,284,279	6,676,798
Equities	1,113,781	266,649	1,380,430	1,063,645	253,006	1,316,651
Mutual funds	1,044,144	-	1,044,144	1,436,225	-	1,436,225
Investments, net	22,094,435	23,062,946	45,157,381	21,294,766	23,470,638	44,765,404

*Unquoted securities include SAMA Treasury Bills and bonds of SAR 19.8 billion (2015: SAR 20.8 billion)

c) The analysis of unrealised gains and losses and the fair values of other investments held at amortised cost, and held to maturity investments, is as follows:

i) Other investments held at amortised cost

SAR 000'	2016				2015			
	Carrying value	Gross unrealised gain	Gross unrealised loss	Fair value	Carrying value	Gross unrealised gain	Gross unrealised loss	Fair value
Fixed rate securities	19,119,321	20,536	(396,884)	18,742,973	24,043,598	117,738	(240,886)	23,920,450
Floating rate securities	10,022,575	406,272	(110)	10,428,737	4,954,465	333,159	-	5,287,624
Total	29,141,896	426,808	(396,994)	29,171,710	28,998,063	450,897	(240,886)	29,208,074

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2016 and 2015

6. INVESTMENTS, NET (continued)

c) The analysis of unrealised gains and losses and the fair values of other investments held at amortised cost, and held to maturity investments, is as follows (continued)

ii) Held to maturity

SAR 000'	2016				2015			
	Carrying value	Gross unrealised gain	Gross unrealised loss	Fair value	Carrying value	Gross unrealised gain	Gross unrealised loss	Fair value
Fixed rate securities	1,498	15	-	1,513	44,876	428	-	45,304
Floating rate securities	-	-	-	-	-	-	-	-
Total	1,498	15	-	1,513	44,876	428	-	45,304

d) Credit quality of investments

SAR 000'	2016		2015		2016		2015	
	Investment grade	Non-investment grade	Investment grade	Non-investment grade	Unrated	Total	Unrated	Total
Available for sale	11,256,256	10,877,845	2,105,016	1,762,535	2,652,715	3,082,085	16,013,987	15,722,465
Other investments held at amortised cost	23,243,948	24,201,307	416,460	-	5,481,488	4,796,756	29,141,896	28,998,063
Held to maturity	1,466	44,843	-	-	32	33	1,498	44,876
Total	34,501,670	35,123,995	2,521,476	1,762,535	8,134,235	7,878,874	45,157,381	44,765,404

The above classification is based on Standard & Poor's/ equivalent credit ratings. The unrated investments category comprise of mutual funds, equities and unrated fixed & floating securities.

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

SAR '000	2016	2015
Government and quasi Government	26,355,088	25,817,004
Corporate	10,073,218	9,563,709
Banks and other financial institutions	8,729,075	9,384,691
Total	45,157,381	44,765,404

Investments include SAR 65.8 million (2015: SAR 700.3 million), which have been pledged under repurchase agreements with customers (note 19 d). The market value of such investments is SAR 65.7 million (2015: SAR 700.3 million).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2016 and 2015

7. LOANS AND ADVANCES, NET

a) Loans and advances held at amortised cost

These comprise the following:

2016 SAR'000	Overdrafts	Credit cards	Consumer loans*	Commercial loans	Others	Total
Performing loans and advances	9,256,856	773,471	38,035,114	96,072,934	190,485	144,328,860
Non-performing loans and advances	126,500	-	171,701	855,307	4,514	1,158,022
Total loans and advances	9,383,356	773,471	38,206,815	96,928,241	194,999	145,486,882
Allowance for impairment	(73,233)	-	(42,060)	(1,384,752)	(5,121)	(1,505,166)
Total	9,310,123	773,471	38,164,755	95,543,489	189,878	143,981,716
Portfolio provision						(1,072,349)
Loans and advances held at amortised cost, net						142,909,367

2015 SAR'000	Overdrafts	Credit cards	Consumer loans*	Commercial loans	Others	Total
Performing loans and advances	10,008,311	833,405	37,902,224	95,646,838	1,215,417	145,606,195
Non-performing loans and advances	186,692	-	113,352	1,048,943	9,756	1,358,743
Total loans and advances	10,195,003	833,405	38,015,576	96,695,781	1,225,173	146,964,938
Allowance for impairment	(109,212)	-	(27,264)	(685,005)	(4,917)	(826,398)
Total	10,085,791	833,405	37,988,312	96,010,776	1,220,256	146,138,540
Portfolio provision						(1,072,349)
Loans and advances held at amortised cost, net						145,066,191

Loans and advances, net, include Islamic products of SAR 73,690 million (2015: SAR 71,229 million).

b) Movements in allowance for impairment are as follows:

2016 SAR'000	Allowance for impairment				Portfolio provision	Total
	Credit cards	Consumer loans*	Commercial loans **	Total		
Balance at beginning of the year	-	27,264	799,134	826,398	1,072,349	1,898,747
Provided during the year	67,564	559,179	1,305,837	1,932,580	-	1,932,580
Bad debts written off	(67,564)	(544,383)	(562,866)	(1,174,813)	-	(1,174,813)
Recoveries of previously provided amounts	-	-	(50,850)	(50,850)	-	(50,850)
***Other movements	-	-	(28,149)	(28,149)	-	(28,149)
Balance at end of the year	-	42,060	1,463,106	1,505,166	1,072,349	2,577,515

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2016 and 2015

7. LOANS AND ADVANCES, NET (continued)
b) Movements in allowance for impairment are as follows (continued)

2015 SAR'000	Allowance for impairment				Portfolio provision	Total
	Credit cards	Consumer loans*	Commercial loans**	Total		
Balance at beginning of the year	-	-	914,245	914,245	1,072,349	1,986,594
Provided (reversed) during the year	193,827	1,340,126	(4,013)	1,529,940	-	1,529,940
Bad debts written off	(193,827)	(1,312,862)	(33,199)	(1,539,888)	-	(1,539,888)
Recoveries of previously provided amounts	-	-	(46,306)	(46,306)	-	(46,306)
***Other movements	-	-	(31,593)	(31,593)	-	(31,593)
Balance at end of the year	-	27,264	799,134	826,398	1,072,349	1,898,747

During the year, the net charge to the consolidated statement of income on account of impairment charge for credit losses, net is SAR 1,286 million (2015: SAR 1,031 million) representing amounts provided during the year of SAR 1,881 million (2015: SAR 1,484 million) and recoveries from amounts previously written off of SAR 595 million (2015: SAR 453 million).

* Includes consumer mortgage loans

** Includes overdrafts and other loans

*** Represents unwinding of accrued special commission income on impaired financial assets

c) Credit quality of loans and advances
i) Neither past due nor impaired

2016 SAR'000	Credit cards	Consumer loans*	Commercial loans**	Total
Standard category	660,809	35,219,994	104,376,898	140,257,701
Special mention category	-	-	694,963	694,963
Total	660,809	35,219,994	105,071,861	140,952,664

2015 SAR'000	Credit cards	Consumer loans*	Commercial loans**	Total
Standard category	675,133	35,435,835	106,418,963	142,529,931
Special mention category	-	-	385,398	385,398
Total	675,133	35,435,835	106,804,361	142,915,329

The Group uses an internal classification system based on risk ratings for its credit customers. The risk rating system, which is managed by an independent unit, provides a rating at the obligor level. The risk rating system includes twelve grades, of which nine grades relate to the performing portfolio covering Standard and Special Mention category and the rest to non-performing loans.

Standard category: A credit with very strong to satisfactory credit quality and repayment ability, where regular monitoring is carried out.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2016 and 2015

7. LOANS AND ADVANCES, NET (continued)

c) Credit quality of loans and advances (continued)

Special Mention category: A credit that requires close monitoring by management due to deterioration in the borrowers' financial condition.

Standard Category as at Dec 31, 2016 includes Commercial loans** of Very Strong Quality SAR 19,511 million (2015: SAR 23,538 million), Good Quality SAR 72,219 million (2015: SAR 72,545 million) and Satisfactory Quality SAR 12,647 million (2015: SAR 10,336 million).

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

2016 SAR'000	Credit cards	Consumer loans*	Commercial loans**	Total
Upto 30 days	51,230	1,977,870	6,316	2,035,416
From 31 - 90 days	33,466	538,035	5,841	577,342
From 91 - 180 days	27,966	299,215	167,026	494,207
More than 180 days	-	-	269,231	269,231
Total	112,662	2,815,120	448,414	3,376,196

2015 SAR'000	Credit cards	Consumer loans*	Commercial loans**	Total
Upto 30 days	92,984	1,607,139	11,795	1,711,918
From 31 - 90 days	36,493	530,017	48,628	615,138
From 91 - 180 days	28,795	329,233	5,782	363,810
More than 180 days	-	-	-	-
Total	158,272	2,466,389	66,205	2,690,866

* Includes consumer mortgage loans

** Includes overdrafts and other loans

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2016 and 2015

7. LOANS AND ADVANCES, NET (continued)

d) Economic sector risk concentration for the loans and advances and allowance for impairment are as follows

SAR' 000	2016				2015			
	Performing	Non performing	Allowance for impairment	Loans and advances, net	Performing	Non performing	Allowance for impairment	Loans and advances, net
Government and quasi Government	-	-	-	-	-	-	-	-
Banks and other financial institutions	5,035,994	-	-	5,035,994	5,918,540	-	-	5,918,540
Agriculture and fishing	1,288,041	1,400	(553)	1,288,888	1,647,527	-	-	1,647,527
Manufacturing	25,671,245	268,591	(58,897)	25,880,939	24,609,947	112,337	(77,149)	24,645,135
Mining and quarrying	10,479,167	-	-	10,479,167	8,592,698	-	-	8,592,698
Electricity, water, gas and health services	2,569,707	3,064	(129)	2,572,642	2,399,656	-	-	2,399,656
Building and construction	15,263,298	91,556	(957,025)	14,397,829	15,506,751	514,198	(291,884)	15,729,065
Commerce	34,208,471	618,304	(444,644)	34,382,131	36,698,505	608,646	(422,592)	36,884,559
Transportation and communication	4,380,754	-	-	4,380,754	4,673,696	8,998	(6,953)	4,675,741
Services	6,452,622	3,406	(1,858)	6,454,170	6,715,452	1,212	(556)	6,716,108
Consumer loans and credit cards	38,808,585	171,701	(42,060)	38,938,226	38,735,629	113,352	(27,264)	38,821,717
Other	170,976	-	-	170,976	107,794	-	-	107,794
Total	144,328,860	1,158,022	(1,505,166)	143,981,716	145,606,195	1,358,743	(826,398)	146,138,540
Portfolio provision				(1,072,349)				(1,072,349)
Loans and advances, net				142,909,367				145,066,191

e) Collateral

The Bank in the ordinary course of lending activities holds collaterals as security to mitigate credit risk in the loans and advances. These collaterals mostly include time, demand and other cash deposits, financial guarantees, local and international equities, real estate and other fixed assets. The collaterals are held mainly against commercial and consumer loans and are managed against relevant exposures at their net realisable values. Management monitors the market value of the collateral and requests additional collateral in accordance with the underlying agreement when deemed necessary. Fair value of collateral held by Group against financing and advances by each category are as follows:

SAR' 000	2016	2015
Neither past due nor impaired	41,872,710	41,963,024
Past due but not impaired	2,206,810	1,435,482
Impaired	817,093	689,288
Total	44,896,613	44,087,794

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2016 and 2015

8. INVESTMENT IN ASSOCIATES

Investment in associates represents the Bank's share of investment in entities where the Bank has significant influence. These investments are accounted for using the equity method of accounting. Investment in associates represents 35% (2015: 35%) share ownership in Ajil Financial Services Company incorporated in Kingdom of Saudi Arabia, 21.4 % (2015: 21.4%) share in ownership in Royal and Sun Alliance Insurance (Middle East) Limited E.C., incorporated in Bahrain and 30.6% (2015: 30.6%) share ownership, (including indirect) and Board representation in Al-Alamiya for Cooperative Insurance Company incorporated in Kingdom of Saudi Arabia.

9. PROPERTY AND EQUIPMENT, NET

SAR' 000	Land and buildings	Improvements and decoration of premises	Furniture, fixtures and equipment	Computer hardware, software programs and automation projects	Motor vehicles	Total
Cost						
Balance as at January 1, 2015	1,413,529	770,742	421,981	2,294,221	913	4,901,386
Additions	47,281	50,991	19,999	345,526	284	464,081
Disposals	(310)	(6)	(291)	(222)	(145)	(974)
Balance as at December 31, 2015	1,460,500	821,727	441,689	2,639,525	1,052	5,364,493
Additions	12,875	56,098	18,883	217,554	-	305,410
Disposals	(20,782)	-	(269)	(142,484)	(60)	(163,595)
Balance at December 31, 2016	1,452,593	877,825	460,303	2,714,595	992	5,506,308
Accumulated depreciation and amortisation						
Balance as at January 1, 2015	486,226	672,007	338,641	1,696,868	913	3,194,655
Charge for the year	20,699	38,382	25,799	190,846	48	275,774
Disposals	-	(6)	(291)	(195)	(145)	(637)
Balance as at December 31, 2015	506,925	710,383	364,149	1,887,519	816	3,469,792
Charge for the year	21,941	40,912	23,944	201,922	71	288,790
Disposals	(16,293)	-	(269)	(98,001)	(60)	(114,623)
Balance at December 31, 2016	512,573	751,295	387,824	1,991,440	827	3,643,959
Net book value						
As at January 1, 2015	927,303	98,735	83,340	597,353	-	1,706,731
As at December 31, 2016	940,020	126,530	72,479	723,155	165	1,862,349
As at December 31, 2015	953,575	111,344	77,540	752,006	236	1,894,701

Land and buildings and improvements and decoration of premises include work in progress as at December 31, 2016 amounting to nil (2015: SAR 2.4 million); and nil (2015: SAR 0.5 million), respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2016 and 2015

10. OTHER ASSETS

SAR'000	2016	2015
Accounts receivable	293,437	254,250
Other*	584,229	514,818
Total	877,666	769,068

* Mainly include prepayments amounting to SAR 130 million (2015: SAR 135 million) and items in transit which are cleared in the normal course of business.

11. DERIVATIVES

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

a) Swaps

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

b) Forwards and futures

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

c) 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.

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 favourable movements in prices, rates or indices. Arbitrage involves identifying pricing anomalies in different markets and products, with the expectation of profiting from price differentials between markets or products.

Held for hedging purposes

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2016 and 2015

11. DERIVATIVES (continued)

c) Options (continued)

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

Fair value hedges

The Bank uses special commission rate swaps to hedge against the special commission rate risk arising from specifically identified fixed special commission rate exposures.

Cash flow hedges

The Bank is exposed to variability in future special commission cash flows on non-trading assets and liabilities which bear special commission rate at a variable rate. The Bank uses special commission rate swaps as cash flow hedges of these special commission rate risks.

The table below shows the positive and negative fair values of derivative financial instruments held, together with their notional amounts, analysed 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 reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Bank's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor market risk.

2016 SAR'000	Positive fair value	Negative fair value	Notional amount total	Notional amounts by term to maturity				Monthly average
				Within 3 months	3-12 months	1-5 years	Over 5 years	
Held for trading:								
Special commission rate swaps	57,693	(26,803)	7,992,359	1,335,992	2,059,682	4,244,384	352,301	8,887,264
Forward foreign exchange contracts	91,894	(71,763)	25,510,910	21,682,845	3,194,425	633,640	-	25,652,138
Currency options	39,708	(39,708)	8,376,319	3,673,681	3,714,959	987,679	-	9,978,783
Held as fair value hedges:								
Special commission rate swaps	-	(364)	75,000	37,500	37,500	-	-	75,000
Total	189,295	(138,638)	41,954,588	26,730,018	9,006,566	5,865,703	352,301	44,593,185

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2016 and 2015

11. DERIVATIVES (continued)

c) Options (continued)

2015 SAR'000	Positive fair value	Negative fair value	Notional amount total	Notional amounts by term to maturity				
				Within 3 months	3-12 months	1-5 years	1-5 years	Monthly average
Held for trading:								
Special commission rate swaps	45,071	(15,052)	5,283,833	769,473	1,289,965	2,893,136	331,259	3,232,054
Forward foreign exchange contracts	78,572	(96,544)	38,044,211	34,029,932	4,014,279	-	-	55,569,243
Currency options	73,399	(73,399)	8,483,383	3,177,030	3,976,204	1,330,149	-	6,209,352
Commodity options	497	(497)	1,696	1,696	-	-	-	11,212
Held as fair value hedges:								
Special commission rate swaps	-	(1,637)	230,474	68,110	137,501	24,863	-	230,474
Total	197,539	(187,129)	52,043,597	38,046,241	9,417,949	4,248,148	331,259	65,252,335

The table below shows a summary of hedged items, the nature of the risk being hedged, the hedging instrument and its fair value as at December 31, 2016.

2016 SAR '000	Fair value	Hedge inception value	Risk	Hedging instrument	Positive fair value	Negative fair value
Description of hedged items						
Fixed special commission rate deposits	74,017	73,644	Fair value	Special commission rate swaps	-	(363)
2015 SAR '000	Fair value	Hedge inception value	Risk	Hedging instrument	Positive fair value	Negative fair value
Description of hedged items						
Fixed special commission rate deposits	230,854	229,118	Fair value	Special commission rate swaps	-	(1,637)

12. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

SAR'000	2016	2015
Current accounts	1,038,289	607,043
Money market deposits	7,798,424	3,892,650
Total	8,836,713	4,499,693

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2016 and 2015

13. CUSTOMER DEPOSITS

SAR'000	2016	2015
Demand	77,846,981	72,139,543
Saving	324,982	333,618
Time	67,811,458	85,688,654
Other	10,699,928	9,690,318
Total	156,683,349	167,852,133

Time deposits include deposits against sales of bonds of SAR 66 million (2015: SAR 701 million) with agreement to repurchase the same at fixed future dates. Other customers' deposits include SAR 2,539 million (2015: SAR 2,963 million) of margins held for irrevocable commitments.

Time deposits include non-special commission based deposits of SAR 31,970 million (2015: SAR 36,479 million).

The above include foreign currency deposits as follows:

SAR'000	2016	2015
Demand	4,014,306	2,540,054
Saving	10,216	494
Time	13,953,808	27,573,006
Other	317,907	301,307
Total	18,296,237	30,414,861

14. DEBT SECURITIES IN ISSUE

During June 2015, the Bank issued SAR 4,000 million Subordinated debt (Sukuk). These are SAR denominated and have maturity date of June 24, 2025 and are callable after 5 years, subject to the terms and conditions of the agreement. The notes carry a special commission rate of 6 month SAIBOR plus 115 basis points.

During November 2013, the Bank issued SAR 4,000 million Senior debt (Sukuk). These SAR denominated sukuk carry a 3 month SAIBOR plus 68 basis points, have maturity date of November 11, 2020 and are callable after 5 years, subject to the terms and conditions of the agreement.

15. OTHER LIABILITIES

SAR'000	2016	2015
Accounts payable	1,150,001	1,127,505
Other*	5,018,866	5,092,990
Total	6,168,867	6,220,495

*Mainly include end of service benefits of SAR 725 million (2015 : SAR 718 million), provision for zakat and tax of SAR 573 million (2015 : SAR 410 million), insurance payable, accrued expenses, income received in advance and items in transit which are cleared in the normal course of business

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2016 and 2015

16. SHARE CAPITAL

The authorised, issued and fully-paid share capital of the Bank consist of 3,000 million shares of SAR 10 each (2015: 3,000 million shares of SAR 10 each).

17. STATUTORY RESERVE

In accordance with Saudi Arabian Banking Control Law and the Bank's By-Laws, a minimum of 25% of the annual net income is required to be transferred to the statutory reserve until this reserve equals the paid up capital of the Bank. Accordingly, SAR 835.6 million has been transferred from 2016 net income (2015: SAR 1,012.4 million). The statutory reserve is not currently available for distribution.

18. OTHER RESERVES

SAR'000	2016	2015
Balance at beginning of the year	297,467	1,038,937
Net change in fair value of Available for sale investments	309,784	(582,781)
Net amounts relating to Available for sale investments transferred to consolidated statement of income	(74,322)	(158,689)
Net movement during the year	235,462	(741,470)
Balance at end of the year	532,929	297,467

19. COMMITMENTS AND CONTINGENCIES

a) Legal proceedings

As at December 31, 2016, there were legal proceedings of a routine nature outstanding against the Bank. No provision has been made as management and in-house legal adviser believes that it is unlikely that any significant loss will arise.

b) Capital commitments

As at December 31, 2016, the Bank had capital commitments of SAR 132.1 million (2015: SAR 195.6 million). This includes computer hardware, software, automation projects, construction and equipment purchases.

c) Credit related commitments and contingencies

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantee and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans and advances. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. Documentary letters of credit, which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are generally collateralised by the underlying shipments of goods to which they relate, and therefore have significantly less risk.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2016 and 2015

19. COMMITMENTS AND CONTINGENCIES (continued)
c) Credit related commitments and contingencies (continued)

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

(i) The contractual maturity structure for the Bank's 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	2,688,227	4,430,357	502,214	-	7,620,798
Letters of guarantee	28,023,943	20,542,649	21,955,521	1,327,225	71,849,338
Acceptances	663,672	1,443,717	12,346	106	2,119,841
Irrevocable commitments to extend credit	1,935,160	1,962,625	4,703,714	3,539,233	12,140,732
Total	33,311,002	28,379,348	27,173,795	4,866,564	93,730,709

2015 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	4,375,375	3,982,634	1,052,320	-	9,410,329
Letters of guarantee	17,141,596	33,356,350	30,424,408	638,367	81,560,721
Acceptances	2,036,455	1,579,063	18,347	157	3,634,022
Irrevocable commitments to extend credit	418,818	902,870	7,321,992	2,589,406	11,233,086
Total	23,972,244	39,820,917	38,817,067	3,227,930	105,838,158

The outstanding unused portion of non-firm commitments as at December 31, 2016 which can be revoked unilaterally at any time by the Bank, amounts to SAR 90,669 million (2015: SAR 92,715 million).

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

SAR'000	2016	2015
Government and quasi government	1,933,137	1,875,000
Corporate	68,148,411	77,399,983
Banks and other financial institutions	23,649,161	26,563,175
Total	93,730,709	105,838,158

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2016 and 2015

19. COMMITMENTS AND CONTINGENCIES (continued)

d) Assets pledged

Assets pledged as collateral with customers are as follows:

SAR'000	2016		2015	
	Assets	Related liabilities	Assets	Related liabilities
Available for sale (note 6e and 13)	65,747	65,941	700,287	700,510

These transactions are conducted under the terms that are usual and customary to standard lending and securities borrowing and lending activities.

e) Operating lease commitments

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

SAR'000	2016	2015
Less than 1 year	35,862	33,165
1 to 5 years	78,258	88,557
Over 5 years	11,465	4,623
Total	125,585	126,345

20. SPECIAL COMMISSION INCOME AND EXPENSE

SAR'000	2016	2015
Special commission income		
Investments - Available for sale	411,240	415,423
- Other investments held at amortised cost	562,903	423,841
- Held to maturity	711	2,856
	974,854	842,120
Due from banks and other financial institutions	73,750	32,875
Loans and advances	6,263,986	5,008,040
Total	7,312,590	5,883,035

SAR'000	2016	2015
Special commission expense		
Due to banks and other financial institutions	68,884	18,403
Customer deposits	1,710,081	581,013
Debt securities in issue	232,596	103,842
Total	2,011,561	703,258

FINANCIAL STATEMENTS 2016

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2016 and 2015

21. FEE AND COMMISSION INCOME, NET

SAR'000	2016	2015
Fee and commission income:		
- Share brokerage and fund management	259,470	341,444
- Trade finance and corporate finance and advisory	1,100,768	1,243,063
- Other banking services	720,401	697,369
Total fee and commission income	2,080,639	2,281,876
Fee and commission expense:		
- Banking cards	431,314	349,265
- Share brokerage	39,541	35,352
- Other banking services	106,671	113,489
Total fee and commission expense	577,526	498,106
Fee and commission income, net	1,503,113	1,783,770

22. OTHER OPERATING INCOME

Includes gain on sale of lands initially acquired in settlement of certain loans and advances amounting to SAR 225.3 million(2015: SAR 324.8 million).

23. SALARIES AND EMPLOYEE-RELATED EXPENSES

The following table summarises the Group's employee categories defined in accordance with SAMA's rules on compensation practices and includes the total amounts of fixed and variable compensation paid to employees during the years ended December 31, 2016 and 2015, and the forms of such payments.

Categories (SAR 000s)	Number of employees		Fixed compensation		Variable compensation		Total compensation	
	2016	2015	2016	2015	2016	2015	2016	2015
Senior executives requiring SAMA no objection	37	36	41,895	38,890	12,226	9,739	54,121	48,629
Employees engaged in risk taking activities	338	328	94,636	96,474	21,394	21,711	116,030	118,185
Employees engaged in control functions	466	447	98,234	92,489	13,019	11,749	111,253	104,238
Outsourced employees	300	292	30,692	25,051	-	-	30,692	25,051
Others	5,196	5,064	746,518	702,644	91,347	76,537	837,865	779,181
Total	6,337	6,167	1,011,975	955,548	137,986	119,736	1,149,961	1,075,284
Variable compensation accrued during the year and other employee related benefits*			584,400	657,806				
Total salaries and employee-related expenses as per consolidated statement of income			1,596,375	1,613,354				

*Other employee benefits include; insurance, pension, relocation expenses, recruitment expenses, training and development and other employee benefits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2016 and 2015

23. SALARIES AND EMPLOYEE-RELATED EXPENSES (continued)

Compensation policy is based on the job profile requirements, market practices, nature and level of involvement in risk taking process. It applies to the Bank's senior management and all employees and aims to link individual performance to the Bank's overall achievements and soundness. Compensation includes fixed and variable components. Salary revision, performance bonus and other performance linked incentives are decided based on the performance evaluation process outcome as well as the Bank's financial performance and strategic goals.

The Board of Directors has the responsibility to approve and oversee the Bank's compensation policy. The Nomination and Compensation Committee, made up of four non-executive Directors, is in charge of overseeing the compensation system design and effectiveness on behalf of the Board of Directors as well as preparing the Bank's compensation policy and undertaking its periodic assessment and update to ensure achievement of the system objectives and reinforce the Bank's risk management framework. Fixed compensation comprises salaries and wages and other benefits and allowances. The variable compensation includes sales incentives, product related rewards and performance related payments.

The Bank has adopted fixed as well as variable compensation schemes. The variable component is vested over a period of 3 years and is aligned with the level of responsibility, the overall performance of the Bank and the individual, and risk involved in the relevant job function and is based on the annual review conducted by the Nomination & Compensation Committee. The Bank consistently evaluates its compensation policies against the industry and makes necessary revisions as and when required

24. EARNINGS PER SHARE

Basic and diluted earnings per share for the years ended December 31, 2016 and 2015 are calculated by dividing the net income for the year by 3,000 million shares.

25. PROPOSED GROSS DIVIDENDS AND ZAKAT

The net cash dividend after deduction of zakat amounted to SAR 1,950 million (2015: SAR 2,100 million), resulting in a net dividend to the shareholders of SAR 0.65 per share (2015: SAR 0.70 per share). The gross dividends for 2016 include interim dividends of SAR 1,050 million paid for the first half of 2016 (2015: SAR 1,050 million). Final gross dividends of SAR 1,700 million (2015: SAR 1,300 million) have been proposed for 2016, comprising SAR 900 million of final proposed dividends (2015: SAR 1,050 million) and zakat appropriation of SAR 800 million (2015: SAR 250 million).

The Bank has filed its Zakat and Income Tax returns with the General Authority for Zakat and Tax ("GAZT") and paid Zakat and Income Taxes for financial years up to and including the year 2015 and has received the assessments for the years up to 2009, in which the GAZT raised additional demands aggregating to SAR 896 million for the years 2008 to 2009 mainly on account of "disallowance of certain long-term investments and the addition of long term financing to the Zakat base by the GAZT". The basis for the additional Zakat liability is being contested by the Bank before the Higher Appeal Committee. Management expects a favourable outcome on the aforementioned appeals and believes appropriate provisions are held there against.

The assessments for the years 2010 to 2016 are yet to be raised by the GAZT. However, if long-term investments are disallowed and long-term financing is added to the Zakat base, in line with the assessments finalized by GAZT for the years referred to above, it would result in significant additional zakat exposure to the Bank which remains an industry wide issue and disclosure of which might affect the Bank's position in this matter.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2016 and 2015

26. CASH AND CASH EQUIVALENTS

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

SAR'000	2016	2015
Cash and balances with SAMA excluding statutory deposit (note 4)	13,100,605	11,772,351
Due from banks and other financial institutions maturing within three months from the date of acquisition	2,982,155	9,269,501
Total	16,082,760	21,041,852

27. OPERATING SEGMENTS

The Group determines and presents operating segments based on the information that is provided internally to the chief operating decision maker in order to allocate resources to the segments and to assess its performance. The operating segments are managed separately based on the Group's management and internal reporting structure. The transactions between the Group's operating segments are recorded as per the Group's transfer pricing system. The Group's primary business is conducted in Saudi Arabia with one international branch, a representative office and an agency. However, the total assets, liabilities, commitments and results of operations of this branch, representative office and agency are not material to the Group's overall consolidated financial statements and as a result have not been separately disclosed. There are no other material items of income or expense between the operating segments.

The Group's reportable segments under IFRS 8 are as follows:

Retail

Deposit, credit and investment products for individuals and small to medium sized businesses.

Investment banking and brokerage

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

Corporate

Principally handling corporate customers' current accounts, deposits and providing loans, overdrafts and other credit facilities and derivative products.

Treasury and investments

Principally providing money market trading and treasury services as well as the management of the Bank's investment portfolios.

Other

Includes income on capital and unallocated costs pertaining to head office, finance division, human resources, technology services and other support departments and unallocated assets and liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2016 and 2015

27. OPERATING SEGMENTS (continued)

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

2016 SAR'000	Retail	Investment banking and brokerage	Corporate	Treasury and investment	Other	Total
Total assets	39,437,176	82,441	103,813,805	71,021,549	3,264,030	217,619,001
Total liabilities	62,345,718	60,603	92,488,868	21,104,746	3,846,005	179,845,940
Total operating income, net	2,306,212	280,991	3,048,275	1,016,201	1,050,601	7,702,280
Inter segment income (expenses)	23,278	54,492	(567,764)	(320,029)	810,023	-
Net special commission income	1,958,192	62,786	2,074,807	395,477	809,767	5,301,029
Fee and commission income, net	325,138	217,340	964,276	(3,641)	-	1,503,113
Total operating expenses, net	1,106,549	152,840	1,525,428	143,762	1,466,730	4,395,309
Depreciation of property and equipment	91,159	-	9,335	8,597	179,699	288,790
Impairment charge for credit losses, net	125,563	-	1,160,834	-	-	1,286,397
Impairment charge for investments, net	-	-	-	100,000	-	100,000
Share in earnings of associates, net	-	-	-	-	35,516	35,516
Net income (loss)	1,199,663	128,151	1,522,847	872,439	(380,613)	3,342,487

2015 SAR'000	Retail	Investment banking and brokerage	Corporate	Treasury and investment	Other	Total
Total assets	39,686,188	97,897	105,782,910	74,487,630	3,261,250	223,315,875
Total liabilities	59,657,328	60,270	107,863,926	15,619,988	3,569,251	186,770,763
Total operating income, net	2,732,615	363,127	3,368,601	1,130,206	371,414	7,965,963
Inter segment income (expenses)	241,586	46,756	(107,511)	(214,673)	33,842	-
Net special commission income	2,297,889	49,765	2,291,261	507,050	33,812	5,179,777
Fee and commission income, net	406,055	313,922	1,072,156	(8,363)	-	1,783,770
Total operating expenses, net	2,164,282	167,630	125,395	49,322	1,449,776	3,956,405
Depreciation of property and equipment	100,691	-	4,658	8,605	161,820	275,774
Impairment charge for credit losses, net	1,238,951	-	(208,216)	-	-	1,030,735
Impairment charge for investments, net	-	-	-	21,609	-	21,609
Share in earnings of associates, net	-	-	-	-	39,919	39,919
Net income (loss)	568,333	195,497	3,243,206	1,080,884	(1,038,443)	4,049,477

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2016 and 2015

27. OPERATING SEGMENTS (continued)

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

2016 SAR'000	Retail	Corporate	Treasury and investment	Total
Consolidated statement of financial position assets	39,331,525	104,801,114	70,522,321	214,654,960
Commitments and contingencies	-	61,221,783	-	61,221,783
Derivatives	-	-	1,042,067	1,042,067

2015 SAR'000	Retail	Corporate	Treasury and investment	Total
Consolidated statement of financial position assets	39,431,804	106,911,151	74,050,375	220,393,330
Commitments and contingencies	-	68,623,251	-	68,623,251
Derivatives	-	-	1,197,985	1,197,985

Credit exposure comprises the carrying value of consolidated statement of financial position assets excluding equity investments, investment in associates, property and equipment, other real estate. The credit equivalent value of commitments, contingencies and derivatives, according to SAMA's prescribed methodology are included in credit exposure.

28. CREDIT RISK

Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The Bank uses internal credit rating tools to assess credit standing of its counterparties and assigns credit ratings accordingly. Also the Bank uses the external ratings, of the major rating agency, where applicable. A potential credit loss might arise due to lack of proper credit analysis of the borrower's credit worthiness, inability to service the debt, lack of appropriate documentation, etc.

The Bank attempts to control credit risk by appropriate credit structuring, credit review process, post-disbursal monitoring of 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 monitored daily. In addition to monitoring credit limits, the Bank manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposure. In certain cases, the Bank may also close out transactions or assign them to other counterparties to mitigate credit risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2016 and 2015

28. CREDIT RISK (continued)

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

Concentration Risk refers to the risk from an uneven distribution of counterparties in credit or in other business relationship or from concentration in business sectors or geographical regions. Accordingly, Concentration risk in the credit portfolios comes into existence through a skewed distribution of financing to (a) individual borrower (name concentration) (b) industry /service sector (sector concentration) and (c) geographical regions (regional concentration). Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting any particular category of concentration.

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

Management monitors the market value of collateral recurrently, requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses. The Bank regularly reviews its risk management policies and systems to reflect changes in markets products and emerging best practice.

The credit ratings of the Group's due from banks and other financial institutions is disclosed in note 5. The debt securities included in the investment portfolio are mostly sovereign risk. Analysis of investments by counterparty is provided in note 6. For details of the composition of loans and advances refer to note 7. Information on credit risk relating to derivative instruments is provided in note 11 and for commitments and contingencies in note 19. The Bank's maximum credit exposure, which best represents its maximum exposure to credit risk at the end of the reporting period, without taking account of any collateral held or other credit enhancements, is not materially different than the credit exposure by business segment given in note 27. The Group's consolidated Risk Weighted Assets (RWA) calculated under the Basel III framework is also provided in note 34.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2016 and 2015

29. GEOGRAPHICAL CONCENTRATION

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

2016 SAR'000	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other countries	Total
Assets								
Cash and balances with SAMA	21,262,171	-	6	-	-	-	-	21,262,177
Cash in hand	4,307,676	-	6	-	-	-	-	4,307,682
Balances with SAMA	16,954,495	-	-	-	-	-	-	16,954,495
Due from banks and other financial institutions	3,049,810	459,069	546,193	377,999	-	96,735	37,349	4,567,155
Current accounts	566,792	18,679	487,970	99,415	-	22,645	19,526	1,215,027
Money market placements	2,483,018	440,390	58,223	278,584	-	74,090	17,823	3,352,128
Positive fair value of derivatives	106,801	28,307	54,187	-	-	-	-	189,295
Investments, net	29,021,900	1,386,254	3,598,313	9,550,850	2,736	739,960	857,368	45,157,381
Available for sale	1,609,555	13,241	3,561,970	9,550,850	2,736	739,960	535,675	16,013,987
Held to maturity	1,498	-	-	-	-	-	-	1,498
Other investments held at amortised cost	27,410,847	1,373,013	36,343	-	-	-	321,693	29,141,896
Investment in associates	404,827	143,767	-	-	-	-	-	548,594
Loans and advances, net	139,831,595	2,003,257	57,967	243,803	-	63,929	708,816	142,909,367
Overdraft	9,243,806	2,049	-	-	-	70	677	9,246,602
Credit cards	744,747	-	-	-	-	-	-	744,747
Consumer loans	37,845,216	-	-	-	-	-	-	37,845,216
Commercial loans	91,809,255	2,001,208	57,967	243,803	-	63,859	708,139	94,884,231
Others	188,571	-	-	-	-	-	-	188,571
Other assets	566,638	-	-	311,028	-	-	-	877,666
Accounts receivable and others	566,638	-	-	311,028	-	-	-	877,666
Total	194,243,742	4,020,654	4,256,666	10,483,680	2,736	900,624	1,603,533	215,511,635

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2016 and 2015

29. GEOGRAPHICAL CONCENTRATION (continued)

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

2016 SAR'000	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other countries	Total
Liabilities								
Due to banks and other financial institutions	4,493,899	2,856,185	889,231	261,539	-	21,440	314,419	8,836,713
Current accounts	24,557	562,865	281,198	115,173	-	21,440	33,056	1,038,289
Money market deposits	4,469,342	2,293,320	608,033	146,366	-	-	281,363	7,798,424
Negative fair value of derivatives	61,771	25,395	51,472	-	-	-	-	138,638
Customer deposits	153,028,741	2,421,271	916,054	198,811	-	2,375	116,097	156,683,349
Demand	77,821,831	208	22,721	-	-	-	2,221	77,846,981
Saving	314,672	3,145	372	701	-	1,011	5,081	324,982
Time	64,192,310	2,417,918	892,961	198,110	-	1,364	108,795	67,811,458
Other	10,699,928	-	-	-	-	-	-	10,699,928
Debt securities in issue	8,018,373	-	-	-	-	-	-	8,018,373
Other liabilities	6,138,261	-	22,831	7,218	-	557	-	6,168,867
Accounts payable and others	6,138,261	-	22,831	7,218	-	557	-	6,168,867
Total	171,741,045	5,302,851	1,879,588	467,568	-	24,372	430,516	179,845,940

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2016 and 2015

29. GEOGRAPHICAL CONCENTRATION (continued)

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

2016 SAR'000	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other countries	Total
Commitments and contingencies	56,862,686	1,717,620	14,586,517	11,581,841	-	4,386,510	4,595,535	93,730,709
Letters of credit	6,389,258	936,588	204,472	142	-	29,106	61,232	7,620,798
Letters of guarantee	39,459,061	483,351	14,209,998	8,848,662	-	4,357,404	4,490,862	71,849,338
Acceptances	2,069,750	5,016	1,634	-	-	-	43,441	2,119,841
Irrevocable commitments to extend credit	8,944,617	292,665	170,413	2,733,037	-	-	-	12,140,732
Maximum credit exposure (stated at credit equivalent amounts according to SAMA's prescribed methodology)								
Derivatives	735,674	138,664	161,118	1,611	-	-	5,000	1,042,067
Held for trading	735,299	138,664	161,118	1,611	-	-	5,000	1,041,692
Held as fair value hedges	375	-	-	-	-	-	-	375
Commitments and contingencies	36,709,101	994,665	10,044,154	7,241,167	-	3,039,145	3,193,551	61,221,783
Letters of credit	3,658,088	536,232	117,068	81	-	16,664	35,057	4,363,190
Letters of guarantee	27,370,482	335,273	9,856,659	6,137,808	-	3,022,481	3,115,053	49,837,756
Acceptances	2,069,750	5,016	1,634	-	-	-	43,441	2,119,841
Irrevocable commitments to extend credit	3,610,781	118,144	68,793	1,103,278	-	-	-	4,900,996

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2016 and 2015

29. GEOGRAPHICAL CONCENTRATION (continued)

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

2015 SAR'000	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other countries	Total
Assets								
Cash and balances with SAMA	20,569,924	-	4	-	-	1	-	20,569,929
Cash in hand	4,062,751	-	4	-	-	1	-	4,062,756
Balances with SAMA	16,507,173	-	-	-	-	-	-	16,507,173
Due from banks and other financial institutions	1,068,740	101,886	3,431,566	4,503,269	-	9,384	154,656	9,269,501
Current accounts	-	65,745	292,694	4,493,210	-	9,384	154,656	5,015,689
Money market placements	1,068,740	36,141	3,138,872	10,059	-	-	-	4,253,812
Positive fair value of derivatives	142,307	-	55,232	-	-	-	-	197,539
Investments, net	29,127,631	1,006,830	3,730,285	9,348,827	7,041	729,476	815,314	44,765,404
Available for sale	1,350,790	9,282	3,730,285	9,348,827	7,041	629,476	646,764	15,722,465
Held to maturity	44,876	-	-	-	-	-	-	44,876
Other investments held at amortised cost	27,731,965	997,548	-	-	-	100,000	168,550	28,998,063
Investment in associates	388,054	137,077	-	-	-	-	-	525,131
Loans and advances, net	141,021,252	2,313,306	423,133	283,948	-	204,866	819,686	145,066,191
Overdraft	10,006,280	301	-	-	-	69	635	10,007,285
Credit cards	810,932	-	-	-	-	-	-	810,932
Consumer loans	37,776,744	-	-	-	-	-	-	37,776,744
Commercial loans	91,217,566	2,312,013	423,133	283,948	-	204,797	819,051	95,260,508
Others	1,209,730	992	-	-	-	-	-	1,210,722
Other assets	409,542	-	-	359,526	-	-	-	769,068
Accounts receivable and others	409,542	-	-	359,526	-	-	-	769,068
Total	192,727,450	3,559,099	7,640,220	14,495,570	7,041	943,727	1,789,656	221,162,763

FINANCIAL STATEMENTS 2016

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2016 and 2015

29. GEOGRAPHICAL CONCENTRATION (continued)

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

2015 SAR'000	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other countries	Total
Liabilities								
Due to banks and other financial institutions	744,252	1,497,760	460,726	677,924	-	10,055	1,108,976	4,499,693
Current accounts	20,445	248,766	176,885	111,577	-	10,055	39,315	607,043
Money market deposits	723,807	1,248,994	283,841	566,347	-	-	1,069,661	3,892,650
Negative fair value of derivatives	179,917	3	7,209	-	-	-	-	187,129
Customer deposits	163,002,141	2,724,009	1,592,659	172,610	-	1,124	359,590	167,852,133
Demand	71,918,100	299	27,531	-	-	-	193,613	72,139,543
Saving	316,032	4,688	568	881	-	1,049	10,400	333,618
Time	81,077,691	2,719,022	1,564,560	171,729	-	75	155,577	85,688,654
Other	9,690,318	-	-	-	-	-	-	9,690,318
Debt securities in issue	8,011,313	-	-	-	-	-	-	8,011,313
Other liabilities	6,175,171	-	36,416	8,401	-	507	-	6,220,495
Accounts payable and others	6,175,171	-	36,416	8,401	-	507	-	6,220,495
Total	178,112,794	4,221,772	2,097,010	858,935	-	11,686	1,468,566	186,770,763
Commitments and contingencies								
Letters of credit	8,219,025	967,502	196,698	-	-	5,671	21,433	9,410,329
Letters of guarantee	46,272,941	350,697	14,903,307	10,486,762	-	5,096,803	4,450,211	81,560,721
Acceptances	3,585,202	4,243	32,003	-	-	811	11,763	3,634,022
Irrevocable commitments to extend credit	8,465,055	14,843	175,629	2,577,559	-	-	-	11,233,086
Maximum credit exposure (stated at credit equivalent amounts according to SAMA's prescribed methodology)								
Derivatives	588,699	324,978	266,786	12,819	-	-	4,702	1,197,985
Held for trading	587,949	324,978	266,009	12,819	-	-	4,702	1,196,458
Held as fair value hedges	750	-	777	-	-	-	-	1,527
Commitments and contingencies	42,735,881	672,119	10,325,505	8,381,326	-	3,464,865	3,043,555	68,623,251
Letters of credit	3,588,695	422,443	85,885	-	-	2,476	9,358	4,108,857
Letters of guarantee	31,427,030	238,182	10,121,827	7,122,257	-	3,461,578	3,022,434	55,393,308
Acceptances	3,585,202	4,243	32,003	-	-	811	11,763	3,634,022
Irrevocable commitments to extend credit	4,134,954	7,251	85,790	1,259,069	-	-	-	5,487,064

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2016 and 2015

29. GEOGRAPHICAL CONCENTRATION (continued)

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

SAR'000	Non-performing loans and advances, net		Allowance for credit losses	
	2016	2015	2016	2015
Kingdom of Saudi Arabia				
Commercial Loans*	986,321	1,245,391	(1,463,106)	(799,134)
Consumer Loans	171,701	113,352	(42,060)	(27,264)
Total	1,158,022	1,358,743	(1,505,166)	(826,398)

*Includes overdrafts

30. MARKET RISK

Market Risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate due to changes in market variables such as special commission rates, foreign exchange rates, commodity and equity prices. The Bank classifies exposures to market risk into either trading or non-trading/ banking-book. The market risk for the trading book is managed and monitored using a VaR methodology. Market risk for the non-trading book is managed and monitored using a combination of VaR, stress testing and sensitivity analysis.

a) Market Risk - Trading Book

The Bank has set limits (both VaR and exposure based limits) for the acceptable level of risks in managing the trading book. In order to manage the market risk in trading book, the Bank applies a VaR methodology to assess the market risk positions held and also to estimate the potential economic loss based on a set of assumptions and changes in market conditions.

A VaR methodology estimates the potential negative change in market value of a portfolio at a given confidence level and over a specified time horizon. The Bank uses variance-covariance approach for calculating VaR for trading book based on historical data (of 1 year). VaR models are usually designed to measure the market risk in a normal market environment and therefore the use of VaR has limitations because it is based on historical correlations and volatilities in market prices and assumes that the future movements will follow a statistical distribution.

The Bank calculates VaR on the basis of the following:

1. 10 days holding period at 99% confidence interval for regulatory capital computation (under IMA approach of Basel II Accord that the Bank plans to adopt in the future)
2. 1 day holding period at 99% confidence interval for internal reporting and for disclosure purposes.

This means that the VaR that the Bank measures is an estimate (using a confidence level of 99% of the potential loss) that is not expected to be exceeded if the current market positions were to be held unchanged for 1 or 10 days. The use of 99% confidence level depicts that within a 1-day horizon, losses exceeding VaR figure should occur, on average, not more than once every hundred days.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2016 and 2015

30. MARKET RISK (continued)
a) Market Risk - Trading Book (continued)

To overcome the VaR limitations mentioned above, the Bank also carries out stress tests of both non-trading and trading portfolios to simulate conditions outside normal confidence intervals using six stress scenarios for the entire Bank. The potential losses occurring under stress test conditions are reported regularly to the Bank's Asset Liability Committee (ALCO) for their review.

The Bank's VaR related information for the year ended December 31, 2016 and 2015 using a 1 day holding period at 99% confidence interval is as under. All the figures are in million SAR:

2016	Foreign exchange rate risk	Special commission rate risk	Equity price risk	Overall risk
VaR as at December 31, 2016	3.64	0.19	0.00	3.62
Average VaR for 2016	4.79	0.79	0.00	4.97
Maximum VaR for 2016	35.14	6.34	0.00	35.10
Minimum VaR for 2016	0.20	0.08	0.00	0.22

2015	Foreign exchange rate risk	Special commission rate risk	Equity price risk	Overall risk
VaR as at December 31, 2015	33.19	4.00	0.00	33.58
Average VaR for 2015	5.72	3.12	0.00	6.66
Maximum VaR for 2015	42.30	4.48	0.00	41.38
Minimum VaR for 2015	0.66	1.50	0.00	2.12

b) Market Risk - Non-trading or Banking Book
i) Special commission rate risk

Special commission rate risk arises from the possibility that the changes in special commission rates will affect either the fair values or the future cash flows of the financial instruments. The Bank has established Net special commission Income at Risk and Market Value at Risk (MVaR) limits that are monitored by ALCO. There are gap limits to accommodate Forward FX and Money Market for all currencies. The Bank monitors positions daily and uses hedging strategies to ensure maintenance of positions within the established gap limits.

The following table depicts the sensitivity to a reasonable possible change in special commission rates, with other variables held constant, on the Bank's consolidated statement of income or equity.

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

The sensitivity of equity is calculated by revaluing the fixed rate Available for sale financial assets, including the effect of any associated hedges as at December 31, 2016 and 2015 for the effect of assumed changes in special commission rates. The sensitivity of equity is analysed by maturity of the asset or swap. All the banking book exposures are monitored and analysed in currency concentrations and relevant sensitivities are disclosed in SAR million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2016 and 2015

30. MARKET RISK (continued)
b) Market Risk - Non-trading or Banking Book (continued)

i) Special commission rate risk (Continued)

2016 Currency	Increase in basis points	Sensitivity of special commission income	Sensitivity of equity				Total
			6 months or less	1 year or less	1-5 years	Over 5 years	
SAR	+ 100	187.20	-	-	-	-	-
USD	+ 100	(48.26)	(1.18)	(1.68)	(52.09)	(276.59)	(331.55)
EUR	+ 100	(7.55)	(0.42)	(0.12)	(5.40)	(4.45)	(10.39)
GBP	+ 100	(5.45)	(0.15)	(0.74)	(2.13)	(1.35)	(4.38)
JPY	+ 100	2.31	(0.04)	-	(0.08)	(0.00)	(0.12)
Others	+ 100	(0.45)	(0.06)	(0.06)	(1.09)	(0.06)	(1.27)

Currency	Decrease in basis points	Sensitivity of special commission income	Sensitivity of equity				Total
			6 months or less	1 year or less	1-5 years	Over 5 years	
SAR	- 100	(187.39)	-	-	-	-	-
USD	- 100	48.34	1.18	1.68	52.09	276.59	331.55
EUR	- 100	(0.03)	0.42	0.12	5.40	4.45	10.39
GBP	- 100	4.14	0.15	0.74	2.13	1.35	4.38
JPY	- 100	(2.22)	0.04	-	0.08	0.00	0.12
Others	- 100	0.46	0.06	0.06	1.09	0.06	1.27

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2016 and 2015

30. MARKET RISK (continued)
b) Market Risk - Non-trading or Banking Book (continued)
i) Special commission rate risk (Continued)

2015 Currency	Increase in basis points	Sensitivity of special commission income	Sensitivity of equity				Total
			6 months or less	1 year or less	1-5 years	Over 5 years	
SAR	+ 100	58.4	-	-	-	-	-
USD	+ 100	(94.1)	(1.37)	(1.21)	(50.60)	(294.58)	(347.76)
EUR	+ 100	(3.2)	(0.67)	(0.80)	(10.02)	(7.87)	(19.35)
GBP	+ 100	(9.4)	(0.09)	(0.07)	(3.66)	(0.45)	(4.27)
JPY	+ 100	3.1	-	(0.15)	(0.42)	(0.01)	(0.59)
Others	+ 100	(0.6)	-	(0.02)	(0.53)	(0.02)	(0.57)

Currency	Decrease in basis points	Sensitivity of special commission income	Sensitivity of equity				Total
			6 months or less	1 year or less	1-5 years	Over 5 years	
SAR	- 100	(59.6)	-	-	-	-	-
USD	- 100	85.5	1.37	1.21	50.60	294.58	347.76
EUR	- 100	0.1	0.67	0.80	10.02	7.87	19.35
GBP	- 100	8.9	0.09	0.07	3.66	0.45	4.27
JPY	- 100	(3.1)	-	0.15	0.42	0.01	0.59
Others	- 100	0.5	-	0.02	0.53	0.02	0.57

Special commission sensitivity of assets, liabilities and off statement of financial position items

The Bank manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market special commission rates on its financial position and cash flows. The Bank is exposed to special commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off statement of financial position instruments that mature or re-price in a given period. The Bank manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2016 and 2015

30. MARKET RISK (continued)
b) Market Risk - Non-trading or Banking Book (continued)
i) Special commission rate risk (Continued)

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

2016 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Non special commission bearing	Total
Assets						
Cash and balances with SAMA	8,750,000	-	-	-	12,512,177	21,262,177
Cash in hand	-	-	-	-	4,307,682	4,307,682
Balances with SAMA	8,750,000	-	-	-	8,204,495	16,954,495
Due from banks and other financial institutions	3,523,483	385,000	-	-	658,672	4,567,155
Current accounts	556,355	-	-	-	658,672	1,215,027
Money market placements	2,967,128	385,000	-	-	-	3,352,128
Positive fair value of derivatives	113,257	16,958	39,299	19,781	-	189,295
Investments, net	16,764,616	6,199,724	10,973,382	8,795,085	2,424,574	45,157,381
Available for sale	2,153,633	1,105,243	5,659,149	4,671,388	2,424,574	16,013,987
Held to maturity	32	1,466	-	-	-	1,498
Other investments held at amortised cost	14,610,951	5,093,015	5,314,233	4,123,697	-	29,141,896
Investment in associates	-	-	-	-	548,594	548,594
Loans and advances, net	58,371,418	39,257,249	28,149,567	17,131,133	-	142,909,367
Overdraft	9,246,602	-	-	-	-	9,246,602
Credit cards	744,747	-	-	-	-	744,747
Consumer loans	210,797	524,858	20,459,177	16,650,384	-	37,845,216
Commercial loans	47,980,701	38,732,391	7,690,390	480,749	-	94,884,231
Others	188,571	-	-	-	-	188,571
Other real estate	-	-	-	-	245,017	245,017
Property and equipment, net	-	-	-	-	1,862,349	1,862,349
Other assets	293,437	-	-	-	584,229	877,666
Accounts receivable and others	293,437	-	-	-	584,229	877,666
Total assets	87,816,211	45,858,931	39,162,248	25,945,999	18,835,612	217,619,001

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2016 and 2015

30. MARKET RISK (continued)

b) Market Risk - Non-trading or Banking Book (continued)

i) Special commission rate risk (Continued)

2016 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Non special commission bearing	Total
Liabilities and shareholders' equity						
Due to banks and other financial institutions						
Current accounts	7,491,499	306,925	-	-	1,038,289	8,836,713
Money market deposits	-	-	-	-	1,038,289	1,038,289
Negative fair value of derivatives	7,491,499	306,925	-	-	-	7,798,424
Customer deposits	93,081	17,134	11,580	16,843	-	138,638
Demand	54,853,528	13,932,939	43,929	-	87,852,953	156,683,349
Saving	693,956	-	-	-	77,153,025	77,846,981
Time	324,982	-	-	-	-	324,982
Other	53,834,590	13,932,939	43,929	-	-	67,811,458
Debt securities in issue	-	-	-	-	10,699,928	10,699,928
Other liabilities	4,015,672	4,002,701	-	-	-	8,018,373
Accounts payable and others	-	-	-	-	6,168,867	6,168,867
Shareholders' equity	-	-	-	-	37,773,061	37,773,061
Total liabilities and shareholders' equity	66,453,780	18,259,699	55,509	16,843	132,833,170	217,619,001
Special commission rate sensitivity -On statement of financial position gap	21,362,431	27,599,232	39,106,739	25,929,156	(113,997,558)	
Special commission rate sensitivity -Off statement of financial position gap	-	-	-	-	-	
Total special commission rate sensitivity gap	21,362,431	27,599,232	39,106,739	25,929,156	(113,997,558)	
Cumulative special commission rate sensitivity gap	21,362,431	48,961,663	88,068,402	113,997,558	-	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2016 and 2015

30. MARKET RISK (continued)
b) Market Risk - Non-trading or Banking Book (continued)
i) Special commission rate risk (Continued)

2015 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Non special commission bearing	Total
Assets						
Cash and balances with SAMA	7,709,595	-	-	-	12,860,334	20,569,929
Cash in hand	-	-	-	-	4,062,756	4,062,756
Balances with SAMA	7,709,595	-	-	-	8,797,578	16,507,173
Due from banks and other financial institutions	8,211,214	-	-	-	1,058,287	9,269,501
Current accounts	3,957,402	-	-	-	1,058,287	5,015,689
Money market placements	4,253,812	-	-	-	-	4,253,812
Positive fair value of derivatives	131,715	9,490	44,850	11,484	-	197,539
Investments, net	14,834,087	8,681,085	9,728,394	8,768,962	2,752,876	44,765,404
Available for sale	2,161,342	1,068,726	5,116,648	4,622,873	2,752,876	15,722,465
Held to maturity	15,795	27,682	1,399	-	-	44,876
Other investments held at amortised cost	12,656,950	7,584,677	4,610,347	4,146,089	-	28,998,063
Investment in associates	-	-	-	-	525,131	525,131
Loans and advances, net	57,020,002	40,427,626	31,268,839	16,349,724	-	145,066,191
Overdraft	10,007,285	-	-	-	-	10,007,285
Credit cards	810,932	-	-	-	-	810,932
Consumer loans	250,459	406,502	21,603,536	15,516,247	-	37,776,744
Commercial loans	44,740,604	40,021,124	9,665,303	833,477	-	95,260,508
Others	1,210,722	-	-	-	-	1,210,722
Other real estate	-	-	-	-	258,411	258,411
Property and equipment, net	-	-	-	-	1,894,701	1,894,701
Other assets	254,250	-	-	-	514,818	769,068
Accounts receivable and others	254,250	-	-	-	514,818	769,068
Total assets	88,160,863	49,118,201	41,042,083	25,130,170	19,864,558	223,315,875

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2016 and 2015

30. MARKET RISK (continued)
b) Market Risk - Non-trading or Banking Book (continued)
i) Special commission rate risk (Continued)

2015 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Non special commission bearing	Total
Liabilities and shareholders' equity						
Due to banks and other financial institutions	3,892,650	-	-	-	607,043	4,499,693
Current accounts	-	-	-	-	607,043	607,043
Money market deposits	3,892,650	-	-	-	-	3,892,650
Negative fair value of derivatives	149,687	10,258	20,728	6,456	-	187,129
Customer deposits	74,066,076	13,160,599	150,334	-	80,475,124	167,852,133
Demand	1,354,737	-	-	-	70,784,806	72,139,543
Saving	333,618	-	-	-	-	333,618
Time	72,377,721	13,160,599	150,334	-	-	85,688,654
Other	-	-	-	-	9,690,318	9,690,318
Debt securities in issue	4,009,762	4,001,551	-	-	-	8,011,313
Other liabilities	-	-	-	-	6,220,495	6,220,495
Accounts payable and others	-	-	-	-	6,220,495	6,220,495
Shareholders' equity	-	-	-	-	36,545,112	36,545,112
Total liabilities and shareholders' equity	82,118,175	17,172,408	171,062	6,456	123,847,774	223,315,875
Special commission rate sensitivity -On statement of financial position gap	6,042,688	31,945,793	40,871,021	25,123,714	(103,983,216)	
Special commission rate sensitivity -Off statement of financial position gap	-	-	-	-	-	
Total special commission rate sensitivity gap	6,042,688	31,945,793	40,871,021	25,123,714	(103,983,216)	
Cumulative special commission rate sensitivity gap	6,042,688	37,988,481	78,859,502	103,983,216	-	

ii) Currency risk

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2016 and 2015

30. MARKET RISK (continued)
b) Market Risk - Non-trading or Banking Book (continued)

i) Special commission rate risk (Continued)

Currency Exposures As at December 31, 2016 (SAR million)	Change in currency rate in %	Effect on net income
USD	± 1	± 5.94
EUR	± 1	± 0.32
GBP	± 1	± 0.02
JPY	± 1	± 0.14
Others	± 1	± 0.01

Currency Exposures As at December 31, 2015 (SAR million)	Change in currency rate in %	Effect on net income
USD	± 1	± 5.40
EUR	± 1	± 0.46
GBP	± 1	± 0.1
JPY	± 1	± 0.17
Others	± 1	± 0.007

iii) Foreign currency risk

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

SAR'000	2016 Long (short)	2015 Long (short)
US Dollar	607,562	970,636
Japanese Yen	467	329
Euro	(160)	(68)
Pound Sterling	41	3,872
Other	41,176	18,833

Long position indicates that assets in a foreign currency are higher than the liabilities in the same currency; the opposite applies to short position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2016 and 2015

30. MARKET RISK (continued)

b) Market Risk - Non-trading or Banking Book (continued)

i) Special commission rate risk (Continued)

iv) Banking Book - Equity Price risk

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

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

Market Index	December 31, 2016		December 31, 2015	
	Change in equity index %	Effect in SAR millions	Change in equity index %	Effect in SAR millions
Tadawul	+5	46.46	+5	49.35
	+10	92.93	+10	98.69
	-5	(46.46)	-5	(49.35)
	-10	(92.93)	-10	(98.69)

31. LIQUIDITY RISK

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

Management monitors the maturity profile to ensure that adequate liquidity is maintained. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions.

All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of the Group. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

In accordance with Banking Control Law and the regulations issued by SAMA, the Bank 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 Bank also maintains liquid reserves of not less than 20% of its deposit liabilities, in the form of cash, gold, Saudi Government Development Bonds or assets which can be converted into cash within a period not exceeding 30 days. The Bank has the ability to raise additional funds through repo facilities with SAMA up to 75 % of the nominal value of bonds held by the Bank.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2016 and 2015

31. LIQUIDITY RISK (continued)

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

2016 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Financial liabilities					
Due to banks and other financial institutions	8,531,067	307,212	-	-	8,838,279
Current accounts	1,038,289	-	-	-	1,038,289
Money market deposits	7,492,778	307,212	-	-	7,799,990
Customer deposits	142,928,377	13,989,411	45,051	-	156,962,839
Demand	77,846,981	-	-	-	77,846,981
Saving	324,984	-	-	-	324,984
Time	54,056,484	13,989,411	45,051	-	68,090,946
Other	10,699,928	-	-	-	10,699,928
Debt securities in issue	63,647	190,942	4,953,404	4,458,786	9,666,779
Derivative financial instruments (gross contractual amounts payable)	4,668,650	106,745	339,740	43,826	5,158,961
Held for trading	36,623	106,363	339,740	43,826	526,552
Held as fair value hedges	382	382	-	-	764
Accrued expense and account payable	4,631,645	-	-	-	4,631,645
Total undiscounted financial liabilities	156,191,741	14,594,310	5,338,195	4,502,612	180,626,858

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2016 and 2015

31. LIQUIDITY RISK (continued)

2015 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Financial liabilities					
Due to banks and other financial institutions	4,501,213	-	-	-	4,501,213
Current accounts	607,043	-	-	-	607,043
Money market deposits	3,894,170	-	-	-	3,894,170
Customer deposits	154,688,417	13,206,444	153,380	-	168,048,241
Demand	72,139,543	-	-	-	72,139,543
Saving	334,743	492	-	-	335,235
Time	72,523,813	13,205,952	153,380	-	85,883,145
Other	9,690,318	-	-	-	9,690,318
Debt securities in issue	36,775	110,325	4,619,335	4,344,476	9,110,911
Derivative financial instruments (gross contractual amounts payable)	5,030,193	72,315	237,758	51,965	5,392,231
Held for trading	23,172	70,784	237,290	51,965	383,211
Held as fair value hedges	691	1,531	468	-	2,690
Accrued expense and account payable	5,006,330	-	-	-	5,006,330
Total undiscounted financial liabilities	164,256,598	13,389,084	5,010,473	4,396,441	187,052,596

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2016 and 2015

31. LIQUIDITY RISK (continued)

b) The table below summarises the maturity profile of the Group's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date and do not take account of the effective maturities as indicated by the Bank's deposit retention history. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

2016 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	13,057,682	-	-	-	8,204,495	21,262,177
Cash in hand	4,307,682	-	-	-	-	4,307,682
Balances with SAMA	8,750,000	-	-	-	8,204,495	16,954,495
Due from banks and other financial institutions	4,182,155	385,000	-	-	-	4,567,155
Current accounts	1,215,027	-	-	-	-	1,215,027
Money market placements	2,967,128	385,000	-	-	-	3,352,128
Positive fair value of derivatives	113,257	16,958	39,299	19,781	-	189,295
Investments, net	8,466,578	3,167,390	13,475,462	17,623,377	2,424,574	45,157,381
Available for sale	689,234	1,031,499	6,258,314	5,610,366	2,424,574	16,013,987
Held to maturity	32	1,466	-	-	-	1,498
Other investments held at amortised cost	7,777,312	2,134,425	7,217,148	12,013,011	-	29,141,896
Investment in associates	-	-	-	-	548,594	548,594
Loans and advances, net	41,232,437	23,694,432	40,561,793	37,420,705	-	142,909,367
Overdraft	9,246,602	-	-	-	-	9,246,602
Credit cards	744,747	-	-	-	-	744,747
Consumer loans	210,797	524,858	20,459,177	16,650,384	-	37,845,216
Commercial loans	30,882,402	23,135,545	20,095,963	20,770,321	-	94,884,231
Others	147,889	34,029	6,653	-	-	188,571
Other real estate	-	-	-	-	245,017	245,017
Property and equipment, net	-	-	-	-	1,862,349	1,862,349
Other assets	293,437	-	-	-	584,229	877,666
Accounts receivable and others	293,437	-	-	-	584,229	877,666
Total assets	67,345,546	27,263,780	54,076,554	55,063,863	13,869,258	217,619,001

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2016 and 2015

31. LIQUIDITY RISK (continued)

2016 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Liabilities and shareholders' equity						
Due to banks and other financial institutions	8,529,788	306,925	-	-	-	8,836,713
Current accounts	1,038,289	-	-	-	-	1,038,289
Money market deposits	7,491,499	306,925	-	-	-	7,798,424
Negative fair value of derivatives	93,081	17,134	11,580	16,843	-	138,638
Customer deposits	142,706,481	13,932,938	43,930	-	-	156,683,349
Demand	77,846,981	-	-	-	-	77,846,981
Saving	324,982	-	-	-	-	324,982
Time	53,834,590	13,932,938	43,930	-	-	67,811,458
Other	10,699,928	-	-	-	-	10,699,928
Debt securities in issue	-	-	4,015,672	4,002,701	-	8,018,373
Other liabilities	-	-	-	-	6,168,867	6,168,867
Accounts payable and others	-	-	-	-	6,168,867	6,168,867
Shareholders' equity	-	-	-	-	37,773,061	37,773,061
Total liabilities and shareholders' equity	151,329,350	14,256,997	4,071,182	4,019,544	43,941,928	217,619,001

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2016 and 2015

31. LIQUIDITY RISK (continued)

2015 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	11,772,351	-	-	-	8,797,578	20,569,929
Cash in hand	4,062,756	-	-	-	-	4,062,756
Balances with SAMA	7,709,595	-	-	-	8,797,578	16,507,173
Due from banks and other financial institutions	9,269,501	-	-	-	-	9,269,501
Current accounts	5,015,689	-	-	-	-	5,015,689
Money market placements	4,253,812	-	-	-	-	4,253,812
Positive fair value of derivatives	131,714	9,490	44,850	11,485	-	197,539
Investments, net	8,552,526	8,929,526	11,996,146	12,534,330	2,752,876	44,765,404
Available for sale	811,293	903,386	5,834,400	5,420,510	2,752,876	15,722,465
Held to maturity	15,795	27,682	1,399	-	-	44,876
Other investments held at amortised cost	7,725,438	7,998,458	6,160,347	7,113,820	-	28,998,063
Investment in associates	-	-	-	-	525,131	525,131
Loans and advances, net	40,968,509	25,476,159	43,713,260	34,908,263	-	145,066,191
Overdraft	10,007,285	-	-	-	-	10,007,285
Credit cards	810,932	-	-	-	-	810,932
Consumer loans	81,698	575,263	21,603,536	15,516,247	-	37,776,744
Commercial loans	29,752,123	24,017,996	22,098,373	19,392,016	-	95,260,508
Others	316,471	882,900	11,351	-	-	1,210,722
Other real estate	-	-	-	-	258,411	258,411
Property and equipment, net	-	-	-	-	1,894,701	1,894,701
Other assets	254,250	-	-	-	514,818	769,068
Accounts receivable and others	254,250	-	-	-	514,818	769,068
Total assets	70,948,851	34,415,175	55,754,256	47,454,078	14,743,515	223,315,875

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2016 and 2015

31. LIQUIDITY RISK (continued)

2015 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Liabilities and shareholders' equity						
Due to banks and other financial institutions	4,499,693	-	-	-	-	4,499,693
Current accounts	607,043	-	-	-	-	607,043
Money market deposits	3,892,650	-	-	-	-	3,892,650
Negative fair value of derivatives	149,688	10,258	20,728	6,455	-	187,129
Customer deposits	154,541,199	13,160,599	150,335	-	-	167,852,133
Demand	72,139,543	-	-	-	-	72,139,543
Saving	333,618	-	-	-	-	333,618
Time	72,377,720	13,160,599	150,335	-	-	85,688,654
Other	9,690,318	-	-	-	-	9,690,318
Debt securities in issue	-	-	4,009,762	4,001,551	-	8,011,313
Other liabilities	-	-	-	-	6,220,495	6,220,495
Accounts payable and others	-	-	-	-	6,220,495	6,220,495
Shareholders' equity	-	-	-	-	36,545,112	36,545,112
Total liabilities and shareholders' equity	159,190,580	13,170,857	4,180,825	4,008,006	42,765,607	223,315,875

Assets available to meet all of 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 cumulative maturities of commitments and contingencies is given in note 19 c) (i).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2016 and 2015

32. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

Level 1: quoted market price: financial instruments with quoted unadjusted prices for identical instruments in active markets.

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

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

Fair value and fair value hierarchy

2016 SAR' 000	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Available for sale investments	15,478,675	268,663	266,649	16,013,987
Positive fair value derivatives	-	189,295	-	189,295
Financial assets not measured at fair value				
Due from banks and other financial institutions	-	4,567,155	-	4,567,155
Held to maturity investments	-	1,513	-	1,513
Other investments at amortised cost	-	29,171,710	-	29,171,710
Loans and advances	-	146,736,813*	-	146,736,813
Financial liabilities measured at fair value				
Negative fair value derivatives	-	138,638	-	138,638
Financial liabilities not measured at fair value				
Due to banks and other financial institutions	-	8,836,713	-	8,836,713
Customer deposits	-	156,683,349	-	156,683,349
Debt securities in issue	-	8,018,373	-	8,018,373

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2016 and 2015

32. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)
Fair value and fair value hierarchy (continued)

2015 SAR' 000	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Available for sale investments	14,589,396	880,063	253,006	15,722,465
Positive fair value derivatives	-	197,539	-	197,539
Financial assets not measured at fair value				
Due from banks and other financial institutions	-	9,269,501	-	9,269,501
Held to maturity investments	-	45,304	-	45,304
Other investments at amortised cost	-	29,208,074	-	29,208,074
Loans and advances	-	149,221,355*	-	149,221,355
Financial liabilities measured at fair value				
Negative fair value derivatives	-	187,129	-	187,129
Financial liabilities not measured at fair value				
Due to banks and other financial institutions	-	4,499,693	-	4,499,693
Customer deposits	-	167,852,133	-	167,852,133
Debt securities in issue	-	8,011,313	-	8,011,313

*The management uses discounted cash flow method, using the current yield curve adjusted for credit risk spreads to arrive at the fair value of loans and advances. Cash and balances with SAMA, due from banks with maturity of less than 90 days and other short term receivable are assumed to have fair values that reasonably approximate their corresponding carrying values due to the short-term nature.

There were no transfers between the fair value hierarchy levels.

Although the Bank believes that its estimates of fair value of Level 3 securities are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. Level 3 consists of local and international unquoted equity securities. Bank uses net assets valuation method based on most recent available audited financial statements to fair value these investments. Other methodology that could be used to value the securities is discounted cash flow model based on expected dividend yield for which no data is available. Therefore potential impact of using reasonably possible alternative assumptions for the valuation techniques is not quantified.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2016 and 2015

32. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

Fair value and fair value hierarchy (continued)

Reconciliation of movement in Level 3

SAR' 000	2016	2015
Opening balance	253,006	147,714
Total gains or losses		
- recognised in consolidated statement of income	(252)	(1,955)
- recognised in other comprehensive income	13,293	6,881
Redemptions	-	(934)
Purchases	602	101,300
Closing balance	266,649	253,006

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

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

33. RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Bank transacts business with related parties. Related party transactions are governed by the limits set by the Banking Control Law and regulations issued by SAMA. The balances at December 31 resulting from such transactions are as follows:

a) Directors, key management personnel, other major shareholders' and their affiliates:

SAR'000	2016	2015
Loans and advances	3,689,358	4,336,236
Customer deposits	21,028,373	51,299,804
Derivatives asset (at fair value)	779	1,876
Commitments and contingencies (irrevocable)	2,445,228	2,458,247
Executive end of service	57,289	68,371

Key management personnel are those persons, including a non-executive director, having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly.

Other major shareholders represent shareholdings of 5% or more of the Bank's issued share capital.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2016 and 2015

33. RELATED PARTY TRANSACTIONS (continued)

b) Bank's mutual funds:

Customer deposits	179,000	169,864
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Income and expenses pertaining to transactions with related parties included in these consolidated financial statements are as follows:

SAR'000	2016	2015
Special commission income	121,722	91,412
Special commission expense	695,709	323,886
Fees from banking services, net	108,663	156,580
Directors and committees remuneration and expenses	6,240	4,705
Executive remuneration and bonus	67,520	65,266
Executive end of service	2,646	4,114
Other expenses	23,744	15,112

34. CAPITAL ADEQUACY

The Group's objectives when managing capital are to comply with the capital requirements set by SAMA; to safeguard the Group's ability to continue as a going concern; and to maintain a strong capital base.

The Group monitors the adequacy of its capital using the methodologies and ratios established by the Basel Committee on Banking Supervision and as adopted by SAMA, with a view to maintain a sound capital base to support its business development and meet regulatory capital requirement as defined by SAMA.

The Group management reviews on a periodical basis its capital base and level of risk weighted assets to ensure that capital is adequate for risks inherent in its current business activities and future growth plans. In making such assessments, the management also considers Group's business plans along with economic conditions which directly and indirectly affects business environment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2016 and 2015

34. CAPITAL ADEQUACY (continued)

SAMA requires holding the minimum level of the regulatory capital of and maintaining a ratio of total regulatory capital to the risk-weighted asset (RWA) at or above the agreed minimum of 8%. SAMA issued the framework and guidance regarding implementation of the capital reforms under Basel III - which was effective from January 1, 2013. Accordingly, the Group's consolidated Risk Weighted Assets (RWA), total capital and related ratios on a consolidated Group basis, calculated under the Basel III framework, are as follows:

	2016		2015	
	Capital SAR'000	Ratio %	Capital SAR'000	Ratio %
Top consolidated level				
Tier 1 capital	37,773,061	16.7%	36,545,112	16.2%
Tier 2 capital	5,072,349		5,072,349	
Total regulatory capital (Tier 1 + Tier 2)	42,845,410	18.9%	41,617,461	18.4%

SAR '000s	2016	2015
Risk weighted assets		
Credit risk weighted assets	211,833,031	211,467,649
Operational risk weighted assets	13,889,563	13,509,713
Market risk weighted assets	495,050	1,034,413
Total Pillar 1 Risk Weighted Assets	226,217,644	226,011,775

35. STAFF INVESTMENT SAVINGS PLANS

The Group operates a Staff Savings Investment Plan. Under the terms of the Staff Savings Investment Plan, participating employees of the Bank make monthly contributions by way of a deduction from their salary subject to a maximum of 15% of their basic salaries. The Bank also contributes on a monthly basis a pre-determined percentage (subject to a maximum of 6%) of the basic salary of an employee based on the varying service periods. The proceeds are invested in the Bank's existing range of mutual funds for the benefit of the employees.

The cost of the above plan is charged to the consolidated statement of income over the term of the plan.

36. INVESTMENT MANAGEMENT SERVICES

The Group offers investment management services to its customers, which include management of certain investment funds with assets totaling SAR 17.0 billion (2015: SAR 26.1 billion).

The Group's assets under management include non-special commission based funds amounting to SAR 5.8 billion (2015: SAR 6.8 billion).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2016 and 2015

37. ISSUED IFRS BUT NOT YET EFFECTIVE

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

Following is a brief on the new IFRS and amendments to IFRS effective for annual periods beginning on or after January 01, 2017.

Standard, amendment or interpretation	Summary of requirements	Effective for annual periods beginning on or after
IFRS 9	Financial instruments	1-Jan-18
IFRS 15	Revenue from contracts with customers	1-Jan-18
Amendments to IAS 7	Disclosure Initiative	1-Jan-17
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions	1-Jan-18
IFRS 16	Leases	1-Jan-19

38. COMPARATIVE FIGURES

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

39. BOARD OF DIRECTORS' APPROVAL

These consolidated financial statements were approved by the Board of Directors on 15 Jumada I 1438H (corresponding to February 12, 2017).

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