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

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Riyad Bank (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended, and the summary of significant accounting policies and other explanatory notes from 1 to 41.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") as modified by Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing as endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the professional code of conduct and ethics, as endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

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

Key Audit Matters (continued)

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
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Impairment of loans and advances

At 31 December 2017, the gross loans and advances of the Group were Saudi Riyals 140.9 billion against which an impairment allowance of Saudi Riyals 2.1 billion was maintained (comprising impairment against specific loans and collective impairment maintained on a portfolio basis).

We considered this as a key audit matter as the Group makes complex and subjective judgments with respect to the estimation of the amount and timing of the future cashflows when estimating the impairment allowance.

The Group uses the following methods to assess the required impairment allowance:

1. For larger, individually significant loans and advances (mostly corporate customers), impairment is assessed individually on a regular basis;
2. Collective impairment assessment is performed for corporate loans and advances which are not assessed individually or which are not considered to be impaired based on historical deterioration in the borrowers' internal grading and external rating; and
3. Collective impairment assessment for consumer loans is made on a portfolio basis where loans and advances are homogenous in nature.

In particular, the determination of impairment against loans and advances includes:

o The identification of impairment events and judgments used to calculate the impairment against specific corporate loans and advances;
o The use of assumptions underlying the calculation of collective impairment for portfolios of loans and advances, and the use of the models to make those calculations; and
o An assessment of the Group's exposure to certain economic sectors affected by current economic conditions..

Refer to the significant accounting policies note 3.12 to the consolidated financial statements for the significant accounting policy relating to impairment of financial assets, note 2.4(i) which contains the disclosure of significant accounting estimates relating to impairment for credit losses on loans and advances and the impairment assessment methodology used by the Group and note 8 which contains the disclosure of impairment against loans and advances .

</td><td>

We assessed the design and implementation, and tested the operating effectiveness of the key controls over management's processes for establishing and monitoring both specific and collective impairment. This included testing of:

- Entity level controls over the modelling process including model review and monitoring and approval of assumptions by the Group's Credit Division and senior management; and
- Controls over the identification of impaired loans and advances, the data transfer from source systems to the impairment model and model output to the general ledger, and the calculation of the impairment allowance.

For collective impairment, we assessed the appropriateness of the qualitative and quantitative changes in the underlying loan portfolio. We also tested, on a sample basis, extraction of data used in the models including grading of corporate loans, movements between various grades of corporate loans and delinquency bandings for the retail portfolio.

For loans and advances which are individually assessed for impairment:

- We tested a sample of loans and advances (including loans those were not identified by management as potentially impaired) to form our own assessment as to whether impairment events have occurred and to assess whether impairment was identified and recorded in a timely manner, where required. The sample of loans and advances tested by us also included exposures in economic sectors adversely affected by the current economic conditions.
- We considered the assumptions underlying the calculation of impairment including forecasted future cash flows, discount rates and estimated recovery from any underlying collateral etc.

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

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Fees from banking services The Group charges administrative fees upfront to borrowers on loan financing. All such fees are an integral part of generating an involvement with the resulting financial instrument and therefore, all such fees should be considered in making an adjustment to the effective yield and such adjustment should be recognised within Special Commission Income. However, due to the large volume of transactions with mostly individually insignificant fee amounts, management uses certain assumptions and judgments in relation to the recognition of such fees which are recorded within "Fee and Commission Income, net". We considered this as a key audit matter since the use of management assumptions and judgments could result in material over / understatement of the Group's profitability. *Refer to the significant accounting policies note 3.8 (i) to the consolidated financial statements.*	We performed the following procedures: • We evaluated the assumptions and judgments used by management for recognizing the administrative fees charged upfront to borrowers. • We obtained the management's assessment of the impact of the use of assumptions and judgments and: ○ on a sample basis, traced the historical and current year data used by management in their assessment to the underlying accounting records; and ○ assessed the impact on the recognition of fee and commission income and special commission income.

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

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Valuation of available for sale investments	
Available for sale investments comprise a portfolio of debt and equity investments. These instruments are measured at fair value with the corresponding fair value change recognised in other comprehensive income. The fair value of these financial instruments is determined through the application of valuation techniques which often involve the exercise of judgment by management and the use of assumptions and estimates. Estimation uncertainty exists for those instruments not traded in an active market and where the internal modelling techniques use: o significant observable valuation inputs (i.e. level 2 investments); and o significant unobservable valuation inputs (i.e. level 3 investments) Estimation uncertainty is particularly high for level 3 investments. In the Group's accounting policies, management has described the key sources of estimation involved in determining the valuation of level 2 and level 3 investments and in particular when the fair value is established using valuation techniques due to the complexity of investments or due to the lack of availability of market based data. The valuation of the Group's available for sale investments in level 3 category was considered a key audit matter given the degree of complexity involved in valuing these investments and the significance of the judgments and estimates made by the management. *Refer to the significant accounting policies note 3.10 (ii) to the consolidated financial statements, notes 2.4(ii) and 34 which explain the investment valuation methodology used by the Group and critical judgments and estimates.*	We assessed the design and implementation and tested the operating effectiveness of key controls over management's processes for performing valuation of investments classified as available for sale which are not traded in an active market. We performed an assessment of the methodology and the appropriateness of valuation techniques and inputs used to value available for sale investments. We tested the valuation of a sample of available for sale investments not traded in an active market. As part of these audit procedures, we assessed key inputs used in the valuation such as comparable company data and liquidity discounts by benchmarking them with external data.

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

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of investments	
As at 31 December 2017, the Group had investments amounting to Saudi Riyals 46.4 billion. These investments comprise equities, government and corporate bonds and mutual funds which are subject to the risk of impairment in value due to either adverse market situations and / or liquidity constraints faced by the issuers. For assessing the impairment of equities, management monitors volatility of share prices and uses the criteria of significant or prolonged decline in their fair values below their costs as the basis for determining impairment. A significant or prolonged decline in fair value of an equity instrument below its cost represents objective evidence of impairment. The determination of what is significant or prolonged requires judgment. In assessing whether it is significant, the decline in fair value is evaluated against the cost of the equity instrument. In assessing whether it is prolonged, the decline is evaluated against the time-period for which the fair value of the equity instrument has been below its cost. For other instruments, including debt instruments such as corporate bonds/sukuk, the management considers them to be impaired when there is an evidence of a deterioration in the financial health of the investee, industry or sector performance, changes in technology and operational and financing cash flows. We considered the impairment of investments as a key audit matter since the assessment of impairment requires significant judgment by management and the potential impact of impairment could be material to the consolidated financial statements. *Refer to note 3.12 of the consolidated financial statements for the accounting policy relating to the impairment of investments, note 2.4(iii) for the critical accounting estimates and judgments, and notes 30 and 32 for the disclosures of credit and market risks respectively.*	We assessed the design and implementation and tested the operating effectiveness of the key controls over management's processes for identifying significant or prolonged decline in the fair value of equities and/or any defaults on corporate bonds/sukuk. For equity investments, on a sample basis, we: • Assessed the appropriateness of management's criteria for determining whether a decline in fair value of an investment below its cost is significant or prolonged; • Evaluated the basis for determining the fair value of investments; • Traced the cost of investments to underlying accounting records and traced the valuation of investments from management's working of the fair valuation of investments (based on either mark to market or mark to model approach); and • Considered the price fluctuation / movement during the holding period to determine if significant or prolonged criteria is met. For corporate bonds/sukuk, on a sample basis, we assessed the creditworthiness of counterparties based on readily available market information and assessed cash flows from the instruments to consider any defaults based on the terms and conditions of these bonds/sukuk.

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

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Zakat The Group files its zakat returns with the General Authority of Zakat and Tax ("GAZT") on an annual basis. The GAZT has issued assessment orders for the years 2008 to 2013, which resulted in significant additional zakat exposure amounting to Saudi Riyals 3.5 billion. The significant additional zakat exposure resulted mainly from disallowance of certain long-term investments and the addition of long term financing to the zakat base by the GAZT. The interpretation of the GAZT is being challenged by the Group and the appeal proceedings are underway before the appeallate forums. The assessments for the years 2014 onwards are yet to be raised. However, in line with the assessments finalized by the GAZT for the years 2008 to 2013, if long-term investments are disallowed and long-term financing is added to the zakat base this would result in significant additional zakat exposure. The amount of the potential additional zakat exposure is not disclosed in the accompanying consolidated financial statements as management expects that such disclosure might affect the Bank's position in this matter. The management makes judgments about the incidence and quantum of zakat liabilities (which are subject to the future outcome of assessments by the GAZT) and based on such judgments management considers a favourable outcome of the appeal process. We considered this as a key audit matter as it involves significant management judgment and the additional exposure could be material to the consolidated financial statements. *Refer to note 3.22 for the accounting policy relating to zakat and note 26 for the related disclosures for zakat.*	In order to assess the status and likely outcome of the matter, we obtained the correspondence between the Group, GAZT and the Group's zakat consultants to determine the amount of additional claims made by the GAZT. We also obtained the related appeal documents to confirm the fact that the matter is contested before the appeallate forums and to assess the status of those appeals. We held meetings with those charged with governance and senior management of the Group to obtain an update on the zakat matter and the results of their interactions with the relevant appeal committees. We also used our internal specialists to assess the appropriateness of the exposure disclosed for the years assessed by the GAZT, and the appropriateness of management's judgments relating to the zakat matter in light of the facts and circumstances of the Group. We also assessed the appropriateness of the disclosures included in the consolidated financial statements of the Group.

Other Information included in the Bank's 2017 Annual Report
The Board of Directors of the Bank (the Directors) are responsible for the other information. The other information consists of the information included in the Bank's 2017 annual report, other than the consolidated financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

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

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

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

Responsibilities of The Directors and Those Charged with Governance for the Consolidated Financial Statements
The Directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the IFRSs as modified by SAMA for the accounting of zakat and income tax the applicable requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's By-Laws, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)
As part of an audit in accordance with International Standards on Auditing as endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Based on the information that has been made available to us, nothing has come to our attention that causes us to believe that the Bank is not in compliance, in all material respects, with the applicable requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's By-laws in so far as they affect the preparation and presentation of the consolidated financial statements

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28 Jumada Al-Awal 1439 H
(14 February 2018)

شركة ارنست ويونغ وشركاهم محاسبون قانونيون
ترخيص مهني رقم ٤٥
PROFESSIONAL LICENCE No. 45
ERNST & YOUNG & Co. PUBLIC ACCOUNTANTS

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2017 and 2016

	Note	2017 SAR'000	2016 SAR'000
ASSETS			(Restated)
Cash and balances with SAMA	4	18,504,255	21,262,177
Due from banks and other financial institutions	5	9,372,200	4,567,155
Positive fair value of derivatives	6	115,890	189,295
Investments, net	7	46,369,903	45,157,381
Loans and advances, net	8	138,837,618	142,909,367
Investment in associates	9	564,769	548,594
Other real estate		235,119	245,017
Property and equipment, net	10	1,752,408	1,862,349
Other assets	11	530,009	877,666
Total assets		216,282,171	217,619,001
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks and other financial institutions	12	7,056,168	8,836,713
Negative fair value of derivatives	6	77,923	138,638
Customer deposits	13	154,365,549	156,683,538
Debt securities in issue	14	8,016,639	8,018,373
Other liabilities	15, 26	8,142,899	6,968,678
Total liabilities		177,659,178	180,645,940
Shareholders' equity			
Share capital	16	30,000,000	30,000,000
Statutory reserve	17	3,922,592	2,936,093
Other reserves	18	686,865	532,929
Retained earnings		2,873,536	2,604,039
Proposed dividends	26	1,140,000	900,000
Total shareholders' equity		38,622,993	36,973,061
Total liabilities and shareholders' equity		216,282,171	217,619,001

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

CONSOLIDATED STATEMENT OF INCOME
For the years ended December 31, 2017 and 2016

	Note	2017 SAR'000	2016 SAR'000
Special commission income	20	7,425,107	7,312,590
Special commission expense	20	1,490,030	2,011,561
Net special commission income		5,935,077	5,301,029
Fee and commission income, net	21	1,510,314	1,503,113
Exchange income, net		290,207	400,628
Trading income, net		21,815	14,398
Dividend income		50,786	48,882
Gains on non-trading investments, net	22	283,137	190,515
Other operating income	23	33,875	243,715
Total operating income, net		8,125,211	7,702,280
Salaries and employee-related expenses	24	1,572,514	1,596,375
Rent and premises-related expenses		320,498	328,095
Depreciation of property and equipment	10	282,180	288,790
Other general and administrative expenses		775,812	756,322
Impairment charge for credit losses, net	8	1,227,488	1,286,397
Impairment charge for investments, net		-	100,000
Other operating expenses		23,833	39,330
Total operating expenses, net		4,202,325	4,395,309
Net operating income		3,922,886	3,306,971
Share in earnings of associates, net		23,110	35,516
Net income for the year		3,945,996	3,342,487
Basic and diluted earnings per share (in SAR)	25	1.32	1.11

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the years ended December 31, 2017 and 2016

	2017	2016
	SAR'000	SAR'000
Net income for the year	3,945,996	3,342,487
Other comprehensive income:		
Items that are or maybe reclassified back to consolidated statement of income in subsequent periods		
- Available for sale investments		
Net change in fair value (note 18)	422,221	309,784
Net amounts transferred to consolidated statement of income (note 18)	(268,285)	(74,322)
- Impairment of investments	-	100,000
- (Gain) on sale of investments	(268,285)	(174,322)
Items that cannot be reclassified back to consolidated statement of income in subsequent periods	-	-
Other comprehensive income for the year	153,936	235,462
Total comprehensive income for the year	4,099,932	3,577,949

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the years ended December 31, 2017 and 2016

SAR'000	Share capital	Statutory reserve	Other reserves	Retained earnings	Proposed dividends	Total
31 December 2017						
Balance at the beginning of the year- (Restated) (note 26)	30,000,000	2,936,093	532,929	2,604,039	900,000	36,973,061
Total comprehensive income						
Net change in fair value of available for sale investments	-	-	422,221	-	-	422,221
Net amounts relating to available for sale investments transferred to consolidated statement of income	-	-	(268,285)	-	-	(268,285)
Net income	-	-	-	3,945,996	-	3,945,996
Total comprehensive income	-	-	153,936	3,945,996	-	4,099,932
Final dividends - 2016 (note 26)	-	-	-	-	(900,000)	(900,000)
Interim dividend - 2017 (note 26)	-	-	-	(1,050,000)	-	(1,050,000)
Provision for zakat	-	-	-	(500,000)	-	(500,000)
Transfer to statutory reserve (note 17)	-	986,499	-	(986,499)	-	-
Final proposed dividend - 2017 (note 26)	-	-	-	(1,140,000)	1,140,000	-
Balance at the end of the year	30,000,000	3,922,592	686,865	2,873,536	1,140,000	38,622,993
31 December 2016						
Balance at the beginning of the year as originally stated	30,000,000	2,100,471	297,467	2,847,174	1,300,000	36,545,112
						-
Effect of restatement- Provision for zakat for 2016 (note 26)	-	-	-	-	(250,000)	(250,000)
Balance at the beginning of the year- (Restated) (note 26)	30,000,000	2,100,471	297,467	2,847,174	1,050,000	36,295,112
Total comprehensive income						
Net change in fair value of available for sale investments	-	-	309,784	-	-	309,784
Net amounts relating to available for sale investments transferred to consolidated statement of income	-	-	(74,322)	-	-	(74,322)
Net income	-	-	-	3,342,487	-	3,342,487
Total comprehensive income	-	-	235,462	3,342,487	-	3,577,949
Final dividends - 2015 (note 26)	-	-	-	-	(1,050,000)	(1,050,000)
Interim dividend - 2016 (note 26)	-	-	-	(1,050,000)	-	(1,050,000)
Provision for zakat	-	-	-	(800,000)	-	(800,000)
Transfer to statutory reserve (note 17)	-	835,622	-	(835,622)	-	-
Final proposed dividend - 2016 (note 26)	-	-	-	(900,000)	900,000	-
Balance at the end of the year (Restated) (note 26)	30,000,000	2,936,093	532,929	2,604,039	900,000	36,973,061

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended December 31, 2017 and 2016

	Note	2017 SAR'000	2016 SAR'000
OPERATING ACTIVITIES			
Net income for the year		3,945,996	3,342,487
Adjustments to reconcile net income for the year to net cash from (used in) operating activities:			
Accretion of discounts and amortisation of premium, net on non-trading investments, net		(55,606)	(32,541)
Gains on non-trading investments, net		(283,137)	(190,515)
Gains on trading investments, net		(4,232)	-
Depreciation of property and equipment		282,180	288,790
Share in earnings of associates, net		(23,110)	(35,516)
Impairment charge for investments, net		-	100,000
Impairment charge for credit losses, net		1,227,488	1,286,397
		5,089,579	4,759,102
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA		221,760	636,006
Due from banks and other financial institutions maturing after three months from date of acquisition		(2,200,000)	(1,585,000)
Positive fair value of derivatives		73,405	8,244
Held for trading investments (FVIS)		(300,000)	-
Loans and advances, net		2,844,261	870,427
Other real estate		9,898	13,394
Other assets		347,657	(108,598)
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		(1,780,545)	4,337,020
Negative fair value of derivatives		(60,715)	(48,491)
Customer deposits		(2,317,989)	(11,169,275)
Other liabilities		706,409	(222,025)
Net cash from (used in) operating activities		2,633,720	(2,509,196)
INVESTING ACTIVITIES			
Proceeds from sales and maturities of non-trading investments		18,495,446	22,491,578
Purchase of non-trading investments		(18,905,857)	(22,505,924)
Purchase of property and equipment, net		(172,239)	(256,438)
Net cash used in investing activities		(582,650)	(270,784)
FINANCING ACTIVITIES			
Dividend and zakat paid		(1,982,187)	(2,179,112)
Cash used in financing activities		(1,982,187)	(2,179,112)
Net increase (decrease) in cash and cash equivalents		68,883	(4,959,092)
Cash and cash equivalents at beginning of the year		16,082,760	21,041,852
Cash and cash equivalents at end of the year	28	16,151,643	16,082,760
Special commission received during the year		7,327,389	7,134,963
Special commission paid during the year		1,557,748	1,812,369
Supplemental non-cash information			
Net changes in fair value and transfers to consolidated statement of income		153,936	235,462

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

1. GENERAL

Riyad Bank (The "Bank") is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia, formed pursuant to the Royal Decree and the Council of Ministers' Resolution No. 91 dated 1 Jumad Al-Awal 1377H (corresponding to November 23, 1957G). The Bank operates under commercial registration No. 1010001054 dated 25 Rabi Al-Thani 1377H (corresponding to November 18, 1957G) through its 340 branches (2016: 337 branches) in the Kingdom of Saudi Arabia, a branch in London-United Kingdom, an agency in Houston-United States, and a representative office in Singapore. The number of the Group's employees stood at 6,332 as at December 31, 2017 (2016: 6,337). The Bank's Head Office is located at the following address:

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

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

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

2. BASIS OF PREPARATION

2.1 Statement of compliance

The consolidated financial statements of the Group have been prepared;

a) in accordance with '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" so far as these relate to zakat and income tax. As per 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.

b) in compliance with the provisions of Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and the By-Laws of the Bank

   Further, the above SAMA Circular has also repealed the existing Accounting Standards for Commercial Banks, as promulgated by SAMA, and are no longer applicable from January 1, 2017.

   Refer note 3.1 i) for the accounting policy of zakat and income tax and note 26 for the impact of change in the accounting policy resulting from the SAMA Circular.

2. BASIS OF PREPARATION (continued)

2.2 Basis of measurement and presentation

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

The consolidated statement of financial position is stated broadly in order of liquidity.

2.3 Functional and presentation currency

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

2.4 Critical accounting judgements, estimates and assumptions

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

i) Impairment for credit losses on loans and advances

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

ii) Fair value measurement

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

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

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

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

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

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

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

2. BASIS OF PREPARATION (continued)

2.4 Critical accounting judgements, estimates and assumptions (continued)

ii) Fair value measurement(continued)

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

iii) Impairment of available for sale investments

The Group exercises judgement in considering impairment on the available for sale equity investments. This includes determination of a significant or prolonged decline in the fair value below its cost. In making this judgement, the Group evaluates among other factors, the normal volatility in share 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 Group reviews its debt securities classified as available for sale at each reporting date to assess whether they are impaired. This requires similar judgement as applied to individual assessment of loans and advances.

iv) Classification of held-to-maturity investments

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

v) Determination of control over investees

Investment funds

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

Special Purpose Entities (SPEs)

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

vi) Defined benefit scheme

The Group operates an End of service benefit scheme for its employees based on the prevailing Saudi Labor laws. The liability is being accrued based on projected unit credit method in accordance with the periodic actuarial valuation. For details of assumptions and estimate please refer note 27.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these consolidated financial statements are set out below. Except for the change in accounting policies resulting from new and amended IFRS and IFRIC and SAMA guidance, as detailed in note 3.1 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.

3.1 Changes in accounting policies

The accounting policies used in the preparation of these consolidated financial statements include the change in accounting policy of Zakat as mentioned below and adoption of an amendment to an existing standard mentioned below, which has had no material impact on the consolidated financial statements of the Group on the current period or prior periods and is expected to have an insignificant effect in future periods:

i) Zakat

Due to the reason set out in note 2.1, the Group amended its accounting policy relating to zakat and have started to accrue zakat on a quarterly basis and charging it to retained earnings. Previously, zakat was deducted from dividends upon payment to the shareholders and was recognized as a liability at that time. Where no dividends were paid, zakat was accounted for on a payment basis. The Group has accounted for this change in the accounting policy relating to zakat retrospectively and the effects of the above change are disclosed in note 26 to the consolidated financial statements.

ii) Amendments to existing standards

Amendment to IAS 7, Statement of cash flows on disclosure initiative: Applicable for annual periods beginning on or after January 1, 2017. This amendment introduces an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. This amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved. This has no material impact on the consolidated financial statements other than certain additional disclosures.

The Group has chosen not to early adopt the amendments and revisions to the International Financial Reporting Standards which have been published and are mandatory for compliance for the accounting years beginning on or after January 1, 2018 (please refer note 39).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Basis of consolidation

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

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

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

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

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

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

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

3.3 Settlement date accounting

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Investment in associates

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

3.5 Derivative financial instruments and hedge accounting

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

i) Derivatives held for trading

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

ii) Hedge accounting

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 Derivative financial instruments and hedge accounting (continued)

(ii) Hedge accounting (continued)

a) Fair value hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect the consolidated statement of income, any gain or loss from re-measuring the hedging instruments to fair value is recognised immediately in the consolidated statement of income. The related portion of the hedged item is adjusted against the carrying amount of the hedged item and recognised in the consolidated statement of income. For hedged items measured at amortised cost, where the fair value hedge of a special commission bearing financial instrument ceases to meet the criteria for hedge accounting or is sold, exercised or terminated, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the effective yield basis. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated statement of income.

b) Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of a variability of cash flows attributable to a particular risk associated with a recognised asset or a liability or a highly probable forecasted transaction that could affect consolidated statement of income, the portion of the gain or loss on the hedging instrument that is determined to be an effective portion is recognised directly in other comprehensive income and the ineffective portion, if any, is immediately recognised in the consolidated statement of income. For cash flow hedges affecting future transactions, the gains or losses recognised in other reserves, are transferred to the consolidated statement of income in the same period in which the hedged transaction affects the consolidated statement of income. Where the hedged forecasted transaction results in the recognition of a non- financial asset or a non-financial liability, then at the time such asset or liability is recognised the associated gains or losses that had previously been recognised directly in other comprehensive income are included in the initial measurement of the acquisition cost or other carrying amount of such asset or liability.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Foreign currencies

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

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

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

3.7 Offsetting financial instruments

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8 Revenue recognition

i) Special commission income and expense

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

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

If the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, special commission income continues to be recognised using the original effective yield applied to the new carrying amount.

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

ii) Fee and commission income

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

iii) Others

Dividend income is recognised when the Group's right to receive payment is established. Results arising from trading activities include gains and losses from changes in fair value and related special commission income or expense for financial assets and financial liabilities held for trading.

3.9 Sale and repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the consolidated statement of financial position as the Group retains substantially all the risks and rewards of ownership and are measured in accordance with related accounting policies for investments held as FVIS, Available for sale, Held to maturity and Other investments held at amortised cost. The counterparty liability for amounts received under these agreements is included in "Due to banks and other financial institutions" or "Customer deposits", as appropriate. The difference between sale and repurchase prices is treated as special commission expense and is accrued over the life of the repo agreement on an effective special commission rate basis. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos), are not recognised in the consolidated statement of financial position, as the Group does not obtain control over the assets.

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10 Investments

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

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

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

Following recognition, subsequent transfers between the various classes of investments are not ordinarily permissible except in accordance with amendments in IAS 39 (refer note 7). The subsequent period-end reporting values for each class of investment are determined on the basis as set out in the following paragraphs:

i) Held as FVIS

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

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

ii) Available for sale

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

iii) Other investments held at amortised cost

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10 Investments (continued)

iv) Held to maturity

Investments having fixed or determinable payments and fixed maturity and that the Group has the positive intention and ability to hold to maturity, are classified as held to maturity. Held to maturity investments are subsequently measured at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any discount or premium on acquisition using an effective yield basis. Any gain or loss on such investments is recognised in the consolidated statement of income when the investment is derecognised or impaired.

Investments classified as held to maturity cannot ordinarily be sold or reclassified without impacting the 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.

3.11 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 recognised when cash is advanced to borrowers. They are derecognised when either borrower repays their obligations, or the loans are sold or written off, or substantially all the risks and rewards of ownership are transferred.

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

3.12 Impairment of financial assets

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

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

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

When a financial asset is uncollectible, it is written off against the related provision for impairment either directly by a charge to consolidated statement of income or through impairment allowance account. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted, and the amount of the loss has been determined.

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12 Impairment of financial assets (continued)

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

i) Impairment of financial assets held at amortised cost

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

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

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

ii) Impairment of available for sale financial assets

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

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

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

3.13 Other real estate

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.14 Property and equipment

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

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

Subsequent expenditure is capitalized only when it is probable that the future economic benefits of the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. All assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Any carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in consolidated statement of income.

3.15 Financial liabilities

All money market deposits, customer deposits and debt securities in issue are initially recognised at fair value less transaction costs, except for liabilities classified as FVIS, where transaction cost is charged to consolidated statement of income. Subsequently, all special commission-bearing financial liabilities other than those held at FVIS or where fair values have been hedged are measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium. Premiums are amortised and discounts accreted on an effective yield basis to maturity and taken to special commission expense.

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

3.16 Guarantee contracts

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

3.17 Provisions

Provisions are recognised 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.

3.18 Accounting for leases

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

3.19 Cash and cash equivalents

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.20 Derecognition of financial instruments

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

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

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

3.21 End of service benefits

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

3.22 Zakat

Zakat is computed on the Saudi shareholders’ share of equity or net income using the basis defined under the Zakat regulations. Zakat is accrued on a quarterly basis and charged to retained earnings in accordance with SAMA guidance on zakat and income tax. Previously, zakat was deducted from dividends upon payment to the shareholders and was recognized as a liability at that time.

3.23 Investment management services

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

3.24 Non-special commission based banking products

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

i) Murabaha is an agreement whereby the 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) Ijarah is a 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.

iii) Tawaruq is a form of Murabaha transactions where the Group purchases a commodity and sells it to the customer. The customer sells the underlying commodity at spot and uses the proceeds for his financing requirements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.25 Short term employee benefits

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

4. CASH AND BALANCES WITH SAMA

	2017 SAR'000	2016 SAR'000
Cash in hand	5,484,534	4,307,682
Statutory deposit	7,939,812	8,161,572
Reverse repos with SAMA	5,020,000	8,750,000
Other balances	59,909	42,923
Total	18,504,255	21,262,177

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

5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2017 SAR'000	2016 SAR'000
Current accounts	1,095,749	1,215,027
Money market placements	8,276,451	3,352,128
Total	9,372,200	4,567,155

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

	2017 SAR'000	2016 SAR'000
Investment grade (credit rating BBB and above)	9,275,083	4,555,982
Non-investment grade (credit rating below BBB)	92,540	1,023
Unrated	4,577	10,150
Total	9,372,200	4,567,155

6. DERIVATIVES

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

a) Swaps

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

b) Forwards and futures

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

c) Options

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

Held for trading purposes

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

Held for hedging purposes

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

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

6. DERIVATIVES (continued)

Held for hedging purposes (continued)

Fair value hedges

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

Cash flow hedges

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

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

				Notional amounts by term to maturity				
2017 SAR'000	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading:								
Special commission rate swaps	78,724	(45,809)	9,914,179	1,867,447	2,417,581	5,464,237	164,914	8,514,816
Forward foreign exchange contracts	30,538	(27,886)	19,767,301	15,996,453	2,593,333	1,177,515	-	24,158,787
Currency options	4,228	(4,228)	3,233,155	1,972,983	1,206,946	53,226	-	5,722,547
Held as fair value hedges:								
Special commission rate swaps	2,400	-	187,503	10,742	32,822	143,939	-	187,503
Total	115,890	(77,923)	33,102,138	19,847,625	6,250,682	6,838,917	164,914	38,583,653

6. DERIVATIVES (continued)

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

The table below shows a summary of hedged items, the nature of the risk being hedged, the hedging instrument and its fair value as at December 31, 2017 and 2016.

2017
SAR '000

Description of hedged items	Fair value	Hedge inception value	Risk	Hedging instrument	Positive fair value	Negative fair value
Fixed special commission rate deposits	192,868	195,269	Fair value	Special commission rate swaps	2,400	-

2016
SAR '000

Description of hedged items	Fair value	Hedge inception value	Risk	Hedging instrument	Positive fair value	Negative fair value
Fixed special commission rate deposits	74,017	73,644	Fair value	Special commission rate swaps	-	(364)

7. INVESTMENTS, NET

7.1 Investment securities are classified as follows:

i) Held as FVIS

SAR'000	Domestic		International		Total	
	2017 SAR'000	2016 SAR'000	2017 SAR'000	2016 SAR'000	2017 SAR'000	2016 SAR'000
Mutual funds	303,760	-	-	-	303,760	-
Total	303,760	-	-	-	303,760	-

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

The carrying and fair value of these reclassified investments as at December 31, 2017 was SAR 2,389 million (December 31, 2016: SAR 2,792 million).

Had the reclassification not occurred, the consolidated statement of income, for the year ended December 31, 2017, would have included fair value gain on such reclassified investments amounting to SAR 221.7 million (December 31, 2016: unrealised fair value gain SAR 209.8 million).

ii) Available for sale

SAR'000	Domestic		International		Total	
	2017	2016	2017	2016	2017	2016
Fixed rate securities	-	-	10,435,312	11,880,019	10,435,312	11,880,019
Floating rate securities	-	-	1,788,983	1,709,394	1,788,983	1,709,394
Mutual funds	398,616	381,532	486,284	662,612	884,900	1,044,144
Equities	1,299,441	1,228,023	221,163	152,407	1,520,604	1,380,430
Available for sale, net	1,698,057	1,609,555	12,931,742	14,404,432	14,629,799	16,013,987

International investments above includes investment portfolios of SAR 9.1 billion (2016: SAR 11.2 billion) which are externally managed.

iii) Other investments held at amortised cost

SAR'000	Domestic		International		Total	
	2017	2016	2017	2016	2017	2016
Fixed rate securities	19,201,458	17,388,272	2,323,070	1,731,049	21,524,528	19,119,321
Floating rate securities	9,911,816	10,022,575	-	-	9,911,816	10,022,575
Other investments held at amortised cost	29,113,274	27,410,847	2,323,070	1,731,049	31,436,344	29,141,896

iv) Held to maturity

SAR'000	Domestic		International		Total	
	2017	2016	2017	2016	2017	2016
Fixed rate securities	-	1,498	-	-	-	1,498
Floating rate securities	-	-	-	-	-	-
Held to maturity	-	1,498	-	-	-	1,498
Investments, net	31,115,091	29,021,900	15,254,812	16,135,481	46,369,903	45,157,381

7.2 The analysis of the composition of investments is as follows:

SAR '000	2017			2016		
	Quoted	Unquoted*	Total	Quoted	Unquoted*	Total
Fixed rate securities	12,982,228	18,977,612	31,959,840	15,748,605	15,252,233	31,000,838
Floating rate securities	2,945,421	8,755,378	11,700,799	4,187,905	7,544,064	11,731,969
Equities	1,204,692	315,912	1,520,604	1,113,781	266,649	1,380,430
Mutual funds	1,188,660	-	1,188,660	1,044,144	-	1,044,144
Investments, net	18,321,001	28,048,902	46,369,903	22,094,435	23,062,946	45,157,381

*Unquoted securities include Saudi Govt Treasury Bills and bonds of SAR 21.6 billion (2016: SAR 19.8 billion)

7. INVESTMENTS, NET (continued)

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

i) Other investments held at amortised cost

SAR '000	2017				2016			
	Carrying value	Gross unrealised gain	Gross unrealised loss	Fair value	Carrying value	Gross unrealised gain	Gross unrealised loss	Fair value
Fixed rate securities	21,524,528	19,447	(260,018)	21,283,957	19,119,321	20,536	(396,884)	18,742,973
Floating rate securities	9,911,816	349,101	-	10,260,917	10,022,575	406,272	(110)	10,428,737
Total	31,436,344	368,548	(260,018)	31,544,874	29,141,896	426,808	(396,994)	29,171,710

ii) Held to maturity

SAR '000	2017				2016			
	Carrying value	Gross unrealised gain	Gross unrealised loss	Fair value	Carrying value	Gross unrealised gain	Gross unrealised loss	Fair value
Fixed rate securities	-	-	-	-	1,498	15	-	1,513
Floating rate securities	-	-	-	-	-	-	-	-
Total	-	-	-	-	1,498	15	-	1,513

7.4 Credit quality of investments

SAR '000	2017	2016	2017	2016	2017	2016	2017	2016
	Investment grade		Non- investment grade		Unrated		Total	
Held as FVIS	-	-	-	-	303,760	-	303,760	-
Available for sale	9,233,274	11,256,256	2,966,218	2,105,016	2,430,307	2,652,715	14,629,799	16,013,987
Other investments held at amortised cost	25,539,829	23,243,948	630,845	416,460	5,265,670	5,481,488	31,436,344	29,141,896
Held to maturity	-	1,466	-	-	-	32	-	1,498
Total	34,773,103	34,501,670	3,597,063	2,521,476	7,999,737	8,134,235	46,369,903	45,157,381

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

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

	2017 SAR '000	2016 SAR '000
Government and quasi Government	28,084,559	26,355,088
Corporate	10,466,940	10,073,218
Banks and other financial institutions	7,818,404	8,729,075
Total	46,369,903	45,157,381

Investments include SAR 78.3 million (2016: SAR 65.7 million), which have been pledged under repurchase agreements with customers (note 19.4). The market value of such investments is SAR 78.5 million (2016: SAR 65.7 million).

8. LOANS AND ADVANCES, NET

8.1 Loans and advances held at amortised cost

These comprise the following:

2017 SAR'000	Overdrafts	Credit cards	Consumer loans*	Commercial loans	Others	Total
Performing loans and advances	6,571,229	733,646	41,611,191	90,329,203	265,118	139,510,387
Non-performing loans and advances	418,781	-	200,318	791,799	1,259	1,412,157
Total loans and advances	6,990,010	733,646	41,811,509	91,121,002	266,377	140,922,544
Allowance for impairment	(284,471)	(16,420)	(386,892)	(1,380,709)	(16,434)	(2,084,926)
Total	6,705,539	717,226	41,424,617	89,740,293	249,943	138,837,618

2016 SAR'000	Overdrafts	Credit cards	Consumer loans*	Commercial loans	Others	Total
Performing loans and advances	9,256,856	773,471	38,035,114	96,072,934	190,485	144,328,860
Non-performing loans and advances	126,500	-	171,701	855,307	4,514	1,158,022
Total loans and advances	9,383,356	773,471	38,206,815	96,928,241	194,999	145,486,882
Allowance for impairment	(133,504)	(33,161)	(394,212)	(2,010,277)	(6,361)	(2,577,515)
Total	9,249,852	740,310	37,812,603	94,917,964	188,638	142,909,367

Loans and advances, net, include Islamic products of SAR 75,868 million (2016: SAR 73,734 million).

8.2 Movements in allowance for impairment are as follows:

2017 SAR'000	Allowance for impairment Credit cards	Consumer loans*	Commercial loans **	Total	Portfolio provision	Total
Balance at beginning of the year	-	42,060	1,463,106	1,505,166	1,072,349	2,577,515
Provided during the year	56,540	421,382	1,644,538	2,122,460	-	2,122,460
Bad debts written off	(56,540)	(357,677)	(1,909,424)	(2,323,641)	-	(2,323,641)
Recoveries/ reversals of previously provided amounts	-	-	(263,822)	(263,822)	-	(263,822)
***Other movements	-	-	(27,586)	(27,586)	-	(27,586)
Balance at end of the year	-	105,765	906,812	1,012,577	1,072,349	2,084,926

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

During the year, the net charge to the consolidated statement of income on account of impairment charge for credit losses, net is SAR 1,227 million (2016: SAR 1,286 million). This represents, net of

a) amounts provided during the year of SAR 1,859 million (2016: SAR 1,882 million), comprising of
- provided during the year of SAR 2,123 million(2016: SAR 1,933 million) and
- recoveries/ reversals of previously provided amounts SAR 264 million(2016: SAR 51 million), shown above and

b) recoveries from amounts previously written off of SAR 632 million (2016: SAR 596 million).

* Includes consumer mortgage loans

** Includes overdrafts and other loans

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

8. LOANS AND ADVANCES, NET

8.3 Credit quality of loans and advances

i) Neither past due nor impaired

2017 SAR'000	Credit cards	Consumer loans*	Commercial loans**	Total
Standard category	642,698	37,032,202	94,294,613	131,969,513
Special mention category	-	-	1,046,472	1,046,472
Total	642,698	37,032,202	95,341,085	133,015,985

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

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

Standard category

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

Special Mention category

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

Above Commercial loans** Standard Category, as at Dec 31, 2017 comprises the following
- Very Strong Quality SAR 34,431 million (2016: SAR 19,511 million),
- Good Quality SAR 50,342 million (2016: SAR 72,219 million) and
- Satisfactory Quality SAR 9,522 million (2016: SAR 12,647 million).

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

2017 SAR'000	Credit cards	Consumer loans*	Commercial loans**	Total
Upto 30 days	48,437	3,419,172	167,015	3,634,624
From 31 - 90 days	22,983	826,908	44,164	894,055
From 91 - 180 days	19,528	332,909	283,943	636,380
More than 180 days	-	-	1,329,343	1,329,343
Total	90,948	4,578,989	1,824,465	6,494,402

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

* Includes consumer mortgage loans
** Includes overdrafts and other loans

8. LOANS AND ADVANCES, NET (continued)

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

	2017				2016			
SAR' 000	Performing	Non performing	Allowance for impairment	Loans and advances, net	Performing	Non performing	Allowance for impairment	Loans and advances, net
Banks and other financial institutions	5,237,705	-	-	5,237,705	5,035,994	-	-	5,035,994
Agriculture and fishing	1,474,026	-	-	1,474,026	1,288,041	1,400	(553)	1,288,888
Manufacturing	23,680,064	498,759	(243,902)	23,934,921	25,671,245	268,591	(58,897)	25,880,939
Mining and quarrying	9,829,363	-	-	9,829,363	10,479,167	-	-	10,479,167
Electricity, water, gas and health services	2,266,851	-	-	2,266,851	2,569,707	3,064	(129)	2,572,642
Building and construction	13,314,188	214,280	(517,107)	13,011,361	15,263,298	91,556	(957,025)	14,397,829
Commerce	32,203,674	496,511	(141,974)	32,558,211	34,208,471	618,304	(444,644)	34,382,131
Transportation and communication	4,548,932	-	-	4,548,932	4,380,754	-	-	4,380,754
Services	4,590,247	2,289	(3,829)	4,588,707	6,452,622	3,406	(1,858)	6,454,170
Consumer loans and credit cards	42,344,837	200,318	(105,765)	42,439,390	38,808,585	171,701	(42,060)	38,938,226
Others	20,500	-	-	20,500	170,976	-	-	170,976
Total	139,510,387	1,412,157	(1,012,577)	139,909,967	144,328,860	1,158,022	(1,505,166)	143,981,716
Portfolio provision				(1,072,349)				(1,072,349)
Loans and advances, net				138,837,618				142,909,367

8.5 Collateral

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

	2017 SAR'000	2016 SAR'000
Neither past due nor impaired	38,713,823	41,872,710
Past due but not impaired	5,645,833	2,206,810
Impaired	1,482,969	817,093
Total	45,842,625	44,896,613

9. INVESTMENT IN ASSOCIATES

Investment in associates represents the Bank's share of investment in entities where the Bank has significant influence. These investments are accounted for using the equity method of accounting. Investment in associates represents 35% (2016: 35%) share ownership in Ajil Financial Services Company incorporated in Kingdom of Saudi Arabia, 21.4 % (2016: 21.4%) share in ownership in Royal and Sun Alliance Insurance (Middle East) Limited E.C., incorporated in Bahrain and 30.6% (2016: 30.6%) share ownership, (including indirect) and Board representation in Al-Alamiya for Cooperative Insurance Company incorporated in Kingdom of Saudi Arabia.

10. PROPERTY AND EQUIPMENT, NET

SAR' 000	Land and buildings	Improve-ments and decoration of premises	Furniture, fixtures and equipment	Computer hardware, software programs and automation projects	Motor vehicles	Total
Cost						
Balance as at January 1, 2016	1,460,500	821,727	441,689	2,639,525	1,052	5,364,493
Additions	12,875	56,098	18,883	217,554	-	305,410
Disposals	(20,782)	-	(269)	(142,484)	(60)	(163,595)
Balance as at December 31, 2016	1,452,593	877,825	460,303	2,714,595	992	5,506,308
Additions	-	38,602	19,794	148,583	-	206,979
Disposals	(4,365)	(2,229)	(2,544)	(79,321)	-	(88,459)
Balance at December 31, 2017	1,448,228	914,198	477,553	2,783,857	992	5,624,828
Accumulated depreciation and amortisation						
Balance as at January 1, 2016	506,925	710,383	364,149	1,887,519	816	3,469,792
Charge for the year	21,941	40,912	23,944	201,922	71	288,790
Disposals	(16,293)	-	(269)	(98,001)	(60)	(114,623)
Balance as at December 31, 2016	512,573	751,295	387,824	1,991,440	827	3,643,959
Charge for the year	21,396	43,786	26,533	190,392	73	282,180
Disposals	(982)	(1,909)	(2,506)	(48,322)	-	(53,719)
Balance at December 31, 2017	532,987	793,172	411,851	2,133,510	900	3,872,420
Net book value						
As at January 1, 2016	953,575	111,344	77,540	752,006	236	1,894,701
As at December 31, 2016	940,020	126,530	72,479	723,155	165	1,862,349
As at December 31, 2017	915,241	121,026	65,702	650,347	92	1,752,408

Improvements and decoration of premises include work in progress amounting to SAR 0.3 million as at December 31, 2017 (2016: nil).

11. OTHER ASSETS

	2017 SAR'000	2016 SAR'000
Accounts receivable	150,718	293,437
Others*	379,291	584,229
Total	530,009	877,666

* Mainly include prepayments amounting to SAR 92 million (2016: SAR 130 million), Accrued income, Sundry debtors and settlement accounts of SAR 146 million(2016: SAR 116 million) and items in transit which are cleared in the normal course of business.

12. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2017 SAR'000	2016 SAR'000
Current accounts	1,058,894	1,038,289
Money market deposits	5,997,274	7,798,424
Total	7,056,168	8,836,713

Money market deposits include deposits against sales of fixed rate bonds of SAR 36 million (2016: nil) with agreement to repurchase the same at fixed future dates

13. CUSTOMER DEPOSITS

	2017 SAR'000	2016 SAR'000
Demand	81,011,365	77,846,981
Saving	366,380	324,982
Time	61,430,076	67,811,458
Others	11,557,728	10,700,117
Total	154,365,549	156,683,538

Time deposits include deposits against sale of bonds of SAR 43 million (2016: SAR 66 million) with agreement to repurchase the same at fixed future dates. Time deposits also include non-special commission based deposits of SAR 25,035 million (2016: SAR 31,970 million). Other customers' deposits include SAR 2,642 million (2016: SAR 2,539 million) of margins held for irrevocable commitments.

The above include foreign currency deposits as follows:

	2017 SAR'000	2016 SAR'000
Demand	3,990,803	4,014,306
Saving	9,757	10,216
Time	15,072,603	13,953,808
Other	449,191	317,907
Total	19,522,354	18,296,237

14. DEBT SECURITIES IN ISSUE

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

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

15. OTHER LIABILITIES

	2017 SAR'000	2016 SAR'000 (Restated)
Accounts payable	845,585	1,149,939
Others*	7,297,314	5,818,739
Total	8,142,899	6,968,678

Mainly include provision for zakat and tax of SAR 1,842 million (2016: SAR 1,373 million), end of service benefits of SAR 699 million (2016 : SAR 708 million) based on actuarial calculations(note 27.2), insurance payable, accrued expenses, income received in advance and items in transit which are cleared in the normal course of business

16. SHARE CAPITAL

The authorised, issued and fully-paid share capital of the Bank consist of 3,000 million shares of SAR 10 each (2016: 3,000 million shares of SAR 10 each).

17. STATUTORY RESERVE

In accordance with Saudi Arabian Banking Control Law and the Bank's By-Laws, a minimum of 25% of the annual net income is required to be transferred to the statutory reserve until this reserve equals to the paid up capital of the Bank. Accordingly, SAR 986.5 million has been transferred from 2017 net income (2016: SAR 835.6 million). The statutory reserve is not currently available for distribution.

18. OTHER RESERVES

	2017 SAR'000	2016 SAR'000
Balance at beginning of the year	532,929	297,467
Net change in fair value of available for sale investments	422,221	309,784
Net amounts relating to available for sale investments transferred to consolidated statement of income	(268,285)	(74,322)
Net movement during the year	153,936	235,462
Balance at end of the year	686,865	532,929

19. COMMITMENTS AND CONTINGENCIES

19.1 Legal proceedings

As at December 31, 2017, there were legal proceedings of a routine nature outstanding against the Group. No provision has been made as management and in-house legal adviser believes that it is unlikely that any significant loss will arise.

19.2 Capital commitments

As at December 31, 2017 the Group had capital commitments of SAR 88.5 million (2016: SAR 132.1 million). This includes computer hardware, software, automation projects, construction and equipment purchases.

19.3 Credit related commitments and contingencies

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

19. COMMITMENTS AND CONTINGENCIES (continued)

19.3 Credit related commitments and contingencies (continued)

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

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

i) The contractual maturity structure for the Bank's 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	3,981,126	4,172,440	174,548	-	8,328,114
Letters of guarantee	16,331,813	33,356,176	14,252,131	648,070	64,588,190
Acceptances	1,401,222	585,123	40,229	-	2,026,574
Irrevocable commitments to extend credit	1,462,052	1,424,911	5,347,977	1,654,596	9,889,536
Total	23,176,213	39,538,650	19,814,885	2,302,666	84,832,414

2016 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	2,688,227	4,430,357	502,214	-	7,620,798
Letters of guarantee	28,023,943	20,542,649	21,955,521	1,327,225	71,849,338
Acceptances	663,672	1,443,717	12,346	106	2,119,841
Irrevocable commitments to extend credit	1,935,160	1,962,625	4,703,714	3,539,233	12,140,732
Total	33,311,002	28,379,348	27,173,795	4,866,564	93,730,709

The outstanding unused portion of non-firm commitments as at December 31,2017 which can be revoked unilaterally at any time by the Bank, amounts to SAR 89,554 million (2016: SAR 90,669 million).

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

	2017 SAR'000	2016 SAR'000
Government and quasi government	-	-
Corporate	63,946,804	70,081,548
Banks and other financial institutions	20,885,610	23,649,161
Total	84,832,414	93,730,709

19.4 Assets pledged

Assets pledged as collateral with customers are as follows:

	2017		2016	
	Assets SAR'000	Related liabilities SAR'000	Assets SAR'000	Related liabilities SAR'000
Other investments held at amortised cost (note 7.1 iii),12 and 13)	78,274	79,371	65,747	65,941

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

19. COMMITMENTS AND CONTINGENCIES (continued)

19.5 Operating lease commitments

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

	2017 SAR'000	2016 SAR'000
Less than 1 year	31,813	35,862
1 to 5 years	65,232	78,258
Over 5 years	6,206	11,465
Total	103,251	125,585

20. SPECIAL COMMISSION INCOME AND EXPENSE

		2017 SAR'000	2016 SAR'000
Special commission income on:			
Investments	- Available for sale	425,591	411,240
	- Other investments held at amortised cost	661,233	562,903
	- Held to maturity	-	711
		1,086,824	974,854
Due from banks and other financial institutions		148,484	73,750
Loans and advances		6,189,799	6,263,986
Total		7,425,107	7,312,590

	2017 SAR'000	2016 SAR'000
Special commission expense on:		
Due to banks and other financial institutions	112,074	68,884
Customer deposits	1,141,859	1,710,081
Debt securities in issue	236,097	232,596
Total	1,490,030	2,011,561

21. FEE AND COMMISSION INCOME, NET

	2017 SAR'000	2016 SAR'000
Fee and commission income on:		
- Share brokerage and fund management	269,288	259,470
- Trade finance	562,917	493,289
- Credit facilities and advisory	577,385	607,479
- Card products	631,359	605,504
- Other banking services	115,694	114,897
Total fee and commission income	2,156,643	2,080,639
Fee and commission expense on:		
- Banking cards	469,534	431,314
- Share brokerage	46,761	39,541
- Other banking services	130,034	106,671
Total fee and commission expense	646,329	577,526
Fee and commission income, net	1,510,314	1,503,113

22. GAINS ON NON-TRADING INVESTMENTS, NET

	2017 SAR'000	2016 SAR'000
Available for sale	282,837	179,904
Other investments held at amortised costs	300	10,611
Total	283,137	190,515

23. OTHER OPERATING INCOME

Other operating income for 2016, includes gain on sale of lands initially acquired in settlement of certain loans and advances amounting to SAR 201 million.

24. SALARIES AND EMPLOYEE-RELATED EXPENSES

The following table summarises the Group's employee categories defined in accordance with SAMA's rules on compensation practices and includes the total amounts of fixed and variable compensation paid to employees during the years ended December 31, 2017 and 2016, and the forms of such payments.

Categories SAR 000	Number of employees		Fixed compensation		Variable compensation		Total compensation	
	2017	2016	2017	2016	2017	2016	2017	2016
Senior executives requiring SAMA no objection	37	37	40,891	41,895	9,004	12,226	49,895	54,121
Employees engaged in risk taking activities	322	338	89,133	94,636	18,943	21,394	108,076	116,030
Employees engaged in control functions	469	466	100,159	98,234	10,992	13,019	111,151	111,253
Outsourced employees	441	300	23,614	30,692	-	-	23,614	30,692
Others	5,063	5,196	748,091	746,518	90,696	91,347	838,787	837,865
Total	6,332	6,337	1,001,888	1,011,975	129,635	137,986	1,131,523	1,149,961

	2017	2016
Variable compensation accrued during the year and other employee related benefits*	570,626	584,400
Total salaries and employee-related expenses as per consolidated statement of income	1,572,514	1,596,375

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

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

24. SALARIES AND EMPLOYEE-RELATED EXPENSES

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

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

25. EARNINGS PER SHARE

Basic and diluted earnings per share for the years ended December 31, 2017 and 2016 are calculated by dividing the net income for the year by 3,000 million shares.

26. PROPOSED GROSS DIVIDENDS AND ZAKAT

The net cash dividend after deduction of zakat amounted to SAR 2,190 million (2016: SAR 1,950 million), resulting in a net dividend to the shareholders of SAR 0.73 per share (2016: SAR 0.65 per share). The gross dividends for 2017 include interim dividends of SAR 1,050 million paid for the first half of 2017 (2016: SAR 1,050 million). Final gross dividends of SAR 1,640 million (2016: SAR 1,700 million) have been proposed for 2017, comprising SAR 1,140 million of final proposed dividends (2016: SAR 900 million) and zakat accrual of SAR 500 million (2016: SAR800 million).

The Group has filed its Zakat and Income Tax returns with the General Authority for Zakat and Tax ("GAZT") and paid Zakat and Income Taxes for financial years up to and including the year 2016 and has received the assessments for the years up to 2013, in which the GAZT raised additional demands aggregating to SAR 3,543 million for the years 2008 to 2013 mainly on account of "disallowance of certain long-term investments and the addition of long term financing to the Zakat base by the GAZT". The basis for the additional Zakat liability is being contested by the Group at various levels. Management expects a favourable outcome on the aforementioned appeals and believes appropriate provisions are held there against.

The assessments for the years 2014 to 2016 are yet to be raised by the GAZT. However, if long-term investments are disallowed and long-term financing is added to the Zakat base, in line with the assessments finalized by GAZT for the years referred to above, it would result in significant additional zakat exposure to the Group which remains an industry wide issue and disclosure of which might affect the Group's position in this matter.

The change in the accounting policy for zakat (as explained in note 3.1 i), has the following impacts on the line items of statements of financial position and changes in shareholders' equity:

As at 31 December 2016 SAR 000	Balance as previously reported as at 31 December 2016	Effect of restatement	Other reclassification*	Balance as restated at 31 December 2016
Other Liabilities	6,168,867	800,000	(189)	6,968,678
Proposed dividends (Equity)	1,700,000	(800,000)		900,000

As at 1 January, 2016 SAR 000	Balance as previously reported as at As at 1 January, 2016	Effect of restatement	Other reclassification*	Balance as restated at As at 1 January, 2016
Other Liabilities	6,220,495	250,000	(680)	6,469,815
Proposed dividends (Equity)	1,300,000	(250,000)	-	1,050,000

* Represents certain accounts reclassified from other liabilities to customer deposits as shown in the consolidated statement of financial position, to conform with the current year presentation.

27. DEFINED BENEFIT PLAN

27.1 General description

The Group operates an End of Service Benefit Scheme for its employees based on the prevailing Saudi Labor Laws. The liability in respect of the scheme is estimated by a qualified external actuary in accordance with International Accounting Standard 19 - Employee Benefits, and using “Projected Unit Credit Method”.

27.2 The movement in the obligation during the year based on its present value are as follows:

	2017 SAR'000
Defined benefit obligation at the beginning of the year	708,144
Current service cost	62,101
Interest cost	40,308
Benefits paid	(79,789)
Actuarial gain	(31,439)
Defined benefit obligation at the end of the year	699,325

The liability recognised in the consolidated statement of financial position in respect of the scheme is the present value of the defined benefit obligation at the end of the reporting period. The actuarial gains/losses for the year ended 31 December 2017, are not material to the consolidated financial statements taken as a whole. The end of service liability is disclosed within "other liabilities" in the consolidated statement of financial position.

27.3 The valuation of the defined benefit obligation and assumptions

Liability under the scheme is based on various assumptions ("actuarial assumptions") including the estimation of the discount rate, inflation rate, expected rate of salary increase and normal retirement ages. Based on the assumptions, cash outflows are estimated for the Group’s employees as a whole giving the total payments expected over the future years, which are discounted to arrive at the obligation at the reporting date. Any changes in actuarial assumptions from one period to another may effect the determination of the estimated obligation at the reporting date, which is accounted for as an actuarial gain or loss for the period.

The principal actuarial assumptions (in respect of the employee benefit scheme) used for the valuation as at December 31, 2017 are as follows:

	2017 SAR'000
Discount rate p.a.	4.5%
Expected rate of salary increase p.a.	4.0%
Normal retirement age	60

Assumptions regarding future mortality are set based on actuarial advice in accordance with the published statistics and experience in the region.

28. CASH AND CASH EQUIVALENTS

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

	2017 SAR'000	2016 SAR'000
Cash and balances with SAMA excluding statutory deposit (note 4)	10,564,443	13,100,605
Due from banks and other financial institutions maturing within three months from the date of acquisition	5,587,200	2,982,155
Total	16,151,643	16,082,760

29. OPERATING SEGMENTS

The Group determines and presents operating segments based on the information that is provided internally to the chief operating decision maker in order to allocate resources to the segments and to assess its performance. The operating segments are managed separately based on the Group's management and internal reporting structure. The transactions between the Group's operating segments are recorded as per the Group's transfer pricing system. The Group’s primary business is conducted in Saudi Arabia with one international branch, a representative office and an agency. However, the total assets, liabilities, commitments and results of operations of this branch, representative office and agency are not material to the Group’s overall consolidated financial statements and as a result have not been separately disclosed.

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

Retail

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

Investment banking and brokerage

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

Corporate

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

Treasury and investments

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

Other

Includes income on capital and unallocated costs pertaining to Head Office, Finance Division, Human Resources, Technology Services and other support departments and unallocated assets and liabilities.

29. OPERATING SEGMENTS (continued)

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

2017 SAR'000	Retail	Investment banking and brokerage	Corporate	Treasury and investments	Other	Total
Total assets	49,248,483	914,103	95,886,608	59,050,636	11,182,341	216,282,171
Total liabilities	66,096,309	63,806	87,351,530	5,681,009	18,466,524	177,659,178
Total operating income, net including	2,619,606	304,511	3,481,054	1,368,161	351,879	8,125,211
- Inter segment income (expenses)	343,851	90,032	(583,209)	(381,136)	530,462	-
- Net special commission income	2,306,242	91,233	2,505,470	741,013	291,119	5,935,077
- Fee and commission income, net	315,744	207,330	968,195	11,792	7,253	1,510,314
Total operating expenses, net including	991,909	139,926	1,671,619	54,509	1,344,362	4,202,325
- Depreciation of property and equipment	106,851	141	11,323	7,635	156,230	282,180
- Impairment charge for credit losses, net	(76,072)	-	1,303,560	-	-	1,227,488
- Impairment charge for investments, net	-	-	-	-	-	-
Share in earnings of associates, net	-	-	-	-	23,110	23,110
Net income (loss)	1,627,697	164,585	1,809,435	1,313,652	(969,373)	3,945,996

2016 SAR'000	Retail	Investment banking and brokerage	Corporate	Treasury and investments	Other	Total
Total assets	44,895,922	827,059	103,624,050	56,880,671	11,391,299	217,619,001
Total liabilities	61,273,889	60,603	94,541,329	7,342,895	17,427,224	180,645,940
Total operating income, net including	2,321,852	282,599	2,863,271	1,235,356	999,202	7,702,280
- Inter segment income (expenses)	(29,377)	54,493	(645,398)	(349,058)	969,340	-
- Net special commission income	1,975,755	62,786	1,908,932	612,454	741,102	5,301,029
- Fee and commission income, net	335,167	217,609	945,753	(1,740)	6,324	1,503,113
Total operating expenses, net including	1,197,759	154,553	1,525,416	43,609	1,473,972	4,395,309
- Depreciation of property and equipment	100,590	72	9,339	8,623	170,166	288,790
- Impairment charge for credit losses, net	125,231	-	1,161,166	-	-	1,286,397
- Impairment charge for investments, net	-	-	-	100,000	-	100,000
Share in earnings of associates, net	-	-	-	-	35,516	35,516
Net income (loss)	1,124,093	128,046	1,337,855	1,191,747	(439,254)	3,342,487

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

2017 SAR'000	Retail	Investment banking and brokerage	Corporate	Treasury and investments	Other	Total
Consolidated statement of financial position assets	49,059,497	424,508	96,095,722	58,114,358	9,587,535	213,281,620
Commitments and contingencies	-	-	56,184,996	-	-	56,184,996
Derivatives	-	-	-	813,304	-	813,304

2016 SAR'000	Retail	Investment banking and brokerage	Corporate	Treasury and investments	Other	Total
Consolidated statement of financial position assets	44,445,512	403,573	104,080,973	55,306,106	10,418,796	214,654,960
Commitments and contingencies			61,221,783	-	-	61,221,783
Derivatives			-	1,042,067	-	1,042,067

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

30. CREDIT RISK

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

The Bank attempts to control credit risk by appropriate credit structuring, credit review process, post-disbursal monitoring of credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Bank's risk management policies are designed to identify and to set appropriate risk limits and to monitor the risks and adherence to limits. Actual exposures against limits are monitored daily. In addition to monitoring credit limits, the Bank manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposure. In certain cases, the Bank may also close out transactions or assign them to other counterparties to mitigate credit risk.

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

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

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

Management monitors the market value of collateral recurrently, requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

The Bank regularly reviews its risk management policies and systems to reflect changes in markets products and emerging best practice.

The credit ratings of the Group's due from banks and other financial institutions is disclosed in note 5. The debt securities included in the investment portfolio are mostly sovereign risk. Analysis of investments by counterparty is provided in note 7. For details of the composition of loans and advances refer to note 8. Information on credit risk relating to derivative instruments is provided in note 6 and for commitments and contingencies in note 19. The Bank's maximum credit exposure, which best represents its maximum exposure to credit risk at the end of the reporting period, without taking account of any collateral held or other credit enhancements, is not materially different than the credit exposure by business segment given in note 29.2. The Group's consolidated Risk Weighted Assets (RWA) calculated under the Basel III framework is also provided in note 36.

31. GEOGRAPHICAL CONCENTRATION

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

2017 SAR'000	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other countries	Total
Assets								
Cash and balances with SAMA	18,504,249	-	6	-	-	-	-	18,504,255
Cash in hand	5,484,528	-	6	-	-	-	-	5,484,534
Balances with SAMA	13,019,721	-	-	-	-	-	-	13,019,721
Due from banks and other financial institutions	4,678,367	971,130	2,485,524	587,867	-	312,522	336,790	9,372,200
Current accounts	1,000,267	14,836	2,376	30,595	-	31,883	15,792	1,095,749
Money market placements	3,678,100	956,294	2,483,148	557,272	-	280,639	320,998	8,276,451
Positive fair value of derivatives	96,957	11,061	7,872	-	-	-	-	115,890
Investments, net	31,115,091	1,915,046	2,847,490	9,200,045	790	371,939	919,502	46,369,903
FVIS	303,760	-	-	-	-	-	-	303,760
Available for sale	1,698,057	8,427	2,847,490	9,200,045	790	371,939	503,051	14,629,799
Other investments held at amortised cost	29,113,274	1,906,619	-	-	-	-	416,451	31,436,344
Held to maturity	-	-	-	-	-	-	-	-
Investment in associates	400,320	164,449	-	-	-	-	-	564,769
Loans and advances, net	135,875,408	2,287,992	251	673,967	-	-	-	138,837,618
Overdraft	6,705,539	-	-	-	-	-	-	6,705,539
Credit cards	717,226	-	-	-	-	-	-	717,226
Consumer loans	41,424,617	-	-	-	-	-	-	41,424,617
Commercial loans	86,778,083	2,287,992	251	673,967	-	-	-	89,740,293
Others	249,943	-	-	-	-	-	-	249,943
Other assets	530,009	-	-	-	-	-	-	530,009
Accounts receivable and others	530,009	-	-	-	-	-	-	530,009
Total	191,200,401	5,349,678	5,341,143	10,461,879	790	684,461	1,256,292	214,294,644
Liabilities								
Due to banks and other financial institutions	3,645,140	2,243,114	734,965	381,574	-	8,060	43,315	7,056,168
Current accounts	19,763	302,090	578,219	107,449	-	8,060	43,313	1,058,894
Money market deposits	3,625,377	1,941,024	156,746	274,125	-	-	2	5,997,274
Negative fair value of derivatives	36,670	9,226	32,027	-	-	-	-	77,923
Customer deposits	149,290,345	2,381,084	1,283,696	155,739	6,464	114,524	1,133,697	154,365,549
Demand	77,607,541	2,055,152	114,953	96,131	6,464	113,038	1,018,086	81,011,365
Saving	359,562	1,850	228	-	-	462	4,278	366,380
Time	59,765,514	324,082	1,168,515	59,608	-	1,024	111,333	61,430,076
Other	11,557,728	-	-	-	-	-	-	11,557,728
Debt securities in issue	8,016,639	-	-	-	-	-	-	8,016,639
Other liabilities	8,124,858	-	8,215	9,228	-	598	-	8,142,899
Accounts payable and others	8,124,858	-	8,215	9,228	-	598	-	8,142,899
Total	169,113,652	4,633,424	2,058,903	546,541	6,464	123,182	1,177,012	177,659,178

31 GEOGRAPHICAL CONCENTRATION

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

2017 SAR'000	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other countries	Total
Commitments and contingencies	56,203,197	637,465	12,676,028	9,042,524	-	4,924,239	1,348,961	84,832,414
Letters of credit	8,066,060	167,524	2,144	-	-	81,841	10,545	8,328,114
Letters of guarantee	39,572,420	282,545	12,480,004	6,168,435	-	4,831,508	1,253,278	64,588,190
Acceptances	1,920,394	9,557	595	-	-	10,890	85,138	2,026,574
Irrevocable commitments to extend credit	6,644,323	177,839	193,285	2,874,089	-	-	-	9,889,536
Maximum credit exposure (stated at credit equivalent amounts according to SAMA's prescribed methodology)								
Derivatives	454,899	296,560	61,845	-	-	-	-	813,304
Held for trading	449,274	296,560	61,845	-	-	-	-	807,679
Held as fair value hedges	5,625	-	-	-	-	-	-	5,625
Held as cash flow hedges	-	-	-	-	-	-	-	-
Commitments and contingencies	36,799,414	374,761	8,859,452	5,738,773	-	3,442,415	970,181	56,184,996
Letters of credit	3,838,427	79,720	1,020	-	-	38,946	5,018	3,963,131
Letters of guarantee	27,786,888	198,397	8,763,186	4,331,340	-	3,392,579	880,025	45,352,415
Acceptances	1,920,394	9,557	595	-	-	10,890	85,138	2,026,574
Irrevocable commitments to extend credit	3,253,705	87,087	94,651	1,407,433	-	-	-	4,842,876

2016 SAR'000	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other countries	Total
Assets								
Cash and balances with SAMA	21,262,171	-	6	-	-	-	-	21,262,177
Cash in hand	4,307,676	-	6	-	-	-	-	4,307,682
Balances with SAMA	16,954,495	-	-	-	-	-	-	16,954,495
Due from banks and other financial institutions	3,049,810	459,069	546,193	377,999	-	96,735	37,349	4,567,155
Current accounts	566,792	18,679	487,970	99,415	-	22,645	19,526	1,215,027
Money market placements	2,483,018	440,390	58,223	278,584	-	74,090	17,823	3,352,128
Positive fair value of derivatives	106,801	28,307	54,187	-	-	-	-	189,295
Investments, net	29,021,900	1,386,254	3,598,313	9,550,850	2,736	739,960	857,368	45,157,381
Available for sale	1,609,555	13,241	3,561,970	9,550,850	2,736	739,960	535,675	16,013,987
Other investments held at amortised cost	27,410,847	1,373,013	36,343	-	-	-	321,693	29,141,896
Held to maturity	1,498	-	-	-	-	-	-	1,498
Investment in associates	404,827	143,767	-	-	-	-	-	548,594
Loans and advances, net	139,831,595	2,003,257	57,967	243,803	-	63,929	708,816	142,909,367
Overdraft	9,247,056	2,049	-	-	-	70	677	9,249,852
Credit cards	740,310	-	-	-	-	-	-	740,310
Consumer loans	37,812,603	-	-	-	-	-	-	37,812,603
Commercial loans	91,842,988	2,001,208	57,967	243,803	-	63,859	708,139	94,917,964
Others	188,638	-	-	-	-	-	-	188,638
Other assets	566,638	-	-	311,028	-	-	-	877,666
Accounts receivable and others	566,638	-	-	311,028	-	-	-	877,666
Total	194,243,742	4,020,654	4,256,666	10,483,680	2,736	900,624	1,603,533	215,511,635

31. GEOGRAPHICAL CONCENTRATION

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

2016 SAR'000	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other countries	Total
Liabilities								
Due to banks and other financial institutions	4,493,899	2,856,185	889,231	261,539	-	21,440	314,419	8,836,713
Current accounts	24,557	562,865	281,198	115,173	-	21,440	33,056	1,038,289
Money market deposits	4,469,342	2,293,320	608,033	146,366	-	-	281,363	7,798,424
Negative fair value of derivatives	61,771	25,395	51,472	-	-	-	-	138,638
Customer deposits	153,028,930	2,421,271	916,054	198,811	-	2,375	116,097	156,683,538
Demand	77,821,831	208	22,721	-	-	-	2,221	77,846,981
Saving	314,672	3,145	372	701	-	1,011	5,081	324,982
Time	64,192,310	2,417,918	892,961	198,110	-	1,364	108,795	67,811,458
Other	10,700,117	-	-	-	-	-	-	10,700,117
Debt securities in issue	8,018,373	-	-	-	-	-	-	8,018,373
Other liabilities	6,938,072	-	22,831	7,218	-	557	-	6,968,678
Accounts payable and others	6,938,072	-	22,831	7,218	-	557	-	6,968,678
Total	172,541,045	5,302,851	1,879,588	467,568	-	24,372	430,516	180,645,940
Commitments and contingencies	56,862,686	1,717,620	14,586,517	11,581,841	-	4,386,510	4,595,535	93,730,709
Letters of credit	6,389,258	936,588	204,472	142	-	29,106	61,232	7,620,798
Letters of guarantee	39,459,061	483,351	14,209,998	8,848,662	-	4,357,404	4,490,862	71,849,338
Acceptances	2,069,750	5,016	1,634		-	-	43,441	2,119,841
Irrevocable commitments to extend credit	8,944,617	292,665	170,413	2,733,037	-	-	-	12,140,732
Maximum credit exposure (stated at credit equivalent amounts according to SAMA's prescribed methodology)								
Derivatives	742,285	138,664	161,118	-	-	-	-	1,042,067
Held for trading	741,910	138,664	161,118	-	-	-	-	1,041,692
Held as fair value hedges	375	-	-	-	-	-	-	375
Commitments and contingencies	36,709,101	994,665	10,044,154	7,241,167	-	3,039,145	3,193,551	61,221,783
Letters of credit	3,658,088	536,232	117,068	81	-	16,664	35,057	4,363,190
Letters of guarantee	27,370,482	335,273	9,856,659	6,137,808	-	3,022,481	3,115,053	49,837,756
Acceptances	2,069,750	5,016	1,634	-	-	-	43,441	2,119,841
Irrevocable commitments to extend credit	3,610,781	118,144	68,793	1,103,278	-	-	-	4,900,996

31. GEOGRAPHICAL CONCENTRATION

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

	Non-performing loans and advances, net		Allowance for credit losses	
	2017	2016	2017	2016
	SAR'000	SAR'000	SAR'000	SAR'000
Kingdom of Saudi Arabia				
Commercial Loans*	1,211,839	986,321	(906,812)	(1,463,106)
Consumer Loans**	200,318	171,701	(105,765)	(42,060)
Total	1,412,157	1,158,022	(1,012,577)	(1,505,166)

*Includes overdrafts and other loans

** includes mortgage loans

32. MARKET RISK

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

32.1 Market Risk - Trading Book

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

32. MARKET RISK

32.1 Market Risk - Trading Book (continued)

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

The Bank calculates VaR on the basis of the following:

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

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

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

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

The Group’s VaR related information for the year ended December 31, 2017 and 2016 using a 1 day holding period at 99% confidence interval is set out below. All the figures are in million SAR:

	2017			
	Foreign exchange rate risk	Special commission rate risk	Equity price risk	Overall risk
VaR as at December 31, 2017	1.96	0.42	4.97	7.12
Average VaR for 2017	8.59	0.58	5.03	13.87
Maximum VaR for 2017	20.28	1.15	5.11	25.36
Minimum VaR for 2017	0.45	0.18	4.90	5.52

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

32. MARKET RISK (continued)

32.2 Market Risk - Non-trading or Banking Book

i) Special commission rate risk

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

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

The sensitivity of the income is the effect of the assumed changes in special commission rates on the net special commission income for one year, on the non-trading financial assets and financial liabilities held as at December 31, 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 at December 31, 2017 and 2016 for the effect of assumed changes in special commission rates. The sensitivity of equity is analysed by maturity of the asset or swap. All the banking book exposures are monitored and analysed in currency concentrations and relevant sensitivities are disclosed in SAR million.

2017

Currency	Increase in basis points	Sensitivity of special commission income	Sensitivity of equity				Total
			6 months or less	1 year or less	1-5 years	Over 5 years	
SAR	+ 100	243.73	-	-	-	-	-
USD	+ 100	(50.00)	(0.83)	(0.63)	(39.36)	(301.11)	(341.93)
EUR	+ 100	0.87	(0.01)	-	-	-	(0.01)
GBP	+ 100	(1.39)	-	-	-	-	-
JPY	+ 100	2.15	-	-	-	-	-
Others	+ 100	(0.74)	-	-	-	-	-

Currency	Decrease in basis points	Sensitivity of special commission income	Sensitivity of equity				Total
			6 months or less	1 year or less	1-5 years	Over 5 years	
SAR	- 100	(243.73)	-	-	-	-	-
USD	- 100	51.00	0.83	0.63	39.36	301.11	341.93
EUR	- 100	(1.56)	0.01	-	-	-	0.01
GBP	- 100	-	-	-	-	-	-
JPY	- 100	(2.15)	-	-	-	-	-
Others	- 100	0.74	-	-	-	-	-

32. MARKET RISK (continued)

32.2 Market Risk - Non-trading or Banking Book

i) Special commission rate risk

2016

Currency	Increase in basis points	Sensitivity of special commission income	Sensitivity of equity				Total
			6 months or less	1 year or less	1-5 years	Over 5 years	
SAR	+ 100	187.2	-	-	-	-	-
USD	+ 100	(48.3)	(1.19)	(1.68)	(52.09)	(276.59)	(331.55)
EUR	+ 100	(7.5)	(0.42)	(0.12)	(5.40)	(4.45)	(10.39)
GBP	+ 100	(5.5)	(0.16)	(0.74)	(2.13)	(1.35)	(4.38)
JPY	+ 100	2.3	(0.04)	-	(0.08)	-	(0.12)
Others	+ 100	(0.4)	(0.06)	(0.06)	(1.09)	(0.06)	(1.27)

Currency	Decrease in basis points	Sensitivity of special commission income	Sensitivity of equity				Total
			6 months or less	1 year or less	1-5 years	Over 5 years	
SAR	- 100	(187.4)	-	-	-	-	-
USD	- 100	48.3	1.19	1.68	52.09	276.59	331.55
EUR	- 100	-	0.42	0.12	5.40	4.45	10.39
GBP	- 100	4.1	0.16	0.74	2.13	1.35	4.38
JPY	- 100	(2.2)	0.04	-	0.08	-	0.12
Others	- 100	0.5	0.06	0.06	1.09	0.06	1.27

Special commission sensitivity of assets, liabilities and off statement of financial position items

The Group manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market special commission rates on its financial position and cash flows. The Group is exposed to special commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off statement of financial position instruments that mature or re-price in a given period. The Group manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

32.2 Market Risk - Non-trading or Banking Book (continued)

ii) Special commission rate risk (continued)

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

2017 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Non special commission bearing	Total
Assets						
Cash and balances with SAMA	5,099,960	-	-	-	13,404,295	18,504,255
Cash in hand	-	-	-	-	5,484,534	5,484,534
Balances with SAMA	5,099,960	-	-	-	7,919,761	13,019,721
Due from banks and other financial institutions	8,575,262	635,000	-	-	161,938	9,372,200
Current accounts	933,811	-	-	-	161,938	1,095,749
Money market placements	7,641,451	635,000	-	-	-	8,276,451
Positive fair value of derivatives	8,687	6,512	73,614	27,077	-	115,890
Investments, net	10,935,725	7,707,473	15,703,533	9,313,908	2,709,264	46,369,903
Trading portfolio	-	-	-	-	303,760	303,760
Available for sale	1,510,062	116,607	4,789,866	5,807,760	2,405,504	14,629,799
Other investments held at amortised cost	9,425,663	7,590,866	10,913,667	3,506,148	-	31,436,344
Investment in associates	-	-	-	-	564,769	564,769
Loans and advances, net	61,095,782	28,858,580	28,200,270	20,682,986	-	138,837,618
Overdraft	6,705,539	-	-	-	-	6,705,539
Credit cards	717,226	-	-	-	-	717,226
Consumer loans	153,621	433,720	20,962,566	19,874,710	-	41,424,617
Commercial loans	53,269,453	28,424,860	7,237,704	808,276	-	89,740,293
Others	249,943	-	-	-	-	249,943
Other real estate	-	-	-	-	235,119	235,119
Property and equipment, net	-	-	-	-	1,752,408	1,752,408
Other assets	150,718	-	-	-	379,291	530,009
Accounts receivable and others	150,718	-	-	-	379,291	530,009
Total assets	85,866,134	37,207,565	43,977,417	30,023,971	19,207,084	216,282,171
Liabilities and shareholders' equity						
Due to banks and other financial institutions	5,941,023	56,251	-	-	1,058,894	7,056,168
Current accounts	-	-	-	-	1,058,894	1,058,894
Money market deposits	5,941,023	56,251	-	-	-	5,997,274
Negative fair value of derivatives	14,468	7,195	30,802	25,458	-	77,923
Customer deposits	57,029,002	5,091,423	720,374	-	91,524,750	154,365,549
Demand	1,044,343	-	-	-	79,967,022	81,011,365
Saving	366,380	-	-	-	-	366,380
Time	55,618,279	5,091,423	720,374	-	-	61,430,076
Other	-	-	-	-	11,557,728	11,557,728
Debt securities in issue	4,011,562	4,005,077	-	-	-	8,016,639
Other liabilities	-	-	-	-	8,142,899	8,142,899
Accounts payable and others	-	-	-	-	8,142,899	8,142,899
Shareholders' equity	-	-	-	-	38,622,993	38,622,993
Total liabilities and shareholders' equity	66,996,055	9,159,946	751,176	25,458	139,349,536	216,282,171
Special commission rate sensitivity -On statement of financial position gap	18,870,079	28,047,619	43,226,241	29,998,513	(120,142,452)	-
Special commission rate sensitivity -Off statement of financial position gap	-	-	-	-	-	
Total special commission rate sensitivity gap	18,870,079	28,047,619	43,226,241	29,998,513	(120,142,452)	
Cumulative special commission rate sensitivity gap	18,870,079	46,917,698	90,143,939	120,142,452	-	

32. MARKET RISK (continued)

32.2 Market Risk - Non-trading or Banking Book (continued)

ii) Special commission rate risk (continued)

2016 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Non special commission bearing	Total
Assets						
Cash and balances with SAMA	8,750,000	-	-	-	12,512,177	21,262,177
Cash in hand	-	-	-	-	4,307,682	4,307,682
Balances with SAMA	8,750,000	-	-	-	8,204,495	16,954,495
Due from banks and other financial institutions	3,523,483	385,000	-	-	658,672	4,567,155
Current accounts	556,355	-	-	-	658,672	1,215,027
Money market placements	2,967,128	385,000	-	-	-	3,352,128
Positive fair value of derivatives	113,257	16,958	39,299	19,781	-	189,295
Investments, net	16,764,616	6,199,724	10,973,382	8,795,085	2,424,574	45,157,381
Available for sale	2,153,633	1,105,243	5,659,149	4,671,388	2,424,574	16,013,987
Other investments held at amortised cost	14,610,951	5,093,015	5,314,233	4,123,697	-	29,141,896
Held to maturity	32	1,466	-	-	-	1,498
Investment in associates	-	-	-	-	548,594	548,594
Loans and advances, net	58,371,418	39,257,249	28,149,567	17,131,133	-	142,909,367
Overdraft	9,249,852	-	-	-	-	9,249,852
Credit cards	740,310	-	-	-	-	740,310
Consumer loans	178,184	524,858	20,459,177	16,650,384	-	37,812,603
Commercial loans	48,014,434	38,732,391	7,690,390	480,749	-	94,917,964
Others	188,638	-	-	-	-	188,638
Other real estate	-	-	-	-	245,017	245,017
Property and equipment, net	-	-	-	-	1,862,349	1,862,349
Other assets	293,437	-	-	-	584,229	877,666
Accounts receivable and others	293,437	-	-	-	584,229	877,666
Total assets	87,816,211	45,858,931	39,162,248	25,945,999	18,835,612	217,619,001
Liabilities and shareholders' equity						
Due to banks and other financial institutions	7,491,499	306,925	-	-	1,038,289	8,836,713
Current accounts	-	-	-	-	1,038,289	1,038,289
Money market deposits	7,491,499	306,925	-	-	-	7,798,424
Negative fair value of derivatives	93,081	17,134	11,580	16,843	-	138,638
Customer deposits	54,853,528	13,932,938	43,930	-	87,853,142	156,683,538
Demand	693,956	-	-	-	77,153,025	77,846,981
Saving	324,982	-	-	-	-	324,982
Time	53,834,590	13,932,938	43,930	-	-	67,811,458
Other	-	-	-	-	10,700,117	10,700,117
Debt securities in issue	4,015,672	4,002,701	-	-	-	8,018,373
Other liabilities	-	-	-	-	6,968,678	6,968,678
Accounts payable and others	-	-	-	-	6,968,678	6,968,678
Shareholders' equity					36,973,061	36,973,061
Total liabilities and shareholders' equity	66,453,780	18,259,698	55,510	16,843	132,833,170	217,619,001
Special commission rate sensitivity -On statement of financial position gap	21,362,431	27,599,233	39,106,738	25,929,156	(113,997,558)	-
Special commission rate sensitivity -Off statement of financial position gap	-	-	-	-	-	
Total special commission rate sensitivity gap	21,362,431	27,599,233	39,106,738	25,929,156	(113,997,558)	
Cumulative special commission rate sensitivity gap	21,362,431	48,961,664	88,068,402	113,997,558	-	

32. MARKET RISK (continued)

32.2 Market Risk - Non-trading or Banking Book

iii) Currency risk

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

The table below shows the currencies to which the Group has a significant exposure as at December 31, 2017 and 2016 on its non-trading monetary assets and liabilities and forecasted cash flows. The analysis calculates the effect of reasonable possible movement of the currency rate against SAR, with all other variables held constant, on the consolidated statement of income(due to the fair value of the currency sensitive non-trading monetary assets and liabilities) and equity (due to change in fair value of currency swaps and forward foreign exchange contracts used as cash flow hedges). A positive effect shows a potential increase in consolidated statement of income or equity; whereas a negative effect shows a potential net reduction in consolidated statement of income or equity.

Currency Exposures As at December 31, 2017 (SAR million)	Change in currency rate in %	Effect on net income
USD	± 1	± 5.19
EUR	± 1	± 0.59
GBP	± 1	± 0.09
JPY	± 1	± 0.13
Others	± 1	± (0.02)

Currency Exposures As at December 31, 2016 (SAR million)	Change in currency rate in %	Effect on net income
USD	± 1	± 5.94
EUR	± 1	± 0.32
GBP	± 1	± 0.02
JPY	± 1	± 0.14
Others	± 1	± 0.01

iv) Foreign currency risk

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

	2017 Long (short) SAR'000	2016 Long (short) SAR'000
US Dollar	618,153	607,562
Japanese Yen	16	467
Euro	(3,914)	(160)
Pound Sterling	(1,864)	41
Others	41,124	41,176

Long position indicates that assets in a foreign currency are higher than the liabilities in the same currency; the opposite applies to short position.

32. MARKET RISK (continued)

32.2 Market Risk - Non-trading or Banking Book (continued)

v) Banking Book - Equity Price risk

Equity risk refers to the risk of decrease in fair values of equities in the Group's non-trading investment portfolio as a result of reasonable possible changes in levels of equity indices and the value of individual stocks.

The effect on the Group's equity investments held as available for sale due to reasonable possible change in equity indices, with all other variables held constant, is as follows:

Market Index	December 31, 2017		December 31, 2016	
	Change in equity index %	Effect in SAR millions	Change in equity index %	Effect in SAR millions
Tadawul	+5	47.32	+5	46.46
	+10	94.64	+10	92.93
	-5	(47.32)	-5	(46.46)
	-10	(94.64)	-10	(92.93)

33. LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately. To mitigate this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining an appropriate balance of cash, cash equivalents and readily marketable securities.

Management monitors the maturity profile to ensure that adequate liquidity is maintained. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions.

All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of the Group. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

In accordance with Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% (2016: 7%) of total demand deposits and 4% (2016: 4%) of saving and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of not less than 20% of its deposit liabilities, in the form of cash, gold, Saudi Government Development Bonds, Treasury bills or assets which can be converted into cash within a period not exceeding 30 days. The Bank has the ability to raise additional funds through repo facilities with SAMA, from 85% to 100% of the nominal value of bonds/ bills held by the Bank.

33. LIQUIDITY RISK (continued)

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

2017 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Financial liabilities					
Due to banks and other financial institutions	7,005,616	56,268	-	-	7,061,884
Current accounts	1,058,894	-	-	-	1,058,894
Money market deposits	5,946,722	56,268	-	-	6,002,990
Customer deposits	148,665,201	5,105,170	720,649	-	154,491,020
Demand	81,011,365	-	-	-	81,011,365
Saving	366,382	-	-	-	366,382
Time	55,729,726	5,105,170	720,649	-	61,555,545
Other	11,557,728	-	-	-	11,557,728
Debt securities in issue	56,600	169,800	4,693,463	4,350,782	9,270,645
Derivative financial instruments (gross contractual amounts payable)	52,299	143,122	367,173	15,708	578,302
Held for trading	51,836	141,707	360,967	15,708	570,218
Held as fair value hedges	463	1,415	6,206	-	8,084
Total undiscounted financial liabilities	155,779,716	5,474,360	5,781,285	4,366,490	171,401,851

2016 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Financial liabilities					
Due to banks and other financial institutions	8,531,067	307,212	-	-	8,838,279
Current accounts	1,038,289	-	-	-	1,038,289
Money market deposits	7,492,778	307,212	-	-	7,799,990
Customer deposits	142,928,566	13,989,411	45,051	-	156,963,028
Demand	77,846,981	-	-	-	77,846,981
Saving	324,984	-	-	-	324,984
Time	54,056,484	13,989,411	45,051	-	68,090,946
Other	10,700,117	-	-	-	10,700,117
Debt securities in issue	63,647	190,942	4,953,404	4,458,786	9,666,779
Derivative financial instruments (gross contractual amounts payable)	37,005	106,745	339,740	43,826	527,316
Held for trading	36,623	106,363	339,740	43,826	526,552
Held as fair value hedges	382	382	-	-	764
Total undiscounted financial liabilities	151,560,285	14,594,310	5,338,195	4,502,612	175,995,402

33. LIQUIDITY RISK (continued)

33.2 The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

2017 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	10,584,494	-	-	-	7,919,761	18,504,255
Cash in hand	5,484,534	-	-	-	-	5,484,534
Balances with SAMA	5,099,960	-	-	-	7,919,761	13,019,721
Due from banks and other financial institutions	8,737,200	635,000	-	-	-	9,372,200
Current accounts	1,095,749	-	-	-	-	1,095,749
Money market placements	7,641,451	635,000	-	-	-	8,276,451
Positive fair value of derivatives	8,687	6,512	73,614	27,077	-	115,890
Investments, net	3,416,420	4,642,727	17,675,388	17,926,104	2,709,264	46,369,903
Trading portfolio	-	-	-	-	303,760	303,760
Available for sale	356,220	397,681	5,008,498	6,461,896	2,405,504	14,629,799
Other investments held at amortised cost	3,060,200	4,245,046	12,666,890	11,464,208	-	31,436,344
Investment in associates	-	-	-	-	564,769	564,769
Loans and advances, net	40,731,476	18,668,451	36,917,876	42,519,815	-	138,837,618
Overdraft	6,705,539	-	-	-	-	6,705,539
Credit cards	717,226	-	-	-	-	717,226
Consumer loans	153,621	433,720	20,962,566	19,874,710	-	41,424,617
Commercial loans	32,905,147	18,234,731	15,955,310	22,645,105	-	89,740,293
Others	249,943	-	-	-	-	249,943
Other real estate	-	-	-	-	235,119	235,119
Property and equipment, net	-	-	-	-	1,752,408	1,752,408
Other assets	150,718	-	-	-	379,291	530,009
Accounts receivable and others	150,718	-	-	-	379,291	530,009
Total assets	63,628,995	23,952,690	54,666,878	60,472,996	13,560,612	216,282,171
Liabilities and shareholders' equity						
Due to banks and other financial institutions	6,999,917	56,251	-	-	-	7,056,168
Current accounts	1,058,894	-	-	-	-	1,058,894
Money market deposits	5,941,023	56,251	-	-	-	5,997,274
Negative fair value of derivatives	14,468	7,195	30,802	25,458	-	77,923
Customer deposits	148,553,752	5,091,423	720,374	-	-	154,365,549
Demand	81,011,365	-	-	-	-	81,011,365
Saving	366,380	-	-	-	-	366,380
Time	55,618,279	5,091,423	720,374	-	-	61,430,076
Other	11,557,728	-	-	-	-	11,557,728
Debt securities in issue	-	-	4,011,562	4,005,077	-	8,016,639
Other liabilities	-	-	-	-	8,142,899	8,142,899
Accounts payable and others	-	-	-	-	8,142,899	8,142,899
Shareholders' equity	-	-	-	-	38,622,993	38,622,993
Total liabilities and shareholders' equity	155,568,137	5,154,869	4,762,738	4,030,535	46,765,892	216,282,171

33. LIQUIDITY RISK (continued)

33.2 Analysis of assets and liabilities analysed according to when they are expected to be recovered or settled (continued).

2016 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	13,057,682	-	-	-	8,204,495	21,262,177
Cash in hand	4,307,682	-	-	-	-	4,307,682
Balances with SAMA	8,750,000	-	-	-	8,204,495	16,954,495
Due from banks and other financial institutions	4,182,155	385,000	-	-	-	4,567,155
Current accounts	1,215,027	-	-	-	-	1,215,027
Money market placements	2,967,128	385,000	-	-	-	3,352,128
Positive fair value of derivatives	113,257	16,958	39,299	19,781	-	189,295
Investments, net	8,466,578	3,167,390	13,475,462	17,623,377	2,424,574	45,157,381
Available for sale	689,234	1,031,499	6,258,314	5,610,366	2,424,574	16,013,987
Held to maturity	32	1,466	-	-	-	1,498
Other investments held at amortised cost	7,777,312	2,134,425	7,217,148	12,013,011	-	29,141,896
Investment in associates	-	-	-	-	548,594	548,594
Loans and advances, net	41,232,437	23,694,432	40,561,793	37,420,705	-	142,909,367
Overdraft	9,249,852	-	-	-	-	9,249,852
Credit cards	740,310	-	-	-	-	740,310
Consumer loans	178,184	524,858	20,459,177	16,650,384	-	37,812,603
Commercial loans	30,916,135	23,135,545	20,095,963	20,770,321	-	94,917,964
Others	147,956	34,029	6,653	-	-	188,638
Other real estate	-	-	-	-	245,017	245,017
Property and equipment, net	-	-	-	-	1,862,349	1,862,349
Other assets	293,437	-	-	-	584,229	877,666
Accounts receivable and others	293,437	-	-	-	584,229	877,666
Total assets	67,345,546	27,263,780	54,076,554	55,063,863	13,869,258	217,619,001
Liabilities and shareholders' equity						
Due to banks and other financial institutions	8,529,788	306,925	-	-	-	8,836,713
Current accounts	1,038,289	-	-	-	-	1,038,289
Money market deposits	7,491,499	306,925	-	-	-	7,798,424
Negative fair value of derivatives	93,081	17,134	11,580	16,843	-	138,638
Customer deposits	142,706,670	13,932,938	43,930	-	-	156,683,538
Demand	77,846,981	-	-	-	-	77,846,981
Saving	324,982	-	-	-	-	324,982
Time	53,834,590	13,932,938	43,930	-	-	67,811,458
Other	10,700,117	-	-	-	-	10,700,117
Debt securities in issue	-	-	4,015,672	4,002,701	-	8,018,373
Other liabilities	-	-	-	-	6,968,678	6,968,678
Accounts payable and others	-	-	-	-	6,968,678	6,968,678
Shareholders' equity	-	-	-	-	36,973,061	36,973,061
Total liabilities and shareholders' equity	151,329,539	14,256,997	4,071,182	4,019,544	43,941,739	217,619,001

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, balances with SAMA, items in the course of collection; loans and advances to banks; and loans and advances to customers. The cumulative maturities of commitments and contingencies is given in note 19.3 .

34. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted market price: financial instruments with quoted unadjusted prices for identical instruments in active markets.

Level 2: quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data: and

Level 3: valuation techniques for which any significant input is not based on observable market data.

Fair value and fair value hierarchy

2017 SAR'000	Level 1	Level 2		Level 3	Total
Financial assets measured at fair value					
Held as FVIS	303,760				303,760
Available for sale investments	14,313,044	843		315,912	14,629,799
Positive fair value derivatives	-	115,890		-	115,890
Financial assets not measured at fair value					
Due from banks and other financial institutions	-	9,372,200		-	9,372,200
Other investments at amortised cost	-	31,544,874		-	31,544,874
Loans and advances	-	143,052,427		-	143,052,427
Financial liabilities measured at fair value					
Negative fair value derivatives	-	77,923		-	77,923
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	-	7,056,168		-	7,056,168
Customer deposits	-	154,365,549	*	-	154,365,549
Debt securities in issue	-	8,016,639			8,016,639

2016 SAR'000	Level 1	Level 2		Level 3	Total
Financial assets measured at fair value					
Available for sale investments	15,478,675	268,663		266,649	16,013,987
Positive fair value derivatives	-	189,295		-	189,295
Financial assets not measured at fair value					
Due from banks and other financial institutions	-	4,567,155		-	4,567,155
Other investments at amortised cost	-	29,171,710		-	29,171,710
Held to maturity investments	-	1,513		-	1,513
Loans and advances	-	146,736,813	*	-	146,736,813
Financial liabilities measured at fair value					
Negative fair value derivatives	-	138,638		-	138,638
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	-	8,836,713		-	8,836,713
Customer deposits	-	156,683,538		-	156,683,538
Debt securities in issue	-	8,018,373		-	8,018,373

*The management uses discounted cash flow method, using the current yield curve adjusted for credit risk spreads to arrive at the fair value of loans and advances. Cash and balances with SAMA, due from banks with maturity of less than 90 days and other short term receivables, other assets and other liabilities are assumed to have fair values that reasonably approximate their corresponding carrying values due to the short-term nature.

There were no transfers between the fair value hierarchy levels.

34. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

Although the Group believes that its estimates of fair value of Level 3 securities are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. Level 3 consists of local and international unquoted equity securities. The Group uses net assets valuation and price to book value method based on most recent available audited financial statements to fair value these investments. Other methodology that could be used to value the securities is discounted cash flow model based on expected dividend yield for which no data is available. Therefore potential impact of using reasonably possible alternative assumptions for the valuation techniques is not quantified.

Reconciliation of movement in Level 3	2017 SAR'000	2016 SAR'000
Opening balance	266,649	253,006
Total gains or losses		
- recognised in consolidated statement of income	2,145	(252)
- recognised in other comprehensive income	47,118	13,293
Redemptions	-	-
Purchases	-	602
Closing balance	315,912	266,649

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:

a) In the principal market for the asset or liability, or

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

35. RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Group transacts business with related parties. Related party transactions are governed by the limits set by the Banking Control Law and regulations issued by SAMA. The balances at December 31 resulting from such transactions are as follows:

	2017 SAR'000	2016 SAR'000
a) Directors, key management personnel, other major shareholders' and their affiliates:		
Loans and advances	3,428,410	3,549,989
Customer deposits	26,136,098	24,022,996
Derivatives asset (at fair value)	2,972	779
Commitments and contingencies (irrevocable)	2,099,008	2,603,124
Executive end of service	52,518	53,244

Key management personnel are those persons, including a non-executive director, having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly.

b) Bank's mutual funds:		
Customer deposits	135,000	179,000

35. RELATED PARTY TRANSACTIONS (continued)

Income and expenses pertaining to transactions with related parties included in these consolidated financial statements are as follows:

	2017 SAR'000	2016 SAR'000
Special commission income	119,614	115,050
Special commission expense	420,291	670,110
Fees from banking services, net	112,150	107,452
Directors and committees remuneration and expenses	5,744	6,240
Executive remuneration and bonus	64,375	53,870
Executive end of service	4,681	6,701
Other expenses	23,713	23,744

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.

The Group monitors the adequacy of its capital using the methodologies and ratios established by the Basel Committee on Banking Supervision and as adopted by SAMA, with a view to maintain a sound capital base to support its business development and meet regulatory capital requirement as defined by SAMA.

The Group management reviews on a periodical basis its capital base and level of risk weighted assets to ensure that capital is adequate for risks inherent in its current business activities and future growth plans. In making such assessments, the management also considers the Group's business plans along with economic conditions which directly and indirectly affects its business environment. SAMA has issued the framework and guidance regarding implementation of the capital reforms under Basel III - which are effective from 1 January 2013. Accordingly, the Group's consolidated Risk Weighted Assets (RWA), total eligible capital and related ratios on a consolidated group basis are calculated under the Basel III framework.

The following table summarizes the Group's Pillar-1 Risk Weighted Assets, Tier 1 and Tier 2 capital and capital adequacy ratios.

	2017		2016	
	Capital SAR'000	Ratio %	Capital SAR'000	Ratio %
Top consolidated level				
Tier 1 capital	38,622,993	17.3%	36,973,061	16.3%
Tier 2 capital	5,072,349		5,072,349	
Total regulatory capital (Tier 1 + Tier 2)	43,695,342	19.6%	42,045,410	18.6%

	2017 SAR '000s	2016 SAR '000s
Risk weighted assets		
Credit risk weighted assets	207,783,403	211,833,031
Operational risk weighted assets	14,035,238	13,889,563
Market risk weighted assets	1,250,963	495,050
Total Pillar 1 Risk Weighted Assets	223,069,604	226,217,644

37. STAFF INVESTMENT SAVINGS PLANS

The Group operates a Staff Savings Investment Plan. Under the terms of the Staff Savings Investment Plan, participating employees of the Group make monthly contributions by way of a deduction from their salary subject to a maximum of 15% of their basic salaries. The Group also contributes on a monthly basis a pre-determined percentage (subject to a maximum of 6%) of the basic salary of an employee based on the varying service periods. The proceeds are invested in the Group's existing range of mutual funds for the benefit of the employees.

The cost of the above plan is charged to the consolidated statement of income over the term of the plan.

38. INVESTMENT MANAGEMENT SERVICES

The Group offers investment management services to its customers, which include management of certain investment funds with assets totaling SAR 24.4 billion (2016: SAR 17.0 billion).

The Group's assets under management include non-interest based funds amounting to SAR 8.1 billion (2016: SAR 5.8 billion).

39. ISSUED IFRS BUT NOT YET EFFECTIVE

The Group has chosen not to early adopt the following new standards which have been issued but not yet effective for the Group's accounting years beginning on or after January 1, 2018 and is currently assessing their impact.

Following is a brief on the new IFRS and amendments to IFRS effective for annual periods beginning on or after January 1, 2018.

- IFRS 15 -- "Revenue from contracts with customers", applicable for the annual periods beginning on or after January 1, 2018. The new standard presents a five-step model to determine when to recognize revenue, and at what amount.
- Amendments to IFRS 2 -- "Share-based Payment", applicable for the period beginning on or after January 1, 2018. The amendments cover classification and measurement of three accounting areas, first, measurement of cash-settled share-based payments, second, classification of share-based payments settled net of tax withholdings, and third, accounting for a modification of a share-based payment from cash-settled to equity-settled.
- IFRS 16 – "Leases", applicable for the period beginning on or after January 1, 2019. 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 on-balance sheet accounting model.

Implementation and Impact Analysis of IFRS-9

Implementation strategy

In July 2014, the IASB issued IFRS 9 Financial Instruments, the standard that replaces IAS 39 Financial Instruments: Recognition and Measurement effective from January 1, 2018, with early adoption permitted. The Group considers implementing IFRS 9 as a significant project and therefore has set up a multidisciplinary implementation team with members from its Credit risk and Modeling, Finance, IT, Operations and other respective businesses to achieve a successful and robust implementation. The project is managed by the Chief Financial Officer and the Chief Risk Officer.

Classification and measurement

The classification and measurement of financial assets (except equity instruments and derivatives) will depend on how these are managed (the entity's business model) and their contractual cash flow characteristics. These factors determine whether the financial assets are measured at amortised cost, fair value through other comprehensive income ('FVOCI') or fair value through income statement ("FVIS'). For equity instruments that are not held for trading, the Group may irrevocably elect to designate them as FVOCI, with no subsequent reclassification of gains or losses to the income statement. This election is made on an investment-by-investment basis.

The majority of the Group's debt instruments that are currently classified as available for sale (AFS) will satisfy the conditions for classification as at fair value through other comprehensive income (FVOCI) and hence there will be no change in the accounting for these assets except for new impairment requirements. Equity investments currently measured at FVIS will continue to be measured on the same basis under IFRS 9.

The majority of financial assets that are classified as loans and receivables and are measured at amortised cost under IAS 39 are expected to be measured at amortised cost under IFRS 9 as well. Instruments that are classified as AFS under IAS 39 may, under IFRS 9, be measured at amortised cost, FVOCI or FVIS, depending on particular circumstances.

Under IFRS 9, the accounting for financial liabilities will largely remain similar to IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVIS. The de-recognition rules have been transferred from IAS 39 and have not been changed. The Group therefore does not expect any material impact on its financial liabilities and the de-recognition accounting policy.

39. ISSUED IFRS BUT NOT YET EFFECTIVE (CONTINUED)

Implementation and Impact Analysis of IFRS-9 (continued)

Impairment

The Group will recognize impairment allowances based on a forward looking Expected Credit Loss (ECL) approach on financial assets that are not measured via FVIS. This mainly include financing, investments that are measured at amortised cost or at FVOCI (other than equity investments), interbank placements, financial guarantees, lease receivables and credit commitments. No impairment loss will be recognised on equity investments. The key inputs into the measurement of ECL are the term structure of the following variables:

ECL are the term structure of the following variables:

- Probability of default (PD)
- Loss given default (LGD)
- Exposure at default (EAD)

The above parameters are generally derived from internally developed statistical models, other historical data and are adjusted for forward looking information. The Group will categorize its financial assets into following three stages in accordance with IFRS 9 methodology:

Stage 1: Performing assets: Financial asset(s) that have not significantly deteriorated in credit quality since origination. The impairment allowance will be recorded based on 12 months ECL.

Stage 2: Underperforming assets: Financial asset(s) that have significantly deteriorated in credit quality since origination. This credit quality assessment is made by considering a number of qualitative and quantitative factors. The impairment allowance will be recorded based on lifetime ECL.

Stage 3: Impaired assets: For Financial asset that are impaired, the Group will recognise the impairment allowance based on lifetime ECL.

The Group will also consider the forward-looking information in its assessment of significant deterioration in credit risk since origination as well as the measurement of ECLs.

The forward-looking information will include the elements such as macroeconomic factors (e.g., unemployment, GDP growth, inflation, profit rates and house prices) and economic forecasts obtained through internal and external sources.

To evaluate a range of possible outcomes, the Group intends to formulate various scenarios. For each scenario, the Group will derive an ECL and apply a probability weighted approach to determine the impairment allowance in accordance with the accounting standards requirements. The Group is now ready to implement IFRS-9 after due validation by the external consultant.

Hedge accounting

The general hedge accounting requirements aim to simplify hedge accounting, creating a stronger link with risk management strategy and permitting hedge accounting to be applied to a greater variety of hedging instruments and risks. However, they do not explicitly address macro hedge accounting strategies, which are particularly important for banks. As a result, IFRS 9 allows an accounting policy choice to continue to apply hedge accounting requirements of IAS 39 instead of the requirements of IFRS 9.

Based on the analysis performed to date, the Group expects to exercise the accounting policy choice to continue IAS 39 hedge accounting requirements.

39. ISSUED IFRS BUT NOT YET EFFECTIVE (CONTINUED)

Implementation and Impact Analysis of IFRS-9 (continued)

Overall 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 transitional provisions for initial application of IFRS 9, the Group is allowed to recognize any difference between previous carrying amount under IAS 39 and the carrying amount at the beginning of the annual reporting period that includes the date of initial application in opening retained earnings.

Accordingly, the overall impact on shareholders' equity is estimated to be 3.6% to 4.1%, while the impact on the aggregated carrying value of relevant financial assets is estimated to be 0.7% to 0.8%, on the date of initial application arising due to application of expected credit loss model as against Incurred loss model;

Furthermore and as a result, the Group's Tier 1 ratio will be impacted primarily from potential increase in credit impairment provisions.

Based on the balances as at December 31, 2017, the day 1 impact of IFRS 9 (applicable from January 1, 2018) would be an estimated reduction of less than 50 basis points in the Total regulatory capital ratio.

- Certain investments, amounting to SR 859.3 million that do not meet the criteria to be classified either as at FVOCI or at amortized cost will have to be reclassified to financial assets at FVIS. Related fair value gains of SR 24.3 million will have to be transferred from available for sale (AFS) financial assets reserve to retained earnings on January 1, 2018.
- Gains or losses realized on the sale of equity instruments classified as FVOCI will no longer be transferred to statement of income, During the year ended December 31, 2017, no gains were recognised in statement of income in relation to the disposal of AFS financial assets.

The new standard also introduces extended disclosure requirements and changes in presentation. These are expected to change the nature and extent of the bank's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

Caveat:

The estimated decrease in shareholders' equity includes the impact of both balance sheet classification and measurement changes and the increase to credit impairment provisions compared to those applied at 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 monitor developments in regulatory rule making in advance of IFRS 9 adoption on January 1, 2018.

40. COMPARATIVE FIGURES

Apart from the impact as stated in note 26, certain other comparative amounts have been reclassified to conform with the current year presentation

41. BOARD OF DIRECTORS' APPROVAL

These consolidated financial statements were approved by the Board of Directors on 26 Jumada I 1439H (corresponding to February 12, 2018).