In accordance with Regulation 32 of the Overseas Companies Regulations 2009.

OS AA01

Statement of details of parent law and other information for an overseas company

Companies House

✓ **What this form is for**
You may use this form to accompany your accounts disclosed under parent law.

✗ **What this form is NOT for**
You cannot use this form to an alteration of manner of c with accounting requiremen

TUESDAY

A7BDCXBM
A15 31/07/2018 #151
COMPANIES HOUSE

Part 1 Corporate company name

→ **Filling in this form**
Please complete in typescript or in bold black capitals.

All fields are mandatory unless specified or indicated by *

Corporate name of overseas company ❶	Arab National Bank
UK establishment number	B R 0 1 1 7 2 2

❶ This is the name of the company in its home state.

Part 2 Statement of details of parent law and other information for an overseas company

A1 Legislation

Please give the legislation under which the accounts have been prepared and, if applicable, the legislation under which the accounts have been audited.

Legislation ❷ Saudi Arabian

❷ This means the relevant rules or legislation which regulates the preparation and, if applicable, the audit of accounts.

A2 Accounting principles

Accounts

Have the accounts been prepared in accordance with a set of generally accepted accounting principles?

Please tick the appropriate box.

☐ **No.** Go to **Section A3.**

☑ **Yes.** Please enter the name of the organisation or other body which issued those principles below, and then go to **Section A3.**

Name of organisation or body ❸ IFRS issued by IASB and modified by SAMA for taxation

❸ Please insert the name of the appropriate accounting organisation or body.

A3 Accounts

Accounts

Have the accounts been audited? Please tick the appropriate box.

☐ **No.** Go to **Section A5.**

☑ **Yes.** Go to **Section A4.**

OS AA01

Statement of details of parent law and other information for an overseas company

A4 Audited accounts

Audited accounts

Have the accounts been audited in accordance with a set of generally accepted auditing standards?

Please tick the appropriate box.

☐ **No.** Go to **Part 3 'Signature'**.

☑ **Yes.** Please enter the name of the organisation or other body which issued those standards below, and then go to **Part 3 'Signature'**.

Name of organisation or body ❶

Ernst & Young, KPMG Al Fozan & Partners

❶ Please insert the name of the appropriate accounting organisation or body.

A5 Unaudited accounts

Unaudited accounts

Is the company required to have its accounts audited?

Please tick the appropriate box.

☐ **No.**

☐ **Yes.**

Part 3 Signature

I am signing this form on behalf of the overseas company.

Signature

Signature

X X

Stephen J. Blyth
General Manager

This form may be signed by:
Director, Secretary, Permanent representative.

OS AA01

Statement of details of parent law and other information for an overseas company

Presenter information

You do not have to give any contact information, but if you do it will help Companies House if there is a query on the form. The contact information you give will be visible to searchers of the public record.

Contact name	Stephen Blyth
Company name	Arab National Bank
Address	35 Curzon Street
Post town	London
County/Region	
Postcode	W 1 J 7 T T
Country	United Kingdom
DX	
Telephone	020 7297 4610

Checklist

We may return forms completed incorrectly or with information missing.

Please make sure you have remembered the following:

- ☑ The company name and, if appropriate, the registered number, match the information held on the public Register.
- ☑ You have completed all sections of the form, if appropriate.
- ☑ You have signed the form.

Important information

Please note that all this information will appear on the public record.

Where to send

You may return this form to any Companies House address:

England and Wales:
The Registrar of Companies, Companies House, Crown Way, Cardiff, Wales, CF14 3UZ.
DX 33050 Cardiff.

Scotland:
The Registrar of Companies, Companies House, Fourth floor, Edinburgh Quay 2, 139 Fountainbridge, Edinburgh, Scotland, EH3 9FF.
DX ED235 Edinburgh 1
or LP - 4 Edinburgh 2 (Legal Post).

Northern Ireland:
The Registrar of Companies, Companies House, Second Floor, The Linenhall, 32-38 Linenhall Street, Belfast, Northern Ireland, BT2 8BG.
DX 481 N.R. Belfast 1.

Further information

For further information, please see the guidance notes on the website at www.companieshouse.gov.uk or email enquiries@companieshouse.gov.uk

This form is available in an alternative format. Please visit the forms page on the website at www.companieshouse.gov.uk

011342/20

Arab National Bank

(A Saudi Joint Stock Company)

Consolidated Financial Statements
For the year ended 31 December 2017

Independent Auditors' Report
To the Shareholders of Arab National Bank
(A Saudi Joint Stock Company)

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Arab National Bank (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and the summary of significant accounting policies and other explanatory notes from 1 to 44.

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 ("IFRS") as modified by the 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 judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, a description of how our audit addressed the matter is provided in that context:

Independent Auditors' Report
To the Shareholders of Arab National Bank
(A Saudi Joint Stock Company)

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances At December 31, 2017, the gross loans and advances were Saudi Riyals 116,796 million against which impairment provision of Saudi Riyals 2,253 million was maintained. This includes 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 judgements and makes assumptions to determine the impairment and the timing of recognition of such impairment. In particular the determination of impairment against loans and advances includes: • The identification of impairment events and judgments used to estimate the impairment against specific corporate loans and advances; and • 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 • An assessment of the Group's exposure to certain economic sectors affected by current economic conditions. *Refer to the significant accounting policies note 3(l) to the consolidated financial statements, note 2(d) which contains the disclosure of critical accounting judgements, estimates and assumptions relating to impairment against loans and advances, note 7 which contains the disclosure of impairment against loans and advances and note 33 which explains the impairment assessment methodology used by the Group.*	We assessed the design and implementation, and tested the operating effectiveness of the key controls over management's processes for establishing and monitoring both specific and collective impairment. This included testing of: • Controls over the modelling process including model review, and monitoring and approval of assumptions by senior management; • Controls over identification of impaired loans and advances, model output to the general ledger, and the calculation of the impairment allowance. For specific impairment, we performed the following procedures • 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. • We considered the assumptions underlying the impairment calculation including forecasted future cash flows, discount rates and estimated recovery from any underlying collateral etc. • We also selected a sample of loans for economic sectors adversely affected by the current economic conditions to evaluate management's assessment for impairment of such loans. For collective impairment, we tested: • the completeness of underlying loans and advances information used in the impairment models and checked the accuracy, on a sample basis; • the key assumptions used by management in the models; • the calculations within the models, on a sample basis.

Independent Auditors' Report
To the Shareholders of Arab National Bank
(A Saudi Joint Stock Company)

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Valuation of investments held as available for sale which are not traded in an active market	
Available for sale investments comprise a portfolio of equities, mutual funds, corporate bonds and sukuk. These instruments are measured at fair value with the corresponding fair value changes recognised in other comprehensive income. The fair value of certain financial instruments is determined through the application of valuation techniques which often involve the exercise of judgment by 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 significant observable valuation inputs (i.e. level 2 investments). In the Group's accounting policies, management has described the key sources of estimation involved in determining the valuation of level 2 financial instruments and in particular when the fair value is established using valuation techniques due to the instrument's complexity. The valuation of the Group's available for sale investments in level 2 category is considered a key audit matter given the degree of complexity involved in valuing these financial instruments and significance of the judgment and estimates made by the management. *Refer to note 3(j) of the consolidated financial statements for the accounting policy, note 37 which explains the investment valuation methodology used by the Group and note 2(d) which explains critical accounting 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 the valuation models 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 the key inputs used in the valuation such as the expected cash flows, risk free rates and credit spreads by benchmarking them with observable external data.

Independent Auditors' Report
To the Shareholders of Arab National Bank
(A Saudi Joint Stock Company)

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of available for sale investments As at 31 December 2017, the Group had available for sale investments of Saudi Riyals 10,454 million. These investments mainly comprise equities, corporate bonds and sukuk which are subject to the risk of impairment in value due to either adverse market situation and / or liquidity constraints faced by the issuers. For assessing the impairment of equities, the management monitors volatility of share prices and uses the criteria of significant or prolonged decline in their fair values below their costs as the basis for determining impairment. A significant or prolonged decline in fair value below its cost represents objective evidence of impairment. The determination of what is significant or prolonged requires judgment. In assessing whether it is significant, the decline in fair value is evaluated against the cost of the equity instrument. In assessing whether it is prolonged, the period in which the fair value of the equity instrument has been below its cost is evaluated. For debt instruments such as corporate bonds/sukuk, management considers them to be impaired when there is an evidence of deterioration in the financial health of the investee, economic sector performance, changes in technology and operational and financing cash flows. We considered this as a key audit matter since the assessment of impairment requires significant judgment by management and the potential impact of impairment could be material to the consolidated financial statements. *Refer to note 3(l) of the consolidated financial statements for the accounting policy relating to the impairment of available for sale investments, note 2(d) for the critical accounting judgments, estimates and assumptions, and notes 33 and 35 for the disclosures of credit and market risks respectively.*	We assessed the design and implementation and tested the operating effectiveness of the key controls over management's processes for identifying significant or prolonged decline in the fair value of listed equities and/or any defaults on corporate bonds/sukuk. For equity investments, we considered management's criteria for determining significant or prolonged decline in the value of investments and on a sample basis: • Evaluated the basis for determining costs and fair value of investments; • Tested the cost and valuation of investments; and • Considered the price fluctuation / movement during the holding period to determine if the significant or prolonged criteria is met. For corporate bonds/sukuk, on a sample basis, we assessed the creditworthiness of counterparties based on available market information and assessed cash flows from the instruments to consider any defaults based on the terms and conditions of the issuance of these bonds/sukuk.

**Independent Auditors' Report
To the Shareholders of Arab National Bank
(A Saudi Joint Stock Company)**

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

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

Independent Auditors' Report
To the Shareholders of Arab National Bank
(A Saudi Joint Stock Company)

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Valuation of derivatives	
The Group has entered into commission rate swaps, cross currency swaps, forward foreign exchange and commodity contracts, commission rate futures and options and currency and commodity options. Certain derivative contracts are over the counter (OTC) derivatives and hence, the valuation of these contracts is subjective as it takes into account a number of assumptions and model calibrations including adjustments to counterparty's own credit risk. The majority of these derivatives are held for trading purposes; however, certain commission rate swaps are also categorized as fair value hedging instruments in the consolidated financial statements. Valuation of derivatives could have a material impact on the consolidated financial statements. We considered this as a key audit matter as there is complexity and subjectivity involved in determining the valuation, where complex modelling techniques are being used. *Refer to note 3(e) of the consolidated financial statements for the accounting policy relating to valuation of derivative and note 12 which explains the derivative positions and explains the valuation methodology used by the Group.*	We assessed the design and implementation, and tested the operating effectiveness of key controls over management's processes for valuation of derivatives including the testing of relevant automated controls covering the fair valuation process for derivatives. We selected a sample of derivatives and: • Tested the accuracy of the particulars of derivatives by comparing the terms and conditions with relevant agreements and deal confirmations; • Checked the accuracy and appropriateness of the key inputs to the valuation model; • Involved our valuation specialists to perform an independent valuation of derivatives and compared the results with management's valuations; and • Considered the adequacy of the Group's disclosures about the valuation basis and inputs used in the fair value measurement.

Independent Auditors' Report
To the Shareholders of Arab National Bank
(A Saudi Joint Stock Company)

Report on the Audit of the Consolidated Financial Statements (continued)

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 determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, 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 Bank 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.

**Independent Auditors' Report
To the Shareholders of Arab National Bank
(A Saudi Joint Stock Company)**

Report on the Audit of the Consolidated Financial Statements (continued)

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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.

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 the 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.

Independent Auditors' Report
To the Shareholders of Arab National Bank
(A Saudi Joint Stock Company)

Report on the Audit of the Consolidated Financial Statements (continued)

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

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

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

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

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

KPMG Al Fozan & Partners
Certified Public Accountants

Independent Auditors' Report
To the Shareholders of Arab National Bank
(A Saudi Joint Stock Company)

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 respect, with the applicable requirements of Regulation 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.

Ernst & Young

P O Box 2732
Riyadh 11461
Kingdom of Saudi Arabia

Rashid S. AlRashoud
Certified Public Accountant
License No. 366

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

Abdullah Hamad Al Fozan
Certified Public Accountant
License No 348

11 Jamad Al-Thani 1439 H
(27 February 2018)

Arab National Bank – Saudi Joint Stock Company
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at December 31, 2017 and 2016
(Saudi Riyals in Thousands)

	Notes	2017	2016
ASSETS			
Cash and balances with SAMA	4	**17,251,379**	19,503,973
Due from banks and other financial institutions	5	**1,710,123**	4,030,850
Positive fair value derivatives	12	**943,760**	459,770
Investments, net	6	**32,320,816**	25,548,399
Loans and advances, net	7	**114,542,929**	115,511,521
Investments in associates	8	**637,222**	616,395
Other real estate		**220,697**	136,634
Investment property, net	9	**1,626,563**	1,651,363
Property and equipment, net	10	**1,694,591**	1,839,222
Other assets	11	**753,619**	710,595
Total assets		171,701,699	170,008,722
LIABILITIES AND EQUITY			
Liabilities			
Due to banks and other financial institutions	13	**2,691,549**	3,858,871
Negative fair value derivatives	12	**855,902**	439,789
Customers' deposits	14	**136,048,089**	135,907,457
Other liabilities	15	**5,023,920**	3,859,862
Sukuk	16	**2,016,274**	2,018,190
Total liabilities		**146,635,734**	146,084,169
Equity			
Equity attributable to equity holders of the Bank			
Share capital	17	**10,000,000**	10,000,000
Statutory reserve	18	**10,000,000**	9,446,000
Other reserves		**(75,807)**	166,514
Retained earnings		**3,795,494**	3,172,847
Proposed dividends	28	**650,000**	450,000
Total equity attributable to equity holders of the Bank		**24,369,687**	23,235,361
Non-controlling interests		**696,278**	689,192
Total equity		**25,065,965**	23,924,553
Total liabilities and equity		171,701,699	170,008,722

The accompanying notes 1 to 44 form an integral part of these consolidated financial statements.

Arab National Bank – Saudi Joint Stock Company
CONSOLIDATED STATEMENT OF INCOME
For the years ended December 31, 2017 and 2016
(Saudi Riyals in Thousands)

	Notes	2017	2016
Special commission income	20	**6,035,194**	5,738,172
Special commission expense	20	**1,370,441**	1,592,687
Net special commission income		**4,664,753**	4,145,485
Fees and commission income, net	21	**840,398**	935,011
Exchange income, net		**415,112**	475,145
Unrealized gain/(loss) on investments held as FVIS, net		**31**	(5,943)
Trading income, net	22	**22,832**	9,197
Dividend income	23	**53,203**	48,900
Gains on non-trading investments, net	24	**177,177**	45,484
Other operating income, net	25	**204,437**	200,858
Total operating income		**6,377,943**	5,854,137
Salaries and employee related expenses	30	**1,247,129**	1,284,243
Rent and premises related expenses		**173,535**	171,625
Depreciation and amortization	10	**221,379**	233,378
Other general and administrative expenses		**577,741**	571,511
Impairment charges for credit losses and other provisions, net	26	**1,148,790**	726,136
Impairment charges for investments, net	6	**5,970**	37,645
Total operating expenses		**3,374,544**	3,024,538
Net operating income		**3,003,399**	2,829,599
Share in earnings of associates, net	8	**30,659**	32,278
Net income for the year		**3,034,058**	2,861,877
Attributable to:			
Equity holders of the Bank		**3,026,972**	2,853,901
Non-controlling interest		**7,086**	7,976
Net income for the year		**3,034,058**	2,861,877
Basic and diluted earnings (in SAR per share)	27	**3.03**	2.86

The accompanying notes 1 to 44 form an integral part of these consolidated financial statements.

Arab National Bank – Saudi Joint Stock Company
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the years ended December 31, 2017 and 2016
(Saudi Riyals in Thousands)

	2017	2016
Net income for the year	**3,034,058**	2,861,877
Other comprehensive income:		
Items that cannot be reclassified back to consolidated statement of income in subsequent periods		
- Actuarial losses on defined benefit pension plans	**(59,817)**	-
Items that are or may be reclassified to the consolidated statement of income in subsequent periods		
Available for sale financial assets:		
- Net changes in fair value	**(11,493)**	72,302
- Net amounts transferred to consolidated statement of income	**(171,011)**	(7,839)
Impairment of investments	***5,970***	*37,645*
Gains on sale of investments	***(176,981)***	*(45,484)*
Total other comprehensive (loss) income	**(242,321)**	64,463
Total comprehensive income for the year	**2,791,737**	2,926,340
Attributable to:		
Equity holders of the Bank	**2,784,651**	2,918,364
Non-controlling interest	**7,086**	7,976
Total comprehensive income for the year	**2,791,737**	2,926,340

The accompanying notes 1 to 44 form an integral part of these consolidated financial statements.

Arab National Bank – Saudi Joint Stock Company
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the years ended December 31, 2017 and 2016
(Saudi Riyals in Thousands)

		Attributable to equity holders of the Bank								
				Other reserves						
2017	**Notes**	**Share capital**	**Statutory reserve**	**Available for sale financial assets**	**Actuarial gains/(losses) on defined benefit plan**	**Retained earnings**	**Proposed dividends**	**Total**	**Non-controlling interest**	**Total equity**
Balance at the beginning of the year		10,000,000	9,446,000	166,514	-	3,172,847	450,000	23,235,361	689,192	23,924,553
Changes in equity for the year										
Net changes in fair value of available for sale investments				(11,493)	-	-	-	(11,493)	-	(11,493)
Actuarial losses	31			-	(59,817)	-	-	(59,817)	-	(59,817)
Net transfers to consolidated income statement				(171,011)	-	-	-	(171,011)	-	(171,011)
Net income for the year				-	-	3,026,972	-	3,026,972	7,086	3,034,058
Total comprehensive income for the year				(182,504)	(59,817)	3,026,972	-	2,784,651	7,086	2,791,737
Transfer to statutory reserve	18	-	554,000	-	-	(554,000)	-	-	-	-
2016 final dividends paid	28	-	-	-	-	-	(450,000)	(450,000)	-	(450,000)
Interim and proposed dividends	28	-	-	-	-	(1,200,000)	650,000	(550,000)	-	(550,000)
Zakat for the current year	28	-	-	-	-	(390,195)	-	(390,195)	-	(390,195)
Income tax for the current year	28	-	-	-	-	(260,130)	-	(260,130)	-	(260,130)
Balance at the end of the year		10,000,000	10,000,000	(15,990)	(59,817)	3,795,494	650,000	24,369,687	696,278	25,065,965

		Attributable to equity holders of the Bank								
				Other reserves						
2016	Notes	Share capital	Statutory reserve	Available for sale financial assets	Actuarial gains/(losses) on defined benefit plan	Retained earnings	Proposed dividends	Total	Non-controlling interest	Total equity
Balance at the beginning of the year		10,000,000	8,732,000	102,051	-	2,509,946	550,000	21,893,997	737,856	22,631,853
Changes in equity for the year										
Net changes in fair value of available for sale investments				72,302	-	-	-	72,302	-	72,302
Actuarial gains/(losses)				-	-	-	-	-	-	-
Net transfers to consolidated income statement				(7,839)	-	-	-	(7,839)	-	(7,839)
Net income for the year				-	-	2,853,901	-	2,853,901	7,976	2,861,877
Total comprehensive income for the year				64,463	-	2,853,901	-	2,918,364	7,976	2,926,340
Transfer to statutory reserve	18	-	714,000	-	-	(714,000)	-	-	-	-
2015 final dividends paid	28	-	-	-	-	-	(550,000)	(550,000)	-	(550,000)
Interim and proposed dividends	28	-	-	-	-	(900,000)	450,000	(450,000)	-	(450,000)
Zakat for the current year	28	-	-	-	-	(345,000)	-	(345,000)	-	(345,000)
Income tax for the current year	28	-	-	-	-	(232,000)	-	(232,000)	-	(232,000)
Distributions from a subsidiary		-	-	-	-	-	-	-	(56,640)	(56,640)
Balance at the end of the year		10,000,000	9,446,000	166,514	-	3,172,847	450,000	23,235,361	689,192	23,924,553

The accompanying notes 1 to 44 form an integral part of these consolidated financial statements.

Arab National Bank – Saudi Joint Stock Company

CONSOLIDATED STATEMENT OF CASH FLOW
For the years ended December 31, 2017 and 2016
(Saudi Riyals in Thousands)

	Notes	2017	2016
OPERATING ACTIVITIES			
Net income for the year		**3,034,058**	2,861,877
Adjustments to reconcile net income for the year to net cash from operating activities:			
Amortization of premium / (Accretion of discounts) of non-trading investments, net		**2,668**	(8,997)
Special commission expense on sukuk	20	**71,460**	64,498
Gains on non-trading investments, net	24	**(177,177)**	(45,484)
Unrealized (gains)/losses on revaluation of FVIS investments, net		**(31)**	5,943
Dividend income	23	**(53,203)**	(48,900)
Depreciation of investment property	9	**24,800**	24,793
Depreciation and amortization of property and equipment	10	**221,379**	233,378
Losses on disposal of property and equipment, net	25	**4,669**	160
Share in earnings of associates, net	8	**(30,659)**	(32,278)
Impairment charges for investments, net	6	**5,970**	37,645
Impairment charges for credit losses and other provisions, net	26	**1,148,790**	726,136
		4,252,724	3,818,771
Net (increase)/decrease in operating assets:			
Statutory deposit with SAMA	4	**(1,219)**	135,372
Investments held at FVIS (including trading investments)	6	**757**	1,313,888
Positive fair value derivatives		**(483,990)**	(169,612)
Loans and advances		**(257,478)**	(613,996)
Other assets		**(43,303)**	154,209
Other real estate		**-**	23,259
Net increase/(decrease) in operating liabilities:			
Due to banks and other financial institutions		**(1,167,322)**	(1,814,242)
Negative fair value derivatives		**416,113**	100,840
Customers' deposits		**140,632**	146,263
Other liabilities		**808,731**	(435,865)
Net cash from operating activities		**3,665,645**	2,658,887
INVESTING ACTIVITIES			
Proceeds from sale of and matured non-trading investments		**4,612,991**	21,162,037
Purchase of non-trading investments		**(11,477,010)**	(14,669,137)
Investment in associate	8	**-**	(52,500)
Purchase of investment property	9	**-**	(290)
Purchase of property and equipment / intangibles	10	**(84,905)**	(134,454)
Proceeds from sale of property and equipment / intangibles		**3,488**	7,114
Dividend received		**53,203**	48,900
Net cash (used in)/from investing activities		**(6,892,233)**	6,361,670
FINANCING ACTIVITIES			
Special commission paid on sukuk		**(73,376)**	(57,578)
Dividends paid		**(994,072)**	(991,946)
Zakat and tax paid		**(280,504)**	(247,588)
Non-controlling interest from distributions from a subsidiary		**-**	(56,640)
Net cash used in financing activities		**(1,347,952)**	(1,353,752)
(Decrease)/increase in cash and cash equivalents		**(4,574,540)**	7,666,805
Cash and cash equivalents at the beginning of the year		**16,347,323**	8,680,518
Cash and cash equivalents at the end of the year	29	**11,772,783**	16,347,323
Special commission received during the year		**5,977,154**	5,531,184
Special commission paid during the year		**(1,401,009)**	(1,432,076)
Supplemental non-cash information			
Net changes in fair value of available for sale financial assets		**(11,493)**	72,302

The accompanying notes 1 to 44 form an integral part of these consolidated financial statements.

1. General

Arab National Bank (a Saudi Joint Stock Company, the "Bank") was formed pursuant to Royal Decree No. M/38 dated Rajab 18,1399H (corresponding to June 13, 1979). The Bank commenced business on February 2, 1980 by taking over the operations of Arab Bank Limited in the Kingdom of Saudi Arabia. The Bank operates under Commercial Registration No. 1010027912 dated Rabi Awal 1, 1400H (corresponding to January 19, 1980) through its 142 branches (2016: 151 branches) in the Kingdom of Saudi Arabia and one branch in the United Kingdom. The address of the Bank's head office is as follows:

Arab National Bank
P.O. Box 56921
Riyadh 11564
Kingdom of Saudi Arabia

The objective of the Bank is to provide a full range of banking services. The Bank also provides its customers non-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 the Bank and the following subsidiaries (collectively referred to as "the Group"):

Arab National Investment Company (ANB Invest)

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

Arabian Heavy Equipment Leasing Company (AHEL)

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

ANB Insurance Agency

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

Al-Manzil Al-Mubarak Real Estate Financing Ltd.

A wholly owned Saudi limited liability company, registered in the Kingdom under the commercial registration no. 1010199647 issued in Riyadh dated Jumada I 18, 1425H (corresponding to July 6, 2004). The subsidiary is engaged in the purchase of lands and real estates and invest them through sale or rent in favor of the company, maintenance and management of owners and others' assets as guarantee, sale and purchase of real estates for financing purposes as per SAMA approval No. 361000109161 dated 10/8/1436H.

ANBI Business Gate Fund (the Fund)

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

1. General (continued)

ANB Global Markets Limited

The Bank established on January 31, 2017 ANB Global Markets Limited, as a limited liability company registered in the Cayman Islands. The Bank has 100% ownership. The objective of ANB Global Markets Limited is trading in derivatives and Repo activities on behalf of the Bank.

2. Basis of preparation

a) Statement of compliance / Basis of preparation

The consolidated financial statements of the Group have been prepared;

i) 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.

ii) in compliance with the provisions of Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and the Article of Association 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 to note 3(w) for the accounting policy of zakat and income tax.

b) Basis of measurement and presentation

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

c) Functional and presentation currency

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

d) Critical accounting judgements, estimates and assumptions

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

(i) Impairment for credit losses on loans and advances

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

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

The collective impairment allowance is determined after taking into account:

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

2. Basis of preparation (continued)

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

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

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

(ii) Fair value Measurement

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

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

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

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

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

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

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified and calibrated before they are used to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data. Areas such as credit risk (both own and counterparty), volatilities and correlations, however, require management to make estimates. The judgements include considerations of liquidity and model inputs such as volatility of longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities. Changes in assumptions about these factors could affect the fair value of financial instruments.

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

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

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

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

(iv) Classification of held to maturity (HTM) investments

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

2. Basis of preparation (continued)

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

(v) Determination of control over investees

The control indicators set out note 3 (b) are subject to management's judgements that can have a significant effect in the case of the Group's interests in investments funds.

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

(vi) Going concern

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

(vii) Provisions for liabilities and charges

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

(viii) Defined benefit plans

Bank operates an end of service benefit plan for its employees based on the prevailing Saudi labor laws. The liability is being accrued based on projected unit method in accordance with the period actuarial valuation. For details of assumptions and estimates, please refer to note 31.

3. Summary of significant accounting policies

a) Changes in accounting policies

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2016, except for the change in accounting policy of Zakat and tax as mentioned below and adoption of the following amendments to existing standards mentioned below which have had no significant financial impact on the consolidated financial statements of the Group:

i. Zakat and income tax

The Group amended its accounting policy relating to zakat and income tax and have started to accrue zakat and income tax on a quarterly basis and charging it to retained earnings in accordance with SAMA guidance on zakat and income tax. Previously, zakat and income tax were deducted from dividends upon payment to the shareholders and was recognized as a liability at that time. In case no dividends were paid, zakat and income tax were accounted for as part of the appropriation of retained earnings.

ii. Amendments to existing standards

Amendments to IAS 7, Statement of cash flows on disclosure initiative: Applicable for annual periods beginning on or after 1 January 2017

These amendments introduce 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.

These adoptions have no material impact on the consolidated financial statements other than certain additional disclosures.

The Bank has chosen not to early adopt the amendments and revisions to the International Financial Reporting Standards which have been published and are mandatory for compliance by the banks for the accounting years beginning on or after January 1, 2018 (please refer note 42).

3. Summary of significant accounting policies (continued)

b) Basis of consolidation

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

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

Specifically, the Group controls an investee if and only if it has:

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

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

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

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

If the Group loses control over a subsidiary, it:

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

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

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

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

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

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

3. Summary of significant accounting policies (continued)

c) Investments in associates

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

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

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

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

d) Settlement date accounting

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

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

e) Derivative financial instruments and hedge accounting

Derivative financial instruments, including forward foreign exchange contracts, commission rate futures, forward rate agreements, currency and commission rate swaps and currency and commission rate options are measured at fair value. All derivatives are carried at their fair value as assets where the fair value is positive and as liabilities where the fair value is negative. Fair values are obtained by reference to quoted market prices, discounted cash flow models and pricing models, as appropriate.

The treatment of changes in fair values depends on classifying derivatives into the following categories:

i) ***Derivatives held for trading***

Changes in the fair value of derivatives held for trading are taken directly to the consolidated income statement and disclosed under trading income, net. Derivatives held for trading also include derivatives which do not qualify for hedge accounting and embedded derivatives.

ii) ***Embedded derivatives***

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

iii) ***Hedge accounting***

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

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

3. Summary of significant accounting policies (continued)

e) Derivative financial instruments and hedge accounting (continued)

iii) Hedge accounting (continued)

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

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

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

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

f) Foreign currencies

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

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

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

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

g) Offsetting financial instruments

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

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

3. Summary of significant accounting policies (continued)

h) Revenue and expenses recognition

Special commission income and expenses

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

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

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

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

Exchange income / (loss)

Exchange income/loss is recognized when earned/incurred.

Fee and commission income

Fee and commission income are recognized on an accrual basis when the service has been provided. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportionate basis. Fees received on asset management, wealth management, financial planning, custody services and other similar services that are provided over an extended period of time, are recognized rateably over the period that the service is being provided.

Dividend income

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

Net trading income / (loss)

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

Rental income

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

i) Sale and repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognized on the consolidated statement of financial position and are measured in accordance with relevant accounting policies for trading securities, investments held as FVIS, available for sale, held to maturity and other investments held at amortized cost. The counterparty liability for amounts received under these agreements is included in Due to banks and other financial institutions or Customers' deposits, as appropriate. The difference between the sale and repurchase price is treated as special commission expense and accrued over the life of the repo agreement on an effective yield basis. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repo) are not recognized in the consolidated statement of financial position, as the Bank does not obtain control over the assets. Amounts paid under these agreements are included in Cash and balances with SAMA, due from banks and other financial institutions or Loans and advances, as appropriate. The difference between the purchase and resale price is treated as special commission income and accrued over the life of the reverse repo agreement on an effective yield basis.

j) Investments

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

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

3. Summary of significant accounting policies (continued)

j) Investments (continued)

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

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

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

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

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

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

(ii) Available for sale (AFS)

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

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

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

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

(iii) Held to maturity (HTM)

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

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

(iv) Other investments held at amortized cost (OI)

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

3. Summary of significant accounting policies (continued)

k) Loans and advances

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

All loans and advances are initially measured at fair value, including acquisition charges, except for loans held as FVIS.

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

For loans and advances which are hedged, the related portion of the hedged fair value is adjusted against the carrying amount.

For presentation purposes, impairment charges for credit losses are deducted from loans and advances.

l) Impairment of financial assets

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

An assessment is made at each consolidated statement of financial position date to determine whether there is objective evidence that a financial asset or group of financial assets is impaired at the statement of financial position date. If such evidence exists, the estimated recoverable amount of that asset is determined based on the net present value of future anticipated cash flows and an impairment loss is recognized for changes in the asset's carrying amounts. The present value of the estimated future cash flows is discounted at the financial asset's original effective commission rate. If an asset has a variable special commission rate, the discount rate for measuring any impairment loss is the special commission rate existing on the measurement date.

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in impairment charges for credit losses in the consolidated income statement.

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

Loans whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. Restructuring policies and practices are based on indicators or criteria that indicate that payment will most likely continue.

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

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

(i) Impairment of financial assets held at amortized cost

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

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

3. Summary of significant accounting policies (continued)

l) Impairment of financial assets (continued)

(ii) Impairment of available for sale financial assets

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

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

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

m) Other real estate

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

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

n) Property and equipment

Property and equipment are stated at cost and presented net of accumulated depreciation. Freehold land is not depreciated.

The cost of property and equipment is depreciated on a straight-line method over the estimated useful lives of assets as follows:

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

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

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

o) Investment property

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

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

The useful live and depreciation method is reviewed periodically to ensure that the method and period of depreciation are consistent with the expected inflow of economic benefits from these assets.

The Group determines at each reporting date whether there is objective evidence that investment properties are impaired. Whenever the carrying amount of an investment property exceeds its recoverable amount, an impairment loss is recognized in the consolidated income statement.

p) Financial liabilities

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

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

3. Summary of significant accounting policies (continued)

p) Financial liabilities (continued)

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

q) Provisions

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

r) Accounting for leases

i) Where the Bank is a lessee

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

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

ii) Where the Bank is a lessor

When assets are sold under a finance lease, including Shari'ah compliant leases, the present value of the lease payments is recognized as a receivable and disclosed under loans and advances. The difference between the gross receivable and the present value of the receivable is recognized as unearned finance income. Lease income is recognized over the term of the lease using the effective yield basis, which reflects a constant periodic rate of return.

s) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents are defined as those amounts included in cash, balances with SAMA excluding statutory deposit and due from banks and other financial institutions maturing within 90 days.

t) Financial guarantees

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

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

u) End-of-service benefits

Benefits payable to the employees of the Group at the end of their services are accrued based on actuarial valuation in accordance with Saudi Arabian Labor laws. These are included in other liabilities in the consolidated statement of financial position.

v) Derecognition of financial instruments

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

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

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

(Saudi Riyals in Thousands)

3. Summary of significant accounting policies (continued)

w) Zakat and income tax

Zakat is computed on the Saudi shareholders' share of equity or net income using the basis defined under the Zakat regulations. Income taxes are computed on the foreign shareholders share of net income for the year.

Zakat and income tax are accrued on a quarterly basis and charged to retained earnings in accordance with SAMA guidance on zakat and income tax. Previously, zakat and income tax was deducted from dividends upon payment to the shareholders and was recognized as a liability at that time.

x) Shari'ah compliant banking products

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

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

y) Investment management services

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

4. Cash and balances with SAMA

	2017	2016
Cash in hand	**2,059,993**	2,836,913
Statutory deposit	**7,188,719**	7,187,500
Reverse repo with SAMA	**8,002,000**	9,468,408
Current account	**667**	11,152
Total	**17,251,379**	19,503,973

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 is therefore not part of cash and cash equivalents (note 29). The Bank holds balances with SAMA which has investment grade credit rating.

5. Due from banks and other financial institutions

	2017	2016
Current accounts	**700,010**	1,034,668
Money market placements	**1,010,113**	2,996,182
Total	**1,710,123**	4,030,850

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:

	2017	2016
Investment grade (credit rating AAA to BBB)	**1,522,077**	3,654,323
Non-investment grade (credit rating BB to Below BB)	**172,394**	350,705
Unrated	**15,652**	25,822
Total	**1,710,123**	4,030,850

(Saudi Riyals in Thousands)

6. Investments, net

a) Investments are classified as follows:

i) Designated as fair value through income statement

	Domestic		International		Total	
	2017	2016	**2017**	2016	**2017**	2016
Mutual funds and others	**-**	-	**-**	726	**-**	726

ii) Available for sale

	Domestic 2017	Domestic 2016	International 2017	International 2016	Total 2017	Total 2016
Fixed rate securities	**-**	305,040	**8,770,788**	6,793,141	**8,770,788**	7,098,181
Floating rate securities	**867,247**	914,371	**-**	-	**867,247**	914,371
Equities	**804,770**	1,180,962	**-**	-	**804,770**	1,180,962
Other	**2,122**	127,924	**9,247**	135,606	**11,369**	263,530
Available for sale	**1,674,139**	2,528,297	**8,780,035**	6,928,747	**10,454,174**	9,457,044

iii) Other investments held at amortized cost

	Domestic 2017	Domestic 2016	International 2017	International 2016	Total 2017	Total 2016
Fixed rate securities	**8,455,280**	2,578,919	**452,700**	543,359	**8,907,980**	3,122,278
Floating rate securities	**12,958,662**	12,968,351	**-**	-	**12,958,662**	12,968,351
Other investments held at amortized cost	**21,413,942**	15,547,270	**452,700**	543,359	**21,866,642**	16,090,629
Total investments, net	**23,088,081**	18,075,567	**9,232,735**	7,472,832	**32,320,816**	25,548,399

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

	2017			2016		
	Quoted	**Unquoted**	**Total**	Quoted	Unquoted	Total
Fixed rate securities	**9,225,207**	**8,453,561**	**17,678,768**	7,305,054	2,915,405	10,220,459
Floating rate securities	**-**	**13,825,909**	**13,825,909**	-	13,882,722	13,882,722
Equities	**763,741**	**-**	**763,741**	1,180,962	-	1,180,962
Others	**-**	**52,398**	**52,398**	-	264,256	264,256
Investments, net	**9,988,948**	**22,331,868**	**32,320,816**	8,486,016	17,062,383	25,548,399

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

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

	2017				2016			
	Carrying value	**Gross unrealized gains**	**Gross unrealized losses**	**Fair value**	Carrying value	Gross unrealized gains	Gross unrealized losses	Fair value
Fixed rate securities	**8,907,980**	**18,449**	**(99,497)**	**8,826,932**	3,122,278	13,352	(141,448)	2,994,182
Floating rate securities	**12,958,662**	**11,494**	**(37,992)**	**12,932,164**	12,968,351	2,210	(62,411)	12,908,150
Total	**21,866,642**	**29,943**	**(137,489)**	**21,759,096**	16,090,629	15,562	(203,859)	15,902,332

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

	2017	2016
Government and quasi government	**30,078,680**	20,528,928
Banks and other financial institutions	**1,173,434**	3,145,574
Corporate	**1,007,906**	1,600,200
Other	**60,796**	273,697
Total	**32,320,816**	25,548,399

Investments include SAR 1,123 million (2016: SAR 1,052 million) (note 19d) that have been pledged under repurchase agreements with other banks and customers. The market value of these investments is SAR 1,123 million (2016: SAR 1,052 million).

(Saudi Riyals in Thousands)

6. Investments, net (continued)

e) Movement in the allowance for impairment of investments

2017	Fixed Rate	Floating Rate	Equities	Other	Total
Balance at beginning of the year	-	-	79,579	1,934	81,513
Provided during the year	-	-	-	5,970	5,970
Amounts written-off during the year	-	-	(60,408)	-	(60,408)
Balance at end of the year	-	-	19,171	7,904	27,075

2016	Fixed Rate	Floating Rate	Equities	Other	Total
Balance at beginning of the year	-	-	41,934	1,934	43,868
Provided during the year	-	-	37,645	-	37,645
Amounts written-off during the year	-	-	-	-	-
Balance at end of the year	-	-	79,579	1,934	81,513

7. Loans and advances, net

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

2017	Overdrafts	Credit cards	Consumer loans	Commercial loans and others	Total
Performing loans and advances, gross	3,734,884	500,540	24,469,442	86,691,122	115,395,988
Non-performing loans and advances, net	7,487	14,482	103,286	1,275,228	1,400,483
Total loans and advances	3,742,371	515,022	24,572,728	87,966,350	116,796,471
Impairment allowances for credit losses, net	(6,839)	(9,350)	(64,921)	(2,172,432)	(2,253,542)
Loans and advances, net	3,735,532	505,672	24,507,807	85,793,918	114,542,929
2016					
Performing loans and advances, gross	4,338,115	504,504	25,410,888	86,969,119	117,222,626
Non-performing loans and advances, net	39,246	11,765	114,731	840,944	1,006,686
Total loans and advances	4,377,361	516,269	25,525,619	87,810,063	118,229,312
Impairment allowances for credit losses, net	(30,397)	(5,737)	(89,636)	(2,592,021)	(2,717,791)
Loans and advances, net	4,346,964	510,532	25,435,983	85,218,042	115,511,521

For details of impaired loans and advances, refer to note 33 (f).

Loan and advances include Shari'ah compliant banking products: Murabaha and Tawarruq agreements and Ijarah, which are stated at amortized cost, of SAR 72.6 billion (2016: SAR 73.0 billion).

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

2017	Overdrafts	Credit cards	Consumer loans	Commercial loans and others	Total
Balance at the beginning of the year	30,397	5,737	89,636	2,592,021	2,717,791
Provided during the year	-	35,557	263,635	346,890	646,082
Bad debts written off	(23,558)	(31,944)	(288,350)	(766,479)	(1,110,331)
Balance at the end of the year	6,839	9,350	64,921	2,172,432	2,253,542
2016					
Balance at the beginning of the year	-	2,222	89,904	2,670,048	2,762,174
Provided during the year	30,397	21,570	361,790	340,849	754,606
Bad debts written off	-	(18,055)	(362,058)	(418,876)	(798,989)
Balance at the end of the year	30,397	5,737	89,636	2,592,021	2,717,791

Impairment charge for credit losses, net for the year ended December 31, 2017 amounted to SAR 562,505 thousands (2016: SAR 726,136 thousand) (note 26), including bad debts directly written-off to consolidated income statement amounting to SAR 67,635 thousands (2016: SAR 72,268 thousand), and net of recoveries amounting to SAR 151,212 thousands (2016: SAR 100,738 thousand).

(Saudi Riyals in Thousands)

7. Loans and advances, net (continued)

c) Collateral:

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

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

2017	Performing gross	Non performing, net	Impairment allowances for credit losses	Loans and advances, net
1. Government and quasi government	**7,140**	-	-	**7,140**
2. Banks and other financial institutions	**2,110,259**	-	-	**2,110,259**
3. Agriculture and fishing	**1,638,133**	-	-	**1,638,133**
4. Manufacturing	**13,866,743**	**794,851**	**(504,499)**	**14,157,095**
5. Mining and quarrying	**168,078**	-	**(1,400)**	**166,678**
6. Electricity, water, gas and health services	**5,545,701**	**502**	**(48)**	**5,546,155**
7. Building and construction	**8,243,980**	**333,409**	**(359,712)**	**8,217,677**
8. Commerce	**14,899,152**	**92,937**	**(94,123)**	**14,897,966**
9. Transportation and communication	**6,143,879**	**30,547**	**(37,708)**	**6,136,718**
10. Services	**2,849,512**	**16,999**	**(16,618)**	**2,849,893**
11. Consumer loans and credit cards	**24,969,982**	**117,768**	**(74,271)**	**25,013,479**
12. Other	**34,953,429**	**13,470**	**(138,439)**	**34,828,460**
	115,395,988	**1,400,483**	**(1,226,818)**	**115,569,653**
Allowance for collective impairment	-	-	**(1,026,724)**	**(1,026,724)**
Total	**115,395,988**	**1,400,483**	**(2,253,542)**	**114,542,929**

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

8. Investments in associates

	2017	2016
Balance at beginning of the year	**616,395**	531,617
Share in earnings, net	**30,659**	32,278
Share in associate's capital increase	-	52,500
Cumulative share in Zakat	**(9,832)**	-
Balance at end of the year	**637,222**	616,395

(Saudi Riyals in Thousands)

8. Investments in associates (continued)

Saudi Home Loans Company

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

Metlife – AIG – ANB Cooperative Insurance Company

The Bank participated in the setting up of Metlife – AIG – ANB Cooperative Insurance Company (the MetLife) in the Kingdom. The Bank's share is 30% of the associate's total equity capital of SAR 175 million. MetLife was launched during the fourth quarter of 2013 and is accounted for under the equity method. SAMA has provided the associate with final approval to conduct insurance business in the Kingdom on February 25, 2014. The Bank initially paid SAR 52.5 million representing 30% of the issued share capital of the associate. The associate's shares are listed on the Saudi Arabian Stock Exchange; and, the quoted value of the Bank's investment in its associate is SAR 160.7 million (2016: SAR 258.6 million).

On April 27, 2015, the associate's board of directors has recommended increasing the associate's capital from SAR 175 million to SAR 350 million through a rights issue. The Bank owns 10.5 million shares (30%) at a nominal value of SAR 10 per share as of December 31, 2017 and 2016.

The Bank's share of associates' financial statements:

	Saudi Home Loans Company		Metlife – AIG – ANB Cooperative Insurance Company (*)	
	2017	2016	**2017**	2016
Total assets	**1,718,838**	1,639,474	**238,781**	211,856
Total liabilities	**1,144,156**	1,099,744	**174,284**	140,731
Total equity	**574,682**	539,730	**64,497**	71,125
Total income	**68,320**	67,836	**4,517**	6,916
Total expenses	**(28,310)**	(27,723)	**(10,660)**	(13,590)

(*) Based on latest available financial information.

9. Investment Property, net

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

	Land	Commercial buildings	Hotel (*)	Total 2017	Total 2016
Cost					
Balance at beginning of the year	550,000	744,133	406,830	1,700,963	1,700,673
Additions	-	-	-	-	290
Transfers	-	(133)	133	-	-
As at December 31, 2017	550,000	744,000	406,963	1,700,963	1,700,963
Accumulated depreciation					
Balance at beginning of the year	-	49,600	-	49,600	24,807
Charge for the year	-	24,800	-	24,800	24,793
As at December 31, 2017	-	74,400	-	74,400	49,600
Net book value					
As at December 31, 2017	550,000	669,600	406,963	1,626,563	
As at December 31, 2016	550,000	694,533	406,830		1,651,363

(*) Hotel is not available for use as it has not yet been handed over to the hotel management for operation as final testing and commissioning is under process. Therefore, depreciation has not been charged in the current period.

The fair value of investment properties was determined by management based on a valuation performed by two independent and professionally qualified valuers registered with the Royal Institute of Chartered Surveyors using the Income Capitalisation Method and discounted cash flows (DCF). Management assessed this valuation as Level 3 in the hierarchy for determining and disclosing fair value as defined in note 37. The fair value of investment properties is SAR 1,769 million as of December 31, 2017 (2016: SAR 1,758 million) (which is the lower of the two independent valuations), compared with a carrying value of SAR 1,627 million as of December 31, 2017 (2016: SAR 1,651 million).

(Saudi Riyals in Thousands)

10. Property and equipment, net

	Land and buildings	Leasehold improvements	Equipment, furniture and vehicles	Computer and Software	Work-in-progress	Total 2017	Total 2016
Cost							
Balance at beginning of the year	1,408,619	596,110	799,125	1,221,962	61,600	4,087,416	3,984,291
Additions	-	13,122	7,847	18,835	45,101	84,905	134,454
Disposals	(14,050)	(22,723)	(13,087)	(862)	(945)	(51,667)	(31,329)
Transfers	9,861	18,810	1,866	9,056	(39,593)	-	-
Balance at end of the year	1,404,430	605,319	795,751	1,248,991	66,163	4,120,654	4,087,416
Accumulated depreciation							
Balance at beginning of the year	378,115	420,948	399,831	1,049,300	-	2,248,194	2,038,871
Charge for the year	34,666	40,935	78,708	67,070	-	221,379	233,378
Disposals	(10,961)	(19,639)	(12,301)	(609)	-	(43,510)	(24,055)
Balance at end of the year	401,820	442,244	466,238	1,115,761	-	2,426,063	2,248,194
Net book value							
As at December 31, 2017	1,002,610	163,075	329,513	133,230	66,163	1,694,591	
As at December 31, 2016	1,030,504	175,162	399,294	172,662	61,600		1,839,222

11. Other assets

	2017	2016
Prepaid expenses	202,666	175,319
Other	550,953	535,276
Total	753,619	710,595

12. Derivative financial instruments

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

a) Swaps

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

b) Forwards and futures

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specified price on a date in the future. Forwards are customized contracts transacted in the over the counter market.

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

c) Forward rate agreements

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

d) Options

Options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, to either buy or sell, on 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 to, inter alia, enable them to transfer, modify or reduce current and future risks. Positioning involves managing market risk positions with the expectation of profiting from favorable movements in prices, rates or indices. Arbitrage involves identifying, with the expectation of profiting, price differentials between markets or products.

(Saudi Riyals in Thousands)

12. Derivative financial instruments (continued)

Held for hedging purposes (continued)

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

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

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

The Bank uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks. In addition, the Bank uses commission rate swaps and commission rate futures to hedge against commission rate risk arising from specifically identified fixed commission rate exposures.

The Bank also uses commission rate swaps to hedge against the cash flow risk arising on certain floating rate exposures. In all such cases, the hedging relationship and objective, including details of the hedged items and hedging instrument are formally documented and the transactions are accounted for as either fair value or cash flow hedges.

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

				Notional amounts by term to maturity				
2017	**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:								
Commission rate and cross currency swaps	**443,057**	**417,595**	**16,869,829**	**2,699,911**	**3,433,375**	**5,904,500**	**4,832,043**	**16,475,443**
Commission rate futures and options	**367,552**	**364,373**	**11,951,618**	**18,749**	**1,724,931**	**1,000,000**	**9,207,938**	**11,068,652**
Forward foreign exchange and commodity contracts	**50,545**	**18,959**	**3,330,684**	**2,545,951**	**737,097**	**47,636**	**-**	**6,151,495**
Currency and commodity options	**8,869**	**9,043**	**1,502,128**	**1,061,870**	**440,258**	**-**	**-**	**4,213,306**
Held as fair value hedges:								
Commission rate swaps	**73,737**	**45,932**	**16,081,637**	**46,605**	**3,100,605**	**4,711,002**	**8,223,425**	**11,219,452**
Total	**943,760**	**855,902**	**49,735,896**	**6,373,086**	**9,436,266**	**11,663,138**	**22,263,406**	**49,128,348**

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

(Saudi Riyals in Thousands)

12. Derivative financial instruments (continued)

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

	2017	2016
Held for trading:		
Commission rate and cross currency swaps	**38,536**	(32,453)
Forward foreign exchange and commodity contracts	**(2,877)**	(1,562)
Currency and commodity options	**3,025**	5,644
Held as fair value hedges:		
Commission rate swaps	**2,788**	40,661
Total	**41,472**	12,290

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

Description of hedged items	Fair value	Hedge inception value	Risk	Hedging instrument	Positive fair value	Negative fair value
2017						
Fixed commission rate investments	**10,689,168**	**10,655,099**	Fair value	Commission rate swap	**407,961**	**375,507**
Fixed commission rate loans	**5,432,799**	**5,426,538**	Fair value	Commission rate swap	**21,499**	**27,760**
2016						
Fixed commission rate investments	3,992,328	3,957,555	Fair value	Commission rate swap	140,935	165,559
Fixed commission rate loans	4,733,504	4,731,904	Fair value	Commission rate swap	24,009	22,409

Cash flow hedges

The Bank is exposed to variability in future commission rate cash flows on non-trading assets and liabilities which bear commission at a variable rate. The bank uses commission rate swaps as cash flow hedges of these commission rate risks. Also, as a result of firm commitments in foreign currencies, such as its issued foreign currency debt, the Bank is exposed to foreign exchange and commission rate risks which are hedged with cross currency commission rate swaps. For the years ended December 31, 2017 and 2016 the Bank had no outstanding cash flow hedges.

No discontinuation of hedge accounting took place in 2017 that resulted in reclassification of the associated cumulative gains or losses from equity to the consolidated income statement (2016: 57.7 thousands).

Approximately 41% (2016: 62%) of the positive fair value of the Bank's derivatives are entered into with financial institutions and less than - 28% (2016: 27%) of the positive fair value contracts are with any single counter-party at the consolidated statement of financial position date. Derivative activities are mainly carried out by the Bank's treasury segment.

13. Due to banks and other financial institutions

	2017	2016
Current accounts	**162,430**	297,249
Money market deposits	**2,529,119**	3,561,622
Total	**2,691,549**	3,858,871

Money market deposits include deposits against sale of securities of SAR 1,123 million (2016: nil) (note 19d) with agreements to repurchase the same at fixed future dates.

14. Customers' deposits

	2017	2016
Demand	**71,003,290**	65,092,740
Time	**58,204,406**	65,003,835
Saving	**93,944**	93,124
Other	**6,746,449**	5,717,758
Total	**136,048,089**	135,907,457

Time deposits do not include deposits against sale of securities as of December 31, 2017 (2016: SAR 596 million) (note 19d) with agreements to repurchase the same at fixed future dates. Other customers' deposits include SAR 5,115 million (2016: SAR 4,543 million) of margins held against irrevocable commitments.

(Saudi Riyals in Thousands)

14. Customers' deposits (continued)

The above include foreign currency deposits as follows:

	2017	2016
Time	**10,586,133**	5,517,032
Demand	**2,410,927**	2,557,214
Saving	**2,538**	2,828
Other	**167,599**	177,779
Total	**13,167,197**	8,254,853

15. Other liabilities

	2017	2016
Trustee for sale of real estate – current deposit	**80,846**	164,745
Provision for end of service benefits (note 31)	**491,350**	423,212
Provision for credit related commitments and contingencies (a)	**586,285**	-
Accrued expenses	**630,567**	575,616
Zakat and others	**1,658,828**	1,289,007
Others	**1,576,044**	1,407,282
Total	**5,023,920**	3,859,862

a) Movement in the provision for credit related commitments and contingencies:

	2017	2016
Balance at beginning of the year	**-**	-
Provided during the year (note 26)	**586,285**	-
Balance at the end of the year	**586,285**	-

16. Sukuk

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

17. Share capital

As at December 31, 2017, the authorized, issued and fully paid share capital of the Bank consists of 1,000 million shares of SAR 10 each (2016: 1,000 million shares of SAR 10 each). The ownership of the Bank's share capital is as follows:

	2017	2016
Saudi shareholders	**60%**	60%
Arab Bank PLC – Jordan	**40%**	40%

18. Statutory reserve

In accordance with the Saudi Arabian Banking Control Law and the Articles of Association of the Bank, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid up share capital of the Bank. Accordingly, SAR 554 million has been transferred from the net income for the year ended December 31, 2017 (2016: SAR 714 million). The statutory reserve is not available for distribution.

19. Commitments and contingencies

a) Legal proceedings

As at December 31, 2017 and 2016 there were legal proceedings of a routine nature outstanding against the Bank. No material provision has been made as professional legal advice indicates that it is unlikely that a significant loss will arise.

b) Capital commitments

As at December 31, 2017 the Bank had capital commitments of SAR 105 million (2016: SAR 47 million) in respect of building and equipment purchases.

(Saudi Riyals in Thousands)

19. Commitments and contingencies (continued)

c) Credit related commitments and contingencies

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

Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans and advances.

Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement.

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

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

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

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

2017	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	**2,370,667**	**2,037,866**	**93,918**	**-**	**4,502,451**
Letters of guarantee	**8,321,360**	**10,596,170**	**3,793,549**	**204,007**	**22,915,086**
Acceptances	**878,482**	**420,191**	**6,672**	**-**	**1,305,345**
Irrevocable commitments to extend credit	**50,659**	**601,950**	**2,406,923**	**-**	**3,059,532**
Other	**-**	**-**	**-**	**94,965**	**94,965**
Total	**11,621,168**	**13,656,177**	**6,301,062**	**298,972**	**31,877,379**

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

The unutilized portion of non-firm commitments for commercial and corporate loans as at December 31, 2017, which can be revoked unilaterally at any time by the Bank, amounts to SAR 14,889 million (2016: SAR 18,591 million).

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

	2017	2016
Corporate	**26,143,968**	28,172,439
Banks and other financial institutions	**4,786,272**	4,803,805
Other	**947,139**	846,450
Total	**31,877,379**	33,822,694

(Saudi Riyals in Thousands)

19. Commitments and contingencies (continued)

d) Assets pledged

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

	2017		2016	
	Assets	**Related liabilities**	Assets	Related liabilities
Other investments held at amortized cost	-	-	950,000	562,500
Available for sale	**1,122,847**	**1,122,909**	101,728	33,545
Total (notes 6d, 13 and 14)	**1,122,847**	**1,122,909**	1,051,728	596,045

e) Operating lease commitments

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

	2017	2016
Less than 1 year	**99,958**	106,323
1 to 5 years	**237,392**	240,256
Over 5 years	**120,595**	132,226
Total	**457,945**	478,805

20. Net special commission income

Special commission income	**2017**	2016
Investments:		
Available for sale	**110,438**	112,352
Other investments held at amortized cost	**372,082**	309,547
	482,520	421,899
Due from banks and other financial institutions	**145,920**	64,440
Loans and advances	**5,406,754**	5,251,833
Total	**6,035,194**	5,738,172
Special commission expense		
Due to banks and other financial institutions	**40,241**	76,861
Customers' deposits	**1,258,740**	1,451,328
Sukuk	**71,460**	64,498
Total	**1,370,441**	1,592,687
Net special commission income	**4,664,753**	4,145,485

21. Fees and commission income, net

Fee and commission income	**2017**	2016
Share trading and fund management	**63,022**	75,450
Trade finance	**261,307**	276,420
Credit cards	**212,541**	208,618
Credit facilities	**762,335**	862,305
Other banking services	**261,570**	259,725
Total	**1,560,775**	1,682,518
Fee and commission expense		
Credit cards	**157,310**	134,958
Custody and brokerage fees	**1,237**	572
Credit facilities	**393,169**	455,162
Other banking services	**168,661**	156,815
Total	**720,377**	747,507
Fees and commission income, net	**840,398**	935,011

(Saudi Riyals in Thousands)

22. Trading income, net

	2017	2016
Debt securities	**5,503**	(2,104)
Derivatives	**17,329**	11,301
Total	**22,832**	9,197

23. Dividend income

	2017	2016
AFS investments	**53,203**	48,900

24. Gains from non-trading investments, net

	2017	2016
Realized gains on investments held at amortized cost	**196**	-
Realized gains on AFS investments	**176,981**	45,484
	177,177	45,484

25. Other operating income, net

	2017	2016
Rental income, net	**186,488**	184,752
Losses on disposal of property and equipment, net	**(4,669)**	(160)
Others	**22,618**	16,266
Total	**204,437**	200,858

26. Impairment charges for credit losses and other provisions, net

	2017	2016
Impairment charges for credit losses, net (note 7)	**562,505**	726,136
Provision for credit related commitments and contingencies (note 15)	**586,285**	-
Total	**1,148,790**	726,136

27. Basic and diluted 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 attributable to equity holders of the Bank by 1,000 million shares. The diluted earnings per share are the same as the basic earnings per share.

28. Dividends, Zakat and Income Tax

	2017	2016
Interim dividends **(a)**	**550,000**	450,000
Proposed dividends **(b)**	**650,000**	450,000
Zakat and others **(c)**	**650,325**	577,000
Total	**1,850,325**	1,477,000

(a) The Board has approved an interim dividend of SAR 550 million for distribution to the shareholders from the net income for the year ended December 31, 2017 (2016: 450 million). This interim dividend resulted in a payment to the shareholders of SAR 0.55 per share, net of Zakat and income tax (2016: 0.45 per share, net).

(b) On December 3, 2017 the Board recommended to pay cash dividends of SAR 650 million (2016: SAR 450 million). These dividends are subject to final approval by the general assembly.

(c) Zakat and Others

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

Zakat

Zakat for the year attributable to Saudi Shareholders amounted to approximately SAR 390 million (2016: SAR 345 million). The due Zakat is already been deducted from retained earnings.

(Saudi Riyals in Thousands)

28. Dividends, Zakat and Income Tax (continued)

Income Tax

Income tax payable by the non-Saudi Shareholder on the current year's share of net income is SAR 260 million (2016: SAR 232 million).

Status of Zakat and Income Tax Assessments

The Group has filed its Zakat and Income Tax returns with the General Authority for Zakat and Tax (GAZT) and paid Zakat and Income Tax for financial years up to and including the year 2016 and has received the assessments for the years up to 2013 in which the GAZT raised additional demands aggregating to SAR 334 million for the years 2004 to 2008 and SAR 315 million for the years 2009 to 2013. The Group has formally contested the assessments for the years 2004 to 2008 and submitted their appeal to the Preliminary Objection Committee (POC). On June 1, 2016, the POC issued a ruling reducing the assessments amount from SAR 334 million to SAR 111 million, for which the GAZT issued a revised assessment. An appeal to the Higher Appeal Committee (HAC) against the POC resolution has been submitted on July 27, 2016; the hearing date is not scheduled until now. Management is confident of a favourable outcome on the aforementioned appeal and have therefore not made any provisions in respect of the assessments for the years 2004 to 2008.

On February 7, 2018, the Group has formally contested the assessments for the years 2009 to 2013, and submitted their appeal to the GAZT; and further management has accounted for Zakat allowance in the amount of SAR 209 million in respect of these assessments, and is confident that the provision is adequate and that the outcome of the appeal will not result in further provisions that may have a material impact on the consolidated financial statements.

The assessments for the years 2014 to 2016 are yet to be raised by the GAZT. However, management believes that the outcome of the assessments will not have a material impact on the consolidated financial statements of the Group.

29. Cash and cash equivalents

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

	2017	2016
Cash and balances with SAMA excluding statutory deposit (note 4)	**10,062,660**	12,316,473
Due from banks and other financial institutions maturing within ninety days of acquisition	**1,710,123**	4,030,850
Total	**11,772,783**	16,347,323

30. Compensation practices

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

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

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

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

(Saudi Riyals in Thousands)

30. Compensation practices (continued)

2017

	Categories of employees	Number of employees	Fixed compensation	Variable cost paid cash in 2017
1.	Senior executive requiring SAMA no objections	19	39,540	31,305
2.	Employees engaged in risk taking activities	176	85,994	31,751
3.	Employees engaged in control functions	436	122,762	14,436
4.	Other employees	3,539	620,840	67,916
	Total	4,170	869,136	145,408
	Variable compensation accrued in 2017		126,500	
	Other employment related costs*		251,493	
	Total salaries and employment related expenses		1,247,129	

2016

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

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

31. Employee benefit obligation

a) General description

The Bank operates an End of Service Benefit Plan for its employees based on the prevailing Saudi Labor Laws. Accruals are made in accordance with the actuarial valuation under projected unit credit method while the benefit payments obligation is discharged as and when it falls due.

b) The amounts recognized in the statement of financial position and movement in the obligation during the year based on its present value are as follows:

	2017	2016
Defined benefit obligation at the beginning of the year	423,212	415,324
Past service cost adjustment	(16,369)	-
Current service cost	49,910	30,531
Special commission cost	21,161	20,766
Benefits paid	(46,381)	(43,409)
Unrecognized actuarial loss / (gain)	59,817	-
Defined benefit obligation at the end of the year	491,350	423,212

c) Charge for the year

	2017	2016
Current service cost	71,071	51,297
Past service cost adjustment	(16,369)	-
	54,702	51,297

d) Re-measurement recognised in Other comprehensive income

	2017	2016
(Gain) from change in experience assumptions	(9,422)	-
Loss from change in financial assumptions	69,239	-
	59,817	-

(Saudi Riyals in Thousands)

31. Employee benefit obligation (continued)

e) Principal actuarial assumptions (in respect of the employee benefit scheme)

	2017	2016
Discount rate	**4.25%**	5%
Expected rate of salary increase	**4%**	3%
Normal retirement age	**11.9 years**	10.9 years

f) Sensitivity of actuarial assumptions

The table below illustrates the sensitivity of the Defined Benefit Obligation valuation as at December 31, 2017 to the discount rate (4.25%), salary escalation rate (4%), withdrawal assumptions and mortality rates

	Impact on defined benefit obligation – Increase / (Decrease)		
Base Scenario	**Change in assumption**	**Increase in assumption**	**Decrease in assumption**
Discount rate	**+1%**	**-**	**(41,390)**
	-1%	**48,557**	**-**
Expected rate of salary increase	**+1%**	**48,234**	**-**
	-1%	**-**	**(41,899)**
Normal retirement age	**+20%**	**28**	**-**
	-20%	**-**	**(28)**

The above sensitivity analyses are based on a change in an assumption holding all other assumptions constant.

g) Expected maturity

Expected maturity analysis of undiscounted define benefit obligation for the end of service plan is as follows:

As at December 31, 2017	**Less than a year**	**(1-2) years**	**(3-5) years**	**Over 5 years**	**Total**
599,335	**67,009**	**53,770**	**178,622**	**299,934**	**599,335**

The weighted average duration of the defined benefit obligation is 11.9 years.

32. Operating segments

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief executive officer in order to allocate resources to the segments and to assess its performance.

For management purposes, the Group is organized into the following major operating segments:

Retail banking

Deposit, credit and investment products for individuals.

Corporate banking

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

Treasury

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

Investment and brokerage services

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

Other

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

Transactions between operating segments are reported as recorded in the Group's transfer pricing system. The basis for determining intersegment operating income/(expense) for the current year are consistent with the basis used for December 31, 2016. Segment assets and liabilities comprise mainly operating assets and liabilities.

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

(Saudi Riyals in Thousands)

32. Operating segments (continued)

a) The Group's total assets and liabilities as at December 31, 2017 and 2016 and its total operating income, expenses and net income for the years then ended, by operating segments, are as follows:

2017	**Retail banking**	**Corporate banking**	**Treasury**	**Investment and brokerage services**	**Other**	**Total**
Total assets	**35,667,915**	**82,667,224**	**49,361,106**	**1,701,042**	**2,304,412**	**171,701,699**
Investments in associates	**-**	**-**	**-**	**-**	**637,222**	**637,222**
Total liabilities	**69,272,729**	**70,371,879**	**4,451,683**	**113,485**	**2,425,958**	**146,635,734**
Operating income from external customers	**2,052,326**	**3,905,732**	**124,303**	**167,666**	**127,916**	**6,377,943**
Intersegment operating income/(expense)	**337,524**	**(1,461,835)**	**1,012,976**	**-**	**111,335**	**-**
Total operating income	**2,389,850**	**2,443,897**	**1,137,279**	**167,666**	**239,251**	**6,377,943**
Of which:						
Net Special commission income	**2,020,713**	**2,010,691**	**492,665**	**22,696**	**117,988**	**4,664,753**
Fees and commission income, net	**290,789**	**470,695**	**11,926**	**61,275**	**5,713**	**840,398**
Impairment charges for credit losses and other provisions, net	**217,654**	**931,136**	**-**	**-**	**-**	**1,148,790**
Impairment charges for investments, net	**-**	**-**	**5,970**	**-**	**-**	**5,970**
Depreciation and amortization	**115,209**	**5,702**	**3,576**	**2,258**	**94,634**	**221,379**
Total operating expenses	**1,675,952**	**1,452,735**	**99,950**	**93,469**	**52,438**	**3,374,544**
Share in earnings of associates, net	**-**	**-**	**-**	**-**	**30,659**	**30,659**
Net income attributable to equity holders of the Bank	**713,898**	**991,162**	**1,037,329**	**74,197**	**210,386**	**3,026,972**
Net income attributable to non-controlling interest	**-**	**-**	**-**	**-**	**(7,086)**	**(7,086)**

2016	Retail banking	Corporate banking	Treasury	Investment and brokerage services	Other	Total
Total assets	38,646,384	81,688,890	45,777,443	1,720,057	2,175,948	170,008,722
Investments in associates	-	-	-	-	616,395	616,395
Total liabilities	69,322,646	69,597,993	5,524,959	135,825	1,502,746	146,084,169
Operating income / (loss) from external customers	2,028,481	3,799,425	(288,908)	172,545	142,594	5,854,137
Intersegment operating income/(expense)	303,023	(1,790,974)	1,321,625	-	166,326	-
Total operating income	2,331,504	2,008,451	1,032,717	172,545	308,920	5,854,137
Of which:						
Net Special commission income	1,962,616	1,508,848	484,077	12,827	177,117	4,145,485
Fees and commission income, net	308,366	549,722	9,185	75,354	(7,616)	935,011
Impairment charges for credit losses and other provisions, net	364,350	361,786	-	-	-	726,136
Impairment charges for investments, net	-	-	37,645	-	-	37,645
Depreciation and amortization	86,663	2,433	2,390	2,427	139,465	233,378
Total operating expenses	1,832,069	871,700	141,327	95,921	83,521	3,024,538
Share in earnings of associates, net	-	-	-	-	32,278	32,278
Net income attributable to equity holders of the Bank	499,435	1,136,751	891,390	76,624	249,701	2,853,901
Net income attributable to non-controlling interest	-	-	-	-	(7,976)	(7,976)

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

2017	**Retail Banking**	**Corporate banking**	**Treasury**	**Investment and brokerage services**	**Other**	**Total**
Consolidated statement of financial position assets	**32,777,098**	**82,287,544**	**48,648,994**	**41,202**	**647,638**	**164,402,476**
Commitment and contingencies	**2,326,627**	**12,785,097**	**-**	**47,482**	**81,419**	**15,240,625**
Derivatives	**-**	**3,492**	**1,437,498**	**-**	**-**	**1,440,990**
2016						
Consolidated statement of financial position assets	35,004,491	81,504,301	45,309,172	35,601	520,658	162,374,223
Commitment and contingencies	2,622,891	13,686,159	-	50,863	168,115	16,528,028
Derivatives	-	399	873,751	-	-	874,150

Credit exposure comprises the carrying value of consolidated statement of financial position assets, excluding cash, property and equipment, other real estate, and other assets. The credit equivalent value of commitments, contingencies and derivatives are included in credit exposure (note 34a).

(Saudi Riyals in Thousands)

33. Credit risk

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

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

Concentration risk arises when a number of counter-parties are engaged in similar business activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Concentration risk indicates the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

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

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

The Bank regularly reviews its risk management policies and procedures to reflect changes in markets, products and emerging best practices.

Debt securities included in the investment portfolio are mainly sovereign risk. Analysis of investments by counter-party is provided in note 6d. Information on credit risk relating to derivative instruments is provided in note 34 and for commitments and contingencies in note 19. Information on the Banks maximum credit exposure by operating segment is given in note 32 and the maximum credit risk exposure and its relative risk weighting is provided in note 40.

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

a) Credit risk exposures of the financial assets is as follows:

	2017	2016
Loans and advances, net:		
Consumer loans		
Credit cards	**505,672**	510,532
Term loans	**24,507,807**	25,435,983
Total	**25,013,479**	25,946,515
Corporate loans		
Syndicated loans	**17,160,884**	16,632,692
Overdrafts	**3,735,532**	4,346,964
Term loans	**68,609,505**	68,555,685
Other	**23,529**	29,665
Total	**89,529,450**	89,565,006
Investments, net:		
Fixed-rate securities	**17,678,768**	10,220,459
Floating-rate notes	**13,825,909**	13,882,722
Other	**816,139**	1,445,218
Total	**32,320,816**	25,548,399
Gross Total	**146,863,745**	141,059,920

(Saudi Riyals in Thousands)

33. Credit risk (continued)

b) Credit risk exposures of credit related commitments and contingencies:

	2017	2016
Loan commitments and other credit related contingencies	**3,059,532**	3,010,172
Financial guarantees	**28,817,847**	30,812,522
Total	**31,877,379**	33,822,694

c) Credit quality of loans and advances

Description	2017	2016
Neither past due nor impaired	**113,027,011**	111,837,364
Past due but not impaired	**1,596,815**	2,690,289
Impaired (any loan with specific provision)	**2,172,645**	3,701,659
Total loans and advances	**116,796,471**	118,229,312
Impairment allowances for credit losses, net	**(2,253,542)**	(2,717,791)
Loans and advances, net	**114,542,929**	115,511,521

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

2017	**Overdrafts**	**Credit cards**	**Consumer loans**	**Commercial loans and others**	**Total**
Grades:					
Low risk (1-4)	**219,773**	**477,140**	**21,467,510**	**23,196,527**	**45,360,950**
Acceptable risk (5-8)	**3,412,691**	**-**	**2,024,975**	**59,948,469**	**65,386,135**
Watch list (9-10)	**60,416**	**-**	**-**	**2,219,510**	**2,279,926**
Total	**3,692,880**	**477,140**	**23,492,485**	**85,364,506**	**113,027,011**

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

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

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

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

e) Loans and advances past due but not impaired

2017	**Overdrafts**	**Credit cards**	**Consumer loans**	**Commercial loans and others**	**Total**
Past due up to 30 days	**-**	**17,533**	**715,784**	**302,234**	**1,035,551**
Past due (31-60) days	**-**	**-**	**-**	**64,573**	**64,573**
Past due (61-90) days	**-**	**-**	**-**	**198,871**	**198,871**
Past due (91-180) days	**9,190**	**-**	**-**	**288,630**	**297,820**
Total	**9,190**	**17,533**	**715,784**	**854,308**	**1,596,815**
2016					
Past due up to 30 days	-	33,147	1,092,106	350,141	1,475,394
Past due (31-60) days	-	-	-	169,122	169,122
Past due (61-90) days	-	-	-	337,885	337,885
Past due (91-180) days	-	-	-	707,888	707,888
Total	-	33,147	1,092,106	1,565,036	2,690,289

(Saudi Riyals in Thousands)

33. Credit risk (continued)

f) Impaired loans and advances

	2017	2016
Commercial loans and overdrafts	**1,787,837**	3,271,252
Consumer loans and credit cards	**384,808**	430,407
Total	**2,172,645**	3,701,659

Special commission income on impaired loans and advances amounted to SAR 31,453 thousands for the year ended December 31, 2017 (2016: SAR 132,093).

Impaired loans and advances are categorized as follows:

	2017	2016
Performing loans and advances	**772,162**	2,694,973
Non-performing loans and advances, net	**1,400,483**	1,006,686
Total	**2,172,645**	3,701,659

g) Credit risk exposure of investments

2017	**Investment grade**	**Non-investment grade**	**Unrated**	**Total**
Held as FVIS	-	-	-	-
Available for sale	**9,574,665**	-	**879,509**	**10,454,174**
Other investments held at amortised cost	**21,113,346**	-	**753,296**	**21,866,642**
Total	**30,688,011**	-	**1,632,805**	**32,320,816**

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

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

h) Collateral

The bank obtained assets by taking possession of collateral held as security, or calling upon other credit enhancements. The collateral for commercial and corporate loans are as follows:

	2017	2016
Nature of collateral held as security		
Listed securities	**21,089,964**	19,338,266
Properties	**26,936,112**	23,342,303
Others	**10,353,781**	11,469,168
Total	**58,379,857**	54,149,737

(Saudi Riyals in Thousands)

34. Concentration risk of financial assets with credit risk exposure and financial liabilities

a) Geographical concentration

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

2017	Saudi Arabia	Other GCC & Middle East	Europe	North America	Latin America	South East Asia	Other Countries	Total
Assets								
Cash and balances with SAMA								
Cash in hand	2,057,792	-	2,201	-	-	-	-	2,059,993
Balances with SAMA	15,191,386	-	-	-	-	-	-	15,191,386
Due from banks and other financial institutions								
Current accounts	77,937	119,544	271,817	149,501	-	81,068	143	700,010
Money market placements	1,010,113	-	-	-	-	-	-	1,010,113
Investments, net								
Held as FVIS	-	-	-	-	-	-	-	-
Available for sale	2,747,763	748,878	25,082	6,932,451	-	-	-	10,454,174
Other investments held at amortised cost	21,620,688	245,954	-	-	-	-	-	21,866,642
Positive fair value of derivatives								
Held for trading	81,782	5,022	783,207	-	-	-	12	870,023
Held as fair value hedges	572	760	72,405	-	-	-	-	73,737
Loans and advances, net								
Overdraft	3,660,766	277	73,876	-	-	-	613	3,735,532
Credit cards	505,672	-	-	-	-	-	-	505,672
Consumer loans	24,507,672	-	135	-	-	-	-	24,507,807
Commercial loans and others	83,580,119	627,793	1,332,763	-	-	-	253,243	85,793,918
Other assets	549,661	-	1,292	-	-	-	-	550,953
Total	155,591,923	1,748,228	2,562,778	7,081,952	-	81,068	254,011	167,319,960
Liabilities								
Due to banks and other financial institutions								
Current accounts	1,178	122,266	1,197	22,430	-	14,970	389	162,430
Money market deposit	1,358,787	468,731	343,229	141,329	-	217,043	-	2,529,119
Customers' deposits								
Demand	70,842,309	72,305	43,528	-	-	552	44,596	71,003,290
Saving	93,944	-	-	-	-	-	-	93,944
Time	58,063,408	225	51,896	481	-	-	88,396	58,204,406
Other	6,746,449	-	-	-	-	-	-	6,746,449
Negative fair value of derivatives								
Held for trading	33,817	982	775,159	-	-	-	12	809,970
Held as fair value hedges	1,643	8,387	35,902	-	-	-	-	45,932
Other liabilities								
Accrued expenses and account payable	3,940,992	517	4,686	-	-	46	44	3,946,285
Sukuk	2,016,274	-	-	-	-	-	-	2,016,274
Total	143,098,801	673,413	1,255,597	164,240	-	232,611	133,437	145,558,099
Commitments and contingencies								
Letters of credit	1,794,284	721,009	863,193	64,776	32,839	987,839	38,511	4,502,451
Letters of guarantee	17,732,165	1,120,696	2,364,957	373,532	7,084	1,299,900	16,752	22,915,086
Acceptances	388,090	126,569	320,607	18,401	517	451,161	-	1,305,345
Irrevocable commitments to extended credit	3,059,532	-	-	-	-	-	-	3,059,532
Others	94,965	-	-	-	-	-	-	94,965
Maximum credit exposure (stated at credit equivalent amounts)								
Derivatives								
Held for trading	409,307	23,173	288,568	57,639	-	-	511	779,198
Held as fair value hedges	-	-	193,981	467,811	-	-	-	661,792
Commitments and contingencies								
Letters of credit	358,857	144,202	172,639	12,955	6,568	197,568	7,702	900,491
Letters of guarantee	8,866,080	560,348	1,182,479	186,766	3,542	649,950	8,376	11,457,541
Acceptances	388,090	126,569	320,607	18,401	517	451,161	-	1,305,345
Irrevocable commitments to extended credit	1,529,766	-	-	-	-	-	-	1,529,766
Others	47,482	-	-	-	-	-	-	47,482

(Saudi Riyals in Thousands)

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

a) Geographical concentration (continued)

2016	Saudi Arabia	Other GCC & Middle East	Europe	North America	Latin America	South East Asia	Other Countries	Total
Assets								
Cash and balances with SAMA								
Cash in hand	2,834,972	-	1,941	-	-	-	-	2,836,913
Balances with SAMA	16,667,060	-	-	-	-	-	-	16,667,060
Due from banks and other financial institutions								
Current accounts	21,414	192,421	190,180	470,438	-	134,250	25,965	1,034,668
Money market placements	2,336,000	507,400	152,782	-	-	-	-	2,996,182
Investments, net								
Held as FVIS	-	-	726	-	-	-	-	726
Available for sale	2,895,436	1,026,915	113,596	5,421,097	-	-	-	9,457,044
Other investments held at amortised cost	15,771,936	318,693	-	-	-	-	-	16,090,629
Positive fair value of derivatives								
Held for trading	105,890	17,512	310,090	-	-	-	-	433,492
Held as fair value hedges	729	-	25,549	-	-	-	-	26,278
Loans and advances, net								
Overdraft	4,279,836	-	66,702	-	-	-	426	4,346,964
Credit cards	510,532	-	-	-	-	-	-	510,532
Consumer loans	25,435,843	-	140	-	-	-	-	25,435,983
Commercial loans and others	82,837,741	627,303	1,619,310	-	-	-	133,688	85,218,042
Other assets	535,276	-	-	-	-	-	-	535,276
Total	154,232,665	2,690,244	2,481,016	5,891,535	-	134,250	160,079	165,589,789
Liabilities								
Due to banks and other financial institutions								
Current accounts	4,988	287,296	4,129	493	-	323	20	297,249
Money market deposit	2,627,067	846,589	87,966	-	-	-	-	3,561,622
Customers' deposits								
Demand	64,962,241	64,209	25,705	-	-	186	40,399	65,092,740
Saving	93,124	-	-	-	-	-	-	93,124
Time	64,821,584	8,579	95,043	453	-	-	78,176	65,003,835
Other	5,717,758	-	-	-	-	-	-	5,717,758
Negative fair value of derivatives								
Held for trading	113,518	12,791	259,403	-	-	-	-	385,712
Held as fair value hedges	2,013	25,433	26,631	-	-	-	-	54,077
Other liabilities								
Accrued expenses and account payable	3,430,226	14	3,472	2,774	-	-	164	3,436,650
Sukuk	2,018,190	-	-	-	-	-	-	2,018,190
Total	143,790,709	1,244,911	502,349	3,720	-	509	118,759	145,660,957
Commitments and contingencies								
Letters of credit	1,679,866	458,108	986,373	146,125	3,199	703,225	-	3,976,896
Letters of guarantee	19,674,201	1,071,897	2,262,174	204,691	-	1,894,599	6,836	25,114,398
Acceptances	243,449	115,680	365,816	131,272	1,605	760,678	1,002	1,619,502
Irrevocable commitments to extended credit	3,010,172	-	-	-	-	-	-	3,010,172
Others	101,726	-	-	-	-	-	-	101,726
Maximum credit exposure (stated at credit equivalent amounts)								
Derivatives								
Held for trading	427,452	44,817	287,049	43,994	-	-	574	803,886
Held as fair value hedges	-	-	20,647	49,617	-	-	-	70,264
Commitments and contingencies								
Letters of credit	335,973	91,622	197,275	29,225	640	140,645	-	795,380
Letters of guarantee	9,837,100	535,949	1,131,087	102,346	-	947,300	3,418	12,557,200
Acceptances	243,448	115,680	365,816	131,272	1,605	760,678	1,002	1,619,501
Irrevocable commitments to extended credit	1,505,085	-	-	-	-	-	-	1,505,085
Others	50,862	-	-	-	-	-	-	50,862

(Saudi Riyals in Thousands)

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

Credit equivalent amounts reflect the amounts that result from translating the Bank's off consolidated statement of financial position liabilities into the risk equivalent of loans using credit conversion factors prescribed by SAMA. Credit conversion factor is meant to capture the potential credit risk related to commitments being exercised.

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

	Non-Performing Loans net				**Impairment Allowances for Credit Losses**			
2017	**Overdraft**	**Credit cards**	**Consumer loans**	**Commercial loans and others**	**Overdraft**	**Credit cards**	**Consumer loans**	**Commercial loans and others**
Saudi Arabia	**7,487**	**14,482**	**103,286**	**1,275,228**	**6,839**	**9,350**	**64,921**	**2,172,432**

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

35. Market risk

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

a) Market risk - Trading book

The Board has set limits for the acceptable level of risk in managing the trading book. In order to manage market risk in the trading book, the Bank periodically applies a VaR (Value at Risk) methodology to assess the market risk positions held and to estimate the potential economic loss based on a set of parameters and assumptions regarding changes in market conditions.

A VaR methodology estimates the potential negative change in market value of a portfolio at a given confidence level and over a specified time horizon. The Bank uses risk models to assess the possible changes in the market value of the trading book based on historical data. VaR models are usually designed to measure the market risk in a normal market environment and therefore the use thereof has limitations due to it being based on historical correlations and volatilities in market prices and assumes that the future movements will follow a statistical distribution.

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

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

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

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

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

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

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

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

(Saudi Riyals in Thousands)

35. Market risk (continued)

a) Market risk - Trading book (continued)

The Bank's calculated VaR for the years ended December 31, 2017 and 2016 is as follows. All the figures are in SAR million:

	2017				2016			
	Yearend	**Average**	**High**	**Low**	Yearend	Average	High	Low
Special commission rate risk	**0.3916**	**0.4177**	**7.8488**	**0.1596**	0.1591	0.4779	4.0411	0.1404
Foreign exchange risk	**1.2453**	**0.6058**	**1.5009**	**0.2191**	1.1778	0.8333	3.6196	0.1073
Diversification effect *	**(0.3870)**	**(0.2392)**	**n/m**	**n/m**	(0.1450)	(0.2593)	n/m	n/m
Total VaR (one day measure)	**1.2499**	**0.7843**	**7.8383**	**0.2717**	1.1920	1.0519	4.1613	0.2651

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

b) Market risk: non-trading or banking book

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

i) Commission rate risk

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

The following table shows the sensitivity of the Group's consolidated income statement and equity to a reasonable possible change in commission rates, with other variables held constant. Income sensitivity arises from the impact of assumed changes in commission rates on special commission income for one year, based on floating rate non-trading financial assets and liabilities held as at December 31, 2017, after taking into account the effect of hedging. Equity sensitivity is calculated by revaluing fixed rate available for sale financial assets, including the effect of any associated hedges as at December 31, 2017 and 2016, for the effect of assumed changes in commission rates. The sensitivity of equity is analyzed by maturity of the asset or swap. Banking book exposures are monitored and analyzed in their respective currencies and relevant sensitivities are disclosed in 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 or less**	**Over 5 years**	
SAR	**+10**	**45.40**	**-**	**-**	**(0.10)**	**(0.21)**	**(0.31)**
USD	**+10**	**6.41**	**(2.24)**	**(0.09)**	**(0.70)**	**0.25**	**(2.78)**
Others	**+10**	**0.01**	**-**	**-**	**(0.02)**	**-**	**(0.02)**

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 or less**	**Over 5 years**	
SAR	**-10**	**(45.40)**	**-**	**-**	**0.10**	**0.21**	**0.31**
USD	**-10**	**(6.41)**	**2.24**	**0.09**	**0.70**	**(0.25)**	**2.78**
Others	**-10**	**(0.01)**	**-**	**-**	**0.02**	**-**	**0.02**

(Saudi Riyals in Thousands)

35. Market risk (continued)

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

i) Commission rate risk (continued)

	2016						
Currency	Increase in basis points	Sensitivity of special commission income	Sensitivity of equity				Total
			6 months or less	1 year or less	1-5 years or less	Over 5 years	
SAR	+10	35.96	(0.04)	(0.05)	(0.10)	(0.16)	(0.35)
USD	+10	3.00	(0.18)	(0.27)	(5.06)	0.01	(5.50)
Others	+10	0.68	-	-	(0.02)	-	(0.02)

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

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

The Bank manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market commission rates on its financial position and cash flows.

The table below summarizes the Group's exposure to commission rate risk. Included in the table are the Group's financial assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates. The Group is exposed to commission rate risk as a result of mismatches or gaps in the amounts of financial assets and liabilities and derivatives, credit related commitment and contingencies that mature or re-price in a given period. The Group manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

(Saudi Riyals in Thousands)

35. Market risk (continued)

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

i) Commission rate risk (continued)

2017	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total
Assets						
Cash and balances with SAMA	8,002,667	-	-	-	9,248,712	17,251,379
Due from banks and other financial institutions	1,010,113	-	-	-	700,010	1,710,123
Positive fair value derivatives	943,760	-	-	-	-	943,760
Investments, net						
Held as FVIS	-	-	-	-	-	-
Available for sale	2,635,709	5,280,079	819,840	881,994	836,552	10,454,174
Other investments held at amortised cost	12,358,717	645,311	3,245,257	5,550,008	67,349	21,866,642
Loans and advances, net						
Overdrafts	3,735,532	-	-	-	-	3,735,532
Credit cards	505,672	-	-	-	-	505,672
Consumer loans	2,097,694	4,857,191	15,984,767	1,568,155	-	24,507,807
Commercial loans	52,267,447	26,711,472	5,942,326	872,673	-	85,793,918
Other assets	-	-	-	-	550,953	550,953
Total assets	83,557,311	37,494,053	25,992,190	8,872,830	11,403,576	167,319,960
Liabilities						
Due to banks and other financial institutions	2,529,120	-	-	-	162,429	2,691,549
Negative fair value derivatives	855,902	-	-	-	-	855,902
Customers' deposits	39,939,760	22,075,623	323,899	-	73,708,807	136,048,089
Other liabilities	-	-	-	-	3,946,285	3,946,285
Debt securities and sukuk	-	2,016,274	-	-	-	2,016,274
Total liabilities	43,324,782	24,091,897	323,899	-	77,817,521	145,558,099
Commission rate sensitivity on consolidated statement of financial position gap	40,232,529	13,402,156	25,668,291	8,872,830	(66,413,945)	21,761,861
Commission rate sensitivity off consolidated statement of financial position gap	7,454,436	4,470,949	(4,883,141)	(7,042,244)	-	-
Total commission rate sensitivity gap	47,686,965	17,873,105	20,785,150	1,830,586	(66,413,945)	21,761,861
Cumulative commission rate sensitivity gap	47,686,965	65,560,070	86,345,220	88,175,806	21,761,861	-

(Saudi Riyals in Thousands)

35. Market risk (continued)

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

i) Commission rate risk (continued)

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

2016	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total
Assets						
Cash and balances with SAMA	9,468,408	-	-	-	10,035,565	19,503,973
Due from banks and other financial institutions	2,996,182	-	-	-	1,034,668	4,030,850
Positive fair value derivatives	459,770	-	-	-	-	459,770
Investments, net						
Held as FVIS	-	-	-	-	726	726
Available for sale	870,777	1,610,560	5,517,034	17,910	1,440,763	9,457,044
Other investments held at amortised cost	12,359,356	699,025	1,085,985	1,933,094	13,169	16,090,629
Loans and advances, net						
Overdrafts	4,346,964	-	-	-	-	4,346,964
Credit cards	510,532	-	-	-	-	510,532
Consumer loans	1,892,820	5,145,850	17,148,343	1,248,970	-	25,435,983
Commercial loans	51,741,222	26,929,039	6,090,114	457,667	-	85,218,042
Other assets	-	-	-	-	535,276	535,276
Total assets	84,646,031	34,384,474	29,841,476	3,657,641	13,060,167	165,589,789
Liabilities						
Due to banks and other financial institutions	3,336,278	225,344	-	-	297,249	3,858,871
Negative fair value derivatives	439,789	-	-	-	-	439,789
Customers' deposits	51,733,319	16,315,764	163,499	-	67,694,875	135,907,457
Other liabilities	-	-	-	-	3,436,650	3,436,650
Sukuk	-	2,018,190	-	-	-	2,018,190
Total liabilities	55,509,386	18,559,298	163,499	-	71,428,774	145,660,957
Commission rate sensitivity on consolidated statement of financial position gap	29,136,645	15,825,176	29,677,977	3,657,641	(58,368,607)	19,928,832
Commission rate sensitivity off consolidated statement of financial position gap	3,930,669	3,038,622	(6,091,068)	(878,223)	-	-
Total commission rate sensitivity gap	33,067,314	18,863,798	23,586,909	2,779,418	(58,368,607)	19,928,832
Cumulative commission rate sensitivity gap	33,067,314	51,931,112	75,518,021	78,297,439	19,928,832	-

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

The effective commission rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortized cost and a current market rate for a floating rate instrument or an instrument carried at fair value.

(Saudi Riyals in Thousands)

35. Market risk (continued)

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

ii) Currency risk

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

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

	2017		2016	
Currency risk exposures	**Changes in currency rate in %**	**Effect on net income**	Changes in currency rate in %	Effect on net income
US Dollar	**+5**	**(12.526)**	+5	21.076
	-5	**12.526**	-5	(21.076)
Euro	**+3**	**(0.150)**	+3	(0.184)
	-3	**0.150**	-3	0.184
Pound Sterling	**+3**	**(0.097)**	+3	(0.121)
	-3	**0.097**	-3	0.121

iii) Currency position

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

	Long (short) 2017	Long (short) 2016
US Dollar	**(250,520)**	421,513
Euro	**(5,003)**	(6,132)
Pound Sterling	**(3,237)**	(4,026)

iv) Equity price risk

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

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

Market indices	**2017**		2016	
	Change in index %	**Effect in SAR'000**	Change in index %	Effect in SAR'000
Tadawul	**+5**	**38,187**	+5	63,328
	-5	**(38,187)**	-5	(63,328)

(Saudi Riyals in Thousands)

36. Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up suddenly. To mitigate this risk, management has diversified funding sources, manages assets with liquidity in mind and maintains a healthy balance of cash, cash equivalents and readily marketable securities.

In accordance with the Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal 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 no less than 20% of its deposit liabilities, in the form of cash, Saudi Government Development Bonds or assets that can be converted into cash within 30 days.

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

i) Analysis of undiscounted financial liabilities by remaining contractual maturities

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

2017	**Within 3 months**	**3-12 months**	**1-5 years**	**Above 5 years**	**No fixed maturity**	**Total**
Financial liabilities						
Due to banks and other financial institutions	**2,530,974**	**-**	**-**	**-**	**162,430**	**2,693,404**
Customers' deposits	**39,864,910**	**22,420,577**	**335,334**	**-**	**73,708,807**	**136,329,628**
Derivative financial instruments						
Contractual amounts payable	**110,426**	**645,231**	**1,561,756**	**1,157,211**	**-**	**3,474,624**
Contractual amounts receivable	**(90,287)**	**(589,059)**	**(1,578,846)**	**(1,258,698)**	**-**	**(3,516,890)**
Sukuk	**16,465**	**54,451**	**350,499**	**2,315,810**	**-**	**2,737,225**
Total financial liabilities	**42,432,488**	**22,531,200**	**668,743**	**2,214,323**	**73,871,237**	**141,717,991**
2016						
Financial liabilities						
Due to banks and other financial institutions	3,314,738	252,965	-	-	297,249	3,864,952
Customers' deposits	47,286,692	21,668,726	167,273	-	67,694,875	136,817,566
Derivative financial instruments						
Contractual amounts payable	40,235	262,050	860,541	125,088	-	1,287,914
Contractual amounts receivable	(30,288)	(232,065)	(860,234)	(136,867)	-	(1,259,454)
Sukuk	11,270	64,164	345,743	2,428,193	-	2,849,370
Total financial liabilities	50,622,647	22,015,840	513,323	2,416,414	67,992,124	143,560,348

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

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

Management monitors the maturity profile to ensure that adequate liquidity is maintained. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of the Bank, operating subsidiaries and the foreign branch. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

(Saudi Riyals in Thousands)

36. Liquidity risk (continued)

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

2017	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	8,002,000	-	-	-	9,249,379	17,251,379
Due from banks and other financial institutions	1,010,113	-	-	-	700,010	1,710,123
Positive fair value derivatives	27,852	34,548	63,048	818,312	-	943,760
Investments, net						
Held as FVIS	-	-	-	-	-	-
Available for sale	2,430,149	4,621,650	1,129,044	1,436,779	836,552	10,454,174
Other investments held at amortised cost	60,467	6,172	5,142,508	16,590,147	67,348	21,866,642
Loans and advances, net						
Overdrafts	3,735,532	-	-	-	-	3,735,532
Credit cards	505,672	-	-	-	-	505,672
Consumer loans	2,097,694	4,857,191	15,984,767	1,568,155	-	24,507,807
Commercial loans and others	36,749,474	22,696,390	18,422,936	7,925,118	-	85,793,918
Other assets	-	-	-	-	550,953	550,953
Total assets	54,618,953	32,215,951	40,742,303	28,338,511	11,404,242	167,319,960
Liabilities						
Due to banks and other financial institutions	2,529,120	-	-	-	162,429	2,691,549
Negative fair value derivatives	16,705	21,493	50,926	766,778	-	855,902
Customers' deposits	39,939,760	22,075,623	323,899	-	73,708,807	136,048,089
Other liabilities	-	-	-	-	3,946,285	3,946,285
Sukuk	-	16,274	-	2,000,000	-	2,016,274
Total liabilities	42,485,585	22,113,390	374,825	2,766,778	77,817,521	145,558,099

(Saudi Riyals in Thousands)

36. Liquidity risk (continued)

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

2016	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	9,468,408	-	-	-	10,035,565	19,503,973
Due from banks and other financial institutions	2,996,182	-	-	-	1,034,668	4,030,850
Positive fair value derivatives	71,952	69,572	78,081	240,165	-	459,770
Investments, net						
Held as FVIS	-	-	-	-	726	726
Available for sale	667,601	1,065,532	5,822,760	460,388	1,440,763	9,457,044
Other investments held at amortised cost	35,673	1,225,972	1,817,953	12,997,862	13,169	16,090,629
Loans and advances, net						
Overdrafts	4,346,964	-	-	-	-	4,346,964
Credit cards	510,532	-	-	-	-	510,532
Consumer loans	1,892,820	5,145,850	17,148,343	1,248,970	-	25,435,983
Commercial loans and others	39,927,506	18,897,080	18,521,556	7,871,900	-	85,218,042
Other assets	-	-	-	-	535,276	535,276
Total assets	59,917,638	26,404,006	43,388,693	22,819,285	13,060,167	165,589,789
Liabilities						
Due to banks and other financial institutions	3,336,278	225,344	-	-	297,249	3,858,871
Negative fair value derivatives	62,249	53,866	83,353	240,321	-	439,789
Customers' deposits	51,733,319	16,315,764	163,499	-	67,694,875	135,907,457
Other liabilities	-	-	-	-	3,436,650	3,436,650
Sukuk	-	18,190	-	2,000,000	-	2,018,190
Total liabilities	55,131,846	16,613,164	246,852	2,240,321	71,428,774	145,660,957

37. Fair values of financial assets and liabilities

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

i) In the accessible principal market for the asset or liability; or

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

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

Determination of fair value and fair value hierarchy

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

Level 1: quoted prices in active markets for the same instrument (i.e., without modification or repacking);

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

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

(Saudi Riyals in Thousands)

37. Fair values of financial assets and liabilities (continued)

a. Carrying amounts and fair value

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

Financial assets

		Fair value			
December 31, 2017	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value					
Designated as FVIS investments	-	-	-	-	-
Available for sale investments	**10,454,174**	**9,536,248**	**907,778**	**10,148**	**10,454,174**
Positive fair value derivatives	**943,760**	-	**943,760**	-	**943,760**
Financial assets not measured at fair value					
Due from banks and other financial institutions	**1,710,123**	-	-	-	**1,710,123**
Other investments held at amortised cost	**21,866,642**	**465,373**	**21,293,723**	-	**21,759,096**
Loans and advances	**114,542,929**	-	-	**116,229,580**	**116,229,580**

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

Financial Liabilities

		Fair value			
December 31, 2017	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial liabilities measured at fair value					
Negative fair value derivatives	**855,902**	-	**855,902**	-	**855,902**
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	**2,691,549**	-	-	-	**2,691,549**
Customers' Deposits	**136,048,089**	-	-	-	**136,048,089**
Sukuk	**2,016,274**	-	-	**1,985,606**	**1,985,606**

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

37. Fair values of financial assets and liabilities (continued)

a. Measurement of fair values

i. Valuation technique and significant unobservable inputs

The following table shows the valuation techniques used in measuring level 2 and Level 3 fair values at 31 December 2017 and 2016, as well as the significant unobservable inputs used.

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
FVIS investments	Fair value is determined based on the investee fund's most recent reported net assets value of the funds.	None	Not applicable
Available for sale investments classified as Level 2 include plain vanilla bonds for which market quotes are not available.	Fair valued using simple discounted cash flow techniques that use observable market data inputs for yield curves and credit spreads.	None	Not applicable
Available for sale investments classified as Level 3 include Private Equity Funds	Fair value is determined based on the fund's most recent reported net assets value of the funds.	None	Not applicable
Derivatives classified as Level 2 are comprised of over the counter special commission rate swaps, currency swaps, special commission rate futures and options, spot and forward foreign exchange contracts, currency and commodity options and other derivative financial instruments	These instruments are fair valued using the Bank's proprietary valuation models that are based on discounted cash flow techniques. The data inputs on these models are based on observable market parameters relevant to the markets in which they are traded and are sourced from widely used market data service providers.	None	Not applicable
Financial assets and liabilities that are disclosed at fair value and classified as Level 2 include other investments held at amortized cost.	These instruments are fair valued using simple discounted cash flow techniques that use observable market data inputs for yield curves and credit spreads.	Additional buffer is added to account for any potential model discrepancy or any stressed market conditions.	Not applicable
Financial assets and liabilities that are disclosed at fair value and classified as Level 3 include loans and advances and debt issuances.	These instruments are fair valued using simple discounted cash flow techniques that use observable market data inputs for yield curves and credit spreads.	Additional buffer is added to the credit spreads to account for any potential model discrepancy or any stressed market conditions.	The higher the credit spread, the lower is the valuation; vice versa.

(Saudi Riyals in Thousands)

37. Fair values of financial assets and liabilities (continued)

b. Measurement of fair values (continued)

ii. Transfer between levels of the fair value hierarchy

There have been no transfers between levels of the fair value hierarchy during the years ended December 31, 2017 and 2016.

iii. Level 3 fair values

Reconciliation of Level 3 fair values

Financial investments designated as available for sale:

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

	2017	2016
Balance at the beginning of the year	**24,215**	85,794
Total gains/(loses) in other comprehensive income	**969**	(6,693)
Purchases	**893**	-
Settlements	**(15,929)**	(54,886)
Balance at the end of the year	**10,148**	24,215

38. Related party transactions

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

a) **The balances as at December 31 resulting from transactions with related parties included in the consolidated financial statements are as follows:**

	2017	2016
Non-Saudi Major Shareholder and their Affiliates:		
Due from banks and other financial institutions	**25,124**	46,399
Due to banks and other financial institutions	**537,129**	586,370
Commitments and contingencies	**2,124,518**	2,873,693
Directors, key management personnel, other major shareholders and their affiliates:		
Loans and advances	**4,380,399**	6,357,014
Customers' deposits	**9,674,730**	11,692,882
Commitments and contingencies	**980,824**	1,472,272
Purchase of equipment	**45**	681
Bank's mutual funds:		
Investments	**41,257**	194,701
Loans and advances	**164,210**	-
Customers' deposits	**523,312**	537,564
Associates:		
Loans and advances	**2,359,588**	2,426,038
Customers' deposits	**132,854**	94,682
Commitments and contingencies	**46,244**	45,639
Local sukuk	**10,000**	10,000

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

(Saudi Riyals in Thousands)

38. Related party transactions (continued)

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

	2017	2016
Special commission income	**292,067**	332,812
Special commission expense	**(220,382)**	(165,061)
Fees and commission income	**37,482**	62,305
Directors' remuneration	**(6,490)**	(5,866)
Miscellaneous expenses	**(8,504)**	(8,383)
Insurance contracts	**(1,826)**	(3,109)

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

	2017	2016
Short-term employee benefits (Salaries and allowances)	**53,666**	52,958
Post-employment benefits (End of service indemnity and social security)	**6,408**	6,307

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

39. Non-controlling interests in subsidiaries

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

	2017	2016
Summarised statement of financial position		
Investment property	**1,626,563**	1,651,363
Other assets	**61,908**	23,580
Liabilities	**804,812**	801,423
Net assets	**883,659**	873,520
Carrying amount of NCI	**658,591**	651,034
Summarised statement of income		
Total operating income	**110,124**	108,631
Net income	**10,139**	10,087
Summarised cash flow statement		
Net cash from / (used in) operating activities	**11,890**	(40,589)
Net cash used in investing activities	**-**	(684)
Net cash from financing activities	**25,000**	40,500
Net increase / (decrease) in cash and cash equivalents	**36,890**	(773)

40. Capital Adequacy

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

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

(Saudi Riyals in Thousands)

40. Capital Adequacy (continued)

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

	2017	2016
Credit Risk RWA	**138,475,268**	142,002,565
Operational Risk RWA	**13,253,250**	12,892,057
Market Risk RWA	**608,966**	933,982
Total Pillar I RWA	**152,337,484**	155,828,604
Tier I Capital	**23,719,687**	22,785,361
Tier II Capital	**3,026,724**	2,881,451
Total Tier I & II Capital	**26,746,411**	25,666,812
Capital Adequacy Ratio %		
Tier I ratio	**15.57%**	14.62%
Tier I + Tier II ratio	**17.56%**	16.47%

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

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

41. Investment management services

The Group offers investment services to its customers, which include management of investment funds with assets totaling SAR 4,612 million (2016: SAR 4,841 million).

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

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

42. Prospective changes in the International Financial Reporting Framework

The Group has chosen not to early adopt the following new standards which have been issued but not yet effective for the Bank's accounting years beginning on or after 1 January 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.

Standard or amendment	Summary of requirements	Effective for annual periods beginning on or after
IFRS 9	Financial instruments	1 January 2018
IFRS 15	Revenue from contracts with customers	1 January 2018
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions	1 January 2018
IFRS 16	Leases	1 January 2019

- **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 1 January 2018, with early adoption permitted. The Bank 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.

42. Prospective changes in the International Financial Reporting Framework (continued)

- **Implementation and impact analysis of IFRS 9 (continued)**

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 profit or loss ('FVTPL'). For equity instruments that are not held for trading, the bank 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 bank'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 as available for sale (AFS) will continue to be measured on the same basis under IFRS 9, i.e. at FVOCI.

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. Debt securities classified as held to maturity (HTM) are expected to continue to be measured at amortised cost. Debt instruments that are classified as AFS under IAS 39 may, under IFRS 9, be measured at amortised cost, FVOCI or FVTPL, 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 FVTPL. The de-recognition rules have been transferred from IAS 39 and have not been changed. The Bank therefore does not expect any material impact on its financial liabilities and the de-recognition accounting policy.

Impairment

The Bank will recognise impairment allowances based on a forward looking Expected Credit Loss (ECL) approach on financial assets that are not measured via FVTPL. 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:

- 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 Bank will categorize its financial assets into the 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 comparing the remaining lifetime PD as at reporting date with the remaining lifetime PD point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations). The impairment allowance will be recorded based on lifetime ECL.
- **Stage 3:** Impaired assets: For Financial asset(s) that are impaired, the Bank will recognise the impairment allowance based on lifetime ECL.

The Bank 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 Bank intends to formulate various scenarios. For each scenario, the Bank will derive an ECL and apply a probability weighted approach to determine the impairment allowance in accordance with the accounting standards requirements.

The Bank is now ready to implement IFRS 9 after due validation by the external consultant.

42. Prospective changes in the International Financial Reporting Framework (continued)

- **Implementation and impact analysis of IFRS 9 (continued)**

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 Bank expects to exercise the accounting policy choice to continue IAS 39 hedge accounting requirements.

Overall expected impact

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

- According to transitional provisions for initial application of IFRS 9, the Bank is allowed to recognise 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 equity is estimated to be 2.05% to 2.26% and the impact on the aggregated carrying value of relevant financial assets is estimated to be in the range of 0.24% to 0.28% 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 Bank's Tier 1 ratio will be impacted primarily from potential increase in credit impairment provisions, net of tax.

- Based on the balances as at 31 December 2017, the day 1 impact of IFRS 9 (applicable from 1 January 2018) would be an estimated reduction of less than 75 basis points in Total Regulatory Capital Adequacy Ratio, which would be transitioned over five years in accordance with SAMA guidelines. Further the key impacts worth highlighting are as follows:

  - Certain investments, amounting to SAR 8,823 thousands, 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 FVTPL. Related fair value gains of SAR 1,505 thousands will have to be transferred from available for sale (AFS) financial assets reserve to retained earnings on 1 January 2018.

  - Gains or losses realized on the sale of equity instruments classified as FVOCI will no longer be transferred to profit or loss. During the year ended 31 December 2017, SAR 176,981 thousands gains were recognised in profit or loss 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.

Governance and controls

The Governance structure and controls are currently under implementation in line with the IFRS 9 Guidance document applicable to Saudi banks. These Guidelines call for establishing a Board approved Governance framework with detailed policies and controls, including clear roles and responsibilities.

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 31 December 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 Bank could vary significantly from this estimate. The Bank continues to refine models, methodologies and controls, and monitor developments in regulatory rule-making in advance of IFRS 9 adoption on 1 January 2018.

(Saudi Riyals in Thousands)

43. Comparative figures

During the current year, rental income from a subsidiary relating to prior year have been reclassified from "Fee and commission income, net" to "Other operating income, net" in the consolidated income statement to conform to the current year's presentation.

The impact of this reclassification on the consolidated financial statements is disclosed below:

December 31, 2016
Consolidated income statement

	As originally reported	Reclassification	Amounts reported after reclassification
Fees and commission income, net	1,037,127	(102,116)	935,011
Other operating income, net	98,742	102,116	200,858
	1,135,869	-	1,135,869

44. Board of directors' approval

The consolidated financial statements were approved by the Board on 4 Jumada II 1439 (corresponding to 20 February 2018).