

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

1. General

The Saudi Investment Bank (the Bank), a Saudi joint stock company, was formed pursuant to Royal Decree No. M/31 dated 25 Jumada II 1396H, (corresponding to June 23, 1976) in the Kingdom of Saudi Arabia. The Bank operates under Commercial Registration No. 1010011570 dated 25 Rabie Awwal 1397H, (corresponding to March 16, 1977) through its 49 branches (2016: 48 branches) in the Kingdom of Saudi Arabia. The address of the Bank's Head Office is as follows:

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

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

- (a) "Alistithmar for Financial Securities and Brokerage Company" (Alistithmar Capital), a Saudi closed joint stock company, is registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010235995 issued on 8 Rajab 1428H (corresponding to July 22, 2007), and is 100% owned by the Bank;
- (b) "Saudi Investment Real Estate Company", a Saudi limited liability company, registered in the Kingdom of Saudi Arabia under commercial registration No. 1010268297 issued on 29 Jumada Awwal 1430H (corresponding to May 25, 2009) and is owned 100% by the Bank. The Company has not commenced any significant operations;
- (c) "Saudi Investment First Company", a Saudi limited liability company, registered in the Kingdom of Saudi Arabia under commercial registration No. 1010427836 issued on 16 Muharram 1436H (corresponding to November 9, 2014) and is owned 100% by the Bank. The Company has not commenced any significant operations; and
- (d) "SAIB Markets Limited Company", a Cayman Islands limited liability company, registered in the Cayman Islands on July 18, 2017, and is 100% owned by the Bank. The objective of the Company is to conduct derivatives and repurchase activities on behalf of the Bank. The Company has not commenced significant operations.

The Bank offers a full range of commercial and retail banking services. The principal activities of Alistithmar Capital include dealing in securities as principal and

agent, underwriting, management of investment funds and private investment portfolios on behalf of customers, and arrangement, advisory, and custody services relating to financial securities. The Group also offers Shariah compliant (non-interest based) banking products and services, which are approved and supervised by an independent Shariah Board.

References to the "Bank" hereafter in these consolidated financial statements refer to disclosures that are relevant only to The Saudi Investment Bank, and not collectively to the "Group".

2. Basis of preparation

(a) Statement of compliance

On April 11, 2017, the Saudi Arabian Monetary Authority (SAMA) issued Circular No. 381000074519 with subsequent amendments regarding certain clarifications relating to the accounting for Zakat and Income tax. The impact of the Circular and amendments are as follows:

- The accounting standards for commercial banks promulgated by SAMA are no longer applicable from January 1, 2017; and
- Zakat and Income Tax are to be accrued on a quarterly basis and recognized in the consolidated statement of changes in equity with a corresponding liability recognized in the consolidated statement of financial position.

Applying the above SAMA Circular and amendments to the Framework, these consolidated financial statements as of and for the year ended December 31, 2017 have been prepared using:

- International Financial Reporting Standards (IFRS) as modified by SAMA for the accounting of Zakat and Income Tax, which requires adoption of all IFRSs as issued by the International Accounting Standards Board (IASB) except for the application of International Accounting Standard (IAS) 12 – "Income Taxes" and IFRIC 21 – "Levies" in so far as these relate to Zakat and Income Tax. As for the SAMA Circular No. 381000074519 dated April 11, 2017 and subsequent amendments through certain clarifications relating to the accounting for Zakat and Income Tax (SAMA Circular), the Zakat and Income Tax are to be accrued on a quarterly basis through shareholders' equity under retained earnings; and
- Are in compliance with the Banking Control Law, the applicable provisions of regulations for companies in the Kingdom of Saudi Arabia, and the Bank's Articles of Association

Until December 31, 2016, the consolidated financial statements were prepared in accordance with the accounting standards for commercial banks promulgated by SAMA, IFRS, and IFRIC. This change in framework resulted in a change in the accounting policy for Zakat and Income Tax, as disclosed in Note 3. The effects of this change are disclosed in Notes 27 and 41.

(b) Basis of measurement

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

- (a) Assets and liabilities held for trading are measured at fair value;
- (b) Financial instruments designated as fair value through the consolidated income statement are measured at fair value;
- (c) Available for sale investments are measured at fair value;
- (d) Derivatives are measured at fair value;
- (e) Recognized financial assets and financial liabilities designated as hedged items in qualifying fair value hedge relationships are adjusted for changes in fair value attributable to the risk being hedged; and
- (f) Cash settled share-based payments are measured at fair value.

During the years ended December 31, 2017 and 2016, the Group had no assets or liabilities which were held as trading, except for certain derivative financial instruments. The statement of financial position is stated broadly in order of liquidity.

(c) Functional and presentation currency

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

(d) Critical accounting judgements, estimates and assumptions

The preparation of these consolidated financial statements in conformity with IFRS requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires Management to exercise its judgement in the process of applying the Group's accounting policies. Such judgements, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances.

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

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

(i) Impairment for losses on loans and advances

The Group reviews its loan portfolios to assess specific and collective impairment at each reporting date. In determining whether an impairment loss should be recorded, the Group makes judgements as to whether there is any observable data indicating an impairment trigger and followed by a measurable decrease in the estimated future cash flows. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group. Management uses estimates based on historical loss experience for loans with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its future cash flows.

The methodology and assumptions used for estimating both the amount and the timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The assessment considers risk concentrations and economic data, including levels of unemployment, real estate price indices, country risk, and the performance of different individual groups.

(ii) Fair value measurement

The Group measures financial instruments, such as derivatives, at fair value at each consolidated statement of financial position date, except as disclosed in Note 34.

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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(iv) Classification of held to maturity investments

The Group classifies non-derivative financial assets with fixed or determinable payments and fixed maturities as held to maturity in accordance with IAS 39. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity.

If the Group fails to retain these investments to maturity other than in specific circumstances, including selling close to maturity or for an insignificant amount, the

Group reclassifies the entire class as available for sale. As of December 31, 2017 and 2016, the Bank has no held to maturity investments.

(v) Determination of control over investees

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

(e) Going concern

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

(f) Provisions for liabilities and charges

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

(g) Employee benefit plans

The Group provides post employment end of service benefits to its employees based on the Saudi Arabia Labor and Workmen Law. The liability is provided based on a projected unit credit method in accordance with the periodic actuarial valuations as described in Note 38 (b).

3. Summary of significant accounting policies

The significant accounting policies adopted in the preparation of these consolidated financial statements are set out below. Except for the change in accounting policies resulting from new and or amended IFRS and IFRIC guidance as detailed in Note 3 (a) below, the accounting policies adopted in the preparation of these consolidated financial statements are consistent

with those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2016.

(a) Change in accounting policies

The accounting policies adopted are consistent with those of the annual consolidated financial statements for the year ended December 31, 2016, as described in the annual consolidated financial statements for the year ended December 31, 2016, except for the change in accounting policy of Zakat and tax mentioned below and adoption of the following amendments to existing standards mentioned below:

- Amendments to IASs – “Disclosure Initiative” applicable from January 1, 2017.
- Amendments to IAS 7 – “Statement of Cash Flows”, which is applicable for annual periods beginning on or after January 1, 2017.

These amendments are part of the IASB's Disclosure Initiative, which continues to explore how financial statements disclosures can be improved. The adoption of the above amendments to existing standards have not had a significant impact on the current year consolidated financial statements.

The Bank has chosen not to early adopt the amendments and revisions to the International Financial Reporting Standards which have been published and are mandatory for adoption for the accounting years beginning on or after January 1, 2018 (see Note 40).

As described in Note 2, the Group amended its accounting policy relating to Zakat and Income Tax effective on January 1, 2017. The effect of the new Zakat and Income Tax Policy is accounted for in these consolidated financial statements retroactively. The superceded Zakat and Income Tax Policy required only payments of Zakat and Income Tax to be recorded as an other asset until such amounts were reimbursed by a Bank's shareholders either through cash payments or by withholding the amounts from shareholder dividend payments. In addition, the superceded Zakat and Income Tax Standard did not require the accrual of Zakat and Income Tax in other liabilities. The new Zakat and Income Tax Policy requires both payments of Zakat and Income Tax previously included in other assets, and also accruals for Zakat and Income Tax on a quarterly basis to be included in other liabilities, with the corresponding amounts to be accounted for as a direct charge to retained earnings. See Notes 27 and 41 for further disclosures.

The adoption of the above amendments to existing standards have had no significant impact on the consolidated financial statements of the Group in the

current year or prior years and is also expected to have an insignificant effect in future years.

(b) Basis of consolidation

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

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

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

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect amount of its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights granted by equity instruments such as shares.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control over the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interests;
- Derecognizes the cumulative translation differences recorded in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

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

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

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

(c) Investments in associates

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

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

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

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

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

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

its carrying value and recognizes the amount in the share in earnings of associates in the consolidated income statement.

(d) Settlement date accounting

All regular-way purchases and sales of financial assets are recognized and derecognized on the settlement date, i.e. the date the asset is delivered to the counterparty. When settlement date accounting is applied, the Bank accounts for any change in fair value between the trade date and the settlement date in the same way as it accounts for the acquired asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

(e) Derivative financial instruments and hedge accounting

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

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

(i) Derivatives held for trading

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

(ii) Embedded derivatives

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

(iii) Hedge accounting

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

For the purpose of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognized asset or liability, (or assets or liabilities in the case of portfolio hedging), or an unrecognized firm commitment or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the reported net gain or loss; and (b) cash flow hedges which hedge exposure to variability in cash flows that are either attributable to a particular risk associated with a recognized asset or liability or to a highly probable forecasted transaction that will affect the reported net gain or loss.

In order to qualify for hedge accounting, the hedge should be expected to be highly effective, i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item, and should be reliably measurable. At inception of the hedge, the risk management objective and strategy are documented including the identification of the hedging instrument, the related hedged item, the nature of the risk being hedged, and how the Group will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an on going basis.

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

a forecast transaction, the Group also assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the consolidated income statement.

iii (a) Fair value hedges

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

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

iii (b) Cash flow hedges

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

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

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

(f) Foreign currencies

Transactions in foreign currencies are translated into Saudi Arabian Riyals at the exchange rates prevailing at transaction dates. Monetary assets and liabilities at year-end, denominated in foreign currencies, are translated into Saudi Arabian Riyals at the exchange rates prevailing at the consolidated statement of financial position date.

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

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

(g) Offsetting financial instruments

Financial assets and liabilities are offset and are reported net in the consolidated statement of financial position when there is a legally enforceable right to set-off the recognized amounts and when the Group intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

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

(h) Revenue/expense recognition

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

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

The carrying amount of a financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective special commission rate and the change in carrying amount is recorded as special commission income or expense.

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

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

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

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

Fees from banking services that are not an integral component of the effective yield calculation on a financial asset or liability are generally recognized on an accrual basis when the related service is provided.

Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportionate basis.

Fees received on asset management, custody services and other similar services that are provided over an extended period of time, are recognized over the period when the service is being provided.

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

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

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

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

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

Where a transaction price differs from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the

Group immediately recognizes the difference between the transaction price and fair value (a Day 1 profit or loss) in the consolidated income statement. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated income statement when the inputs become observable, or when the instrument is derecognized.

(i) Repurchase agreements and reverse repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repurchase agreements) continue to be recognized in the consolidated statement of financial position as the Group retains substantially all of the risks and rewards of ownership, and are measured in accordance with related accounting policies for investments held as available for sale. The transactions are treated as a collateralized borrowing and the 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 the sale and repurchase price is treated as special commission expense and recognized over the life of the repurchase agreement on an effective yield basis.

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

(j) Investments

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

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

For securities where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the expected cash flows of the security. Where the fair values cannot be derived from active markets or reference prices, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values.

Following initial recognition, subsequent transfers between the various classes of investments are permissible only if certain conditions are met. The subsequent period-end reporting values for each class of investment are determined on the basis as set out in the following paragraphs.

(i) Available for sale

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

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

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

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

(ii) Held to maturity

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

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

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

(k) Loans and advances

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

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

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

(I) Impairment of financial assets

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

The Group considers evidence of impairment for loans and advances and held to maturity investments at both a specific and collective level. When a financial asset is uncollectible, it is written off against the related provision for impairment either directly by a charge to the consolidated income statement or through a provision for impairment account. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted, and the amount of the loss has been determined.

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

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

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

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

the original carrying amount of the loan. In other cases, renegotiation may lead to a new agreement, and accordingly the agreement is treated as a new loan.

(i) Impairment of financial assets held at amortized cost

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

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

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

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

(ii) Impairment of available for sale financial assets

For debt instruments classified as available for sale, the Group assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated income statement.

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

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

(m) Impairment of non-financial assets

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

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

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

(n) Other real estate

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

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

(o) Property, equipment, and intangibles

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

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

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

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

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

(p) Financial liabilities

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

Subsequently all commission-bearing financial liabilities other than those where fair values have been hedged are measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium. Premiums are amortized and discounts are accreted on an effective yield basis to maturity and taken to special commission expense.

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

(q) Financial guarantees

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

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

(r) Provisions

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

(s) Accounting for leases

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

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

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

(t) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents are defined as those amounts included in cash and balances with SAMA excluding statutory deposits, and due from banks and other financial institutions with a maturity of ninety days or less from the date of acquisition which are also subject to insignificant risk of changes in their fair value.

(u) 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 derecognized, when the contractual rights to receive the cash flows from the financial asset expires or the asset is transferred and the transfer qualifies for derecognition.

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

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

(v) Zakat and income tax

Zakat and Income Taxes are accrued and included in other liabilities and charged directly to retained earnings as required by SAMA Circular No. 381000074519 issued in April 2017.

(w) Employees' incentive and savings plans

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

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

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

(x) Other employees' benefits

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

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

(y) Asset management services

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

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in the consolidated financial statements.

(z) Non-interest based banking products

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

High level definitions of non-interest based products include:

- i. Murabaha – an agreement whereby the Group sells to a customer a commodity or an asset, which the Group has purchased and acquired based on a promise received from the customer to buy. The selling price comprises the cost plus an agreed profit margin.
- ii. Istisna'a – an agreement between the Group and a customer whereby the Group sells to the customer a developed asset according to agreed upon specifications, for an agreed upon price.
- iii. Ijarah – an agreement whereby the Group, acting as a lessor, purchases or constructs an asset for lease according to the customer request (lessee), based on his promise to lease the asset for an agreed rent and specific period that could end by transferring the ownership of the leased asset to the lessee.

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

4. Cash and balances with SAMA

Cash and balances with SAMA are summarized as follows:

	2017 SAR '000	2016 SAR '000
Cash on hand	725,972	881,498
Reverse repurchase agreements with SAMA	1,282,000	1,220,000
Other balances with SAMA	(76,739)	7,077
Subtotal (Note 28)	1,931,233	2,108,575
Statutory deposit with SAMA	3,332,205	3,575,763
Total	5,263,438	5,684,338

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

5. Due from banks and other financial institutions

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

	2017 SAR '000	2016 SAR '000
Current accounts	913,181	401,900
Money market placements	2,599,892	1,900,393
Total	3,513,073	2,302,293

The credit quality of due from banks and other financial institutions is managed using data from reputable external credit ratings agencies. The average S&P rating for the portfolio is an investment grade of "A" for 2017 and 2016.

6. Investments, net

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

	2017 SAR '000			2016 SAR '000		
	Domestic	International	Total	Domestic	International	Total
Fixed rate securities	9,196,031	7,761,445	16,957,476	7,202,134	7,984,702	15,186,836
Floating rate securities	1,465,551	2,573,706	4,039,257	1,851,318	3,228,178	5,079,496
Total commission earning investments	10,661,582	10,335,151	20,996,733	9,053,452	11,212,880	20,266,332
Equities	453,794	54,919	508,713	945,860	71,887	1,017,747
Mutual funds	212,530	-	212,530	167,815	-	167,815
Total available for sale	11,327,906	10,390,070	21,717,976	10,167,127	11,284,767	21,451,894
Allowance for impairment	-	(4,000)	(4,000)	-	(4,000)	(4,000)
Available for sale, net	11,327,906	10,386,070	21,713,976	10,167,127	11,280,767	21,447,894

Investments include SAR 3.0 billion (2016: SAR 4.4 billion), which have been pledged under repurchase agreements with other financial institutions. The market value of these investments is SAR 3.0 billion (2016: SAR 4.4 billion). See Note 19 (d).

The net cost of the available for sale investment securities before allowance for impairment as of December 31, 2017 is SAR 21.5 billion (2016: SAR 20.9 billion).

6. Investments, net (Continued)

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

	2017 SAR '000			2016 SAR '000		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Fixed rate securities	11,025,277	5,932,199	16,957,476	9,518,103	5,668,733	15,186,836
Floating rate securities	2,116,001	1,923,256	4,039,257	2,770,765	2,308,731	5,079,496
Total commission earning investments	13,141,278	7,855,455	20,996,733	12,288,868	7,977,464	20,266,332
Equities	449,151	59,562	508,713	942,110	75,637	1,017,747
Mutual funds	212,530	-	212,530	167,815	-	167,815
Total available for sale	13,802,959	7,915,017	21,717,976	13,398,793	8,053,101	21,451,894
Allowance for impairment	-	(4,000)	(4,000)	-	(4,000)	(4,000)
Available for sale, net	13,802,959	7,911,017	21,713,976	13,398,793	8,049,101	21,447,894

The unquoted securities above are principally comprised of Saudi Government Development Bonds, and certain Saudi corporate securities. Equities reported under available for sale investments include unquoted shares of SAR 13.3 million (2016: SAR 12.4 million) that are carried at cost, as their fair value cannot be reliably measured. Mutual funds are considered as quoted in the table above as daily net asset values are published on the Saudi Stock Exchange (Tadawul).

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

	2017 SAR '000	2016 SAR '000
Government and quasi-government	12,457,770	10,169,143
Corporate	3,354,035	3,116,054
Banks and other financial institutions	5,902,171	8,162,697
Available for sale investments, net	21,713,976	21,447,894

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

	2017 SAR '000	2016 SAR '000
Investment grade	18,836,442	17,682,772
Non-investment grade	1,109,997	1,012,726
Unrated	1,046,294	1,566,834
Subtotal	20,992,733	20,262,332
Equities and mutual funds	721,243	1,185,562
Available for sale investments, net	21,713,976	21,447,894

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

6. Investments, net (Continued)

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

	2017 SAR '000	2016 SAR '000
Balance at the beginning of the year	4,000	114,000
Impaired during the year	108,622	207,000
Reversals for realized losses during the year	(108,622)	(317,000)
Balance at the end of the year	4,000	4,000

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

	2017 SAR '000	2016 SAR '000
Unrealized gains on revaluation of available for sale investments, net	204,298	508,059
Share of other comprehensive income of Associates	180	1,592
Other reserves	204,478	509,651

7. Loans and advances, net

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

	2017 SAR '000				
	Overdraft	Consumer	Commercial	Others	Total
Performing loans and advances	3,449,960	16,599,693	39,514,262	326,002	59,889,917
Non-performing loans and advances	404,739	242,195	126,214	-	773,148
Total loans and advances	3,854,699	16,841,888	39,640,476	326,002	60,663,065
Allowance for credit losses	(316,155)	(408,099)	(350,193)	(334)	(1,074,781)
Loans and advances, net	3,538,544	16,433,789	39,290,283	325,668	59,588,284

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

Loans and advances above include non-interest based banking products including Murabaha agreements, Istisna'a and Ijarah which are stated at an amortized cost of SAR 37.3 billion (2016: SAR 37.1 billion).

The Group in the ordinary course of lending activities holds collateral as security to mitigate credit risk on its loans and advances. The collateral includes customer deposits, financial guarantees, securities, real estate, and other assets. The collateral is managed against relevant exposures at their net realizable values. The estimated fair value of collateral held by the Group as security for total loans and advances is approximately SAR 44.7 billion (2016: SAR 44.2 billion).

The estimated fair value of collateral held by the Group as security for non-performing loans and advances as of December 31, 2017 is approximately SAR 0.6 billion (2016: SAR 1.3 billion).

7. Loans and advances, net (Continued)

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

	Overdraft, commercial and others SAR '000		
	Specific	Collective	Total
December 31, 2015 balances	240,093	321,700	561,793
Provided during the year	4,894	68,591	73,485
Bad debts written off during the year	(14,294)	(7,000)	(21,294)
Recoveries during the year	–	562	562
December 31, 2016 balances	230,693	383,853	614,546
Provided during the year	118,026	(10,324)	107,702
Bad debts written off during the year	(43,126)	(12,440)	(55,566)
Recoveries during the year	–	–	–
December 31, 2017 balances	305,593	361,089	666,682

	Consumer SAR '000		
	Specific	Collective	Total
December 31, 2015 balances	142,741	134,182	276,923
Provided during the year	141,036	31,479	172,515
Bad debts written off during the year	(156,565)	–	(156,565)
Recoveries during the year	87,425	–	87,425
December 31, 2016 balances	214,637	165,661	380,298
Provided during the year	105,055	243	105,298
Bad debts written off during the year	(163,189)	–	(163,189)
Recoveries during the year	85,692	–	85,692
December 31, 2017 balances	242,195	165,904	408,099

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

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

	2017 SAR '000	2016 SAR '000
Excellent	5,106,586	1,552,946
Strong	8,270,575	16,166,513
Average	13,840,569	14,654,462
Acceptable	9,052,186	8,668,615
Marginal	2,209,452	1,777,846
Watch	76,406	170,386
Unrated	18,158,645	16,474,099
Total	56,714,419	59,464,867

7. Loans and advances, net (Continued)

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

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

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

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

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

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

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

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

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

	2017 SAR '000		
	Overdraft and commercial	Consumer	Total
From 1 day to 30 days	18,957	336,311	355,268
From 31 days to 90 days	974,787	66,842	1,041,629
From 91 days to 180 days	179,280	–	179,280
More than 180 days	1,599,321	–	1,599,321
Total	2,772,345	403,153	3,175,498

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

The estimated fair value of collateral held by the Group for past due but not impaired overdraft and commercial facilities included above is SAR 5.8 billion (2016: SAR 4.4 billion).

7. Loans and advances, net (Continued)

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

	2017 SAR '000			
	Performing	Non-performing	Allowance for credit losses	Loans and advances, net
Government and quasi-government	282,342	–	(900)	281,442
Banks and other financial services	7,701,368	27,065	(67,871)	7,660,562
Agriculture and fishing	20,081	–	(189)	19,892
Manufacturing	5,829,380	143,395	(144,277)	5,828,498
Mining and quarrying	1,120,203	–	(6,193)	1,114,010
Building and construction	4,499,483	148,304	(62,126)	4,585,661
Commerce	16,481,723	159,720	(237,166)	16,404,277
Transportation and communication	1,799,162	45,112	(46,583)	1,797,691
Services	2,303,587	236	(18,566)	2,285,257
Consumer loans	16,599,693	242,195	(408,099)	16,433,789
Other	3,252,895	7,121	(82,811)	3,177,205
Total	59,889,917	773,148	(1,074,781)	59,588,284

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

8. Investments in associates

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

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

	2017 %	2016 %
American Express Saudi Arabia ("AMEX")	50	50
Saudi Orix Leasing Company ("ORIX")	38	38
Amlak International for Finance and Real Estate Development Co. ("AMLAK")	32	32

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

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

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

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

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

	2017 SAR '000	2016 SAR '000
Balance at beginning of the year	1,000,337	939,022
Share of earnings	131,851	150,634
Dividends	(98,815)	(92,917)
Share of other comprehensive (loss) income	(1,412)	3,598
Write off	(12,000)	-
Balance at end of the year	1,019,961	1,000,337

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

	2017 SAR '000			2016 SAR '000		
	AMEX	ORIX	AMLAK	AMEX	ORIX	AMLAK
Total assets	393,775	504,807	1,072,234	421,897	605,502	1,059,981
Total liabilities	181,021	176,590	695,600	226,629	286,874	694,807
Total equity	212,754	328,217	376,634	195,268	318,628	365,174
Total income	199,774	57,487	59,177	210,397	72,817	61,880
Total expenses	116,237	38,450	25,807	119,763	52,578	26,744

One of the associate companies above has a potential additional Zakat liability as of December 31, 2017. If the method of the Zakat assessment by the General Authority for Zakat and Tax is upheld through all levels of the appeal process, the Group has agreed with the associate company that it is unconditionally liable for its share amounting to approximately SAR 97.6 million (2016: SAR 63.6 million).

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9. Property, equipment, and intangibles, net

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

	2017 and 2016 SAR '000				Total 2017	Total 2016
	Land and buildings	Leasehold improvements	Furniture, equipment and vehicles	Intangibles		
Cost						
Balance at the beginning of the year	991,128	130,506	419,871	228,639	1,770,144	1,715,140
Additions	17,915	15,219	48,291	26,455	107,880	55,038
Disposals	-	-	(135)	-	(135)	(34)
Balance at the end of the year	1,009,043	145,725	468,027	255,094	1,877,889	1,770,144
Accumulated depreciation and amortization						
Balance at the beginning of the year	263,795	85,560	327,397	105,792	782,544	693,576
Charge for the year	32,198	16,093	24,060	20,208	92,559	89,001
Disposals	-	-	(124)	-	(124)	(33)
Balance at the end of the year	295,993	101,653	351,333	126,000	874,979	782,544
Net book value						
As of December 31, 2017	713,050	44,072	116,694	129,094	1,002,910	
As of December 31, 2016	727,333	44,946	92,474	122,847	-	987,600

Intangibles include information technology-related assets.

10. Other assets

Other assets are summarized as follows:

	2017 SAR '000	2016 SAR '000
Customer receivables	67,442	12,912
Property, equipment, and intangibles costs pending completion	122,769	102,273
Prepaid expenses	92,601	104,287
All other assets	23,871	24,361
Total	306,683	243,833

The other asset balances as of December 31, 2016 presented above have been restated to reflect the effect of the retroactive application of the new Zakat and Income Tax policy as discussed in Notes 2, 3, 27 and 41.

11. Derivatives

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

(a) Swaps

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

(b) Forwards and futures

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

(c) Forward rate agreements

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

(d) Options

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

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

(a) Held for trading purposes

Most of the Bank's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers and banks in order, *inter alia*, to enable them to transfer, modify or reduce current and future risks. Positioning involves managing market risk positions with the expectation of profiting from favorable movements in prices, rates or indices. Arbitrage involves identifying, with the expectation of profiting from price differentials, between markets or products.

(b) Held for hedging purposes

The Bank has adopted a comprehensive system for the measurement and management of risk. The risk management process involves managing the Bank's exposure to fluctuations in currency and special commission rate risks to acceptable levels as determined by the Board of Directors and within the guidelines issued by SAMA.

The Board of Directors has established levels of currency risk by setting limits on counterparty and currency position exposures. Positions are routinely monitored and hedging strategies are used to ensure positions are maintained within the established limits. The Board of Directors has established the level of special commission rate risk by setting limits on special commission rate gaps for stipulated periods. Asset and liability special commission rate gaps are reviewed on a periodic basis and hedging strategies are periodically used to reduce special commission rate gap within the established limits.

As part of its asset and liability management, the Bank uses derivatives for hedging purposes in order to optimize its own exposure to currency and special commission rate risks. This is generally achieved by hedging specific transactions. The Bank uses forward foreign exchange contracts to also apply various hedging strategies against specifically identified currency risks. In addition, the Bank uses special commission rate swaps to hedge against the special commission rate risk arising from specifically identified fixed special commission-rate exposures.

11. Derivatives (Continued)

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

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

The positive and negative fair values of derivative financial instruments as of December 31, 2016 have been adjusted to primarily reflect the netting of such amounts consistent with the December 31, 2017 presentation. Derivative financial instruments are summarized as follows:

	Notional amounts by term to maturity							
	2017 SAR '000							
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading:								
Forward foreign exchange contracts	36,689	25,403	6,114,481	2,360,556	3,219,507	534,418	–	7,696,867
Foreign exchange options	12,407	12,407	1,484,679	236,697	398,522	849,460	–	1,501,408
Commission rates swaps	154,306	56,431	12,270,252	–	–	11,270,499	999,753	10,991,357
Held as fair value hedges:								
Commission rate swaps	30,347	22,414	7,617,063	–	–	2,737,792	4,879,271	6,823,156
Associated company put option	435,421	–	–	–	–	–	–	–
Total	669,170	116,655	27,486,475	2,597,253	3,618,029	15,392,169	5,879,024	27,012,788

	Notional amounts by term to maturity							
	2016 SAR '000							
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading:								
Forward foreign exchange contracts	82,847	53,125	9,464,413	3,802,674	4,028,717	1,633,022	–	6,548,332
Foreign exchange options	25,256	25,256	1,648,630	161,570	752,380	734,680	–	1,951,432
Commission rates swaps	96,297	58,094	6,788,527	–	70,000	5,998,527	720,000	5,540,097
Held as fair value hedges:								
Commission rate swaps	73,519	38,075	4,521,160	393,960	–	600,320	3,526,880	3,689,705
Associated company put option	435,421	–	–	–	–	–	–	–
Total	713,340	174,550	22,422,730	4,358,204	4,851,097	8,966,549	4,246,880	17,729,566

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11. Derivatives (Continued)

The table below is a summary of the Bank's fair value hedges and hedged portfolios as of December 31, 2017 and 2016, which includes the description of the hedged items and related fair values, the nature of the risk being hedged, and the hedging instruments and related fair values.

	December 31, 2017 SAR '000					
	Hedged items			Hedging instruments		
	Current fair value	Inception fair value	Hedged risk	Instrument use	Positive fair value	Negative fair value
Fixed commission rate investments	7,687,135	7,636,736	Fair value risk	Commission rate swaps	30,347	22,414
	December 31, 2016 SAR '000					
	Hedged items			Hedging instruments		
	Current fair value	Inception fair value	Hedged risk	Instrument use	Positive fair value	Negative fair value
Fixed commission rate investments	4,565,447	4,063,916	Fair value risk	Commission rate swaps	73,519	38,075

The net gains during the year on hedging instruments for fair value hedges were SAR 44.4 million (2016: gains of SAR 91.2 million). The net losses on hedged items attributable to hedged risk were SAR 44.3 million (2016: losses of SAR 90.8 million). The net positive fair value of all derivatives is approximately SAR 552.5 million (2016: SAR net positive 538.8 million). Approximately 68% (2016: 71%) of the positive fair value of the Bank's derivatives are entered into with financial institutions, and 19% (2016: 19%) of the positive fair value contracts are with any single counterparty at the consolidated statement of financial position date. Derivative activities are mainly carried out under the Bank's treasury segment.

The Bank, as part of its derivative management activities, has entered into a master agreement in accordance with the International Swaps and Derivative Association (ISDA) directives. Under this agreement, the terms and conditions for derivative products purchased or sold by the Group are unified. As part of the master agreement, a credit support annex (CSA) has also been signed. The CSA allows the Group to receive improved pricing by way of exchange of mark to market amounts in cash as collateral whether in favor of the Bank or the counterparty. As of December 31, 2017, the net cash collateral amounts held by counterparties totals SAR 5.7 million (2016: net cash collateral held by the Bank totals SAR 46.7 million).

12. Due to banks and other financial institutions

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

	2017 SAR '000	2016 SAR '000
Current accounts	9,137	4,712
Repurchase agreements [Note 19 (d)]	2,951,658	4,151,531
Money market deposits	4,648,891	4,840,473
Total	7,609,686	8,996,716

13. Customer deposits

Customer deposits are summarized as follows:

	2017 SAR '000	2016 SAR '000
Time deposits	39,308,674	36,677,689
Savings deposits	2,174,702	4,073,660
Total special commission bearing deposits	41,483,376	40,751,349
Demand deposits	24,585,587	23,955,017
Other deposits	873,657	933,959
Customer deposits	66,942,620	65,640,325

Other customer deposits include SAR 537 million (2016: SAR 535 million) of margin deposits held for irrevocable commitments.

Customer deposits above include Sharia-Compliant deposits totaling SAR 58.4 billion (2016: SAR 46.5 billion).

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

	2017 SAR '000	2016 SAR '000
Demand	1,860,647	1,772,546
Savings	1,303,295	1,390,880
Time	6,868,199	1,045,305
Other	54,815	68,159
Total	10,086,956	4,276,890

14. Term loans

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

On June 19, 2016, the Bank entered into a five-year medium term loan facility agreement for an amount of SAR 1.0 billion for general corporate purposes. The facility has been fully utilized and is repayable on June 19, 2021. On September 26, 2017, the Bank entered into another five-year medium term loan facility agreement for an amount of SAR 1.0 billion for general corporate purposes. The facility was fully utilized on October 4, 2017 and is repayable on September 26, 2022.

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

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15. Subordinated debt

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

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

16. Other liabilities

Other liabilities are summarized as follows:

	2017 SAR '000	2016 SAR '000
Accrued salaries and employee-related benefits	362,188	379,335
Accrued expenses and other reserves	122,841	167,833
Deferred fee income	17,934	7,339
Customer-related liabilities	210,155	251,167
Accrued Zakat and Income Tax	80,081	45,936
All other liabilities	37,101	16,108
Total	830,300	867,718

The other liability balances as of December 31, 2016 presented above have been restated to reflect the retroactive application of the new Zakat and Income Tax Policy and other adjustments as disclosed in Notes 2, 3, 27 and 41.

17. Share capital

As of December 31, 2017, the authorized, issued and fully paid share capital of the Bank consists of 750 million shares of SAR 10 each (2016: 700 million shares of SAR 10 each). The ownership of the Bank's share capital is as follows:

	2017 SAR '000	%	2016 SAR '000	%
Saudi shareholders	6,750,000	90.0	6,300,000	90.0
Foreign shareholders:				
J.P. Morgan International Finance Limited	562,500	7.5	525,000	7.5
Mizuho Corporate Bank Limited	187,500	2.5	175,000	2.5
	7,500,000	100.0	7,000,000	100.0

During 2017, 50 million bonus shares were issued by the Bank increasing the issued number of shares outstanding from 700 million to 750 million shares. During 2016, 50 million bonus shares were issued by the Bank increasing the issued number of shares outstanding from 650 million shares to 700 million shares (see Note 26).

18. Statutory reserve

In accordance with Saudi Arabian Banking Control Law and the Articles of Association of the Bank, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid-up capital of the Bank. Accordingly, SAR 353 million has been transferred from 2017 net income (2016: SAR 264 million). The statutory reserve is not available for distribution.

19. Commitments and contingencies

(a) Legal proceedings

As of December 31, 2017, there were certain legal proceedings outstanding against the Group. No provision has been made in cases where professional legal advice indicates that it is not probable that any significant loss will arise. However, provisions are made for legal cases where Management foresees the probability of an adverse outcome based on professional advice. As of December 31, 2017, the Bank's allowance for such cases totaled SAR 8.1 million (2016: SAR 25.9 million).

(b) Capital commitments

As of December 31, 2017, the Group had capital commitments of SAR 13.2 million (2016: SAR 41.1 million).

(c) Credit-related commitments and contingencies

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

Guarantee and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans and advances. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement.

Documentary letters of credit which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are generally collateralized by the underlying shipments of goods to which they relate and therefore have significantly less risk.

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

Commitments to extend credit represent the unused portion of authorizations to extend credit, principally in the form of loans and advances, guarantees and letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss, which cannot readily be quantified, is expected to be considerably less than the total unused commitment as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of these commitments could expire or terminate without being funded.

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

19. Commitments and contingencies (Continued)

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

	2017 SAR '000				
	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	782,950	1,050,329	12,395	–	1,845,674
Letters of guarantee	2,002,434	4,860,898	1,268,746	263,674	8,395,752
Acceptances	360,647	371,671	–	–	732,318
Irrevocable commitments to extend credit	–	581	280,281	99,861	380,723
Total	3,146,031	6,283,479	1,561,422	363,535	11,354,467

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

The outstanding unused portion of commitments as of December 31, 2017 which can be revoked unilaterally at any time by the Bank, amounts to SAR 27.6 million (2016: SAR 27.8 million).

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

	2017 SAR '000	2016 SAR '000
Government and quasi-Government	5,896,601	6,035,415
Corporate	4,698,100	4,729,420
Banks and other financial institutions	536,713	277,564
Other	223,053	222,101
Total	11,354,467	11,264,500

(d) Assets pledged

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

	2017 SAR '000		2016 SAR '000	
	Assets	Repurchase Agreements	Assets	Agreements Repurchase
Available for sale investments	2,989,646	2,951,658	4,419,351	4,151,531

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

19. Commitments and contingencies (Continued)

(e) Operating lease commitments

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

	2017 SAR '000	2016 SAR '000
Less than 1 year	49,298	30,230
1 to 5 years	100,327	60,985
Over 5 years	57,957	45,962
Total	207,582	137,177

(F) Zakat and Income Tax

Notes 8 and 27 provide information regarding the current status of the Group's Zakat and Income Tax positions.

20. Special commission income and expense

Special commission income and expense is summarized as follows:

	2017 SAR '000	2016 SAR '000
Special commission income:		
Available for sale investments	626,936	536,030
Loans and advances	2,616,813	2,453,602
Due from banks and other financial institutions	289,340	210,977
Total	3,533,089	3,200,609
Special commission expense:		
Customer deposits	862,028	1,094,748
Due to banks and other financial institutions	496,407	313,561
Term loans	58,964	52,668
Subordinated debt	73,630	67,576
Total	1,491,029	1,528,553

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21. Fee income from banking services, net

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

	2017 SAR '000	2016 SAR '000
Fee income:		
– Share trading and fund management	139,368	130,035
– Trade finance	92,034	91,715
– Corporate and retail finance	174,352	180,260
– Other banking services	128,227	91,984
Total fee income	533,981	493,994
Fee expense:		
– Custodial services	80,572	65,161
– Other banking services	41,252	13,329
Total fee expense	121,824	78,490
Fee income from banking services, net	412,157	415,504

22. Dividend income

Dividend income is summarised as follows:

	2017 SAR '000	2016 SAR '000
Dividend income from available for sale equity investments	19,749	27,543

23. Gains on investments, net

Gains on investments, net are summarised as follows:

	2017 SAR '000	2016 SAR '000
Gains on available for sale investments, net	49,130	57,851
Associated company put option gains	–	87,261
Total gains on investments, net	49,130	145,112

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24. Compensation and related governance and practices

As required by SAMA, the following table summarises the Group's employee categories defined in accordance with SAMA's rules on compensation practices. It includes the total amounts of fixed and variable compensation paid to employees, and the forms of such payments, and also includes the variable compensation accrued, and other employee benefits and related expenses incurred during the years ended December 31, 2017 and 2016.

Category	Number of employees	2017 SAR '000			
		Variable Compensation Paid			
		Fixed compensation paid	Cash	Shares	Total
Senior executives requiring SAMA no objection	19	35,130	11,272	4,322	15,594
Employees engaged in risk taking activities	131	54,903	10,437	2,446	12,883
Employees engaged in control functions	231	57,263	6,500	2,642	9,142
Other employees	1,190	230,382	25,262	7,933	33,195
Outsourced employees	54	8,141	1,126	92	1,218
Totals	1,625	385,819	54,597	17,435	72,032
Variable compensation accrued		73,540			
Other employee benefits and related expenses		119,746			
Total salaries and employee-related expenses		579,105			

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

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

24. Compensation and related governance and practices (Continued)

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

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

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

In addition to the above, the Bank's employees are encouraged to participate in employee share savings and incentive schemes. Variable remuneration is linked to long-term value creation and risk horizons. It is also based on individual, business segment, and Bank performance criteria. Accordingly, for certain variable remunerations, a portion of the incentive earned for the annual performance bonus program and the employee stock grant plan program are deferred in line with long-term risk realization. The vesting is subject to clawback mechanisms.

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

The total amount of compensation paid to key management for the year ended December 31, 2017 was SAR 50.7 million (2016: SAR 61.3 million). The post employment benefits accrued or paid to key management for the year ended December 31, 2017 was SAR 6.0 million (2016: SAR 3.9 million).

The total end of service payments made for all employees who left their employment with the Group during the year ended December 31, 2017 totaled SAR 20.5 million (2016: SAR 17.6 million). These payments were made to 150 beneficiaries (2016: 149). The highest payment to a single individual in 2017 was SAR 1.8 million (2016: SAR 0.9 million).

25. Basic and diluted earnings per share

Basic and diluted earnings per share for the year ended December 31, 2017 and 2016 are calculated by dividing the net income for the year by 750 million shares, after giving effect to the bonus shares issued in 2017 (see Note 26). As a result, basic and diluted earnings per share for the year ended December 31, 2016 have been retroactively adjusted to reflect the issuance of the bonus shares.

26. Dividends

In 2016, the Board of Directors proposed a cash dividend of SAR 350.0 million equal to SAR 0.50 per share, net of Zakat to be withheld from the Saudi shareholders totaling SAR 70.0 million. The Board of Directors also proposed a bonus share issue of 50 million shares with a par value of SAR 10 per share, or one bonus share for each fourteen shares outstanding. The proposed cash dividend and bonus share issue were approved by the Bank's shareholders in an Extraordinary General Assembly Meeting held on 20 Rajab, 1438 H (corresponding to April 17, 2017). The net dividends were paid and the bonus shares were issued to the Bank's shareholders thereafter.

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

Any future cash dividends to the Saudi and non-Saudi shareholders will be paid after deducting Zakat and any unreimbursed income tax as described in Notes 27 and 41.

27. Zakat and income tax

A summary of the net effect on other assets, other liabilities, retained earnings, proposed dividends, and total equity resulting from the retroactive application of the new Zakat and Income Tax Policy described in Notes 2 and 3 as of December 31, 2016 is summarized in Note 41.

The cumulative Zakat attributable to the Saudi shareholders charged to retained earnings through December 31, 2017 amounts to approximately SAR 108.2 million or SAR 0.16 per share (2016: the cumulative Zakat was approximately SAR 62.9 million or SAR 0.10 per share).

The cumulative income tax attributable to the non-Saudi shareholders net of foreign shareholder reimbursements charged to retained earnings through December 31, 2017 is approximately SAR 41.9 million (2016: SAR 25.7 million). There is no unreimbursed income tax for the years prior to 2016.

The Bank has filed the required Tax and Zakat and Income Tax returns with the Government Authority for Zakat and Tax which are due on April 30 each year, through the year ended December 31, 2016.

The Bank's Zakat and Income Tax calculations and corresponding accruals and payments for Zakat and Income Tax are based on the ownership percentages disclosed in Note 17.

The Bank has received final assessments for additional Zakat, Income tax, and withholding tax totaling approximately SAR 277 million relating to the Bank's 2003 to 2009 Zakat, Income tax, and withholding tax filings. Also refer to Note 8 to these consolidated financial statements for pending Zakat assessments related to an associate company. The Bank has also received partial assessments for additional Zakat totaling approximately SAR 383 million relating to its 2010, 2011, and 2013 Zakat filings.

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

The Bank, in consultation with its professional Tax and Zakat advisors, has filed appeals for the above final and partial assessments with the General Authority for Zakat and Tax, and while management is confident of a favorable outcome on the basis of the appeals filed, it is awaiting responses and final decisions from the appeal and other available processes. Accordingly, no provisions for these amounts have been made in the Bank's consolidated financial statements as of December 31, 2017.

Further assessments, if any, for the years 2012, 2014, 2015, and 2016 are yet to be raised by the General Authority for Zakat and Tax. However, if the deductions for certain long-term investments from the Zakat base of the Bank are disallowed for these years, in line with the assessments already made, it would result in a significant additional Zakat exposure. This remains an industry wide issue and disclosure of such amounts might affect the Bank's position in this matter.

28. Cash and cash equivalents

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

	2017 SAR '000	2016 SAR '000
Cash and balances with SAMA excluding statutory deposit (Note 4)	1,931,233	2,108,575
Due from banks and other financial institutions maturing within ninety days from the date of acquisition	3,513,073	2,274,077
Total	5,444,306	4,382,652

29. Operating segments

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

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

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

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

The Group's reportable segments are as follows:

- **Retail banking:** Loans, deposits, and other credit products for individuals and small to medium-sized businesses.
- **Corporate banking:** Loans, deposits and other credit products for corporate and institutional customers.
- **Treasury and investments:** Money market, investments, and other treasury services.
- **Business partners:** Investments in associates and related activities.
- **Asset management and brokerage:** Dealing, managing, advising, and custody of securities services.
- **Other:** Support functions, special credit, and other management and control units.

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

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29. Operating segments (Continued)

(a) The segment information provided to the Board of Directors which includes the reportable segments for the Group's total assets and liabilities of December 31, 2017 and 2016, its total operating income, total operating expenses, and net income for the years then ended, are as follows:

	2017 SAR '000						
	Retail Banking	Corporate Banking	Treasury and Investments	Business Partners	Asset Management and Brokerage	Other	Total
Total assets	27,699,853	35,564,170	27,350,413	1,019,961	404,088	1,757,734	93,796,219
Total liabilities	50,538,379	7,974,977	20,010,872	97	41,785	951,042	79,517,152
Net special commission income	352,031	1,532,197	72,564	-	15,981	69,287	2,042,060
FTP net transfers	657,258	(768,223)	230,052	(99,082)	-	(20,005)	-
Net FTP contribution	1,009,289	763,974	302,616	(99,082)	15,981	49,282	2,042,060
Fee income from banking services, net	112,300	263,623	51,979	-	71,725	(87,470)	412,157
Other operating income (loss)	49,821	43,440	207,086	-	(1,433)	(93,248)	205,666
Total operating income (loss)	1,171,410	1,071,037	561,681	(99,082)	86,273	(131,436)	2,659,883
Direct operating expenses	371,695	67,270	28,420	1,560	77,283	-	546,228
Indirect operating expenses	256,634	170,511	85,941	-	-	-	513,086
Impairment charges	96,990	116,010	106,000	-	2,622	-	321,622
Total operating expenses	725,319	353,791	220,361	1,560	79,905	-	1,380,936
Income (loss) from operating activities	446,091	717,246	341,320	(100,642)	6,368	(131,436)	1,278,947
Share in earnings of associates	-	-	-	131,851	-	-	131,851
Net income	446,091	717,246	341,320	31,209	6,368	(131,436)	1,410,798
Property, equipment, and intangibles additions	21,019	45	-	-	1,949	84,867	107,880
Depreciation and amortization	49,303	1,129	165	-	3,289	38,673	92,559

	2016 SAR '000						
	Retail Banking	Corporate Banking	Treasury and Investments	Business Partners	Asset Management and Brokerage	Other	Total
Total assets	28,418,146	35,602,348	25,997,312	1,000,337	340,633	1,688,635	93,047,411
Total liabilities	47,560,355	8,539,382	22,762,374	97	(16,390)	868,051	79,713,869
Net special commission income	271,741	1,437,731	49,535	-	18,428	(105,379)	1,672,056
FTP net transfers	519,550	(626,047)	207,091	(98,580)	-	(2,014)	-
Net FTP contribution	791,291	811,684	256,626	(98,580)	18,428	(107,393)	1,672,056
Fee income from banking services, net	130,625	217,657	35,537	-	67,180	(35,495)	415,504
Other operating income (loss)	80,789	84,462	228,607	43,631	2,437	(121,620)	318,306
Total operating income (loss)	1,002,705	1,113,803	520,770	(54,949)	88,045	(264,508)	2,405,866
Direct operating expenses	381,785	69,171	24,814	2,954	78,396	-	557,120
Indirect operating expenses	240,815	159,058	81,644	-	-	11,905	493,422
Impairment charges	146,050	96,350	210,600	-	-	-	453,000
Total operating expenses	768,650	324,579	317,058	2,954	78,396	11,905	1,503,542
Income loss from operating activities	234,055	789,224	203,712	(57,903)	9,649	(276,413)	902,324
Share in earnings of associates	-	-	-	150,634	-	-	150,634
Net income	234,055	789,224	203,712	92,731	9,649	(276,413)	1,052,958
Property, equipment, and intangibles additions	18,204	696	1	-	487	35,650	55,038
Depreciation and amortization	47,024	1,371	194	-	4,664	35,748	89,001

29. Operating segments (Continued)

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

	2017 SAR '000						Total
	Retail Banking	Corporate Banking	Treasury and Investments	Business Partners	Asset Management and Brokerage	Other	
Consolidated statement of financial position assets	26,529,441	35,561,073	26,731,760	–	245,531	230,299	89,298,104
Commitments and contingencies	3,349,767	2,571,639	293,785	–	–	–	6,215,191
Derivatives	–	–	2,147,021	–	–	–	2,147,021
Totals	29,879,208	38,132,712	29,172,566	–	245,531	230,299	97,660,316

	2016 SAR '000						Total
	Retail Banking	Corporate Banking	Treasury and Investments	Business Partners	Asset Management and Brokerage	Other	
Consolidated statement of financial position assets	27,200,287	36,010,672	24,505,043	–	233,722	380,133	88,329,857
Commitments and contingencies	4,474,555	3,381,861	198,477	–	–	–	8,054,893
Derivatives	–	–	2,364,845	–	–	–	2,364,845
Totals	31,674,842	39,392,533	27,068,365	–	233,722	380,133	98,749,595

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

30. Credit risk

The Group manages exposure to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities. There is also credit risk in off-consolidated statement of financial position financial instruments, such as loan commitments. The Group assesses the probability of default of counterparties using internal rating tools. The Group also uses the external ratings of major rating agencies, where available.

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

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

30. Credit risk (Continued)

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

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

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

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

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

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

The information on credit risk relating to derivative instruments is provided in Notes 11 and 29 (b).

The information on credit risk relating to commitments and contingencies is included in Notes 19 and 31 (a).

The information on the Group's credit exposure by business segment is provided in Note 29 (b).

The information on total credit risk exposure and their relative risk weights is provided in Note 36.

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31. Geographical concentration

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

	2017 SAR '000						Total
	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	South East Asia	Other Countries	
Assets							
Cash and balances with SAMA	5,263,438	-	-	-	-	-	5,263,438
Due from banks and other financial institutions	1,144,360	1,056,389	712,083	588,246	-	11,995	3,513,073
Investments, net	11,601,267	6,624,978	1,256,792	1,776,248	-	454,691	21,713,976
Positive fair values of derivatives	93,152	99,671	476,347	-	-	-	669,170
Loans and advances, net	59,588,284	-	-	-	-	-	59,588,284
Investments in associates	1,019,961	-	-	-	-	-	1,019,961
Property, equipment and intangibles, net	1,002,910	-	-	-	-	-	1,002,910
Other real estate	718,724	-	-	-	-	-	718,724
Other assets	306,683	-	-	-	-	-	306,683
Total	80,738,779	7,781,038	2,445,222	2,364,494	-	466,686	93,796,219
Liabilities							
Due to Banks and other financial institutions	4,673,295	937,177	1,998,186	-	-	1,028	7,609,686
Customer deposits	66,942,620	-	-	-	-	-	66,942,620
Negative fair values of derivatives	41,772	31,241	43,593	49	-	-	116,655
Term loans	2,014,823	-	-	-	-	-	2,014,823
Subordinated debt	2,003,068	-	-	-	-	-	2,003,068
Other liabilities	830,300	-	-	-	-	-	830,300
Total	76,505,878	968,418	2,041,779	49	-	1,028	79,517,152
Credit-related Commitments and contingencies							
Maximum credit exposure (stated at credit equivalent amounts):							
Commitments and contingencies	5,464,530	96,312	402,873	23,985	23,244	204,248	6,215,192
Derivatives	846,655	497,852	771,842	-	-	30,672	2,147,021

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31. Geographical concentration (Continued)

	2016 SAR '000						Total
	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	South East Asia	Other Countries	
Assets							
Cash and balances with SAMA	5,684,338	-	-	-	-	-	5,684,338
Due from banks and other financial institutions	1,491,192	437,359	247,166	41,512	-	85,064	2,302,293
Investments, net	10,167,127	7,617,419	1,029,818	2,181,777	-	451,753	21,447,894
Positive fair values of derivatives	204,126	105,903	403,311	-	-	-	713,340
Loans and advances, net	60,249,052	-	-	-	-	-	60,249,052
Investments in associates	1,000,337	-	-	-	-	-	1,000,337
Property, equipment and intangibles, net	987,600	-	-	-	-	-	987,600
Other real estate	418,724	-	-	-	-	-	418,724
Other assets	243,833	-	-	-	-	-	243,833
Total	80,446,329	8,160,681	1,680,295	2,223,289	-	536,817	93,047,411
Liabilities							
Due to Banks and other financial institutions	4,140,098	1,918,954	2,937,197	-	-	467	8,996,716
Customer deposits	65,640,325	-	-	-	-	-	65,640,325
Negative fair values of derivatives	49,948	25,914	98,688	-	-	-	174,550
Term loans	2,032,187	-	-	-	-	-	2,032,187
Subordinated debt	2,002,373	-	-	-	-	-	2,002,373
Other liabilities	867,718	-	-	-	-	-	867,718
Total	74,732,649	1,944,868	3,035,885	-	-	467	79,713,869
Credit-related Commitments and contingencies							
Maximum credit exposure (stated at credit equivalent amounts):							
Commitments and contingencies	6,992,018	137,704	196,229	477,128	41,895	209,919	8,054,893
Derivatives	709,369	334,784	1,320,692	-	-	-	2,364,845

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

(b) The distribution by geographical concentration of non-performing loans and advances and allowance for credit losses as of December 31, 2017 and 2016 are entirely in the Kingdom of Saudi Arabia.

32. Market risk

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

(a) Market risk-trading book

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

(b) Market risk-banking book

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

(i) Commission rate risk

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

The following table depicts the sensitivity to a reasonably possible change in commission rates, with other variables held constant, on the Group's consolidated income statement or shareholders' equity. The reasonably possible change is estimated based on the relevant commission rate movements during the last five years (2013-2017) (2016: 2012-2016). A positive effect shows a potential net increase in the consolidated income or shareholders' equity, whereas a negative effect shows a potential net reduction in consolidated income or shareholders' equity.

The sensitivity of net special commission income is the effect of the assumed changes in commission rates on the net special commission income for one year, based on the floating rate non-trading financial assets and financial liabilities held as of December 31, 2017 and 2016, 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 of December 31, 2017 and 2016 for the effect of assumed changes in commission rates. The sensitivity of shareholders' equity is analyzed by maturity of the asset or swap. The entire banking book exposures are monitored and analyzed by currency and relevant sensitivities and are disclosed in SAR thousands. For presentation purposes in the tables below, short-term fixed rate deposit liabilities are treated as variable rate deposits.

Commission rate	Increase (decrease) in basis	2017 SAR '000		2017 Sensitivity of equity SAR '000				Total
		Sensitivity of net special commission income	6 months or less	6 to 12 months	1 to 5 years	Over 5 years		
Saibor	+45/-117	-84,303/+219,186	-	-	-16,892/+43,919	-70 /+181	-16,962/+44,100	
Libor	+69/-78	-78,446/+88,678	-248/+281	-1,278/+1,445	-113,017/+127,755	-256,684/+290,165	-371,227/+419,646	
Euribor	+164/-4	+2,404/-59	-	-	-	-	-	

Commission rate	Increase (decrease) in basis	2016 SAR '000		2016 Sensitivity of equity SAR '000				Total
		Sensitivity of net special commission income	6 months or less	6 to 12 months	1 to 5 years	Over 5 years		
Saibor	+33/-129	-61,315/+239,686	-	-	-13,916/+54,339	-68,996/+269,714	-82,912/+324,053	
Libor	+25/-52	-13,804/+28,712	-762/+1,584	-863/+1,793	-29,523/+61,407	-67,678/+140,771	-98,826/+205,555	
Euribor	+161/-5	+1,728/-54	-	-	-	-	-	

32. Market risk (Continued)

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

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

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

	2017 SAR '000					Total
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-commission bearing	
Assets						
Cash and balances with SAMA	1,282,000	-	-	-	3,981,438	5,263,438
Due from banks and other financial institutions	3,513,073	-	-	-	-	3,513,073
Investments, net	3,539,678	969,361	9,624,849	6,862,845	717,243	21,713,976
Positive fair values of derivatives	-	-	-	-	669,170	669,170
Loans and advances, net	31,404,945	16,178,859	11,213,993	790,487	-	59,588,284
Investments in associates	-	-	-	-	1,019,961	1,019,961
Property, equipment, and intangibles, net	-	-	-	-	1,002,910	1,002,910
Other real estate	-	-	-	-	718,724	718,724
Other assets	-	-	-	-	306,683	306,683
Total	39,739,696	17,148,220	20,838,842	7,653,332	8,416,129	93,796,219
Liabilities and equity						
Due to banks and other financial institutions	5,211,784	2,388,765	-	-	9,137	7,609,686
Customer deposits	26,329,670	15,458,517	-	-	25,154,433	66,942,620
Negative fair values of derivatives	-	-	-	-	116,655	116,655
Term loans	2,014,823	-	-	-	-	2,014,823
Subordinated debt	3,068	2,000,000	-	-	-	2,003,068
Other liabilities	-	-	-	-	830,300	830,300
Total equity	-	-	-	-	14,279,067	14,279,067
Total	33,559,345	19,847,282	-	-	40,389,592	93,796,219
Special commission rate sensitivity – On-balance sheet	6,180,351	(2,699,062)	20,838,842	7,653,332	(31,973,463)	-
Special commission rate sensitivity – Off-balance sheet	9,312,785	358,000	(4,291,638)	(5,379,147)	-	-
Total special commission rate sensitivity gap	15,493,136	(2,341,062)	16,547,204	2,274,185	(31,973,463)	-
Cumulative special commission rate sensitivity gap	15,493,136	13,152,074	29,699,278	31,973,463	-	-

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32. Market risk (Continued)

	2016 SAR '000					Total
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-commission bearing	
Assets						
Cash and balances with SAMA	1,220,000	–	–	–	4,464,338	5,684,338
Due from banks and other financial institutions	2,274,077	28,216	–	–	–	2,302,293
Investments, net	5,148,250	1,753,482	5,414,222	7,950,379	1,181,561	21,447,894
Positive fair values of derivatives	–	–	–	–	713,340	713,340
Loans and advances, net	31,328,046	17,245,322	11,021,516	654,168	–	60,249,052
Investments in associates	–	–	–	–	1,000,337	1,000,337
Property, equipment, and intangibles, net	–	–	–	–	987,600	987,600
Other real estate	–	–	–	–	418,724	418,724
Other assets	–	–	–	–	243,833	243,833
Total	39,970,373	19,027,020	16,435,738	8,604,547	9,009,733	93,047,411
Liabilities and shareholders' equity						
Due to banks and other financial institutions	6,297,004	2,695,000	–	–	4,712	8,996,716
Customer deposits	24,225,747	16,749,020	–	–	24,665,558	65,640,325
Negative fair values of derivatives	–	–	–	–	174,550	174,550
Term loans	32,187	2,000,000	–	–	–	2,032,187
Subordinated debt	2,373	2,000,000	–	–	–	2,002,373
Other liabilities	–	–	–	–	867,718	867,718
Total equity	–	–	–	–	13,333,542	13,333,542
Total	30,557,311	23,444,020	–	–	39,046,080	93,047,411
Special commission rate sensitivity – on-balance sheet	9,413,062	(4,417,000)	16,435,738	8,604,547	(30,036,347)	–
Special commission rate sensitivity – off-balance sheet	5,405,288	(1,278,088)	(600,320)	(3,526,880)	–	–
Total special commission rate sensitivity gap	14,818,350	(5,695,088)	15,835,418	5,077,667	(30,036,347)	–
Cumulative special commission rate sensitivity gap	14,818,350	9,123,262	24,958,680	30,036,347	–	–

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

32. Market risk (Continued)

(ii) Currency risk

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

The table below shows the currencies to which the Group has a significant exposure as of December 31, 2017 and 2016, on its banking book assets and liabilities and forecasted cash flows. The table depicts the effect of a reasonably possible movement of the currency rates against the SAR based on historical currency rate movements, with other variables held constant, on the consolidated income (due to the change in the fair value of the currency sensitive banking book assets and liabilities). The reasonably possible change is estimated based on the relevant foreign exchange rate movements during the last five years (2013-2017) (2016: 2012-2016). A positive effect shows a potential net increase in the consolidated income, whereas a negative effect shows a potential net reduction in consolidated income.

Currency Exposures as of December 31, 2017	Change in currency rate in %	Effect on net income SAR '000
USD	+0.31/-0.04	+4,290/-576
EUR	+18.15/-12.08	-359/+239
GBP	+29.88/-8.74	-332/+97

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

(iii) Currency position

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

	2017 Long/(short) SAR '000	2016 Long/(short) SAR '000
US Dollar	1,404,006	466,961
Euro	(1,978)	(8)
Pound Sterling	(1,112)	86
Japanese Yen	207	185
U A E Dirham	34,072	15,337
Others	11,780	3,951

32. Market risk (Continued)

(iv) Equity price risk

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

The following table depicts the effect on the Group's investments in equities and mutual funds from a reasonably possible change in relevant indices, with other variables held constant, and the related effect on the Group's shareholders' equity. The reasonably possible changes in relevant indices are estimated based on the relevant indices movements during the last five years (2013-2017) (2016: 2012-2016). A positive effect shows a potential increase in consolidated shareholders' equity, whereas a negative effect shows a potential decrease in consolidated shareholders' equity.

Market indices	As of December 31, 2017		As of December 31, 2016	
	Change in equity price %	Effect in SAR '000	Change in equity price %	Effect in SAR '000
TADAWUL	+66.59/-19.07	+374,290/-107,163	+76.22/-14.39	+771,274/-145,606
Unquoted	+5.00/-5.00	+232/-232	+5.00/-5.00	+75/-75

33. Liquidity risk

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

In accordance with the Banking Control Law and the regulations issued by SAMA, the Group maintains a statutory deposit with SAMA equal to 7% (2016: 7%) of total demand deposits and 4% (2016: 4%) of saving and time deposits. In addition to the statutory deposit, the Group also maintains liquid reserves of no less than 20% of its deposit liabilities, in the form of cash and balances with SAMA, Saudi Government Development Bonds, or other assets which can be converted into cash within a period not exceeding 30 days. The Group has the ability to raise additional funds through repo facilities with SAMA against Saudi Government Development Bonds up to 100% of the nominal value of bonds held.

33. Liquidity risk (Continued)**(a) Contractual maturity profile of assets and liabilities**

The tables below summarize the contractual maturity profile of the Group's assets, liabilities, and shareholders' equity as of December 31, 2017 and 2016. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the consolidated statement of financial position date to the contractual maturity date, and do not take into account the effective maturities as indicated by the Group's deposit retention history. The amounts disclosed for derivatives, and commitments and contingencies are not indicative of future payment obligations.

	2017 SAR '000					Total
	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity/on demand	
Assets						
Cash and balances with SAMA	1,282,000	-	-	-	3,981,438	5,263,438
Due from banks and other financial institutions	2,599,892	-	-	-	913,181	3,513,073
Investments, net	167,690	913,956	12,787,002	7,128,085	717,243	21,713,976
Positive fair values of derivatives	-	669,170	-	-	-	669,170
Loans and advances, net	22,895,597	16,579,152	16,516,921	3,596,614	-	59,588,284
Investments in associates	-	-	-	-	1,019,961	1,019,961
Property, equipment, and intangibles	-	-	-	-	1,002,910	1,002,910
Other real estate	-	-	-	-	718,724	718,724
Other assets	-	306,683	-	-	-	306,683
Total	26,945,179	18,468,961	29,303,923	10,724,699	8,353,457	93,796,219
Liabilities and shareholders' equity						
Due to banks and other financial institutions	5,211,784	2,388,765	-	-	9,137	7,609,686
Customer deposits	24,154,968	15,458,517	-	-	27,329,135	66,942,620
Negative fair values of derivatives	-	116,655	-	-	-	116,655
Term loans	14,823	-	2,000,000	-	-	2,014,823
Subordinated debt	3,068	-	2,000,000	-	-	2,003,068
Other liabilities	-	830,300	-	-	-	830,300
Total equity	-	-	-	-	14,279,067	14,279,067
Total	29,384,643	18,794,237	4,000,000	-	41,617,339	93,796,219
Derivatives, commitments, and contingencies	5,743,285	9,901,507	16,953,591	6,242,558	-	38,840,941

33. Liquidity risk (Continued)

	2016 SAR '000					Total
	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity/on demand	
Assets						
Cash and balances with SAMA	1,220,000	–	–	–	4,464,338	5,684,338
Due from banks and other financial institutions	1,872,177	28,216	–	–	401,900	2,302,293
Investments, net	1,260,469	1,433,082	9,054,430	8,518,352	1,181,561	21,447,894
Positive fair values of derivatives	–	713,340	–	–	–	713,340
Loans and advances, net	23,461,139	17,114,015	16,673,368	3,000,530	–	60,249,052
Investments in associates	–	–	–	–	1,000,337	1,000,337
Property, equipment, and intangibles, net	–	–	–	–	987,600	987,600
Other real estate	–	–	–	–	418,724	418,724
Other assets	–	243,833	–	–	–	243,833
Total	27,813,785	19,532,486	25,727,798	11,518,882	8,454,460	93,047,411
Liabilities and shareholders' equity						
Due to banks and other financial institutions	6,297,004	2,695,000	–	–	4,712	8,996,716
Customer deposits	20,152,087	12,957,005	3,792,015	–	28,739,218	65,640,325
Negative fair values of derivatives	–	174,550	–	–	–	174,550
Term loans	32,187	1,000,000	1,000,000	–	–	2,032,187
Subordinated debt	2,373	–	2,000,000	–	–	2,002,373
Other liabilities	–	867,718	–	–	–	867,718
Total equity	–	–	–	–	13,333,542	13,333,542
Total	26,483,651	17,694,273	6,792,015	–	42,077,472	93,047,411
Derivatives, commitments, and contingencies	7,341,484	11,424,985	10,539,055	4,381,706	–	33,687,230

For presentation purposes in the tables above, the Group's demand, savings, and certain other deposits amounting to approximately SAR 27.3 billion as of December 31, 2017 (2016: SAR 28.7 billion) are included under the "No fixed maturity/on demand column".

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

(b) Analysis of financial liabilities by remaining undiscounted maturities

The tables below summarize the estimated maturity profile of the Group's financial liabilities as of December 31, 2017 and 2016 based on contractual undiscounted future repayment obligations. As special commission payments up to the contractual maturities are included in the tables, the totals do not match the amounts included in the consolidated statement of financial position. The contractual maturities of liabilities have been determined based on the remaining period at the consolidated statement of financial position date to the contractual maturity date and do not take into account the effective expected maturities. The Group expects that many customers will not request repayment on the earliest date that the Group could be required to pay and the tables do not reflect the expected cash flows indicated by the Group's deposit retention history.

33. Liquidity risk (Continued)

The undiscounted maturity profile of financial liabilities is as follows:

	2017 SAR '000					Total
	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity/on demand	
Due to banks and other financial institutions	5,220,677	2,405,068	-	-	9,137	7,634,882
Customer deposits	24,213,393	15,608,078	-	-	27,329,135	67,150,606
Negative fair values of derivatives	-	116,655	-	-	-	116,655
Term loans	30,473	46,950	2,046,950	-	-	2,124,373
Subordinated debt	21,068	54,000	2,186,000	-	-	2,261,068
Total	29,485,611	18,230,751	4,232,950	-	27,338,272	79,287,584
Derivatives	105,406	285,975	998,144	141,978	-	1,531,503
Total	29,591,017	18,516,726	5,231,094	141,978	27,338,272	80,819,087

	2016 SAR '000					Total
	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity/on demand	
Due to banks and other financial institutions	6,313,730	2,723,634	-	-	4,712	9,042,076
Customer deposits	20,233,703	13,166,908	4,099,168	-	28,739,218	66,238,997
Negative fair value of derivatives	-	174,550	-	-	-	174,550
Term loans	50,687	1,033,917	1,166,500	-	-	2,251,104
Subordinated debt	21,423	57,150	2,190,500	-	-	2,269,073
Total	26,619,543	17,156,159	7,456,168	-	28,743,930	79,975,800
Derivatives	86,773	211,503	675,606	109,223	-	1,083,105
Total	26,706,316	17,367,662	8,131,774	109,223	28,743,930	81,058,905

34. Fair values of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurement is based on the presumption that the transaction takes place either in the accessible principal market for the asset or liability, or in the absence of a principal market, in the most advantageous accessible principal market for the asset or liability. The Group uses the hierarchy disclosed in Note 2 (d) (ii) for determining and disclosing the fair value of financial instruments.

The following table shows an analysis of financial assets and liabilities recorded at fair value as of December 31, 2017 and 2016 by level of the fair value hierarchy:

	2017 SAR '000			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Derivative financial instruments	–	233,749	435,421	669,170
Available for sale financial investments	13,821,026	7,379,684	513,266	21,713,976
Total	13,821,026	7,613,433	948,687	22,383,146
Financial liabilities:				
Derivative financial instruments	–	116,655	–	116,655
Total	–	116,655	–	116,655
	2016 SAR '000			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Derivative financial instruments	–	277,919	435,421	713,340
Available for sale financial investments	13,398,792	7,520,053	529,049	21,447,894
Total	13,398,792	7,797,972	964,470	22,161,234
Financial liabilities:				
Derivative financial instruments	–	174,550	–	174,550
Total	–	174,550	–	174,550

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

The total amount of the changes in fair value recognized in the income statement for the year ended December 31, 2017 which was estimated using valuation models, is a loss of SAR 0.7 million (2016: a gain of SAR 88.5 million).

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

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

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

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

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

Should the significant estimations of inputs vary by plus or minus ten percent, the fair value could increase or decrease by approximately SAR 141.2 million (2016: SAR 107.7 million) due to estimating operating results of the associated company, could increase or decrease by approximately SAR 53.9 million (2016: SAR 57.4 million) due to estimating the detrimental effects on the operating results of the associated company which may arise from an exercise of the option, and could increase or decrease by approximately SAR 30.5 million (2016: SAR 30.5 million) due to estimating the fair value of the underlying investment.

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

The following table summarizes the movement of the Level 3 fair values for the years ended December 31, 2017 and 2016:

	2017 SAR '000	2016 SAR '000
Fair values at the beginning of the year	964,470	888,392
Net change in fair value	896	87,543
Investments purchased	920	4,522
Investments sold	(17,599)	(15,987)
Fair values at the end of the year	948,687	964,470

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

The following table summarizes the estimated fair values of financial assets and financial liabilities as of December 31, 2017 and 2016 that are not carried at fair value in the consolidated financial statements, along with the comparative carrying amounts for each.

December 31, 2017	Carrying values SAR '000	Estimated fair values SAR '000
Financial assets:		
Due from banks and other financial institutions	3,513,073	3,513,073
Loans and advances, net	59,588,284	61,454,199
Total	63,101,357	64,967,272
Financial liabilities:		
Due to banks and other financial institutions	7,609,686	7,609,686
Customers deposits	66,942,620	65,964,590
Term loans, net	2,014,823	2,014,823
Subordinated debt, net	2,003,068	2,003,068
Total	78,570,197	77,592,167
<hr/>		
December 31, 2016	Carrying values SAR '000	Estimated fair values SAR '000
Financial assets:		
Due from banks and other financial institutions	2,302,293	2,302,293
Loans and advances, net	60,249,052	62,155,329
Total	62,551,345	64,457,622
Financial liabilities:		
Due to banks and other financial institutions	8,996,716	8,996,716
Customers deposits	65,640,325	64,762,600
Term loans, net	2,032,187	2,032,187
Subordinated debt, net	2,002,373	2,002,373
Total	78,671,601	77,793,876

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

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

35. Related party transactions

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

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

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

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

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

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

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35. Related party transactions (Continued)

(a) The balances as of December 31, 2017 and 2016, resulting from such transactions included in the consolidated financial statements are as follows:

	2017 SAR '000	2016 SAR '000
Management of the Bank and/or members of their immediate family:		
Loans and advances	88,334	91,614
Customer deposits	227,848	316,326
Tier I Sukuk	2,000	-
Commitments and contingencies	1,880	-
Principal shareholders of the Bank and/or members of their immediate family:		
Due from banks and other financial institutions	12,241	33,429
Loans and advances	126,214	596,477
Customer deposits	10,416,049	10,924,783
Subordinated debt	700,000	700,000
Commitments and contingencies	372,991	2,789,005
Affiliates of the Bank and entities for which the investment is accounted for by the equity method of accounting:		
Loans and advances	596,117	1,022,467
Customer deposits	104,094	49,378
Commitments and contingencies	106,317	616,984
Trusts for the benefit of the Bank's employees such as pension or other benefits plans that are managed by the Bank:		
Customer deposits and other liabilities	152,572	129,507

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

	2017 SAR '000	2016 SAR '000
Management of the Bank and/or members of their immediate family:		
Special commission income	3,093	3,643
Special commission expense	34	36
Fee income from banking services	20	11
Principal shareholders of the Bank and/or members of their immediate family:		
Special commission income	42,671	11,983
Special commission expense	27,039	24,907
Fee income from banking services	4,219	4,219
Rent and premises-related expenses (Building rental)	7,758	7,726
Affiliates of the Bank and entities for which the investment is accounted for by the equity method of accounting:		
Special commission income	8,736	3,830
Special commission expense	9	-
Fee income from banking services	5,607	5,223
Trusts for the benefit of the Bank's employees such as pension or other benefit plans that are managed by the Bank:		
Special commission expense	-	324
Board of Directors and other Board committee member remuneration	5,414	5,507

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

36. 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.

Capital adequacy and the use of regulatory capital are monitored by the Group's Management. SAMA requires the Bank to hold a minimum level of regulatory capital and maintain a ratio of total regulatory capital to risk-weighted assets (RWA) at or above the requirement of 9.875%.

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

The following table summarizes the Bank's Pillar I risk-weighted assets (RWA), Tier I and Tier II capital, and capital Adequacy Ratio percentage. The RWA, Tier I capital, Tier I and Tier II capital amounts as of December 31, 2016 presented below have been restated to reflect the effect of the retroactive application of the new Zakat and Income Tax Policy and other adjustments as disclosed in Note 41. The Tier I and Tier I plus Tier II ratios have also been adjusted accordingly.

	2017 SAR '000	2016 SAR '000
Credit Risk RWA	75,882,891	78,900,047
Operational Risk RWA	4,605,140	4,294,667
Market Risk RWA	1,897,923	605,492
Total Pillar – I RWA	82,385,954	83,800,206
Tier I Capital	14,260,772	13,315,247
Tier II Capital	2,526,993	2,549,514
Total Tier I & II Capital	16,787,765	15,864,761
Capital Adequacy Ratio		
Tier I Ratio	17.31%	15.89%
Tier I + Tier II Ratio	20.38%	18.93%

As of December 31, 2017 and 2016, the RWA, Tier I and Tier II capital, and Capital Adequacy Ratios are calculated in accordance with SAMA's framework and guidelines regarding implementation of the capital reforms under Basel III.

The following additional disclosures are required under the Basel III framework:

- Pillar III, Qualitative Disclosures (Annually)
- Pillar III, Quantitative Disclosures (Semi-annually)
- Capital Structure (Quarterly)
- Liquidity Coverage Ratio (Quarterly)
- Leverage Ratio (Quarterly)

These disclosures are made available to the public on the Bank's website within the prescribed time frames as required by SAMA.

37. Asset management and brokerage services

The Group offers investment services to its customers, through a subsidiary, which include management of investment funds in consultation with professional investment advisors, with assets under management totaling SAR 6,816 million (2016: SAR 5,135 million). This includes funds managed under Shariah approved portfolios amounting to SAR 2,150 million (2016: SAR 1,408 million).

38. Employee stock option shares and employee end of service benefits

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

Grant dates: January 1, 2013, 2014 and 2016

Maturity dates: Between 2017 and 2018

Vesting period: 4 years per plan

Vesting conditions: Participating employees to remain in service

Method of settlement: Shares

Cost to participating employees: SAR 3.93 to SAR 4.29 per share

The stock option shares outstanding as of December 31, 2017 and 2016 have a weighted average contractual life of between one and three years. The stock option shares are granted only under a service condition with no market linked condition.

The following table summarizes the movement in the number of stock option shares for the years ended December 31, 2017 and 2016:

	2017	2016
Stock option shares at the beginning of the year	3,749,248	6,306,766
Shares vested during the year	(1,592,318)	(2,018,012)
Withdrawals during the year	(320,214)	(539,506)
Stock option shares at the end of the year	<u>1,836,716</u>	<u>3,749,248</u>

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

In 2017, the Bank vested 50% of the shares granted in January 2013, 25% of the shares granted in January 2014, and 25% of the shares granted in January 2016, equivalent to 1,592,318 shares, for a total estimated cost of SAR 21.6 million.

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

The Group also has an Employee Contributory Share Option Plan outstanding at the end of the year. The following table summarizes the movement in the number of subscribed shares for the years ended December 31, 2017 and 2016:

	2017	2016
Subscribed shares at the beginning of the year	4,210,139	1,364,884
Shares subscribed during the year	-	3,972,734
Shares granted during the year	-	(559,535)
Withdrawals during the year	(478,964)	(567,944)
Subscribed shares at the end of the year	<u>3,731,175</u>	<u>4,210,139</u>

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

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

38. Employee stock option shares and employee end of service benefits (Continued)

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

	Cost of shares SAR '000	Share based provisions SAR '000	Total SAR '000
Balances December 31, 2015	(95,294)	38,539	(56,755)
Cost of shares acquired	(58,206)	–	(58,206)
Share based provision and vesting/granting movement, net	54,810	(2,733)	52,077
Balances December 31, 2016	(98,690)	35,806	(62,884)
Cost of shares acquired	(17,574)	–	(17,574)
Share based provision and vesting/granting movement, net	33,818	(11,629)	22,189
Balances December 31, 2017	(82,446)	24,177	(58,269)

(b) The Group operates end of service benefit plans for its employees based on prevailing Saudi Labor Laws. Accruals are made in accordance with actuarial valuations using a projected unit credit method while the benefit payments are discharged as and when the benefit payments are due.

The amounts recognized in the consolidated statement of financial position which are included in other liabilities and the corresponding movement in the actuarial obligation during the years ended December 31, 2017 and 2016 is as follows:

	2017 SAR '000	2016 SAR '000
Actuarial obligation at the beginning of the year	171,291	182,643
Current and prior period service cost	32,316	44,699
Benefits paid	(20,528)	(17,596)
Effect of changes in actuarial assumptions	3,193	(38,455)
Actuarial obligation at the end of the year	186,272	171,291

The current and prior period service cost amounts above primarily include costs for employees' current period service plus prior year service costs adjusted for any current year salary increments.

The effect of changes in actuarial assumptions for the year ended December 31, 2017 is primarily related to an increase in the assumption for future salary increments. The effect of changes in actuarial assumptions for the year ended December 31, 2016 are primarily related to an increase in the discount factor.

The principal actuarial assumptions used in the calculation of the actuarial obligations as of December 31, 2017 and 2016 are as follows:

	2017	2016
Discount rate	8.42%	8.86%
Expected rate of salary increment	3.00%	Nil
Normal retirement age	60	60

Should the above actuarial assumptions change in the future, the actuarial obligation could be higher or lower than the December 31, 2017 amount.

38. Employee stock option shares and employee end of service benefits (Continued)

The table below illustrates the sensitivity of the actuarially determined obligation as of December 31, 2017 to the discount rate (8.42%), and the salary increment rate (3%):

	Impact on actuarially determined obligation Increase (Decrease)		
	Change in assumption %	Increase in assumption SAR '000	Decrease in assumption SAR '000
Base Scenario			
Discount rate	10	(81,394)	94,510
Salary increment rate	10	89,833	(85,239)

The above sensitivity analyses is based on a change in a single assumption holding other assumptions constant.

The approximate expected maturity analysis of the undiscounted actuarially determined obligation as of December 31, 2017 is as follows:

	2017 SAR '000
Less than one year	15,696
One to two years	12,973
Two to five years	27,940
Over five years	198,427
Total	255,036

The weighted average duration of the actuarially determined obligation is approximately 20.67 years.

39. Tier I Sukuk

The Group completed the establishment of a Shari'a compliant Tier I Sukuk Program (the Program) in 2016. The Program has been approved by the Group's regulatory authorities and shareholders. On November 21, 2016, the Bank issued SAR 500 million under the Program. On June 6, 2017, the Bank issued another SAR 285 million under the same Program.

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

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

40. Prospective changes in the International Financial Reporting Framework

(a) The following standards or amendments to existing standards have been issued but not yet adopted by the Group, as their effective date for adoption is on or after January 1, 2018. These standards and amendments to existing standards are summarized below:

- IFRS 9 – “Financial Instruments” applicable from January 1, 2018 will replace IAS 39 by changing the classification of financial assets, and by building models using internal and external data. The Group will recognize loss allowances based on expected credit loss models considering forward-looking information. Setting a framework with detailed policies and controls including roles and responsibilities will be implemented. It also incorporates revised requirements for hedge accounting that will allow entities to better reflect their risk management activities in their Financial Statements.
- IFRS 15 – “Revenue from Contracts with Customers” applicable from January 1, 2018 presents a five-step model to determine when to recognize revenue, and at what amount. The application of this standard could have a significant impact on how and when revenue is recognized (except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments), with new estimates and judgements, and the possibility of revenue recognition being accelerated or deferred.
- IFRS 16 – “Leases” applicable from January 1, 2019 sets out the new requirements of lease accounting for lessees and lessors. The new standard eliminates the current dual accounting model for lessees under IAS 17, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, IFRS 16 proposes an on-balance sheet accounting model.
- Amendments to IFRS 2 – “Share-based Payments”, which is applicable for periods beginning on or after January 1, 2018 covers the measurement of cash-settled share based payments, the classification of share-based payments settled net of any tax withholdings, and the accounting for a modification of a share-based payment from cash settled to equity settled.

The Bank is currently assessing the implication and effects of adopting IFRS 15 and IFRS 2 on January 1, 2018, although Management does not believe the adoption of IFRS 15 and IFRS 2 will have a material impact on the Group’s consolidated financial statements. The Bank is also currently assessing the implication and effects of adopting IFRS 16 on January 1, 2019. The Bank will be adopting IFRS 9 on January 1, 2018, the expected effect of which is described below:

(b) In July 2014, the International Accounting Standards Board (the IASB) issued IFRS 9 – “Financial Instruments”, the standard that will replace IAS 39 effective from January 1, 2018. The Group has considered IFRS 9 as a significant project and therefore set up a multidisciplinary implementation team with members from Credit Risk, Modeling, Finance, Information Technology, Operations, and the respective businesses to achieve a successful and robust implementation. The project has been managed by the Chief Financial Officer and the Chief Risk Officer.

(i) Classification and measurement

The classification and measurement of financial assets will depend on how these are managed (the Group’s business model) and their contractual cash flow characteristics. These factors determine whether financial assets are measured at amortized cost, fair value through other comprehensive income (FVOCI), or fair value through profit or loss (FVTPL). The combined effect of the application of the business model and the contractual cash flow characteristic tests may result in some differences in the classification of financial assets measured at amortized cost or fair value compared with IAS 39.

Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement.

The majority of the Bank’s debt instruments that are currently classified as available for sale will satisfy the conditions for classification as FVOCI and hence there will be an insignificant change in the accounting for these assets except for the new Expected Credit Loss requirements.

40. Prospective changes in the International Financial Reporting Framework (Continued)

The accounting for financial liabilities will largely be the same as the requirements of IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVTPL. The derecognition rules have been transferred from IAS 39 "Financial Instruments: Recognition and Measurement", and have not been changed. The Bank does not expect any impact on its financial liabilities and derecognition accounting policy.

Based on the Bank's assessment of its financial assets and expectations around changes to the consolidated statement of financial position composition, the Bank also expects that the overall impact of any change from the application of IFRS 9 will not be significant in relation to the Bank's consolidated statement of financial position or results of operations.

(ii) Hedge accounting

The general hedge accounting requirements aim to simplify hedge accounting, with the objective of creating a stronger link with the Bank's risk management strategy, and permitting hedge accounting to be applied to a greater variety of hedging instruments and risks. However, the requirements of IFRS 9 do not explicitly address macro hedge accounting strategies. As a result, IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting. Based on the analysis completed to date, the Bank expects to exercise the accounting policy choice to continue with IAS 39 hedge accounting.

(iii) Impairment

The Group will recognize impairment allowances based on an Expected Credit Loss (ECL) model on financial assets that are not measured at FVTPL. The impairment losses will primarily include allowances for loans and other advances, investments that are measured at amortized cost or at FVOCI (other than equity investments), due from banks and other financial institutions, financial guarantees, and credit commitments. No impairment loss will be recognized on equity investments under the ECL model.

The Group intends to categorize its financial assets into the following three stages in accordance with IFRS 9 methodology as follows:

- **Stage 1** Performing assets. Financial assets that are not significantly deteriorated in credit quality since origination. The impairment allowance will be recorded based on a twelve-month ECL.
- **Stage 2** Underperforming assets. Financial assets that have significantly deteriorated in credit quality since origination. The impairment allowance will be recorded based on a life time ECL.
- **Stage 3** Impaired assets. Financial assets that are deemed to be impaired for which the Bank will recognize the impairment allowance based on a life time ECL or an individual assessment of the exposure.

The Group will consider forward-looking information in its assessment of significant deterioration in credit risk since origination as well as in the measurement of ECLs. The forward-looking information will include various elements including macroeconomic factors (e.g., unemployment, GDP growth, inflation, profit rates, and other prices) and internal economic forecasts or other forecasts obtained through external sources. To evaluate a range of possible outcomes, the Group intends to formulate various scenarios in the future. For each scenario, the Group will derive an ECL and apply a probability weighted approach to determine the ECL allowance.

The Group's work to date has covered performing an assessment of the population of financial instruments impacted by the classification and measurement requirements and developing an ECL methodology to support the calculation of the ECL allowance. Specifically, during 2017 the Bank conducted business model assessments and financial instrument's contractual cash flow analysis, developed its approach for assessing a significant increase in credit risk, incorporating forward-looking information including macro economic factors, and prepared the required IT systems and process architecture. The Group has performed end to end parallel runs based on 2017 data to assess procedural readiness.

The Group is now in the final phase of implementation, which includes various levels of validation.

40. Prospective changes in the International Financial Reporting Framework (Continued)

(iv) Expected impact

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of IFRS 9 on January 1, 2018.

According to the transitional provisions for initial application of IFRS 9, the Bank is required to recognize any difference between the previous carrying amounts of financial assets under IAS 39 and the carrying amounts under IFRS 9 at the beginning of the annual reporting period that includes the date of initial application in opening retained earnings. Accordingly, the effect is expected to result in a reduction in the carrying value of financial assets by less than one percent and a reduction in total equity from four percent to five percent.

The Group's Tier I plus Tier II ratios will also be impacted by IFRS 9 primarily from the one-time adjustment to retained earnings, and an increase in specific credit impairment provisions related to Stage 2 and Stage 3 financial assets net of the corresponding effect of the increase in such specific reserves on risk-weighted assets. Based on the balances as of December 31, 2017, the expected impact on the Bank's Tier I plus Tier II ratios considering transitional arrangements would be an estimated reduction of less than one percent.

The estimated decrease in total equity includes the impact of both balance sheet classification and measurement changes and the increase to the ECL allowance compared to the impairment allowance as of December 31, 2017 under IAS 39. The assessment above is a point in time estimate and is not a forecast. The actual effect of the implementation of IFRS 9 on the Group could vary significantly from this estimate. The Group continues to refine models, methodologies and controls, and is monitoring developments in regulatory rule-making. Although parallel runs were carried out in 2017, the new systems and associated controls in place have not been operational for an extended period of time. As a result, the Group has not finalized full testing and assessment of all controls over its systems and changes to its governance framework. All estimates are based on the Group's current interpretation of the requirements of IFRS 9 and industry guidance.

Gains or losses realized on the sale of equity instruments classified as FVOCI will no longer be transferred to the income statement on sale, but instead reclassified below the line from the FVOCI reserve to retained earnings. During the year ended December 31, 2017, SAR 31.8 million of such gains were recognized in the consolidated income statement in relation to the disposal of equity investments.

The new standard also introduces extended disclosure requirements and changes in presentation.

The Group believes that implementation of IFRS 9 may result in greater volatility in impairment charges as compared to the existing methodology which is governed by IAS 39 and the prevailing SAMA Guidelines. As a result, the application of IFRS 9 may impact the Group's future profitability as well as its regulatory capital structure and capital planning.

(v) Governance and controls

The Group's governance structure and controls is currently under implementation in line with an IFRS 9 Guidance document applicable to Saudi banks. These Guidelines call for establishing a Board approved IFRS 9 Governance Framework Policy with the IFRS 9 program policies and controls including roles and responsibilities and a management level ECL Committee.

The Group will have a centrally managed IFRS 9 program sponsored by the Bank's Chief Financial Officer and Chief Risk Officer and will include subject matter experts on methodology, data sourcing and modeling, IT processing, and reporting.

41. Effect of the retroactive application of the new Zakat and Income Tax Policy and other adjustments

A summary of the effect of the retroactive application of the new Zakat and Income Tax Policy and effect of other adjustments made to the consolidated statement of financial position as of December 31, 2016 is summarized below:

	Previously reported SAR '000	Adjustments SAR '000	Adjusted SAR '000
Assets			
Cash and balances with SAMA	5,684,338	-	5,684,338
Due from banks and other financial institutions	2,302,293	-	2,302,293
Investments, net	21,447,894	-	21,447,894
Positive fair values of derivatives	(b) 1,914,717	(1,201,377)	713,340
Loans and advances, net	60,249,052	-	60,249,052
Investments in associates	1,000,337	-	1,000,337
Property, equipment, and intangibles, net	987,600	-	987,600
Other real estate	418,724	-	418,724
Other assets	(a) 356,543	(112,710)	243,833
Total assets	94,361,498	(1,314,087)	93,047,411
Liabilities			
Due to banks and other financial institutions	8,996,716	-	8,996,716
Customer deposits	65,640,325	-	65,640,325
Negative fair values of derivatives	(b) 1,424,927	(1,250,377)	174,550
Term loans	2,032,187	-	2,032,187
Subordinated debt	2,002,373	-	2,002,373
Other liabilities	(a), (c) 721,782	145,936	867,718
Total liabilities	80,818,310	(1,104,441)	79,713,869
Equity			
Share capital	7,000,000	-	7,000,000
Statutory reserve	4,210,000	-	4,210,000
Other reserves	509,651	-	509,651
Retained earnings	(a), (b), (c) 966,421	(139,646)	826,775
Proposed dividends	(a) 420,000	(70,000)	350,000
Shares held for employee options, net	(62,884)	-	(62,884)
Shareholders' equity	13,043,188	(209,646)	12,833,542
Tier I Sukuk	500,000	-	500,000
Total equity	13,543,188	(209,646)	13,333,542
Total liabilities and equity	94,361,498	(1,314,087)	93,047,411

41. Effect of the retroactive application of the new Zakat and Income Tax Policy and other adjustments (Continued)

- (a) The effect of the application of the new Zakat and Income Tax Policy resulted in an adjustment to other assets, other liabilities, and proposed dividends in 2016, with a corresponding net reduction to total equity of SAR 159 million (2015: SAR 156 million).
- (b) The positive and negative fair values of derivatives in 2016 totaling SAR 1.25 billion (2015: SAR 0.8 billion) were adjusted to comply with the unit of account and the offsetting principle for financial instruments to conform to the current year presentation with no effect on total equity. Certain changes were also made to fair value models to correct certain valuation assumptions which resulted in an increase in the positive fair values of derivatives totaling SAR 49 million in 2016 (2015: SAR 69 million) with a corresponding increase in total equity by the same amounts.
- (c) Other liabilities in 2016 were adjusted by SAR 100 million (2015: SAR 79.7 million) to reflect the prior year effect of a correction in an actuarial method to estimate certain employee-related liabilities with a corresponding decrease to total equity by the same amount.

The Group has made these adjustments to the opening balances of 2016 as the impact on the consolidated income statement for the year 2016 was not considered material. Accordingly, these adjustments had no material impact on the net income and corresponding basic and diluted earnings per share amounts reported for the years ended December 31, 2016 and 2015.

42. Board of Directors' approval

The consolidated financial statements were authorized for issue by the Board of Directors on 04 Jumada II, 1439H, corresponding to February 20, 2018.